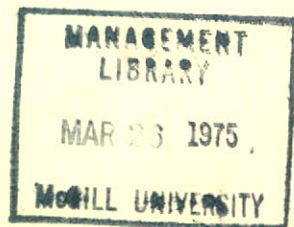
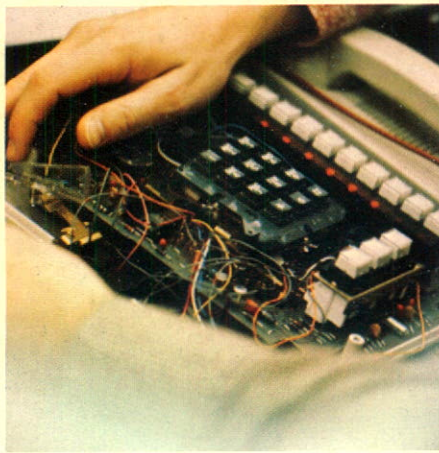
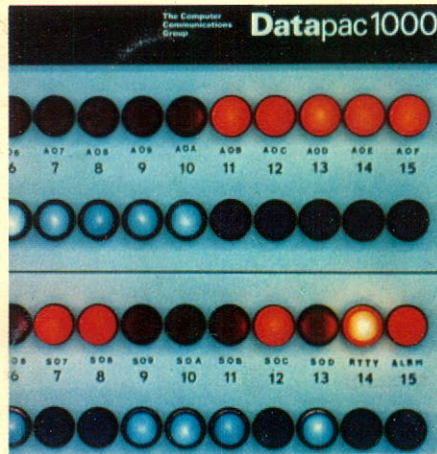


Bell Canada Annual Report 1974



Corporate Information

Bell Canada

1050 Beaver Hall Hill
Montreal, Quebec
H3C 3G4

1975 Annual Meeting

The Annual General Meeting of the Shareholders will take place at 2:00 p.m., Tuesday, April 8, 1975 in the Ballroom, Château Laurier Hotel, Ottawa, Ontario

Listing of Stock

Montreal Stock Exchange
The Toronto Stock Exchange
Vancouver Stock Exchange

Amsterdam Stock Exchange

Transfer Offices for Stock

Company Offices –

1050 Beaver Hall Hill
Montreal
10 King St. East
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

Registrar for Stock

Montreal Trust Company

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

Morgan Guaranty Trust Company
of New York, New York

Trustee for Bonds

The Royal Trust Company
Montreal

Transfer Offices for Bonds

The Royal Trust Company

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

An Annual Statistical Report, intended for those desiring further data on our operations, is in preparation and will be available to shareholders upon a written request to:

The Treasurer
Bell Canada
1050 Beaver Hall Hill
Montreal, Quebec
H3C 3G4

The cover illustrates the three main elements of the Bell Canada telecommunication enterprise — research and development, manufacturing, and services for residential and business customers. By integrating its technological, operational, and manufacturing skills, Bell Canada has become a market leader in telecommunications. The close relationship between Bell Canada, Northern Electric and Bell-Northern Research has been a major factor in providing telecommunication services second to none in the world.

Bell Canada
Consolidated

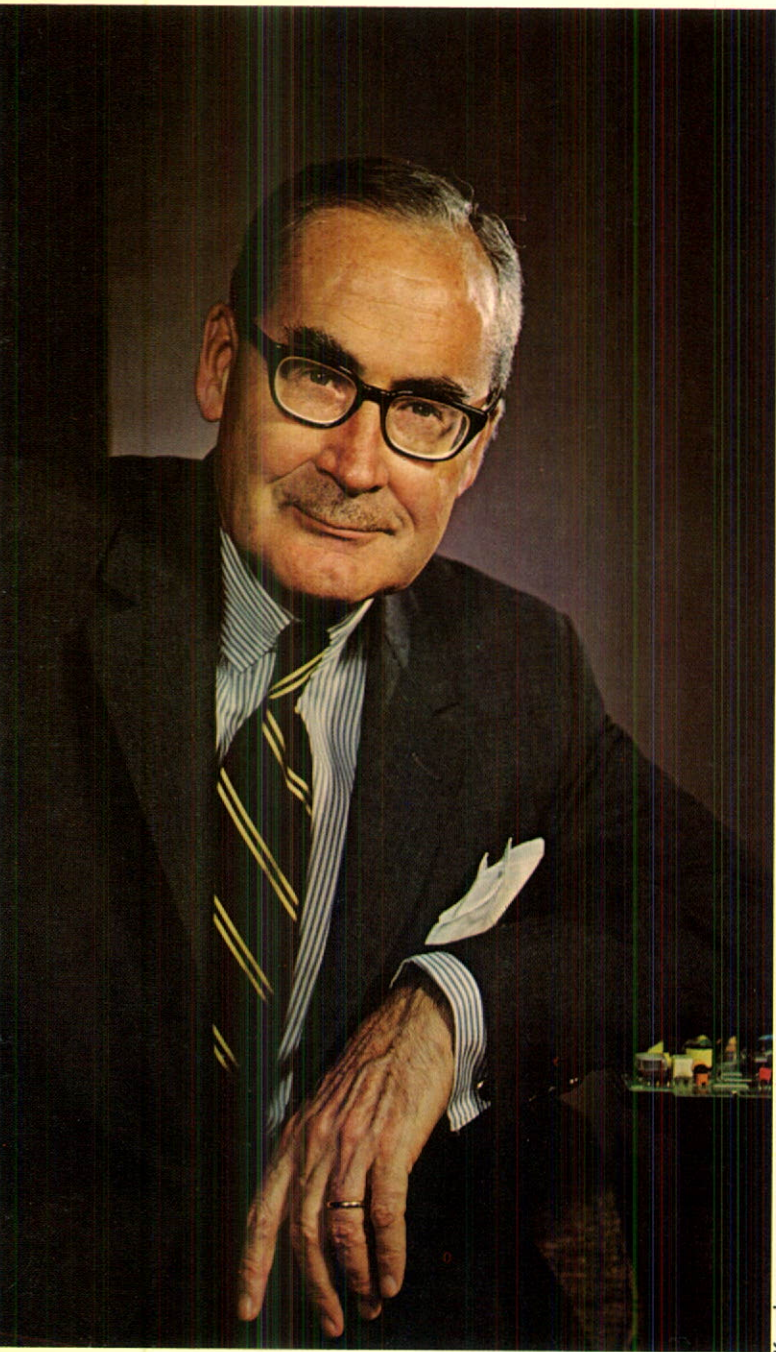
Financial Highlights

Bell Canada

Ninety-fifth Annual Report
Year ended December 31, 1974

Sur demande, le secrétaire vous
fera volontiers parvenir un exem-
plaire français du rapport annuel.

	1974	1973	% increase
Revenues (thousands of dollars)			
operating revenues	\$1,693,380	\$1,487,808	13.8
sales revenues	972,226	613,772	58.4
total	2,665,606	2,101,580	26.8
Net income (thousands of dollars)	224,436	205,371	9.3
per common share	5.57	5.18	7.5
assuming full conversion of convertible preferred shares	5.34	4.99	7.0
Dividends per common share	3.12	2.85	9.5
Equity per common share	50.10	47.79	4.8
(at December 31)			



Karsh

Robert C. Scrivener, Chairman of the Board



A. Jean de Grandpré, President

As we start upon the final quarter of the 20th century, Canadians are privileged among the peoples of the world. It is an age when social and economic uncertainties are common to all nations. But Canada is more tranquil than most and retains unusual depth of human and material resources.

None can tell precisely what the remainder of the century will bring. It is not likely to be a placid time. There will be problems, perhaps some that we have not yet seen. But who would say that any will be beyond solution by men and women of goodwill and ingenuity?

This land is strong, in its people, in its institutions, in its will to meet the challenges of the age. Despite adversities, the Canadian economy is strong, with a recent record surpassed by few and the envy of many.

Among Canada's evident industrial strengths is the business of telecommunications. In a country so vast, so sparsely populated, efficient communication is essential to unity and the conduct of personal and commercial affairs. The telecommunication industry has been remarkably adept, over many years, at matching technology with the needs of Canadians.

Alexander Graham Bell invented the telephone in Brantford, Ontario in 1874. Guglielmo Marconi sent the first international wireless message between Britain and Newfoundland. Canada was the first nation to be served by a geo-stationary domestic telecommunication satellite and, in the past year, the first to employ a coast-to-coast all-digital data network for computer communications.

Your Company, Bell Canada, has been a major contributor to this tradition of service and excellence. Its telephone network is second to no other in quality. Its data transmission and business systems are as advanced and reliable as any in the world. Its supply and innovation capabilities — through Northern Electric and Bell-Northern Research — are universally admired.

These achievements of the industry and of your Company are simply prologue to the great promise of the future. Canada will grow and Canadians will prosper in this quarter century, perhaps as never before. With Bell Canada often leading, never trailing, telecommunications will grow apace.

Directors

W. M. Vacy Ash, O.C.
Toronto, Ontario
Company Director
Elected March 10, 1966
Chairman of the Pension
Fund Policy Committee

Marcel Bélanger, O.C., C.A.
Quebec, Quebec
Partner, Bélanger, Dallaire,
Gagnon & Associés
Elected March 20, 1969
Chairman of the Audit Committee and
a member of the Management Resources
and Compensation Committee

Henry Borden, O.C., C.M.G., Q.C.
Toronto, Ontario
Company Director
Appointed January 28, 1948
A member of the Executive Committee and
of the Pension Fund Policy Committee
Retired April 9, 1974

G. Allan Burton, D.S.O., E.D.
Milton, Ontario
Chairman of the Board and
Chief Executive Officer,
Simpsons, Limited
Appointed May 23, 1974
A member of the
Management Resources
and Compensation Committee

A. Jean de Grandpré, Q.C.
Outremont, Quebec
President, Bell Canada
Appointed July 26, 1972
A member of the Executive,
the Audit and the Social and
Environmental Affairs Committees

J. Douglas Gibson, O.B.E.
Toronto, Ontario
Economic Consultant
Elected March 25, 1970
A member of the Management Resources
and Compensation Committee and of the
Pension Fund Policy Committee

H. Clifford Hatch
Windsor, Ontario
President and Chief Executive Officer,
Hiram Walker-Gooderham & Worts
Limited
Elected April 9, 1974
A member of the Audit Committee

Helen S. Hogg, O.C.
Richmond Hill, Ontario
Research Professor of Astronomy,
University of Toronto
Elected March 21, 1968
Chairman of the Social and
Environmental Affairs Committee

James W. Kerr
Toronto, Ontario
Chairman and Chief Executive Officer,
TransCanada PipeLines Limited
Appointed August 26, 1970
A member of the Management Resources
and Compensation Committee

Herbert H. Lank
Westmount, Quebec
Company Director
Appointed April 27, 1960
A member of the Executive Committee
and Chairman of the Management
Resources and Compensation Committee

John C. Lobb
Montreal, Quebec
Chairman of the Board and
Chief Executive Officer,
Northern Electric Company, Limited
Appointed October 24, 1973
A member of the Executive Committee

Donald McInnes, Q.C.
Halifax, Nova Scotia
Senior Partner, McInnes, Cooper &
Robertson
Elected March 16, 1967
A member of the Pension Fund
Policy Committee

E. Neil McKelvey, Q.C.
Saint John, New Brunswick
Partner, McKelvey, Macaulay,
Machum & Fairweather
Elected April 3, 1973
A member of the Audit Committee

John H. Moore
Lambeth, Ontario
President, Brascan Limited
Elected March 10, 1966
A member of the Executive Committee
and of the Audit Committee

Arthur S. Pattillo, Q.C.
Toronto, Ontario
Partner, Blake, Cassels & Graydon
Appointed January 26, 1966
A member of the Management Resources
and Compensation Committee
Resigned May 22, 1974

Gérard Plourde
Montreal, Quebec
Chairman of the Board and
Chief Executive Officer,
U A P Inc.
Appointed January 1, 1973
A member of the Executive Committee

Louis Rasminsky, C.C., C.B.E.
Ottawa, Ontario
Chairman of the Board of Governors,
International Development
Research Centre
Appointed September 26, 1973
A member of the Pension Fund
Policy Committee

The Hon. John P. Robarts, P.C., C.C., Q.C.
London, Ontario
Member of Stikeman, Elliott, Robarts &
Bowman, Toronto
Appointed June 23, 1971
A member of the Pension Fund
Policy Committee

H. Locke Robertson, C.C., M.D.
Ottawa, Ontario
Former Principal and Vice-Chancellor,
McGill University
Elected July 8, 1965
A member of the Executive Committee
and of the Social and Environmental
Affairs Committee

Lucien G. Rolland
Westmount, Quebec
President and General Manager,
Rolland Paper Company, Limited
Elected July 8, 1965
A member of the Pension Fund
Policy Committee

Robert C. Scrivener
Montreal, Quebec
Chairman of the Board and
Chief Executive Officer, Bell Canada
Appointed November 1, 1967
Chairman of the Executive Committee and
a member of the Audit and of the Social
and Environmental Affairs Committees

Livia M. Thür
Ottawa, Ontario
formerly Vice-Principal (Academic),
Université du Québec at Trois-Rivières
Elected April 6, 1971
A member of the Social and
Environmental Affairs Committee
Resigned December 31, 1974

Louise B. Vaillancourt
Outremont, Quebec
President of La Corporation de
l'Hôpital Marie Enfant
Appointment effective January 1, 1975
A member of the Social and
Environmental Affairs Committee

Report of the Directors

Through 1974, your Company had to deal with an inflationary economic climate as did other business enterprises in Canada. Employees received increases in compensation to help them meet the serious effects of inflation. Material prices continued to rise. The cost of acquiring funds to expand and improve telecommunication services was at a record high. Yet, despite all this and a retroactive 10 per cent surtax on non-manufacturing profits, Bell Canada's consolidated earnings increased.

