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British Columbia
Telephone Company
Eighty-eighth
Annual Report 1979

British Columbia Telephone Company Eighty-eighth Annual Report 1979

Incorporated by Special Act of the
Parliament of Canada, April 12, 1916



Our Cover and Photo Story

Appropriately, Ed Booiman's B.C. Tel workplace has a space-age 'look' about it. He's working with space-age technology typical of advanced electronic and computerized installations in the province-wide telecommunications network B.C. Tel has created to serve British Columbia's 2.5 million population.

The cover photo shows Ed Booiman in the Vancouver "Regional Network Control Centre". The location is the "brain centre" of a computer-assisted alarm and control system which provides continuous visible reports on the operational status of switching centres, radio terminals, microwave sites, service centres and even manholes in a large geographic section of the Company's network. As troubles and potential troubles

are identified, technical forces are able to react to prevent service interruptions or restore outages quickly.

The centre in Vancouver and another in New Westminster were placed in service in 1979, the first of their kind in Canada. Three more are going into the B.C. Tel network in 1980 and 1981 as part of the Company's continuing use of advanced technology to control costs and provide customers with service of high quality and high reliability.

Photos throughout this report illustrate the development, manufacture and network use of a variety of advanced-technology facilities which are helping B.C. Tel to further these service and operational objectives.

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The Report at a Glance

	1979	1978
<i>Financial</i>		
Revenues, Expenses and Earnings		
Telecommunications operations — revenues	\$ 675,265,000	\$ 550,974,000
expenses	\$ 479,805,000	\$ 395,397,000
Manufacturing operations — sales	\$ 47,850,000*	\$ —
— cost and expenses ..	\$ 44,732,000*	\$ —
Combined earnings before interest and other deductions	\$ 206,960,000	\$ 166,426,000
Invested Capital		
Average invested capital	\$1,430,837,000	\$1,334,276,000
Return on average invested capital	9.81%	9.02%
Ordinary Shares		
Share earnings	\$ 51,849,000	\$ 33,772,000
Earnings per share	\$ 1.92	\$ 1.55
Dividends declared per share	\$ 1.20	\$ 1.08
Equity per share	\$ 14.91	\$ 14.14
Average shares outstanding	27,055,113	21,769,306
Gross Plant Additions	\$ 277,500,000	\$ 237,046,000
<i>Other</i>		
Telephones in service	1,786,648	1,683,421
Telephone gain for the year	103,227	82,909
Number of employees	14,705	13,925

(* For the period October 1 - December 31, 1979)



The Chairman's Letter

A year ago, in the Company's Annual Report for 1978, when I expressed my aspirations for the Company and outlined my assessment of the environment in which our Company would operate, I defined the dominant characteristic of that environment as change. The intervening twelve months have reinforced this assessment. Our environment will be one of technological change; regulatory change; changes in the services required and desired by our customers; changes in the expectations of our employees and change leading toward a more competitive market.

The changes which have occurred in our business in the decade just ended are a clear indication of the scope and nature of the changes which lie ahead. At the start of a new decade many of us find it valuable to reflect on the period just ended and to put somewhat more effort than usual into trying to define what lies ahead for our society and for our industry, in particular. I have found it both sobering and stimulating to make such an assessment in preparing this report to you on the state of your Company as we enter the Eighties.

In terms of service, ten years ago we had in place 974,823 telephones and completed 4,238,000 local calls and 122,000 long distance calls a day. You will note in the Report of Directors that in 1979 the figures had climbed to

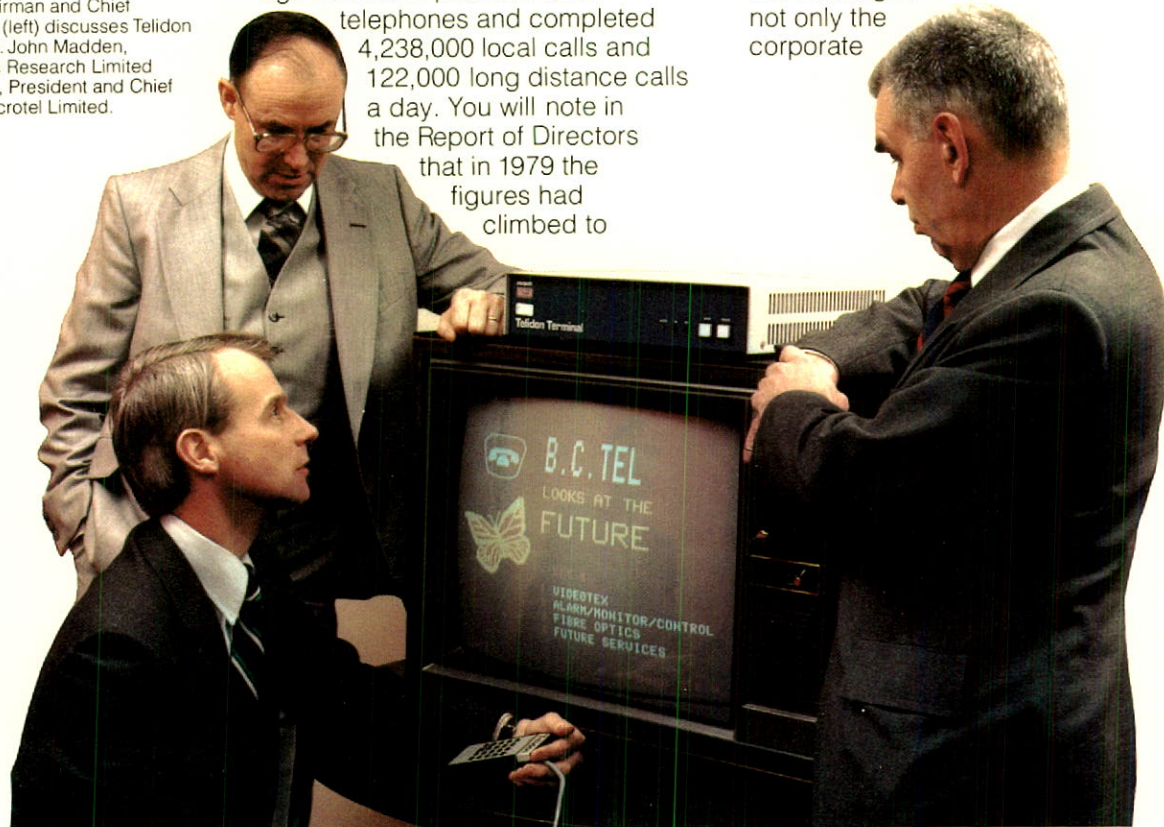
1,786,648 telephones, **7,236,000** local calls and 432,000 long distance calls per day.

Ten years ago our network consisted of electromechanical switching systems interconnected, in the main, by paired copper wires. Today, over 30% of our lines are served from Stored Program Control offices and the bulk of our interoffice network is made up of systems employing digital transmission techniques, one of which is working on an optical fibre link.

Ten years ago, the Company and its subsidiaries, Okanagan Telephone Company and Canadian Telephones and Supplies employed nearly 9,000 people. Today, we employ over 14,000 people in our telecommunications operations and more than 3,000 in our recently acquired manufacturing and research enterprises.

Of the many changes in the past decade, or for that matter of the past three decades during which I have been an employee of the Company, none has been more important than the acquisition of two telecommunications equipment manufacturing companies and the creation of a research and development facility in British Columbia. These developments have changed not only the corporate

Gordon F. MacFarlane, Chairman and Chief Executive Officer of B.C. Tel (left) discusses Telidon videotex technology with Dr. John Madden, President of Microtel Pacific Research Limited (seated) and H. Ray Herron, President and Chief Executive Officer of AEL Microtel Limited.



dimensions of B.C.Tel but also its orientation to the future.

The presence in B.C.Tel's corporate family of AEL Microtel Limited and its subsidiary R&D facility, Microtel Pacific Research Limited, is a clear indication that this Company is aware of both the opportunities and the threats to its traditional revenue base which are inherent in the revolutionary new technologies that will dominate the new decade. Although new applications, refinements and enhancements of various technologies appear to be occurring on an almost daily basis, the development of the microprocessor, the digital switch and optical fibres constitute the major trend of the future for our industry.

It is important therefore that our Company should be capable of utilizing these particular technological developments. I believe it is our corporate responsibility to employ them in a manner that ensures the fulfillment of our basic obligation — the provision of cost effective telecommunications services of the variety and quality expected of us by our society.

To meet this challenge, we require a high level of management competence and enterprise backed up by a skilled work force. The accomplishments of the past decade attest to the fact that we do, indeed, have people with these qualities. Your executive is determined to explore every practical way in which we can assist our employees to enhance their value to the Company and to themselves, so that their experience in playing a role in the evolution of "The Information Age" will be mutually beneficial.

The changes which are leading to a more competitive market are, undoubtedly, the changes which will have the most profound effect on our future, since they will affect every aspect of our business. I believe that we will enjoy a favorable position in the business spectrum of the future especially, because we employ technologies which are peculiarly appropriate to the demands of the times.

There is the desire for more and more information to be delivered quickly and economically

to the right place at the right time. We have the technology and the expertise to meet that desire. There is the need for energy conservation. Our services and products are energy efficient and, in many instances such as business conferencing including conferencing via television, the services we can offer result in energy savings through a reduction in the need for travel. There is a desire for products and services which will increase the efficiency and productivity of other businesses or services and that is the basic premise of all our business offerings.

We are, in effect, in on the ground floor and it is our intention to continue to put together services and packages of services to meet the needs of the information society. It is quite possible that before this decade ends services such as Sentryphone and Telidon, which are described in the Report of Directors and which are now regarded as being at the leading edge of the new technologies, will be regarded as old-fashioned. Telemedicine, electronic mail, computer conferencing are all on the horizon as we go into the Eighties. In each of these developments and in almost every other projected service of the Information Age, there is a place for this Company to play a positive role.

I am confident that we will continue to meet our basic obligation — contributing to the provision of an efficient telecommunications infrastructure for our society — and that we will meet the challenge of a competitive market successfully. My confidence is based on the real strength of our Company — its people. I am proud to be associated with them.



Gordon F. MacFarlane
Chairman and
Chief Executive Officer

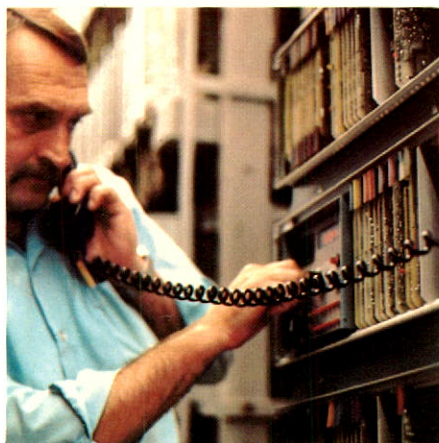


Report of Directors

Top: Janny Cheung uses B.C. Tel's computerized Directory Assistance and Intercept System. We call it DAISY for short and it is the first of its kind anywhere.

Lower: John Beck tests one of many microprocessors located throughout B.C. Tel's network.

Page 4: Hugh Heatherington and Phil Greenwood use computer terminals to monitor the operation of B.C. Tel's telecommunications network throughout British Columbia.



The year 1979 marked nearly a century of telephone service in British Columbia. For B.C. Tel, it also marked the end of a decade of unprecedented growth.

B.C. Tel opened the Seventies with 974,823 telephones in service and an investment in telephone plant of \$682.4 million. It closed the decade with 1,786,648 telephones in service and an investment in total property in excess of \$2.3 billion.

Although the entire decade was one of physical expansion and technological development, it was in the final year that the challenges and opportunities which had been emerging throughout the decade came into sharp focus.

The year saw B.C. Tel broaden its corporate horizon with the addition to its resources of a manufacturing component and a high-technology research and development facility. The application of the technologies which had been developed during the Seventies played a major role in the Company's activities during 1979, as our employees placed highly sophisticated equipment into service for a growing number of customers. The backbone of telecommunications operations — long distance and local exchange service — demonstrated a strength which belied the conventionally held view of a stagnant economy. And, in 1979, competition in our business changed from a probability to a reality.

These were all factors which influenced B.C. Tel's operations and its planning throughout the year and which contributed to its year-end financial position.

The 1978 Report of Directors forecast a specific earnings target for 1979 of \$1.92 per ordinary share. That objective has been achieved without recourse to a general price increase for our basic services.

For the customers of our telecommunications operations, this has meant a period of more than two-and-a-half years free of increases in the cost of basic service — an achievement made possible only by the most careful

use of our resources and the most diligent efforts of our employees.

