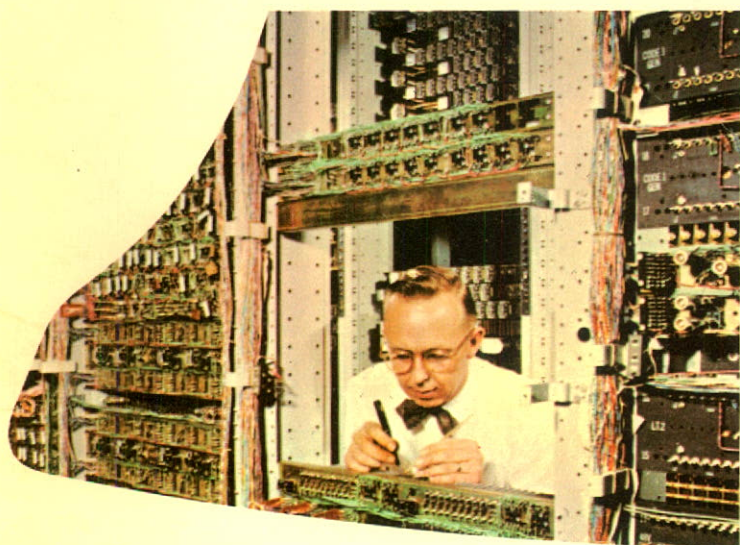


THE BELL TELEPHONE COMPANY OF CANADA ANNUAL REPORT 1963

*latest in
file*





1000th Regular Monthly Meeting of the Board of Directors, The Bell Telephone Company of Canada, December 18, 1963. Seated from left: Richard R. Hough, Thomas W. Eadie, Chairman of the Board, Marcel Vincent, President, Ray E. Powell, Frederick Johnson, Edward A. Rolph, Marcel Faribault, John A. Fuller, Herbert H. Lank, Robert A. Laidlaw and Henry Borden. Standing: Simcoe C. Scadding, Secretary. Directors absent: L.-J.-Adjutor Amyot, C. Gordon Cockshutt, R. Holley Keebler and Graham F. Towers.

DIRECTORS

L.-J.-ADJUTOR AMYOT *Quebec*

HENRY BORDEN, C.M.G., Q.C. *Toronto*

C. GORDON COCKSHUTT, M.C. *Brantford*

JAMES E. DINGMAN *New York*
resigned July 31, 1963

THOMAS W. EADIE* *Montreal*

MARCEL FARIBAULT* *Montreal*

JOHN A. FULLER* *Montreal*

R. DICKSON HARKNESS, D.S.O., M.C.* *Montreal*
resigned August 28, 1963

JAMES A. HOBBS* *Montreal*
resigned June 26, 1963

RICHARD R. HOUGH *New York*
appointed August 1, 1963

FREDERICK JOHNSON* *Montreal*

R. HOLLEY KEEFLER, C.B.E., D.S.O.* *Montreal*
appointed August 28, 1963

ROBERT A. LAIDLAW *Toronto*

HERBERT H. LANK* *Montreal*

RAY E. POWELL* *Montreal*

EDWARD A. ROLPH* *Montreal*

GRAHAM F. TOWERS, C.M.G. *Ottawa*

MARCEL VINCENT* *Montreal*
appointed June 26, 1963

*Member of the Executive Committee

EIGHTY-FOURTH
ANNUAL REPORT

THE BELL TELEPHONE COMPANY OF CANADA
1050 BEAVER HALL HILL, MONTREAL

A Canadian company owned in Canada. Of the 195,037 shareholders 97 per cent reside in Canada, and they own 93 per cent of the total stock.

YEAR ENDED DECEMBER 31, 1963

OFFICERS

THOMAS W. EADIE
Chairman of the Board

MARCEL VINCENT
President

EDWARD A. ROLPH
Executive Vice-President

W. HARVEY CRUICKSHANK
Vice-President

ARNOLD J. GROLEAU
Vice-President

JAMES A. HOBBS
Vice-President

ALEXANDER G. LESTER
Vice-President

WALLACE C. MACPHERSON
Vice-President

ROBERT C. SCRIVENER
Vice-President

P. CHARLEMAGNE VENNE, Q.C.
Vice-President & General Counsel

WILLIAM C. CORBETT
Treasurer

SIMCOE C. SCADDING
Secretary

WILLIAM McNEILL, O.B.E.
Comptroller

JOHN A. DOCHSTADER
Assistant to the President

VICE-PRESIDENTS & GENERAL MANAGERS

DAVID M. CAMP *Montreal Area*

WALLACE M. RANKIN *Western Area*

OREN A. ROBERTSON *Toronto Area*

JOHN R. TRAVES *Eastern Area*

GENERAL MANAGER — Toll Area

J. VERNON LEWORTHY



FROM THE PRESIDENT

During 1963 our Company grew steadily. Our construction expenditures of more than \$234 million set a new Company record. We added many new exchanges, converted others from manual to dial operation, enlarged local calling areas, increased our capacity to provide local, long distance and special communication services, and continued to extend service into Northern Canada.

Totalling more than one billion dollars during the past five years, our construction expenditures have done much to sustain a prosperous economy. Over 95 per cent of the materials we used were produced in Canada and many thousands of jobs were supported among the thousands of Canadian firms who are our suppliers.

Modern communications are essential to improving national productive efficiency, and we intend to keep pace with the needs of our customers and with Canada's development. To meet the demand for our increasingly diversified services, construction budgets for the next few years are expected to be of the same magnitude as that of 1963.

In a climate of social and technological change we dealt with problems arising from the very growth and complexity of the business. The more complex the business becomes, the more skill and effort are required to provide the kind of service our customers have come to expect from us. We recognize this, and are taking positive steps to make our service ever more sat-

isfactory from the customer's point of view. We must do this to fulfil our responsibilities and to protect the financial health of the enterprise.

It has long been recognized that reliable communications are an essential element of national security. The Company has made important contributions in this area. During the 12 months under review we took further steps to safeguard service in our portion of the vital communications network serving Canada.

The collaboration of our marketing and engineering specialists with the enlarged Research and Development Laboratories of the Northern Electric Company Limited was intensified in 1963. Our relationship with this Company is valuable to both telephone users and shareholders. Not only does Northern Electric provide research and development services but, under contract, it acts as a supplier of telephone equipment and as purchasing, warehousing and inspection agent. The continuing search for more efficient methods of manufacturing, and the longer production runs made possible by Northern Electric's sales to other customers have brought about important savings.

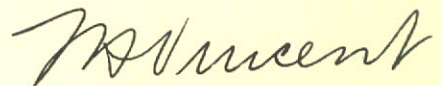
The Company continues to receive the benefits of developments at the Bell Telephone Laboratories, from which have sprung many fundamental discoveries as well as innovations in the science and technology of communications.

Automated procedures have played an increasing part in our operations in the past few years, and this trend became more evident in 1963. The potential benefits of this trend are great for all concerned. The fact that demand for telephone service has far outstripped population growth is surely a result of the improved quality, better value and greater variety of service which successive applications of mechanization and automation have made possible.

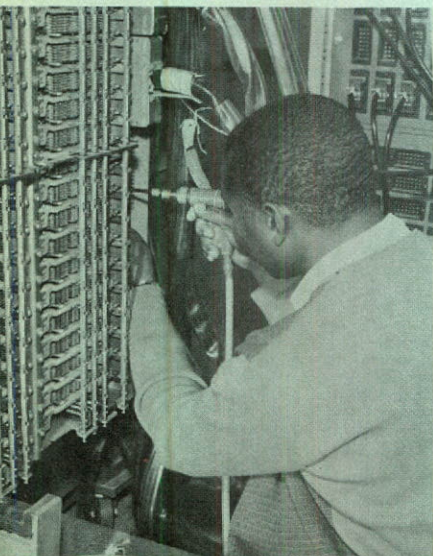
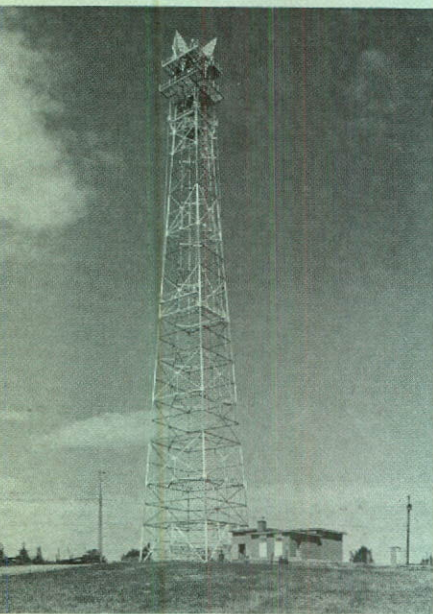
We are acutely aware that in our modern industrial society the intelligent co-operation and goodwill of industry, labour, education, government and individuals are essential to ensure a smooth transition into this new era of automation. The successful adjustments that we constantly see individuals make to changing conditions are the surest indication that we can indeed surmount the human problems of future technological progress.

With swift scientific and technological developments changing our business, we need, more than ever, highly skilled employees, including managers, professional people and specialists of many types. Preparation for tomorrow must begin today. With this in mind, as in past years, we carried out in 1963 an extensive educational and development program. This included the inauguration at Queen's University of the first post-graduate university course designed for a Canadian industry.