Helped by a growing revenue base, increased diversity of activity and the efficiencies stemming from new technology, the employees of your Company continued to extend their productivity to improve operating results. Much of the progress achieved in 1974 was the direct result of the outstanding efforts and dedicated performance of the Bell Canada family of employees.

Bell Canada — Consolidated

Consolidated results for 1974 reflect better performance in virtually every area of Company activity. Consolidated earnings per common share were \$5.57, compared to \$5.04 for 1973. In 1973, in addition to these reported earnings, there was an earnings gain of 14 cents per share due to an extraordinary income item realized in the fourth quarter of 1973, whereas in 1974 the 10 per cent Federal surtax had the effect of reducing reported earnings by approximately 24 cents per share.

The increase in consolidated earnings per share was derived largely from the improved performance of Northern Electric Company, Limited. Earnings of your Company and its telephone operating subsidiaries were less than expected principally because of the 10 per cent surtax on non-manufacturing profits introduced by the Federal Government in its budget of November 18, retroactive to May 1, 1974.

If all convertible preferred shares had been converted to common stock, earnings per share, before extraordinary item, would have been \$5.34 in 1974, compared to \$4.86 in 1973.

Dividends declared on Bell Canada common shares, at an annual rate, were \$3.12 in 1974, compared to \$2.85 the previous year. The dividend increase

helped offset the effects of inflation and the decline in the purchasing power of the dollar for our shareholders.

Shareholders' equity at December 31, 1974 was \$50.10 per share compared to \$47.79 a year earlier.

Consolidated revenues increased 26.8 per cent to \$2,665.6 million in 1974 from \$2,101.6 million in 1973. The improvement reflected increases in local and long distance service revenues and record manufacturing and distributing sales revenues.

Consolidated operating expenses and cost of sales and expenses were \$2,056.9 million, compared to \$1,573.9 million in 1973, a 30.7 per cent increase. The rate at which expenses increased in 1974 continued to outpace revenue growth. The current higher costs to the Company of capital, labour and materials cannot be offset by normal revenue growth and outstanding improvements in productivity alone.

While customer demand for service continues to increase, so do the costs of providing these services. Some repricing will be necessary to more reasonably reflect the impact of inflation on these costs.

Despite the expense increase, and a \$32.8 million increase in income taxes, consolidated net income improved 9.3 per cent from \$205.4 million in 1973 to \$224.4 million in 1974.

The results reported above provide a brief review, on a consolidated basis, of the Bell Canada Group of companies. The following sections report on the major corporate entities within the group.

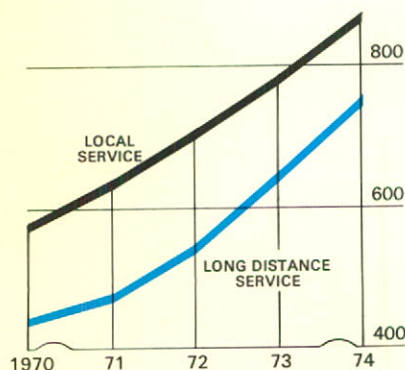
Bell Canada

Non-consolidated earnings per common share, including dividends received from investments in subsidiaries, amounted to \$4.52 in 1974, compared to \$4.37 in 1973. As stated earlier, in 1973, in addition to the earnings reported above, there was an extraordinary income item realized in the fourth quarter.

The 1974 earnings of all telephone operating companies in the Bell Canada Group were substantially reduced by the 10 per cent Federal surtax on

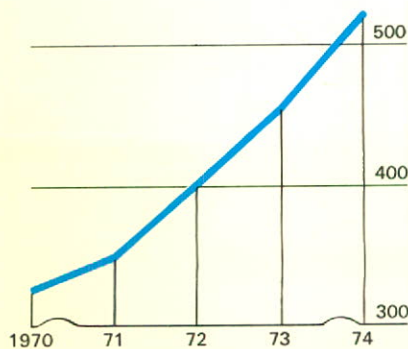
Bell Canada — Consolidated
Local and Long Distance Revenues
in Millions of Dollars

1000

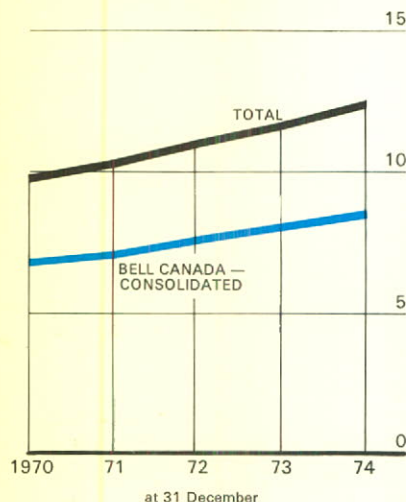


Bell Canada — Consolidated
Long Distance Messages
in Millions

600



Telephones in Service in Canada
in Millions



non-manufacturing profits at a time when the need for higher income to finance growth was most acute.

Operating revenues for the year were \$1,440.1 million, an increase of 12.9 per cent over 1973. Local service revenues were up 10.9 per cent, or \$76.4 million for the year. Revenues from long distance service increased by 15.5 per cent, or \$85.6 million. Operating expenses were \$1,010.7 million, an increase of 15.4 per cent over 1973. Additional wage, fringe benefit and pension costs were the largest components of the operating expense increase.

As part of a continuing effort to keep Bell Canada's benefit programs up to date with current social and economic conditions, significant changes to the programs were announced in September, 1974.

The changes were authorized by the Directors following a detailed survey of comparable programs in industry and an extensive review of the Company's entire benefit program, taking into account the concerns of unions, employees and pensioners.

The comprehensive improvements include increases in the basic pension formula, in the supplement payable until age 65 and in the minimum pension. A voluntary supplementary pension plan was introduced and revisions were made to cost-of-living adjustments to pension payments and to the Company's group life insurance plan.

The costs associated with the pension benefit changes will be funded over the estimated future service of the present employees of the Company, having regard to the relevant requirements of the Pension Benefits Standards Act.

Rate Regulation

In August, 1974 the Canadian Transport Commission (CTC) ruled on a Bell Canada application for revised rates which had been filed in November, 1972 and amended in August, 1973.

The CTC proposed rate increases which were designed to produce \$51.8 million of additional revenue,

if in effect for the full year of 1974. However, since the rate increases did not come into effect until later in the year, the additional revenues in 1974 were about \$13 million.

There were several important facets to this most recent CTC decision. The Commission proposed to hold hearings in 1975 on a rate adjustment formula which would permit Bell Canada and other telecommunication carriers to adjust rates in response to increases or decreases in non-controllable elements of cost. The proposed procedure is intended to make rate regulation more responsive to current economic conditions and to enable carriers to provide for adequate service in the face of inflation without the need of frequent, lengthy public hearings. Bell Canada has been urging such a course for some time.

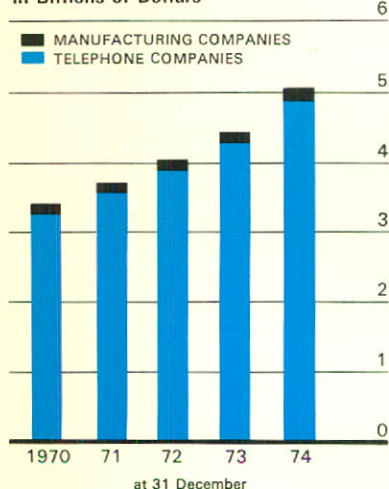
The CTC decision raised from 8.2 per cent to 9.1 per cent the upper limit of the range of return on total average capital deemed appropriate for Bell Canada under current economic conditions. The Commission also found that a return on common equity of 11 to 12 per cent was reasonable at the time. The Company actually earned 8.04 per cent on total average capital in 1974, up from 7.95 per cent in 1973.

The rates approved included a charge for operator assistance in finding numbers already listed in the telephone directory. Directory Assistance operators had been handling more than 220 million requests a year — more than 70 per cent of which were for numbers available in the directory. By year-end, Directory Assistance calls had dropped approximately 65 per cent from normally expected levels, in areas where the new charge was introduced. Exempt from the new charge, on application, are persons whose handicap prevents use of a directory and those 65 years and over. There is no charge for emergency calls, for numbers not in the directory, calls placed from pay telephones, calls from hospital, hotel or motel rooms, or for the first three chargeable calls each month from residence services.

Hours of Work (in manufacturing)
to pay for 1 month's Individual
Residence Service
(average for 16 cities in Que. & Ont.)



Bell Canada — Consolidated
Investment in Plant — Net
in Billions of Dollars



Also affected were public telephone rates, which increased from 10 to 20 cents. However, the increase does not apply to public telephones in a number of locations, including hospitals, nursing homes, churches, railway and bus stations, subways and city sidewalks. The 10 cent rate remains unchanged in these places.

Over the years, the Company, through the efficient use of capital, technology and labour, has been able to reduce the full impact of inflation on our prices for services. One indication of the effectiveness of these efforts is the measure of the hours an average worker has to pay for one month's individual residence service, as shown in the accompanying chart.

Capital Expenditures

Bell Canada invested over \$783.1 million in 1974 to extend services, modernize existing plant, replace damaged or worn equipment and relocate services for customers.

About 70.7 per cent of the total capital budget was spent to meet anticipated growth in demand for Bell Canada services; 14.1 per cent went to upgrade existing plant; 10.9 per cent to relocate equipment for residential and business customers who moved during the year; and 4.3 per cent to replace damaged or outworn equipment.

Financing

Reflecting current conditions in the capital markets, and the fact that interest rates on new refunding issues are at historically high levels, the cost of borrowing money to finance Bell Canada's modernization and expansion programs is reflected in the increased interest charges on Company debt. Bonds issued in 1974 have had to offer the highest interest rates ever paid by Bell Canada for long-term borrowing.

In 1974, retained earnings, depreciation, deferred taxes and other internal sources contributed about \$404.1 million of the \$783.1 million total capital expenditures. External financing amounted to \$367.2 million, compared to \$207.8 million in 1973.

The New Brunswick Telephone Company, Limited

Substantially increased demand for telecommunication services in New Brunswick enabled The New Brunswick Telephone Company to maintain the high rate of growth in operations experienced over the past several years. In November, the company installed the 300,000th telephone in the province and, over the year, total telephones in service increased by 7.6 per cent. Significant growth was recorded in both local and long distance messages handled.

Earnings per common share were \$1.44, a 10 per cent decline from the \$1.60 reported in 1973. This decline was largely the result of the imposition of the Federal 10 per cent surtax on corporate earnings combined with the effects of a 44-day strike by telephone operators in September and October.

Operating revenues of \$63.6 million in 1974 represent a 14.7 per cent increase over 1973.

The company undertook record capital expenditures of \$40.9 million to meet demands for service and future growth.

In January, 1975, the company filed an application with the Board of Commissioners of Public Utilities of New Brunswick requesting an increase in rates and charges for its services. The application pointed out the need for additional revenues to offset the generally increased costs of doing business.

Northern Telephone Limited

Northern Telephone reported earnings per share in 1974 at \$0.45 compared to \$0.57 in 1973. Operating revenues in 1974 were \$20.3 million, compared to \$18.6 million the previous year. Total telephones in service increased by 6,500 to 122,800, a gain of 5.6 per cent.

The major highlight of 1974 for Northern Telephone Limited was the completion of its dial conversion program resulting in 100 per cent dial telephone service to its Ontario customers.

The company and its wholly-owned subsidiary, Northern Quebec Telephone Inc., provide telecommunication services to most municipalities in Northeastern Ontario and Northwestern Quebec. Late in 1974, both Northern Telephone and Northern Quebec Telephone filed applications for rate increases.

