Bell

Bell Canada
Annual Report 1979

1980 Annual Meeting
The Annual and Special General Meeting of the Shareholders will take place at 2:00 p.m., Thursday, April 17, 1980 in the Convention Centre of the Harbour Castle Hilton Hotel, Toronto.

Form 10-K
Bell Canada's Annual Report on Form 10-K is available from the date of its filing with the Securities and Exchange Commission in the United States by writing to:
The Corporate Secretary
Bell Canada
1050 Beaver Hall Hill
Montréal, Québec
H3C 3G4

Sur demande, le secrétaire de la compagnie vous fera volontiers parvenir un exemplaire français du rapport annuel.

Bell Canada
Executive Offices
1050 Beaver Hall Hill
Montréal, Québec
H3C 3G4

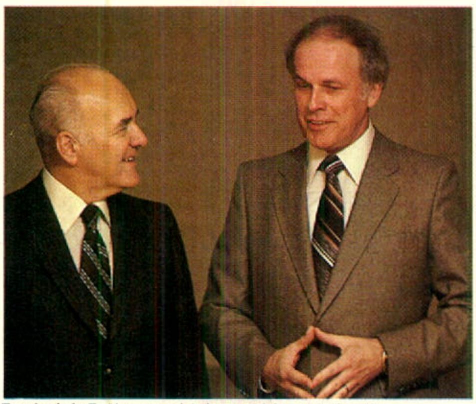
Financial Highlights

All figures in Canadian dollars		Thousands of dollars except per share amounts		
		1979	1978	% Increase
Consolidated	Earnings per common share† (before extraordinary items)	$ 2.64	$ 2.49	6.0
	Total revenues	$5,264,739	$4,374,355	20.4
	Income before extraordinary items	$ 433,186	$ 370,562	16.9
	Net income	$ 433,186	$ 395,052	9.7
Non-Consolidated	Earnings per common share† (before extraordinary item)	$ 2.13	$ 1.96	8.7
	Total revenues	$3,136,903	$2,683,083	16.9
	Income before extraordinary item	$ 355,810	$ 300,817	18.3
	Net income	$ 385,645	$ 304,939	26.5
	Rate of return on average common equity (before extraordinary item)	11.51%	11.09%	—
	Capital expenditures	$1,116,743	$1,003,672	11.3

†Reflects the three-for-one common share subdivision.

Contents

Orland Tropea and J. V. Raymond Cyr



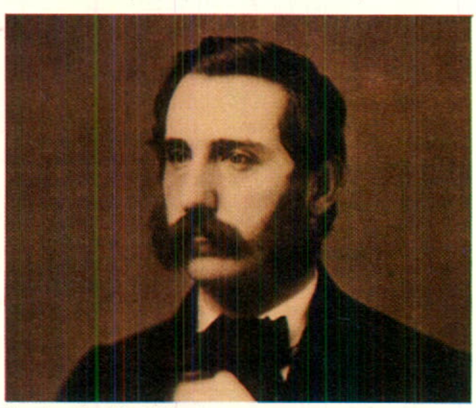
Frederick E. Ibey and Léonce Montambault

Gordon E. Inns

A. J. de Grandpré and James C. Thackray

Charles Fleetford Sise is regarded as the company's founder and guiding force in its formative years. At the start, in 1880, the company had 150 employees, 2,100 telephones and $403,324.37 in assets. Today Bell Canada alone has 56,000 employees, well over nine million telephones and $11 billion in assets.

Under the direction of A. J. de Grandpré, Chairman, a team approach is applied to ensure that the diverse elements of this vast operation work efficiently as a unit. Other members of the senior management team include James C. Thackray, President; Orland Tropea, Executive Vice-President (Corporate); J. V. Raymond Cyr, Executive Vice-President (Administration); Frederick E. Ibey, Executive Vice-President (Operations); Léonce Montambault, Executive Vice-President (Québec Region); and Gordon E. Inns, Executive Vice-President (Ontario Region).



Charles Fleetford Sise

Letter to Shareholders

As 1980 begins, Bell Canada is on the threshold of a new year, a new decade and a new century. This is an appropriate time to scan the past, assess the present and cast an enquiring eye to the future.

A hundred years ago, not even the agile mind of Alexander Graham Bell could have foreseen what the telephone would mean to a young and growing Canada. From its inception, the telephone has had a profound influence on the nation's social life and economic development.

Canadians, in turn, have shown a special aptitude and talent for invention and innovation in the field of telecommunications. To cite just two relatively recent examples: In 1972 Telesat Canada placed in operation the world's first synchronous domestic communications satellite, Anik I. A year later the member companies of the TransCanada Telephone System introduced Dataroute, the world's first nationwide digital data service.

Bell Canada's own expertise is now recognized around the world to the point that its consulting services are in demand on five continents.

As the special section of this report on page 15 makes clear, the evolution of Bell Canada has been a creative process, and it didn't just happen.

A key factor in Canada's success in telecommunications has been the close relationship of service, manufacturing and research and development (R&D) in the integrated structure that links Bell Canada, Northern Telecom and Bell-Northern Research (BNR).

Typical examples can be found in the highly successful products marketed by Northern Telecom in the field of electronic switching, such as the SP-1 and the more recent DMS family of digital switchers. In their development, Bell contributed the customer-oriented experience, BNR translated it into practical designs and Northern Telecom developed and built the systems. These Canadian innovations which have earned widespread acceptance at home and abroad, have done much to establish Northern Telecom's reputation in the North American and international markets. In the process, they have produced jobs in Canada, helped in maintaining a positive balance of trade for the telecommunications sector and produced substantial tax revenues for governments in this country.

Today, reliable telephone service is available virtually everywhere in Bell's territory, including the Far North. In communities like Frobisher Bay, near the Arctic Circle, technology has been adapted to the northern environment; the satellite and other sophisticated equipment are giving Bell's customers in remote areas a level of service comparable to that experienced by other residents in Ontario and Québec.

In 1980, as in 1880, research is opening new frontiers and, although forecasting is always an uncertain business, we are unquestionably on the brink of significant changes in our ways of communicating. Fibre optics, a new technology now just in its infancy, is bound to revolutionize the logistics and techniques of telecommunications in Canada.

More powerful satellites and smaller earth stations will permit direct transmission into homes. New switching, signalling and transmission methods will facilitate a vast range of communications services of all kinds, in homes and offices alike.

Electronic chips, today the heart of pocket calculators and automatic cameras, will make it possible to build intelligence into all kinds of tools and machines in the future.

In all of this, the hardware may be fascinating but it's the software, or programming, that counts. In the 1980s software will gain predominance.

It has been estimated that up to half of all the jobs in our contemporary society are now filled by "knowledge workers"—those whose functions involve the creation, handling, assembly, retrieval, interpretation or implementation of information. This underlines the gravity of one of the most critical problems facing industry today: to date, technological advances have done little to enable these information workers to improve their productivity, which has been increasing at only one-twentieth the rate of improvement of production workers.

Both Bell Canada and Northern Telecom are making major investments of their resources in a concept designed to meet this problem. Northern Telecom uses the term the "Intelligent Universe" to describe this concept, which embraces a full range of information systems linked electronically by intelligent networks to produce the office of the future, the home of the future and other integrated information systems.

In this universe, information in the form of voice, data or images enters the network through multifunctional systems based on data terminals, computers, word-processing and graphics-reproducing equipment, and electronic telephones. In the network, intelligent switching and transmission systems electronically control the flow of information among users.

The full impact of the convergence of computers and telecommunications in the Intelligent Universe will begin to be felt in the 1980s. At home or at work, people will have an unprecedented ability to communicate and cope with vast amounts of complex information.

Already, the magic of word-processing is generating significant advances in the techniques of written communications, both within the user's own office and en route to external destinations. Not too distant is the prospect of direct machine conversion of the spoken word into written text.

In terms of marketing opportunities, the outlook is almost boundless. The main consumer obstacle to rapid development of this market is the natural resistance of people to major changes in their way of working. In time, the influence of younger employees, educated and trained in the new environment, will provide the needed catalyst.

In the home, a wide range of new types of communications services are here or on the horizon. New videotex home terminals may well serve as the fulcrum around which these services will develop. Information retrieval, all kinds of transactions, interactive TV, educational and entertainment programs are but a few of the opportunities, the number and scope of which are limited only by the imagination of the programmer.

A key question is whether enough people are willing to pay the price for these services in their homes to make them economically feasible. The answer, eventually, is almost certain to be yes; the solution paving the way to their feasibility will be found in a communications highway available at a reasonable price to any entrepreneurial programmer who needs it to deliver a service to interested customers.

This is the basis of the company's position that Bell Canada should be responsible, as the regulated common carrier, for providing this integrated communications highway throughout its territory. Satellites and fibre optics, exciting as they are as technological novelties, are essentially new and better tools for creating a more flexible and productive telecommunications highway.

In the immediate future, the impact on transportation economics of skyrocketing petroleum prices is bound to trigger, particularly in the business sector, a substantial upsurge in consumer demand for telecommunications services. The use of real-time substitutes for actually "being there" is becoming increasingly attractive; the era of audio and video long-distance conferencing seems definitely at hand.

Canada's ability to preserve and enhance its position of leadership in the world of telecommunications in and beyond the 1980s will depend on a number of factors, not the least important of which is the political and regulatory environment in which the industry will be operating.

The regulatory climate in which Bell operates has gone through several distinct stages.

In the beginning there was competition. In 1880 a newspaper in Chatham, Ontario reported that the town was getting tangled up in the wires being strung across streets and over housetops by two telephone companies competing for business in the area.

This kind of rivalry lasted for a number of years, until it was realized that telephone service worked best when it was operated by a single company in a given area. Regulation had its genesis as a substitute for competition in a monopoly environment, and this is still its raison d'être.

There were real advantages in the regulated utility concept. Canadians have been well served by this system over the years.

Regulated monopoly made it possible to get on with the job of building an integrated system in which designs could be standardized and home-grown technology stimulated. It turned out to be an amazingly flexible system, in which new discoveries like electronic switches and fibre optics could be mixed compatibly with equipment installed fifty years earlier.

At the close of Bell Canada's first century, pressures are growing for more competition. The wheel has turned full cycle.

The present state of affairs is both uncertain and unsatisfactory. In fact, legally or otherwise, a good deal of competition already exists. What makes telephone companies vulnerable to it is a regulated rate structure that has developed over the years in which most prices bear little relationship to the actual costs of providing the service. The driving force behind this rate structure has always been the need to ensure that basic telephone service can be made available at low cost to all Canadians. The concept presupposed and relied on the fact that prices for other services, such as long distance, would make up the difference.

Under this system basic rates for local service, an everyday necessity, have been kept artificially low by the contributions from higher-priced options like extensions, the new "lifestyle" phones and long distance calls. The system is made to order for competitors out to get a profitable piece of the action without having to assume any of the common carrier's obligation to provide service on demand.

Terminal connection has become a major issue. In November, Bell Canada asked the Canadian Radio-television and Telecommunications Commission to determine if it is in the public interest to allow subscribers to connect their own telephones and other equipment to the company's facilities. If the CRTC decision, following public hearings, favours more competition, Bell will open its lines to the connection of terminal devices certified by the federal Department of Communications.

Among the issues which need to be examined by the Commission are the protection of service standards, Bell's continuing ability to plan and coordinate new technology and network improvements, the maintenance of customer-owned equipment, the impact of competition on Bell's revenues, deregulation of Bell's activities in the new competitive terminal market and measures to protect Canadian manufacturing jobs, balance of trade, R&D expenditures and technological sovereignty.

In the past, Bell Canada has been able to grow and make progress because regulatory objectives and procedures were clearly spelled out. Today they tend to be uncertain and somewhat contradictory.

It is becoming increasingly evident that the lack of clear national objectives for Canada's telecommunications industry is causing serious strains in the industry and in the regulatory process. Competition appears to be accepted in principle by both the federal government and our regulator, the CRTC, yet the criteria under which competitive services are to be provided are either unclear or non-existent. As a result, the ability of a regulated company like Bell to react to a changing world is seriously hampered. Of particular concern to the company have been the escalating information requirements and the costs associated with meeting the Commission's demands.

Already operating under the considerable weight of the basic regulatory process, Bell is additionally burdened by the activities of another federal body, the Restrictive Trade Practices Commission. At issue in the RTPC investigation, soon to enter its fourteenth year, is Bell's close relationship with Northern Telecom. In January the companies began presenting the case for vertical integration.

Over the years, few people have contributed as much to strengthening the relationship between the Bell group of companies as Robert C. Scrivener who retired as Chairman of Northern Telecom at the end of 1979. In his 42 years of service, first with Bell and since 1976 with Northern Telecom, Bob Scrivener's imagination, energy and resourcefulness have had a significant impact on the progress and success of both companies.

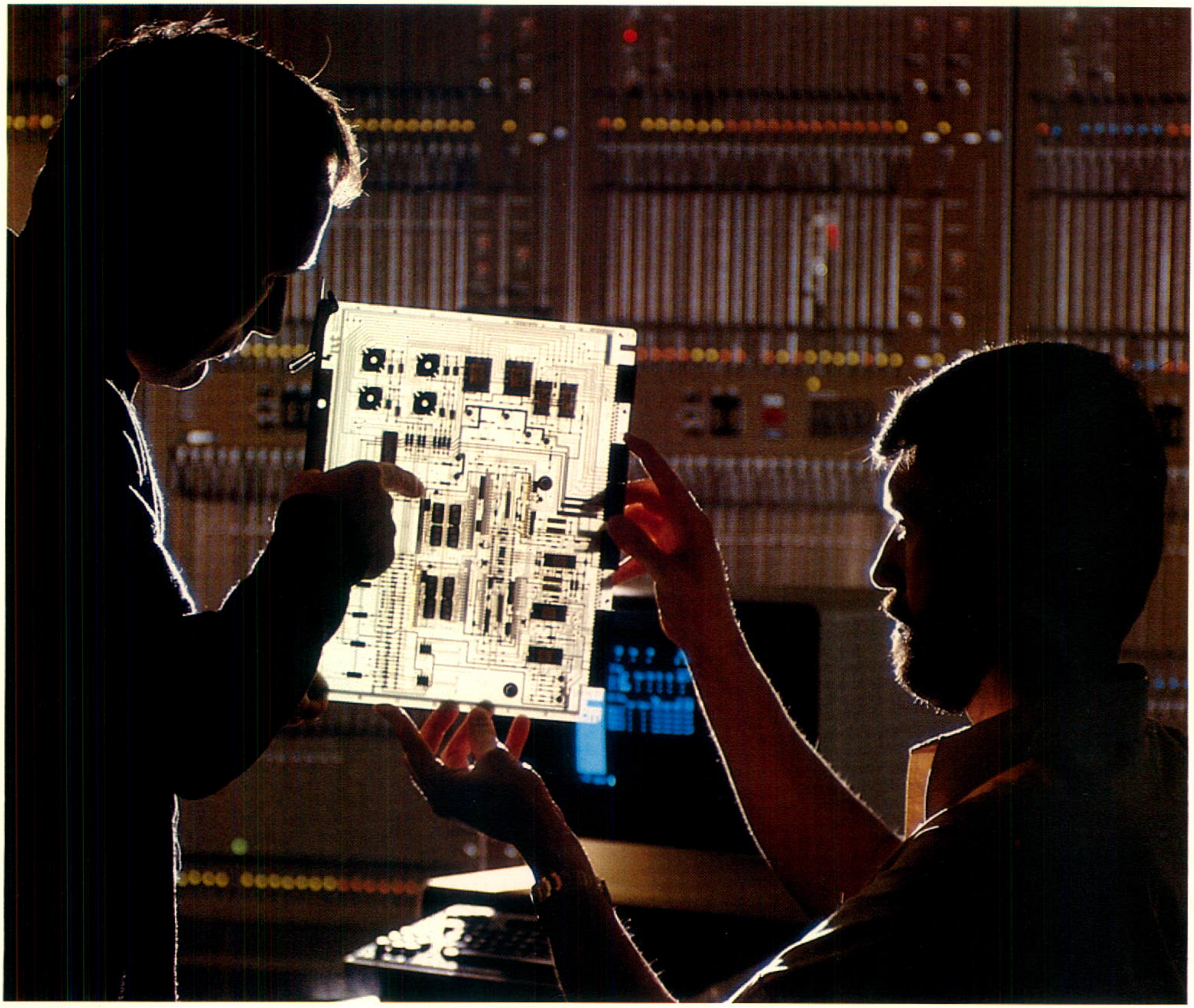
As we embark on our second century, it is a tribute to Bob Scrivener, to those who came before him and to those who comprise Bell Canada today, that our basic philosophy remains constant and clear:

— To provide a service of high quality at reasonable prices, consistent with fair treatment of our employees and an adequate return to our investors.
— To utilize our human, technological and financial resources in Canada and abroad in ways that will contribute to the social and economic progress of our country and its people.
— To develop and put to use new technologies, delivery systems and organizational arrangements to ensure the future prosperity of our business.