FINANCIAL PERFORMANCE

The attainment of our earnings target for 1979 was achieved in the face of general inflationary pressures including dramatic increases in interest rates and an economic climate which was dominated by uncertainty.

Earnings

Net earnings for the year amounted to \$51,849,000 or \$1.92 per ordinary share based on the average number of shares outstanding during the year.

The Company's return on average invested capital for 1979 amounted to 9.81% compared with 9.02% in 1978. The rate of return on average ordinary share equity for 1979 was 13.32% compared with 11.32% in 1978.

Revenues and Expenses

Telecommunications operating revenues in 1979 increased by 14.0% to \$656,940,000.

Telecommunications operating expenses for 1979 totalled \$479,805,000 — an increase of 21.3% over 1978 operating expenses of \$395,397,000. Wage and salary increases which came into effect for 1979 and the increase in the number of telecommunications employees required to meet the Company's expanding service commitment contributed substantially to the higher expense.

The implementation of the Canadian Radio-television and Telecommunications Commission (CRTC) decision on Phase I of the Inquiry into Telecommunications Carriers' Costing and Accounting Procedures was also a significant factor in increasing 1979 operating expenses. Long overdue changes in accounting and financial procedures were made. These accelerate the recovery of capital costs from the revenue stream.

Ordinary Dividend

Total ordinary dividends paid for the year amounted to \$1.20 per share, up from the \$1.08 per share paid in 1978.

AEL MICROTTEL LIMITED

In March of 1979, B.C. Tel applied for regulatory approval for the purchase of GTE Automatic Electric (Canada) Limited and its wholly-owned subsidiary GTE Lenkurt



Right: Larry Bramley and Al Izsak operate the control console of a #1 EAX Stored Program Control switch which primarily handles local calls.

Page 6: Ralph Kronenberg inspects gold plating on printed circuit boards for a #2 EAX Stored Program Control switch manufactured at AEL Microtel's Brockville, Ontario plant.



Electric (Canada) Limited from the parent company, GTE International Incorporated. The approval was obtained on September 19, 1979 following a public hearing in June in Vancouver. The acquisition was completed with an exchange of stock representing a value of \$47.3 million.

The assets and operations of Automatic Electric and Lenkurt Electric have been brought together under a new company, AEL Microtel Limited, a wholly-owned subsidiary of B.C.Tel.

The creation of AEL Microtel, which has broadened B.C.Tel's revenue base and sources of income, is evidence of the Company's determination to manage and benefit from the changes occurring in its corporate environment.

For the first time, B.C.Tel's Consolidated Statement of Earnings reflects the earnings from the recently-formed subsidiary, AEL Microtel Limited, which in 1979 made a positive contribution to the overall earnings of the Company. For the three months from the acquisition on October 1, 1979 to the year end, AEL Microtel's net earnings were \$1,931,000.

The addition of AEL Microtel Limited to B.C.Tel's corporate family places two of Canada's leading telecommunications equipment manufacturing companies in close conjunction with Canada's second largest telephone operating company — a relationship that should prove to be beneficial for B.C.Tel customers, shareholders and employees as well as the province of British Columbia and its people.

Structure of AEL Microtel

Lenkurt Electric, British Columbia's largest secondary manufacturer with about 1,300 employees, has

become the transmission division of AEL Microtel Limited. Its main plant is in Burnaby, B.C. with smaller plants in Winnipeg and Saskatoon. It has gained an excellent international reputation as a producer of high-technology telecommunications transmission equipment, exporting approximately one-third of its products.

Automatic Electric, the second largest manufacturer of telecommunications equipment in Canada with about 1,700 employees, has become the switching and subscriber equipment division of AEL Microtel Limited. Its plant at Brockville, Ontario, is one of the most modern in Canada and produces the latest electronic switching equipment. Another plant is located in Lethbridge, Alberta.

A third division of AEL Microtel has been formed — a marketing division which combines the sales offices across Canada for the transmission and switching divisions.

To carry out continuing research and development connected with products and services related to the telecommunications markets served by both the telecommunications and manufacturing operations of B.C.Tel, a subsidiary of AEL Microtel Limited has been created — Microtel Pacific Research Limited. Emphasis will be on products and services to be marketed by the two manufacturing divisions and on hardware and software which will increase the efficiency of the operation of the telecommunications services of the parent company.

Progress of AEL Microtel

Although AEL Microtel has been an operating entity for only a matter of months, it is producing results that exceed the rather conservative projections placed before the regulatory body during the hearings

into the acquisition. As noted in the Looking Ahead section of this Report, prospects for this company for 1980 are very encouraging.

As part of its decision approving the acquisition of Automatic Electric and Lenkurt Electric, the CRTC included certain subscriber safeguards related to earnings and future capital investments. The safeguards ensure that the operations of the manufacturing arm of the Company do not impact in a negative manner on the subscribers and customers of the Company's telecommunications operations and that the market which the telephone company itself constitutes is not foreclosed to other suppliers. These are fitting and proper safeguards and we regard them as affirmation of the Company's long-standing policy of conducting its business in the best interests of its own customers, employees and shareholders and of the public at large.

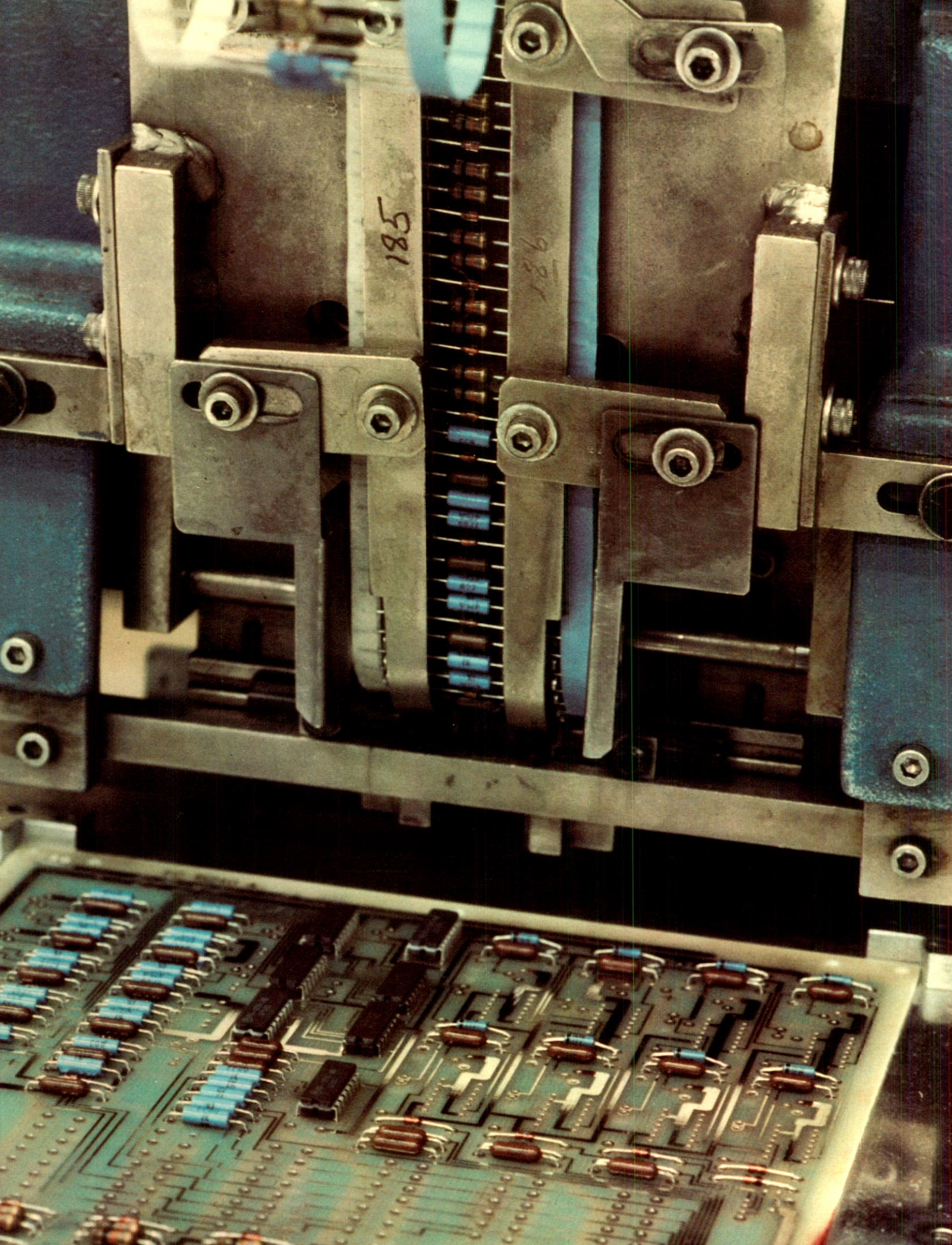
FINANCING

In 1979, external equity financing was limited to a \$50 million offering of 7.40% preferred shares, issued July 12, 1979.

The Company acquired the shares of GTE Automatic Electric (Canada) Limited from GTE International Incorporated by the issuance of 2,757,876 B.C.Tel ordinary shares to GTE at the then full market price of \$17.17 per share, without discount. The transaction amounted to \$47.3 million.

A further 2,820,414 ordinary shares were added to the total outstanding as a result of the conversion of 1,410,207 of the \$2.32 Cumulative Redeemable Convertible Subordinate Preferred shares issued in 1976.

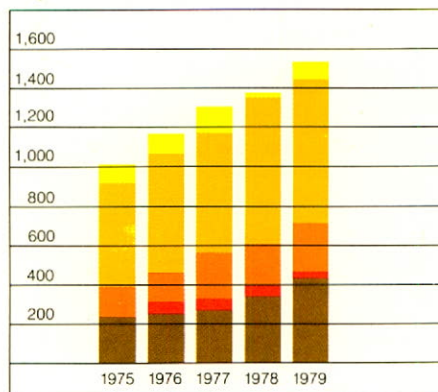
The Company's Dividend Reinvestment and Share Purchase



Plan received regulatory approval in June. The plan provides a means whereby residents of Canada who hold B.C.Tel ordinary, preference or preferred shares may invest all or part of their cash dividends in ordinary shares of B.C.Tel. Participants also have the option of investing cash up to \$3,000 per quarter. There are no service charges or brokerage fees in connection with shares acquired under the plan and all administrative costs are borne by B.C.Tel. In its first six months of operation the plan attracted 1,004 shareholders who purchased 30,371 shares.

Following approval by the CRTC, the Company offered an Employee Share Purchase Plan which enabled employees of B.C.Tel and its subsidiary, Canadian Telephones and Supplies Ltd., to purchase shares in B.C.Tel through payroll deductions at a favorable price relative to the market price. As a protection for existing shareholders it was stipulated that these shares could not be issued at lower than the fully diluted book value per share at the beginning of each of the two purchase periods. In May, 1979, a total of 3,749 B.C.Tel and CT&S employees enrolled in the plan, subscribing for the purchase of 744,484 shares. Employee response exceeded expectations.

Capital Structure (Millions of Dollars)



ORGANIZATION CHANGES

A number of changes and appointments affecting senior management of B.C.Tel and AEL Microtel Limited took place during the year.

B.C.Tel

Jack C. Carlile, formerly Vice-President, Operations, was appointed President and Chief Operating Officer, effective March 1, 1980.

K. Donald A. Morrison, formerly Company Counsel, was appointed Vice-President, General Counsel and Secretary, June 1, 1979, to succeed Roland J. Bouwman, who retired after serving the Company since July, 1968.

Peter C. Watson was appointed Assistant Treasurer August 1, 1979.

Colin G. Patterson, formerly Chairman of the Corporate Strategic Planning Group, was appointed Vice-President, Corporate Planning, October 1, 1979.

In a reassignment of duties, Leo J. Dooling, formerly Comptroller, has become Treasurer and J. Neil Stewart, formerly Treasurer, has become Comptroller — the changes effective January 1, 1980.

In a further reassignment of duties, Donald C. Champion, formerly Vice-President, Supply, Transportation and Buildings, has become Vice-President, Customer Service, and Robert H. Stevens, formerly Vice-President, Customer Service, has become Vice-President, ST&B, effective March 1, 1980.

AEL Microtel

H. Ray Herron, formerly President and Chief Executive Officer of GTE Automatic Electric (Canada) Ltd., has been appointed President and Chief Executive Officer of AEL Microtel Limited.

Donald Armstrong, formerly Vice-President Controller, Secretary and Treasurer of GTE Automatic Electric (Canada) Ltd., has been appointed Senior Vice-President Finance, Secretary and Treasurer.

