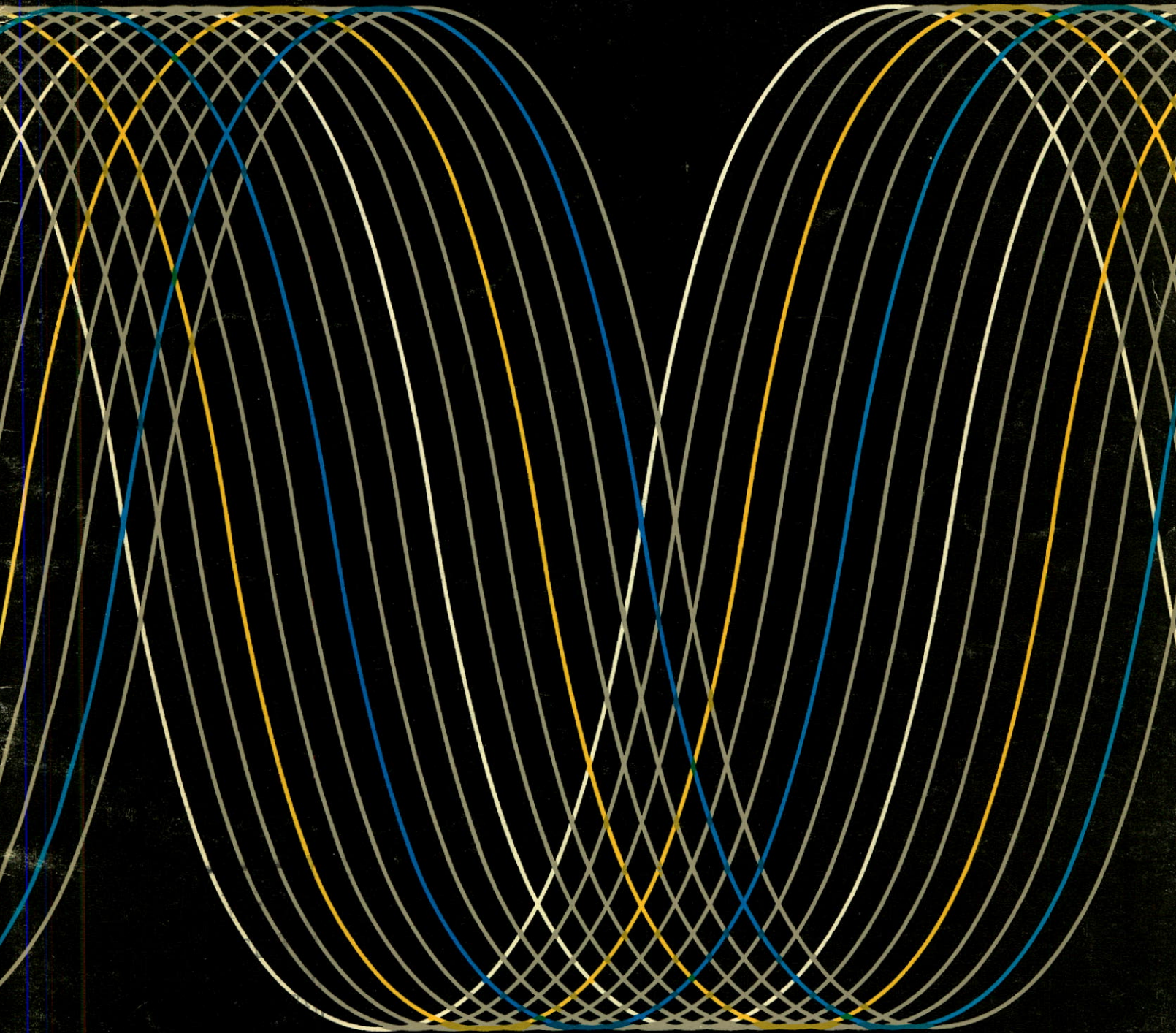
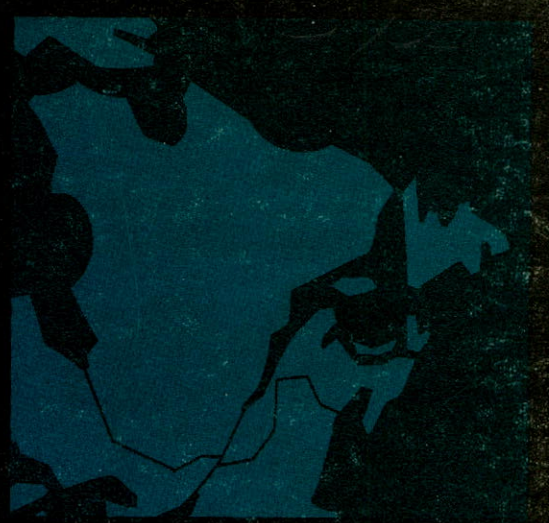


Quebec-Telephone Annual Report 1968



Board of Directors

Basile Augustin Bénéteau**, *Rimouski. President, Québec-Téléphone.*
Joseph Réal Bernier*, *Rimouski. Vice President and Controller, Assistant Treasurer, Québec-Téléphone.*
Jacques Brillant*, *Montreal. Chairman of the Board, Québec-Téléphone.*
Honourable Jules André Brillant, C.B.E.*, *Rimouski. Director.*
Roger Charbonneau, *Montreal. Dean, Ecole des Hautes Etudes Commerciales.*
James J. Clerkin, Jr., *New York. Executive Vice President — Telephone Operations, General Telephone & Electronics Corporation.*
Aristide Cousineau, *Montreal. President, René T. Leclerc Inc.*
John J. Douglas, *New York. Executive Vice President — Finance, General Telephone & Electronics Corporation.*
Norman Gendreau*, *Rimouski. Executive Vice President — Finance, Québec-Téléphone.*
Bernard Panet-Raymond, *Thorold. Vice President — Administration, Quebec North Shore Paper Company.*
Claude Pratte, *Québec. Advocate.*
Honorary Director
Paul-Emile Gagnon, O.C., *Rimouski. Senior Member, Gagnon & Gagnon.*

**President of the Executive Committee
*Member of the Executive Committee

Officers

Honourable Jules André Brillant, C.B.E., *Honorary President.*
Jacques Brillant, *Chairman of the Board.*
Basile Augustin Bénéteau, *President and Chief Executive Officer.*
Norman Gendreau, *First Vice President, Executive Vice President — Finance and Treasurer.*
Yvon Côté, *Vice President and General Counsel, Secretary, Vice President — Public Relations.*
Joseph Réal Bernier, *Vice President and Controller, Assistant Treasurer.*
Julien Thuot, *Vice President — Revenue Requirements.*
Raymond Sirois, *Vice President — Operations.*
Maurice Martin, *Vice President.*
Henri Dionne, *Assistant Vice President — Personnel.*
John Ronald Tennet, *Assistant Vice President and Chief Engineer.*
Jean-Marc Tremblay, *Assistant Secretary.*

Listing of Stock

Common stock and 4¾% preferred stock, 1965 Series, are listed on the *Montreal Stock Exchange.*

The 5% preferred stock, 1950, 1951, 1955 and 1956 Series, are listed on the *Canadian Stock Exchange.*

Stock Transfer Offices

Administration and Trust Company, 10 St. James Street West, Montreal 126, is the Registrar and Transfer Agent for all classes of shares of the Company. The Royal Trust Company is the Co-Transfer Agent and Registrar for the 4¾% Preferred Shares 1965 Series at its offices in Toronto, Ontario and Winnipeg, Manitoba and is the Co-Transfer Agent and Registrar for the Common Shares of the Company at its offices in Toronto, Winnipeg and Saint John, N.B.

Trustee for Bonds

Administration and Trust Company,
10 St. James Street West, Montreal 126.