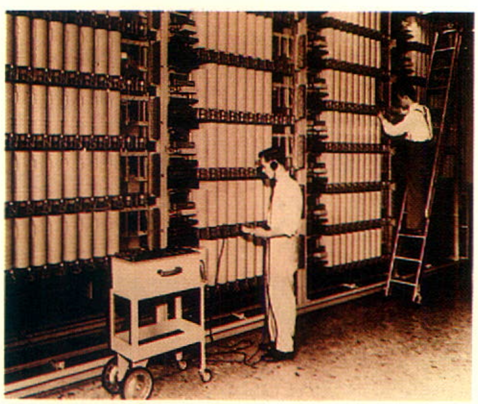
A. J. de Grandpré
Chairman of the Board

J. C. Thackray
President

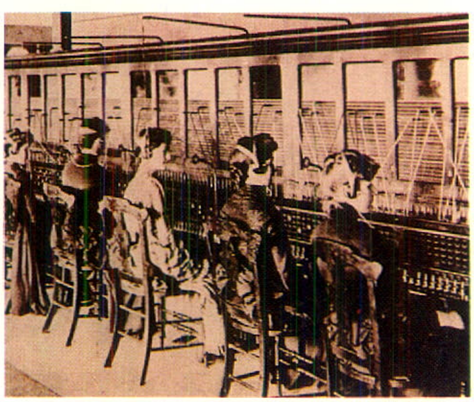
February 27, 1980



Innovation is constantly being made in telecommunications and yet the new technologies must be able to work effectively with the older. The modern DMS switching office, although compatible with the older step-by-step office, incorporates the latest in solid state and computer developments and provides much more switching capacity in much smaller space. Here Bell employees Iain Davidson and Don Dubreuil inspect a circuit pack in the DMS 200 office in Ottawa.



The telecommunications business is changing rapidly as new technologies are applied to effect service improvements and higher efficiency. Here the plug-in switchboard which has been standard in telecommunications since the start is gradually being replaced by the modern Traffic Operator Position System office. TOPS allows the operator to check details of a transaction on a television screen connected to a computer.



Review of Operations

Financial Results

Consolidated earnings per share showed a modest improvement in 1979, partly on the strength of international contract operations. The result also reflected a substantial increase in the number of common shares outstanding.

The slow growth of economic activity in Bell Canada's operating territory, combined with continuing inflation, seriously inhibited the rise in earnings from telecommunications operations. Expenses rose faster than revenues, particularly in the last quarter. At the same time the company had to deal with a large backlog of service orders accumulated during the strike of technicians. The growth in the volume of long distance calls was also slower than anticipated.

The major factor in the improvement in revenues from telecommunications services was the impact of higher rates, which were in effect for the full year compared with only four months of 1978. Expenses were up because of inflation, the growth in staff and wages, and depreciation costs resulting from increasing investment in plant.

Bell Canada's non-consolidated return on average common equity, before extraordinary item, for the year was 11.51 per cent, up slightly from the 11.09 per cent recorded in the previous year but still below the 12 per cent level deemed reasonable by the Canadian Radio-television and Telecommunications Commission.

In November an increase in the dividend on common shares was declared. The final 1979 quarterly dividend, payable January 15, 1980, was raised to $0.41 – an indicated annual rate of $1.64, an increase of $0.12 over the previous annual rate. In accordance with the company's policy of endeavoring to protect shareholders from the effects of inflation, this was the seventh consecutive year that the dividend rate has been increased.

Capital Expenditures

Bell Canada's capital expenditure program in 1979 reached the level of $1,116.7 million, compared to $1,003.7 million in 1978. This growth was almost entirely due to the effects of inflation.

The bulk of capital spending, approximately 65 per cent,was used to provide new service facilities and to relocate telephones for customers who had moved.

The company spent an estimated $184.3 million in 1979 as part of its extensive program to extend and improve service in non-urban areas. The capital costs of this program, which will exceed $700 million when it is completed in 1981, is an investment on which the company will not realize an appropriate return, thus placing a burden on the prices our customers pay for other services provided by Bell.

In 1979 Bell Canada connected 2.09 million telephones and disconnected 1.81 million for a net gain of 285,000 telephones. This means that approximately 14 telephones were moved for every new revenue-producing telephone added to the network. This churning continues to be a drain on the company's resources because installation charges are far from compensatory.

Bell Canada anticipates capital expenditures of approximately $1,266 million in 1980, up $149 million from 1979, with inflation again being an important factor.

Common Share Split

At the last Annual Meeting, held in Québec City on April 17, the shareholders approved a three-for-one subdivision of the company's common shares. The common shares were last split in 1948. The subdivision meant that one share of Bell Canada common stock, with a previous par value of $25, became three shares with a par value of $8⅓ each.

Financing

To meet the company's capital requirements, some $434 million was raised in the Canadian and European capital markets during 1979.

In February, one of the biggest public equity financings ever undertaken in Canada was completed successfully as Bell Canada made an offering of 3,125,000 pre-split common shares at a price of $63 ⅝ per share. It was Bell's first direct common share offering since 1966.

In September, Bell sold $175 million of debentures in Canada and $60 million in Europe. Series DG debentures, maturing in 25 years, were sold in Canada at an interest rate of 11 per cent. In Europe, series DH seven-year debentures were sold with an annual coupon rate of 10¾ per cent.

Northern Telecom Limited also completed a major financing in September, making a public offering of two million common shares in Canada and the United States at a price of $49.97 (U.S. $43.00) per share. Concurrently, Bell Canada purchased an additional two million common shares at the public offering price, in order to maintain its relative level of ownership in Northern Telecom. Bell now owns 54.5 per cent of the common shares of Northern Telecom.

During the year participation in Bell Canada's Shareholder Dividend Reinvestment and Stock Purchase Plan increased substantially, with 19.1 per cent of common shareholders, representing 22.6 per cent of common shares outstanding, enrolled in the plan as of January 16, 1980. Shares purchased by Québec residents through the plan after September 18, 1979, became eligible for inclusion in a Québec Stock Savings Plan.

Bell Canada warrants to purchase common shares of Northern Telecom from Bell Canada, dated November 19, 1974, were exercisable prior to December 1, 1979. Virtually all of these warrants were exercised.

Rate Relief Sought

On February 19, 1980, Bell Canada applied to the Canadian Radio-television and Telecommunications Commission (CRTC) for approval to revise its rates for service. It asked that approximately one-fifth of the level of the full increase (except for residence primary services) come into effect on an interim basis on May 1, 1980, and that the full increase be implemented on September 1. If granted, the new rates would provide additional revenue of $180 million in 1980 and $465 million in 1981.

The application points out that Bell Canada's basic operational objective is to meet demand for the broad range of its telecommunications services and that this objective can only be met if the company's ability to finance its construction program is maintained. During 1980 over $600 million must be raised externally. If this capital is to be obtained at a reasonable cost, investors must be satisfied that the company will achieve adequate earnings and maintain appropriate financial ratios.

Since the last rate adjustment in August, 1978, the company has experienced and is continuing to experience a severe increase in costs, while revenue increases have not been keeping pace. With inflation continuing at an annual rate of over nine per cent, the company is faced with increasing costs for labour, materials and capital. In keeping with the slow growth of economic activity in the company's operating territory, growth in total operating revenues in 1980 is not expected to keep pace with these increasing costs at present rates.

In its application the company proposes that 50 per cent of total net income from its Saudi Arabia contract should be taken into account in calculating the rate of return on average common equity for regulatory purposes. In accordance with a previous CRTC ruling, 100 per cent of the net revenues has been taken into account for regulatory purposes for the years 1978 and 1979. The company proposes that the benefits from the Saudi Arabia contract should be shared equally by the shareholders and the subscribers.

The company considers that the 12 per cent rate of return on common equity earlier found to be reasonable by the CRTC is inadequate in the economic and financial circumstances in which the company finds itself; however, the company is also concerned that high rates of inflation continue to have a damaging effect on subscribers and the economy of Canada. In keeping with this concern, the company is seeking only limited, short-term rate relief in 1980, enough to maintain the minimal standard of financial results necessary to retain the confidence of investors. The rates requested are restricted to those that would allow the company to realize a level of return on average common equity in 1980 comparable to that of 1979.

As the state of the economy, the prospects for inflation and other circumstances affecting the company evolve during 1980, it will be necessary to consider whether further rate increases will be required for the year 1981.

Regulatory Matters

In a decision released in May, the CRTC ordered Bell Canada to permit CNCP Telecommunications to interconnect its system with that of Bell Canada for data communications and certain restricted types of voice communications. Although Canada's nine major telephone companies, including Bell Canada, asked the federal cabinet to defer implementation of the decision, it was announced on August 1 that the cabinet had rejected the request and therefore the CRTC order came into effect on August 16 as scheduled.

Chief concern of Bell and the other telephone companies was that, if the CNCP application was granted, there could be a serious effect on long distance revenues. In the decision the CRTC provided for safeguards intended to protect this important part of Bell Canada's business. There has not been enough experience to date to make a definitive assessment of how this interconnection will affect Bell Canada.

As reported in the Letter to Shareholders, Bell filed an application in November asking the CRTC to decide whether the public interest would be better served if subscribers were allowed to connect their own phones and other equipment to its network. Acknowledging the importance of the issue, the Commission subsequently announced that a public hearing would take place in the fall of 1980.

In recent years, inflationary pressures have raised questions about the need for special budget service for low-income groups, and there have been suggestions that as an alternative we should explore some method of charging for local service that would reflect actual patterns of use.

In 1977 the CRTC, supported by a number of consumer groups, asked Bell Canada to study the feasibility of measured rate service, often referred to as usage sensitive pricing, as a form of budget service. In September 1979, Bell submitted to the CRTC the outline of a proposed experiment to help assess measured service, including its use as a budget offering. The Commission has announced that before any trial takes place it plans to hold public hearings to provide an opportunity for a full discussion of the implications of measured service and related issues. Bell's basic position has consistently been that two-party flat rate service constitutes a valid form of budget service for those who need it.

In an investigation into the setting of TransCanada Telephone System rates and division of revenues, the CRTC scheduled the main hearing to begin on April 8, 1980.

Operating Highlights

At year-end Bell Canada had 9.2 million telephones in service, a growth of approximately 3.1 per cent over the previous year. Total local telephone conversations were 11,975 million, up 2.2 per cent from 1978, and long distance messages totalled 649.9 million, 6.5 per cent higher.

Expansion of the Phonecentre program continued during the year. In all, 13 stores were opened, bringing the total to 37. Another nine stores are scheduled to open in 1980. By the end of 1979 a total of 2,237,000 residential premises had been equipped with jacks.

The Traffic Operator Position System (TOPS) program, which permits operator-assisted long distance calls to be handled more economically, was extended during the year. TOPS was introduced in Hamilton, Québec City, Thunder Bay and part of Montréal (the Montréal conversion will be completed by mid-1980).

An important milestone in service to the North was reached during 1979 when the last high frequency radio service to points in the Northwest Territories was phased out. All northern communities in Bell Canada's territory in the NWT are now served by satellite. For the first time in the NWT, Direct Distance Dialing was introduced in Frobisher Bay.

Data Communications

In 1972 Bell Canada established the Computer Communications Group (CCG) to represent the company and support the TransCanada Telephone System in the fast-growing world of data communications.

Since then its development and marketing activities have seen CCG become a world leader in the development and provisioning of Computer Communications services. In six years the TCTS Dataroute has grown from serving 11 Canadian cities to serving 47, and handles some 13,000,000 bits of data each second.

The growth of Datapac has been equally dramatic. By year-end, Datapac had more than 2,000 connections. With the availability of new services such as Datapac 3303 and Datapac 3304, the network is expected to grow dramatically.

The competitive marketplace in 1979 saw CCG win major contracts from Canadian banks, service bureaus, lotteries, governments, and securities and insurance companies.

During 1979, in the terminal aspect of its business, CCG introduced a new teleprinter called Datacom 343 and a new interactive, low-cost, small, Canadian designed and manufactured terminal called Vutran. Vutran has a variety of applications from on-line credit checking to inventory control, accounting and reservation systems.

Offshore Operations

On December 13, 1979, Bell Canada completed the second year of its contract with the Saudi Arabian Ministry of Post, Telegraph and Telephone for the operation and maintenance of the country's telephone system. Bell Canada had as many as 724 employees in Saudi Arabia in 1979.

Since December 13, 1977, 236,000 lines of additional switching capacity have been placed in service by our partners in the project, Philips of the

While demand for telecommunications services has traditionally been greatest in urban areas, especially in the early days, more and more effort is being expended to bring modern services to even the most remote locations. This microwave facility brings telephone and television services to some 62 customers at Wunnummin Lake, 300 miles north of Thunder Bay in Ontario.

Bell Canada's expertise in telecommunications operations has been increasingly recognized over the years, and while the provision of service in our Canadian territory remains Bell's top priority, Bell experts today are assisting other telecommunications organizations around the world. This sharing of telecommunications experience is exemplified in this scene from Saudi Arabia where Bell plant foreman Ron Watson supervises a new Saudi Arabian technician.

Netherlands and L.M. Ericsson of Sweden. Working telephones have increased from 130,000 to 250,000. In addition, 140,000 homes have been pre-wired so that service can be provided quickly on completion of the telephone cable networks.

During 1979 Bell Canada also completed the construction of a data centre, including the provision of computer equipment, which is currently producing all subscriber telephone bills for the Kingdom. In addition, Bell Canada is constructing administrative and residential complexes at Saudi Telephone's headquarters site in Riyadh and in seven other major cities in the Kingdom. These eight building complexes represent a contract of 915 million Saudi riyals (equivalent to approximately 320 million Canadian dollars).

Individual Canadians working in Saudi Arabia continue to enjoy close working relationships with their Saudi Arabian counterparts, thus contributing substantially to the achievements in telephone service during the year.

In addition to Bell's Saudi Arabian project, Bell Canada International, the company's offshore telecommunications consulting subsidiary, increased its presence in the international marketplace. At year's end, BCI personnel were working on more than 20 projects in over a dozen countries on such tasks as training, engineering and management assistance, installation, repair and maintenance, network planning and computer communications. This represents over 100 man/years of exported capabilities, leading to the higher visibility of Bell Canada as an international provider of telecommunications expertise. BCI also participated in many Northern Telecom International proposals.

During 1979, as a result of increasing consulting activity in the United States, BCI formed an American subsidiary, BCI Incorporated, with headquarters in Virginia.

Manufacturing
Northern Telecom's consolidated sales at $1,901 million were 26.3 per cent higher than in 1978. While sales continued to grow in Canada where Northern Telecom's market share was maintained, the increase in other markets was much more substantial. For the first time combined sales in the United States and other world markets exceeded those in Canada.

Net earnings were up 20.2 per cent to $113.5 million, compared to $94.4 million earned in 1978 (before extraordinary items of $6.3 million). Earnings per share in 1979, based on the increased number of shares outstanding, were $3.70 compared to $3.33 per share in 1978 (before the extraordinary gain amounting to 22 cents per share).

During the year Northern Telecom became the first and only manufacturer in North America producing a complete line of digital switching and transmission systems. Northern Telecom equipment has achieved broad acceptance throughout North America and at the end of the year 1,272 DMS (digital multiplex systems) had been sold or were on order.

An important development was the decision by American Telephone & Telegraph Company to recommend to its operating telephone companies the DMS-10 for replacements and new systems serving up to 4,000 lines. A three-year contract outlining the conditions upon which DMS equipment would be supplied by Northern Telecom, Inc. (NTI), for any orders received, was signed in February 1980.

In the United States NTI signed two-year agreements to supply DMS to the Continental Telephone Corporation, Central Telephone and Utilities and the Mid-Continent Telephone Company, respectively the fourth, fifth and sixth largest U.S. telephone companies.

In December it was announced that Northern Telecom's international marketing subsidiary, Northern Telecom International Ltd., was the successfull bidder for a tender which could be worth as much as $90 million to supply digital transmission equipment to the South Korean telephone system over a three-year period.

Demand for Northern Telecom's digital products has been increasing the need for large-scale integrated circuits. A fabrication facility to produce custom LSI chips designed by Bell-Northern Research was established in the Ottawa area during the year and a second was announced for opening in San Diego, California, in 1981. Research, engineering, design and development continue to be based in Ottawa.

Fifteen new facilities or plant expansions were completed or announced by Northern Telecom in 1979. Northern Telecom's order backlog at the end of 1979 was $874 million, up 38 per cent from $635 million at the end of 1978.

Vista-Videotex Trial Announced
An important advance in Bell Canada's effort to develop a successful two-way information system for home and office use occurred last summer with the announcement that the federal Department of Communications would participate with Bell Canada in a $10 million field trial of a second-generation interactive visual communications system based on the Canadian government's Telidon technology.

The field trial, beginning in 1981, will see several hundred Canadian-made user terminals offering both residential and business trial users a choice of up to 100,000 "pages" of on-demand information for display on their own television sets. It will be one of the world's largest trials of videotex (the internationally recognized term for such public, network-based information systems). Bell Canada has adopted the name Vista for its videotex systems.

Labour Relations
At year-end Bell had approximately 56,100 employees. Most of the approximately 40,600 non-management personnel were represented by two unions, the Canadian Telephone Employees' Association (CTEA) and the Communications Workers of Canada (CWC).

Following bargaining sessions spread over several months, the company and the CTEA reached an agreement in principle for new one-year contracts covering over 17,800 clerical and communications sales personnel. After union members had voted in favour of the proposals, contracts expiring on November 30, 1980, were signed with the CTEA on December 19.