George A. Franklin, formerly Vice-President, Industrial Relations of GTE Automatic Electric (Canada) Ltd., has been appointed Senior Vice-President Switching and Subscriber Division.

J. Douglas Goforth, formerly Vice-President, Treasurer and Secretary of GTE Lenkurt Electric (Canada) Ltd., has been appointed Senior Vice-President Transmission.

Ted V. Hird, formerly President and Chief Executive Officer of GTE Lenkurt Electric (Canada) Ltd., has been appointed Executive Vice-President Marketing.

Dr. John Madden, formerly Director-General of Special Research Programs for the federal Department of Communications, has been appointed President of Microtel Pacific Research Limited, a subsidiary of AEL Microtel.

REGULATION

In 1979, as in other years, regulation affected almost every aspect of telephone operations. Decisions ranging from the approval of a six dollar charge for NSF cheques to approval of competition through systems interconnection and, as the year ended, a refund of some \$7 million to B.C.Tel customers demonstrated the far-reaching influence of the regulatory body on the operations of B.C.Tel.

Subscriber Refund

One of the most widely noted actions of the CRTC was its decision ordering a \$7 million refund to B.C.Tel customers. The decision related to B.C.Tel's revenues for 1978, a year in which the regulations of the Anti-Inflation Act applied. The Company's 1978 earnings were in excess of those deemed permissible under the compliance regulations of the Anti-Inflation Act and, as previously reported, the Company was required to carry \$25.3 million forward into 1979 as revenues to help meet increasing costs.

In its decision of November 7, 1979, the Commission directed that a "sum of not less than \$7 million" be refunded to B.C.Tel subscribers. The Company implemented this decision and, as of December 31, 1979, had complied fully with the Anti-Inflation Act guidelines.

TCTS Inquiry

The CRTC inquiry into TransCanada Telephone System (TCTS) rates, practices and procedures, which was announced in August, 1978, has proceeded through its initial phases. A public hearing is scheduled to open in Hull, Quebec, in April, 1980.

The inquiry is of significance in



that it marks an expansion of the CRTC's regulatory activities to inter-provincial matters associated with the revenue settlements and the rates of all TransCanada Telephone System companies.

B.C.Tel has taken an active part in the initial phases of this inquiry and will appear at the public hearing in April to put forward our conviction that the basic nature and structure of the TransCanada Telephone System must be preserved if Canada is to continue to occupy a position among the world leaders in telecommunications.

The Company is convinced that the country benefits from the close and formal cooperation and coordination of the various entities providing universally available, high quality telephone and other telecommunications services in Canada.

Interconnection

The lengthy regulatory process associated with the application of CNCP Telecommunications to interconnect its system with Bell Canada's local switched telephone network in Ontario and Quebec resulted in a decision by the CRTC to permit the interconnection.

An appeal to the federal Cabinet by the nine major Canadian telephone companies for a deferral of implementation and a review of the decision was not successful. The decision became effective August 15, 1979.

The decision creates a new and complex competitive environment not only for Bell Canada but also for B.C.Tel. The decision permits the interconnection of the full range of toll substitute voice services with the exception of Wide Area Telephone Service (WATS) as well as all types of data services.

CNCP subsequently requested the same kind of connection with B.C.Tel's switched network and, on December 20, 1979, B.C.Tel filed a tariff application which would permit CNCP to interconnect with our network for data applications and private voice services only.

The tariff would establish an appropriate initial compensation level for the use of the Company's province-wide switched network by CNCP. B.C.Tel is confident that it will compete successfully in the new competitive environment in

Canada's fast-growing data communications' market.

Cost Inquiry

Decisions arising from the on-going Inquiry into Telecommunications Carriers' Costing and Accounting Procedures which began in 1972, are continuing to affect B.C.Tel.

In accordance with a CRTC decision on Phase I of the Cost Inquiry, a number of changes have been made in accounting and financial procedures. These changes affect, among other areas, depreciation, the capitalization of overheads, salvage, removal and reinstallation costs. The effect is to increase expenses over the short run and, consequently, they will be phased in over the next few years.

This matter is set out in further detail in the Notes to Consolidated Financial Statements.

Phase II of the Cost Inquiry covered new service tariff filings. A decision on this phase requires that a substantial amount of additional information will have to be submitted to support such filings. Meeting this requirement will add a significant workload to some staff groups.

Phase III of the inquiry which will cover existing services is expected to begin later this year.

Vertical Integration Inquiry

The Company made three appearances before the Restrictive Trade Practices Commission this year in connection with the inquiry into the appropriateness of vertical integration of manufacturing companies with telecommunications common carriers.

Two government inquiries were inter-linked when the evidence which had been presented at the CRTC public hearing into B.C.Tel's application to acquire manufacturing subsidiaries was brought before the Restrictive Trade Practices Commission at a public hearing in December. At this hearing, the Company described the acquisition as being in the public interest.

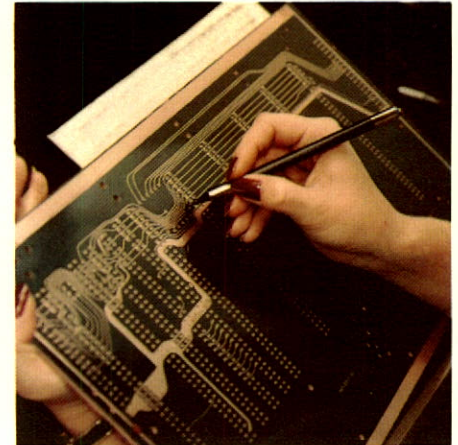
The vertical integration inquiry, which started in 1977, is expected to focus on the interconnection of terminal devices when it resumes in 1980.

Radio-telephone Rates

In a proposal designed to remove the subsidization of radio-telephone costs by other telephone revenues,

Lower: Bonnie Kindret inspects protective coating on a printed circuit board — part of a transmission system.

Page 10: Susan Hart prepares quartz crystal blanks for metal plating in a vacuum chamber.



B.C.Tel applied to the CRTC for a program of rate increases to be phased in over three years. The Commission approved the increases but directed that they be implemented in a single rate revision. The new rates came into effect December 1, 1979 but were suspended December 7, 1979 by the CRTC as a result of representation made by affected radio-telephone users, most notably the owners of pleasure boats. The matter is now being reviewed.

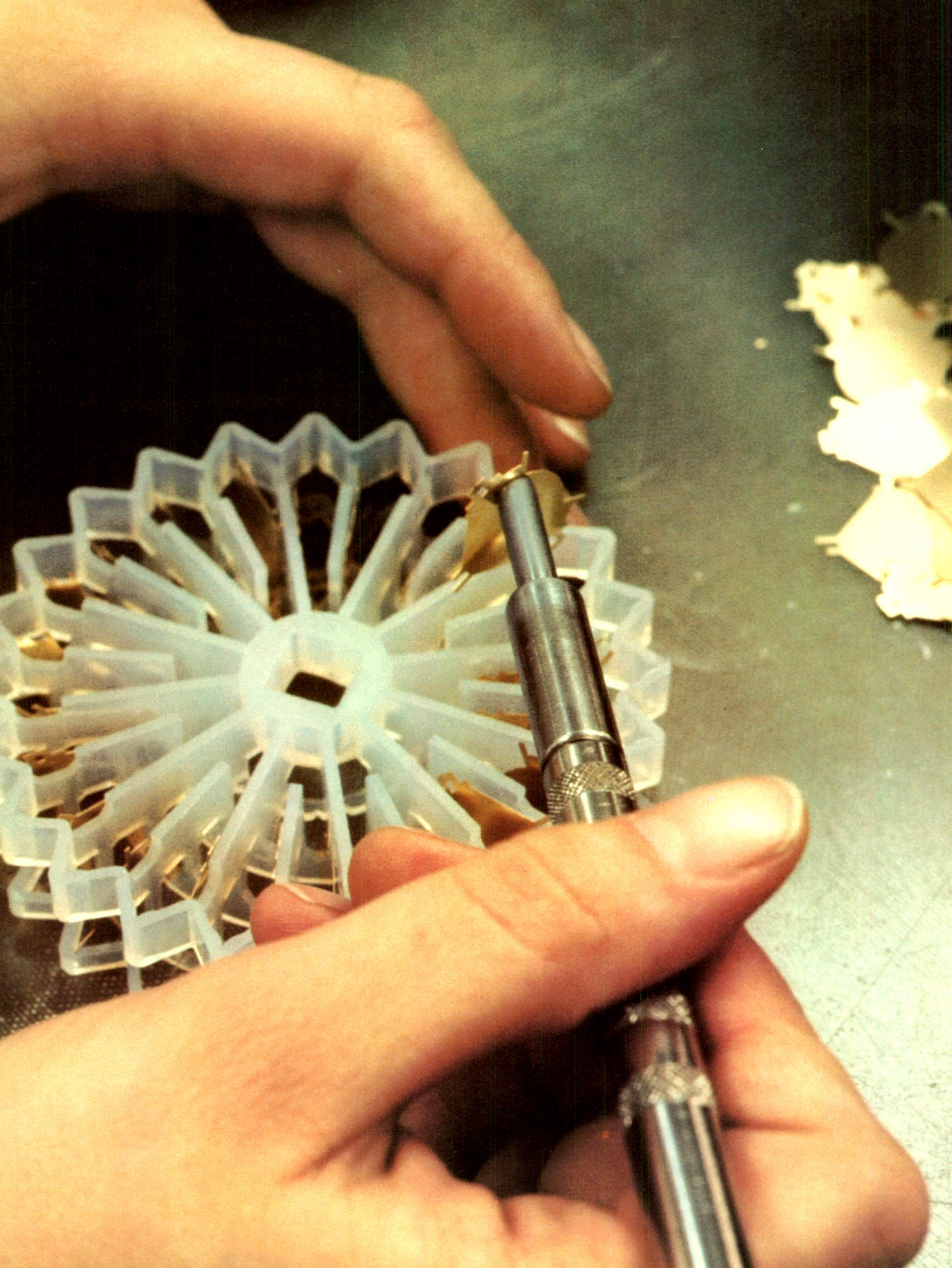
Prince Rupert City-Tel

A decision by the CRTC on a 1976 application by the City of Prince Rupert for a ruling on the terms of the connecting agreement between B.C.Tel and City-Tel, the telephone company serving Prince Rupert, was announced November 9, 1979. The decision was largely in accordance with a proposal made by B.C.Tel. It is notable in that, for the first time, the committee of inquiry which studied the application was made up of representatives from both federal and provincial agencies.

This sharing of regulatory authority among the provinces and the central government is in keeping with suggestions made by B.C.Tel in connection with proposed federal telecommunications legislation.

Telecommunications Legislation

As it has done with the three preceding drafts of legislation setting out Canada's telecommunications policies, B.C.Tel submitted suggestions to be considered for the fourth such piece of proposed legislation.



The dissolution of Parliament in December ended the possibility of enacting this legislation and the Company will take the opportunity of making its concerns known to the framers of the next version of a telecommunications act for Canada.

PROGRESS

A record for the number of telephones added to the B.C. Tel system was achieved in 1979 with the addition of 103,227 telephones, bringing the number of sets in service to 1,786,648. This gain represents an increase of 6.1% compared with an increase of 5.2% in 1978, 3.7% in 1977 and 4.8% in 1976. To add the 103,227 telephones to the system, we had to make about 600,000 connections and re-installations while taking out almost 500,000 phones.

Another major component of telecommunications operations, long distance calling, showed a healthy increase of 15% in calling volumes over the 1978 results. The daily average toll calls completed in 1979 was 432,000 — a striking contrast with the 122,000 daily average recorded ten years earlier.

A similar story can be told for local calls which saw more than seven million calls as a daily average in 1979 compared with four million in 1969.

Construction

The construction expenditure by B.C. Tel for telecommunications operations amounted to \$277.5 million in 1979 to bring the total expenditures for construction for the decade of the Seventies to more than two billion dollars — a demonstration of the Company's commitment to extend and expand its services, utilizing the best of current technologies and practices to ensure the highest possible level of telephone service to subscribers in B.C.

The construction budget with which B.C. Tel ended the decade was almost four times the \$74.7 million allocated for construction in 1969 and considerable portions of the 1979 expenditures were for proven equipment that — at the beginning of the Seventies — was still in the laboratory or at the test-bench stage.

The 1979 construction program was divided among the telephone Company's divisions to meet

customer demand and provide for expansion and extension of services.