Newfoundland Telephone Company Limited

Newfoundland Telephone, buoyed by the performance of its Labrador operations, maintained its strong rate of growth in 1974 although inflation contributed to abnormal increases in expenses and the cost of money. Earnings per share were \$0.82, compared to \$0.69 in 1973.

Operating revenues reached \$35.5 million in 1974, representing a record 35.6 per cent increase over the previous year. Operating expenses rose \$7.3 million to a total of \$24.2 million. Net income amounted to \$4.5 million in 1974 compared with \$3.8 million in 1973.

Because of the need to offset continuing inflationary pressures, the company applied on October 1 to the Board of Commissioners of Public Utilities for the Province of Newfoundland for an increase in the allowable rate of return on its capital employed and an increase in rates for 1975. The decision of the Board has since been made, allowing a rate of return of 9.92 to 10.17 per cent on the rate base which produces only 1.4 per cent additional revenues. It is clear that as long as inflation continues at a high level the company will have to approach the Board more frequently for rate adjustments.

The exceptional demand for service throughout the territory during the past several years has made it necessary to greatly increase plant capacity. Capital expenditures rose to \$28.6 million, an increase of 76.2 per cent over the previous year.

Significant expansion programs included a start on a microwave system from Corner Brook, Nfld., to Sydney, Nova Scotia, scheduled for completion by the end of 1975 and the successful start-up of a long distance electronic switching system in Corner Brook, which together with a large number of circuit additions has greatly improved the capability of the network to handle the continued high growth rate in long distance service.

In 1974, telecommunication facilities and operations in Labrador, purchased from Bell Canada, were successfully assimilated into the company. This marked a solid advance in the company's objective to create a uniform system across the province.

In October, the company issued \$17,500,000, 11% first mortgage bonds, the largest such issue in its history.

The total number of telephones in the system grew by 15.4 per cent in 1974 to a total of 142,000. Long distance messages increased by 28.2 per cent.

Maritime Telegraph and Telephone Company, Limited

Despite increased 1974 revenues, improved to some degree by rate increases effective during the last three months of the year, the combination of inflationary costs and the 10 per cent retroactive surtax resulted in a decrease in the company's earnings per share in 1974.

Earnings per share, at \$1.75, were down 19 cents from the average per share earnings of \$1.94 in 1973. Operating revenues, at \$81.2 million, gained 17.8 per cent over 1973. Operating expenses, at \$56.4 million, increased 23.3 per cent over the previous year. Net income for 1974 amounted to \$8.3 million, compared to \$8.4 million in 1973.

Maritime Telegraph and Telephone continued to improve and expand services to its customers in 1974. The company provides telecommunication

services in Nova Scotia and, through a subsidiary, The Island Telephone Company, in Prince Edward Island. Local and long distance messages handled during the year increased on a daily average basis by 13.6 per cent and a record net increase in the number of telephones in service was established. Total number of telephones in service at year-end was 425,000.

Dial service was extended — 98.1 per cent of all telephones in Nova Scotia are now dial operated — and service to non-urban customers was improved. Approximately \$ 71.4 million was invested to meet anticipated growth and to improve and modernize service, plant and equipment.

Manufacturing and Research

Bell Canada, with its affiliates, is a totally integrated telecommunication supplier. The family of companies provides innovation, manufacturing and supply toward the end-product, or service, for individual and business customers. The interaction of Bell Canada and its affiliates is outlined in a special section starting on page 26 of this annual report. Following, in brief, are the financial highlights of the major manufacturing and R&D companies.

Northern Electric Company, Limited

In a year of expansion in domestic markets and increased penetration of international markets, Northern Electric again reported record earnings and sales. Consolidated earnings per share were \$2.05 compared with \$1.35 in 1973. Consolidated sales of the company and its subsidiaries were \$970.7 million, an increase of 58 per cent over 1973. Consolidated net earnings were \$53.8 million compared with \$32 million in 1973, an increase of 68 per cent.

The program of plant expansion undertaken in 1973 continued in 1974 with a total of \$33.7 million of capital expenditures. Plans were also announced during 1974 for new plants to be built in Saskatchewan, Manitoba, Alberta and Newfoundland during 1975.

Nedco, a wholly-owned distributor of electrical construction materials and equipment, also continued to set new sales records. Its sales in 1974 were \$194.4 million.

In the United States, Northern Electric's wholly-owned subsidiary, Northern Telecom Inc., showed continued growth with sales of \$91.1 million compared with \$47.5 million in 1973. Net earnings were \$3.9 million in 1974 compared to earnings of \$2.8 million achieved in 1973. New plants were opened in California and North Carolina, and manufacturing facilities were enlarged in New Hampshire and Michigan. A fifth plant was added with the acquisition of a printed circuit board business in Florida.

In the face of a world-wide decline in semi-conductor sales that drastically affected all North American manufacturers, Microsystems International Limited, a Northern Electric subsidiary, again operated at a loss. To reduce overhead and costs, Microsystems cut employment sharply, limited product lines and reduced manufacturing floor space.

On December 9, Northern Electric made an offer to all Microsystems shareholders to purchase their shares for cash or in exchange for Northern Electric common stock. Northern Electric offered one share of its common stock for seven shares of Microsystems common stock or one share of Northern Electric common stock for 15 Microsystems share purchase warrants.

Bell-Northern Research Ltd. (BNR)

This company, the largest industrial research and development organization in Canada, is jointly owned by Bell Canada and Northern Electric. The great bulk of BNR's activity in telecommunications and electronics research is undertaken on behalf of its owner companies.

In 1974, BNR spent \$47.4 million on research commissioned by Northern Electric and Bell Canada, an increase of 16.3 per cent over the amount spent in 1973. BNR also performed \$1.6 million worth of research and development work under contract to outside organizations.

BNR announced in November that it will establish a wholly-owned subsidiary in California to maintain close contact with the technological and scientific resources located in and around San Francisco. The company also set up a new laboratory in Montreal to concentrate on studies of telecommunication transmission, distribution and maintenance.

Board of Directors

In April, 1974, Mr. Henry Borden, O.C., C.M.G., Q.C., retired from Bell Canada's Board of Directors after 26 years of service to the Company and its shareholders, and was replaced by the election of Mr. H. Clifford Hatch.

Mr. Arthur S. Pattillo, Q.C., who had served on the Board since January, 1966, resigned in May prior to his acceptance of the Chairmanship of the Ontario Securities Commission, and Mrs. Livia M. Thür, who was elected a Director in April, 1971, resigned in December to accept a senior appointment with the Federal Government. Two new Directors were appointed as replacements. Mr. G. Allan Burton, D.S.O., E.D., Chairman of the Board and Chief Executive Officer of Simpsons, Limited, joined the Board in May, and Mrs. Louise Brais Vaillancourt, President of La Corporation de l'Hôpital Marie Enfant was appointed a Director, effective January 1, 1975.

Senior executive changes announced during 1974 included W. F. Light, Executive Vice-President (Operations), Bell Canada, who resigned to accept the position of President, Northern Electric Company, Limited and R. D. Sloane who was appointed Vice-President, Central Area.

Outlook

Telecommunications is one of the essential services in a modern industrial economy. In Canada particularly, the means to bring distant people and data together electronically forms the basis of a diversified and growing industry.

The Bell Canada family of companies is well situated to take advantage of future opportunities, particularly in the business communications market, where Bell Canada is internationally recognized for the quality of its systems and for its innovations in the expanding field of data communications.

There is no doubt about the potential for growth — and the Bell Canada Group of companies has both the strength and structure to meet the challenges.

For the Board of Directors,



Chairman



President

February 26, 1975

Officers*

Chairman of the Board and Chief Executive Officer

Robert C. Scrivener

President

A. Jean de Grandpré, Q.C.

Executive Vice-Presidents

René Fortier

Eastern Region

Gordon E. Inns

Western Region

Z. Henry Krupski

Computer Communications &

Network Services

James C. Thackray

Operations

Vice-Presidents

Wilfred D. E. Anderson

Engineering and Planning

Harry Bowler

Finance

Robert W. Crowley

Western Area

J. V. Raymond Cyr

Operations Staff, Eastern Region

Claude Duhamel

Administration, Eastern Region

Jean-Paul Gagnon

Montreal Area

Charles A. Harris

Public and Environmental Affairs

George L. Henthorn

Comptroller

Frederick E. Ibey

Operations Staff, Western Region

Palle Kiar

Computer Communications

John A. McCutcheon

Intercompany Policy

Léonce Montambault

Eastern Area

Lawrence J. O'Keefe

Systems

Harry Pilkington

Personnel

Hubert A. Roth

Operational Staff

John E. Skinner

Toronto Area

R. Douglas Sloane

Central Area

John F. Stinson

Network Services

Orland Tropea

Regulatory Matters

Robert N. Washburn

Administration, Western Region

Treasurer

Harold E. Harris

General Counsel

Guy Houle

Secretary

James T. Moore

Promotions within and to the Officer Rank

Gordon E. Inns

Executive Vice-President

R. Douglas Sloane

Vice-President

Resignations

Walter F. Light

Executive Vice-President (Operations)

resigned effective July 31, 1974

to accept the Presidency of Northern

Electric Company, Limited.

*as of December 31, 1974

Consolidated Income Statement (Note 1)

	(thousands of dollars)	
	Year 1974	Year 1973
Operating revenues		
Local service	\$ 863,459	\$ 776,678
Long distance service	749,972	643,421
Miscellaneous — net	79,949	67,709
Total Operating Revenues	<u>1,693,380</u>	<u>1,487,808</u>
Operating expenses	<u>1,191,810</u>	<u>1,021,601</u>
Net Operating Revenues	<u>501,570</u>	<u>466,207</u>
Sales revenues — manufacturing and distributing	<u>972,226</u>	<u>613,772</u>
Less: Cost of sales	<u>720,765</u>	<u>452,996</u>
Selling, general and administrative expenses	<u>96,682</u>	<u>66,622</u>
Other expenses	<u>47,617</u>	<u>32,656</u>
Net Sales Revenues	<u>865,064</u>	<u>552,274</u>
Net Sales Revenues	<u>107,162</u>	<u>61,498</u>
Total Net Revenues	<u>608,732</u>	<u>527,705</u>
Other income (Note 2)	<u>25,852</u>	<u>21,692</u>
Income before Underlisted Items	<u>634,584</u>	<u>549,397</u>
Interest charges		
Interest on long term debt	<u>146,573</u>	<u>131,319</u>
Other interest	<u>12,787</u>	<u>5,483</u>
Total Interest Charges	<u>159,360</u>	<u>136,802</u>
Income before Income Taxes, Minority Interest and Extraordinary Item	<u>475,224</u>	<u>412,595</u>
Income taxes	<u>239,372</u>	<u>206,540</u>
Income before Minority Interest and Extraordinary Item	<u>235,852</u>	<u>206,055</u>
Minority interest	<u>11,416</u>	<u>6,080</u>
Income before Extraordinary Item	<u>224,436</u>	<u>199,975</u>
Extraordinary item (Note 3)	<u>—</u>	<u>5,396</u>
Net Income	<u>224,436</u>	<u>205,371</u>
Dividends on preferred shares	<u>17,594</u>	<u>14,020</u>
Net Income Applicable to Common Shares	<u>\$ 206,842</u>	<u>\$ 191,351</u>
Earnings per Common Share*		
— before extraordinary item	<u>\$5.57</u>	<u>\$5.04</u>
— after extraordinary item	<u>\$5.57</u>	<u>\$5.18</u>
Assuming full conversion of convertible preferred shares		
— before extraordinary item	<u>\$5.34</u>	<u>\$4.86</u>
— after extraordinary item	<u>\$5.34</u>	<u>\$4.99</u>
*Based on average common shares outstanding (thousands)	<u>37,128</u>	<u>36,931</u>

Consolidated Balance Sheet

Assets

	(thousands of dollars)	
	December 31, 1974	December 31, 1973
Telecommunication Property — at cost		
Buildings, plant and equipment	\$6,257,063	\$5,558,143
Less: Accumulated depreciation	1,802,566	1,610,936
	<u>4,454,497</u>	<u>3,947,207</u>
Land	45,997	41,840
Plant under construction	307,788	226,447
Material and supplies	95,392	83,175
	<u>4,903,674</u>	<u>4,298,669</u>
Manufacturing and Distributing Property — at cost		
Buildings, plant and equipment	314,495	285,313
Less: Accumulated depreciation	175,068	154,026
	<u>139,427</u>	<u>131,287</u>
Land	7,100	6,400
	<u>146,527</u>	<u>137,687</u>
	<u>5,050,201</u>	<u>4,436,356</u>
Investments — at cost	<u>19,870</u>	<u>19,607</u>
Current Assets		
Cash and temporary cash investments — at cost (approximates market)	60,106	163,767
Accounts receivable — principally from customers and agents	339,146	255,819
Inventories (Note 4)	255,900	177,295
Other (principally prepaid expenses)	46,569	38,373
	<u>701,721</u>	<u>635,254</u>
Deferred Charges	<u>48,805</u>	<u>47,471</u>
Total Assets	<u>\$5,820,597</u>	<u>\$5,138,688</u>