On September 10, 1979, a contract expiring November 30, 1981, was signed with the CWC covering approximately 15,300 craft and services employees. This new collective agreement was reached after a prolonged period of negotiations, conciliation and finally mediation. In the period from June to August, 1979, a series of rotating strikes and lockouts took place. On August 13 a general strike of craft and services employees commenced. A tentative agreement was reached by August 31 and signed on September 10. The employees resumed work by mid-September.

On October 4, 1978, an application was filed with the Canada Labour Relations Board (CLRB) by the CWC for certification as the bargaining agent for Bell Canada's traffic and dining service employees then represented by the Communications Union Canada. This application was denied on February 23, 1979. Following the re-application of the CWC, an employee allegiance vote was held in the period June 8 to July 27 which indicated that a majority of the traffic and dining service employees wished to be represented by the CWC. Negotiations for a renewed agreement with the previous union were being assisted by a conciliator and had temporarily been postponed pending the outcome of the vote for certification by the CWC. On July 31, 1979, the CLRB certified the CWC as bargaining agent and initial negotiations commenced in August.

Following several meetings, the company sought the services of a conciliation commissioner from the federal minister of labour. The commissioner's report was issued on December 17 and was accepted by the CWC. Bell, however, sought clarification of some of the issues and made a new proposal to the union, which put the new offer before the membership for a vote in January.

On January 19 the union announced that its members had rejected the offer and that a full-scale strike would take place. Less than a week later two mediators were appointed by the federal minister of labour to assist in the resolution of the dispute.

On February 5, following six days of separate meetings with the company and union representatives, the mediators adjourned the proceedings. The mediators indicated they had not found a basis for a settlement at that time but that they would remain available and could possibly call for a resumption of talks at a later date.

Centennial Observances

Bell Canada will mark its first hundred years of service in 1980 by initiating projects that will emphasize its tradition of serving the community, not only through the provision of telecommunications services but through support of worthwhile community activities and helping to meet community needs.

One of Bell's major centennial undertakings is to sponsor a series of 36 seminars in its Ontario and Québec territory to enhance teacher and public understanding of the social challenge posed by the plight of children with learning disabilities.

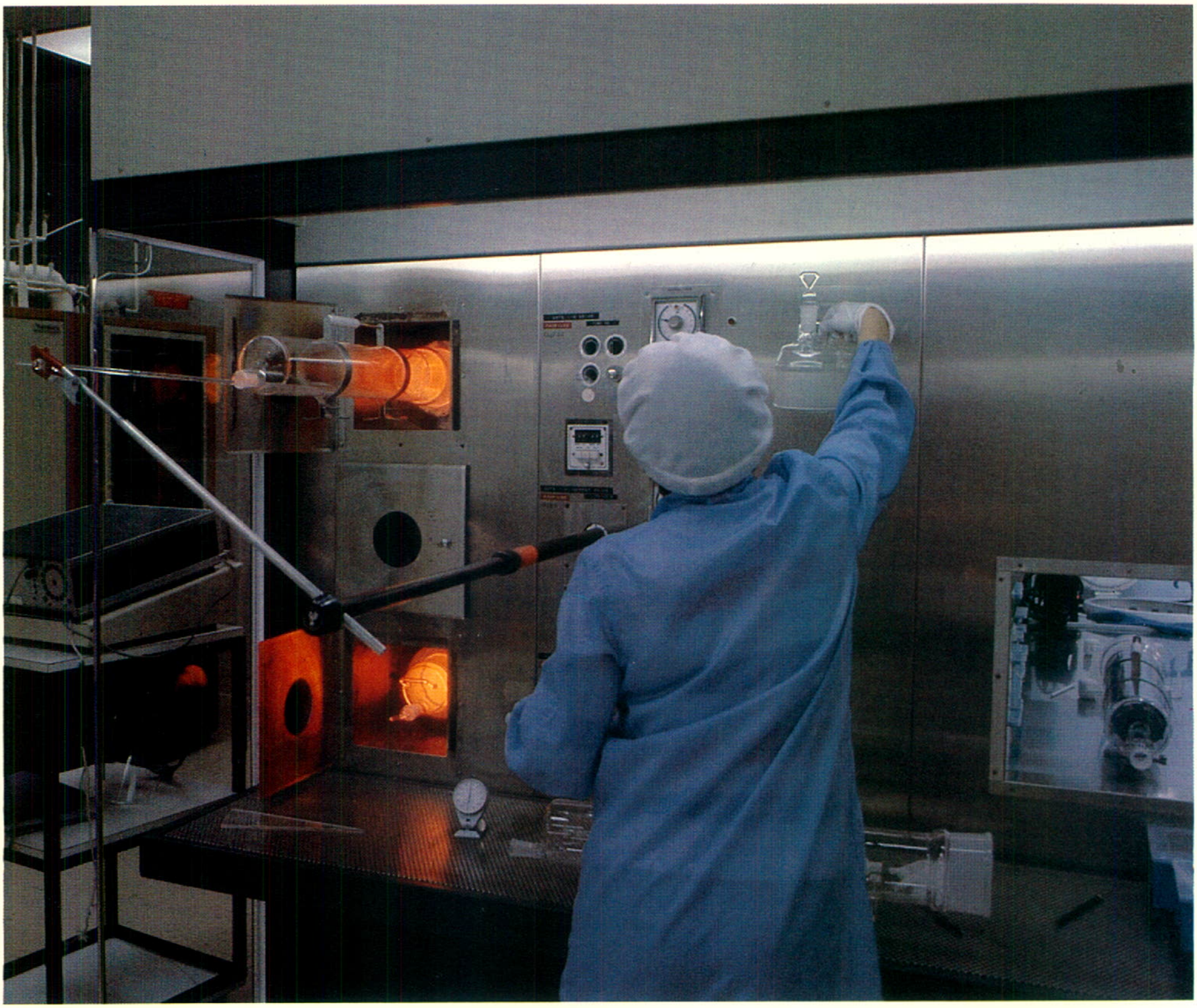
The seminars, to be conducted by the Canadian Association for Children with Learning Disabilities and their provincial affiliates in Ontario and Québec, will each be led by one of 18 leading Canadian experts in this field. Educators and teachers attending will receive advice on how to identify such children in the classroom and how to assist them. In each location an information meeting for parents and the public will also be held.

The seminar program will be augmented through videotapes of the seminars and a book summarizing the presentations. These will be made available to schools to be used as part of their ongoing teacher development programs.

Another centennial project that was begun in 1978 is to identify the special telecommunications needs of the physically handicapped so that the company may help in meeting these needs, either through arranging for the required research or by introducing new products or services as appropriate. Many organizations and associations for the handicapped are co-operating in this study which will culminate in 1980.

Employee projects at the local level will be tailored to the particular community's individual needs.

In total, Bell's centennial observances are designed to demonstrate the ideal of service which has characterized the telephone industry since its beginning and indicate that this tradition will be continued through the second century of service.



As early as 1896, the then Northern Electric and Manufacturing Company had established a test unit in their Montréal plant. Constant and directed research has made the Bell group world leaders in the successful application of high technology to telecommunications. At Bell-Northern Research in Ottawa new methods are being tested to further improve the quality of the custom-built large-scale integrated circuits widely used in Northern Telecom's digital product line.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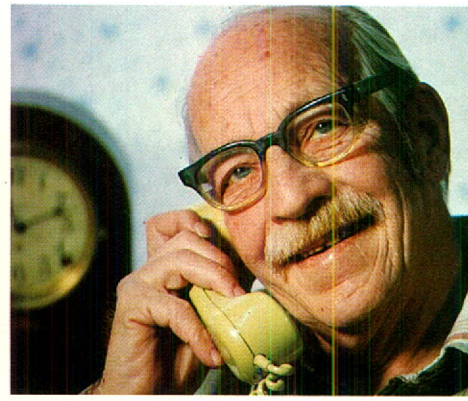
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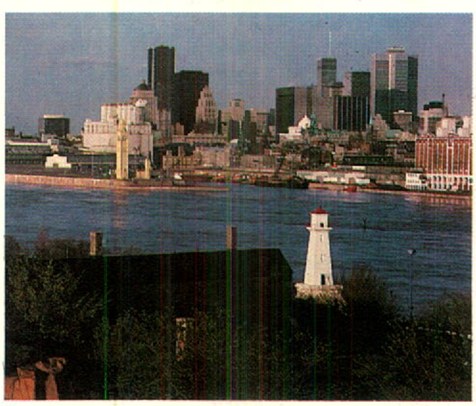
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From the basic local and long distance services provided in earlier days, the telecommunications services offered by Bell have expanded and diversified enormously in order to meet the needs of modern society. Typical of some of today's services are: 1) Bell Phonecentres, allowing customers to choose their own telephones; 2 and 3) long distance service bringing more and more people together; 4) special aids like the Visual Ear, enabling the handicapped to communicate by telephone; 5) internal communications facilities for today's hospital or any place of business; 6) interactive visual systems, as in Bell's Vista trial; 7) the complex system of telecommunications for the modern city; 8) the Vutran terminal, a new development in the rapidly growing field of data communications; and 9) a data communications network to help the Toronto Stock Exchange provide trading data on more than 20 North American markets.

Creative Evolution is no Accident

6×1

1880. The Bell Telephone Company of Canada was incorporated by Special Act of Parliament.

1881. The company's first long distance line was opened between Toronto and Hamilton.

1890. The company began giving night and Sunday service in exchanges having more than 100 subscribers.

1900. First common battery central office in the company put in service in Ottawa.

1915. Montréal connected with San Francisco to demonstrate transcontinental telephony.

1924. The company's first dial exchange, Toronto Grover, was put in service.

1932. Québec became the first city in company territory to have all-dial service.

1947. Mobile Telephone Service was inaugurated in Montréal and Toronto.

1953. Canada's first microwave relay TV network officially opened.

1958. Direct Distance Dialing was introduced in Toronto.

1961. Touch-Tone calling (now known as "Touch Phone" service) tested in Montréal.

1967. Canada's first Electronic Switching System (ESS) served EXPO '67 in Montréal.

1968. The first telephone conceived, designed, and manufactured in Canada, the Contempra phone, was introduced.

1971. Bell Canada-Northern Electric Research (BNR) formed.

1973. The world's first nationwide digital data transmission system, the Dataroute, went into commercial service.

1977. First trial of fibre optics technology in Canada began over a 1.6 kilometre cable linking two downtown switching centres in Montréal.

1979. Bell Canada and the Federal Department of Communications announced a combined large-scale trial of two-way TV technology.

Fewer than 2,000 telephones made up Bell Canada's total system when the company was formed in 1880. Local service was really quite good if one spoke slowly and distinctly – and the weather was dry. In bad weather, of course, there was a lot of static. And a long distance call of more than ten miles was a real adventure at any time.

Thirty dollars was all it cost in 1880 for a full year of local telephone service, in Montréal for example. But in 1880 the Montréal exchange covered only about ten square miles and fewer than 550 telephones. And $30 in 1880 was roughly equivalent in buying power to $240 in today's currency. In sharp contrast, a private-line customer with three times that scope of local service would today be charged just $4.95 a month–less than $60 a year.

Relatively few people could afford a telephone in those days. The whole idea was new and strange. But instant communication at a distance was needed, and that primitive telephone readily proved its worth in both business and social intercourse. Then, as the industry developed and grew, the pace of its improvement quickened–in scope, in quality of transmission and equipment, and in the ever-increasing variety of the services it offered. And, keeping pace with these, were improvements in the availability and the relative cost of the services, and in the knowledge and skill of the dedicated men and women who provided them.

Today, as a result of an evolutionary process that began a century ago, there are some 16 million telephones in this country, and Bell Canada serves more than nine million of them. In quality and reliability the telephone service available to Canadians is unsurpassed and its cost, in constant dollar terms, is less than it was 100 years ago. And remarkable as that achievement has been, it is only a small part of the Bell Canada story in 1980.

Telephony has evolved into telecommunications, and Bell Canada is at the forefront of its continuing development. With the advent of such modern miracles as switching machines that remember, simultaneous sound and image reproduction, and the transmission of masses of information at incredible speeds between computers, Bell Canada is able to meet the most exacting communications requirements of modern business and industry and, at the same time, provide the convenience and security of good, old-fashioned telephone service for its residence customers.

How did all this come about? What were the forces driving and directing the evolutionary development of Bell Canada? Initially, of course, it was a small group of far-sighted and determined men who provided the impetus; they saw the potential in Alexander Graham Bell's invention and succeeded in selling the idea to the public. Climate and geography, too, may well have been factors in the pace of the company's early development. The small and scattered centres of population, the vast distances and the often unco-operative weather in this part of the country made telecommunications all the more attractive and the need for progress more urgent than in most other places.

But then, as the scientists and engineers discovered new devices and new ways to carry information with ever-greater fidelity over longer and longer distances, and as the business specialists developed more effective ways in which the increasingly sophisticated technology could be harnessed and brought to the service of people, the customers began to take charge. Their needs and their preferences became the driving force behind the company, determining what direction research and development should take and in what areas growth and expansion were required.

Of course, to ensure that the public interest was properly served, and that innovation did not disrupt the existing services, it was essential that each new development fit smoothly into the system already in operation. This was important to the shareholders as well as to the customers, because lack of adequate planning in this regard could result in premature obsolescence of costly facilities, the weakening of the company's financial position, and a consequent unnecessary increase in the cost of the services concerned.

Thus, at an early stage in Bell Canada's history, the people doing basic and applied research, those involved in the manufacturing of telecommunications equipment and those responsible for providing services to the public came to recognize the vital importance of the closest possible co-operation between their different but related functions at every stage of their operations. And this gave rise to what is now referred to as "vertical integration" – a direct, corporate-family relationship linking the three essential elements of the industry.

Without it, Bell Canada's customers would not today be enjoying the advantages of telecommunications services designed and developed to meet their particular needs and provided by a company that is acknowledged a world leader in the field.

Looking back from the vantage point of 1980, we can pinpoint some of the significant developments in the evolution of Bell Canada and of present-day telecommunications. There was, of course, that remarkable occurrence in July of 1874 when Alexander Graham Bell, in describing to his father his concept of the electrical transmission of speech sounds, invented the telephone at Brantford, Ontario. Then, two years later, the world's first long distance call was completed from Brantford to nearby Paris, Ontario.

Just four years later, the first telephone exchange in Canada–indeed, the first in the then British Empire–was established at Hamilton, Ontario. And so great was the interest in–and the need for–telecommunications that local telephone companies sprang into being in many parts of the country. At one time there were more than 2,000 different telephone systems in Canada. Even today there are some 250 in operation, but whether shareholder-owned or government-operated their lines are interconnected to provide a truly national network.

Radio entered our picture in 1901 when Guglielmo Marconi, at St. John's, Newfoundland, succeeded in receiving radio signals from England, and radio transmission has since become an integral part of Bell Canada's telecommunications system.

Technological improvements came thick and fast and, keeping pace, came advances in the operating methods, the organization and the business practices of the company. In construction, in installation and maintenance, in switching centres and business offices throughout our territory, new designs, new tools and techniques and new services meant new and different operating procedures. Training courses were established to help Bell people learn new skills and keep abreast of these developments. The more complex the system became, the higher was the standard of technical and administrative skill required, and the men and women of Bell Canada responded by upgrading their abilities, improving their performance and, consequently, enhancing both their job satisfaction and their earning power.