Bankers

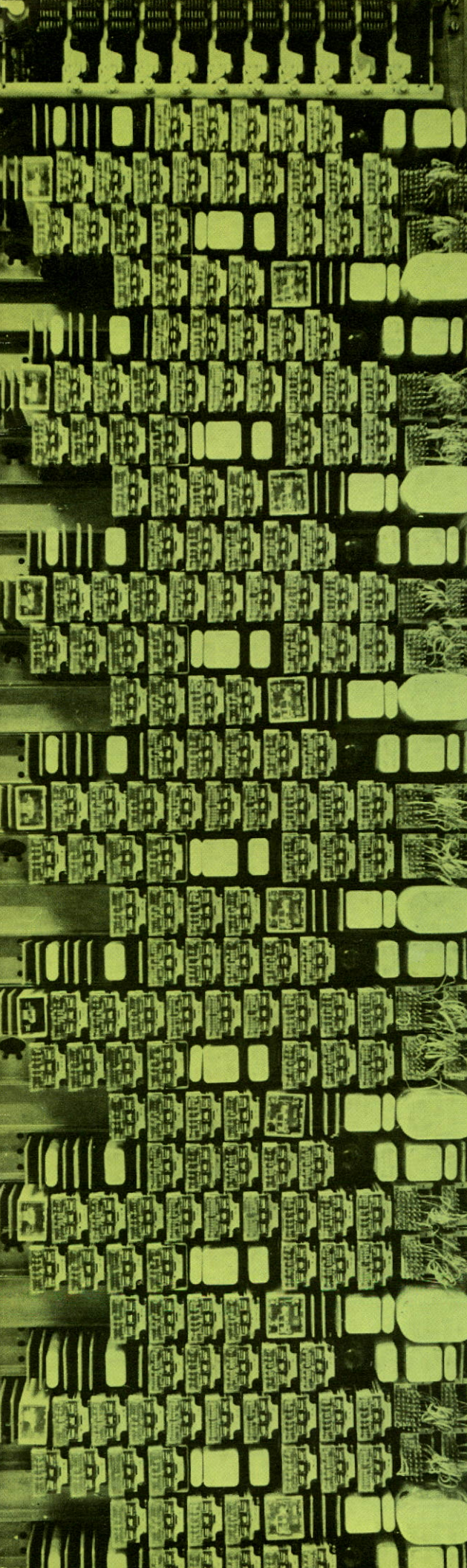
Banque Canadienne Nationale
Bank of Montreal

Subsidiary

The Bonaventure and Gaspé Telephone Company, Limited,
New Carlisle, Bonaventure County, Qué.

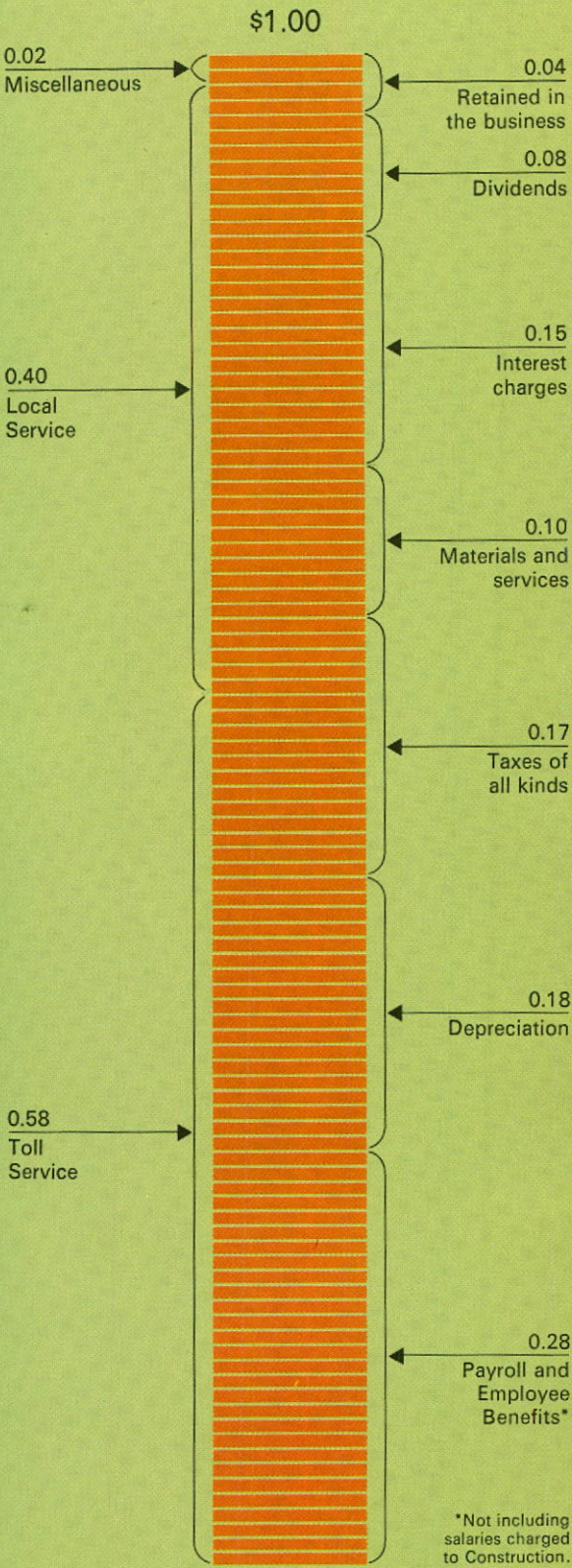
To the Shareholders :

Your Directors appreciate the interest shown by shareholders who are present at the Annual General Meetings and participate in the discussions of the Company's affairs. This year the meeting will be held in March at Rimouski, Qué. All shareholders who find it possible to attend are urged to do so.



The Revenue Dollar

And its Disposition



Report in Brief

✓

Financial Results

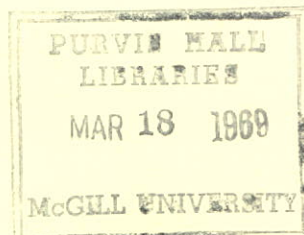
	1968	1967	Increase or (Decrease)
Total revenues	\$ 22,842,828	\$ 20,732,778	\$ 2,110,050
Operating expenses, taxes and interest charges	\$ 17,250,118	\$ 15,412,924	\$ 1,837,194
Income taxes	\$ 3,013,678	\$ 2,720,645	\$ 293,033
Net income	\$ 2,579,032	\$ 2,599,209	\$ (20,177)
Cash dividends on preferred shares	\$ 507,310	\$ 514,963	\$ (7,653)
Net income available for common shares	\$ 2,071,722	\$ 2,084,246	\$ (12,524)
Earnings per average common share	\$ 1.19	\$ 1.197	\$ (.007)
Cash dividend per common share	\$ 0.70	\$ 0.70	—
Average number of common shares outstanding	1,741,067	1,741,034	33
Cash dividends on common shares	\$ 1,218,758	\$ 1,218,807	\$ (49)
Dividend pay-out ratio	66.9%	66.7%	.2%
Number of preferred and common shareholders	3,139	3,303	(164)

Selected Statistics

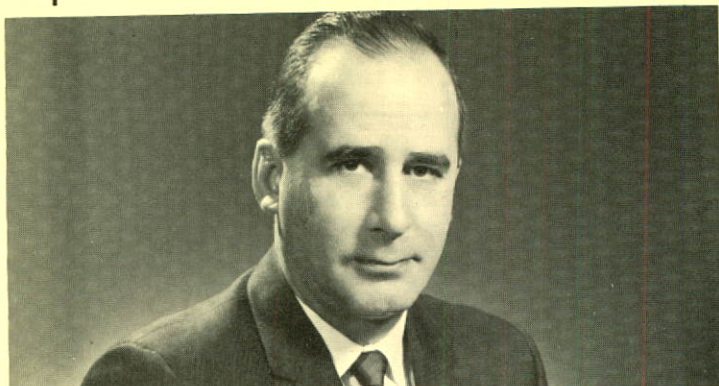
Telephone plant	\$114,372,904	\$100,720,537	\$13,652,367
Construction and other plant additions	\$ 15,932,556	\$ 15,876,864	\$ 55,692
Telephones in service	136,070	126,426	9,644
Per cent dial operated	91.0%	82.1%	8.9%
Number of central offices	145	139	6
Toll messages	11,457,424	11,367,198	90,226
Number of employees	1,546	1,587	(41)
Salaries and wages	\$ 8,436,803	\$ 8,035,694	\$ 401,109

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Report of the Directors



Mr. Basile A. Bénéteau
President

Service is the prime and fundamental objective of Québec-Téléphone. In the pursuit of this objective, the Company made substantial gains in both quantity and quality of the services offered to the public during 1968.

A considerable growth in the number of telephones, coupled with the introduction of many new types of services, has enabled the Company to better serve the needs of the subscribers; there was correspondingly an unprecedented volume of toll traffic.