On behalf of the Board of Directors:

Herbert H. Lank, Director

Marcel Bélanger, Director

Liabilities and Shareholders' Equity

	(thousands of dollars)	
	December 31, 1974	December 31, 1973
Shareholders' Equity		
Capital stock (Note 5)		
Preferred shares	\$ 332,002	\$ 248,988
Common shares	933,471	925,011
Premium on capital stock	384,330	378,385
Contributed surplus	15,549	15,883
Retained earnings	537,331	449,043
	<u>2,202,683</u>	<u>2,017,310</u>
Minority Interest in Subsidiary Companies		
Preferred shares	44,343	33,035
Common shares	110,015	107,154
	<u>154,358</u>	<u>140,189</u>
Long Term Debt (Note 6)	<u>2,382,436</u>	<u>2,080,231</u>
Notes Payable	<u>61,707</u>	<u>13,277</u>
Current Liabilities		
Bank advances	18,066	27,162
Accounts payable	230,190	208,646
Advance billing for service	29,215	25,593
Dividends payable	33,764	29,776
Taxes accrued	44,035	36,180
Interest accrued	36,879	34,426
	<u>392,149</u>	<u>361,783</u>
Deferred Credits		
Income taxes	607,956	511,511
Unamortized investment tax credit	11,805	11,713
Employees' savings plans (Note 7)	3,247	2,674
Other	4,256	—
	<u>627,264</u>	<u>525,898</u>
Commitments (Note 10)		
Total Liabilities and Shareholders' Equity	<u>\$5,820,597</u>	<u>\$5,138,688</u>

G. L. Henthorn, Vice-President & Comptroller

Consolidated Statement of Premium on Capital Stock

	(thousands of dollars)	
	Year 1974	Year 1973
Balance at beginning of year	\$378,385	\$376,879
Premium on common shares issued during the year	5,945	1,506
Balance at end of year	<u>\$384,330</u>	<u>\$378,385</u>

Consolidated Statement of Contributed Surplus

	(thousands of dollars)	
	Year 1974	Year 1973
Balance at beginning of year	\$ 15,883	\$ 7,357
Increase (decrease) arising on consolidation from the issues of shares by subsidiaries	(334)	8,526
Balance at end of year	<u>\$ 15,549</u>	<u>\$ 15,883</u>

Consolidated Statement of Retained Earnings

	(thousands of dollars)	
	Year 1974	Year 1973
Balance at beginning of year	\$449,043	\$364,172
Net income	224,436	205,371
Excess of par value over cost of preferred shares purchased for cancellation (Note 5)	98	—
	<u>673,577</u>	<u>569,543</u>
Deduct:		
Dividends — Preferred shares	17,594	14,020
— Common shares (1974 — \$3.12 per share, 1973 — \$2.85)	115,940	105,268
	<u>133,534</u>	<u>119,288</u>
Expenses of issue of capital stock	2,712	1,212
	<u>136,246</u>	<u>120,500</u>
Balance at end of year	<u>\$537,331</u>	<u>\$449,043</u>

Consolidated Statement of Changes in Financial Position

	(thousands of dollars)	
	Year 1974	Year 1973
Source of Funds		
Operations		
Income before extraordinary item	\$ 224,436	\$199,975
Items not affecting current funds		
Depreciation	359,199	311,704
Deferred income taxes	96,445	89,847
Other — net	3,072	1,895
Total from operations	683,152	603,421
Extraordinary item	—	5,396
Adjustment to deferred income taxes	—	22,398
Proceeds from long term debt	333,507	215,154
Proceeds from notes payable (net)	48,430	—
Proceeds from preferred shares	91,449	49,788
Proceeds from issues of shares of subsidiaries to minority shareholders	14,279	40,984
Miscellaneous	13,729	8,946
	<u>\$1,184,546</u>	<u>\$946,087</u>
Disposition of Funds		
Capital expenditures		
Gross capital expenditures	\$ 982,992	\$693,461
Deduct: charges not requiring funds	(30,051)	(21,690)
Increase in material and supplies	12,217	20,555
Net expenditures	965,158	692,326
Dividends by Bell Canada	133,534	119,288
Dividends by subsidiaries to minority shareholders	9,241	6,839
Repayment of long term debt	34,657	41,411
Repayment of notes payable (net)	—	10,995
Acquisition of investments	2,710	2,958
Increase in working capital	36,101	55,037
Miscellaneous	3,145✓	17,233
	<u>\$1,184,546</u>	<u>\$946,087</u>
The increase in working capital is accounted for by:		
Increase (decrease) in current assets:		
Cash and temporary cash investments	\$ (103,661)	\$ 53,787
Accounts receivable	83,327	29,800
Inventories	78,605	64,750
Other	8,196	5,706
(Increase) decrease in current liabilities:		
Bank advances	9,096	(10,880)
Accounts payable	(21,544)	(58,785)
Advance billing for service	(3,622)	(2,462)
Dividends payable	(3,988)	(2,173)
Taxes accrued	(7,855)	(21,128)
Interest accrued	(2,453)	(3,578)
Increase in working capital, as above	<u>\$ 36,101</u>	<u>\$ 55,037</u>

Bell Canada (parent company)

Summarized Income Statement—Non-Consolidated (Note 1)

	(thousands of dollars)	
	Year 1974	Year 1973
Operating revenues		
Local service	\$ 774,474	\$ 698,082
Long distance service	637,699	552,109
Miscellaneous — net	27,950	25,013
Total Operating Revenues	<u>1,440,123</u>	<u>1,275,204</u>
Operating expenses		
Depreciation	287,632	257,096
Other operating expenses	723,083	618,892
Total Operating Expenses	<u>1,010,715</u>	<u>875,988</u>
Net Operating Revenues	429,408	399,216
Other income	44,630	39,278
Income before Underlisted Items	<u>474,038</u>	<u>438,494</u>
Interest charges		
Interest on long term debt	122,288	112,288
Other interest	5,302	937
Total Interest Charges	<u>127,590</u>	<u>113,225</u>
Income before Income Taxes and Extraordinary Item	346,448	325,269
Income taxes	<u>161,138</u>	<u>149,759</u>
Income before Extraordinary Item	185,310	175,510
Extraordinary item (Note 3)	—	5,396
Net Income	<u>185,310</u>	<u>180,906</u>
Dividends on preferred shares	<u>17,594</u>	<u>14,020</u>
Net Income Applicable to Common Shares	<u>\$ 167,716</u>	<u>\$ 166,886</u>
Earnings per Common Share*		
— before extraordinary item	\$4.52	\$4.37
— after extraordinary item	\$4.52	\$4.52
Assuming full conversion of convertible preferred shares		
— before extraordinary item	\$4.40	\$4.26
— after extraordinary item	\$4.40	\$4.40
*Based on average common shares outstanding (thousands)	37,128	36,931

9.67¢
on avg common
in 1974.

Bell Canada (parent company)

Summarized Balance Sheet—Non-Consolidated (Note 1)

	(thousands of dollars)	
	December 31, 1974	December 31, 1973
Assets		
Telecommunication Property — at cost		
Buildings, plant and equipment	\$5,418,692	\$4,869,512
Less: Accumulated depreciation	1,568,088	1,417,700
	<u>3,850,604</u>	<u>3,451,812</u>
Land, and plant under construction	302,406	232,513
Material and supplies	78,476	70,491
	<u>4,231,486</u>	<u>3,754,816</u>
Investments in Subsidiary and Other Companies — at cost	343,819	319,674
Current Assets	258,506	273,865
Deferred Charges	30,886	34,195
Total Assets	<u>\$4,864,697</u>	<u>\$4,382,550</u>
Liabilities and Shareholders' Equity		
Shareholders' Equity		
Capital stock		
Preferred shares	\$ 332,002	\$ 248,988
Common shares	933,471	925,011
Premium on capital stock	384,330	378,385
Retained earnings	451,738	402,415
	<u>2,101,541</u>	<u>1,954,799</u>
Long Term Debt	1,983,453	1,772,238
Notes Payable	32,418	—
Current Liabilities	236,701	222,030
Deferred Credits		
Income taxes	491,906	419,143
Other	18,678	14,340
	<u>510,584</u>	<u>433,483</u>
Total Liabilities and Shareholders' Equity	<u>\$4,864,697</u>	<u>\$4,382,550</u>

1974 CE = 1769,539 ✓
1973 CE = 1,705,811
any.

Notes to Financial Statements

1. Accounting Policies

Consolidation

The accounts of all companies in which Bell Canada owns more than 50% of the outstanding common shares have been included in the accompanying consolidated financial statements. These companies are:

	% Ownership of Common Shares
Northern Electric Company, Limited*	89.9%
Bell-Northern Research Ltd. (51% by Bell Canada and 49% by Northern Electric Company, Limited)	
The New Brunswick Telephone Company, Limited	50.3%
Northern Telephone Limited	99.7%
Newfoundland Telephone Company Limited	99.8%
Télébec Ltée	100%
Lièvre Valley Telephone Company	100%
The Capital Telephone Company Limited	100%
Telontario Incorporated	100%
The North American Telegraph Company	100%
Maritime Telegraph and Telephone Company, Limited**	51.7%

* At December 31, 1974, Bell Canada was the beneficial owner of 23,562,500 or 89.9% of the outstanding common shares. On November 19, 1974, warrants were issued together with Bell Canada \$4.23 Cumulative Redeemable Convertible Voting Preferred Shares comprising the Units sold to underwriters on October 22, 1974. The value of \$3.00 allocated to each warrant less related taxes is shown on the balance sheet as Deferred Credit. Assuming exercise of the 2,000,000 warrants outstanding at December 31, 1974, the shareholding would be 82.3%. Each warrant entitles the holder to purchase from Bell Canada prior to December 1, 1979 one common share of Northern Electric at \$21.50. At December 31, 1974, 2,000,000 common shares of Northern Electric have been deposited in escrow with the Warrant Trustee for that purpose.

** Maritime Telegraph and Telephone Company, Limited has been included because Bell Canada owns more than 50% of the outstanding common shares. At December 31, 1974, Bell Canada was the registered owner of 2,123,842 common shares; however, under a statute passed by the Legislature of Nova Scotia, not more than 1,000 shares may be voted by any one shareholder.

For companies acquired since 1970, the excess of cost of shares over acquired equity is being amortized to earnings over periods not exceeding forty years. Previously such excess was charged to Retained Earnings in the year of acquisition. Such amortization amounted to \$395,000 in 1974 (\$211,000 in 1973).

Telecommunication equipment, purchased by Bell Canada and its telephone subsidiaries from Northern Electric Company, Limited and its subsidiaries is reflected in the consolidated balance sheet at cost to the purchasing companies, and in the consolidated income statement is included in Sales revenues — manufacturing and distributing. To the extent that any income on these sales by Northern Electric Company, Limited, has not been offset by depreciation or other operating expenses, it remains in consolidated retained earnings and consolidated income. All other significant inter-company transactions have been eliminated in the accompanying consolidated financial statements.

Bell Canada's summarized income statement and balance sheet, on a non-consolidated basis are presented on pages 16 and 17.

Sales revenues — manufacturing and distributing comprise:

	(thousands of dollars)	
	Year 1974	Year 1973
Sales to:		
Bell Canada	\$461,883	\$316,983
Telephone subsidiaries	60,814	29,406
Sub-Total	522,697	346,389
Sales to others	449,529	267,383
Total Sales	\$972,226	\$613,772

Income taxes

Bell Canada and all subsidiaries use the tax allocation basis of accounting for income taxes. Reduction in income taxes relating to losses carried forward in subsidiaries are not recorded in the accounts until the date of realization is determined.

Inventories

Inventories held by the manufacturing and distributing subsidiaries are valued at the lower of cost (calculated generally on a first-in, first-out basis) and net realizable value, except for copper in raw materials and work-in-process which is valued on the base-stock method.

Depreciation

Depreciation is computed on the straight line method using rates based on the estimated useful lives of the assets. When depreciable telecommunication property, other than minor items thereof which are replaced, is retired, the amount at which such property has been carried in Telecommunication Plant is charged to Accumulated Depreciation.

Research and development

Research and development costs are, with minor exceptions, expensed currently.

Investment tax credit

This investment tax credit has been deferred and is being amortized by credits to income, as a reduction of income taxes, over the average estimated service life of telecommunication property.