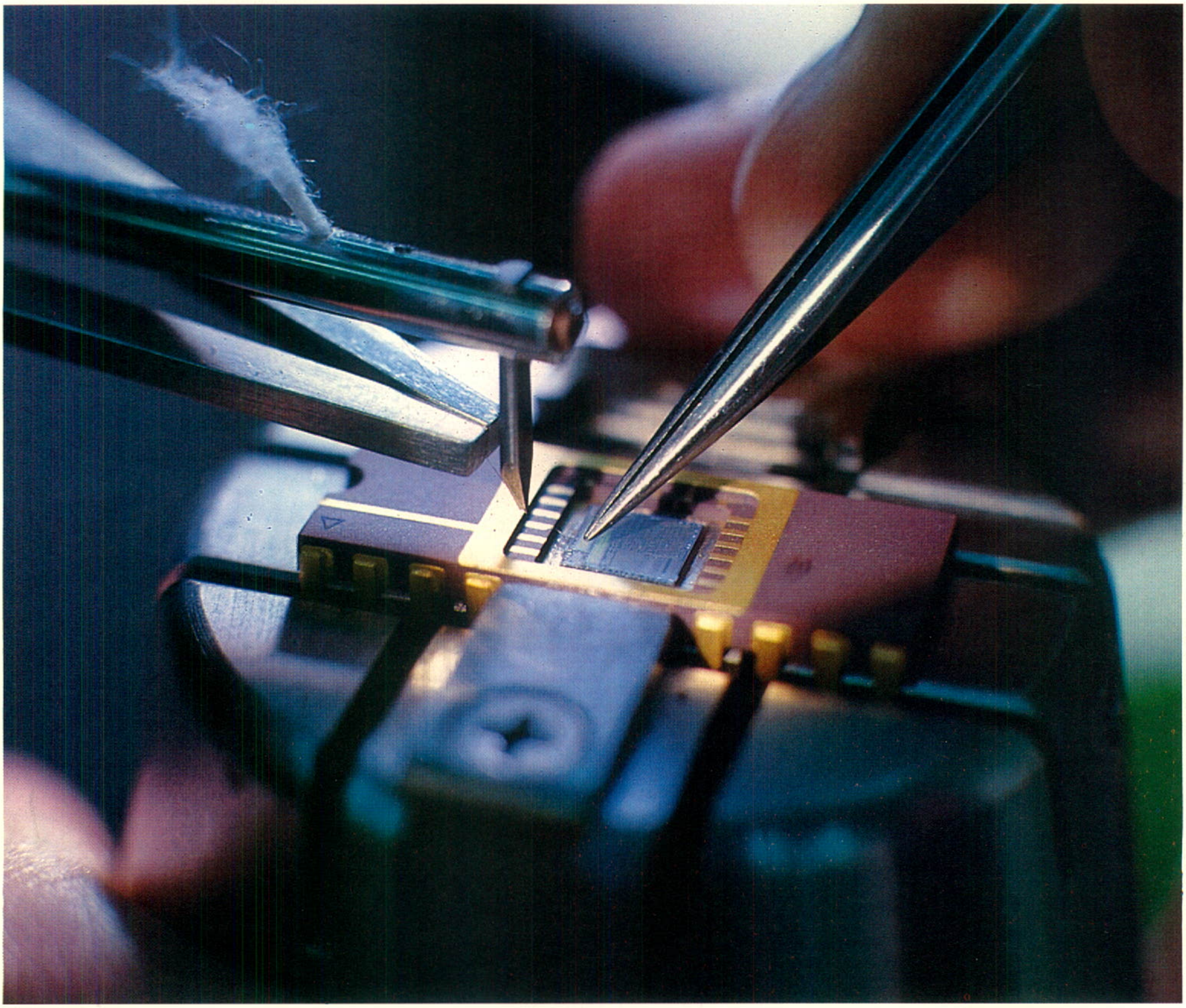
In the past few years we have seen tremendous advances in the transmission and switching of data at high speed, in the advent of the stored-program electronic switching system, in the phased changeover from the analogue to the more efficient digital system of communications, and in the introduction of fibre optics which promise fantastic increases in the carrying capacity and the usefulness of the telecommunications network for all customers, whether residential or commercial.

We have seen the development of new types of services too, for both home and office–services designed to satisfy the changing and developing needs of the public. And with the marriage of telecommunications and computer technology has come the ability to add new and useful service features by simply changing computer programs instead of by replacing or adding costly electro-mechanical devices.

In recent years, long-standing policies of the company have been modified, and effort and capital resources have been redirected into new channels, in order to keep in step with evolving customer requirements. All this has been done in an orderly and controlled manner that safeguards both the standard of service and the shareholders' investment.

What has not changed over the years is the commitment of Bell Canada and its associated companies – in research, in manufacturing and in serving the public – to provide the best possible telecommunications products and services to all customers at reasonable cost.

The evolution of Bell Canada and its role in Canadian society is a process that began more than a century ago, and has been kept on track and constantly accelerating through the intervening years by a succession of able and dedicated people. It has produced a major Canadian company that is known and respected throughout the world for its expertise in a field of high technology, for its readiness to share that expertise with others and for its ability to compete on an equal footing in national and international markets.



Miniaturization of components has long been a trend in telecommunications technology. Early central office machines used an electro-mechanical switch as a basic building block while Northern Telecom's digital switchers use silicon chips like the one shown here. Chip technology represents a 5,000-to-one improvement in the capability for electrical connections.

Financial Statements

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of Bell Canada and its subsidiaries have been prepared in accordance with Canadian generally accepted accounting principles which are in general consistent with those in the United States except for the differences described in note 1 of Notes to Financial Statements.

The integrity and objectivity of data in these financial statements are the responsibility of management. To this end, management maintains a highly developed system of internal accounting controls and supports an extensive program of internal audits.

Management believes that the system of internal accounting controls provides a reasonable assurance that:

—transactions are executed in accordance with management's general or specific authorization;

—transactions are recorded as necessary to permit the preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets;

—access to assets is permitted only in accordance with management's general or specific authorization; and

—the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

These financial statements have been examined by Touche Ross & Co., Chartered Accountants, and their report is shown below.

The Board of Directors pursues its responsibility for these financial statements principally through its Audit Committee which meets periodically with management as well as with the internal and external auditors who have full and free access to the Audit Committee, and meet with it, with and without management being present, to discuss auditing and financial reporting matters.

G. L. Henthorn
Vice-President & Comptroller

Auditors' Report

The Shareholders, Bell Canada

We have examined the consolidated balance sheets of Bell Canada as at December 31, 1979 and 1978 and the consolidated statements of income, retained earnings, premium on capital stock and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended in accordance with Canadian generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.
Chartered Accountants

Montréal, Québec
February 13, 1980

Consolidated Income Statement

For the years ended December 31

		Thousands of dollars 1979	1978
Telecommunications operations	Operating revenues		
	Local service	$1,449,713	$1,312,734
	Long distance service	1,413,937	1,223,314
	Miscellaneous – net	97,917	85,670
	Total operating revenues	2,961,567	2,621,718
	Operating expenses	2,150,083	1,865,958
	Net revenues – telecommunications operations	811,484	755,760
Manufacturing operations	Sales (note 1)	1,864,160	1,469,997
	Cost of sales	1,269,737	998,569
	Selling, general, administrative and other expenses	412,591	326,759
		1,682,328	1,325,328
	Net revenues – manufacturing operations	181,832	144,669
Contract and directory operations	Revenues	439,012	282,640
	Operating expenses	339,048	237,253
	Net revenues – contract and directory operations	99,964	45,387
	Total net revenues	1,093,280	945,816
	Other income		
	Allowance for funds used during construction	20,722	14,087
	Equity in net income of associated companies and a non-consolidated manufacturing subsidiary (notes 1 and 2)	18,712	16,923
	Miscellaneous – net	33,675	18,106
	Total other income	73,109	49,116
	Interest charges		
	Interest on long term debt (note 3)	289,745	255,350
	Other interest	23,054	8,127
	Total interest charges	312,799	263,477
	Income before underlisted items	853,590	731,455
	Unrealized foreign currency losses (notes 1 and 17)	10,685	259
	Income before income taxes, minority interest and extraordinary items	842,905	731,196
	Income taxes (notes 3 and 4)	355,371	323,585
	Income before minority interest and extraordinary items	487,534	407,611
	Minority interest	54,348	37,049
	Income before extraordinary items	433,186	370,562
	Extraordinary items (note 5)	—	24,490
	Net income (note 17)	**433,186**	**395,052**
	Dividends on preferred shares	30,521	38,702
	Net income applicable to common shares	**$ 402,665**	**$ 356,350**
	Earnings per common share* (notes 7 and 17)		
	before extraordinary items	$2.64	$2.49
	extraordinary items	—	$0.18
	after extraordinary items	$2.64	$2.67
	Assuming full conversion of convertible preferred shares		
	before extraordinary items	$2.55	$2.36
	extraordinary items	—	$0.16
	after extraordinary items	$2.55	$2.52
	Dividends declared per common share†	**$1.55**	**$1.43**
	*Based on weighted average common shares outstanding (thousands) †	152,810	133,396

†Reflects the three-for-one common share subdivision.

Consolidated Balance Sheet

As at December 31

Assets		Thousands of dollars 1979	1978
Telecommunications property – at cost (note 8)	Buildings, plant and equipment	$9,741,337	$8,826,260
	Less: Accumulated depreciation	2,950,562	2,614,419
		6,790,775	6,211,841
	Land	65,153	61,833
	Plant under construction	270,089	221,181
	Material and supplies	128,971	107,746
		7,254,988	6,602,601
Manufacturing property – at cost (note 8)	Buildings, plant and equipment	680,274	590,243
	Less: Accumulated depreciation	274,868	234,651
		405,406	355,592
	Land	13,353	12,796
		418,759	368,388
		7,673,747	6,970,989
Investments	Associated companies and non-consolidated subsidiaries – at equity (note 1)	417,403	151,318
	Other	4,832	5,723
		422,235	157,041
Current assets	Cash and temporary cash investments – at cost (approximates market)	95,286	228,986
	Accounts receivable – principally from customers (including $5,903 (1978 – $3,598) from associated companies)	1,060,145	773,496
	Inventories (note 9)	492,539	361,402
	Other (principally prepaid expenses)	106,519	77,877
		1,754,489	1,441,761
Other assets	Cash and temporary cash investments held for contract operations – at cost (approximates market)	49,532	91,851
	Long term receivables	41,296	44,932
	Deferred charges		
	contract operations	90,583	112,912
	unrealized foreign currency losses, less amortization	131,780	165,162
	other	82,663	84,371
	Cost of shares in acquired subsidiaries in excess of underlying net assets, less amortization (note 1)	119,163	127,989
	Other	11,025	8,275
		526,042	635,492
	Total assets	**$10,376,513**	**$9,205,283**

On behalf of the Board of Directors:

H. Clifford Hatch
Director

Marcel Bélanger
Director

Liabilities and Shareholders' Equity		Thousands of dollars 1979	1978
Capital stock authorized (note 10)			
Common shareholders' equity	Common shares outstanding (note 11)	$1,320,647	$1,176,622
	Premium on capital stock	807,778	607,388
	Contributed surplus	15,290	15,290
	Retained earnings	1,198,384	1,041,075
		3,342,099	2,840,375
Convertible preferred shares (redeemable) (note 12)		216,718	290,765
Non-convertible preferred shares (redeemable) (note 12)		112,255	113,965
Minority interest in subsidiary companies	Preferred shares	30,324	30,908
	Common shares	437,417	265,770
		467,741	296,678
Long term debt (including unrealized foreign currency losses) (note 13)		3,675,103	3,381,086
Current liabilities	Accounts payable	570,956	477,831
	Advance billing for service	52,445	49,617
	Dividends payable	72,540	60,889
	Taxes accrued	73,433	110,879
	Interest accrued	78,875	71,497
	Debt due within one year (note 14)	306,086	280,796
		1,154,335	1,051,509
Deferred credits	Income taxes	1,066,749	933,900
	Other (note 15)	341,513	297,005
		1,408,262	1,230,905
Commitments and contingent liabilities (notes 8 and 15)			
	Total liabilities and shareholders' equity	**$10,376,513**	**$9,205,283**

G. L. Henthorn
Vice-President & Comptroller

Consolidated Statement of Premium on Capital Stock

For the years ended December 31

	Thousands of dollars	
	1979	1978
Balance at beginning of year	$ 607,388	$ 527,143
Premium on common shares issued during the year	200,390	80,245
Balance at end of year	$ 807,778	$ 607,388

Consolidated Statement of Retained Earnings

For the years ended December 31

	Thousands of dollars	
	1979	1978
Balance at beginning of year	$1,041,075	$ 882,537
Net income	433,186	395,052
Excess of par value over cost of preferred shares purchased for cancellation (note 12)	37	4
	1,474,298	1,277,593
Deduct:		
Dividends		
Preferred shares		
$3.20 shares	384	634
$3.34 shares	316	645
$4.23 shares	1,474	7,352
$2.28 shares	5,316	11,390
$1.96 shares	13,478	9,060
$2.25 shares	3,253	3,321
$1.80 shares	6,300	6,300
	30,521	38,702
Common shares	240,571	193,113
	271,092	231,815
Expenses of issues of capital stock	4,822	4,703
	275,914	236,518
Balance at end of year	$1,198,384	$1,041,075

Consolidated Statement of Changes in Financial Position

For the years ended December 31

		Thousands of dollars 1979	1978
Source of funds	Operations		
	Income before extraordinary items	$ 433,186	$ 370,562
	Items not affecting current funds		
	Depreciation	646,970	550,058
	Deferred income taxes	132,849	101,516
	Allowance for funds used during construction	(20,722)	(14,087)
	Other – net	12,547	52,656
	Total from operations	1,204,830	1,060,705
	Extraordinary items (note 5)	—	24,490
	Proceeds from long term debt	575,524	579,558
	Due to non-consolidated finance subsidiaries	165,957	79,421
	Proceeds from issue of Bell Canada common shares		
	underwritten issue	194,109	—
	under the dividend reinvestment and stock purchase plan	64,125	30,134
	Proceeds from issue of Bell Canada preferred shares	—	170,903
	Proceeds from issues of shares by subsidiaries to minority shareholders	97,792	96,724
	Issue of common shares upon conversion of convertible preferred shares	74,044	125,820
	Advance payment on contract operations (note 15)	—	190,587
	Decrease in cash and temporary cash investments held for contract operations	42,319	—
	Miscellaneous	192,423	117,138
		$2,611,123	$2,475,480
Disposition of funds	Capital expenditures		
	Gross capital expenditures	$1,351,044	$1,183,972
	Deduct: charges not requiring funds	(13,396)	(24,395)
	Increase in material and supplies	21,225	4,939
	Net expenditures	1,358,873	1,164,516
	Dividends by Bell Canada	271,092	231,815
	Dividends by subsidiaries to minority shareholders	15,546	11,508
	Reduction of long term debt	428,758	246,018
	Acquisition of investments (less working capital acquired in 1978 of $107,427)	2,848	189,294
	Investments in non-consolidated finance subsidiaries	233,835	23,712
	Conversion of preferred shares	74,047	125,848
	Increase in cash and temporary cash investments held for contract operations	—	91,851
	Deferred charges – contract operations	—	112,912
	Miscellaneous	16,222	27,947
	Increase in working capital	209,902	250,059
		$2,611,123	$2,475,480
Working capital changes	Increase (decrease) in current assets:		
	Cash and temporary cash investments	$ (133,700)	$ 98,738
	Accounts receivable	286,649	350,682
	Inventories	131,137	142,965
	Other	28,642	23,630
	(Increase) decrease in current liabilities:		
	Accounts payable	(93,125)	(157,131)
	Advance billing for service	(2,828)	(6,987)
	Dividends payable	(11,651)	(10,676)
	Taxes accrued	37,446	(90,671)
	Interest accrued	(7,378)	(15,336)
	Debt due within one year	(25,290)	(85,155)
	Increase in working capital, as above	$ 209,902	$ 250,059

Notes to Financial Statements

Bell Canada and Subsidiary Companies

1. Accounting policies

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles. With respect to the consolidated financial statements of Bell Canada and its subsidiary companies, the only important differences between Canadian and United States generally accepted accounting principles, as described in note 17, are: a) the method of accounting for translation of foreign currencies and b) the accounting treatment of an increase in book value in a subsidiary's net assets resulting from the issuance of shares not purchased by the parent company. Another difference is in regard to the financial statement presentation of the results of the disposal of a segment of a business, as described in note 6.

Bell Canada and its telephone subsidiary and associated companies are subject to regulation, including examination of accounting practices, by their respective regulatory authorities. Bell Canada is regulated on the basis of its non-consolidated financial statements in which its investments in subsidiary and associated companies are carried at cost. The system of accounts and accounting practices are similar to those being used in the telecommunications industry.

Consolidation
The consolidated financial statements include the accounts of all, directly or indirectly, majority-owned subsidiaries except for certain subsidiaries of Northern Telecom Limited (its finance subsidiaries and Netas-Northern Electric Telekomünikasyon, A.S. "Netas"). These non-consolidated subsidiaries and the investments in associated companies (50% or less, and 20% or more) have been accounted for by the equity method. The finance subsidiaries are not consolidated as their business is fundamentally different from that of the consolidated group (see note 3). Netas is accounted for on the equity method as Northern Telecom Limited is required to reduce its holdings in that company to below 50%.

The associated companies of Bell Canada and its subsidiaries at December 31, 1979 were Maritime Telegraph and Telephone Company, Limited,(1) The New Brunswick Telephone Company, Limited, Telesat Canada, Sotel Inc., Intersil, Inc. and Edward H. O'Brien Pty. Limited.

The companies in which Bell Canada had a direct investment of more than 50% of the common shares outstanding at December 31, 1979 were:

Northern Telecom Limited	54.5%
Newfoundland Telephone Company Limited	66
Northern Telephone Limited	99.8
Télébec Ltée	100
Lièvre Valley Telephone Company	100
The Capital Telephone Company Limited	100
The North American Telegraph Company	100
Bell Canada–International Management, Research and Consulting Ltd.	100

For companies acquired, the excess of cost of shares over acquired equity is being amortized to earnings over periods not exceeding forty years. Such amortization amounted to $4,128,000 in 1979 ($4,142,000 - 1978).

Bell Canada's summarized income statement, balance sheet and statement of changes in financial position, on a non-consolidated basis, are presented on pages 40 to 42.

(1) At December 31, 1979, Bell Canada was the registered owner of 2,172,200 or 38.2% of the outstanding common shares of Maritime Telegraph and Telephone Company, Limited; however, under a statute passed by the Legislature of Nova Scotia, not more than 1,000 shares may be voted by any one shareholder.