Together with preparation, the future calls for dedication to the task and the spirit of service that have long been traditional in our Company. I believe that the men and women who make up this Company will respond eagerly and effectively to the stimuli of the great changes that the years ahead are bound to bring. The future in our industry promises to be eventful, challenging and rewarding.



Montreal, February 3, 1964.



REPORT IN BRIEF

THE YEAR'S RESULTS

Return on total capital was 6.1 per cent
 Earnings per share were \$2.58
 Dividends of \$2.20 per share were paid
 Revenue rose by 6.8 per cent; expenses by 7.9 per cent

SERVICE EXTENDED AND IMPROVED

Nearly 200,000 telephones added, bringing the total to 4,090,102
 Dial service introduced in another 53 communities
 34 exchanges added, including several in northern Canada
 Interconnection made possible between subscribers
 to Teletypewriter Exchange Service
 in Canada and the United States
 Business Interphone introduced

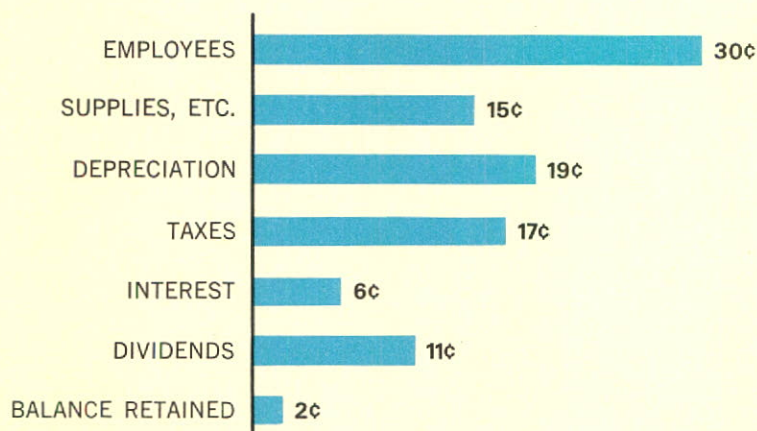
CONSTRUCTION EXPENDITURES SET RECORD

More than \$234 million spent for replacement,
 expansion and modernization
 117 new buildings completed and 22 extended
 Additional microwave facilities, for telephone and television,
 installed in Ontario and Quebec
 Local calling areas of many communities extended

FINANCING

Two bond issues provided \$80 million of capital
 The Employees' Stock Plan provided \$14.9 million

DISPOSITION OF INCOME DOLLAR



FINANCIAL HIGHLIGHTS

EARNINGS SUMMARY

in thousands of dollars

	1963	1962
Operating Revenues	\$502,977	\$470,995
Other Income	8,412	7,433
	<u>\$511,389</u>	<u>\$478,428</u>
Operating Expenses	\$325,795	\$301,857
Taxes	84,833	81,601
Interest	32,467	29,685
	<u>\$443,095</u>	<u>\$413,143</u>
EARNINGS AVAILABLE FOR DIVIDENDS	\$ 68,294	\$ 65,285
Dividends to shareholders	58,189	53,968
Retained in the business	10,105	11,317

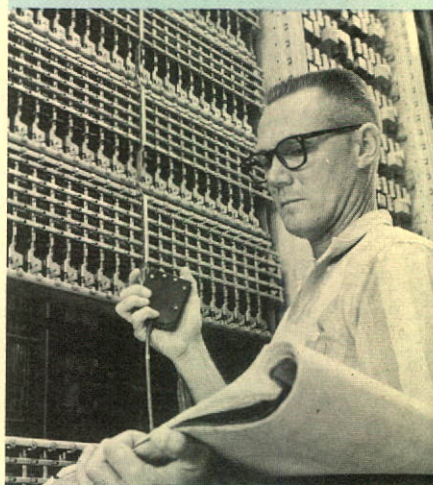
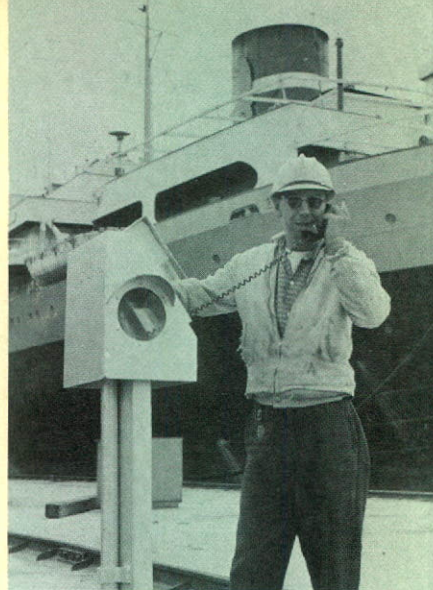
SOURCE AND DISPOSITION OF FUNDS

in thousands of dollars

Source of Funds	1963	1962
Derived from Operations	\$166,886	\$153,067
Sale of Stock and Bonds	98,095	160,234
Decrease in Working Capital	27,180	—
Stock Issued to Acquire Shares of The Avalon Telephone Company, Limited	—	8,276
	<u>\$292,161</u>	<u>\$321,577</u>

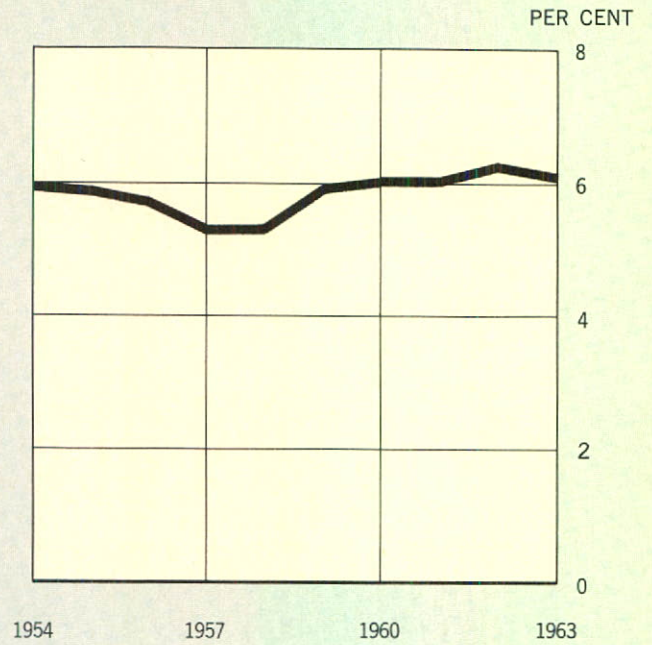
Disposition of Funds

Construction Expenditures (net)	\$226,180	\$211,900
Dividends	58,189	53,968
Increase in Working Capital	—	28,500
Redemption of Debentures	—	10,000
Acquisition of Investments	6,684	17,098
Miscellaneous Items (net)	1,108	111
	<u>\$292,161</u>	<u>\$321,577</u>



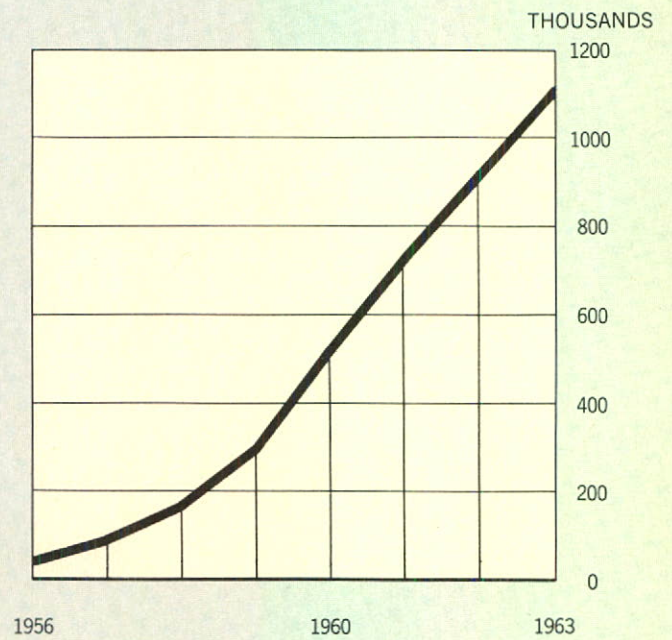
RETURN ON TOTAL CAPITAL

6.1 per cent



COLOURED TELEPHONES

exceed 1 million



REPORT OF THE DIRECTORS

Your Company in 1963 earned a return of 6.1 per cent on the total capital invested in the enterprise. Earnings at \$2.58 per share were eight cents less than those of 1962. After payment of \$2.20 per share in dividends, the balance of 38 cents per share was added to earnings reinvested in the business.

Revenues were 6.8 per cent higher than in 1962. Those derived from local services increased by 6.7 per cent; long distance revenues were up 7.3 per cent, reflecting a rise of 8.0 per cent in long distance calling; and other revenues, chiefly from directory advertising, rose by 5.8 per cent. Gains were proportionately greatest in revenues from special services for business customers which increased at a rate more than double that for basic business services.

Expenses increased by 7.9 per cent. Major factors in the increase in expenses were higher maintenance and depreciation charges resulting from large plant additions for the growth and modernization of communication services. Contracts, negotiated late in 1962 after collective bargaining with two unions representing 28,000 employees, increased annual payroll expense by about three per cent. New collective agreements became effective in November, 1963.