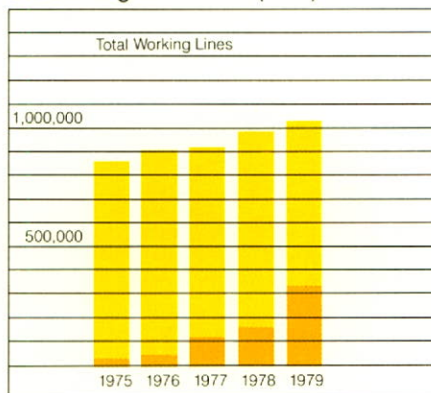
Geographical Distribution

(Thousands of Dollars)

	1979	1978
Coastal	\$118,499	\$123,762
Island	49,911	34,860
Interior	35,966	27,748
Northern	52,561	30,368
Okanagan	20,563	20,308
	<u>\$277,500</u>	<u>\$237,046</u>

In 1979, \$81.1 million was invested in central office facilities; \$63.7 million for underground and aerial cable and related facilities; \$83.1 million for the purchase and connection of subscriber equipment for residential and business customers and \$25.1 million for land and buildings.

Stored Program Control (SPC) Conversion



■ SPC Lines

Stored Program Control

The provision of switching equipment continues to command substantial budget allocations. What was previously referred to as Electronic Common Control (ECC) is now more accurately designated as Stored Program Control (SPC) and this designation appears more and more frequently in the plans and reports of telecommunications operations.

The number of lines served by SPC switching machines added to the network in 1979 was almost double that of the previous year. By the end of the year, more than 30% of B.C. Tel's lines were served by SPC and this proportion will rise to one half the lines by 1982 to place B.C. Tel in the front ranks of North American telephone companies that are providing this improved technology to their customers.

Regional Network Control Centres

To attain optimum efficiency and

reliability from the network and realize the particular benefits of the Stored Program Control systems, Regional Network Control Centres (RNCC) are being installed at five key locations in the province. These computer-assisted centres are the first of their kind in Canada and will be the nucleus for the maintenance and control of the Stored Program Control switches in their respective geographical areas.

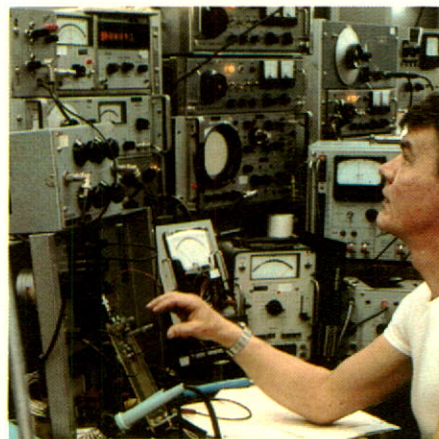
These centres enable the Company to take advantage of the most recently developed computer operating systems to increase local and long distance service levels and decrease operating costs. The surveillance and control of the switching centres and of the local and long distance facilities are brought together so that the system can be operated as an efficient integrated network.

The first two of these centres — one in Vancouver (see cover photo) and one in New Westminster — went into service in 1979.

Fibre Optics

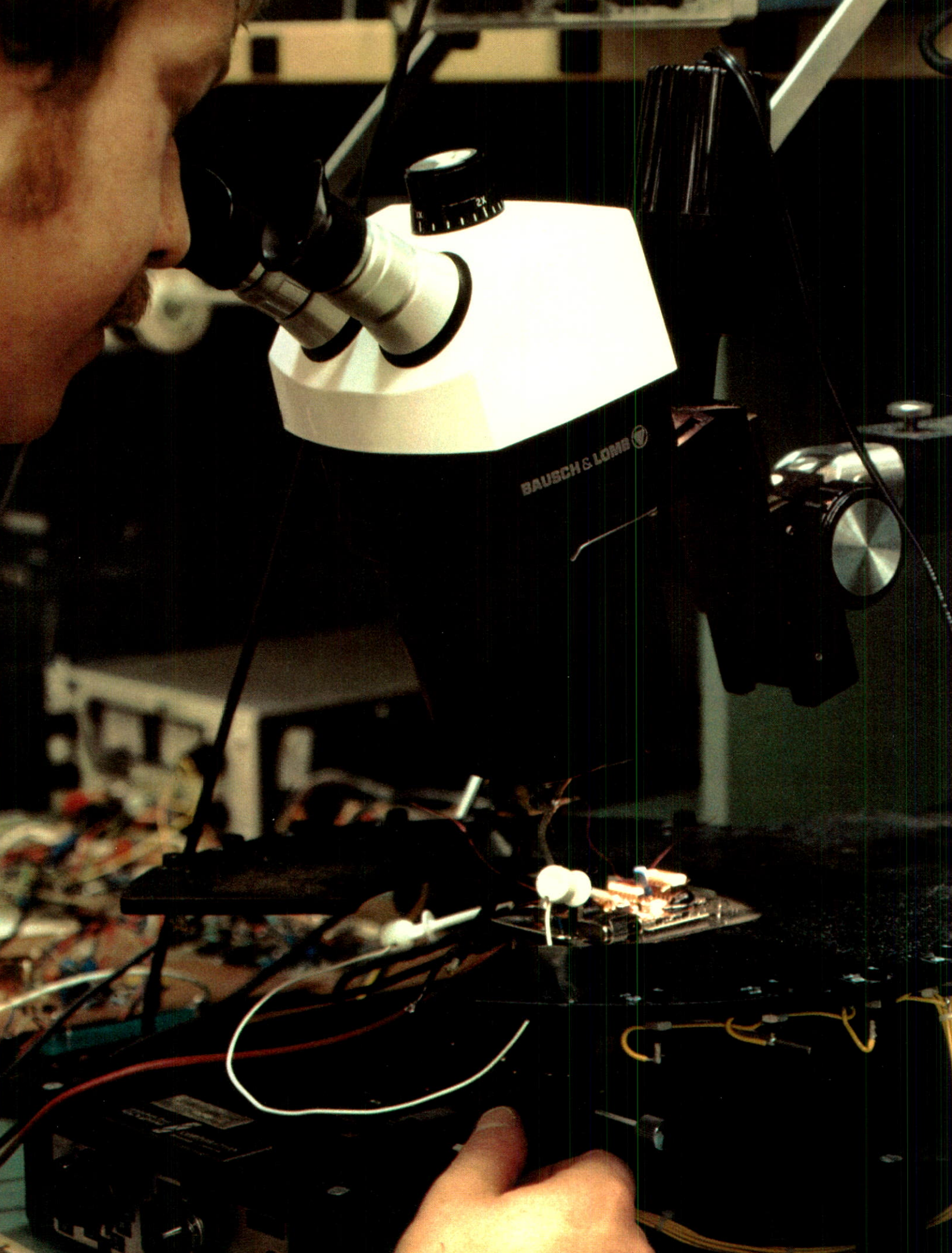
The growing volumes of information being transmitted as we move into the Information Age are challenging the capacity of conventional telecommunications networks. The development of fibre optics is providing at least a partial solution to this problem since they offer immense capacity relative to the size of the fibre.

A pair of hair-thin glass fibres can carry up to 672 telephone conversations at once, compared with the 24 conversations possible using conventional copper wire,



Top: Lorne Witherspoon tests components of an electronic assembly

Page 12: Vacuum probe picks up gold-plated masks used in production of crystal filters — the heart of AEL Microtel's unique long distance transmission technology.



and the copper wire is a hundred times larger than the optical fibres.

A 7.4 kilometre fibre optics installation was field-tested by B.C.Tel throughout much of 1979 to provide information and hands-on experience related to what is a revolutionary new technology. The system now serves as a link in the local copper-wire network.

Digital Technology

From the beginning of telephony, messages have been transmitted by means of varying amplitudes of signal strengths or waves — the analog system. Now, the relatively new digital technology which transmits information by means of a high-speed stream of 'bits' or digits offers distortion-free high capacity transmission that is ideally suited for the requirements of data communication. It offers such distinct advantages that its use is increasing rapidly as more and more information is stored and transmitted in digital form.

A new generation of switching equipment is being introduced into the Company's network, employing digital technology which has capacity and signal quality advantages over the analog technology now in common use. The first digital switching system to go into B.C.Tel's network will be installed in New Westminster in 1980. It is a #3 EAX built by AEL Microtel. The #3 machine was one of the first digital switches to be used in the long distance network in North America and has proven itself

both technically and as a cost-efficient network improvement.

In addition to improving service between local offices, the #3 switch being installed in New Westminster will connect the switched network in British Columbia with the western end of the TransCanada Telephone System's digital long distance radio transmission system scheduled for completion in 1982. It is proposed that this system be extended into Vancouver by a high-capacity fibre optics system. Further digital switching installations are planned in 1981-82 in both the long distance and local segments of the Company's network.

CUSTOMER SERVICE

To improve service to customers of telephone operations, innovative programs utilizing computer-aided systems are in place or being expanded.

The Service Order Update and Locate (SOUL) system is now in service at New Westminster, Vancouver North, Vancouver Central and Vancouver West and will be installed in the Lower Fraser Valley, Vancouver East/Burnaby and Vancouver South in 1980. It is a comprehensive computerized pending order file used to process service orders.

Installation of the first phase of the Customer Records Information Service (CRIS) throughout the Company will be completed early this year. This service brings customer master file information directly to a cathode ray tube viewing screen at each service representative's position. A pilot system for the second phase which will permit the service representative to process adjustments or add comments to the file is presently under trial in North Vancouver.

The Directory Assistance and Intercept System (DAISY) will be complete throughout the telephone operating system in 1980. The system is a centralized and mechanized directory assistance service which replaces the need for huge manual directories and which, through its information retrieval component, reduces the time required to search out and provide the requested information.

Phone Marts

The Phone Mart concept continues to be effective and efficient in

meeting customers' desires for a simple, available method of choosing the type of equipment they prefer in their homes. More than half the dwellings in B.C.Tel's serving area have been converted to Phone Mart hardware — wall plugs — and more than 85% of all dwellings should be converted by 1984, at which time it is projected that there will be a total of 46 Phone Marts to serve them. Nine were added in 1979 to bring the total to 22 Phone Mart stores.

During the year the Company began offering decorator-style telephones to customers on a Sale-of-Shell basis where the customer makes a purchase rather than paying a monthly premium for the special set. B.C.Tel retains ownership of — and will maintain — the cords and internal components of the phone.

Traffic Service Position Systems

The first Traffic Service Position System (TSPS) outside the Lower Mainland area of B.C.Tel's telephone operations was placed in service in 1979 and now serves customers in the central Okanagan including the major centres of Kelowna and Penticton.

The Traffic Service Position System performs automatically many of the technical and administrative procedures involved in processing long distance calls requiring the assistance of an operator and also permits customer dialing of person-to-person, credit card, third-number and other calls which formerly had to be handled by an operator.

Extended Area Service

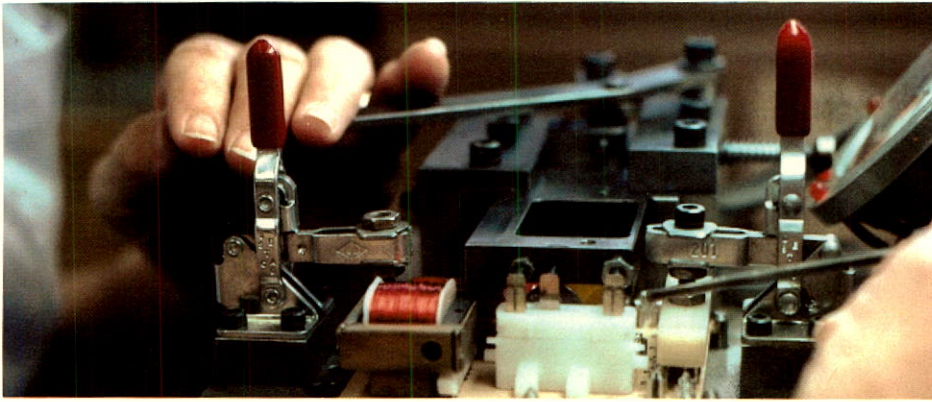
A program to provide one-way flat-rate calling from rural communities into a neighboring community on which the rural centre depends for basic needs was undertaken this year. The one-way Extended Area Service program will be provided to some 80 communities over a five-year period, depending on the results of plebiscites which are held in each



Left: Katie Smithson and Peggy Jackson discuss a Styleline telephone in a Phone Mart store — where residential customers shop for telephones in a retail atmosphere.

Page 14: Gerhard Schmiing checks the architecture of a custom-designed semi-conductor device — the heart of a digital repeater which regenerates and amplifies high-speed digital transmission.





Left: Inner components of a telephone set are adjusted before going to market.

Page 16: Evelyn Yokome processes a customer's order to install a new telephone. In the background is the computer terminal for a new Customer Records Information System — first of its kind in Canada.

community to ascertain the subscribers' wishes. Thirteen of the 14 communities polled in 1979 favored the plan.