Net income and earnings per share

Net income for the year nearly equalled that of the preceding year being \$2,579,032, compared with \$2,599,209 in 1967. This result was achieved despite a federal income surtax which reduced the net income for the year by \$79,155 or 4.5 cents per common share, as well as increases in depreciation and interest charges of 17.4 and 32.7 per cent respectively. After payment of dividends on preferred stock, the net revenue per average common share was \$1.19, as compared with \$1.197 in 1967. Regular quarterly dividends were paid on preferred shares and \$0.70 per share was paid on the common, as was the case in 1967. Dividends totaling \$1,726,068 were paid on all classes of capital stock, and \$852,964 was retained in the business.

Operating revenues

The present era of expansion which is so pronounced in the telecommunication industry was reflected in the Company's progress during this past year. Total operating revenues for the year amounted to \$22,631,885, an increase of \$2,131,536, or 10.3 per cent over 1967. The following table indicates the main sources of revenues and the associated increases over 1967.

	Increase compared with 1967		
	1968	Amount	Per cent
Local service . . .	\$ 9,054,000	\$1,189,731	15.1
Toll service . . .	13,310,036	974,175	7.9
Miscellaneous . . .	350,635	(16,560)	(4.5)
	<u>\$22,714,671</u>	<u>\$2,147,346</u>	<u>10.4</u>
Less: Provision for doubtful accounts .	82,786	15,810	23.6
	<u>\$22,631,885</u>	<u>\$2,131,536</u>	<u>10.3</u>

Operating expenses and taxes

As the result of a concerted effort to control expenses, the controllable operating expenses were held to a rise of \$229,157 or 2.7 per cent in comparison with 13.8 per cent in 1967 over 1966. Meanwhile, general taxes and depreciation expenses, resulting from increased plant investment, continued to rise rapidly by 16.6 and 17.4 per cent respectively over 1967. Interest expense for the year was \$3,512,773 or 32.7 per cent over 1967 due to additional bank and short term loans as well as to the unprecedented high level of interest rates.

Financing

In view of the tighter money policy prevailing in the capital markets during 1968, financial resources have been under great pressure, and we have been fortunate to have the full support of the majority shareholder, Anglo-Canadian Telephone Company, to aid the Company in financing its capital requirements.

The Company's requirements for additional capital from sources outside the business in 1968 were provided chiefly through bank loans which, at the end of the year, amounted to \$18,000,000. Part of this money was needed to retire the \$2,540,500 principal amount of 5¼ per cent General Mortgage Bonds which matured in May. The balance of the capital requirements was met through internal resources, primarily depreciation accruals, retained earnings and the deferred tax credit.

On January 6, 1969, the Board of Directors authorized an offering of 290,178 shares of 6.20 per cent Cumulative Redeemable Convertible Subordinate Preferred stock Series A of the par value of \$15 per share, or an aggregate par value of \$4,352,670, to the holders of its common shares of record at the close of business on January 13, 1969 on the basis of one (1) Series A Convertible Subordinate Preferred share at a price of \$15 per share for each six (6) common shares then held. The proceeds derived by the Company from the sale of such shares were used to reduce the bank loans then outstanding. Administration and Trust Company, 10 St. James Street West, Montreal 126, is the Registrar and Transfer Agent for the Series A Convertible Subordinate Preferred Shares, and the Royal Trust Company, the Co-Transfer Agent and Registrar at its offices in Toronto, Saint John, N.B. and Winnipeg. Application has been made to list such shares on the Montreal Stock Exchange.

Construction programme

The Company continued with heavy plant expenditures to provide for the development and growth of its service area, to introduce new and broader types of communication services, and to automate, modernize, and expand facilities. Net additions during the year of \$13,652,367, after deducting the cost of facilities removed from service, raised plant investment to

Above: The Company continued its studies and application of data processing techniques.

Below: The longest microwave network in the Province of Québec.

\$114,372,904, more than four times the plant investment of \$25,900,298 at the end of 1958, ten years ago. The increase clearly illustrates the growth realized in the Company's operating area and the capital outlays necessary to provide customers with the most advanced communication services.

During 1968, there was a gain of 9,644 telephones in service. Twenty-two new dial offices were put into operation; consequently, 91 per cent of the 136,070 telephones are now dial operated. Through the installation of new distribution cables and associated equipment, multi-party rural service was converted to individual and two-party service in 18 localities; furthermore, 27 additional exchanges benefited from the establishment of regional service.

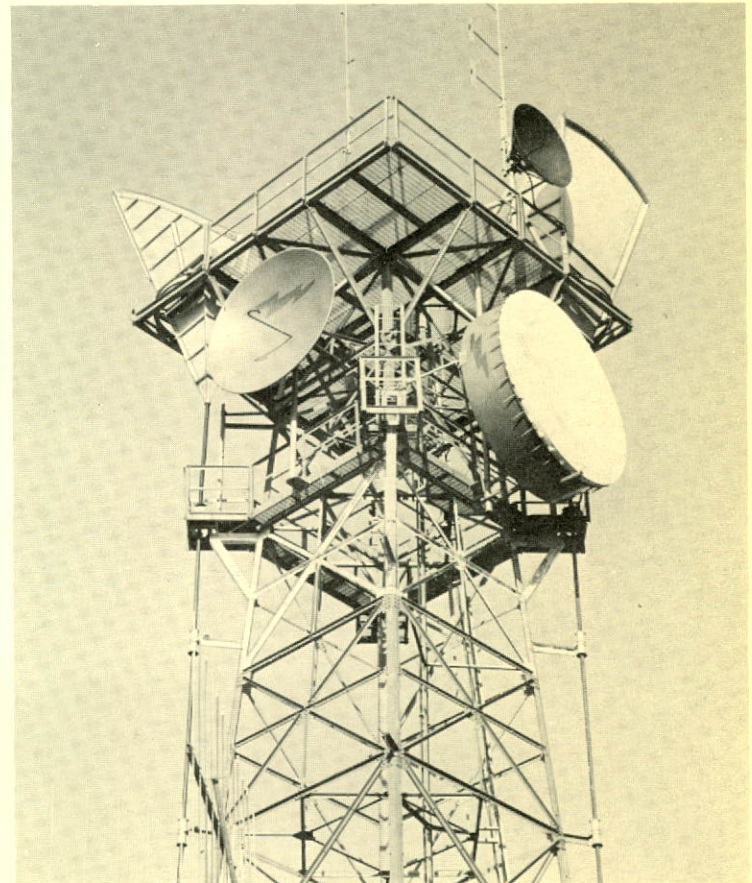
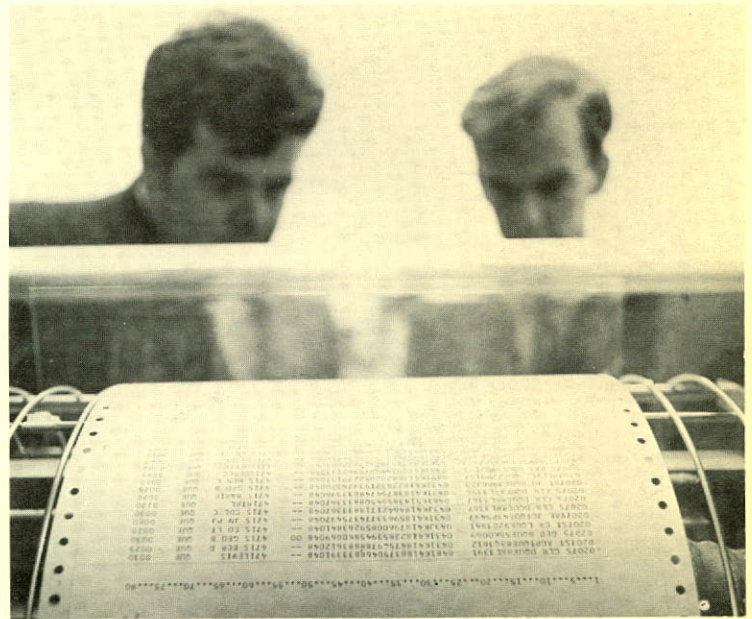
Direct distance dialing, which was first offered to the Company's customers in 1967 in the Rimouski area, is now available to approximately 50 per cent of the telephones, including 82 per cent of the subscribers of The Bonaventure and Gaspé Telephone Company, Limited, a wholly-owned subsidiary. At the end of 1969, this service will be available to approximately 70 per cent of the subscribers of the combined companies.

