United Fuel Investments

Limited

and

Subsidiary Companies

Twentieth Annual Report

For the Fiscal Year Ended

31st March, 1948

TWENTIETH ANNUAL REPORT
OF THE DIRECTORS OF
UNITED FUEL INVESTMENTS, LIMITED
FOR THE FISCAL YEAR ENDED 31st MARCH, 1948

Hamilton, Ontario,
3rd June, 1948.

To the Shareholders:

In this Report your Directors deal with the operations of United Fuel Investments, Limited, and its wholly owned Subsidiaries for the fiscal year ended 31st March, 1948. Incorporated herein are the Consolidated Balance Sheet of the Company and its Subsidiaries as at 31st March, 1948, and related Consolidated Statements of Profit and Loss and Surplus for the fiscal year ended 31st March, 1948, with comparative figures for the previous fiscal year, together with the Report of your Auditors.

OPERATIONS

Consolidated Net Profits of your Company and its wholly owned Subsidiaries for the year, as compared with the previous year, are as follows:

	Fiscal year ended 31st March 1948	Fiscal year ended 31st March 1947	Increase for 1948 over 1947
Net profit for the year after all charges except provision for taxes on income	$998,115	$698,138	$299,977
Less: Provision for Dominion and Provincial Income and Excess Profits Taxes	489,300	303,000	186,300
Net profit for the year	$508,815	$395,138	$113,677

The increase of $299,977 in net profit before provision for taxes on income is attributable to the following:

Increase in gross value of sales of all products produced or purchased for re-sale	$1,485,223	
Increase in gross production cost or purchase price of all products sold	1,058,490	
		$426,733
Increase in profit of appliance sales department		9,144
Decrease in interest on funded debt		4,620
		$440,497
Less: Increase in total general and administrative, gas distribution and selling expenses	$ 79,581	
Decrease in sundry income	42,928	
Amortization of manufactured gas change-over costs	14,800	
Increase in provision for depreciation	3,211	
		140,520
Net increase in profits before taxes on income		$299,977

The following comments deal with the most important of these changes in some detail:

The net increase of $1,485,223, or 25% in gross value of sales, was attributable mainly to sales of larger volumes of coke at a higher average selling price per ton, and to increased selling prices for other products.

The net increase of $1,058,490, or 25% in gross production cost or purchase price of all products sold, was due mainly to increases in the unit costs of coal, oil and other raw materials required in the production of the products sold, to increased production, labor and sundry material costs, and the purchase at increased unit prices of larger quantities of products for re-sale.

The cost per ton of coal charged to the ovens was much higher than for the previous fiscal year due to an increase in the price per ton at the mines and higher transportation costs. 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 a change in any of the items entering into the laid-down cost of coal on the Company's dock, such as cost per ton at the mine, rail and boating costs, rate of United States exchange, etc., has an important effect on the operating costs of your Company.

There were substantial increases in both the unit cost and the volume of oil used in the production of gas by your Company's auxiliary gas plant provided to meet the increased demands upon the Company's facilities during the past heating season. These higher operating costs were offset in part by the reduced use of the propane plant and resulting decrease in propane gas costs.

Therefore, following the trend of the past many years, the costs of the products manufactured or purchased for re-sale by your Company again increased substantially and it was necessary for your Company to increase its selling prices. Your Company's manufacturing costs will be further increased during the fiscal year commencing 1st April, 1948, due to higher costs of labor and materials. The cost per ton of coal purchased during the year will be substantially higher due to increases in costs at the mines, transportation costs and handling costs at your Company's dock. It has, accordingly, become necessary for your Company again to raise the selling price of many of its products.

The total volume of gas sold during the year decreased approximately 14% as compared with the previous fiscal year, a reduction of 43% in the volume of sales for industrial purposes being only partially offset by an increase of 11% in the volume of sales to domestic and commercial customers. The decrease in industrial sales resulted from the closing down of the Government-owned gas and coke manufacturing plant in March, 1947, thus reducing the volume of gas available for sale by your Company for industrial purposes. Sales of natural gas were discontinued in September, 1947, when all markets served by your Company had been converted to the distribution of manufactured gas. As the result of revisions during the year in the rates of charges for gas sales, the average rate for gas sold was higher than for the previous fiscal year, and gross revenue from gas sales increased approximately 4.5%.

Net Profit of the Appliance Sales Department increased $9,144 due to a substantially higher volume and dollar value of appliances sold, without a proportionate increase in the expenses of the Department.