Mobile Radio-telephone Service

A program designed to automate mobile radio-telephone service and improve its profitability was initiated in 1979 and will continue through 1985. Customers will use touch-pad mobile units which will eliminate the requirement for operator assistance on dialable calls. Rating and billing will be done centrally by a computer in Vancouver with control units provided, eventually, throughout the province.

Remote Community Service Program

The first communities to receive full exchange service under B.C.Tel's Remote Community Service Program were two Indian villages in Northern British Columbia — Pinchi and Tachie. Previously communication was via VHF radio located in the band office and accessible only during business hours or in an emergency.

Although the cost of providing service to the community exceeds any reasonable expectation of timely recovery, B.C.Tel has undertaken this program because of its social value to the communities involved.

We believe that, as a utility, we have a role to play in meeting the objectives of social policy of government since these represent the needs, desires and demands of the people.

We also believe and trust that the cross-subsidization which enables us to act as an instrument of the government's social policy must be recognized and endorsed by government and regulatory bodies.

Some 26 communities have been identified as recipients of this

service and, over the next several years, subject to financial constraints, it is expected that the program will continue.

MARKETING

Technological developments in all aspects of our business and the new competitive environment of telephone operations have changed the traditional marketing efforts associated with our services.

In order to take advantage of the new opportunities which are presenting themselves and to make the traditional telephone services more effective an aggressive marketing program has been put in place.

Our sales forces are being reorganized to reflect the segmentation which exists in the market; market research has been expanded or extended to new and promising areas and pricing packages which offer customers a wider range of choice have been designed.

Business Sales Centre

Plans are being developed for the introduction of a Business Sales Centre which will provide a showcase to give business customers the opportunity of viewing the various products and choosing the equipment best suited to their individual business needs.

Sentryphone

One product of the new technology whose market potential was investigated by a B.C.Tel task force during 1979 was Sentryphone — an integrated home or business security package which would be offered by monitoring companies and which would utilize the telephone network.

For example, if there were a fire in a home or office protected by Sentryphone, sensing devices on the premises would trigger an alarm

in the B.C.Tel computer which would automatically alert the monitoring company; the fire department would be summoned and provided with details such as the location of the fire on the premises, the contents of the building and the number of occupants, all in a matter of seconds.

Although Sentryphone is not yet a standard service offering, it has the potential for system-wide application and will be field-tested by B.C.Tel in 1980.

Videotex

Like Sentryphone, videotex has the potential for system-wide application. Videotex is the name given to services which, in effect, allow users to employ television sets as computer terminals and to connect them to computer data banks through the telephone network. B.C.Tel's trials to date have employed Telidon, a videotex system developed by the federal Department of Communications. The system makes it possible for users to bring a wide variety of information — everything from supermarket prices to university courses — in text or graphic form to the TV screen.

Although the initial market for Telidon would be the business world, its potential for universal use merits the Company's serious consideration and evaluation.

INDUSTRIAL RELATIONS

The three-year collective agreement between the Company and the Telecommunications Workers Union (TWU) expired December 31, 1979.

The Company and the Union exchanged proposals in October, 1979, and after nearly three months of negotiations, the Union requested conciliation procedures. Two conciliation officers, appointed by



the federal Department of Labour January 10, 1980, withdrew February 6, 1980, and at the time of writing, were preparing a report for the Labour Minister.

Joint Standing Committee

A Joint Standing Committee on Contracting Out and Technological Change was established by the last collective agreement between the Company and the Union. Under the independent chairmanship of Mr. Paul Fraser, the Committee has successfully resolved a number of contentious issues and produced more openness between the parties as well as an increasing willingness to participate in areas where it is recognized that there is a mutual interest. This has not, unfortunately, changed the current adversarial approach but has substituted joint problem solving where it is most appropriate and effective — in the areas of contracting out and technological change.

Training

Training and retraining of employees continues to be an important part of the Company's activities. The Education Centre offers courses which are designed to prepare our employees to meet the challenge of technological change. In 1979, several thousand employees took advantage of these courses to move into the future with awareness, appropriate knowledge and confidence. Their training holds great promise for them as individuals, for the Company and for the people we serve.

Certification Bids

The Telecommunications Workers Union sought to extend its existing certificate to include some 800 management positions. After extensive hearings into this matter in May and June of 1979, the Canada Labour Relations Board,

in a decision August 22, 1979, declined to enlarge the bargaining unit to include the 800 management positions. The Board did provide a vehicle for resolving the status of new jobs as they are created through a procedure of notification.

On May 16, the Telecommunications Employees Managerial and Professional Organization (TEMPO) filed an application with the Canada Labour Relations Board for certification of some 2,000 technical, supervisory and professional employees of B.C.Tel. Extensive hearings were conducted by the Board in September and October to determine and identify those employees who would become eligible to become part of a bargaining unit. In November, the Board ruled that just over 2,000 non-union staff did constitute an appropriate unit for the purpose of collective bargaining and they also identified executive and senior management positions, effective at the time of the application, that should be excluded from such a unit. Representation by TEMPO was rejected by a narrow margin by those eligible employees who voted.

LOOKING AHEAD

The acquisition of a manufacturing component and its related research and development facility has changed the basic structure of B.C.Tel. In the year ahead, a considerable portion of our energies will be devoted to ensuring that the larger, expanded B.C.Tel will make the best possible use of the resources of both the telecommunications and the manufacturing and research operations.

This will involve careful planning to make the best use of the new

technologies to get maximum benefit from productivity gains, reduction in maintenance expense and profitable new products and services.

AEL Microtel is now an operating entity serving diversified markets, and is capable of developing products and services which can be manufactured and marketed successfully, nationally and internationally.

While there will be a natural and close relationship between AEL Microtel and B.C. Tel's telecommunications operations, and while we anticipate a beneficial synergistic effect from this relationship, we will also continue to encourage promising new ideas from other sources. Our long-term objective is to see the establishment and growth of a substantial high-technology electronics industry in British Columbia and we will welcome any concept which might advance this goal. If such a concept should come from sources other than our own Company, we would look on that as a challenge to improve and expand our own horizons.

The current year should see Microtel Pacific Research Limited, under the very able direction of Dr. John Madden, identify and begin to proceed with some of the exciting projects that constitute the technological scene of the Eighties.

In short, it will be a year of exploration, growth and development for both the telecommunications and the manufacturing/research components of B.C. Tel.

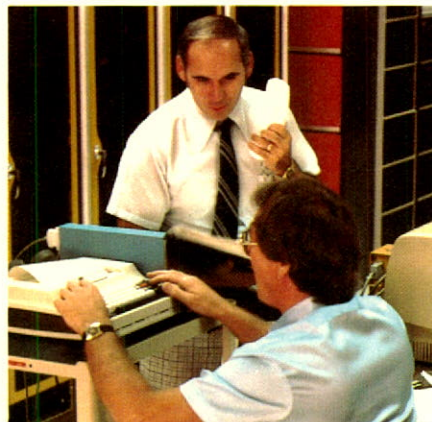
Financial Objectives

Our financial objectives are aimed at providing a fair return to our shareholders and achieving a 13.32% return on shareholder

Left: Norm Kilarski and Ken Weisner discuss a technical problem at B.C. Tel's new centralized testing facility. Microprocessors are used to ensure the telephone switching equipment is operating efficiently.

Right: Joan Boychuk places a magnetic tape on a computer to obtain data on calling patterns for an engineering study.

Page 18: Ingrid Hermanus uses a sophisticated Service Order Update and Locate computer system to process information about service orders.



investment in 1979 was an improvement. However, we are determined that further improvements will be achieved in future to bring the return on investment of our shareholders to a level appropriate in relation to other investment alternatives. Such earnings improvements are essential so that we can continue to attract the capital necessary to achieve service-related and cost-reduction objectives which new technologies will offer.

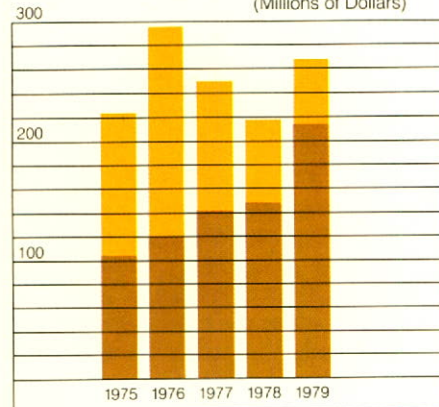
We have set ourselves difficult but realistic objectives and the attainment of those objectives is the basis on which we would expect to improve our financial performance.

Our debt/equity ratio improved substantially during 1978 and 1979 and we look to a continuation of this trend so that within about three years we will reach a ratio of approximately 50% debt and 50% equity.

Expansion of our equity was encouraged in 1979 through the introduction of the employee share purchase plan and the shareholder dividend reinvestment plan. These plans will continue in 1980.

We will continue our efforts to generate increasing proportions of the funds for construction related to telecommunications operations from internal sources. Our target is to raise 80% of such funds internally by 1984 and to maintain that level in the future.

Source of Funds Used for Construction
(Millions of Dollars)



External Financing
Funds from Operations

Telecommunications Operations

An expansion of Stored Program Control systems and the introduction of digital switching will highlight

telecommunications operations in 1980.

B.C.Tel's first digital tandem switches will be installed in New Westminster and Vancouver in 1980 which will, eventually, become the primary switching centres for all long distance calling and local inter-office calls within the Vancouver, New Westminster and Lower Fraser Valley flat-rate calling areas.

A project at Kelowna in B.C.Tel's Okanagan division will see the installation of a digital tandem switch for the long distance network at that location. The project includes additions to the Traffic Service Position System (TSPS) slated for service in 1981.

A fourth digital tandem switch will be installed in Prince George in 1981 and TSPS operations are planned there for 1982.

In Victoria, a TSPS office with 40 operator positions is scheduled for service in 1981.

An addition to the computer centre in Vancouver and the construction of a warehouse in Langley are two major building projects which will be underway during 1980 for completion in 1981.

Late in 1978 we started an energy conservation program whose goal was a 10% reduction in energy consumption over the next few years. This program, which went into high gear in 1979, will be expanded in 1980.

Manufacturing Operations

There are indications that the manufacturing operations will make a significant contribution to the Company's earnings as a result of projected activities in 1980. However, the political unrest in some of the potential overseas markets for various manufactured products makes any firm prediction of results impossible. Domestic and North American sales should not be affected by this situation and, on that basis, an improvement over the projections made at the time of the acquisition of the two companies seems likely.

The Economy

Although domestic and world-wide political events could produce startling changes in the economic situation of the province, there are

enough encouraging signs to justify cautious optimism about the year ahead.

The demand for the province's mineral resources continues.

B.C.'s population is forecast to grow at a rate of 1.6% each year to 1985 with an annual growth in households of 2.5% and a 2.7% annual growth in employment.

With energy prices rising and supplies of conventional energy dwindling, we look to increasing public recognition and adoption of the energy-saving potential of telecommunications technologies and services.

The products of the new technologies are gaining public awareness and there is an increasing willingness to make use of these products which will translate into increased demands. With more discretionary dollars available in the province, the prospects for a company which is determined to take advantage of new opportunities to enter new market areas and to enhance its traditional service offerings are bright.

B.C.Tel is such a company and your directors are confident that our Company is on the threshold of another decade of growth that will far exceed the decade just ended.