A major extension to the Company's network on the Lower North Shore of the St. Lawrence, comprising seven new dial offices, tied in to the transcontinental network through a microwave system connecting Sept-Iles to Blanc-Sablon, was begun in 1967 and completed in 1968. During the first quarter of 1969, traffic exchanged between eastern Québec and western Labrador on the one hand, and the Island of Newfoundland on the other, will be routed over this system. A new microwave system, with a capacity of 1200 circuits, was also put into operation between Rimouski and Mont Ste-Marguerite near Ste-Marie-de-Beauce. The Company's microwave network, with a total length of 2085 miles at the end of 1968, as compared with 921 miles at the end of 1967, is now the longest in the Province of Québec.

New activities

To answer a continually increasing demand for total communications, the Company has continued the development of a competent marketing group. Networks for data transmission were commissioned for the Provincial Ministries of Education and of Lands and Forests; a contract was signed with the Québec Department of Justice for the provision of an integrated mobile telephone network during the first quarter of 1969. Continued importance will be attached to this sphere of activity; the business community as a whole is more satisfied with its communications, and additional annualized revenues of \$778,000 or an increase of 32 per cent were realized in 1968.

Letters patent approving the creation of Québec-Communications, Inc. were obtained on July the 30th 1968. This new company has applied for the necessary permits to transmit, by the multi-purpose use of coaxial cables or other media, com-



mercial and educational television and radio, broadband data or any other type of information suitable for this medium.

During the year, your Company continued its studies and application of data processing techniques. Particular emphasis was placed on the recruiting and training of specialists and on the short and long-term planning for the utilization of new computers, one of which will be in service during the second quarter of 1969. The objectives are to maximize the utilization of a complete and integrated information system for our own operations and to offer data processing services to the general public. The Company's experience to date in this field has been quite encouraging.

Personnel

Remuneration and salaries during 1968 amounted to \$8,470,100 as compared with \$8,035,694 for the preceding year. Despite the increase in the volume of business, and because of a continued programme of automation, there was a slight decrease in the number of employees, from 1,587 in 1967 to 1,546 this year.

On October 10, 1968, the Company and its 370 craft employees, represented by the International Brotherhood of Electrical Workers, signed a new two-year collective agreement. This contract provides for substantial increases in salaries and fringe benefits.

Administration

The organization structure has been modified to adapt to and keep pace with the continuing growth in the Company's operations, to improve relations with the customers, and to create a climate which will stimulate increases in service and productivity.

The operating group, traditionally a departmental organization, was reorganized on September the 1st into a mixed line and staff organization. The chief engineer, and the general operation supervisor, the latter responsible for the methods and practices of the operating group, head up the staff function. Two general managers of divisional operations, one in the Québec division and the other in the Saint-Laurent division, are responsible for the operations in their respective division.

Board of Directors

At the beginning of 1968, Mr. H. A. Sewell and Mr. Maurice Martin retired from the Board of Directors. Mr. Sewell's leadership and judgement together with Mr. Martin's dedication and years of experience have been valuable assets to your Company over the years.

The shareholders, at the annual meeting on March the 11th 1968 elected Mr. Roger Charbonneau, Dean of l'Ecole des Hautes Etudes Commerciales of Montreal, and Mr. Bernard Panet-Raymond, Executive Vice President of The Ontario Paper Company and of Quebec North Shore Paper Com-

pany, to the Board of Directors to replace Messrs. Sewell and Martin. This choice clearly indicates the importance that the shareholders attach to proven competence in the complementary worlds of business and of the universities.

Financial statements

The Balance Sheet and the related statements of Income, Retained Earnings and Source and Use of Funds for the year 1968, submitted in comparative form with last year, appear on pages 6 through 9. These statements have been examined by the auditors, whose report is also reproduced on page 14.

Conclusion

The services offered by our Company are based on good equipment, operated and maintained by competent people. The equipment is designed, manufactured and installed by several suppliers while the creation and development of a climate favouring the realization of the full potential of our employee team is entirely our responsibility. We must learn to use the techniques of automation and data processing to advance our enterprise; we must also identify and promote the elements which are essential to the creation of dynamism of the group, not fearing innovations in the field of human sciences.

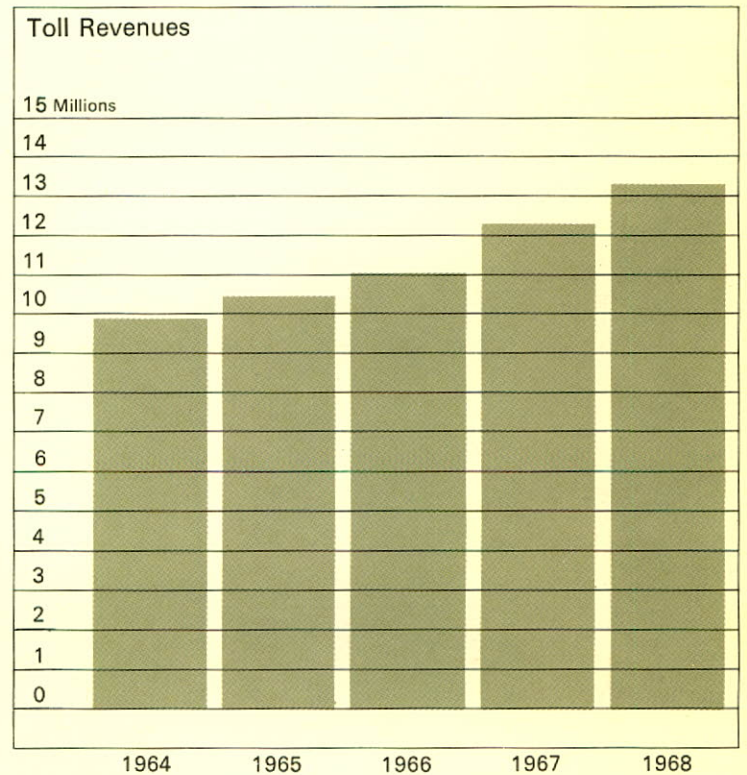
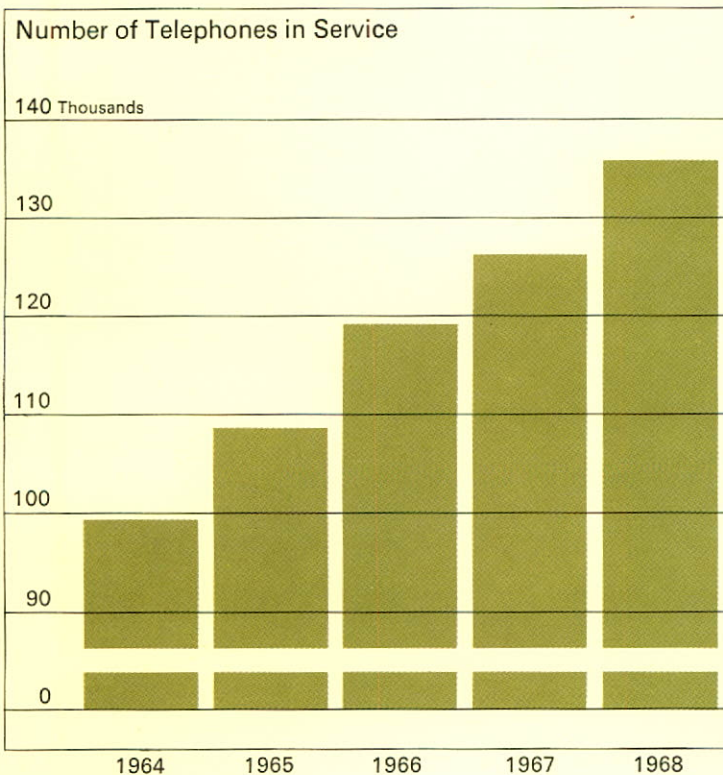
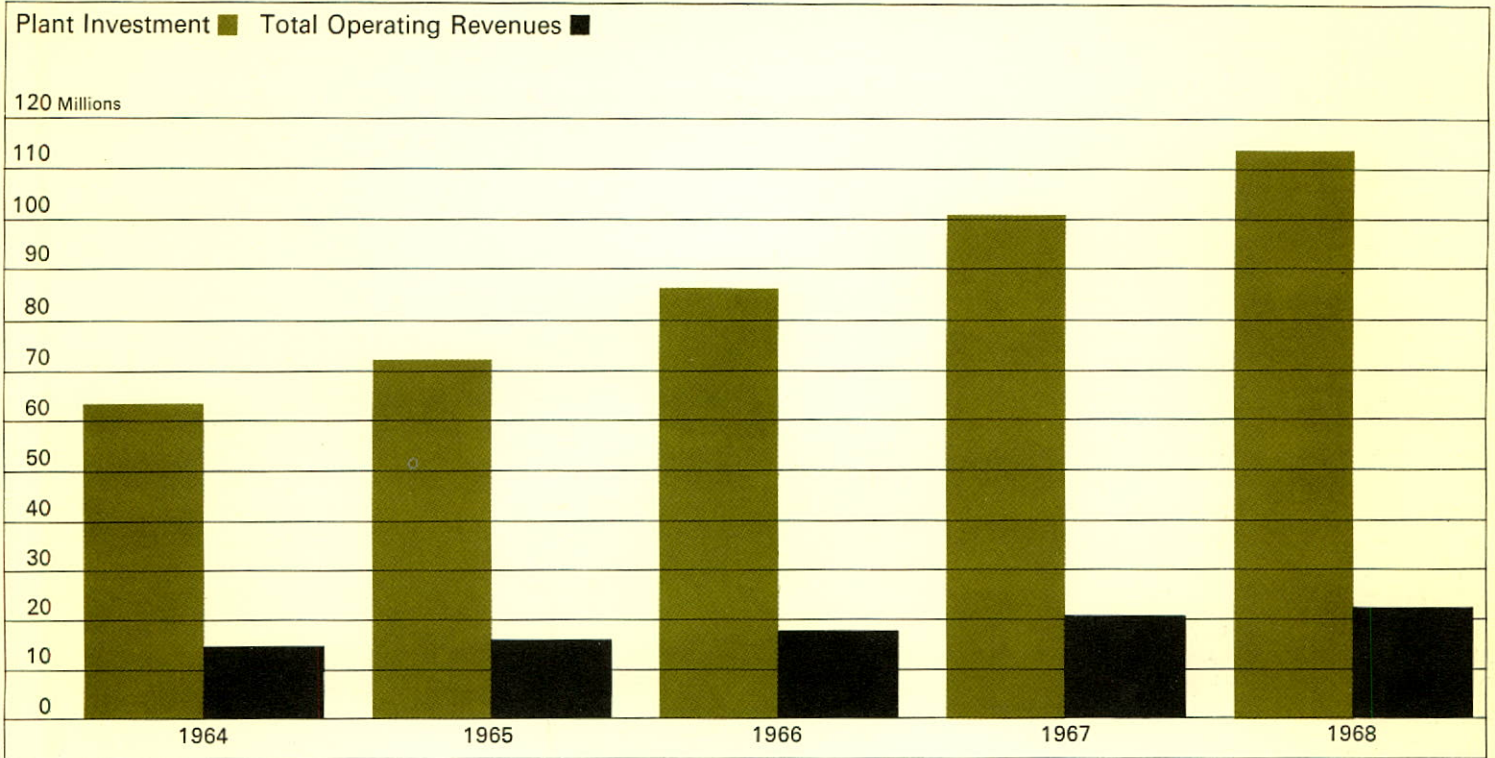
The coming year will be a year of continuing progress. The Company wishes to render homage to a loyal and competent team of employees who have made past achievements possible and who permit the anticipation of continuing success.