2. Other Income

Other income, less miscellaneous income charges, includes investment income of \$10,306,000 (\$11,983,000 — 1973) and interest charged to construction of \$17,178,000

(\$11,268,000 — 1973). The latter item is also included in the item "charges not requiring funds" in the Statement of Changes in Financial Position.

3. Extraordinary Item

Extraordinary item represents interest of \$5,396,000 (\$0.14 per common share), net of income taxes of \$5,618,000, on income tax refunds resulting from re-assessments in 1973 of income taxes for the years 1964 to 1969.

4. Inventories

Inventories are classified as follows:

	(thousands of dollars) December 31,	
	<u>1974</u>	<u>1973</u>
Manufacturing and distributing —		
Raw materials	\$ 36,678	\$ 15,145
Work-in-process	130,598	100,868
Finished goods	88,624	61,282
	<u>\$255,900</u>	<u>\$177,295</u>

5. Capital Stock

Authorized:

By Charter — \$1,750,000,000 divided into Common Shares of the par value of \$25 each, and into Preferred Shares.

By Shareholders — \$1,750,000,000 divided into Common Shares of the par value of \$25 each and (a) not more than 4,000,000 of a class of Preferred Shares to a maximum

aggregate amount of \$100,000,000; (b) not more than 9,000,000 of another class of Preferred Shares to a maximum aggregate amount of \$225,000,000; and (c) not more than 12,000,000 of another class of Preferred Shares to a maximum aggregate amount of \$300,000,000.

Changes in Bell Canada's issued capital stock during 1974 were as follows:

	Outstanding at January 1, 1974	Issued for Cash	Conversion of Preferred Shares	Purchases of Preferred Shares for Cancellation	Outstanding at December 31, 1974
(dollars are in thousands)					
Preferred Shares					
Cumulative, Redeemable, Convertible and Voting					
\$3.20 Shares (Par value of \$47 per share)					
Number	1,999,813	—	(173,168)	—	1,826,645
Total par value	\$ 93,991	\$ —	\$ (8,139)	\$ —	\$ 85,852
\$3.34 Shares, Class B, Series B (Par value of \$52 per share)					
Number	1,999,950	—	(25,325)	—	1,974,625
Total par value	\$ 103,997	\$ —	\$ (1,317)	\$ —	\$ 102,680
\$4.23 Shares, Class C, Series D (Par value of \$47 per share)					
Number	—	2,000,000	—	—	2,000,000
Total par value	\$ —	\$ 94,000	\$ —	\$ —	\$ 94,000
Cumulative, Redeemable and Voting					
\$2.25 Shares, Class B, Series C (Par value of \$30 per share)					
Number	1,700,000	—	—	(51,000)	1,649,000
Total par value	\$ 51,000	\$ —	\$ —	\$ (1,530)	\$ 49,470
Total par value of Preferred Shares	\$ 248,988	\$ 94,000	\$ (9,456)	\$ (1,530)	\$ 332,002
Common Shares*					
(Par value of \$25 per share)					
Number	37,000,426	139,925	198,493	—	37,338,844
Total par value	\$ 925,011	\$ 3,498	\$ 4,962	—	\$ 933,471

*Any excess of proceeds over par value is allocated to Premium on Capital Stock.

The \$3.20 Preferred Shares are not redeemable prior to February 1, 1976, but may be redeemed thereafter at \$47 plus a premium of \$3.00 diminishing \$0.50 at the end of each subsequent year to February 1, 1982, and thereafter at \$47. Each \$3.20 Preferred Share may be converted into one common share on or before February 1, 1982, and 1,826,645 common shares have been reserved for this purpose.

The \$3.34 Preferred Shares, Class B, Series B, are not redeemable prior to August 1, 1977, but may be redeemed thereafter at \$52 plus a premium of \$3.00 diminishing \$0.50 at the end of each subsequent year to August 1, 1983, and thereafter at \$52. Each \$3.34 Preferred Share, Class B, Series B, may be converted into one common share on or before August 1, 1983, and 1,974,625 common shares have been reserved for this purpose.

The \$4.23 Preferred Shares, Class C, Series D, are not redeemable prior to December 1,

1980, but may be redeemed thereafter at \$47 plus a premium of \$4.00 diminishing \$0.70 at the end of each subsequent year to December 1, 1983, \$0.60 at December 1, 1984, \$0.70 at December 1, 1985, \$0.60 at December 1, 1986, and thereafter at \$47. Each \$4.23 Preferred Share, Class C, Series D, may be converted into one common share on or before December 1, 1986, and 2,000,000 common shares have been reserved for this purpose.

The \$2.25 Preferred Shares, Class B, Series C, are not redeemable prior to October 1, 1983, but may be redeemed thereafter at \$30 plus a premium of \$1.50 diminishing \$0.375 at the end of each subsequent five years to October 1, 2003, and thereafter at \$30.

At December 31, 1974, 214,001 common shares have been reserved for the Employees' Savings Plan (1966).

6. Long Term Debt

Bell Canada

First Mortgage Bonds (secured by a first mortgage and a floating charge)

Maturity Date		Rate of Interest	Series	(thousands of dollars)	
				Authorized	Outstanding
June	1, 1975	3½ %	G	\$ 40,000	\$ 40,000
May	1, 1976	3½ %	I	40,000	40,000
March	1, 1977	3 %	E	35,000	35,000
May	1, 1977	8 %	AN	55,000 (a)	54,749 (a)
January	2, 1978	6¼ %	R	35,000	35,000
November	1, 1978	7½ %	AK	10,000	10,000
November	15, 1978	7½ %	AU	25,000	25,000
May	15, 1979	3¾ %	K	40,000	40,000
June	3, 1979	9¾ %	BF	45,000	45,000
December	1, 1979	9½ %	AR	25,000	25,000
July	2, 1980	5¼ %	Q	30,000	30,000
August	1, 1980	8 %	AX	32,000	32,000
April	1, 1981	6 %	AC	13,500	13,500
May	1, 1981	7¾ %	BC	15,000	15,000
June	1, 1981	4 %	M	24,000	24,000
January	2, 1982	5½ %	V	40,000	40,000
August	2, 1982	5¾ %	T	50,000	50,000
March	15, 1983	4¼ %	P	50,000 (b)	50,000 (b)
June	15, 1984	5½ %	W	30,000	30,000
October	1, 1984	5¾ %	Y	30,000	30,000
August	1, 1985-1997	8¾ %	AZ	26,000 (c)	26,000 (c)
January	2, 1986	6 %	U	35,000	35,000
July	15, 1987	6½ %	AE	35,000	35,000
May	1, 1988	4¾ %	X	50,000 (b)	50,000 (b)
November	1, 1988	6¼ %	AH	50,000	50,000
January	15, 1989	9 %	AP	30,000 (d)	30,000 (d)
October	1, 1989	4.80 %	Z	50,000 (b)	50,000 (b)
February	1, 1990	6¾ %	AG	30,000	30,000
May	1, 1990	8¼ %	AO	— (a)	251 (a)
August	14, 1990	9¾ %	AQ	50,000	50,000
April	1, 1991	6 %	AD	26,500	26,500
November	1, 1991	7½ %	AL	30,000	30,000
March	15, 1992	8 %	AT	65,000	65,000
September	15, 1992	6¾ %	AI	45,000	45,000
April	14, 1993	8 %	AW	50,000	50,000
August	1, 1993	8¾ %	AY	42,000	42,000
December	1, 1993	9¾ %	AS	35,000	35,000
April	1, 1994-2003	7¾ %	BB	40,000 (b,e)	40,000 (b,e)
May	1, 1994	8½ %	BD	50,000	50,000
November	15, 1994	8 %	AV	65,000	65,000
December	1, 1994	10½ %	BH	60,000 (f)	60,000 (f)
June	1, 1995-2004	9½ %	BE	130,000 (b,g)	62,500 (b,g)
September	1, 1995	4.85 %	AA	50,000 (b)	50,000 (b)
December	1, 1995	4.85 %	AB	28,000 (b)	28,000 (b)
June	3, 1996	10 %	BG	70,000	70,000
October	14, 1996	6 %	AF	44,000 (b)	44,000 (b)
February	1, 1997	8 %	BA	50,000	50,000
December	1, 1997	6.60 %	AJ	51,000 (b)	51,000 (b)
September	17, 1998	6.90 %	AM	75,000 (b)	75,000 (b)
				<u>\$2,027,000</u>	<u>1,959,500</u>
Exchange premium less discount, at time of issue, on bonds payable in					
United States funds					23,953 (h)
Total — Bell Canada					<u>1,983,453</u>
Subsidiaries					
Northern Electric Company, Limited (Consolidated)					107,754
The New Brunswick Telephone Company, Limited (Consolidated)					83,000
Northern Telephone Limited (Consolidated)					23,213
Newfoundland Telephone Company Limited					60,365
Télébec Ltée					401
Maritime Telegraph and Telephone Company, Limited (Consolidated)					124,250
Total — Subsidiaries					398,983 (i)
Total — Consolidated					<u>\$2,382,436</u>

- (a) Series AN Bonds are exchangeable at the option of the holders on any interest payment date from November 1, 1970 to and including November 1, 1975 for First Mortgage 8¼ % Bonds, Series AO, to mature May 1, 1990.
- (b) Payable in United States funds.
- (c) Series AZ Bonds mature \$2,000,000 per annum on August 1 in each of the years 1985 to 1997 inclusive.
- (d) The holder of any Series AP Bond has the right to elect prior to July 15, 1975 that Bell Canada shall prepay the principal amount of such Bonds on January 15, 1976, and the holders of \$274,000 of these Bonds have so elected as at December 31, 1974.
- (e) Series BB Bonds mature \$4,000,000 U.S. per annum on April 1 in each of the years 1994 to 2003 inclusive.
- (f) The holder of any Series BH Bond will have the right to elect, after June 1, 1984 and prior to September 1, 1984, that Bell Canada shall prepay the principal amount of such Bonds on March 1, 1985.
- (g) Series BE Bonds which will mature \$13,000,000 U.S. per annum on June 1 in each of the years 1995 to 2004 have been authorized on May 31, 1974, for sale by way of private placement. Of these Bonds \$62,500,000 U.S. have been delivered and paid for to December 31, 1974 and the remaining \$67,500,000 U.S. were delivered and paid for on February 4, 1975.
- (h) Based on the exchange rate at December 31, 1974 this premium would be changed to a discount of \$4,705,000.
- (i) Interest rates and maturity dates of long term debt of subsidiaries are as follows:

(thousands of dollars)							Total Out- standing
Maturity Dates*	Interest Rates				Primarily at Prime Bank Rate	Non- Interest Bearing	
	3-5½ %	6-7½ %	8-9½ %	10-11 %			
First Mortgage Bonds							
1975	\$ 3,000	\$ 90	\$ —	\$ —	\$ —	\$ —	\$ 3,090
1976	2,000	—	—	—	—	—	2,000
1977	1,215	—	6,000	—	—	—	7,215
1978	4,840	500	—	—	—	—	5,340
1979	—	820	—	—	—	—	820
1980-84	10,250	2,073	—	—	—	—	12,323
1985-89	10,000	11,000	—	—	—	—	21,000
1990-94	—	5,500	90,250	—	—	—	95,750
1995-96	—	—	—	37,500	—	—	37,500
Debentures and Other							
1975	777	8	60	—	88	3,119	4,052
1976	9,958	—	—	—	568	1,649	12,175
1977	2,000	—	—	—	35,664	1,650	39,314
1978	1,462	—	—	—	759	463	2,684
1979	3,000	—	—	—	768	114	3,882
1980-84	26,024	1,707	2,700	—	2,304	68	32,803
1985-89	—	33,710	8,500	—	—	—	42,210
1990-94	—	—	51,325	2,500	—	—	53,825
1995-97	—	—	23,000	—	—	—	23,000
	<u>\$74,526</u>	<u>\$55,408</u>	<u>\$181,835</u>	<u>\$40,000</u>	<u>\$40,151</u>	<u>\$7,063</u>	<u>\$398,983</u>

* Excludes sinking fund requirements.

At December 31, 1974 the amount of long term debt payable, including sinking fund requirements, by Bell Canada and Subsidiary Companies in the years 1975 through 1979 is \$53,868,000, \$57,120,000, \$139,905,000, \$81,557,000 and \$118,650,000 respectively.

7. Employees' Savings Plans

Prior to July 1, 1970 employees of Bell Canada purchased Common Shares from Bell Canada under the terms of employees' savings plans by deductions from pay of a proportion of basic wages and by assignment of dividends from the shares so acquired.