1. Accounting policies (continued)

Consolidation (continued)

Manufacturing sales comprise:

	Thousands of dollars 1979	1978
Sales to:		
Bell Canada	$ 616,006	$ 536,684
Telephone subsidiary and associated companies of Bell Canada	43,522	50,694
Sub-total	659,528	587,378
Sales to others	1,204,632	882,619
Total sales	$1,864,160	$1,469,997

Telecommunications equipment, purchased by Bell Canada and its telephone subsidiaries from Northern Telecom Limited and its subsidiaries, is reflected in the consolidated balance sheet at cost to the purchasing companies, and is included in Manufacturing sales in the consolidated income statement. To the extent that any income on these sales and those to associated companies has not been offset by depreciation or other operating expenses, it remains in consolidated retained earnings and consolidated income. This practice is generally followed in the industry. All other significant intercompany transactions have been eliminated in the accompanying consolidated financial statements.

Depreciation

Depreciation is computed on the straight line method using rates based on the estimated useful lives of the assets.

When depreciable telecommunications property is retired, the amount at which such property has been carried in Telecommunications property is charged to Accumulated depreciation.

Depreciation expense, including amortization of property held under capital leases, for the year ended December 31, 1979 was $646,970,000 ($550,058,000-1978) and the composite rate was 6.55% (6.33%-1978).

Maintenance and repairs

The cost of maintenance and repairs of property is expensed as incurred.

Research and development

All research and development costs incurred, which amounted to $183,744,000 ($150,936,000-1978), were charged to income.

Translation of foreign currencies

Current assets (excluding inventories and prepaid expenses), current liabilities and long term monetary assets and liabilities are translated at the rates in effect at the balance sheet date, whereas other assets (including inventories and prepaid expenses) and other liabilities are translated at rates prevailing at the respective transaction dates. Revenues and expenses are translated at average rates prevailing during the year except for cost of inventories used, depreciation and amortization which are translated at rates prevailing when the related assets were manufactured or acquired. Currency gains and losses are reflected in net income of the year except for unrealized foreign currency gains and losses on long term monetary assets and liabilities which are amortized over the remaining lives of the related items. In 1979, unrealized foreign currency losses charged to income were $10,685,000 ($259,000-1978), consisting of the amortization of $11,338,000 ($7,197,000-1978) of foreign currency losses on long term debt less gains of $653,000 ($6,938,000-1978) on the translation of foreign currency financial statements and net assets denominated in foreign currencies.

Leases

Leases are classified as capital or operating leases. Assets recorded under capital leases are amortized on a straight line method using rates based on the estimated useful life of the asset or based on the lease term as appropriate. Obligations recorded under capital leases are reduced by rental payments net of imputed interest.

1. Accounting policies (continued)

Inventories
Inventories held by the manufacturing subsidiaries are valued at the lower of cost (calculated generally on a first-in, first-out basis) and net realizable value. The cost of finished goods and work-in-process inventories is comprised of material, labour and manufacturing overhead.

Allowance for funds used during construction
Regulatory authorities require the telephone companies to provide for a return on capital invested in new telephone plant while under construction by including an allowance for funds used during construction as an item of income during the construction period and also as an addition to the cost of the plant constructed. Such income is not realized in cash currently but will be realized over the service life of the plant.

Contract operations
Bell Canada provides consulting services under contract to clients, principally foreign telecommunications organizations. The accounting method generally known as percentage-of-completion is used in the determination of net income for such operations.

Income taxes
Bell Canada and its subsidiaries use the tax allocation basis of accounting for income taxes.

2. Equity in net income of associated companies and a non-consolidated manufacturing subsidiary

This item represents the share of net income of companies accounted for by the equity method, except for the finance subsidiaries. See note 3.

The dividends received from companies accounted for by the equity method amounted to $9,345,000 ($7,926,000-1978).

3. Non-consolidated finance subsidiaries

Income from operations of the finance subsidiaries of Northern Telecom Limited reduces consolidated interest on long term debt; unrealized foreign currency losses and income taxes are included in the respective captions of the consolidated income statement. The following is a summary of the combined financial data of these companies for the year ended December 31, 1979, their first year of operations.

	Thousands of dollars
	1979
Interest income	$ 32,934
Interest expense	(5,571)
Administrative expense	(635)
Income from operations	26,728
Unrealized foreign currency losses	(887)
Income taxes	(4,368)
Net income	$ 21,473
	December 31, 1979
Total assets	$289,461
Total liabilities	$ 10,441
Shareholders' equity	$279,020

4. Income taxes

A reconciliation of the statutory income tax rate in Canada to the effective income tax rate is as follows:

	1979	1978
Statutory income tax rate	48.9%	48.5%
i) Allowance for funds used during construction, net of applicable depreciation adjustment	(0.7)	(0.5)
ii) Reduction of Canadian Federal taxes applicable to manufacturing profits	(0.8)	(0.9)
iii) Equity in net income of associated companies and a non-consolidated manufacturing subsidiary	(1.1)	(1.1)
iv) Tax credits on research and development expenditures	(1.9)	(1.1)
v) Inventory credit	(0.3)	(0.3)
vi) Difference between Canadian statutory rates and those applicable to foreign subsidiaries	(1.9)	(0.1)
vii) Other	—	(0.2)
Effective income tax rate	42.2%	44.3%

Details of the company's income taxes are as follows:

	Thousands of dollars	
	1979	1978
Current	$222,522	$222,069
Deferred	132,849	101,516
Total income taxes	$355,371	$323,585

Deferred income taxes result principally from deductions for tax purposes, in respect of plant, being in excess of amounts currently charged to operations.

5. Extraordinary items

	Thousands of dollars
	1978
i) Reduction of income taxes, net of minority interest of $3,407,000, arising from the utilization of prior years' tax losses of subsidiaries ($0.06† per common share)	$ 8,964
ii) Increase in book value in subsidiaries, reported on a consolidated basis, resulting principally from the issuance of common shares by Northern Telecom Limited upon the acquisition of Sycor, Inc. The Canadian practice is to include this increase as income whereas the practice in the United States is to treat it as paid-in capital ($0.13† per common share)	17,474
iii) Provision (net of income taxes of $3,648,000 and minority interest of $1,244,000) for costs of terminating the electrical and electronic products distribution business of Northern Telecom Limited ($0.01 † per common share)	(1,948)
	$24,490

†Reflects the three-for-one common share subdivision.

6. Disposal of a segment of a business

Certain of the assets of subsidiaries in the electrical and electronic products distribution business were sold in January 1979. The results of continuing and discontinued operations due to the termination as of December 31, 1978 of such business are as follows:

	Thousands of dollars except per share amounts
	1978
Manufacturing operations	
Continuing operations	$1,331,360
Discontinued operations	138,637
	$1,469,997
Consolidated income	
Continuing operations	$ 369,734
Discontinued operations	(1,120)
Extraordinary items	26,438
Net income	$ 395,052
Earnings per common share assuming full conversion of convertible preferred shares†	
Continuing operations	$ 2.36
Discontinued operations	(0.01)
Extraordinary items	0.17
	$ 2.52

7. Earnings per common share

Earnings per common share are based on weighted average shares outstanding. For the computation of the earnings per share, assuming full conversion of convertible preferred shares, the dividends on convertible preferred shares have been added back to income.

8. Leases

Telecommunications property and Manufacturing property include property recorded under capital leases as follows:

	Thousands of dollars	
	Dec. 31, 1979	Dec. 31, 1978
Telecommunications property		
Buildings, plant and equipment	$53,209	$51,096
Less: Accumulated depreciation	14,067	14,009
	39,142	37,087
Land	3,350	3,350
	$42,492	$40,437
Manufacturing property		
Buildings, plant and equipment	$24,982	$20,400
Less: Accumulated depreciation	4,525	2,216
	$20,457	$18,184

†Reflects the three-for-one common share subdivision.

8. Leases (continued)

The future minimum lease payments under capital leases, and operating leases that have initial non-cancellable lease terms in excess of one year as of December 31, 1979, are as follows:

	Thousands of dollars	
	Capital leases	Operating leases
1980	$ 15,736	$ 44,629
1981	15,337	36,227
1982	14,051	28,432
1983	12,778	21,895
1984	11,605	17,500
Thereafter	143,952	64,294
Total future minimum lease payments	213,459	$212,977
Less: Estimated executory costs	72,813	
Net minimum lease payments	140,646	
Less: Imputed interest	73,677	
Present value of net minimum lease payments	$ 66,969	

Rental expense applicable to all operating leases for the year 1979 was $107,370,000 ($92,846,000-1978).

On January 31, 1980, Bell Canada purchased a building for $62,500,000 and assumed a mortgage of $40,500,000 at 9% due in instalments to 1995. Since part of that building was previously leased and capitalized, the future minimum lease payments included in capital leases above will be reduced by approximately $78,500,000.

9. Inventories

	Thousands of dollars	
	Dec. 31, 1979	Dec. 31, 1978
Manufacturing		
Raw materials	$167,553	$118,400
Work-in-process	164,697	135,490
Finished goods	160,289	107,512
	$492,539	$361,402

10. Capital stock authorized

By charter – $5,000,000,000.

By shareholders* – $5,000,000,000 divided into common shares of the par value of $8⅓ each, and: (a) not more than 2,000,000 of a class of preferred shares to a maximum aggregate amount of $94,000,000; (b) not more than 9,000,000 of another class of preferred shares to a maximum aggregate amount of $225,000,000; (c) not more than 7,000,000 of another class of preferred shares to a maximum aggregate amount of $219,000,000; (d) not more than 7,000,000 of another class of preferred shares to a maximum aggregate amount of $175,000,000; and (e) ten additional classes of preferred shares to a maximum aggregate amount of $1,000,000,000.

*Reflects the following changes approved by the shareholders on April 17, 1979:
(a) the increase in authorized capital stock from $1,750,000,000 to $5,000,000,000,
(b) the subdivision of $25 par value common shares on a three-for-one basis and
(c) the creation of ten additional classes of preferred shares to a maximum aggregate amount of $1,000,000,000.

11. Common shares outstanding

	Dollars in thousands			
	Dec. 31, 1979		Dec. 31, 1978	
	Number of shares	Amount	Number of shares	Amount
Par value of $8⅓ per share	158,477,704	$1,320,647	141,194,643	$1,176,622

In 1979, Bell Canada issued 4,305,681 (7,805,451 – 1978) common shares upon conversion of preferred shares and 12,977,380 (2,108,280 – 1978) common shares for cash. The common shares issued for cash in 1979 represent 9,375,000 shares sold to underwriters, 3,144,057 (1,640,871–1978) shares issued under the Shareholder Dividend Reinvestment and Stock Purchase Plan and 458,323 (467,409 – 1978) shares purchased by employees through assignment of dividends under the provisions of the Employees' Savings Plan (1966). The excess of proceeds over par value in 1979, for shares issued for cash, amounting to $162,226,000 ($19,471,000 – 1978) was allocated to Premium on capital stock.

Common shares reserved at December 31, 1979 – 12,543,652:

11,155,307 shares for issuance upon conversion of all convertible preferred shares.
173,273 shares for issuance under the Employees' Savings Plan (1966).
1,215,072 shares for issuance under the Shareholder Dividend Reinvestment and Stock Purchase Plan.

All common share data have been adjusted to reflect the common share subdivision which became effective April 25, 1979.

12. Preferred shares outstanding

		Dollars in thousands			
		Dec. 31, 1979		Dec. 31, 1978	
		Number of shares	Amount	Number of shares	Amount
Convertible preferred shares (redeemable)	$3.20 shares (par value of $47 per share)	108,991	$ 5,123	139,272	$ 6,546
	$3.34 shares, class B, series B (par value of $52 per share)	81,420	4,234	118,996	6,188
	$4.23 shares, class C, series D (par value of $47 per share)	259,179	12,181	568,714	26,730
	$2.28 shares, class C, series E (par value of $25 per share)	1,459,650	36,491	3,058,325	76,458
	$1.96 shares, class D, series G (par value of $25 per share)	6,347,552	158,689	6,993,735	174,843
	Total par value of convertible preferred shares		$216,718		$290,765
Non-convertible preferred shares (redeemable)	$2.25 shares, class B, series C (par value of $30 per share)	1,408,500	$ 42,255	1,465,500	$ 43,965
	$1.80 shares, class B, series F (par value of $20 per share)	3,500,000	70,000	3,500,000	70,000
	Total par value of non-convertible preferred shares		$112,255		$113,965

12. Preferred shares outstanding (continued)

Following is a brief summary of the material characteristics of the preferred shares:

		Redeemable at Bell Canada's option	Preferred to common conversion basis	Convertible to	Number of shares converted at December 31, 1979	Purchase fund requirements(d)
Convertible (a)	$3.20 shares	Currently at $48.50 per share to Feb. 1, 1980 and at reducing amounts thereafter to $47 after Feb. 1, 1982.	1 for 3	Feb. 1, 1982	1,891,009 including 1979 – 30,281 (1978 – 108,505)	—
	$3.34 shares	Currently at $54 per share to Aug. 1, 1980 and at reducing amounts thereafter to $52 after Aug. 1, 1983.	1 for 3(b)	Aug. 1, 1983	1,918,580 including 1979 – 37,576 (1978 – 133,903)	—
	$4.23 shares	On Dec. 1, 1980 at $51 per share to Dec. 1, 1981 and at reducing amounts thereafter to $47 after Dec. 1, 1986.	1 for 3	Dec. 1, 1986	1,740,821 including 1979 – 309,535 (1978 – 1,386,481)	Annually 100,000 shares commencing in 1982
	$2.28 shares	On Jul. 2, 1981 at $27 per share to Jul. 2, 1982 and at reducing amounts thereafter to $25 after Jul. 2, 1987.	2 for 3	Jul. 2, 1987	3,540,350 including 1979 – 1,598,675 (1978 – 1,938,562)	Annually 250,000 shares commencing in 1983
	$1.96 shares (c)	On May 1, 1984 at $26.50 per share to May 1, 1985 and at reducing amounts thereafter to $25 after May 1, 1990.	5 for 6	May 1, 1990	652,448 including 1979 – 646,183 (1978 – 6,265)	Quarterly 87,500 shares commencing in 1986
Non-convertible (a)	$2.25 shares	On Oct. 1, 1983 at $31.50 per share to Oct. 1, 1988 and at reducing amounts thereafter to $30 after Oct. 1, 2003.	—	—	—	Annually 51,000 shares
	$1.80 shares	On Oct. 2, 1986 at $21.20 per share to Oct. 2, 1991 and at reducing amounts thereafter to $20 after Oct. 2, 2006.	—	—	—	Quarterly 26,250 shares

(a) The preferred shareholders are entitled to cumulative dividends at the respective rates set out in the titles of each issue and have one vote per share.

(b) From October 22, 1975 to March 1, 1979 the conversion basis was 3.036 common shares for each preferred share.

(c) In the event that not more than 1,050,000 $1.96 preferred shares remain outstanding, Bell Canada may redeem all, but not part, of such shares at $25.

(d) Purchase funds:
Under the terms and conditions of the purchase funds, Bell Canada shall make all reasonable efforts to purchase the required number of shares for cancellation in the open market at a price not exceeding the par value per share plus costs of purchase. To the extent that Bell Canada is unable to purchase such shares, the undertaking is cumulative to a maximum of two years or eight quarters as the case may be, including the current period requirements.
At December 31, 1979, 291,500 $2.25 preferred shares with an aggregate par value of $8,745,000 had been purchased and cancelled (including 57,000 shares with an aggregate par value of $1,710,000 during the year 1979 of which 20,500 shares were for the year 1978).
Taking into account purchases to December 31, 1979, the maximum aggregate par value of shares that Bell Canada may be required to purchase, if available pursuant to the terms of the purchase funds, in the years 1980 to 1984 are $6,165,000, $3,630,000, $8,330,000, $14,580,000 and $12,661,000 respectively.

13. Long term debt

Bell Canada					Thousands of dollars
First mortgage bonds	4–5¾%	6–7⅞%	8–9⅞%	10–11%	Total outstanding Dec. 31, 1979
Due 1980	$ 30,000	$ —	$ 72,000	$ —	$ 102,000
1981	24,000	28,500	—	—	52,500
1982	90,000	—	—	—	90,000
1983	50,000	—	—	—	50,000
1984	60,000	—	—	—	60,000
1985-1994	100,000	255,500	387,066	60,000	802,566
1995-2004	78,000	206,000	296,000	70,000	650,000
	432,000	490,000	755,066	130,000	1,807,066
Debentures					
Due 1986-1987	—	100,000	60,000	60,000	220,000
2002-2008	—	—	750,000	175,000	925,000
	—	100,000	810,000	235,000	1,145,000
Exchange premium less discount, at time of issue, on debt payable in U.S. funds					43,673
Unrealized foreign currency losses*					145,944
Obligations under capital leases					45,789
Sub-total–Bell Canada					3,187,472
Subsidiaries (including $268,823 due to non-consolidated finance subsidiaries and $21,180 of obligations under capital leases)					622,455
Unrealized foreign currency losses*					6,334
Sub-total–consolidated					3,816,261
Less: due within one year (including $23,445 due to non-consolidated finance subsidiaries)					141,158
Total–consolidated					$3,675,103

—The first mortgage bonds of Bell Canada are secured by a first mortgage and a floating charge.
—At December 31, 1979, the long term debt of Bell Canada payable in United States funds was $1,128,000,000 comprising $50,000,000 of first mortgage bonds maturing in 1983, $518,000,000 maturing from 1988 to 2004 and $560,000,000 of debentures maturing from 1986 to 2008.
—At December 31, 1979, the amounts of long term debt payable by Bell Canada and subsidiary companies in the years 1980 to 1984 are $141,158,000, $134,065,000, $134,436,000, $93,328,000 and $89,054,000, respectively.
—At December 31, 1979, the long term debt of non-consolidated finance subsidiaries of Northern Telecom Limited, due to third parties, was $5,832,000.
*Arising from the translation of U.S. dollar denominated debt at rate prevailing on December 31, 1979.