For the Board of Directors,



President.

February 21, 1969.



Consolidated Statement of Retained Earnings

for the years ended December 31, 1968 and 1967

	1968	1967
Balance at Beginning of Year	\$ 6,997,047	\$ 6,437,762
<i>Add —</i>		
Net income	2,579,032	2,599,209
	<u>\$ 9,576,079</u>	<u>\$ 9,036,971</u>
<i>Deduct —</i>		
Dividends on preferred shares	\$ 507,310	\$ 514,963
Dividends on common shares	1,218,758	1,218,807
Adjustment of long-term debt payable in United States dollars, due to the devaluation of the Canadian dollar in 1962	—	306,154
	<u>\$ 1,726,068</u>	<u>\$ 2,039,924</u>
Balance at End of Year	<u>\$ 7,850,011</u>	<u>\$ 6,997,047</u>

Consolidated Statement of Source and Use of Funds

for the years ended December 31, 1968 and 1967

Source of Funds:

	1968	1967
From operations —		
Net income	\$ 2,579,032	\$ 2,599,209
<i>Add —</i> Expenses not requiring cash outlay, principally depreciation and provision for deferred income taxes	5,988,051	4,818,852
Funds available from operations	<u>\$ 8,567,083</u>	<u>\$ 7,418,061</u>
Issue and sale of common shares	—	2,229
Sale of first mortgage bonds	—	4,900,000
7% subordinated note payable to Anglo-Canadian Telephone Company (Note 4)	10,000,000	—
Other sources of funds (Net)	85,346	58,317
Decrease in working capital	—	8,521,665
	<u>\$18,652,429</u>	<u>\$20,900,272</u>

Use of Funds:

	1968	1967
Construction and other plant additions	\$15,932,556	\$15,876,864
Redemption of bonds	503,864	3,127,438
Redemption of preferred shares	148,920	162,200
Dividends paid on common and preferred shares	1,726,068	1,733,770
Increase in working capital	341,021	—
	<u>\$18,652,429</u>	<u>\$20,900,272</u>

The notes to consolidated financial statements on pages 12 and 14 are an integral part of these statements.

Assets

	1968	1967
Telephone Plant, at cost (Note 2)	\$114,372,904	\$100,720,537
Accumulated depreciation (Note 7)	16,969,511	15,555,943
	<u>\$ 97,403,393</u>	<u>\$ 85,164,594</u>
Current Assets :		
Cash	\$ 137,801	\$ 636,911
Short-term investments and deposits	349,813	283,165
Receivables (including unbilled revenues) less allowance for doubtful accounts of \$87,239 for 1968 and \$93,096 for 1967	3,488,127	3,072,690
Material and supplies, at average cost	1,347,239	1,481,161
Prepayments and other assets	212,019	121,371
	<u>\$ 5,534,999</u>	<u>\$ 5,595,298</u>
Deferred Charges :		
Unamortized discount and expense on long-term debt	\$ 576,595	\$ 619,936
Other deferred charges	82,839	255,448
	<u>\$ 659,434</u>	<u>\$ 875,384</u>
 Signed on behalf of the Board : B. A. Bénéteau, Director. N. Gendreau, Director.	 <u>\$103,597,826</u>	 <u>\$ 91,635,276</u>

Notes to Consolidated Financial Statements

for the years ended December 31, 1968 and 1967

1. Principles of Consolidation

The consolidated balance sheet and the related consolidated statements of income, retained earnings and source and use of funds include the assets and liabilities and the results of operations and source and use of funds of the wholly-owned subsidiary, The Bonaventure and Gaspé Telephone Company Limited. A wholly-owned subsidiary, Québec-Communications Inc., which has not yet commenced operations and which has no assets or liabilities, except a nominal amount received from incorporators for capital stock, has not been consolidated.

2. Telephone Plant

Telephone plant consists of land, buildings, switching and microwave equipment, poles, wire, cable, underground conduit, telephone apparatus, motor vehicles, office furniture, other equipment and construction in progress.

3. Capital Stock

a) Common Shares

Authorized — 5,000,000 Common Shares without nominal or par value

Issued and outstanding — 1,741,067 Common Shares	\$10,757,690	\$10,757,690
--	---------------------	---------------------

290,178 Common Shares are reserved for conversion of 6.20% Cumulative Redeemable Convertible Subordinate Preferred Shares Series A at the option of the holders thereof.

b) Preferred Shares

Authorized — 919,161 Preferred Shares of the par value of \$20 each

Issued and outstanding —

5% Cumulative Sinking Fund Redeemable Preferred Shares:

1950 Series	13,835
1951 Series	5,254
1955 Series	64,318
1956 Series	40,557
	<u>123,964</u>

	1968	1967
--	-------------	-------------

	\$10,757,690	\$10,757,690
--	---------------------	---------------------

	1968	1967
--	-------------	-------------

	\$ 2,479,280	\$ 2,628,200
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	8,000,000	8,000,000
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	\$10,479,280	\$10,628,200
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4¾% Cumulative Redeemable Preferred Shares:

1965 Series	400,000
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During the period ended December 31, 1968, 7,446 Cumulative Sinking Fund Redeemable Preferred Shares were redeemed. 394,086 Preferred Shares are still available for issue.