Effective July 1, 1970 the payroll deduction portion of the existing Employees' Savings Plan (1966) was cancelled and replaced by the Employees' Savings Plan (1970) entitling employees to subscribe up to 10% of their basic wages, which, together with a company contribution (charged to operating expenses) not to exceed 2% of such basic wages, is used

by a trustee to make monthly purchases of outstanding Common Shares of Bell Canada on the open market for the benefit of participating employees. The assignment of dividends for the purchase of shares under the Employees' Savings Plan (1966) continues for employees enrolled for such assignments prior to July 1, 1970. At December 31, 1974 deposits received from employees, plus interest, aggregated \$2,715,000 under the Employees' Savings Plan (1966) and \$532,000 under the Employees' Stock Plans of The New Brunswick Telephone Company, Limited and of Maritime Telegraph and Telephone Company, Limited.

8. 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 last actuarial reviews of December 31, 1973 indicated that all vested benefits were fully funded and that on a winding-up basis no unfunded liability existed in respect of past service pension costs.

The total provisions, including amounts charged to construction, for the cost of pension plans were \$66,191,000 in 1974 (\$52,174,000 — 1973).

9. Remuneration of Directors and Officers

During the year 1974, Bell Canada's shareholders were served by 22 directors. As such, their aggregate remuneration from Bell Canada was \$213,000. Certain of them served also as directors of Northern Electric Company, Limited, a subsidiary company; as such their aggregate remuneration was \$35,000 from that company.

Bell Canada had 32 officers during 1974 and their aggregate remuneration as officers was \$2,246,000. Two of the officers served also as directors of Bell Canada.

10. Commitments

(a) Material contractual obligations in respect of long term leases, principally covering building space, amounted to \$175,309,000 at December 31, 1974. Related rentals incurred for the year 1974 amounted to \$9,434,000 and the minimum amount applicable to the next five years is \$48,395,000.

Bell Canada has agreed to purchase a mortgage for a sum not to exceed \$37,106,000 in the event of mortgage payment default by the owner of a building. In such event the lease commitments of \$175,309,000 will be reduced by approximately \$75,902,000.

(b) Bell Canada and some of its subsidiary companies have executed agreements with Telesat Canada for the supply to them of certain satellite telecommunication services, the major portion of which terminates in January, 1978. On December 31, 1974, the maximum obligation under these agreements amounted to \$27,516,000 subject to reduction in the event that any part of the said services should be unavailable in accordance with the terms of these agreements.

Auditors' Report

The Shareholders,
Bell Canada.

We have examined the consolidated balance sheet of Bell Canada and subsidiary companies as at December 31, 1974 and the consolidated statements of income, retained earnings, premium on capital stock, contributed surplus and changes in financial position for the year then ended. For Bell Canada and those subsidiaries of which we are the auditors, our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. With respect to those subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to accept for purposes of consolidation the reports of the other auditors.

In our opinion, these consolidated financial statements present fairly the financial position of the Company and its subsidiaries as at December 31, 1974 and the results of their operations and the changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.
Chartered Accountants.

Montreal, Que.
February 12, 1975.

Bell Canada — Non-Consolidated Benefits and Pensions

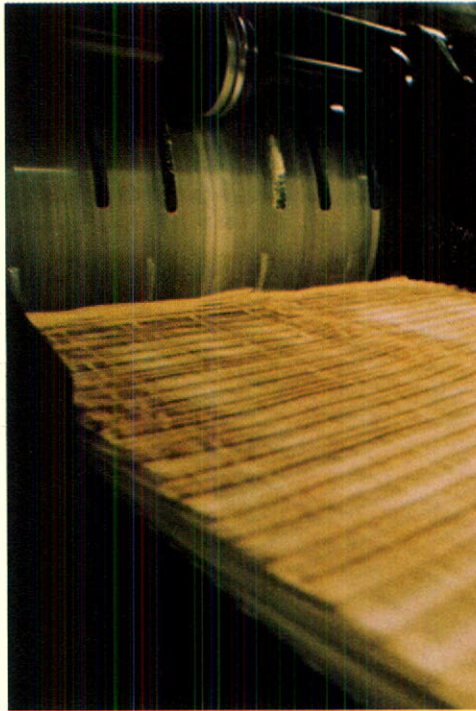
Year 1974

Sickness Benefits	\$3,687,634
Accident Benefits	257,512
Death Benefits	1,422,638
Disability Pensions	353,043

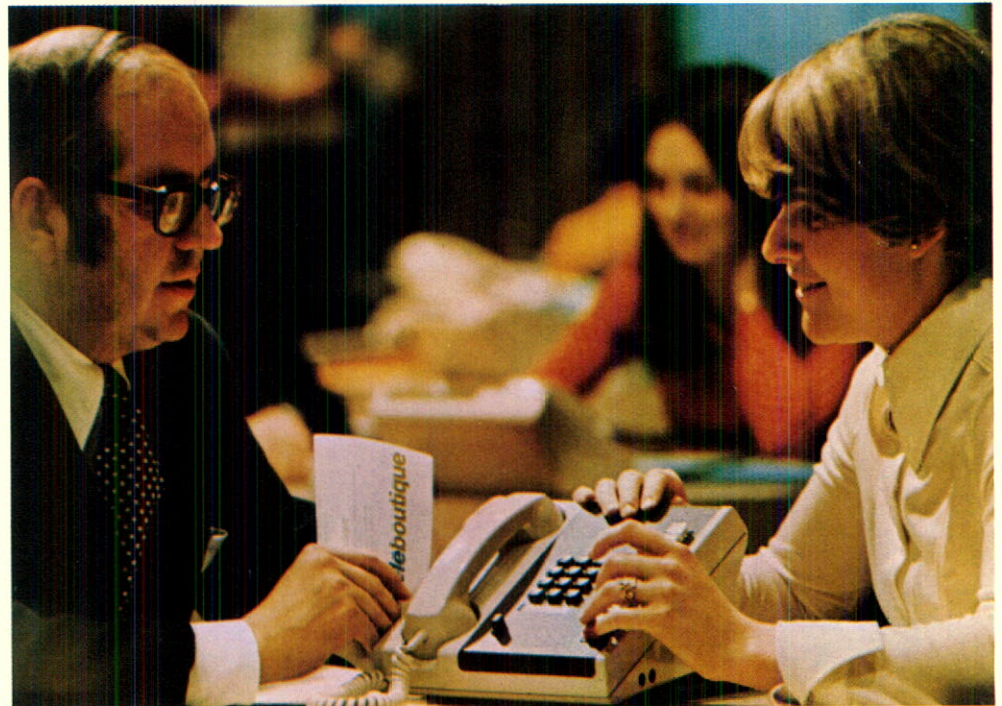
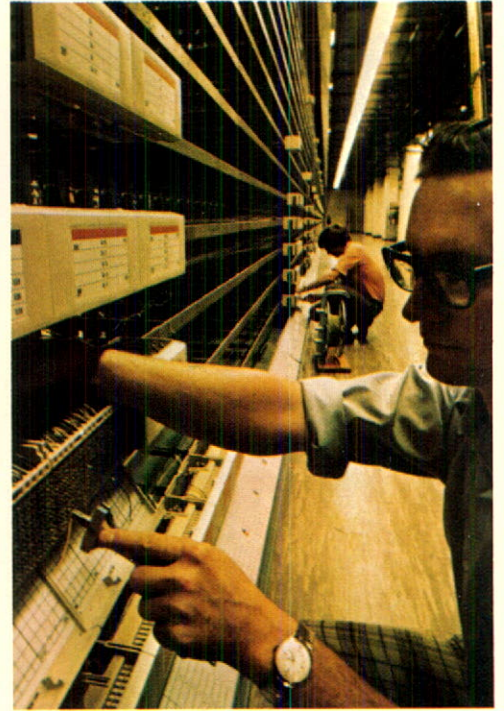
Bell Canada has established a fund with The Royal Trust Company, Montreal, as Trustee. This fund is irrevocably devoted to service and deferred pension purposes. Under an accrual program based on actuarial studies, regular payments are made to the fund by Bell Canada and amounted to \$38,909,630 in the year 1974. The amount in the fund fully provides for future payments to those now on the pension rolls and those now entitled to retire on service pension at their own request, or to a deferred pension. The fund is not a part of the assets of Bell Canada and is, therefore, not reflected in the balance sheet.

Integration— the key element

Tele-Direct, a member of the Bell Canada family of companies, prints over 13 million telephone directories annually.



The SP-1 family of electronic switching systems provides new services for business and the home.



An experiment in marketing — the Phone Centre.

Bell Canada is currently assessing the service needs of its rural customers.



The Bell Canada Group of companies expanded virtually all aspects of telecommunication activity in 1974 in response to increased customer demand. Our customers represent a great majority of all Canadians.

The ability of the enterprise to respond rapidly to the needs of Canadians with new and expanded services and proven products is one of the major benefits derived from the integration of telecommunication planning, research, manufacture and operations. The continued profitable performance of the group, combined with the provision of low-cost universal telecommunication services, are further evidence of the value of integration.

Bell Canada is a world leader in telecommunications in partnership with more than forty affiliated companies. The group is the nation's largest industrial entity, with total assets of more than \$5.8 billion. As an employer of over 80,000 able people, and one of the largest corporate taxpayers in the country, the Bell Canada Group of companies contributes directly to Canada's national and regional economies. Its purchases and capital expenditures stimulate economic development in hundreds of Canadian communities.

Operating the Network

Bell Canada and its telephone company affiliates operate approximately 70 per cent of Canada's estimated 12 million telephones. They spent about \$983 million in 1974 to replace or modernize existing installations, to relocate services for today's highly mobile customers, and to meet increasing demands for diversified telecommunication facilities.

An important portion of this capital outlay goes to ultra-modern telephone exchanges, such as the SP-1. The SP-1 is a computer-controlled electronic



"Datapac" — a new nation-wide network for data communications.

Consulting Services Group offers services to telecommunication companies throughout the world.



Providing improved telecommunication services to people in Canada's far north.



The Vucom II video display computer terminal provides rapid data transmission services for business customers.

switching system designed by Bell-Northern Research and manufactured by Northern Electric. It is more efficient, dependable, versatile and costs less to operate than the step-by-step or crossbar systems it replaces or supplements. And it provides a wide range of new services for both business and residential customers. At the end of 1974, there were 20 SP-1 systems in operation within the Bell Canada Group of companies.

Another major undertaking at Bell Canada in 1974 was the LD-4 digital coaxial cable carrier system, a multi-million dollar project. The LD-4 is capable of transmitting 20,000 simultaneous telephone conversations or computer communications on a single cable. The system is scheduled for service during 1975 in the busy Montreal-Ottawa communications corridor with extension to Toronto in 1976.

Better Serving Residential and Business Users

In 1974, Bell Canada introduced a new telephone shopping convenience for residential customers — the Phone Centre, available on an experimental basis in three test areas. Customers may visit the Phone Centre, select a telephone from many models, take the set home and plug it into pre-installed outlets in their residence. If the concept proves popular with customers, the Company will extend the service to other areas.

As part of a continuing assessment of customers' needs, Bell Canada in 1974 surveyed the telephone service requirements of rural householders. This information will assist the Company in meeting the future service needs of rural subscribers.

To meet the growing use of computer communications by business, Bell Canada, in conjunction with the

Trans-Canada Telephone System, offers a variety of services through its Computer Communications Group. Among the most recent services offered are the Vucom II visual display computer terminal; the Datacom 500 and 600 high-speed teletypewriters; and the Dataroute, the world's first nation-wide digital data transmission service available on a commercial basis.

The newest service is Datapac, a packet-switched digital data network with the capability of connecting anyone to any computer over a common shared network. Datapac is designed to become the basic Canadian network for data communications, just as the telephone network is for voice. The system is the most advanced development of its kind in the world, and it will further enhance Canada's acknowledged leadership.