14. Debt due within one year

	Dollars in thousands	
	Dec. 31, 1979	Dec. 31, 1978
Long term debt	$141,158	$155,188
Notes payable	155,598	83,921
Bank advances	9,330	41,687
	$306,086	$280,796

Additional data with regard to Notes payable		
i) Maximum amount outstanding at any month-end during the year ended December 31	$171,149	$151,719
ii) Average amount outstanding during the year ended December 31	$136,449	$ 90,951
iii) Weighted average annual interest rate during the year ended December 31	11.2%	7.3%
iv) Weighted average annual interest rate at December 31	13.8%	9.4%

15. Guarantees

Included in Deferred credits—Other at December 31, 1979 is the balance of $139,800,000 of advance payment to be applied against amounts due to Bell Canada over the life of certain contract operations. A guarantee, equivalent to approximately $189 million at December 31, 1979, has been furnished in respect of such advance payment.

In addition, a performance guarantee has been furnished, in respect of such contract operations, equivalent to approximately $60 million at December 31, 1979.

16. Quarterly financial data

Summarized consolidated quarterly financial data (in thousands of dollars except per share amounts) are as follows:

				Three months ended
1979	Mar. 31	June 30	Sept. 30	Dec. 31
Telecommunications operations				
Total operating revenues	$711,219	$743,994	$736,825	$769,529
Net revenues – telecommunications operations	196,407	217,713	206,998	190,366
Manufacturing operations				
Sales	412,999	521,336	424,361	505,464
Gross profit	135,945	162,486	129,741	166,251
Contract and directory operations				
Revenues	98,705	104,892	95,842	139,573
Net revenues – contract and directory operations	23,284	22,629	27,801	26,250
Net income	103,491	118,660	106,831	104,204
Net income applicable to common shares	95,213	110,981	99,362	97,109
Earnings per common share*	$0.65	$0.72	$0.64	$0.62
Assuming full conversion of convertible preferred shares	$0.63	$0.70	$0.62	$0.60
*Based on weighted average common shares outstanding (thousands)†	145,495	153,604	155,201	156,790

1978	Mar. 31	June 30	Sept. 30	Dec. 31
Telecommunications operations				
Total operating revenues	$598,986	$626,238	$670,246	$726,248
Net revenues – telecommunications operations	148,758	160,417	213,948	232,637
Manufacturing and distributing				
Sales	288,011	345,652	363,177	473,157
Gross profit	84,178	106,552	118,766	161,932
Contract and directory operations				
Revenues	24,216	80,088	82,057	96,279
Net revenues – contract and directory operations	5,282	13,599	13,229	13,277
Income before extraordinary items	68,004	81,846	104,270	116,442
Extraordinary items	1,629	17,457	1,437	3,967
Net income	69,633	99,303	105,707	120,409
Net income applicable to common shares	61,953	89,521	94,838	110,038
Earnings per common share* before extraordinary items	$0.46	$0.55	$0.70	$0.78
Assuming full conversion of convertible preferred shares before extraordinary items	$0.45	$0.52	$0.65	$0.73
*Based on weighted average common shares outstanding (thousands)†	131,586	132,330	133,619	135,998

†Reflects the three-for-one common share subdivision.

17. Differences between Canadian and United States generally accepted accounting principles

a) Translation of foreign currencies
If the foreign currency translation had been treated in accordance with the United States Financial Accounting Standards Board's Statement No. 8: Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements, consolidated net income and earnings per common share would have increased (decreased) as follows:

	Increase (decrease) in consolidated net income	Increase (decrease) in earnings per common share
	Thousands of dollars except per share amounts	
Three months ended		
March 31, 1979	$27,000	$0.19
June 30, 1979	(5,600)	(0.04)
September 30, 1979	8,200	0.05
December 31, 1979	(4,900)	(0.03)
March 31, 1978	$(33,300)	$(0.25)
June 30, 1978	9,600	0.07
September 30, 1978	(55,000)	(0.41)
December 31, 1978	1,800	0.01
Year ended		
December 31, 1979	$24,700	$0.16
December 31, 1978	(76,900)	(0.58)

Consolidated net income as reported for the year 1979 of $433,186,000 ($395,052,000-1978) would have been $457,886,000 ($318,152,000-1978) and earnings per share as reported for the year 1979 of $2.64 ($2.67-1978) would have been $2.80 ($2.09-1978).

b) Extraordinary item
The extraordinary item of $17,474,000, as described in note 5, has been included in income whereas the practice in the United States is to treat such an increase in book value as paid-in capital. If the extraordinary item had been treated in accordance with U.S. practice, consolidated net income for the year 1978 would have decreased by an additional $17,474,000 ($0.13 per common share) to $1.96 per common share.

c) Disposal of a segment of a business
Under U.S. practice, the disposal of a segment of a business requires different reporting; however, net income and earnings per common share are identical under both Canadian and United States reporting practices.

All per share amounts reflect the three-for-one common share subdivision.

18. Pensions

Bell Canada and most of its subsidiary companies have non-contributory plans which provide for service pensions based on length of service and rates of pay. The actuarial reviews as of December 31, 1978 indicated that all vested benefits were fully funded.

The total provisions for the cost of pension plans were $182,197,000 for the year ended December 31, 1979 ($145,452,000-1978).

19. Remuneration of directors and officers

During the year 1979, Bell Canada's shareholders were served by 20 directors. As such, their aggregate remuneration from Bell Canada was $296,000. Some of them served also as directors of Northern Telecom Limited, and certain of its subsidiaries; as such their aggregate remuneration was $108,000 from these companies.

Bell Canada had 32 officers during 1979 and their aggregate remuneration as officers was $3,586,000. Two of the officers served also as directors of Bell Canada in 1979.

In addition, amounts paid or payable by Bell Canada pursuant to special retirement plans for certain of its officers were $270,000 for 1979.

20. Industry segments information

Bell Canada and its subsidiary and associated companies operate principally in two business segments:

1) Telecommunications operations, which includes the provision of voice, visual, data, radio and television transmission, public exchange and private line teletypewriter and other telecommunications services; and
2) Telecommunications equipment manufacturing, which involves the production and sale of central office switching equipment, subscriber apparatus, business communications systems, transmission equipment and wire and cable.

The following table sets forth revenues and sales, net revenues and supplementary data for each of the company's business segments for the years ended December 31, 1979, 1978 and 1977.

			Millions of dollars
By segments	1979	1978	1977
Revenues and sales			
Telecommunications operations	$2,915(a)	$2,580(a)	$2,205(a)
Telecommunications equipment manufacturing	1,504(b)	1,131(b)	1,017(b)
Other	846	663(b)	291(b)
Consolidated	$5,265	$4,374	$3,513
Intersegment sales			
Telecommunications operations	$ 47	$ 42	$ 37
Telecommunications equipment manufacturing	3	27	27
Other	105	114	86
Eliminations	(155)	(183)	(150)
	$ —	$ —	$ —
Total revenues			
Telecommunications operations	$2,962	$2,622	$2,242
Telecommunications equipment manufacturing	1,507	1,158	1,044
Other	951	777	377
Eliminations	(155)	(183)	(150)
Consolidated	$5,265	$4,374	$3,513
Total net revenues			
Telecommunications operations	$ 811	$ 756	$ 595
Telecommunications equipment manufacturing	232	180	185
Other	128(a)	84(a)	23(a)
Eliminations	—	—	(1)
Consolidated	1,171(c)	1,020(c)	802(c)
Equity in net income of associated companies and a non-consolidated manufacturing subsidiary			
Telecommunications operations	16	13	11
Telecommunications equipment manufacturing	—	1	1
Other	3	3	2
	19	17	14
Other income	54	32	27
Interest charges	(313)	(264)	(222)
Unrealized foreign currency gains (losses)	(10)	—	6
General corporate expenses	(78)	(74)	(71)
Income before income taxes, minority interest and extraordinary items	$ 843	$ 731(d)	$ 556(d)

20. Industry segments information (continued)

By segments	1979	1978	1977
			Millions of dollars
Identifiable assets			
Telecommunications operations	$7,629	$7,028	$6,393
Telecommunications equipment manufacturing	983	718	511
Other	1,089	872	153
Eliminations	(119)	(89)	(74)
Consolidated	9,582	8,529	6,983
Investments in associated companies and non-consolidated subsidiaries			
Telecommunications operations	117	110	105
Telecommunications equipment manufacturing	2	3	2
Other	298	38	39
Consolidated	417	151	146
General corporate assets	378(e)	525(e)	214(e)
Total assets as at December 31	$10,377	$9,205	$7,343
Depreciation			
Telecommunications operations	$ 558	$ 497	$ 449
Telecommunications equipment manufacturing	34	25	24
Other	52	25	5
	644	547	478
Depreciation – general corporate assets	3	3	2
Total depreciation	$ 647	$ 550	$ 480
Capital expenditures			
Telecommunications operations	$ 1,176	$1,054	$1,003
Telecommunications equipment manufacturing	79	54	36
Other	93	65	10
Eliminations	(3)	—	(4)
	1,345	1,173	1,045
Capital expenditures – general corporate assets	6	11	1
Total capital expenditures	$ 1,351	$1,184	$1,046

The following table sets forth information about operations in different geographic areas for the years ended December 31, 1979 and 1978. Data are not presented for 1977 since 90% of the company's revenues and sales were derived from operations located in Canada and were to customers in Canada.

By geographic areas (f)	1979	1978
		Millions of dollars
Revenues and sales		
Canada	$4,014	$3,670
U.S.A.	766	469
Other	485	235
Consolidated	$5,265	$4,374
Transfers between areas		
Canada	$ 67	$ 86
U.S.A.	20	20
Other	—	1
Eliminations	(87)	(107)
	$ —	$ —
Total revenues		
Canada	$4,081	$3,756
U.S.A.	786	489
Other	485	236
Eliminations	(87)	(107)
Consolidated	$5,265	$4,374

20. Industry segments information (continued)

	Millions of dollars	
By geographic areas (f)	1979	1978
Net revenues before research and development expenses		
Canada	$1,120	$1,047
U.S.A.	144	96
Other	92	28
Eliminations	(1)	—
Consolidated	1,355	1,171
Research and development expenses	(184)	(151)
Total net revenues	1,171(c)	1,020(c)
Equity in net income of associated companies and a non-consolidated manufacturing subsidiary		
Canada	16	13
U.S.A.	2	3
Other	1	1
	19	17
Other income	54	32
Interest charges	(313)	(264)
Unrealized foreign currency losses	(10)	—
General corporate expenses	(78)	(74)
Income before income taxes, minority interest and extraordinary items	$ 843	$ 731(d)
As at December 31		
Identifiable assets		
Canada	$8,185	$7,538
U.S.A.	893	628
Other	570	401
Eliminations	(66)	(38)
Consolidated	9,582	8,529
Investments in associated companies and non-consolidated subsidiaries		
Canada	117	110
U.S.A.	44	38
Other	256	3
Consolidated	417	151
General corporate assets	378(e)	525(e)
Total assets	$10,377	$9,205

a) Telecommunications operations segment revenues include $19 million ($13 – 1978, Nil – 1977) consisting principally of contract service agreement revenues and contribution to overhead, which are also included as operating expenses in Other net revenues. These items are not eliminated on consolidation.

b) Telecommunications equipment manufacturing includes sales of $660 million ($583 – 1978, $581 – 1977) and, for 1978 and 1977 only, Other included sales of $4 million in both years, to Bell Canada, its telephone subsidiary and associated companies. These sales are not eliminated on consolidation. Telecommunications equipment manufacturing sales of Northern Telecom Limited to Bell Canada are at prices and terms as low as those offered to Northern Telecom's most favored customers for like materials and services under comparable conditions.

c) Total net revenues of $1,093 million ($946 – 1978, $731 – 1977) as shown in the Consolidated Income Statement are after deducting expenses of $78 million ($74 – 1978, $71 – 1977) applicable to Telecommunications equipment manufacturing and Other segments which are shown as general corporate expenses.

d) Income before income taxes, minority interest and extraordinary items includes continuing and discontinued operations for 1978 and 1977.

e) General corporate assets are principally cash, temporary cash investments and deferred unrealized foreign currency losses.

f) The point of origin of revenues and sales and the location of the assets determine the geographic areas.

21. Replacement cost data (unaudited)

The company has developed estimates of the replacement cost of the productive capacity represented by its plant investment. Inventories, depreciation expense and cost of sales (manufacturing operations) have also been estimated on the basis of replacement cost. These estimates have been prepared in compliance with rules and guidelines issued by the United States Securities and Exchange Commission.

The company recommends caution in interpreting the significance of the difference between replacement cost and historic cost for the following reasons:
i) The estimates are based on the assumed replacement of productive capacity at December 31, 1979 and December 31, 1978 respectively, using a mix of technology appropriate to business conditions existing at those dates.
Actual replacement will take place over many years, using a mix of technology appropriate to business conditions existing at those future dates.
ii) The establishment of the estimates involves numerous assumptions and therefore the result must be recognized as only an indication of the replacement cost of productive capacity.

Millions of dollars

	Dec. 31, 1979 Historic cost	Dec. 31, 1979 At estimated replacement cost	Dec. 31, 1978 Historic cost	Dec. 31, 1978 At estimated replacement cost
Telecommunications property				
Subject to replacement cost disclosure	$ 9,870	$15,087	$8,934	$13,609
Land, and plant under construction, included at historic cost	335	335	283	283
	10,205	15,422	9,217	13,892
Less: Accumulated depreciation	2,950	5,445	2,614	4,930
	7,255	9,977	6,603	8,962
Manufacturing property				
Subject to replacement cost disclosure	664	1,048	580	1,001
Land and other property, included at historic cost	30	30	23	23
	694	1,078	603	1,024
Less: Accumulated depreciation	275	529	235	502
	419	549	368	522
Net plant investment	$ 7,674	$10,526	$6,971	$ 9,484
Inventories	$ 493	$ 507	$ 361	$ 373

Replacement cost of productive capacity and inventories
The replacement cost data presented above is an estimate of the cost that would be incurred if the productive capacity and inventories were replaced at cost levels existing at December 31, 1979 and December 31, 1978 respectively. Land, and plant under construction are not revalued but are included at historic cost.

Depreciation expense and cost of sales (manufacturing operations)
The company has estimated the depreciation charge which would be required if the average depreciable plant for the year were valued at its replacement cost, and the cost of sales (manufacturing operations) on the basis of replacement cost. These estimates are presented below.

Bell Canada stresses that it would be misleading to conclude that net income as reported in the historic cost financial statements should be adjusted by the additional depreciation expense of $241 million ($221 – 1978) to produce a more meaningful measure of income. The major portion of the increase in cost of sales (manufacturing operations) is due to the increase in depreciation expense. In addition to these adjustments, the following factors would have to be considered:

21. Replacement cost data (unaudited) (continued)

i) The estimates do not cover all assets, liabilities, revenues and expenses and therefore the estimates are incomplete. The effects of these additional elements would have to be included in the measurement of income.

ii) The estimates of replacement cost assume a mix of plant and technology which is different from the plant in place. If the assumed plant and technology were in place, operating and maintenance cost savings would be realized and additional revenues would probably be generated since the newer plant has greater service capabilities. In the opinion of management, such cost savings and additional revenues would be significant in total. It is, however, not possible at this time to estimate them with reasonable accuracy.

These factors together with others such as the cost of additional financing, if necessary, and income tax considerations, make it misleading to recalculate net income.

Millions of dollars

	1979		1978	
	Historic cost	At estimated replacement cost	Historic cost	At estimated replacement cost
Depreciation expense				
Telecommunications property	$ 559	$ 783	$498	$ 706
Manufacturing property	88	105	52	65
	$ 647	$ 888	$550	$ 771
Cost of sales				
Manufacturing operations	$1,270	$1,303	$999	$1,009

Replacement cost estimation procedures
In the case of telecommunications property where there have been significant technological improvements, the company assumed that productive capacity would be replaced with the most modern technology that could be justified in terms of the foreseen demand for the services. For this reason, latest technology was not assumed to replace all existing capacity.