Supplementary Letters Patent were obtained on November 20, 1968, reducing the authorized capital of the Company by the cancellation of 277,005 5% Cumulative Sinking Fund Redeemable Preferred Shares.

c) Subordinate Preferred Shares

Authorized — 750,000 Subordinate Preferred Shares of the par value of \$15 each

Supplementary Letters Patent were obtained on November 20, 1968, increasing the authorized capital stock of the Company by the creation of 750,000 Subordinate Preferred Shares, of the par value of \$15 each. The Company will issue 290,178 6.20% Cumulative Redeemable Convertible Subordinate Preferred Shares Series A pursuant to a rights offering made on January 7, 1969, to the common shareholders of the Company and to an underwriting agreement with Pitfield, Mackay, Ross & Company Limited.

4. Long-term Debt

Details of long-term debt are as follows:

	Issued	Outstanding	
		1968	1967
First Mortgage Redeemable Sinking Fund Bonds (i) and (ii)			
4¼% Series D, due May 1, 1972	U.S. \$1,000,000	\$ 902,703	\$ 918,918
5% Series F, due December 1, 1984	U.S. 3,000,000	3,048,649	3,097,298
5½% Series G, due October 15, 1982	5,000,000	4,380,000	4,449,000
5½% Series H, due June 1, 1987	6,000,000	5,341,000	5,491,000
6% Series I, due October 15, 1990	5,000,000	5,000,000	5,000,000
7% Series J, due January 2, 1989	5,000,000	5,000,000	5,000,000
7% Series K, due January 2, 1971	1,695,000	—	—
		\$23,672,352	\$23,956,216
General Mortgage Sinking Fund Bonds (iii)			
5% Series B, due October 1, 1976	1,000,000	\$ 839,500	\$ 877,500
6% Series C, due November 1, 1977	3,000,000	2,641,000	2,671,000
5¾% Series D, due April 1, 1983	5,000,000	4,541,000	4,693,000
		\$ 8,021,500	\$ 8,241,500

i) First Mortgage Bonds may be issued without limitation in amount but subject to the restrictions contained or to be contained in the Trust Deed securing the First Mortgage Bonds.

ii) Series K Bonds were issued as collateral security to secure a bank loan incurred to redeem the balance remaining of the Company's First Mortgage Bonds Series B and C, which bank loan was subsequently repaid from the proceeds of a loan from Anglo-Canadian Telephone Company, and the Series K Bonds were pledged to Anglo-Canadian Telephone Company to partly secure the \$10,000,000 7% Subordinated Note Payable to that Company. Such note is otherwise unsecured.

iii) General Mortgage Bonds may be issued without limitation in amount but subject to the restrictions contained in the Trust Deed securing the General Mortgage Bonds which are similar to those contained in the First Mortgage Trust Deed.

	\$31,693,852	\$32,197,716
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Consolidated Statement of Income

for the years ended December 31, 1968 and 1967

	1968	1967
Operating Revenues :		
Local service	\$ 9,054,000	\$ 7,864,269
Toll service	13,310,036	12,335,861
Miscellaneous	350,635	367,195
Provision for doubtful accounts	(82,786)	(66,976)
	<u>\$22,631,885</u>	<u>\$20,500,349</u>
Operating Expenses and Taxes :		
Maintenance	\$ 3,025,594	\$ 2,790,252
Depreciation (Note 7)	4,175,426	3,556,991
Traffic	2,428,757	2,482,434
Commercial	1,057,889	1,182,573
General office salaries and other	2,174,745	2,002,569
General taxes	874,934	750,465
Provision for Federal and Provincial income taxes — Current	762,725	1,383,563
— Deferred	2,250,953	1,337,082
	<u>\$16,751,023</u>	<u>\$15,485,929</u>
Operating income	\$ 5,880,862	\$ 5,014,420
Miscellaneous Income — Net (Note 8)	210,943	232,429
Income before interest charges	<u>\$ 6,091,805</u>	<u>\$ 5,246,849</u>
Interest Charges :		
Interest on long-term debt	\$ 1,915,517	\$ 2,070,563
Other interest	1,551,909	498,635
Amortization of discount and expense on long-term debt	45,347	78,442
	<u>\$ 3,512,773</u>	<u>\$ 2,647,640</u>
Net Income	\$ 2,579,032	\$ 2,599,209

The notes to consolidated financial statements on pages 12 and 14 are an integral part of these statements.

Ten Years of Progress

Selected Income Items	1968	1967	1966
Operating Revenues	\$ 22,631,885	\$ 20,500,349	\$17,569,328
Operating Expenses	8,686,985	8,457,828	7,432,422
Depreciation	4,175,426	3,556,991	3,003,397
General Taxes	874,934	750,465	553,009
Income Taxes	3,013,678	2,720,645	2,350,190
Miscellaneous Income (net)	210,943	232,429	145,581
Interest Charges	3,512,773	2,647,640	2,143,961
Net Income	2,579,032	2,599,209	2,231,930
Cash Dividends on Preferred Shares	507,310	514,963	521,727
Net Income Available for Common Shares	2,071,722	2,084,246	1,710,203
Cash Dividends on Common Shares	1,218,758	1,218,807	1,085,618
Net Income Reinvested	852,964	865,439	624,585

Selected Financial Statistics			
Long Term Debt	\$ 31,693,852	\$ 32,197,716	\$31,714,000
Per Cent Total Capitalization	44.8%	53.1%	53.1%
7% Subordinated Note Payable to Anglo-Canadian Telephone Company	\$ 10,000,000		
Per Cent Total Capitalization	14.1%		
Preferred Shares	\$ 10,479,280	\$ 10,628,200	\$10,790,400
Per Cent Total Capitalization	14.8%	17.6%	18.1%
Common Shares and Retained Earnings	\$ 18,607,701	\$ 17,754,737	\$17,193,223
Per Cent Total Capitalization	26.3%	29.3%	28.8%
Times Bond Interest Earned Before Depreciation	6.9	5.6	5.5
Times Bond Interest Earned After Depreciation	4.7	3.8	3.8
*Average Number of Common Shares	1,741,067	1,741,034	1,519,792
Earnings per Average Number of Common Shares	\$ 1.19	\$ 1.197	\$ 1.125
Per Cent Retained Earnings to Net Income	33.1%	33.3%	28.0%
Per Cent Net Income to Operating Revenues	11.4%	12.7%	12.7%

Other Statistics			
Number of Employees (year end)	1,546	1,587	1,699
Telephones in Service	136,070	126,426	119,278
Business	39,283	35,935	34,085
Residence	96,787	90,491	85,193
Per Cent Dial Operated	91.0%	82.1%	73.1%
Investment per Telephone	\$ 840.54	\$ 796.68	\$ 726.15
Telephone Plant	\$114,372,904	\$100,720,537	\$86,614,281
Accumulated Depreciation	\$ 16,969,511	\$ 15,555,943	\$13,894,046
Per Cent Depreciation to Telephone Plant	14.8%	15.4%	16.0%
Central Offices	145	139	134
Monthly Average of Toll Messages	954,785	947,266	859,383

*Allowing for Split in Common Shares, 2 for 1 in 1964.

The above statistical summary does not form part of the consolidated financial statements.