Total income before interest charges and dividends rose in 1963 by 6.1 per cent to \$101 million. As a result of additional debt financing, interest charges increased by 9.4 per cent, leaving net income of \$68.3 million, an increase of 4.6 per cent over the 1962 level. The large amount of new stock issued late in 1962 and shares issued under the Employees' Stock Plan in 1963 increased the average number of shares outstanding during the year by 7.8 per cent.

Healthy Growth

The Company gained nearly 200,000 telephones in 1963, meeting the needs of the communities we serve, and extending into some areas previously without telephone service.

In August we added our 4,000,000th telephone. During the past 10 years the number of Company telephones in service has doubled.

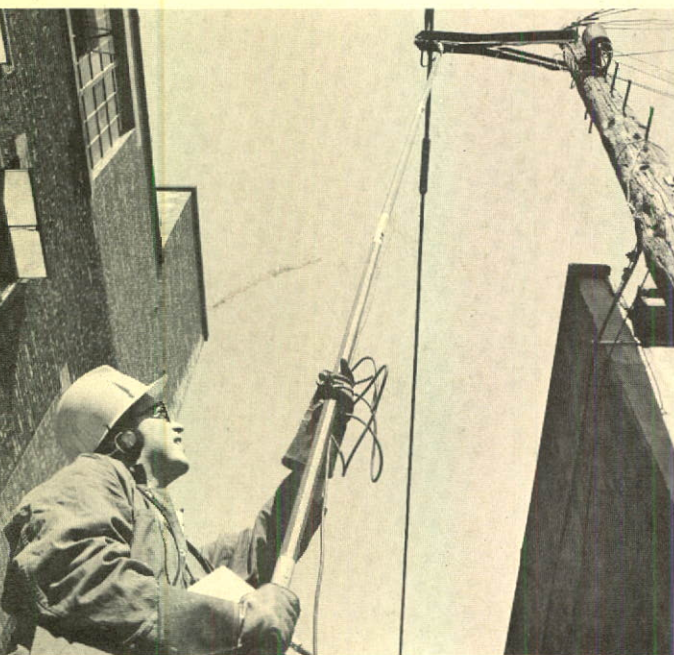
Demand for high-quality, convenient telephone service in the home continued strong through the year, and a sustained effort was made to stimulate it. There are now 19 extension telephones for every 100 main telephones in our customers' homes; a year earlier the number was 18. About 27 per cent of telephones are in colour, including more than 121,000 Princess telephones, compared with 24 per cent in colour in 1962. In urban exchanges, 71 per cent of customers have individual-line service, compared with 67 at the end of 1962. In rural areas, service improved to the point where only 23 per cent of customers served by multi-party lines shared their lines with six or more other parties, while a year earlier the percentage was 30.

Building for the Future

In 1963 we carried out the largest construction program in our history. We spent \$234 million to ensure that our services meet customers' requirements, providing for growth, modernization and the associated rearrangement of facilities. We enlarged the scope and increased the convenience and usefulness of our services, and created the capacity for more of the new services that are in growing demand, particularly in the business community.



Construction crews place another large cable on the St. Lawrence River bottom between Quebec City and Levis. Press, radio and television representatives are on hand to report the event.



An ultrasonic detector is now used to find minute leaks in pressurized cables. The device held by the lineman, when passed along the cable, "hears" the high-pitched sound of escaping air inaudible to the human ear. This helps to prevent disruptions in service.



This heavy equipment buries cable near Tillsonburg in preparation for extension of the Tillsonburg-Otterville calling area.

Among the larger undertakings of 1963 were the completion of our second Montreal-Quebec microwave system and one in Ontario between Fort Frances and Vermilion Bay, an additional submarine cable between Quebec City and Levis, and completion of microwave facilities in our territory required for the CTV Television Network between Montreal and Halifax. In Toronto, work continued on the Company's 15-storey building for switching equipment and a new accounting centre. New long distance switching systems were installed to provide Direct Distance Dialing for subscribers in Quebec City and Ottawa, and DDD service was introduced in several other communities. Among new Centrex installations was one for the Government of Quebec which went into service in December in Quebec City. One of the features of Centrex service is that it permits callers to reach an individual office extension telephone by dialing directly, without the aid of a local switchboard operator.

Fifty-three exchanges were converted from manual to dial operation during the year. Many of the new systems installed are package units developed by the Northern Electric Company to suit the particular requirements of Canadian communities.

Local calling areas of scores of exchanges were enlarged, and a comprehensive Extended Area Service plan was introduced in the Windsor area. We were busy with planning and engineering in preparation for major extensions to the local calling areas of Toronto and Montreal.

A great number of smaller, but important, projects were included in the construction program. One hundred and seventeen buildings were completed during the year, and extensions built on 22 others. More than 3,200 miles of cable were buried or placed in underground ducts. The wire placed under the ground in 1963 if strung out in a single strand around the Equator would girdle the earth 52 times. The Company purchased more than 1,200 new vehicles, most of them to replace worn-out units. Included was some of the most modern automotive equipment obtainable for telephone construction work. At the year-end our fleet consisted of nearly 6,000 cars and trucks.

Additional Capital Provided

In addition to the capital remaining from the stock issue made late in 1962, and that available from internal sources, it was necessary to obtain \$80 million of new debt capital in 1963 to provide for replacement, extension and modernization of plant. A \$50 million issue of 4 $\frac{7}{8}$ per cent bonds payable in U.S. funds was made in May, and in October an issue of \$30 million of 5 $\frac{3}{4}$ per cent bonds payable in Canadian funds was successful.

Employees participating in the Employees' Stock Plan numbered 23,085, or seven of every 10. They added \$14.9 million of new capital during 1963. Employees now hold about 6.2 per cent of the Company's stock. Of total shareholders, the proportion resident in Canada is 97 per cent, and they own 93 per cent of the stock.

Over the long term, the ability of any enterprise to obtain large amounts of new capital depends on adequate earnings. Capital markets are highly competitive, and our good credit rating, which has attracted capital on favourable terms in the past, can be maintained only if our earnings are sufficient and in a reasonable relationship with those of other growing and successful Canadian companies.

Service in New Territories

During 1963 the Company established 34 new exchanges, many of them in areas which had been without local telephone service. We also added to our radiotelephone facilities which enable isolated outposts in the far north to communicate with the outside world. Communications in these remote areas are proving a boon to residents as well as to mining companies, government agencies, missionaries and operators of aircraft.

Besides adding several outlying stations to the radiotelephone network serving the north-land, we established a temporary base station at Frobisher Bay to supplement the base at Alma, Quebec. This second base station will be made permanent this year to broaden the coverage area of the radiotelephone system in the eastern Arctic and sub-Arctic. New local ex-



Construction of the Company's 15-storey equipment building and accounting centre in Toronto progressed last year.

Extensions to existing buildings were a substantial part of the Company's construction program in 1963. Here, the enlargement of the central office building at Ste. Foy, Quebec, now completed, is seen during construction (lower left).

Typical of the dial equipment buildings erected in 1963 in small communities, is this neat brick structure in Chelsea, Quebec.



changes established in communities served by the high-frequency radiotelephone system are at Nain, Mary's Harbor, Mistassini and Rupert House.

Seven of the new local exchanges established in 1963 were along Hudson and James bays and in the forest heartland of northwestern Ontario. They are at Attawapiskat, Big Trout Lake, Fort Albany, Fort Severn, Lansdowne House, Weagamow and Winisk. All are linked to the outside world through the Ontario Northland Communications radio base station at Moosonee and through our bases at Alma and Frobisher.

In northern and northwestern Ontario we installed 21 base stations to add about 40,000 square miles to the areas covered by fringe radiotelephone service. Each station serves a number of users, linking resort operators, commercial fishermen, lumbermen and others with the main telephone network.

Communications and National Security

Besides participating directly in specific defence projects, such as the SAGE air defence network, and providing communication facilities for the armed services and for the federal Emergency Measures Organization, the Company in 1963 took further steps to safeguard communication channels essential to national security. Part of this program involves the diversification of long distance communication systems — microwave, cable, carrier and wire — and providing alternate routes around likely target areas. This built-in flexibility is designed to provide continuity of essential communications in the event of national emergency. During the past year, the Company built alternate microwave routes, by-passing Montreal and Quebec. During the next 12 months, we plan to construct additional by-pass facilities around four other strategic locations. Last year a long distance traffic administration centre was established in Montreal, a major crossroads of communications in the international telephone network. This centre is equipped to observe the flow of long distance telephone traffic, and during peaks or emergencies, to control the routing of calls, so as to

make the most effective use of circuits and minimize delays.

International Activities

Along with the members of the Telephone Association of Canada and in co-operation with the federal Department of Transport, the Company is participating in studies aimed at bringing about better world-wide telephone service. In February, our representatives attended the plenary assembly of the International Radio Consultative Committee in Geneva. Representatives will also attend the triennial plenary assembly of the International Telegraph and Telephone Consultative Committee, scheduled to be held at Moscow this May. These committees of the International Telecommunication Union operate under the United Nations. In addition, delegates were sent to other meetings of technical consultative committees in various parts of the world during the past year. These committees are concerned with such problems as world-wide customer dialing, satellite communications and overall quality of service.