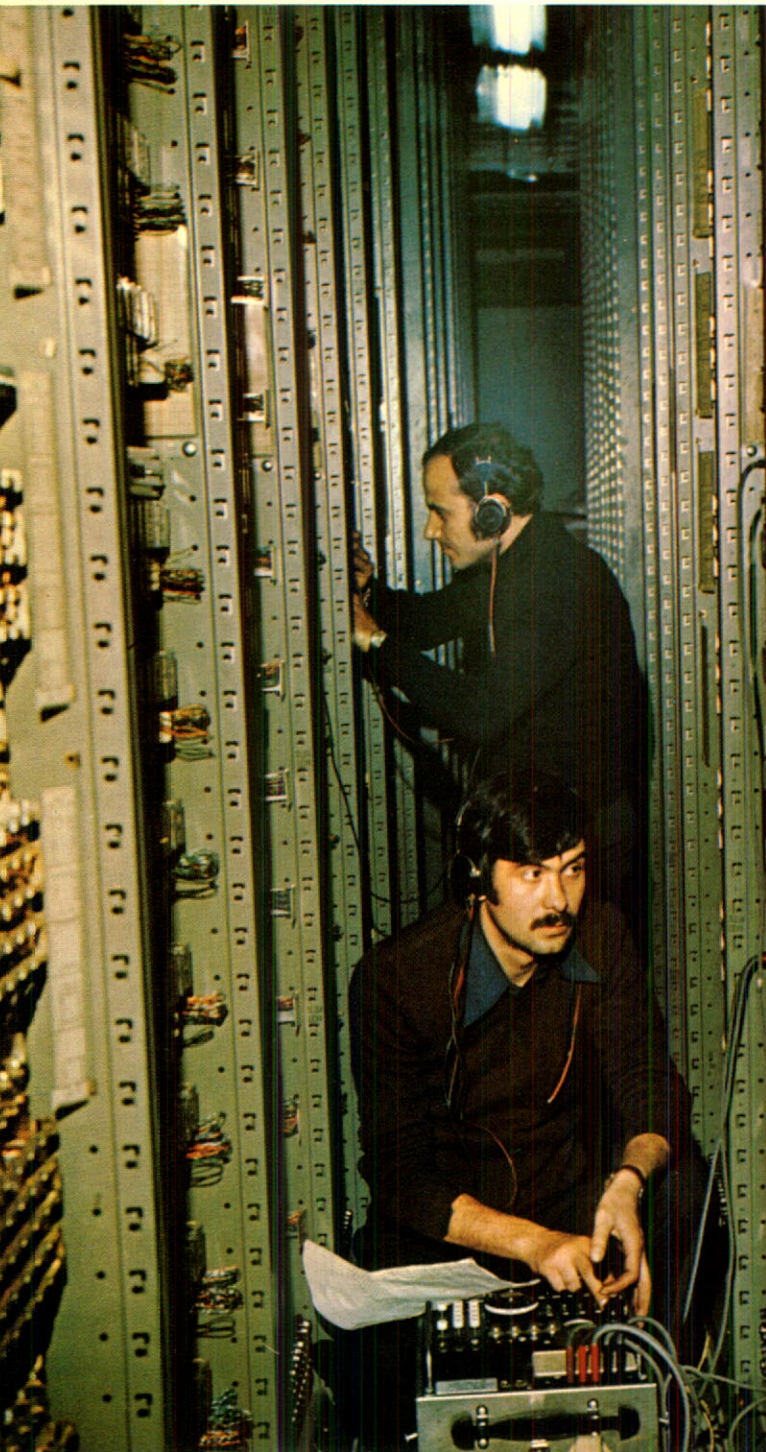
Datapac 1000, available now, is an inquiry-response service which transmits sales data, stock quotations, reservations, credit card verification and inventory control data. The service is being provided on interim technology until the full Datapac network is operational in mid-1976.

While Bell Canada's primary telecommunication market is Canada, it also exports its technology and know-how overseas. The Company's Consulting Services Group was formed in 1967 to permit telecommunication organizations around the world to benefit from our technological expertise. In recent years, the group expanded its services to Africa, Europe, Asia and South America. It has three training schools located in Canada.

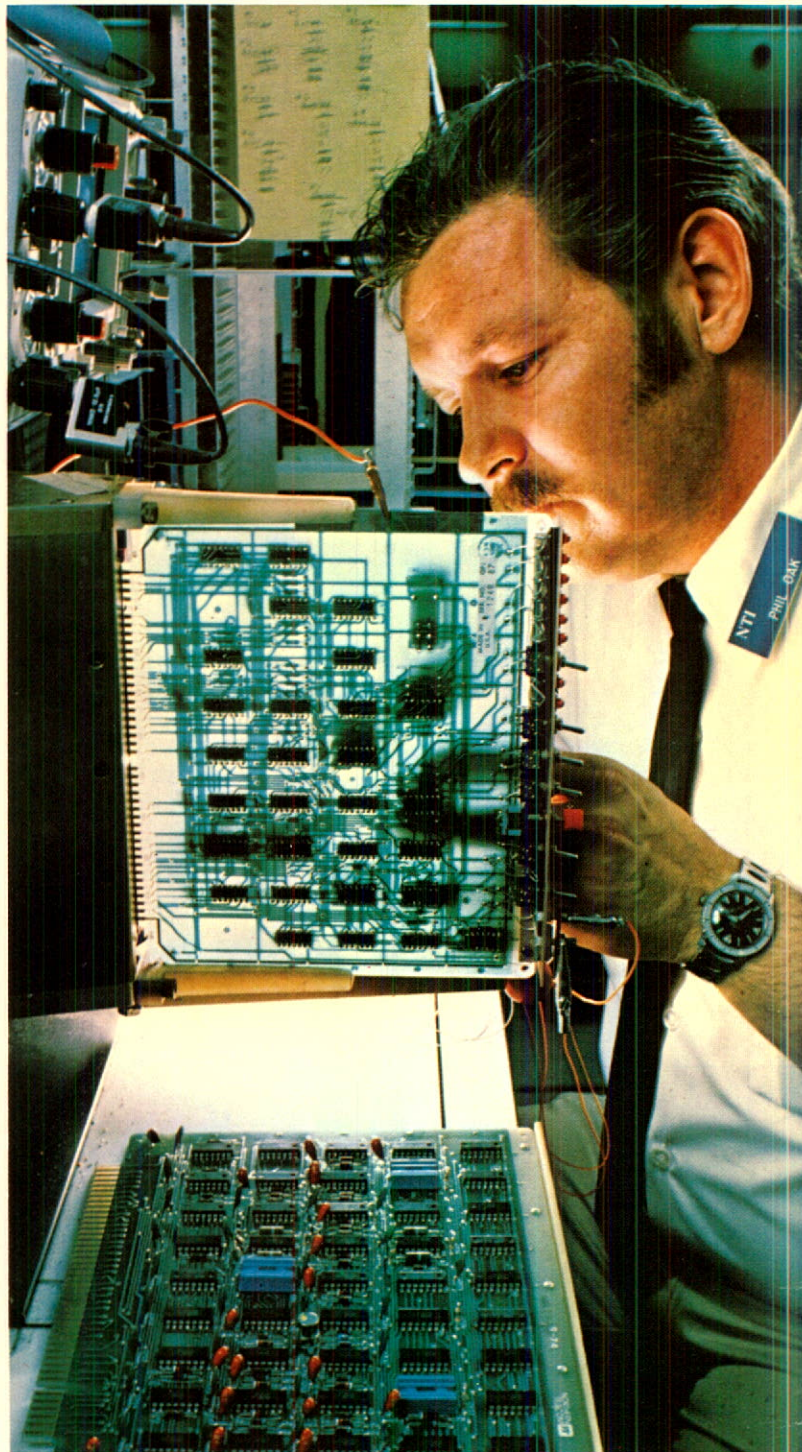
Telecommunications for Canada's North

Bell Canada is actively engaged in providing telecommunication services to the Arctic regions. The Company is a shareholder in Telesat Canada and a major user of ANIK-1, the world's first synchronous domestic communication satellite, launched by Telesat Canada in 1972. Bell Canada's use of ANIK-1 enables the Company to provide improved communications service to settlements and exploration activities in Canada's far north.

About 8,000 people living north of the 51st parallel in Ontario will be served by a new telephone network scheduled to begin operation in 1976 and 1977. Bell Canada and the Ontario Ministry of Transportation and Communications developed the new system, which will use both a Bell Canada microwave system and Telesat Canada earth station satellite facilities.



Northern Electric's subsidiary in Istanbul produces equipment for Turkey's national telecommunication system.



Northern Telecom's plant in California produces apparatus for the U.S. telecommunication market.

Building the Network

Northern Electric Company, Limited is one of the largest telecommunication equipment manufacturers in the world. Its sales to all major Canadian telephone companies account for an estimated 75 per cent of this market, though less than 50 per cent of its total sales are to Bell Canada.

In recent years Northern Electric has become established in international markets both as an exporter and multinational manufacturer. At the end of 1974, the company and its subsidiaries operated 24 manufacturing plants in Canada, five in the U.S., and three others in Europe and Asia.

Manufacture and Supply

Northern Electric and its subsidiaries have operations in all Canadian provinces. A major subsidiary, Nedco, is a fast growing national distributor of electrical, electronic and industrial products. More than 80 per cent of the products it distributes comes from sources other than Northern Electric. Nedco and its subsidiaries operate some 50 sales offices across Canada. The largest proportion of its sales are to contractors, manufacturers, power utilities, telephone companies and governments.

International Expansion

Northern Electric has been rapidly expanding into international markets. The company and its subsidiaries now have manufacturing, sales or purchasing operations in the United States, United Kingdom, Ireland, Holland, Turkey, Malaysia, Singapore and Hong Kong.

Northern Electric's principal telecommunication equipment manufacturing and marketing subsidiary is Northern Telecom Inc., with its head office in Boston, Massachusetts, and five plants in major U.S. market areas.

Northern Telecom's principal market consists of independent telephone companies, which operate approximately 25 million telephones. The company is also increasing its sales to companies in the Bell System in the United States.

New subsidiaries formed in 1974 included Northern Electric (Europe) N.V., based in Amsterdam, to serve the European Economic Community telecommunication market and Northern Electric (Asia) Limited, to serve markets in Southeast Asia. Northern Electric (Asia) is totally owned by Northern Electric (International) N.V., also incorporated in 1974 and based in Amsterdam. Northern Electric also made or is negotiating a number of licensing, distribution and joint venture agreements with companies in Europe.

Major Products

One of Northern Electric's principal product lines is telephones and business communications systems. Recent product introductions include: the Centurion, a vandal-resistant, more modern coin telephone; the Logic series of key telephone sets, designed primarily for the business communications market; and, introduced in 1974, the Pulse 120, another new business communications system providing a wide range of new services particularly suited to smaller businesses. These, and other similar Northern Electric products, make better use of modern technology to provide greater flexibility, simplicity, speed and economy of telecommunications.

The Logic series of key telephone sets has won wide acceptance from business users.

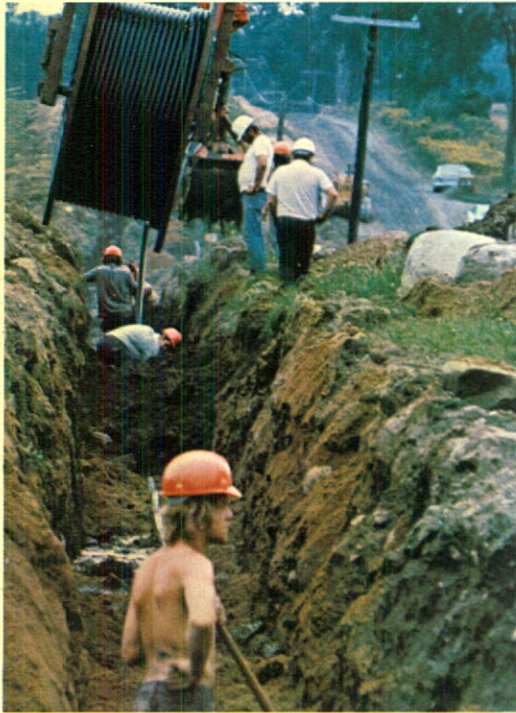


The Pulse 120 business communications system is ideal for smaller businesses.



The RA-3 family of radio systems has been sold to many Canadian and international telephone companies.

The new LD-4 digital coaxial cable system, now being installed in the high-capacity Montreal-Ottawa-Toronto route.



The peg locator enables telephone companies and public utilities to pinpoint underground equipment via radio frequencies.



Northern Electric also produces step-by-step, crossbar and electronic switching equipment. Mentioned earlier, the SP-1, manufactured exclusively by the company, is now in service across Canada and from Alaska to Florida. Since the product's introduction, 115 SP-1 systems, having a total sales value of more than \$300 million, have been installed or were on order at the end of 1974.

The company also manufactures high-performance transmission systems, including multiplex and microwave equipment. A major product in this market is the RA-3 family of radio systems, used in several countries for long-haul, heavy-route microwave transmission.

Another Northern Electric innovation is the peg locator. Using radio frequencies, the unit detects pegs buried along underground cable and enables telephone companies, hydro and public utilities, municipalities and contractors to pinpoint underground cables quickly and accurately.

Designing the Network

More and more of the innovative systems and equipment manufactured and sold by Northern Electric and introduced into telecommunication operation by Bell Canada in recent years are the result of research and development work done by Bell-Northern Research Ltd. (BNR). This company, with a staff of over 1,700, including more than 800 engineers, scientists and technical personnel, is Canada's largest privately-owned research and development organization.