1965	1964	1963	1962	1961	1960	1959
\$16,140,754	\$14,748,240	\$13,392,576	\$12,328,717	\$10,447,224	\$ 9,195,515	\$ 7,938,610
6,549,100	5,974,396	5,318,742	4,960,833	4,377,533	3,554,085	3,554,042
2,706,440	2,412,309	2,182,381	1,815,477	1,483,374	1,262,378	1,063,890
448,793	354,311	360,439	292,311	248,021	183,749	161,432
2,497,543	2,322,912	2,175,257	2,018,031	1,839,580	1,568,309	1,324,693
46,558	86,190	206,769	206,075	138,348	84,929	16,534
1,700,029	1,589,914	1,491,233	1,147,613	968,080	734,574	526,024
2,285,407	2,180,588	2,071,293	1,888,377	1,668,984	1,572,349	1,325,063
500,014	421,820	431,104	439,310	418,425	288,350	295,597
1,785,393	1,758,768	1,640,189	1,449,067	1,250,559	1,283,999	1,029,466
1,031,355	1,218,674	858,825	799,032	739,326	625,171	590,871
754,038	540,094	781,364	650,035	511,233	658,828	438,595
\$31,924,500	\$27,473,500	\$27,903,000	\$23,265,500	\$17,544,000	\$17,789,000	\$12,966,500
57.5%	58.9%	59.8%	56.2%	50.9%	57.2%	50.5%
\$10,933,160	\$ 7,875,920	\$ 8,071,500	\$ 8,238,300	\$ 8,357,120	\$ 5,510,260	\$ 5,639,280
19.7%	16.9%	17.3%	19.9%	24.3%	17.7%	21.9%
\$12,657,983	\$11,287,628	\$10,677,106	\$ 9,898,077	\$ 8,554,775	\$ 7,826,990	\$ 7,096,018
22.8%	24.2%	22.9%	23.9%	24.8%	25.1%	27.6%
6.0	5.6	5.5	6.2	6.4	7.3	8.4
4.3	4.0	4.0	4.6	4.8	5.5	6.3
1,475,310	1,433,736	1,431,488	1,391,412	1,342,816	1,316,765	1,313,050
\$ 1.210	\$ 1.227	\$ 1.146	\$ 1.041	\$ 0.931	\$ 0.975	\$ 0.784
33.0%	24.8%	37.7%	34.4%	30.6%	41.9%	33.1%
14.1%	14.7%	15.4%	15.3%	16.0%	17.1%	16.7%
1,580	1,598	1,461	1,406	1,276	1,171	1,055
108,791	99,168	90,825	83,229	75,635	67,420	58,582
31,048	28,463	26,450	24,694	22,713	20,937	19,393
77,743	70,705	64,375	58,535	52,922	46,483	39,189
71.3%	66.7%	64.9%	61.6%	57.3%	56.0%	47.7%
\$ 666.92	\$ 641.54	\$ 620.89	\$ 582.29	\$ 557.40	\$ 531.34	\$ 509.02
\$72,555,016	\$63,620,412	\$56,392,526	\$48,463,675	\$42,158,713	\$35,822,796	\$29,819,166
\$11,601,228	\$ 9,841,856	\$ 8,508,948	\$ 6,812,225	\$ 5,597,855	\$ 4,896,090	\$ 4,230,297
16.0%	15.5%	15.1%	14.1%	13.3%	13.7%	14.2%
133	130	125	127	123	121	118
798,929	731,371	643,997	574,708	527,034	478,210	417,269

Financial statements referred to in the auditors' report to the shareholders,

Balance Sheet

1968 and 1967

Shareholders' Equity

	1968	1967
Common Shares (Note 3)	\$ 10,757,690	\$ 10,757,690
Retained Earnings	7,850,011	6,997,047
	<u>\$ 18,607,701</u>	<u>\$ 17,754,737</u>
Preferred Shares (Note 3)	10,479,280	10,628,200
	<u>\$ 29,086,981</u>	<u>\$ 28,382,937</u>

Liabilities

Long-Term Debt (Note 4)	\$ 31,693,852	\$ 32,197,716
7% Subordinated Note Payable— to Anglo-Canadian Telephone Company (Note 4)	<u>\$ 10,000,000</u>	<u>\$ —</u>


Current Liabilities:

Notes payable to banks	\$ 18,000,000	\$ 16,200,000
Current maturities on long-term debt	—	2,540,500
Accounts payable — Trade	1,875,844	783,428
Affiliates	371,990	854,137
Advance billings and customer deposits	181,203	265,592
Dividends	430,736	432,543
Accrued liabilities — Taxes	66,551	338,479
Interest and other	653,692	566,657
	<u>\$ 21,580,016</u>	<u>\$ 21,981,336</u>

Deferred Income Taxes	\$ 11,236,977	\$ 9,073,287
	<u>\$103,597,826</u>	<u>\$ 91,635,276</u>

The notes to consolidated financial statements on pages 12 and 14 are an integral part of these balance sheets.

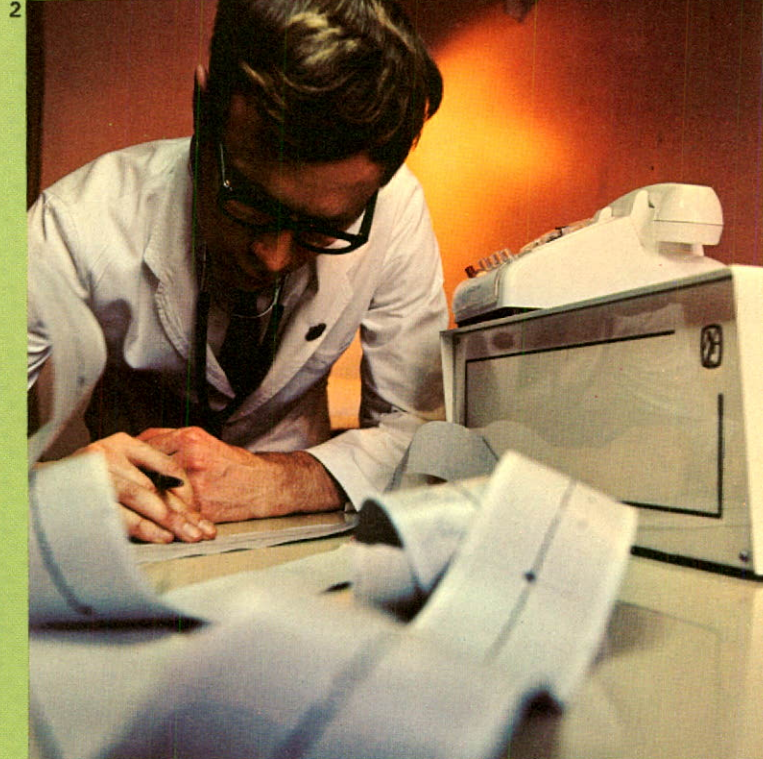
Territory Served by Québec-Téléphone

The  portion of the map shows the areas of the Province of Québec served by the Company and its subsidiary. Québec-Téléphone presently operates 145 central offices, serving 337 municipalities in an area with a population of over 525,000 inhabitants.

The Company's microwave network shown on this map, with a total length of 2,085 miles at the end of 1968, is now the longest in the Province of Québec.



- 1 Integrated mobile telephone network to assist police forces.
- 2 A specialist studying an electro-cardiogram of a patient hospitalised miles away through a Data Medical Set.
- 3 The Company is proud to provide educators with the most advanced communication services.



Auditors' Report

5. Sinking Fund Payments

Sinking fund payments required in the twelve month period ending December 31, 1969 in respect of the preferred shares and long-term debt outstanding at December 31, 1968 amount to \$179,000 and \$116,000 respectively.

6. Construction Program

The Company's program for the construction of new plant and facilities in 1969, as now planned, provides for the expenditure of approximately \$14,200,000.

7. Depreciation of Telephone Plant

The Company provides depreciation on the straightline method based on the service lives and estimated net salvage of the various classes of depreciable property.

The Company is currently making an engineering study to determine the adequacy of depreciation rates for each class of telephone plant in service. It is expected that this study will be completed in 1970.

8. Interest Charged to Construction

Miscellaneous income includes a credit for interest charged to construction of \$83,036 in 1968 and \$124,486 in 1967.

9. Pension Plans

The Company maintains funded pension plans for the benefit of all employees. On February 28, 1968, a non-contributory plan was introduced providing increased benefits for supervisory personnel upon retirement. The Company's policy is to fund pension costs as incurred. The total pension cost for 1968 and 1967 was \$356,000 and \$138,000 respectively, which includes amortization of past service cost of \$113,500 and \$9,600 respectively. The estimated unfunded liability for past service cost was \$1,619,000 at December 31, 1968, based on the most recent actuarial report dated June 4, 1968. Such past service cost, together with interest thereon, is being amortized over a period of twenty-three years.

10. 1967 Financial Statements

The consolidated balance sheet as of December 31, 1967, and the related consolidated statements of income, retained earnings and source and use of funds for the year then ended, which are presented for comparative purposes, were jointly examined and reported on by Samson, Bélair, Côté, Lacroix et Associés and by Chartered Accountants other than Arthur Andersen & Co. Certain reclassifications have been made in the 1967 consolidated financial statements to make them comparable to 1968.