The specific method used to develop replacement cost data was tailored to the characteristics of the assets being evaluated, as follows:
Central office equipment—current acquisition cost of equipment used to meet currently foreseen demand. The equipment replacement pattern that was assumed provides for approximately half of Bell Canada's subscribers to be served by the most technically advanced electronic switching systems, as opposed to slightly more than 18% (16%—1978) that are currently served in this manner.
Outside plant—current construction cost per conductor kilometre.
Station equipment—current acquisition cost per unit.
Buildings—current construction cost per square metre of space.
Tools and vehicles—current acquisition cost per unit.
In the case of manufacturing property, replacement costs were estimated by using current acquisition costs or indices specifically developed for several major categories. Present business conditions, current technology and the company's normal approach to replacement of capacity were assumed.
Replacement cost of inventories was estimated to reflect current cost of material, labour and expense.
Both the historic and the replacement cost data include assets held under capital leases as defined in note 1 of Notes to Financial Statements.
Depreciation expense was estimated based on the average replacement cost for the year of the depreciable assets. The depreciation charge was calculated on a straight line basis, using the same useful lives for the assets as is used in the historic cost financial statements. Cost of sales (manufacturing operations) was estimated on the basis of replacement cost by adjusting historic cost for the increase in costs between the time of manufacture and the time of sale.

Summarized Income Statement Non-Consolidated (Note 1)

For the years ended December 31

		Thousands of dollars 1979	1978
Telecommunications operations	Operating revenues		
	Local service	$1,392,707	$1,263,096
	Long distance service	1,329,670	1,152,507
	Miscellaneous – net	94,731	81,827
	Total operating revenues	2,817,108	2,497,430
	Operating expenses	2,054,466	1,784,497
	Net revenues – telecommunications operations	762,642	712,933
	Other income		
	Dividends		
	subsidiary companies	24,232	21,357
	associated companies	8,485	7,559
	Allowance for funds used during construction	19,964	13,530
	Miscellaneous – net	28,159	14,342
	Total other income	80,840	56,788
	Income before underlisted items	843,482	769,721
	Interest charges	252,589	231,020
	Unrealized foreign currency losses	9,890	5,487
	Income before income taxes	581,003	533,214
	Income taxes	256,370	240,118
	Income – telecommunications operations	324,633	293,096
Contract operations	Revenues	319,795	185,653
	Operating expenses	252,141	165,843
	Net revenues – contract operations	67,654	19,810
	Miscellaneous – net	(7,199)	(2,761)
	Income before income taxes	60,455	17,049
	Income taxes	29,278	9,328
	Income – contract operations	31,177	7,721
	Income before extraordinary item	355,810	300,817
	Extraordinary itemφ	29,835	4,122
	Net income	**385,645**	**304,939**
	Dividends on preferred shares	30,521	38,702
	Net income applicable to common shares	**$ 355,124**	**$ 266,237**
	Earnings per common share*		
	before extraordinary item	$2.13	$1.96
	extraordinary item	$0.19	$0.03
	after extraordinary item	$2.32	$1.99
	Assuming full conversion of convertible preferred shares		
	before extraordinary item	$2.08	$1.91
	extraordinary item	$0.18	$0.02
	after extraordinary item	$2.26	$1.93
	Dividends declared per common share†	**$1.55**	**$1.43**
	*Based on weighted average common shares outstanding (thousands) †	152,810	133,396

φGain after deducting income taxes of $4,145,000 ($565,000 – 1978) arising from the sale, upon exercise of warrants which were exercisable prior to December 1, 1979, of common shares of Northern Telecom Limited.

†Reflects the three-for-one common share subdivision.

Summarized Balance Sheet
Non-Consolidated (Note 1)

As at December 31

		Thousands of dollars 1979	1978
Assets			
Telecommunications property – at cost	Buildings, plant and equipment	$9,275,667	$8,415,085
	Less: Accumulated depreciation	2,815,650	2,496,256
		6,460,017	5,918,829
	Land, and plant under construction	318,971	270,179
	Material and supplies	122,325	101,919
		6,901,313	6,290,927
Investments – at cost	Subsidiary companies	309,614	212,709
	Associated companies	107,971	107,971
		417,585	320,680
Current assets		749,502	693,769
Other assets	Cash and temporary cash investments held for contract operations – at cost (approximates market)	49,532	91,851
	Deferred charges		
	contract operations	90,583	112,912
	unrealized foreign currency losses, less amortization	130,567	160,648
	other	40,997	42,451
		311,679	407,862
	Total assets	**$8,380,079**	**$7,713,238**
Liabilities and Shareholders' Equity			
Common shareholders' equity	Common shares outstanding	$ 1,320,647	$ 1,176,622
	Premium on capital stock	807,778	607,388
	Retained earnings	861,322	751,554
		2,989,747	2,535,564
Convertible preferred shares (redeemable)		216,718	290,765
Non-convertible preferred shares (redeemable)		112,255	113,965
Long term debt	Includes unrealized foreign currency losses of $145,944 ($166,135 – 1978)	3,082,908	2,968,425
Current liabilities		707,756	686,903
Deferred credits	Income taxes	935,629	827,860
	Other	335,066	289,756
		1,270,695	1,117,616
	Total liabilities and shareholders' equity	**$8,380,079**	**$7,713,238**

Summarized Statement of Changes in Financial Position Non-Consolidated (Note 1)

For the years ended December 31

		Thousands of dollars 1979	1978
Source of funds	Operations		
	Income before extraordinary item	$ 355,810	$ 300,817
	Items not affecting current funds		
	Depreciation	531,032	473,993
	Deferred income taxes	107,769	68,891
	Allowance for funds used during construction	(19,964)	(13,530)
	Other – net	(18,344)	15,800
	Total from operations	956,303	845,971
	Net proceeds from the sale of common shares of a subsidiary	34,585	4,778
	Proceeds from long term debt	238,668	415,409
	Proceeds from issue of common shares		
	underwritten issue	194,109	—
	under the dividend reinvestment and stock purchase plan	64,125	30,134
	Proceeds from issue of preferred shares	—	170,903
	Issue of common shares upon conversion of convertible preferred shares	74,044	125,820
	Advance payment on contract operations	—	190,587
	Decrease in cash and temporary cash investments held for contract operations	42,319	—
	Miscellaneous	116,763	95,107
		$1,720,916	$1,878,709
Disposition of funds	Capital expenditures		
	Gross capital expenditures	$1,116,743	$1,003,672
	Deduct: charges not requiring funds	(11,749)	(22,709)
	Increase in material and supplies	20,406	4,729
	Net expenditures	1,125,400	985,692
	Dividends	271,092	231,815
	Reduction of long term debt	105,358	114,992
	Acquisition of investments	106,493	4,024
	Conversion of preferred shares	74,047	125,848
	Increase in cash and temporary cash investments held for contract operations	—	91,851
	Deferred charges – contract operations	—	112,912
	Miscellaneous	3,646	7,429
	Increase in working capital	34,880	204,146
		$1,720,916	$1,878,709

Consolidated Summary of Operations

Millions of dollars except per share amounts

	1979	1978	1977	1976	1975
Telecommunications operations					
Operating revenues	$2,961.6	$2,621.7	$2,241.7	$1,995.5	$1,741.0
Operating expenses	2,150.1	1,866.0	1,646.3	1,430.7	1,225.1
Net revenues – telecommunications operations	811.5	755.7	595.4	564.8	515.9
Manufacturing operations (a)					
Sales	1,864.1	1,470.0	1,194.7	1,073.4	999.2
Cost of sales	1,269.7	998.5	846.3	771.7	725.4
Selling, general, administrative and other expenses	412.6	326.8	227.4	184.1	151.1
Net revenues – manufacturing operations	181.8	144.7	121.0	117.6	122.7
Contract and directory operations					
Revenues	439.0	282.6	76.7	61.2	50.0
Operating expenses	339.0	237.2	62.2	48.7	39.4
Net revenues – contract and directory operations	100.0	45.4	14.5	12.5	10.6
Total net revenues	1,093.3	945.8	730.9	694.9	649.2
Other income	73.1	49.1	40.9	59.4	38.3
Interest charges	312.8	263.4	221.8	196.3	179.9
Income before underlisted items	853.6	731.5	550.0	558.0	507.6
Unrealized foreign currency losses (gains)	10.7	0.3	(6.0)	(1.8)	0.6
Income taxes	355.4	323.6	242.1	247.5	229.1
Minority interest	54.3	37.0	27.7	24.9	11.5
Income before extraordinary items	433.2	370.6	286.2	287.4	266.4
Extraordinary items	—	24.5(b)	2.3(c)	2.2(c)	50.6(d)
Net income	433.2	395.1	288.5	289.6	317.0
Dividends on preferred shares	30.5	38.7	31.5	28.9	24.8
Net income applicable to common shares	$ 402.7	$ 356.4	$ 257.0	$ 260.7	$ 292.2
Earnings per common share*					
before extraordinary items	$2.64	$2.49	$1.99	$2.15	$2.07
extraordinary items	—	$0.18	$0.02	$0.02	$0.43
after extraordinary items	$2.64	$2.67	$2.01	$2.17	$2.50
Assuming full conversion of convertible preferred shares and for 1976 and 1975 exercise of warrants					
before extraordinary items	$2.55	$2.36	$1.93	$1.99	$1.96
extraordinary items	—	$0.16	$0.02	$0.01	$0.37
after extraordinary items	$2.55	$2.52	$1.95	$2.00	$2.33
Dividends declared per common share†	$1.55	$1.43	$1.36	$1.19	$1.15
*Based on weighted average common shares outstanding (thousands) †	152,810	133,396	127,662	120,317	116,995

The effect on sales, consolidated net income and earnings per common share resulting from i) the discontinuation as of December 31, 1978 of the electrical and electronic products distribution business of Northern Telecom Limited and, ii) the discontinuation in 1975 of the semiconductor business of a subsidiary of Northern Telecom Limited, is as follows:

	1978	1977	1976	1975
Manufacturing sales				
Continuing operations	$1,331.4	$1,047.1	$ 915.5	$ 835.0
Discontinued operations	138.6	147.6	157.9	164.2
	$1,470.0	$1,194.7	$1,073.4	$ 999.2
Consolidated income				
Continuing operations	$ 369.8	$ 284.9	$ 284.9	$ 263.9
Discontinued operations	(1.1)	1.3	2.5	0.1
Extraordinary items	26.4	2.3	2.2	53.0
Net income	$ 395.1	$ 288.5	$ 289.6	$ 317.0
Earnings per common share (e) †				
Continuing operations	$ 2.36	$1.92	$1.97	$1.94
Discontinued operations	$(0.01)	$0.01	$0.02	—
Extraordinary items	$ 0.17	$0.02	$0.01	$0.39
	$ 2.52	$1.95	$2.00	$2.33

(a) Including operations of the distributing business to the end of 1978 when such business was discontinued.
(b) See note 5 of Notes to Financial Statements.
(c) Utilization of prior years' tax losses of subsidiaries.
(d) Consolidated gain of $53,007,000 from the sale by Bell Canada of common shares of Northern Telecom Limited less provision of $2,429,000 for the costs of terminating the semiconductor business of a subsidiary of Northern Telecom Limited.
(e) Assuming full conversion of convertible preferred shares and for 1976 and 1975 exercise of warrants.
†Reflects the three-for-one common share subdivision.

Management's Discussion and Analysis of Consolidated Summary of Operations

Telecommunications operations

Operating revenues
Operating revenues increased $339.9 million (13%) in 1979 over 1978 as compared to an increase of $380 million (17%) in 1978 over 1977. These increases reflect the impact of rate increases awarded to Bell Canada effective in June of 1977 and August of 1978. The contribution of the June 1977 rate award to the 1978 increase is estimated at $77 million while the contribution of the August 1978 rate award to the 1978 and 1979 increases is estimated at $89 million and $158 million, respectively.

The proportionately lower increase in operating revenues as well as the lower percentage increase in 1979 as compared to 1978 reflects the lower rate of growth for demand in telecommunications services as a result of the lower level of economic activity in the company's territory and to a lesser extent, the lower beneficial impact from rate increases in 1979 as compared to the impact in 1978. In 1979, there were 687.4 million long distance messages, 44.2 million (6.9%) more long distance messages than in 1978 as compared to an increase of 55.7 million (9.5%) in 1978 over 1977. At December 31, 1979, the number of telephones in service was 9.6 million, 3.4% more than at December 31, 1978, compared to an increase of 3.9% between December 31, 1978 and 1977. The strike of Bell's craft and service employees in 1979 had an impact on revenues in the latter half of the year. On February 19, 1980, Bell Canada applied to the Canadian Radio-television and Telecommunications Commission to revise its rates for service.

Operating expenses
Operating expenses increased $284.1 million (15.2%) in 1979 over 1978 and $219.7 million (13.3%) in 1978 over 1977. About half of these increases is attributable to higher employee-related expenses which have increased mostly as a result of higher wage rates and to a lesser extent, more employees. Depreciation increased $60.7 million in 1979 over 1978 and $48.4 million in 1978 over 1977. The 1979 increase in depreciation was largely due to increased depreciable plant in service and to a lesser extent, increased composite depreciation rates while the 1978 increase was essentially due to increased depreciable plant in service.

Other factors contributing to the increases in total operating expenses were increases in taxes other than income taxes of $34.5 million in 1979 over 1978 and $15.8 million in 1978 over 1977, together with higher rents and the effect of inflation and growth on other operating expenses.

Maintenance expense increased to $490.2 million in 1979 from $442.4 million in 1978 and $392.1 million in 1977. The 1979 increase primarily reflects higher wage rates while the 1978 increase was primarily due to wages and to a lesser extent, increased work volumes.

Manufacturing operations

Net revenues–manufacturing operations
Sales increased $394.1 million (26.8%) in 1979 and $275.3 million (23%) in 1978. Sycor, Data 100 and Spectron, all acquired in 1978, contributed $200.5 million to the 1979 increase and $185.2 million to the 1978 increase in sales, out of which $107 million in 1979 and $147.3 million in 1978 represent increased sales originating in the U.S. In addition to the contribution from these acquisitions, other U.S. sales increased $185.5 million in 1979 ($106.3 million in 1978 including $42.9 million from Danray acquired in January of 1978) reflecting the increased demand for Northern's digital communications systems. Increases in Canadian sales in 1979 (resulting from greater requirements for subscriber and cable products and to a lesser extent, the increased price of copper based wire) were all offset by the effect of the discontinuance as of December 31, 1978 of the electrical and electronic products distribution business representing sales of $162.8 million in 1978. In 1978, Canadian sales had been slightly lower than those of 1977, reflecting the slow growth of the Canadian economy. The remainder of the increases in sales for 1979 and 1978 was due to sales outside North America principally as a result of sales from 1978 acquisitions in the electronic office systems field.

Manufacturing operations (continued)

In 1979, cost of sales increased $271.2 million principally because of increased sales. Gross profit as a percentage of sales was favourably affected in 1979, as a result of the consolidation of Sycor and Data 100 for the full year and the discontinuance of the electrical and electronic products distribution business. However, this gain was fully offset by the higher operating expenses, which are expected to continue into 1980, in Canada and the U.S. due to costs related to substantially increased manufacturing capacity to meet the demand for new products, particularly the digital systems. In 1978, cost of sales had increased $152.2 million mainly as a result of higher sales and the inflationary pressures on material, labour and overhead somewhat offset by the higher gross profit margins of companies acquired in 1978 as compared to those of Northern's other operations in 1978.

Selling, general and administrative expenses (SG&A) were $280 million in 1979, up from $228.9 million in 1978 and $159.2 million in 1977. The 1979 increase was due almost entirely to the full year's integration of Sycor and Data 100 costs; these businesses require a relatively higher level of SG&A than the telecommunications manufacturing industry. Increases in SG&A for other operations were largely offset by the discontinuance of the distribution business. The 1978 increase of $69.7 million included $48.5 million from acquisitions. The balance was due to the continuing build-up of marketing and administrative forces to generate and support future sales growth in the U.S. and offshore.

Other expenses, mainly research and development expenses related to manufacturing operations, were $132.6 million in 1979 up from $97.8 million in 1978 and $68.2 million in 1977. These increases reflect the continuing research and development of the digital family of switching systems and subscriber apparatus and higher levels of research and development in the companies acquired in 1978.

Contract and directory operations

Net revenues – contract and directory operations

The increases in net revenues – contract and directory operations in 1979 over 1978 and in 1978 over 1977 result primarily from increased contract activities particularly those of the Saudi Arabian contract which commenced in early 1978, and to a lesser extent, increased directory operations.

Other income

Other income increased $24 million in 1979 over 1978, of which $6.6 million was due to allowance for funds used during construction and approximately $9 million to interest income. The balance results from a variety of miscellaneous items. About 60% of the increase in allowance for funds used during construction results from increased rates used for the purpose of calculating such allowance while the remaining 40% reflects the increased levels of plant under construction during 1979. The 1978 increase in other income of $8.2 million was the reflection of decreased miscellaneous income charges during that year and higher interest income resulting mainly from increased temporary cash investments.

Interest charges

Interest charges increased $49.4 million in 1979 over 1978. Approximately $20 million of this increase is primarily attributable to interest expense on additional debt issued by Bell to finance part of its capital expenditures and to a lesser extent, higher rates of exchange on interest payable in U.S. funds. Out of the balance of the increase in interest charges for 1979, approximately $21 million reflects Northern Telecom's higher borrowing levels to finance its acquisitions and working capital requirements, and to a lesser extent, higher levels of interest rates on Northern's debt. Approximately two thirds of the 1978 $41.6 million increase in interest charges was primarily due to interest expense on additional debt issued by Bell while the balance largely reflected the inclusion of interest charges of the then recently acquired subsidiaries of Northern Telecom and increased borrowings within the Northern Telecom group.