A reduction in the volume of coal handled over the Company's dock for other coal importers, with a consequent decrease in net revenue obtained from such operations, was the main reason for the reduction of $42,928 in sundry income and interest earned.

The net increase of $79,581 in total general and administrative, gas distribution and selling expenses was due mainly to increased gas distribution costs arising from higher labor and material costs, and to increased office and collection salaries and expenses. While there was a substantial reduction in contingent expense, employees' group life insurance costs were higher as a result of the increased insurance coverage made available to all employees during the year. Interest charges on increased temporary bank loans of the Coke Company were also higher.

Operations for the year were charged with $14,800 of the total expenses incurred in changing over for the distribution of manufactured gas, the areas previously served with natural gas. The total of such expenditures, exclusive of the amounts expended on new plant and charged to Property Account, was $74,000 and this amount is being written off to Profit and Loss Account in equal annual amounts over a five-year period commencing with the fiscal year ended 31st March, 1948.

CONSOLIDATED FINANCIAL POSITION

As at 31st March, 1948 the working capital of your Company, after deducting $200,000 par value of First Collateral Mortgage Serial Bonds, Series "A", due 1st December, 1948, amounted to $1,251,100 as compared with $1,463,595 at 31st March, 1947, a reduction of $212,495. The following statement shows in summarized form the income from profits during the year and the disposition made of these funds:

Net earnings for the year after all charges except provision for taxes on income	$998,115	
Less: Provision for Dominion and Provincial income and excess profits taxes	489,300	
		$508,815
Add: Charges against earnings which do not represent cash disbursements:		
Depreciation	$239,990	
Amortization of bond discount and bond issue expense	9,876	
Sundry	493	250,359
Total funds provided from operations		$759,174
Accounted for as follows:		
Dividends on capital stock paid or provided for	$270,000	
Cost of additions to Fixed Assets (net)	403,994	
Increase in Inventory of Stores and spare equipment and Sundry Deferred charges (including $59,200 changeover expense deferred)	80,324	
Increase in Deposit with Trustees	31,808	
	786,126	
Less: Adjustment of Refundable Portion of Excess Profits Tax	14,457	
	$771,669	
First Collateral Mortgage Serial Bonds Series "A" maturing 1st December, 1948	200,000	971,669
Resulting in a decrease in net current assets of		$ 212,495
Working capital at beginning of year		1,463,595
Working capital at end of year		$1,251,100

Gross expenditures on additions to fixed assets amounted to $451,521. Of this amount $264,907 was expended on the construction of oil gas manufacturing facilities and additional pipe lines required when the natural gas area was changed over permanently for the distribution of manufactured gas, while the balance of $186,614 was expended on extensions to or replacements of existing plant facilities. During the year, plant items with a gross book value of $479,905, including former auxiliary gas manufacturing plants and a parcel of land no longer required in the Company's operations, were disposed of realizing $47,527, thus reducing the net expenditure on Property Account during the year to $403,994. After allowing for these additions and reductions, Property Account was reduced by $28,384 and Reserve for Depreciation and Renewal Account was reduced by $191,894, resulting in an increase of $163,510 in the net book value of Property Account.

On 1st December, 1947, $140,000 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

At a special meeting of the holders of the Class "A" 6% Cumulative Redeemable Preference Shares of your Company held on 24th July, 1947, at Hamilton, approval was given for the termination by United Fuel Investments, Limited of the Natural Gas Supply Agreement dated 31st March, 1939, under the terms of which your Company had agreed to purchase all of its requirements of natural gas from Dominion Natural Gas Company Limited and Union Gas Company of Canada Limited. It was necessary for your Company to be relieved of any obligation which it might have under the Natural Gas Supply Agreement before it could proceed with the erection and placing into operation of a plant to manufacture gas from oil to replace the formerly available natural gas supplies, which, due to the rapid depletion of the supplies available from the natural gas wells in Ontario, had become wholly inadequate to meet the requirements of your Company. Subsequently a formal agreement was entered into by all parties to the Natural Gas Supply Agreement providing for the cancellation thereof.

The enlargement of your Company's gas manufacturing facilities and the conversion of the entire gas system for the distribution of manufactured gas was completed by the Autumn of 1947. Due to this conversion, constant and adequate gas service was given to all domestic and commercial customers, and the reasonable demands for gas by industries were met throughout the past heating season when unusually severe weather conditions placed unprecedented demands for gas on almost all gas companies on this continent.