To the Shareholders,

Québec-Téléphone:

We have examined the consolidated balance sheet of QUÉBEC-TÉLÉPHONE AND SUBSIDIARY as of December 31, 1968, and the related consolidated statements of income, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Québec-Téléphone and subsidiary as of December 31, 1968, and the results of their operations and the source and use of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

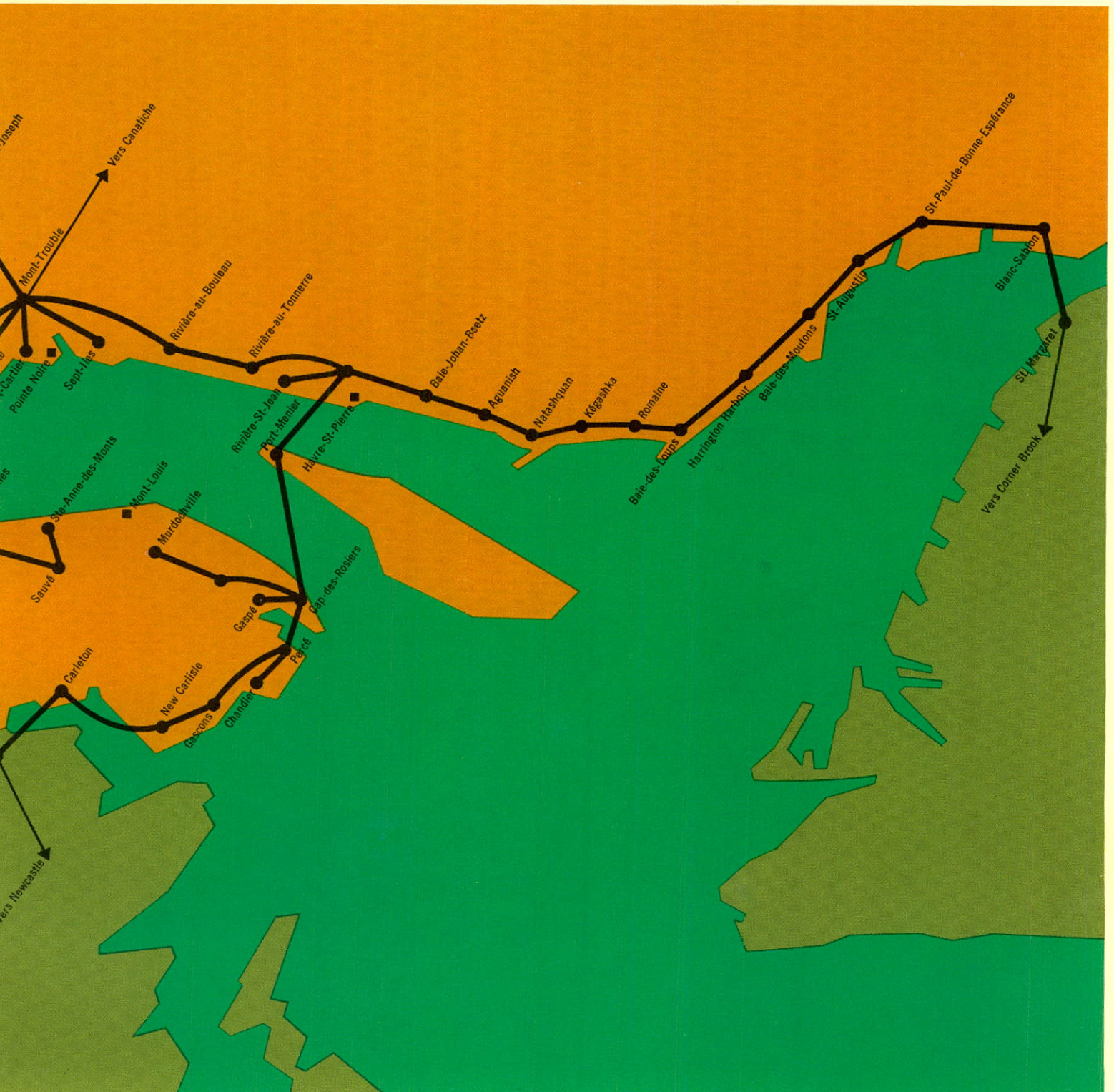
Arthur Andersen & Co.

Chartered Accountants

*Samson, Bélair, Côté, Lacroix
et Associés*

Chartered Accountants

Montreal,
January 29, 1969.



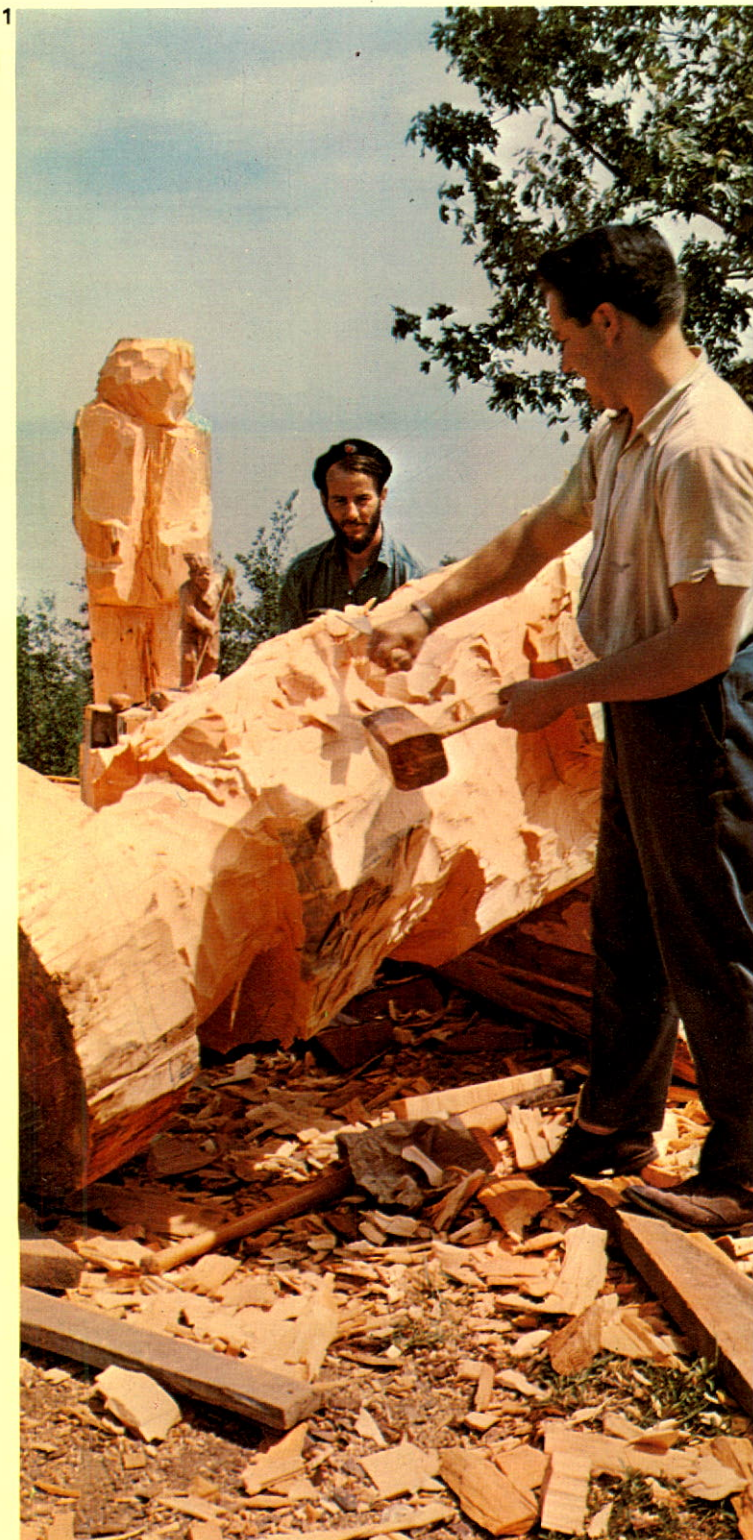
The most picturesque sites of the Province are located in Québec-Téléphone service area.

1 Wood carving in Saint-Jean Port Joli.

2 Camping ground at Beaumont.

3 "Le Vieux Fort" at Sept-Iles.

4 Fishermen at Percé.





The most important telecommunication company under Québec jurisdiction.
Québec-Téléphone, Head Office, 6 Saint-Jean Street, Rimouski, Québec.