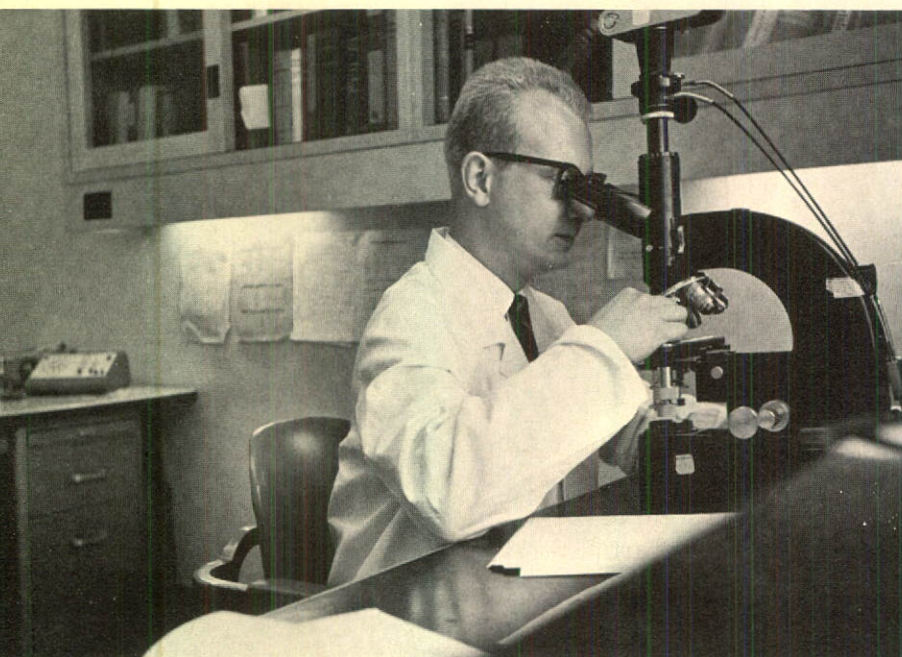
Communications for Business

The tendency of our business to become more competitive continued in 1963. The increasing diversity of our services made marketing a more demanding task.

The year saw many refinements to service and equipment previously introduced to the business community, as well as some new offerings to meet particular needs. In April, the Business Interphone, a high-quality, rapid intercommunication system, was introduced. Business Interphone systems can be used for hands-free, push-button intercommunication. They are adaptable to many different business situations. Entirely a Canadian product, Business Interphone was developed by the Research and Development Laboratories of the Northern Electric Company in collaboration with telephone company people.

In the latter half of 1963, the scope and value of our Teletypewriter Exchange Service (TWX)

Thomas W. Eadie, Chairman of the Board, (right) presents a copy of the 1963 Montreal telephone directory to Louis Lapointe, president of Sir Georges Étienne Cartier Corporation, governing body of Place des Arts. The directory, Canada's largest, features a sketch of Place des Arts on the front cover.



Serving medical science, as well as commerce and industry, Business Interphone is used in this pathology laboratory in Montreal to provide fast, hands-free intercommunication among medical colleagues.



Apartment Interphone, combining intercommunication between lobby and apartment, a lobby door release and a chime signal in the apartment, adds to the convenience of telephone service in the home.



were enhanced when arrangements were made to interconnect TWX subscribers in Canada with TWX customers in the United States. This makes it possible for 60,000 TWX users in North America to exchange written communication. The entire telephone network is at their disposal.

Mobile telephone facilities were improved by the introduction of transistorized equipment, and a new flat-rate charge for this service proved attractive to customers. The revision of rates for Wide Area Telephone Service resulted in a marked increase in use of this flat-rate, long distance service for voice or data transmission. A new private dial system was introduced in August to add to our ability to meet the special needs of small and medium-sized businesses.

Among major installations for business communications in 1963 was a private network for airlines, linking Montreal, Dorval, Ottawa, Toronto, Malton, Hamilton, Peace Bridge, Niagara, and Moer's Forks. This sophisticated network comprises 150 circuits, and associated with it are facilities for teletypewriter, Phone-Fax, Telescript and various other services. Arrangements were made with a large oil company to establish a similar custom-designed control network.

Several new services are under study. Among them is a new type of Bellboy radio pocket-pager service of greater scope and flexibility. This will make it possible to signal a Bellboy wearer anywhere in an area of several square miles by dialing a telephone number reserved for that Bellboy unit.

Co-operating closely with business machine suppliers, we made improvements in some types of Data-Phone data sets, and placed on the market a new set, capable of operating at 2,400 bits per second — equivalent to more than 2,000 words per minute. In November, the Company demonstrated for the Société Médicale de Montréal a type of Data-Phone service which will be given further trials this year. An electrocardiogram was successfully transmitted "live" over telephone facilities from a hospital to the Company's headquarters building in Montreal. This and similar communication services promise to speed diagnoses and to make the services of

medical specialists more generally available than would otherwise be possible.

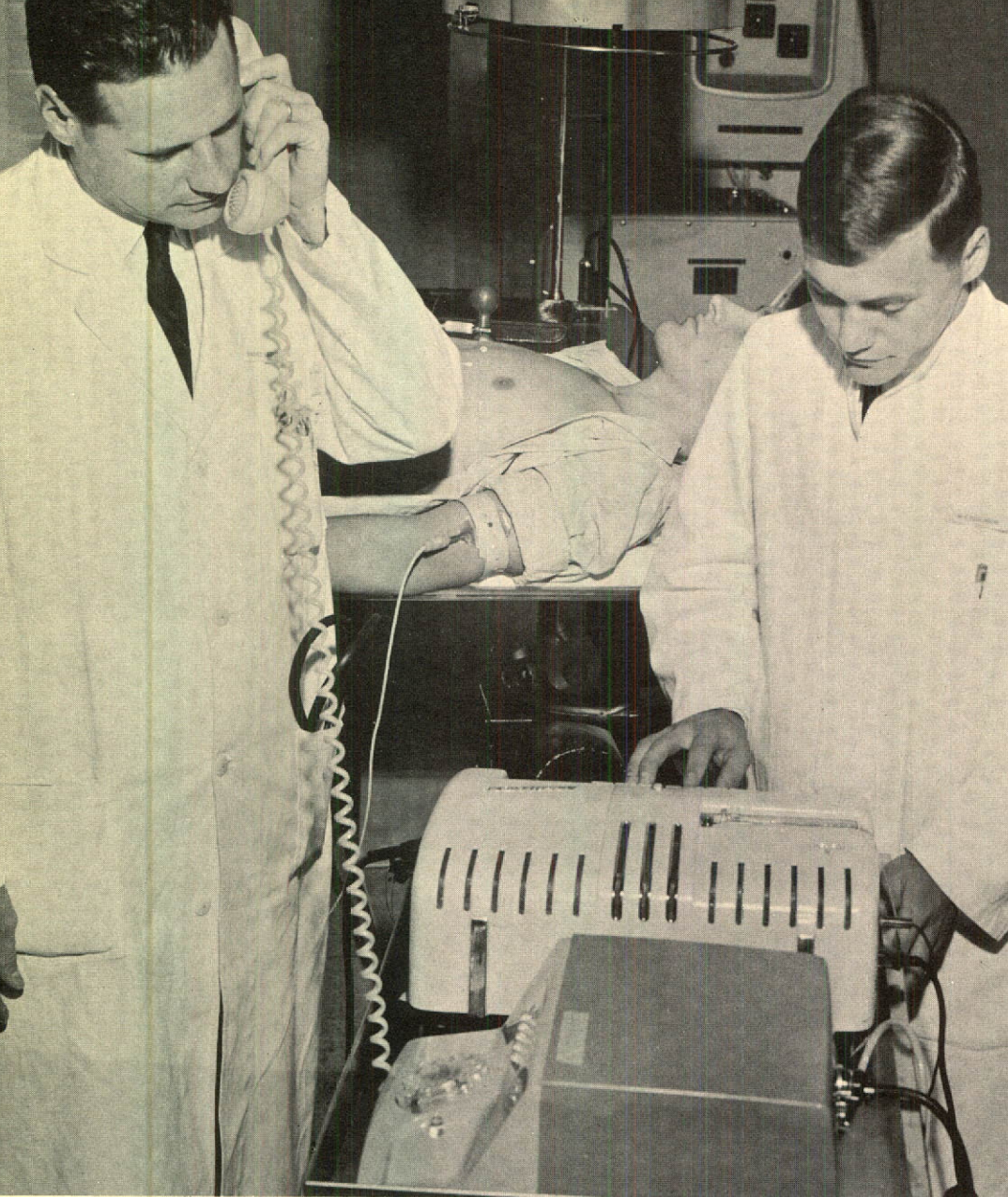
World Exhibition Preparations

Long before Company representatives attended ceremonies last summer to mark the beginning of work at the World's Exhibition site, at Montreal, we were involved in this immense national effort. We had loaned personnel on a long-term basis to the EXPO '67 organization, and had begun planning for communication services for this exposition that will take place in 1967, the centennial year of Confederation. At that time we shall place in operation Canada's first major electronic central office, serving the exhibition and parts of downtown Montreal.

Communications requirements of the exhibition itself will be equal to those of a small city, and the expected influx of visitors will place unusual demands on telephone facilities. Many problems peculiar to the exhibition will also be encountered. During the past year we established a task force to co-ordinate EXPO '67 communication services.