Unrealized foreign currency losses or gains

In 1979, a loss of $10.7 million was recorded as compared to a loss of $0.3 million in 1978. The 1979 loss reflects amortization of $11.3 million ($7.2 million in 1978) of unrealized foreign currency losses on long term debt less unrealized gains of $0.6 million ($6.9 million in 1978) on the translation of foreign currency financial statements and net assets denominated in foreign currencies. The 1977 gain of $6 million was also due to translation of foreign currency financial statements and net assets denominated in foreign currencies.

Income taxes

Income taxes increased $31.8 million in 1979 over 1978 and $81.5 million in 1978 over 1977. The 1979 increase reflects the increased taxes associated with increased earnings in 1979 partly offset by lower taxes of foreign subsidiaries resulting from their lower statutory tax rates as compared to the Canadian statutory tax rate. Also reducing the 1979 income tax provision but to a lesser extent, was the effect of increased research and development tax credits and increased tax deductible allowance on additional research and development. The 1978 tax increase was mainly attributable to increased earnings between 1978 and 1977.

Minority interest

The 1979 increase of $17.3 million and the 1978 increase of $9.3 million in minority interest are mainly attributable to increased earnings of Northern Telecom and to a lesser extent, the reduction in Bell's percentage ownership in that subsidiary in those years. The 1979 reduction in percentage ownership resulted principally from the exercise of warrants to purchase from Bell an equivalent number of Northern Telecom common shares. The 1978 reduction was principally due to the issuance of common shares by Northern Telecom upon the acquisition of Sycor, Inc.

Extraordinary items

Extraordinary items increased $22.2 million in 1978 mainly as a result of an increase of $17.5 million in book value of Bell Canada's investment in subsidiaries, resulting principally from the issuance by Northern Telecom of its common shares upon the acquisition of Sycor, Inc. (see note 5 of Notes to Financial Statements).

Earnings per share

Earnings per share before extraordinary items in 1979 of $2.64 are based on 152.8 million weighted average common shares outstanding as compared to $2.49 per share in 1978 based on 133.4 million weighted average common shares outstanding. Most of the increase in the weighted average common shares outstanding in 1979 was attributable about equally to conversions of preferred shares and the public issue of common shares in Canada in March of 1979.

Price Ranges and Dividends Paid
Common and Preferred Shares

Price Ranges (a)		1st quarter		2nd quarter		3rd quarter		4th quarter	
		High	Low	High	Low	High	Low	High	Low
1979	Common (b) †	$21.96	$20.83	$23⅛	$21⅜	$22¾	$20⅝	$21⅞	$18⅞
	$3.20 Preferred	$65¼	$62⅝	$68	$65¾	$65½	$62	$64½	$56¾
	$3.34 Preferred	$65¼	$63⅛	$67⅞	$65¾	$64½	$62¾	$64½	$60¾
	$4.23 Preferred	$65½	$62½	$68⅞	$64½	$65⅝	$62¼	$62⅝	$57¾
	$2.28 Preferred	$32⅞	$31½	$34½	$32½	$33	$31⅜	$32¼	$28¼
	$2.25 Preferred	$30¾	$30	$31½	$30½	$31	$29½	$29⅜	$26
	$1.80 Preferred	$23⅞	$23	$24¾	$23¼	$24	$22¼	$22½	$20¼
	$1.96 Preferred	$28	$26¼	$28⅜	$26½	$27⅛	$25⅝	$26¼	$22⅞
1978	Common †	$18.46	$17.33	$19.58	$17.83	$20.75	$18.71	$21.88	$19.63
	$3.20 Preferred	$54	$52⅜	$58⅜	$53¾	$60⅜	$56½	$64	$59
	$3.34 Preferred	$55¼	$53	$58½	$54½	$62¼	$56⅝	$65⅜	$60¼
	$4.23 Preferred	$55½	$53¼	$58¾	$54¼	$62	$56½	$64½	$59½
	$2.28 Preferred	$30	$28⅝	$31	$28¾	$32¼	$30⅛	$33	$30⅝
	$2.25 Preferred	$30⅛	$29	$30¾	$28½	$31½	$30½	$31	$30
	$1.80 Preferred	$23	$21⅞	$23⅞	$22	$24⅝	$23⅜	$24¼	$23
	$1.96 Preferred	—	—	$27	$25⅝	$27¾	$26	$28¼	$25¾

Dividends Paid		1st quarter	2nd quarter	3rd quarter	4th quarter
Common Shares†	1979	$0.38	$0.38	$0.38	$0.38
	1978	$0.34	$0.35	$0.35	$0.35
Preferred Shares	The indicated rates are annual rates and dividends have been paid quarterly since dates of issue.				

(a) The table shows market prices on the Toronto Stock Exchange. The common and preferred shares are also listed on the Montréal and Vancouver Stock Exchanges in Canada. The common shares are also listed on the Stock Exchanges of Amsterdam, Basle, Brussels, Dusseldorf, Frankfurt am Main, Geneva, London, New York, Paris and Zurich.

(b) Bell Canada common shares have been listed on the New York Stock Exchange since August 18, 1976. High and low prices (U.S. dollars) were $19⅞ and $15⅞ respectively, during the year ended December 31, 1979.

†Market quotations for 1978 and the first quarter of 1979 and dividends on common shares for 1978 and the first two quarters of 1979 have been adjusted to reflect the three-for-one subdivision of common shares.

Board of Directors

Marcel Bélanger, O.C., C.A.
Québec, Québec
President, Gagnon et Bélanger Inc.
Member since March 1969

G. Allan Burton, D.S.O., E.D.
Milton, Ontario
Company Director
Member since May 1974

A. Jean de Grandpré, Q.C.
Outremont, Québec
Chairman of the Board and
Chief Executive Officer, Bell Canada
Member since July 1972

J. Douglas Gibson, O.B.E.
Toronto, Ontario
Chairman of the Board,
The Consumers' Gas Company
Member since March 1970

H. Clifford Hatch
Windsor, Ontario
Chairman and Chief Executive Officer,
Hiram Walker-Gooderham
& Worts Limited
Member since April 1974

James W. Kerr
Toronto, Ontario
Consultant,
TransCanada PipeLines Limited
Member since August 1970

Paul H. Leman, O.C.
Outremont, Québec
Company Director
Member since April 1976

Walter F. Light
Town of Mount Royal, Québec
President and Chief Executive Officer,
Northern Telecom Limited
Appointment effective January 1, 1980

Helen L. Margison
Toronto, Ontario
President, Shed Investments Ltd.
Member since April 1978

E. Neil McKelvey, Q.C.
Saint John, New Brunswick
Partner, McKelvey, Macaulay, Machum
Member since April 1973

John H. Moore
Lambeth, Ontario
Chairman of the Board,
John Labatt Limited
Member since March 1966

J. Dean Muncaster
Toronto, Ontario
President and Chief Executive Officer,
Canadian Tire Corporation, Limited
Member since April 1977

Gérard Plourde, O.C.
Montréal, Québec
Chairman of the Board, U A P Inc.
Member since January 1973

Louis Rasminsky, C.C., C.B.E.
Ottawa, Ontario
Company Director
Member since September 1973

Robert J. Richardson, Sc.D.
Greenville, Delaware, U.S.A.
Senior Vice-President,
E. I. du Pont de Nemours and Company
Member since January 1978

John P. Robarts, P.C., C.C., Q.C.
Toronto, Ontario
Partner, Stikeman, Elliott,
Robarts & Bowman
Member since June 1971

H. Rocke Robertson, C.C., M.D.
Mountain, Ontario
Company Director
Member since July 1965

Lucien G. Rolland
Westmount, Québec
President and Chief Executive Officer,
Rolland inc.
Member since July 1965

Robert C. Scrivener
Toronto, Ontario
Chairman of the Board and
Chief Executive Officer,
Northern Telecom Limited
Member since November 1967
Resigned December 31, 1979

James C. Thackray
Westmount, Québec
President, Bell Canada
Member since April 1976

Louise B. Vaillancourt
Outremont, Québec
Company Director
Member since January 1975

Committees of the Board of Directors*

Executive Committee
A. J. de Grandpré–Chairman
P. H. Leman
J. H. Moore
G. Plourde
L. Rasminsky
H. R. Robertson
R. C. Scrivener
J. C. Thackray

Audit Committee
M. Bélanger–Chairman
P. H. Leman
E. N. McKelvey
J. H. Moore
L. G. Rolland
L. B. Vaillancourt

Management Resources and Compensation Committee
J. W. Kerr–Chairman
M. Bélanger
G. A. Burton
J. D. Gibson
H. C. Hatch

Pension Fund Policy Committee
J. D. Muncaster–Chairman
J. D. Gibson
E. N. McKelvey
L. Rasminsky
R. J. Richardson
J. P. Robarts

Social and Environmental Affairs Committee
L. B. Vaillancourt–Chairman
A. J. de Grandpré
H. L. Margison
J. P. Robarts
H. R. Robertson
J. C. Thackray

*as at December 31, 1979

Director, Officer Changes
At the end of the year Robert C. Scrivener retired as Chairman of the Board of Northern Telecom Limited. His place has been taken by A. Jean de Grandpré, who remains Chairman and Chief Executive Officer of Bell Canada as well. Coincident with his retirement, Mr. Scrivener resigned from Bell's Board of Directors and was succeeded as a Director by Northern Telecom's President and Chief Executive Officer, Walter F. Light.

A major realignment of Bell Canada executive officers took place in April. Orland Tropea was appointed Executive Vice-President (Corporate), J. V. R. Cyr became Executive Vice-President (Administration) and Léonce Montambault was named Executive Vice-President (Québec Region). All Executive Vice-Presidents report to the President.

During the year, P. André Aubin and Douglas W. Delaney were appointed Vice-Presidents. Harry Bowler, Vice-President (Finance), retired in March and was replaced by J. Stuart Spalding as Vice-President & Treasurer. On January 31, 1980 Guy Houle was appointed Corporate Secretary succeeding James T. Moore, who has retired after serving the Company for 33 years.

Officers*

Chairman

A. Jean de Grandpré, Q.C.
Chairman of the Board and
Chief Executive Officer

President

James C. Thackray
President

Executive Vice-Presidents

J. V. Raymond Cyr
Executive
Vice-President
Administration

Frederick E. Ibey
Executive
Vice-President
Operations

Gordon E. Inns
Executive
Vice-President
Ontario Region

Léonce Montambault
Executive
Vice-President
Québec Region

Orland Tropea
Executive
Vice-President
Corporate

Vice-Presidents

Wilfred D. E. Anderson
Vice-President
Engineering

P. André Aubin
Vice-President
Customer Services,
Québec Region

J. Robert Brûlé
Vice-President
Operations Development,
Québec Region

Robert W. Crowley
Vice-President
Customer Services,
Ontario Region

Douglas W. Delaney
Vice-President
International

Claude Duhamel
Vice-President
Administration,
Québec Region

John H. Farrell
Vice-President
Regulatory Matters

Charles A. Harris
Vice-President
Public and
Environmental Affairs

George L. Henthorn
Vice-President &
Comptroller

W. Brian Hewat
Vice-President
Operations Performance

John A. McCutcheon
Vice-President
Marketing and
Development

Andrew M. McMahon
Vice-President
Computer
Communications

Harry Pilkington
Vice-President
Personnel

Hubert A. Roth
Vice-President
Network Services,
Ontario Region

Claude St-Onge
Vice-President
Network Services,
Québec Region

Ernest E. Saunders, Q.C.
Vice-President
Law and Corporate
Affairs

John E. Sinclair
Vice-President
Systems

John E. Skinner
Vice-President
Administration,
Ontario Region

R. Douglas Sloane
Vice-President
Marketing,
Ontario Region

J. Stuart Spalding
Vice-President &
Treasurer

John F. Stinson
Vice-President
Operations
Development,
Ontario Region

Robert N. Washburn
Vice-President
South/West Area,
Ontario Region

Guy Houle
General Counsel

James T. Moore
Corporate Secretary

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*as at December 31, 1979

Statistical Summary

Consolidated		1979	1978	1977	1976	1975
Balance Sheet items (millions of dollars)	Total property – net*	$7,673.7	$6,971.0	$6,248.4	$5,688.0	$5,116.7
	Common equity*	3,342.1	2,840.4	2,519.0	2,296.4	2,141.3
	Preferred shares*	329.0	404.7	356.5	377.0	343.2
	Minority interest*	467.7	296.7	184.8	154.1	123.7
	Long term debt* (including current portion)	3,816.3	3,536.3	2,821.3	2,567.3	2,371.6
	Capital expenditures	1,351.0	1,184.0	1,045.7	992.7	901.1
Common share data	Equity per common share*†	$ 21.09	$ 20.12	$ 19.19	$ 18.84	$ 17.95
	Percent of common shares held in Canada*	95.6	94.3	93.9	96.7	97.9
	Number of shareholders* (including preferred)	250,172	228,285	221,224	225,457	231,689
Non-Consolidated						
Income Statement items (millions of dollars)						
Telecommunications operations	Operating revenues	$2,817.1	$2,497.4	$2,133.4	$1,903.9	$1,665.8
	Operating expenses	2,054.4	1,784.5	1,572.5	1,367.6	1,171.6
	Other income	80.8	56.8	53.0	65.2	53.3
	Interest charges	252.6	231.0	202.4	177.3	160.9
	Unrealized foreign currency losses	9.9	5.5	—	—	—
	Income taxes	256.4	240.1	178.6	185.7	173.9
	Income – telecommunications operations	324.6	293.1	232.9	238.5	212.7
Contract operations	Revenues	319.8	185.6	—	—	—
	Operating expenses	252.1	165.8	—	—	—
	Miscellaneous – net	(7.2)	(2.8)	—	—	—
	Income taxes	29.3	9.3	—	—	—
	Income – contract operations	31.2	7.7	—	—	—
	Income before extraordinary items	355.8	300.8	232.9	238.5	212.7
	Extraordinary items	29.8	4.1	—	—	92.6
	Net income	385.6	304.9	232.9	238.5	305.3
Financial ratios	Percent return on total capital	9.7	9.3	8.4	8.7	8.5
	Percent return on common equity	11.5	11.1	9.0	10.1	10.0
	Interest as a percent of total average debt	8.1	7.9	7.8	7.5	7.3
	Times interest charges earned	3.5	3.4	3.0	3.4	3.4
Balance Sheet items (millions of dollars except per common share amounts)	Telecommunications property – net*	$6,901.3	$6,291.0	$5,777.5	$5,258.1	$4,732.2
	Investments*	417.6	320.7	320.4	323.5	323.0
	Common equity*	2,989.7	2,535.6	2,303.9	2,134.6	2,029.4
	Preferred shares*	329.0	404.7	356.5	377.0	343.2
	Long term debt* (including current portion)	3,187.5	3,080.7	2,632.6	2,407.1	2,215.1
	Equity per common share*†	18.87	17.96	17.55	17.52	17.01
	Capital expenditures	1,116.7	1,003.7	951.1	901.3	815.7
Other statistics	Telephones in service* (thousands)	9,221.8	8,945.4	8,620.2	8,301.4	7,888.6
	Local conversations (millions)	11,974.2	11,717.1	11,522.4	11,064.3	10,560.1
	Long distance messages (millions)	649.9	610.5	557.2	527.9	490.6
	Number of employees*	56,128	53,328	50,350	48,133	44,904
	Salary and wage payments (millions of dollars)	$1,014.4	$ 868.1	$ 756.3	$ 646.4	$ 561.2

*At December 31.
†Reflects the three-for-one common share subdivision.

Corporate Information

Trustee for Bonds

Canada Permanent Trust Company

Trustees for Debentures

The Royal Trust Company

Morgan Guaranty Trust
Company of New York

Transfer Offices for Bonds and Debentures

The Royal Trust Company
Montréal; Toronto;
St. John's, Nfld.; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver
(For bonds and debentures issued in Canada only)

The Royal Trust Company
Montréal
(For bonds issued in the United States only)

The Royal Trust Company
Montréal
Morgan Guaranty Trust
Company of New York,
New York, N.Y.
(For debentures issued in the United States only)

Listing of Stock

Common Shares and
Preferred Shares:

Canada
Montréal, Toronto, Vancouver
Stock Exchanges

Common Shares:

Belgium
Brussels Stock Exchange

England
London Stock Exchange

France
Paris Stock Exchange

Germany
Frankfurt am Main, Dusseldorf
Stock Exchanges

Switzerland
Zurich, Basle, Geneva
Stock Exchanges

The Netherlands
Amsterdam Stock Exchange

United States
New York Stock Exchange

Transfer Offices for Stock

Company Offices—
1050 Beaver Hall Hill
Montréal
393 University Ave.
Toronto

The Royal Trust Company
St. John's, Nfld.; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver

Morgan Guaranty Trust
Company of New York,
New York, N.Y.
The Royal Trust Company
London, England
(For common shares only)

Registrar for Stock

Montreal Trust Company
Montréal; Toronto;
St. John's, Nfld.; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver

Morgan Guaranty Trust
Company of New York,
New York, N.Y.
Williams & Glyn's Registrars Limited
London, England
(For common shares only)

Printed in Canada