On behalf of the Board of Directors,

Gordon F. MacFarlane
Chairman and
Chief Executive Officer
February 19, 1980

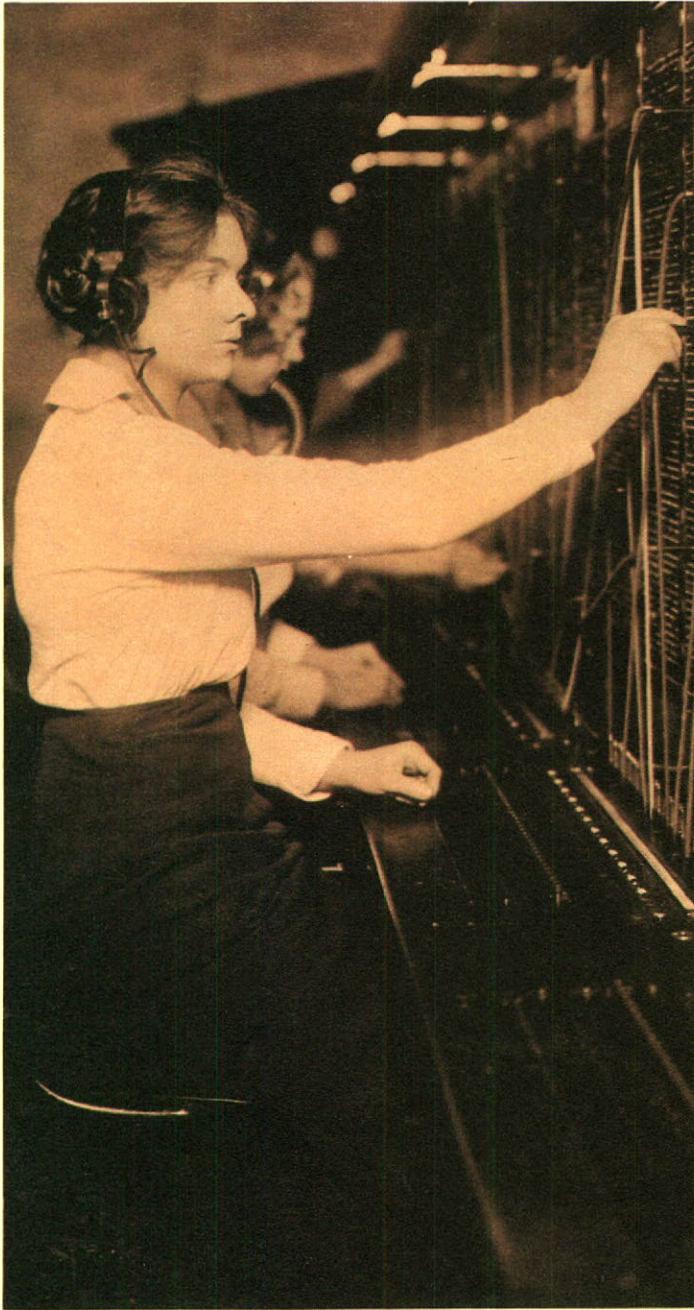
Gordon Farrell 1890-1979

We note with regret the death of Gordon Farrell, son of William Farrell, one of the Company's founders. Gordon Farrell joined the Company in 1919 and was, for thirty years — 1928 to 1958 — President and, at his retirement in 1963, Chairman of B.C. Tel.

1880-1980

TELE COMMUNICATIONS

Century One



A CENTENNIAL SALUTE

The story of Century One — Telecommunications in British Columbia — is the story of the telephone people, the thousands of men and women whose determination, imagination and enterprise over the years produced a modern telecommunications system for today and a solid base for the Information Age of tomorrow.

To tell that story adequately would take not eight pages but eight hundred or eight thousand pages. These eight pages simply mark the occasion of one hundred years of telephone service in this province and salute the accomplishments of the telephone people.

It is a kaleidoscopic view, reflecting for the most part the activities of this Company, B.C. Tel, which traces its corporate origins to 1891 and which, today, serves 97% of the province's population and area. For the best part of this first century, B.C. Tel has made its story the story of telephone service in British Columbia.

THE BEGINNINGS

“Mr. Watson, come here. I want you.”

“Send three boxes of Double Crown soap to Mr. Manette.”

Those two commands separated by four years and four thousand miles, signalled the start of world-wide telephone communication and British Columbia’s role in its development.

In Boston in 1876 Alexander Graham Bell made his historic telephone call. In Victoria, in 1880, the order for soap was the first message to pass over the Victoria and Esquimalt Telephone Company’s test lines, the pioneer company organized by Robert McMicking and Edgar Crow Baker.

On the mainland, the New Westminster and Port Moody Telephone Company started in 1884. In the years that followed, private telephone companies spread across the province from tidewater to treeline. Among them was the Vernon and Nelson Telephone Company, established in 1891. In 1904 it became the British Columbia Telephone Company Limited and, in 1905, as the result of efforts by William Farrell and Dr. John Lefevre, it brought together several smaller companies to form the largest company in the province.

A federal charter was obtained for the Western Canada Telephone Company in 1916 and, in 1923, following a change of name to British Columbia Telephone Company, it assumed the assets of the provincial company. Acquisitions and amalgamations continued to mark the growth of B.C. Tel from that time on.

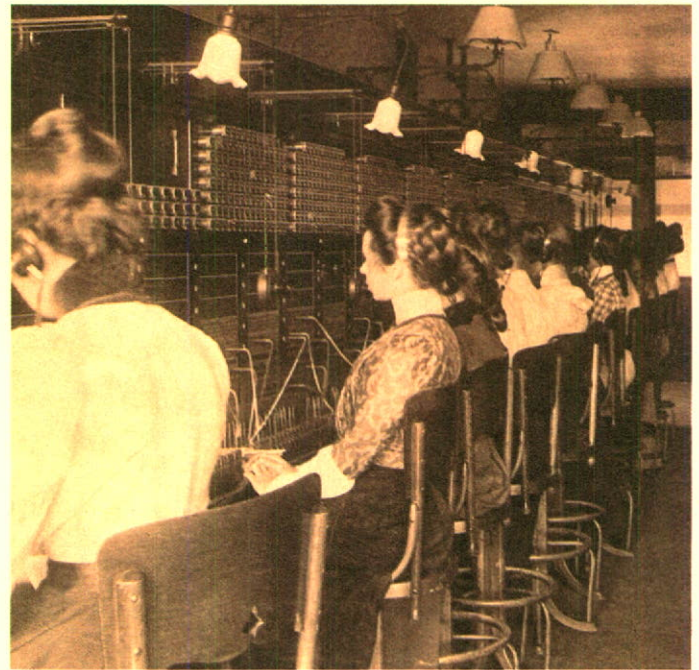
Photo courtesy Provincial Archives, Victoria, B.C.



Towering telephone poles — Victoria’s Government Street



Primitive motor power moves a pole



Vancouver operating room, 80 years ago

1885 – The last spike completes the CPR.

1886 – Vancouver wiped out by fire – telephone switchboard saved.

1886 – Stanley Park established.

1898 – the Gold Rush is on in the Klondyke.

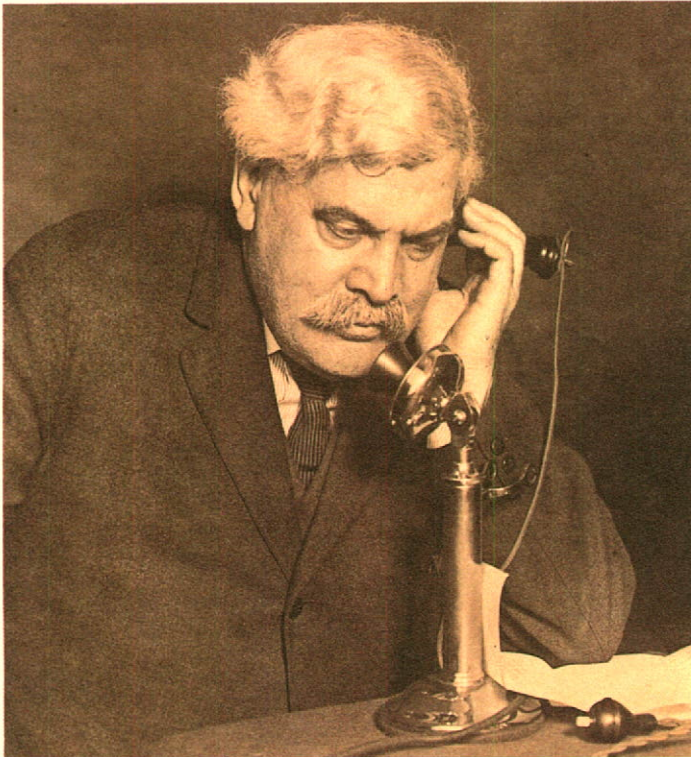
1891 – Vancouver passes Victoria in population.

1898 – New legislative buildings open in Victoria.

1899 – Boer War begins.

Six entrepreneurs started the first B.C. phone company with an investment of \$500 each . . . B.C.’s first telephone subscribers paid \$3.00 per month. There were only 46 of them . . . Control of one early telephone company changed hands for \$26.00 — the freight charges due on a barrel of insulators . . . The first telephone operators were boys, paid \$20.00 a month. In 1883, the boys were replaced by women — the first of many thousands who would work for the ‘phone company’ over the years . . . There was no regulatory body in the early days: the mining town of Greenwood had three phone companies competing for business in 1899 and on the streets of Fernie, rival companies placed poles within feet of each other . . . The necks of whisky bottles, always plentiful in the logging and mining camps of those days, were used as insulators when conventional supplies ran out.

THE NEW CENTURY



William Farrell receives first call from Montreal

In the new century the telephone was transformed from a scientific curiosity to a potent instrument for change — in business, in personal life, in the community and in society as a whole.

While manoeuvres were taking place at the ownership level of B.C. companies, the instrument itself was moving into more and more businesses and homes as its unique quality of being able to transmit over distance not just messages, but shadings and nuances of messages — the stuff of personal contact — was recognized.

The telephone systems which were built up to transmit these person-to-person messages became the basis for the technologies that eventually brought radio, television and data communications into our business and personal lives. The early years were learning years for everyone in the telephone industry and that knowledge continues to be applied today.

One of the most important social consequences of the development of the telephone systems was the new field of employment they opened up to women who quickly became symbolic of the system itself and who have continued to find rewarding and broadened areas of employment within the system to the present time.

1901 – First wireless message crosses the Atlantic.

1903 – the Wright brothers put man into the air.

1906 – Earthquake and fire devastate San Francisco. Nickelodeons appear and the movies become part of our lives.

1909 – Henry Ford starts his assembly line and the industrial world changes.

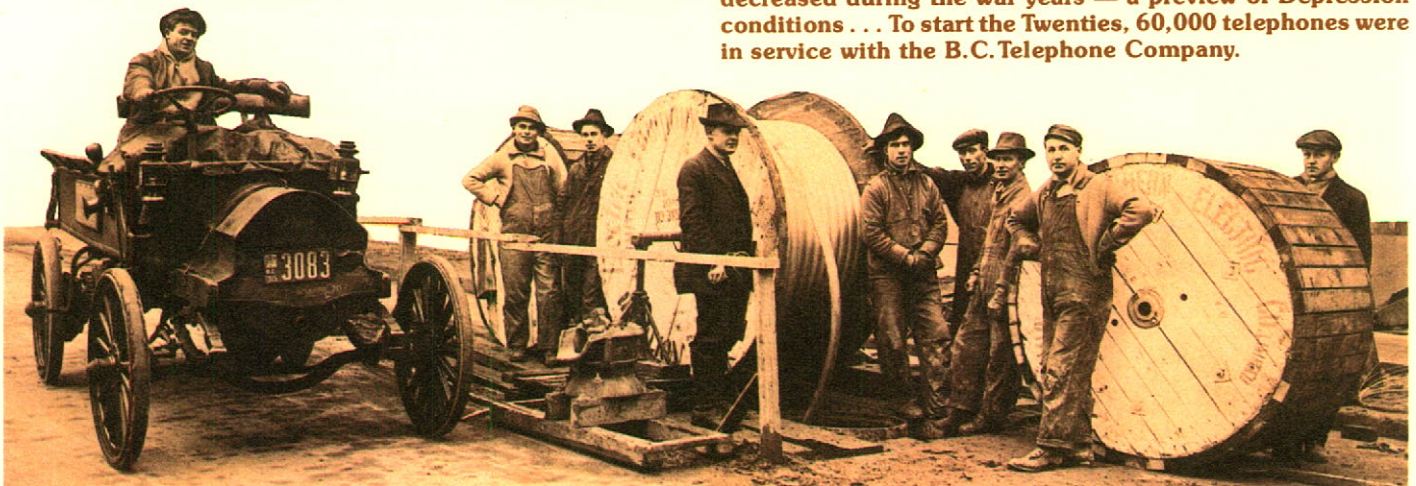
1912 – Wireless plays an important role in the rescue of Titanic survivors.

1916 – William Farrell receives first long distance phone call from Montreal – via U.S. lines.

1919 – the 'flu epidemic fells one out of three telephone operators and ex-operators come out of retirement to keep the service going.

The population boom — 1911-1913 — brought heavy demands for telephone service as business and housing growth reflected the flood of immigrants and the number of telephones almost doubled in the two-year period . . . Heavy, lead-sheathed bundles of telephone wires were laid under streets with the help of manpower, horsepower and the balky trucks of the day as service went into the booming business

districts of the province's towns and cities . . . The promise of the new century faded with the First World War. Shortages of materials and men affected the phone companies and, as breadwinners left home to serve in the trenches, many households could not continue the cost of phone service. Lack of shipping to carry the commerce of the province hit the economy and the number of phones in service actually decreased during the war years — a preview of Depression conditions . . . To start the Twenties, 60,000 telephones were in service with the B.C. Telephone Company.