Methods Improved

Continuing efforts to make the most efficient use of capital and human resources, we adopted many new methods and procedures in virtually all departments in 1963. Literally hundreds of improvements in materials, methods and tools, including some major innovations, are saving time and effort and helping to hold down expenses. To increase productivity and improve service during cable transfer operations, we have developed, in collaboration with the Northern Electric Company, new testing devices for splicers. The logic-type circuitry of these test sets permits rapid identification of cable pairs resulting in considerable savings of time. The use of a high frequency tone practically eliminates interference to service when transfer work is carried out on working lines. A new method of placing cable in ducts reduces the size of the crew required for this work from five to two men. The use of a single large concrete conduit instead of a number of smaller



In a demonstration of the versatility of Data-Phone service, an electrocardiogram is sent "live" over telephone facilities from Montreal's Hotel Dieu Hospital to a group of doctors in the Company's head office building.



Shareholder records, Yellow Pages contracts and commissions, and dial equipment assignments are processed at this data centre equipped with a medium-sized computer installed during 1963.

fibre ducts in certain suitable locations is now saving about \$500,000 annually in capital expenditures. In 1963, for the first time, we used television to "see" inside cable ducts and thus speed the placing of certain cables.

Another innovation to improve efficiency is a new carrier system which enables two pairs of wires to yield 24 high-quality circuits. In this carrier system, each voice signal is sampled several thousand times a second and transmitted over the line as a coded signal which is then reconstructed into the voice signal at the receiving end. The first of these systems in Canada will be shipped from the Northern Electric plant later this year for service on some trunk routes connecting central offices in Toronto and Montreal. We expect to install similar systems in other major cities in future years.

Automatic Data Processing

Automatic data processing, such as punched-card account billing, has been growing in importance in the Company's operations in recent years, and this became more evident in 1963. A medium-sized computer, installed in Montreal, began to process all Yellow Pages advertising contracts, maintain records of dial equipment assignments, and process shareholders' records, including dividend transactions.

During 1963 there was a great deal of planning in various departments in preparation for the installation of large computers in Montreal and Toronto during this year and next. These computers will operate at extremely high speed, performing many tasks associated with billing and collections. They will later be linked to an extensive teletypewriter network which will gather service-order information for processing.

These computers will process data far more quickly and in greater quantity than by older methods. From their electronic memories they will supply information otherwise virtually unobtainable to assist management at all levels and in all departments in important decision-making. For example, the Marketing Department, in a year or two, will be able to observe and anticipate growth trends and assess new

BENEFITS AND PENSIONS

UNDER THE PLAN FOR EMPLOYEES' PENSIONS, DISABILITY BENEFITS AND DEATH BENEFITS YEAR 1963

Sickness Benefits	\$1,212,971
Accident Benefits	68,159
Death Benefits	515,940
Disability Pensions	84,705

The Company has established a fund with The Royal Trust Company, Montreal, as Trustee; this fund is irrevocably devoted to service pension purposes. Under an accrual program based on actuarial studies, regular payments are made to the fund by the Company and amounted to \$11,543,502 in the year 1963. The amount in the fund fully provides for future service pension payments to those now on the pension rolls and those now entitled to retire on pension at their own request. The fund is not a part of the assets of the Company and is therefore not reflected in the balance sheet.

market potentials and requirements more rapidly and with greater precision than is now possible. It will be several years before the benefits of computer operation are fully realized.

A Watchful Force

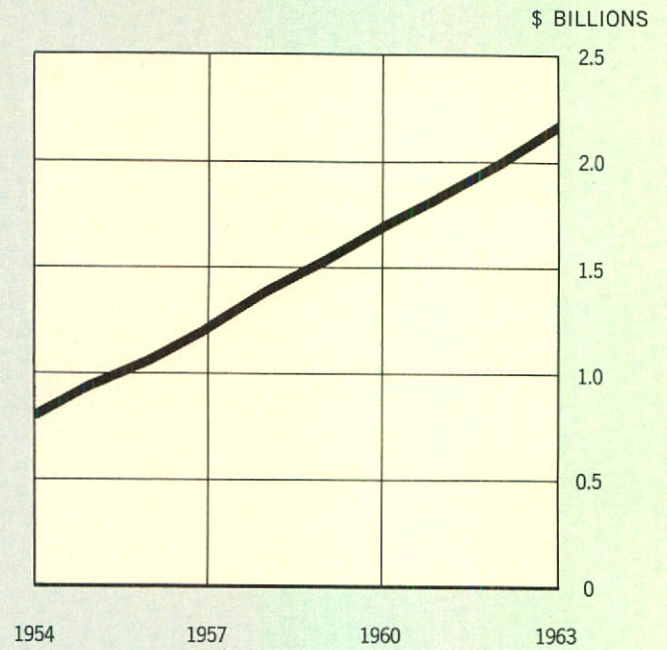
In recent years the telephone industry throughout North America has faced a rising incidence of theft, fraud and misuse of telephone service. To combat this trend, the Company has established a security force to investigate such cases and recommend preventive measures. Their work calls for alertness and imagination; in one case last year a "frogman" was employed to recover stolen coin telephones from a lake bottom. Through the vigilance of this security force, collaborating with the police, a number of cases, brought to court, have resulted in convictions. We believe that this group will serve as a deterrent to loss through criminal acts.

Our Greatest Assets

Convinced that the most valuable assets in our business are the knowledge and skill of the people who operate it, we continued an exten-

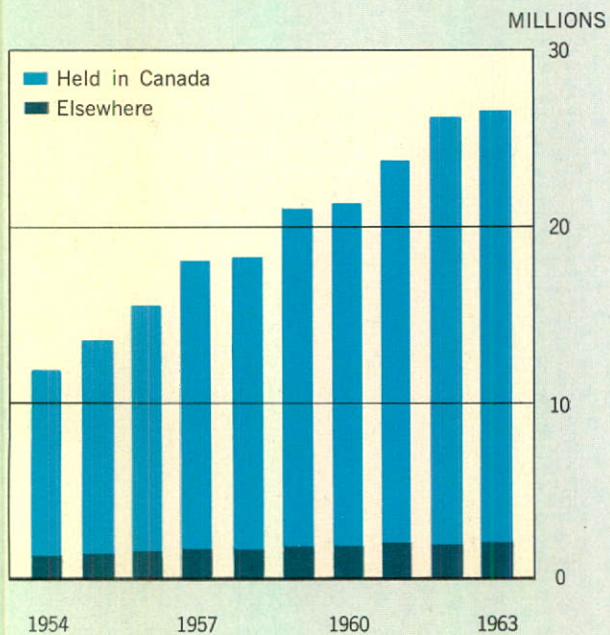
PLANT INVESTMENT

\$2.17 billion



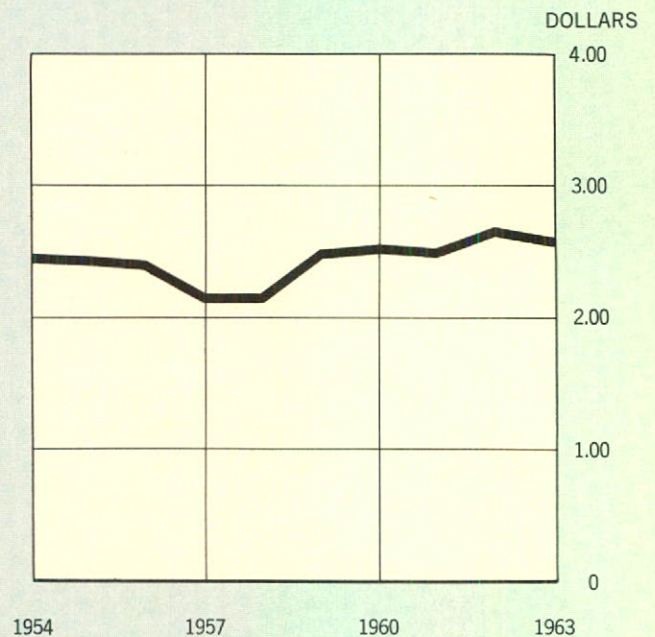
COMPANY SHARES

93 per cent owned in Canada



EARNINGS

\$2.58 per share



sive program of training and education during 1963. In September we inaugurated a communications engineering school at Queen's University, Kingston, Ontario. There, each year, a number of our engineers will take post-graduate studies to enable them to apply the latest scientific research to the provision of new and better communications services.