PERSONNEL

In concluding this Report your Directors record their appreciation of the loyal manner in which the employees in all departments have continued to serve your Company and maintain its 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, 1948 and the statements of consolidated profit and loss and earned surplus for the year ended on that date. In connection therewith we reviewed the system of internal control and the accounting procedures of the companies and examined or tested accounting records but we did not make a detailed audit of the transactions. 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, 1948, 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 of the companies.

CLARKSON, GORDON & CO.,
Chartered Accountants.

Hamilton, Canada,
27th May, 1948.

UNITED FUEL INVESTMENTS, LIMITED

AND ITS SUBSIDIARIES

Statement of Consolidated Profit and Loss for Year Ended 31st March, 1948

(with comparative figures for the year 1947)

	1948		1947	
Profit from operations before charging bond interest, depreciation, etc.		$1,406,166		$1,107,598
Deduct:				
Interest on bonds including premium on United States Funds	$158,185		$162,805	
Bond discount absorbed	9,876	168,061	9,876	172,681
		$1,238,105		$934,917
Provision for depreciation on the bases approved by companies' consulting engineer		239,990		236,779
Net profit before providing for taxes on income		$998,115		$698,138
Provision for taxes on income		489,300		303,000
Net profit for year		$508,815		$395,138

Note: The expenses of the companies for the year ended 31st March 1948 include:

Remuneration of directors (not including executive officers)	$ 4,350
Payments to counsel, solicitors and legal advisers	5,301
Remuneration of executive officers	27,000

Statement of Consolidated Earned Surplus for Year Ended 31st March, 1948

(with comparative figures for the year 1947)

	1948	1947
Balance at beginning of year	$1,257,909	$1,045,970
Add:		
Net profit for year as above	508,815	395,138
Adjustments relating to prior years after deducting net taxes of $57,000		86,801
	$1,766,724	$1,527,909
Deduct: Dividends on 6% preferred shares	270,000	270,000
Balance at end of year	$1,496,724	$1,257,909

ASSETS

	31st March 1948	31st March 1947
PROPERTY		
Comprising gas and coke manufacturing plants, transmission lines, distribution systems, real estate, buildings, automobiles, fixtures, franchises, rights, organization expenses, interest during construction, etc.	$11,871,101	$11,899,485
Deduct reserve for depreciation and renewals	5,442,584	5,634,478
	$ 6,428,517	$ 6,265,007
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 $4,158,793 which are shown 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
	$10,508,472	$10,344,962
CURRENT ASSETS:		
Cash on hand and in banks	$ 151,768	$ 876,679
Investment in Dominion of Canada 3% Victory Loan bonds at cost and accrued interest (approximate market value 31st March, 1948, $209,062)	209,015	209,015
Accounts receivable less reserve	842,409	811,903
Inventories as determined and certified by the management and valued at the lower of cost or market, less reserve of $140,500 for future price decline in inventories	1,391,835	627,497
	$ 2,595,027	$ 2,525,094
DEFERRED AND OTHER ASSETS:		
Bond discount, commissions and expenses less amounts written off	$ 115,200	$ 125,076
Deferred charges and prepaid expenses	176,950	102,964
Stores and spare equipment	207,066	200,727
Funds on deposit with trustee for bondholders	35,338	3,530
Refundable portion of taxes on income	32,043	46,500
	$ 566,597	$ 478,797
	$13,670,096	$13,348,853

ESTMENTS, LIMITED

Dominion Companies Act)

SUBSIDIARIES

Balance Sheet

March, 1948

LIABILITIES

	31st March 1948	31st March 1947
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	1,496,724	1,257,909
	$ 8,206,169	$ 7,967,354
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 1949 to 1950	$ 400,000	$ 600,000
4% Sinking fund bonds 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
	$ 3,900,000	$ 4,100,000
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	$ 591,353	$ 522,957
Accrued interest on bonds	51,317	52,558
Reserve for taxes on income	433,757	278,484
Dividend payable	67,500	67,500
First collateral mortgage serial bonds Series "A"		
—due 1st December 1948	200,000	
—matured 1st December 1947		140,000
	$ 1,343,927	$ 1,061,499
Reserve for Contingencies	$ 100,000	$ 100,000
	$13,670,096	$13,348,853

Approved on behalf of the Board.

DAVID P. ROGERS, *Director.*
S. B. SEVERSON, *Director.*

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 & 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.