Bell Canada's close association with BNR enables the Company to apply technological innovation in



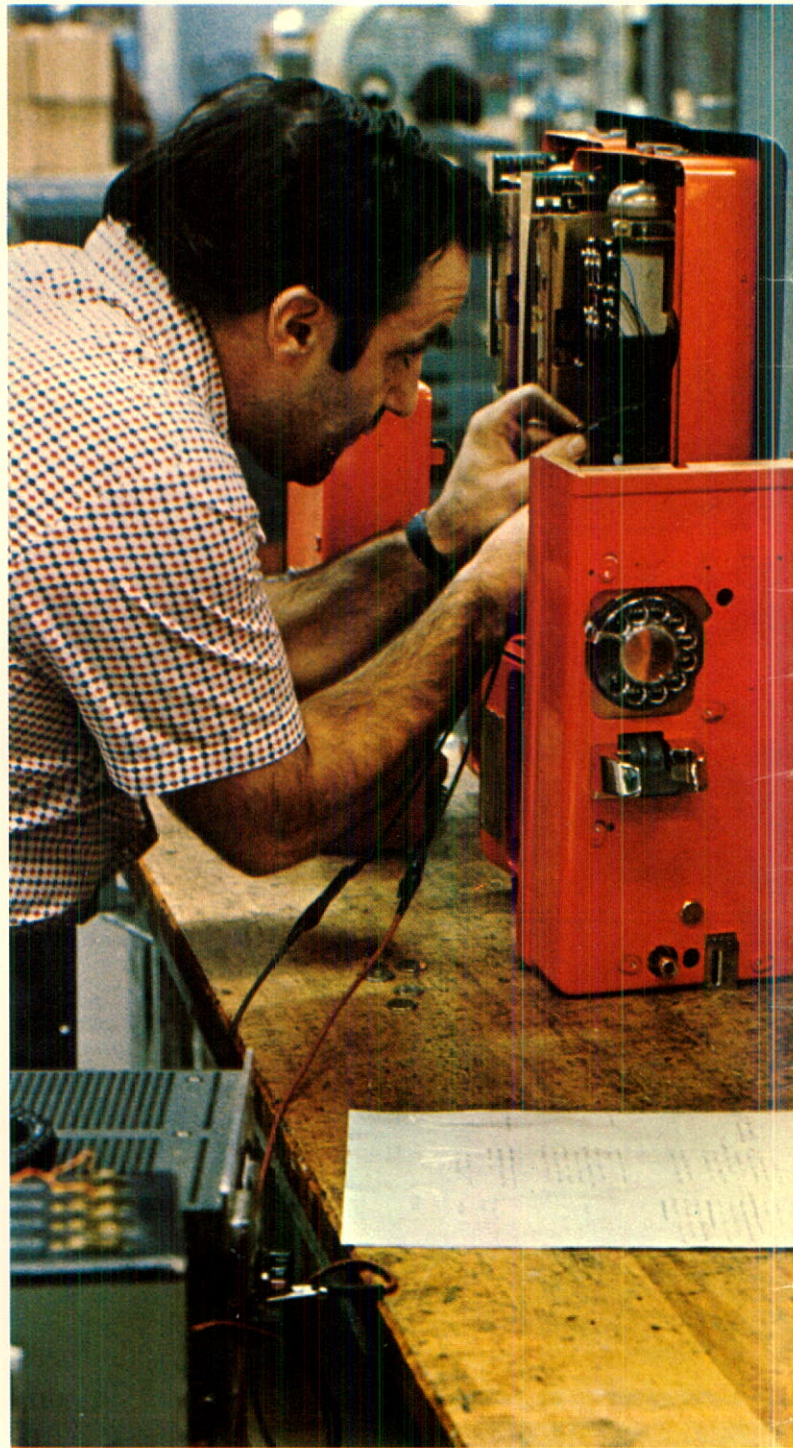
Splicing LD-4 cable at Northern Electric's wire and cable division. The system can accommodate 20,000 two-way voice channels on a 12-tube coaxial cable.



Nedco Ltd., the largest distribution company of its kind in Canada, sells a wide range of electrical and industrial products throughout the country.



Research that leads to new and cost-saving technology is a cornerstone of BNR activities.



BNR adapted a special semi-conductor memory technology for use in the Centurion coin telephone.

improving service performance to help offset rising costs and to meet diverse customer needs. In 1974, the Bell Canada Group of companies spent \$47.6 million for telecommunication research and development work undertaken by BNR.

In addition, BNR provides services for other companies in the Trans-Canada Telephone System and for governmental agencies and independent organizations in North America.

BNR designed the SP-1 electronic switching system, the LD-4 coaxial cable carrier system, and adapted Metal Oxide Semi-conductor memory technologies for use in the SP-1 and the Centurion coin telephone. The light-weight, miniaturized, noise-free Electret microphone was first developed as a commercially viable device at the BNR laboratories.

TOPS (Traffic Operator Position System), a cordless switchboard, manufactured by Northern Electric, was designed by BNR. An integral unit of the SP-1 long distance system, the TOPS computerized console equipment improves working conditions for operators, and reduces the cost of handling long distance calls.

A dramatically new business communications system, the SL-1, is now being readied for the market by BNR and Northern Electric. The SL-1 will be the first system to use stored program computer control and digital switching technology.

Pioneering the Technologies of Tomorrow

There has been growing interest in scientific circles in a new concept in semi-conductor electronics. This is the technology of charge-coupled devices (CCDs), for which BNR scientists have developed a simple and effective production process. Charge-coupled



TOPS will provide a comfortable and efficient work station for long distance operators.

The Electret microphone developed at BNR has attracted world-wide attention.

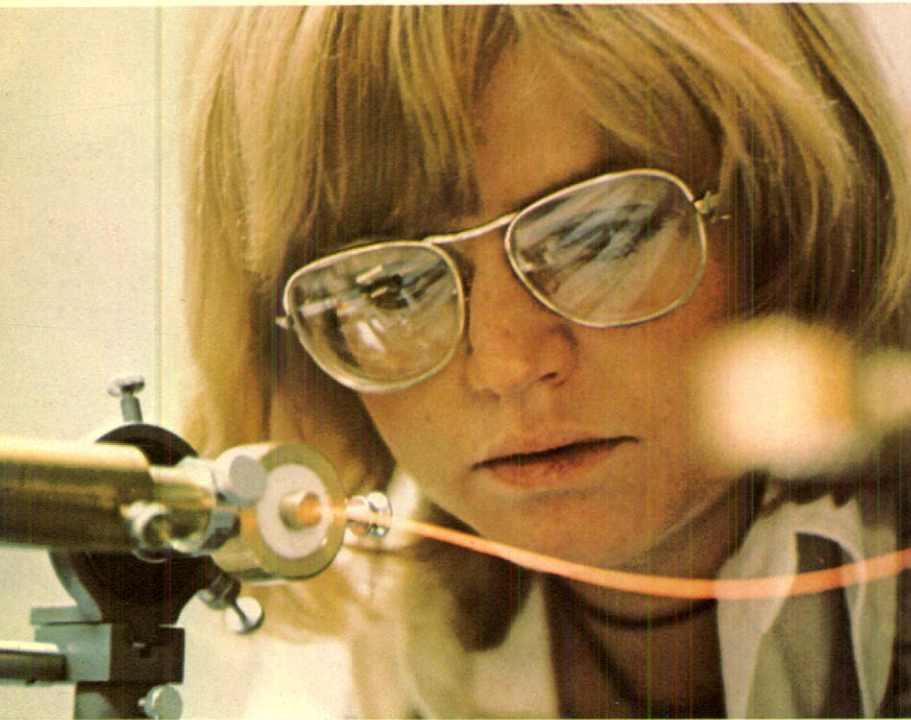


devices can perform electronic functions in computers and telecommunication systems that otherwise would require integrated circuits and semiconductors of much greater complexity. CCDs may in the future provide a source of high-density, low-cost mass memories for telephone switching systems. In 1974, BNR developed a large scale CCD memory device which has been made available in prototype quantities.

Communication by means of light sent along optical fibres offers significant possibilities for new transmission systems in the future. Optical fibres are especially attractive because of their small size and high capacity. For example, each fibre is capable of carrying 1,000 telephone conversations, streams of computer data or several radio and television programs simultaneously. BNR is currently developing applications for fibre optics transmission systems.

Expanding Research Operations

In January, 1975, a wholly-owned subsidiary, BNR Inc., was formed. To be located in Palo Alto, California, this new centre will undertake projects complementing those being developed in Canada. BNR also established a new telecommunication research centre in Montreal to conduct systems studies on telecommunication transmission, distribution and maintenance.



BNR is currently investigating the applications of fibre optics transmission systems.

Simply stated, the integration of research, manufacture and operations joins in common purpose the people who plan, design, build, operate and manage the telecommunication network . . . a process that provides Bell Canada customers with economical, efficient and top-quality telecommunication products and services and, in addition, contributes to Canada's position of world leadership in the field.

Statistical Summary

Bell Canada — Consolidated Data	1974	1973	1972	1971	1970
Income Statement Items (thousands of dollars)					
Operating revenues	\$1,693,380	\$1,487,808	\$1,301,058	\$1,156,707	\$1,058,511
Sales revenues — manufacturing and distributing	972,226	613,772	535,025	577,401	563,611
Income before extraordinary items	224,436	199,975	176,394	151,230	132,802
Net income	224,436	205,371	175,486	151,230	132,802
Preferred dividends	17,594	14,020	13,079	9,350	5,706
Net income applicable to common shares	206,842	191,351	162,407	141,880	127,096
Balance Sheet Items (thousands of dollars)					
Total property — net*	\$5,050,201	\$4,436,356	\$4,047,780	\$3,721,708	\$3,405,377
Preferred equity*	332,002	248,988	197,991	197,997	93,997
Common equity*	1,870,681	1,768,322	1,670,192	1,601,924	1,556,240
Minority interest*	154,358	140,189	109,569	83,434	83,079
Long term debt*	2,382,436	2,080,231	1,904,001	1,794,857	1,628,664
Capital expenditures	982,992	693,461	606,311	554,561	481,402
Common Share Data					
Earnings per common share					
before extraordinary items	\$5.57	\$5.04	\$4.44	\$3.87	\$3.50
after extraordinary items	\$5.57	\$5.18	\$4.41	\$3.87	\$3.50
Assuming full conversion of convertible preferred shares					
before extraordinary items	\$5.34	\$4.86	\$4.32	\$3.82	\$3.49
after extraordinary items	\$5.34	\$4.99	\$4.30	\$3.82	\$3.49
Dividends per common share	\$3.12	\$2.85	\$2.65	\$2.65	\$2.50
Equity per common share*	\$50.10	\$47.79	\$45.30	\$43.60	\$42.50
Average common shares outstanding (thousands)	37,128	36,931	36,808	36,680	36,262
Per cent held in Canada*	96.0	96.0	95.9	95.8	95.7
Number of shareholders (including preferred)*	230,630	237,458	240,950	245,143	249,424
Bell Canada — Non-Consolidated Data					
Income Statement Items (thousands of dollars)					
Operating revenues	\$1,440,123	\$1,275,204	\$1,125,416	\$1,018,787	\$ 936,636
Operating expenses	1,010,715	875,988	766,414	691,963	623,932
Income taxes	161,138	149,759	126,808	122,126	126,531
Other income	44,630	39,278	32,203	29,786	24,586
Interest charges	127,590	113,225	98,701	87,194	77,497
Income before extraordinary items	185,310	175,510	165,696	147,290	133,262
Net income	185,310	180,906	164,788	147,290	133,262
Per cent return on total capital	8.0	7.9	7.8	7.4	7.2
Interest in per cent of average debt	6.7	6.4	6.2	5.9	5.7
Times interest charges earned after taxes	2.5	2.6	2.7	2.7	2.7
Balance Sheet Items (thousands of dollars)					
Telecommunication property — net*	\$4,231,486	\$3,754,816	\$3,454,364	\$3,176,731	\$2,898,739
Investments*	343,819	319,674	318,199	309,391	295,919
Preferred equity*	332,002	248,988	197,991	197,997	93,997
Common equity*	1,769,539	1,705,811	1,640,672	1,581,674	1,539,930
Long term debt*	1,983,453	1,772,238	1,652,238	1,541,504	1,386,504
Capital expenditures	783,103	554,218	507,716	471,633	402,063
Other Statistics					
Telephones in service*	7,518,505	7,102,308	6,742,184	6,295,258	6,007,507
Local calls (thousands)	10,693,419	9,849,738	9,464,990	8,874,925	8,493,601
Long distance messages (thousands)	448,438	395,851	350,951	304,676	286,615
Number of employees*	46,484	43,033	40,953	39,136	39,079
Salary and wage payments (thousands of dollars)	\$ 487,116	\$ 421,841	\$ 376,129	\$ 333,845	\$ 301,899

*At December 31



Bell Canada

Built, operated and owned
by Canadians



Bell Canada, part of
**Trans-Canada
Telephone System**