Cable goes below Vancouver street

BETWEEN THE WARS

The post-war depression of 1919-21 ended; a new era of prosperity appeared to be at hand. The phone systems were part of the growth that began throughout the province and new exchanges, lines and phones were added.

North-west Telephone Company was formed in 1929 and did pioneer work in the field of ship-to-shore radio-telephony, creating one of the world's largest such systems.

The Depression struck hard at telephone companies and their employees. The number of phones in use declined drastically and it was not until 1937 that the B. C. Tel total once again reached the 1929 level of 114,000.

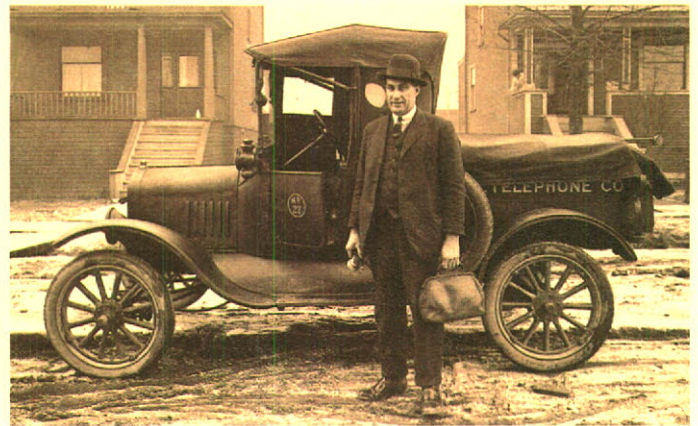
Long distance calling, a barometer of economic activity, fell by 18% in one year alone — 1932.

In spite of these conditions, the planning and building for the future went on. B.C. Tel became a founding member of the TransCanada Telephone System whose goal was the creation of an all-Canadian telephone network.

With the introduction of dial telephones in Victoria in 1930, customers started to become accustomed to automation in the operation of telephone companies — a development which has been largely responsible for many of the gains in productivity of the industry.



Duncan's central office



Doctor on call? No, telephone man

1924 – First employee savings plan in B.C. Tel

1926 – First overseas radio telephone service; first TV demonstrated in Britain

1927 – Lindberg flies Atlantic non-stop.

1929 – Stock market crash marks start of world-wide depression.

Movies became 'talkies' thanks to technology pioneered in a telephone laboratory and, for many, afforded the only relief from the grim Depression.

Songs such as 'All alone by the telephone' indicated the emotional impact of the telephone.

The League of Nations flourished then failed in the face of the dictators who dominated the Thirties – Stalin, Mussolini and Hitler.

Company picnics to Bowen Island became an annual event for Lower Mainland telephone employees during the Twenties . . . In the depths of the Depression, employees accepted pay cuts and worked only four days a week. "If you were making \$90.00 then you went to \$75.00 a month . . . you did without a great deal and I think you were better for it", one former plant maintenance man recalled . . . Advertising campaigns tried to induce customers to keep their phones or re-install ones already taken out and, gradually, the sets-in-

use total edged up again . . . During the great snow and ice storm of January 1935, when toll lines went down for almost two weeks, employees on the boards and in the field put in punishing hours of hard work to restore service . . . Dominion, provincial and local taxes for the Company totalled \$460,000 in 1937, compared with the Company's 1978 assessment of \$46 million in provincial and municipal taxes alone, plus \$69 million in federal income taxes.



Picnic-bound to Bowen Island

GLOBAL CONFLICT TO "SPUTNIK"

World War II ended the Depression and imposed tremendous pressures on the telephone system as defence workers and military personnel poured into the province and telephone workers left to join the armed forces.

Vital military telephone links were built to connect Pacific Command's Vancouver headquarters with radar stations and strategic points from Victoria to the tip of the Queen Charlottes. To do this, 2,000 miles of pole lines were erected, 1,100 miles of right-of-way cleared by a combined effort of B.C. Tel, CN and CP Telegraphs, private contractors and the armed forces.

Civilians were asked to curtail personal calling and requests for phones piled up in the face of military priorities and shortages of materials.

Following the war, this pent-up demand plus the demand from returning veterans and others anxious to establish homes became a problem that could only be met by the outlay of millions of dollars over a relatively long period of time.

By 1953, B.C. was second among the provinces in the ratio of telephones to population.

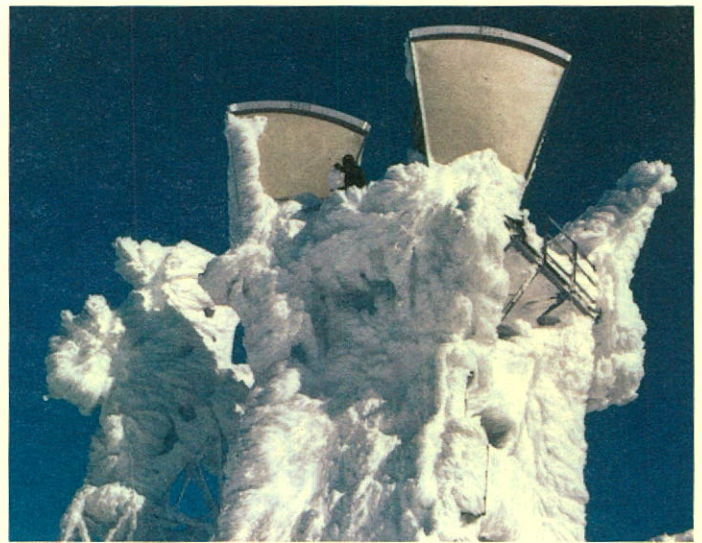
Conversion to automatic dialing, although curtailed by the war, had continued and there was a general extension of long distance service.

In 1954, B.C. Tel bought the telephone portion of the government-owned telephone and telegraph system in

parts of B.C. to add to its growing network.

Microwave towers began to appear on the skyline of the province's cities and mountains as multi-channel radio systems began to overshadow traditional open-wire circuits and the building of the trans-Canada microwave network began.

The microwave towers, plus computers such as those introduced into the B.C. Tel system in 1956 and the Sputnik space satellites launched by Russia in 1957 signalled a new era in communications technology.



Ice-laden microwave tower, Dog Mountain.

1939 – Trans-Canada Airlines inaugurated transcontinental passenger service.

1942 – There were 32,000 defence workers in B.C.'s shipyards and aircraft factories. Rationing in Canada began the same year.

The atomic bombs of August, 1945 ended WWII but smaller wars soon appeared – in the Middle East, China, Korea, Viet Nam – as the Iron Curtain and the Berlin Blockade symbolized the beginning of the East-West Cold War.

Flying saucers – later to be dignified as U.F.O.s began to make the headlines.

1947 – The post-war Alberta oil boom began with the Leduc discovery.

The development of the transistor in the late Forties revolutionized the hardware of telecommunications.

1954 – Roger Bannister ran the 4-minute Miracle Mile at Empire Stadium, Vancouver.

Photo courtesy Vancouver Public Library



New Westminster Regiment goes to World War II

The war spurred on the development of new technologies which would become associated with post-war communications and provided specialized training for many who would become post-war employees of the telephone system . . . B.C. Tel started the war with an investment in plant of less than \$30 million; it started the Space Age (1958) with plant of \$217 million . . . There were 128,000 phones in service in the Company's system when Hitler invaded Poland in 1939 — 452,000 when the Soviets moved into space via the Sputniks in 1957 . . . In the severe and widespread Fraser River floods of 1948, telephone employees once again demonstrated their ability to meet and overcome the challenges of nature; some employees even used the river itself as a highway and reported for work on rafts . . . B.C.'s resource industries were developing. The gigantic Alcan smelting project at Kitimat was the first of many post-war industrial complexes which would require modern communications in remote areas of the province . . . The first dial telephones in Vancouver were demonstrated in 1939. By 1953 Canadian television made its appearance in Vancouver when CBUT went on the air.

SPACE AGE PROMISES

When the trans-Canada microwave system — the world's longest single system — was completed in 1958, British Columbians were making 2.9 million local calls and 47 thousand long distance calls a day. When Neil Armstrong became the first man to walk on the moon in 1969, the volume of calling reflected the growth that had taken place in the province: 5.8 million local and 111 thousand long distance calls were being placed per day.

British Columbians weren't just talking more — they were doing more. Instant towns mushroomed to accommodate the workers who were building and operating new pulp and paper mills, mines and smelters and hydroelectric projects. Immigrants and Canadians from other provinces arrived to swell the demand for housing, to increase the market for service industries and to become users of the telephone system.

The system itself was growing to provide service for the instant towns in the wilderness and the instant suburbs of the cities. The trans-Canada microwave network opened up the data field as the booming economy became more and more dependent on fast, reliable business communications. Direct distance dialing was one response to the demand for more communication, mechanization of many procedures through the use of computers was another. Local and long distance circuits were added, extended or improved and the conversion to dial service

was virtually completed throughout the province.

The Space Age had not only placed a man on the moon, it had awakened the population back here on earth to the potential of the new technologies which had made the space program possible and which had enabled viewers on earth to watch the actual moon landing. Now, or so we assumed, tomorrow would bring the wonders of science fiction to reality. That view was optimistic but so was the mood. It was, after all, the Age of Aquarius and flower children bloomed, the mind could be expanded and satellites were sitting out in space, awaiting our bidding.

1958 – Ripple Rock, a navigation hazard in Seymour Narrows near Campbell River on Vancouver Island, was removed by the largest planned non-nuclear explosion to that time.

The Hula Hoop craze came and went but the attraction of the bikini swim suit persisted – and still does.

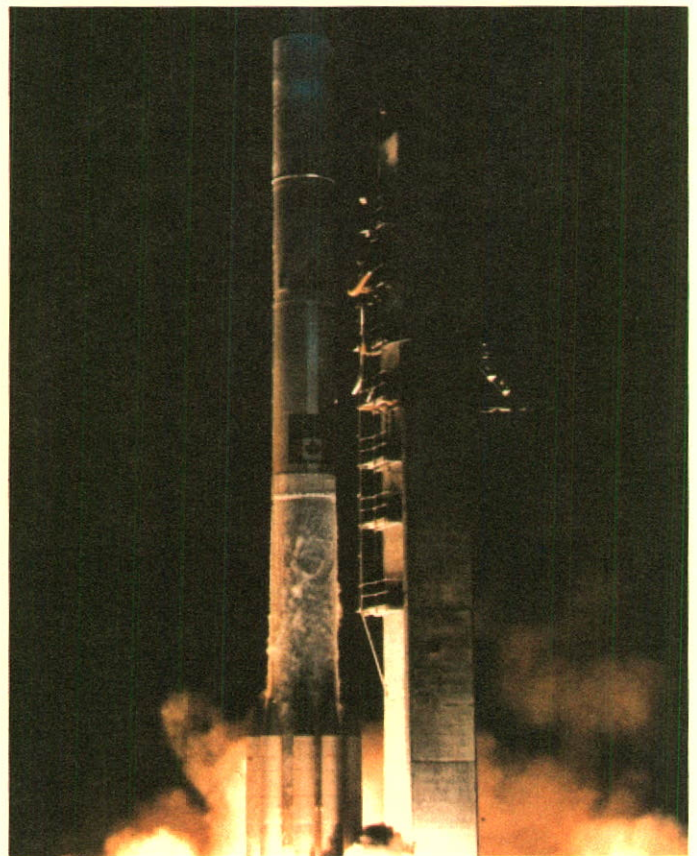
1962 – The USSR backed down over the Cuban crisis and the world breathed easier.

Miles for Millions walks became popular fund-raising events.

Transistor radios and teenagers went together – everywhere.

1964 – The B.C. Lions won their first Grey Cup.

1967 – Canada's Centennial was celebrated, among other ways, by the start of the Nanaimo Bathtub Race.



Canada's entry in Space Age — Anik 1



An Enterphone — symbol of apartment living

“Let your fingers do the walking” was more than a catchy advertising slogan. The Yellow Pages were, by now, an accepted part of business and social communication . . . High rise apartments were part of the housing boom. The B.C. Tel invention, Enterphone, added security and convenience to this way of life . . . At Expo '67, Montreal, millions of visitors glimpsed the future of communications at the Telephone Pavilion . . . The telephone system was essential for the radio open-line talk shows which appeared during the Sixties. It was a time, too, when various emergency lines of social services were open for counselling and assistance . . . Pocket pagers were becoming a kind of status symbol as well as a useful communications tool . . . When John F. Kennedy was assassinated in 1963, the world truly became a 'global village' as radio and television brought the tragedy into every home.