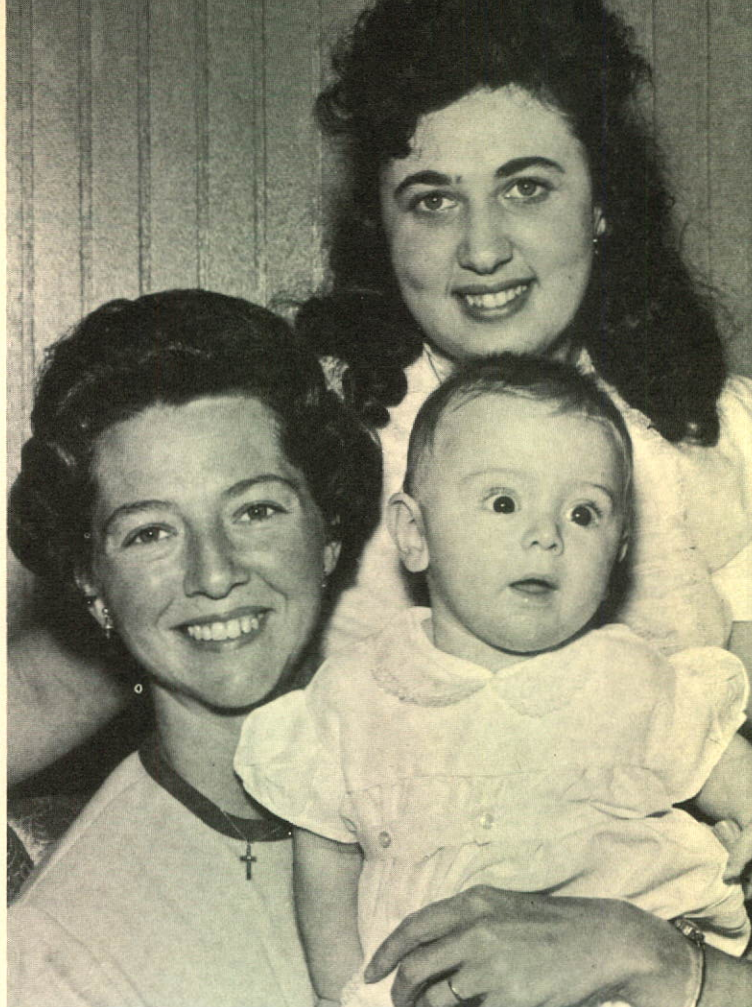
During the year, a number of engineers were attending 18-month courses at the Bell Telephone Laboratories, and others kept pace with changing technology at our engineering school at Belleville, and at special courses conducted by our associates in the industry. Education and training in various departments included seminars at universities in Canada and the United States where liberal arts studies and administrative skills were emphasized.

Several members of the Engineering, Marketing and Plant departments attended advanced courses on the design, sale and maintenance of data processing systems. Many management employees received training by way of Company-conducted courses, and non-management employees were trained in classrooms as well as on the job. Guided by the best advice available, the Company made progress in developing modern, "programmed" instruction for employees. This scientific teaching method, permitting the trainee to advance at his own pace, has already been applied to a limited extent, and further trials in various departments will be conducted this year.

The Company also assisted employees to pursue academic and technical studies on their own. Nearly 1,600 courses at schools and universities were completed in 1963 with the Company's financial assistance.

The Spirit of Service

Good citizenship is the natural complement of the spirit of service that the Company encourages among employees. During the past year several employees received formal recognition from the Company for public-spirited acts which demonstrated employees' resourcefulness in emergencies.



Ottawa operator Mrs. Judy Dallaire is credited with saving the life of five-month-old Christopher Sabourin by calmly giving the baby's mother instructions in mouth-to-mouth respiration when Mrs. Sabourin dialed "0" for help. The child had been almost suffocated by a plastic bib. Above, the principals in the life-and-death drama smile happily.





Crippled children enjoy themselves and in many cases benefit therapeutically by operating switchboards reconditioned by active and retired employees, such as this group at Fort William. Last year, 57 similar projects were carried out in Ontario and Quebec.

This air-tight, steel pipe, buried in a trench under the bottom of the Welland Canal was installed in 1963 to protect submarine telephone cables from ships dragging their anchors.



Wreford Belson, of Montreal, received a citation certificate for rescuing an injured man from the wheels of a slowly moving train, from which the man had fallen. Letters of commendation from the President were presented to 14 other employees: Ross S. Sims and Hugh D. Martin, both of Toronto; Kingsley Goudie and Florence J. Dallaire, both of Ottawa; Jacques Boulay and Paul Éthier, both of Ste. Agathe; Denis Gagnon and David Roy, both of Quebec; L. S. Wilson, of Huntsville; Régent Gagnon and Thomas Pearce, both of Lachute; and S. A. Fisher, E. G. Rodgers and M. M. Stasiuk, all of Sudbury.

As in past years, many hundreds of employees were active in public life or worked in numerous organizations to serve their fellow-citizens off the job as well as at work.

Employees at work displayed a commendable enthusiasm in performing their duties and meeting new challenges. The rate of absenteeism was at its lowest, and the health of employees, as indicated by attendance records, was at the highest level in the Company's history. Keen interest and participation in health maintenance and health promotion activities were demonstrated by both management and non-management groups. As a result, employees made a significant contribution to their own health and to the Company's overall goal of improved efficiency.

Directors and Officers Appointed

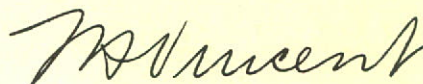
Marcel Vincent rejoined the Board of Directors and the Executive Committee on June 26, succeeding James A. Hobbs, who resigned. Effective August 1, Richard R. Hough, Vice-President, Engineering, of the American Telephone and Telegraph Company, was appointed a Director, succeeding James E. Dingman, of New York, on Mr. Dingman's resignation. R. Dickson Harkness, who has rendered valuable service as a member of the Board and the Executive Committee since August, 1951, resigned and was succeeded by R. Holley Keefer, President and Chairman of the Board of the Northern Electric Company Limited, effective August 28.

On August 1, Mr. Vincent succeeded Thomas W. Eadie as President and chief executive officer. Mr. Eadie continued as Chairman of the Board of Directors. W. Harvey Cruickshank, former Vice-President & General Manager, Toronto Area, succeeded Mr. Vincent as Vice-President, Public Relations, and he was succeeded in Toronto by Oren A. Robertson.

Two executives who retired after long and valued service are Harold G. Young, Vice-President, and Norman A. Munnoch, Q.C., Vice-President & General Counsel. Mr. Young played a prominent role in the construction of the trans-Canada microwave network, and for several years was Chairman of the Trans-Canada Telephone System. Mr. Munnoch, for 19 years the Company's General Counsel, is widely known for his understanding of public utility law and its administration.

Arnold J. Groleau, formerly Vice-President & General Manager, Toll Area, was appointed Vice-President, with responsibility for the Toll Area and for Company relations with other organizations in the Trans-Canada Telephone System. J. Vernon Leworthy became Toll Area General Manager. P. Charlemagne Venne, Q.C., with many years' experience in the Legal department, succeeded Mr. Munnoch as Vice-President & General Counsel. Wallace C. Macpherson, former Director of Business Development, was appointed Vice-President, Business Development, reflecting the growing importance of this phase of the Company's operations.

For the Board of Directors,



President.

February 3, 1964.

BALANCE

ASSETS

in thousands of dollars

	December 31, 1963	December 31, 1962
TELEPHONE PROPERTY		
Land, Buildings, Plant and Equipment — at cost	\$2,172,448	\$2,000,944
INVESTMENTS		
Subsidiary Companies — at cost	46,102	43,610
Other Investments — at cost	18,655	14,463
	<u>64,757</u>	<u>58,073</u>
CURRENT ASSETS		
Cash	6,588	5,883
Temporary Cash Investments	18,167	48,973
Accounts Receivable	58,494	54,679
Material and Supplies — at cost	11,214	10,927
Prepayments	10,990	10,127
	<u>105,453</u>	<u>130,589</u>
DEFERRED CHARGES		
Unamortized Discount, Premium and Expense on Long Term Debt	2,495	5,809
Other Deferred Charges	1,942	1,812
	<u>4,437</u>	<u>7,621</u>
TOTAL ASSETS	<u>\$2,347,095</u>	<u>\$2,197,227</u>

Signed on behalf of the Board of Directors:

F. JOHNSON, *Director.*J. A. FULLER, *Director.*

SHEET

LIABILITIES*in thousands of dollars*

	December 31, 1963	December 31, 1962
SHAREHOLDERS' EQUITY		
Capital Stock	\$ 666,525	\$ 655,532
Premium on Capital Stock	234,578	230,567
Surplus	80,109	70,740
	<u>981,212</u>	<u>956,839</u>
LONG TERM DEBT		
First Mortgage Bonds	<u>710,000</u>	<u>630,000</u>
CURRENT LIABILITIES		
Accounts Payable	36,086	32,423
Advance Billing and Payments for Service	13,338	12,544
Dividend Payable	14,664	14,422
Taxes Accrued	28,889	32,370
Interest Accrued	9,806	8,980
	<u>102,783</u>	<u>100,739</u>
ACCUMULATED DEPRECIATION		
Accumulated Provision for Depreciation of Telephone Property	<u>485,318</u>	<u>442,500</u>
DEFERRED CREDITS		
Income Tax	48,714	48,224
Employees' Stock Plan	18,420	18,523
Other Deferred Credits	648	402
	<u>67,782</u>	<u>67,149</u>
TOTAL LIABILITIES	<u><u>\$2,347,095</u></u>	<u><u>\$2,197,227</u></u>

The notes to financial statements on pages 23
and 24 are an integral part of this statement.

W. McNEILL, Comptroller.

THE BELL TELEPHONE COMPANY OF CANADA

INCOME STATEMENT

in thousands of dollars

	Year 1963	Year 1962
OPERATING REVENUES		
Local Service	\$308,915	\$289,612
Long Distance Service	165,066	153,787
Miscellaneous	31,248	29,521
Less: Provision for Uncollectibles	2,252	1,925
	<u>502,977</u>	<u>470,995</u>
OPERATING EXPENSES		
Maintenance	95,642	88,844
Depreciation	97,314	86,881
Traffic	38,786	37,356
Marketing and Commercial	39,632	38,049
Other	54,421	50,727
	<u>325,795</u>	<u>301,857</u>
NET OPERATING REVENUES	<u>177,182</u>	<u>169,138</u>
OPERATING TAXES		
Income Taxes	63,332	61,441
Other Taxes	21,501	20,160
	<u>84,833</u>	<u>81,601</u>
OPERATING INCOME	<u>92,349</u>	<u>87,537</u>
OTHER INCOME		
Dividends	6,143	5,198
Miscellaneous Income (net)	2,269	2,235
	<u>8,412</u>	<u>7,433</u>
TOTAL INCOME BEFORE INTEREST CHARGES	<u>100,761</u>	<u>94,970</u>
INTEREST CHARGES		
Interest on Long Term Debt	31,183	28,443
Other Interest	976	862
Amortization of Discount, Premium and Expense on Long Term Debt	308	380
	<u>32,467</u>	<u>29,685</u>
NET INCOME FOR THE YEAR	<u>\$ 68,294</u>	<u>\$ 65,285</u>

The notes to financial statements on pages 23 and 24 are an integral part of this statement.

W. McNEILL, Comptroller.

THE BELL TELEPHONE COMPANY OF CANADA

STATEMENT OF SURPLUS

in thousands of dollars

	Year 1963	Year 1962
BALANCE AT BEGINNING OF YEAR	\$ 70,740	\$ 59,364
<i>Add:</i> Net Income for the Year	68,294	65,285
Miscellaneous Items (net)	—	59
	<u>139,034</u>	<u>124,708</u>
<i>Deduct:</i> Dividends	58,189	53,968
Miscellaneous Items (net)	736	—
	<u>58,925</u>	<u>53,968</u>
BALANCE AT END OF YEAR	<u>\$ 80,109</u>	<u>\$ 70,740</u>

NOTES TO FINANCIAL STATEMENTS

BALANCE SHEET

TELEPHONE PROPERTY

Land, buildings, switching and microwave equipment, poles, wire, cable, underground conduit, telephone apparatus, motor vehicles, office furniture and other equipment.

INVESTMENTS

SUBSIDIARY COMPANIES: ownership in the following companies:

Northern Electric Company, Limited (100%)
 The Avalon Telephone Company, Limited (99.4%)
 Télécommunications des Iles-de-la-Madeleine, Limitée (100%)
 Télécommunications Richelieu Limitée (100%)
 The Monk Rural Telephone Company, Limited (100%)
 North American Telegraph Company (100%)

The net worth of these investments exceeds the cost.

OTHER INVESTMENTS: the market value of these investments exceeds the cost.

TEMPORARY CASH INVESTMENTS

Valued at cost or amortized value; market value at December 31, 1963: \$18,192,000.

ACCOUNTS RECEIVABLE

Principally amounts due from customers, after a provision for uncollectibles. Includes \$323,940 receivable from subsidiary companies at December 31, 1963.

PREPAYMENTS

Rents, taxes, insurance, cost of directories and other items applicable to subsequent period.

CAPITAL STOCK

Par Value: \$25.00 per share.

Authorized: by charter — 40,000,000 shares.
 by shareholders — 30,000,000 shares.

Outstanding: 26,660,984 fully paid shares at December 31, 1963.

NOTES TO FINANCIAL STATEMENTS (continued)

LONG TERM DEBT

FIRST MORTGAGE BONDS at December 31, 1963

SERIES D — Maturing August 1, 1964 — 3¼ %	. . .	\$ 25,000,000
SERIES E — Maturing March 1, 1977 — 3 %	. . .	35,000,000
SERIES F — Maturing February 15, 1973 — 3¼ %	. . .	35,000,000
SERIES G — Maturing June 1, 1975 — 3¾ %	. . .	40,000,000
SERIES I — Maturing May 1, 1976 — 3½ %	. . .	40,000,000
SERIES J — Maturing December 15, 1967 — 4½ %	. . .	40,000,000
SERIES K — Maturing May 15, 1979 — 3¾ %	. . .	40,000,000
SERIES L — Maturing December 1, 1970 — 4 %	. . .	16,000,000
SERIES M — Maturing June 1, 1981 — 4 %	. . .	24,000,000
SERIES N — Maturing January 2, 1972 — 4¾ %	. . .	20,000,000
SERIES O — Maturing March 15, 1972 — 5 %	. . .	20,000,000
SERIES P — Maturing March 15, 1983 — 4¼ %	. . .	50,000,000
SERIES Q — Maturing July 2, 1980 — 5¼ %	. . .	30,000,000
SERIES R — Maturing January 2, 1978 — 6¼ %	. . .	35,000,000
SERIES S — Maturing April 1, 1974 — 6¼ %	. . .	25,000,000
SERIES T — Maturing August 2, 1982 — 5¾ %	. . .	50,000,000
SERIES U — Maturing January 2, 1986 — 6 %	. . .	35,000,000
SERIES V — Maturing January 2, 1982 — 5½ %	. . .	40,000,000
SERIES W — Maturing June 15, 1984 — 5½ %	. . .	30,000,000
SERIES X — Maturing May 1, 1988 — 4¾ %	. . .	50,000,000
SERIES Y — Maturing October 1, 1984 — 5¾ %	. . .	30,000,000
TOTAL BONDS		\$710,000,000

Series N, P and X Bonds are payable in U.S. funds and are recorded in the Company's accounts at their face value. The difference between the face value of the bonds and the amount received on issue is being amortized over the terms of the bonds.

ACCOUNTS PAYABLE

Amounts owing for supplies, equipment, payrolls and other items. Includes \$18,935,687 payable to subsidiary companies at December 31, 1963.

DEFERRED CREDITS

INCOME TAX: reduction in income taxes, for appropriation in future years, due to depreciation deducted for tax purposes being in excess of that included in operating expenses for the years 1954 to 1957 inclusive.

EMPLOYEES' STOCK PLAN: instalments paid by employees subscribing for capital stock, with interest thereon.

INCOME STATEMENT

OPERATING REVENUES

MISCELLANEOUS: principally from directory advertising.

OPERATING EXPENSES

MAINTENANCE: cost of inspection, repairs and rearrangements required to keep the telephone property in good operating condition.

DEPRECIATION: provision to meet the loss of investment when depreciable property is retired from service, based on rates designed to spread this loss uniformly over the life of the property.

TRAFFIC: costs incurred in handling telephone calls.

MARKETING AND COMMERCIAL: sales expense, advertising, cost of directories, and costs incurred in business relations with customers.

OTHER: general office salaries and expenses, benefit payments, provision for service pensions, operating rents and other general expenses.

Year 1963: salaries paid to Executive Officers \$734,751; salaries and fees paid to Counsel, Solicitors and other legal advisors of the Company \$209,977; fees paid to Directors and members of the Executive Committee \$94,100 of which \$11,350 was paid and accounted for by subsidiary companies.

OTHER INCOME

MISCELLANEOUS INCOME (NET): principally interest, on plant under construction and on temporary cash investments.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
THE BELL TELEPHONE COMPANY OF CANADA,
MONTREAL, QUE.

We have examined the balance sheet of The Bell Telephone Company of Canada as at December 31, 1963 and the statements of income and surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, the accompanying balance sheet and statements of income and surplus are properly drawn up so as to exhibit a true and correct view of the financial position of The Bell Telephone Company of Canada as at December 31, 1963 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We report that the operations of the subsidiary companies for the year ended December 31, 1963 resulted in an aggregate net profit of which only the dividends received by the company have been included in the accompanying income statement.

Montreal, Que.
January 31, 1964

TOUCHE, ROSS, BAILEY & SMART
Chartered Accountants.

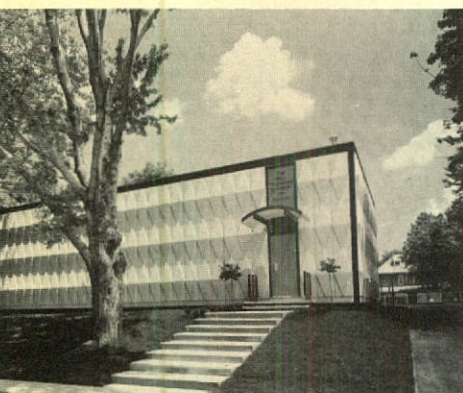
STATEMENT OF SOURCE AND DISPOSITION OF FUNDS in thousands of dollars

SOURCE OF FUNDS

	Year 1963	Year 1962
Operations:		
Net Income for the Year	\$ 68,294	\$ 65,285
Add: Provision for Depreciation	97,314	86,881
Other Transactions Not Requiring an Outlay of Funds (net)	1,278	901
	<u>166,886</u>	<u>153,067</u>
Proceeds From Stock Issue	—	77,989
Proceeds From Employees' Stock Plan	14,899	13,539
Proceeds From Bond Issues	83,196	68,706
Decrease in Working Capital	27,180	—
Stock Issued to Acquire Shares of The Avalon Telephone Company, Limited	—	8,276
	<u>\$292,161</u>	<u>\$321,577</u>

DISPOSITION OF FUNDS

Construction Expenditures:		
Gross Construction Expenditures	\$234,088	\$219,357
Deduct: Charges to Construction Not Requiring an Outlay of Funds	7,908	7,457
	<u>226,180</u>	<u>211,900</u>
Dividends	58,189	53,968
Increase in Working Capital	—	28,500
Redemption of Debentures	—	10,000
Acquisition of Investments	6,684	17,098
Miscellaneous Items (net)	1,108	111
	<u>\$292,161</u>	<u>\$321,577</u>



OUR STORY IN FIGURES

AT DECEMBER 31	1963	1962
Number of Telephones	4,090,102	3,890,630
Business	1,205,035	1,151,356
Residence	2,885,067	2,739,274
per cent Dial	98.2	97.0
Telephones Added During the Year* . .	199,472	195,523
connected	997,461	962,989
disconnected	797,989	767,466
Per cent Households with Telephones .	91	90
Average Calls Placed Daily*	24,926,000	23,904,000
Long Distance	468,000	440,000
Miles of Long Distance Circuits	2,583,000	2,130,500
Construction Expenditures*	\$ 234,100,000	\$ 219,400,000
Telephone Property	\$2,172,448,112	\$2,000,943,787
Number of Employees	35,441	35,086
Men	16,095	15,823
Women	19,346	19,263
Total Payroll*	\$ 179,297,157	\$ 170,470,796
Number of Shareholders	195,037	192,854
per cent resident in Canada	97.3	97.3
Total Shares Outstanding	26,660,984	26,221,280
per cent held in Canada	93.1	93.0
Total Operating Revenues*	\$ 502,976,925	\$ 470,995,081
Total Operating Expenses*	\$ 325,795,006	\$ 301,856,922
Earnings Available for Dividends	\$ 68,293,941	\$ 65,284,902
per Average Share Outstanding . .	\$2.58	\$2.66
Per cent Return on Total Capital . . .	6.1	6.3

**for the year ended December 31.*

1961	1960	1959	1958	1957	1956
3,695,107	3,515,007	3,330,877	3,140,349	2,954,884	2,766,153
1,096,676	1,041,909	991,860	940,589	893,211	848,724
2,598,431	2,473,098	2,339,017	2,199,760	2,061,673	1,917,429
95.2	94.2	91.8	90.0	88.7	86.1
180,100	184,130	190,528	185,465	188,731	243,408
905,286	876,164	860,550	785,279	731,970	759,089
725,186	692,034	670,022	599,814	543,239	515,681
89	89	88	87	86	85
22,688,000	21,668,000	20,951,000	19,829,000	18,646,000	16,989,000
409,000	391,000	378,000	361,000	336,000	317,000
1,871,000	1,769,000	1,656,000	1,451,000	1,187,000	1,058,000
\$ 192,600,000	\$ 207,700,000	\$ 196,100,000	\$ 183,200,000	\$ 177,300,000	\$ 139,500,000
\$1,842,547,676	\$1,697,921,442	\$1,534,462,754	\$1,378,274,117	\$1,223,615,264	\$1,066,296,579
34,302	35,656	37,158	39,321	41,363	39,688
15,553	15,816	16,035	16,784	17,018	15,632
18,749	19,840	21,123	22,537	24,345	24,056
\$ 161,859,420	\$ 159,028,668	\$ 155,156,297	\$ 154,611,767	\$ 146,952,560	\$ 130,677,707
178,126	171,288	170,767	157,724	156,825	140,726
97.0	97.3	97.5	97.8	98.0	97.8
23,746,945	21,340,072	21,024,690	18,183,956	17,983,980	15,506,932
92.2	92.1	92.0	91.8	91.8	91.1
\$ 433,656,654	\$ 404,848,423	\$ 376,604,645	\$ 328,817,571	\$ 302,985,820	\$ 273,975,152
\$ 282,487,927	\$ 270,428,499	\$ 256,232,248	\$ 239,303,260	\$ 220,445,304	\$ 196,252,745
\$ 57,690,521	\$ 53,511,907	\$ 50,283,578	\$ 38,899,289	\$ 36,037,169	\$ 34,949,181
\$2.50	\$2.52	\$2.48	\$2.15	\$2.15	\$2.40
6.0	6.0	5.9	5.3	5.3	5.7



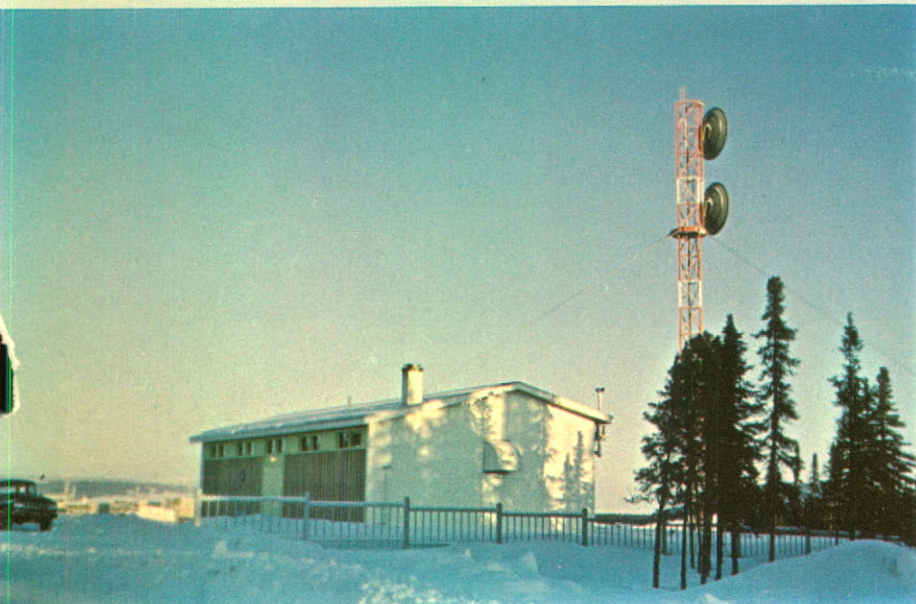
Dial service came on wheels to Shebandawan, in northwestern Ontario, during 1963. This mobile central office serves the community pending installation of a permanent one. Inside the van, a technician tests equipment.

Communications for the North

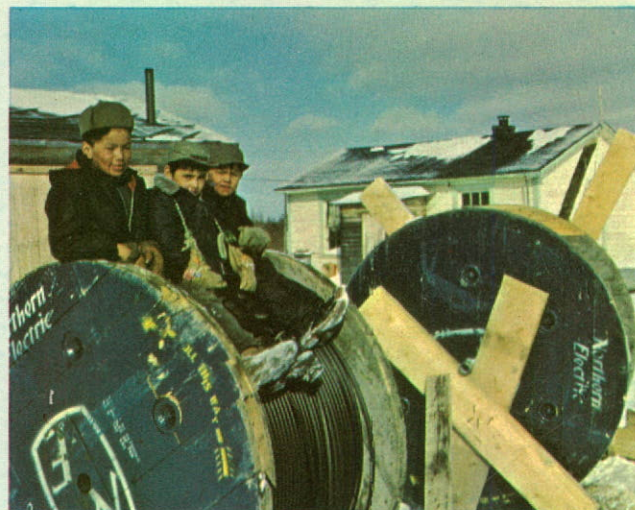
Modern communication services are penetrating the isolation of Canada's north. These scenes illustrate the Company's extension of service to remote areas. During 1963, this pioneering activity was continued with vigor. Special equipment and knowledge of the terrain facilitate the task.



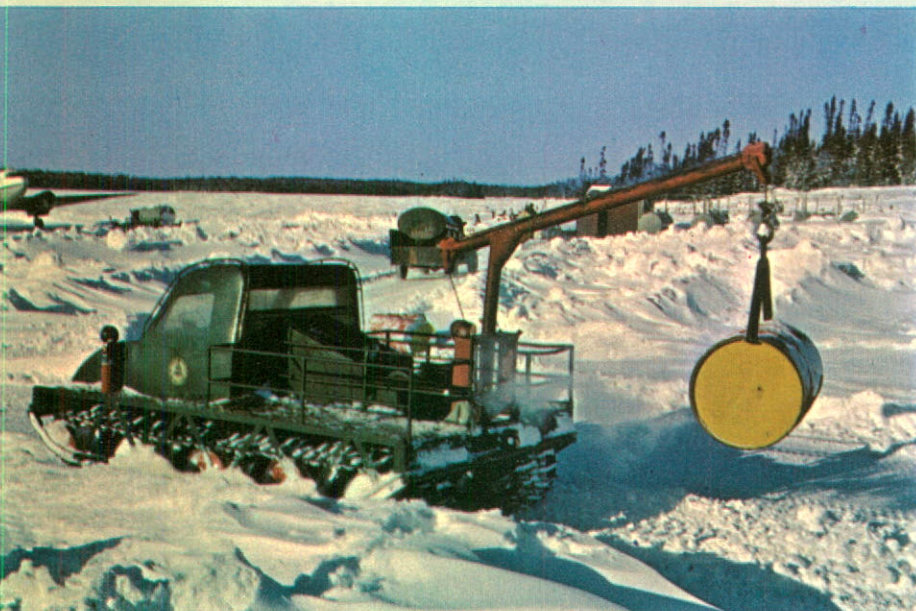
Tracked vehicles, such as this one, are useful in construction work in northern areas. Here, a crew is installing cable near Gagnon, Quebec.



At Wabush, Labrador, this central office is linked to the outside world by a microwave system. A microwave tower is seen at the right.



Three Cree Indian boys rest on a reel of telephone cable at Fort Albany, on James Bay.



Pushing back the communications frontier calls for equipment such as this derrick-equipped bombardier, seen near Sona Lake, in central Labrador.



A new Eskimo customer at Great Whale River, on Hudson Bay, tries out her telephone.

This employee uses a light, air-transported power tool to make a trench for the laying of buried cable at Cartwright, Labrador.



Modern telephone service for both home and office is characterized by convenience, attractive appearance and diversity.