TECHNOLOGICAL REALIZATION

Although technology could not perform the kind of miracles the Sixties had anticipated, its accomplishments in the Seventies were most impressive and the telephone system in B.C. shared in many of those achievements.

B.C.Tel helped form Telesat Canada which, in 1972, launched Anik I — the world's first domestic telecommunications satellite to be placed in geo-stationary orbit around the earth. An earth station at Lake Cowichan was connected to B.C.Tel's Vancouver long distance switching centre by microwave the same year.

As part of the TransCanada Telephone System, B.C.Tel completed and placed in service in 1973 its portion of the world's first nation-wide digital data transmission service operating on a commercial basis, Dataroute, to be followed with a more sophisticated, shared data communications network, Datapac, in 1977.

The marriage of computer and telecommunication technologies, the development of the 'silicon chip' microprocessors and, as the decade ended, the appear-

ance of fibre optics radically changed the hardware as well as the scope and nature of communications services within the telephone system.

Other forces were at work outside the telephone system during the decade. Inflation, fueled by a dramatic increase in oil prices by the OPEC countries, reached double-digit proportions by the mid-Seventies and resulted, in 1975, in Canada's Anti-Inflation Act which placed controls on wages and profits. The increasing presence of government was also felt as a result of sharply increased regulatory activity which, in some instances, placed the regulated telecommunications carrier at some disadvantage in areas where the distinction between monopoly and competition was blurred.

The fact of competition in the telephone company's environment was established by the end of the decade. It will become a major factor in the future development of telecommunications in British Columbia and in Canada as we move farther into the "Information Age".



A Stored Program Control (electronic) console

1971 - British Columbia celebrates its Centennial.

1972 - Team Canada scores dramatic hockey victory in Moscow; Canada Summer Games are success in Burnaby.

1975 - End of bitter Viet Nam war.

1976 - The Summer Olympics in Montreal.

CB radios create a new language.

Joggers create a new traffic hazard.

Discos re-create an old sound - tribal drums.

Protesters protest just about everything.

CATV — cable television systems proliferated until, by the end of the Seventies, Canada had become the most heavily cabled country in the world. In addition to leasing the use of its facilities for support structures for cable, B.C. Tel by 1974 had started what was to become a province-wide CATV microwave network . . . B.C. Tel cooperated with the City of Vancouver for the introduction of 911, the single number for major emergency services, in 1976. The 911 concept is gradually being adopted by communities throughout the province . . . The transmittal of medical data over telephone lines was tested in 1973 — a project which was the forerunner of more sophisticated telemedicine developments . . .

A system permitting the transmission of text and graphics over conventional telephone lines — Faxcom — was introduced in 1973 and the Confravision system which makes possible audio-visual conferences between groups in widely separated locations was tested the same year . . . More sophisticated services, such as Sentryphone — an integrated home and business security package utilizing the telephone network — and Telidon — a videotex system which carries text and graphics from data banks to TV screens in homes and offices where users can select the information desired — were being tested and assessed by B.C. Tel as the Seventies ended.

THE INFORMATION AGE

Dick Tracy's radiotelephone wrist watch of the comic strip of the Thirties may well be in use during the Information Age of the Eighties. But that time lag of 50 years between concept and popular use is a factor that must be considered in assessing Century Two of telecommunications.

Quite apart from the possibility of world crisis turning into world chaos, there is no guarantee that the trends which are evident in the present will persist into the future. New inventions or technological breakthroughs, unpredictable public response or attitudes, changes in the regulatory or competitive environments can all alter the course of our progress in the years ahead.

It is fascinating to contemplate a society which will use electronics instead of memory or paper for information storage and exchange; where screen-to-screen communication will take the place of business travel; where the home communications centre will permit every citizen to vote instantly on issues affecting the community or the nation. All these prospects may seem exciting, but the telephone system of the Eighties will have to concern itself with more down-to-earth matters.

Many of the Information Age projections are based on the assumption of a universal digital network utilizing optical fibres to access every business and household; the presence in every business or household of an intelligent, interactive computer/display terminal and the existence of

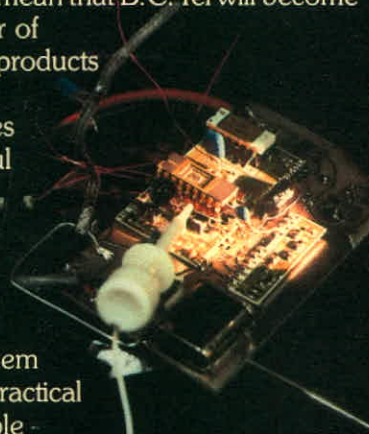
enormous, accessible data banks containing the accumulation of human knowledge to date.

The technology to accomplish this projection certainly exists today. Our share of it — digital switching and transmission, optical fibres and the capability of using the new generations of satellites was being put in place in British Columbia as the Seventies ended.

However, it is most likely that the reality of an all-digital network with a universal fibre-optics distribution system lies beyond the end of this decade and possibly the next.

Increasing competition will mean that B.C. Tel will become more and more a marketer of discretionary services and products by devising new ways to utilize the new technologies so that they will be successful in the marketplace.

At the same time, we will continue to provide our basic services, expanding, extending and improving them to the extent possible and practical within the realities of available capital and proven technologies.



Custom chip in digital repeater undergoing testing.

Some possibilities of the Information Age

The Cashless Society - thanks to widespread use of the electronic funds transfer system

Video telephones, some with holographic (three-dimensional) features

Increasing popularity of TV games utilizing in-home computers

The relatively bulky cathode ray tubes replaced by flat-screen video displays

By the mid-Eighties some form of electronic message (mail) service either facsimile or by some form of word processing

The use of tele-medicine will increase over the decade

Cellular mobile radio telephones (the Dick Tracy concept)

In the Information Age, the ability to program and use micro-computers will be as important as being able to read, write, drive a car or use the telephone. The whole population will have to become computer-literate, with school courses changing radically to accomplish this.

The conversion of B.C. Tel's telephone network to Stored Program Control — electronic switching systems — will gain momentum during the first half of this decade. By the end of 1980, one-third of the system's lines will be served from electronic central offices and this proportion will rise to more than 80% by 1985. From 1981/82 onward only digital Stored Program Control switching systems will be added . . . Eventually, a digital long distance network will be created consisting of digital long distance switches and facilities. The first digital long distance switch is being installed in 1980 with others to follow. In 1981, the first heavy-route long distance radio link will be installed between Vancouver and Victoria and, in 1982, the TransCanada Telephone System's long distance digital radio system will reach New Westminster and be extended into Vancouver by a high-
In one respect, providing telecommunications service in British Columbia in the coming century will be the same as it has always been — it won't be easy.

Floods, fires, rock slides, mud slides, burning heat, bitter cold, drenching rain, clogging snow, dragging anchors, misguided backhoes — over the years nature and man have thrown almost-impossible challenges in the faces of

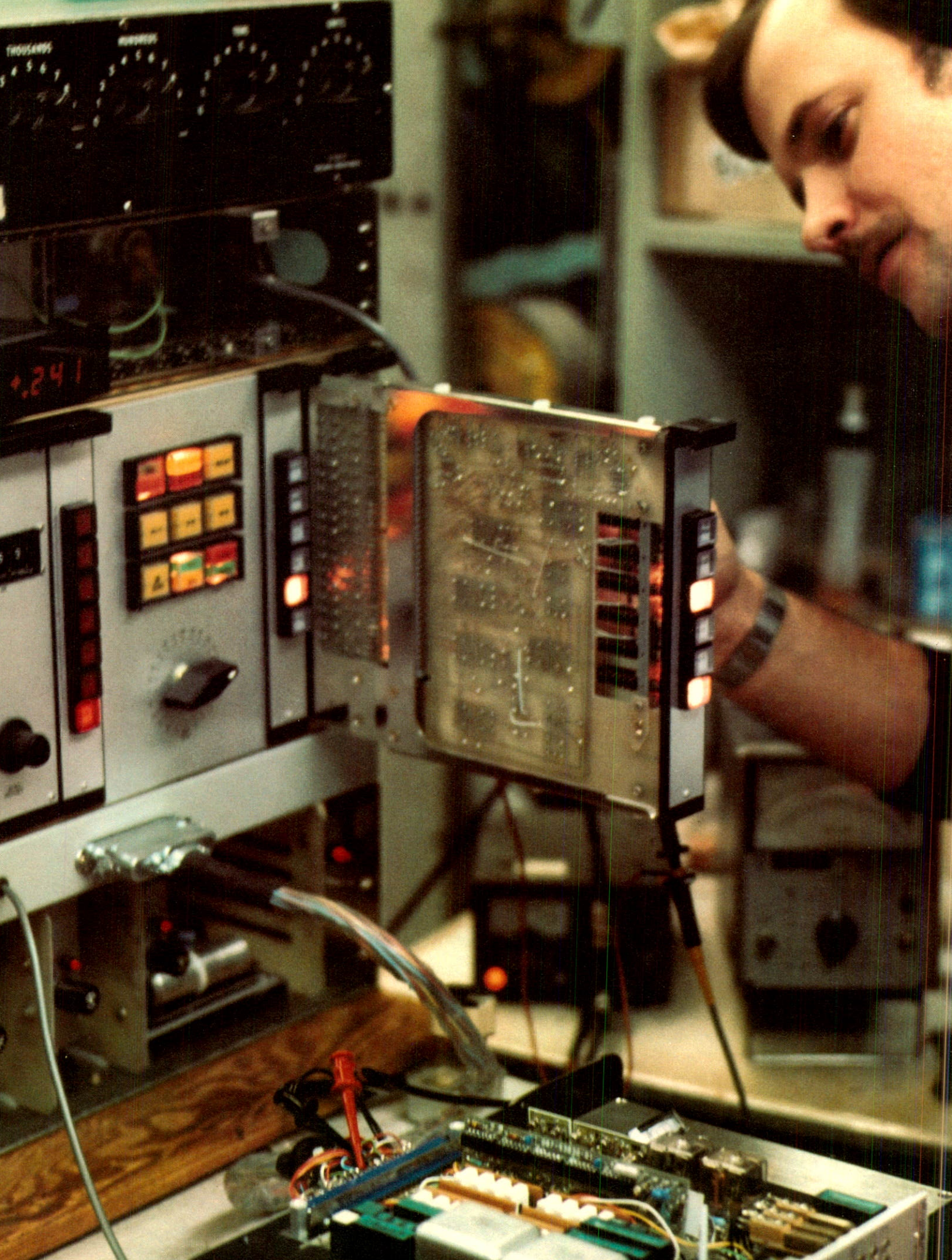
capacity fibre optics system . . . In 1981, Anik C, a high frequency sophisticated digital satellite will be boosted into orbit and will interconnect major switching offices of the TransCanada Telephone System using roof-top earth stations. B.C. Tel has an urban earth station scheduled for installation in downtown Vancouver in 1981 in preparation for this . . . By 1984, 85% of all dwellings in B.C. Tel's service area will have been converted to the wall-jack and plug hardware needed to make use of the Phone Mart method of supplying residential telephones . . . Microtel Pacific Research Limited, research arm of B.C. Tel's manufacturing subsidiary, AEL Microtel Limited, will be fully operational during the Eighties to provide the high-technology research and development capabilities which will be essential for telecommunications progress in the Information Age.

telephone people. And, over the years, the response has always been the same — we can do it.

There may be a radically different kind of technology at work in the system in the next hundred years. The odds are very high that there won't be a radically different kind of people.

They'll still be taking pride in getting the job done — telephone people.





Financial Review



Top: Paul Rink (foreground) and Gary Goodfellow maintain a Centrex switch which provides service to major businesses in downtown Vancouver.

Page 22: Dave Becker checks a custom-designed instrument which will be used to test signalling equipment at AEL Microtel's Transmission Division plant.

Page 21: Kathy Wong inspects the accuracy of the artwork for a printed circuit board prior to photo-reduction.

CONSOLIDATED RESULTS

Consolidated earnings per ordinary share were \$1.92 in 1979, or \$1.87 per share after allowing for the employee share plan and full conversion of remaining convertible preferred shares. Comparable 1978 earnings per ordinary share were \$1.55, or \$1.49 after full dilution.

Our manufacturing subsidiary, AEL Microtel Limited, made a positive contribution to earnings in 1979, accounting for \$.03 of the total per share earnings for the year.

A rate of return of 9.81% on average invested capital was achieved in 1979, compared with 9.02% in 1978. The return on average ordinary equity increased to 13.32% in 1979 from 11.32% in 1978.

TELECOMMUNICATIONS OPERATIONS

Operating Revenues

Annual revenues from telecommunications operations in 1979 totalled \$656,940,000, up 14.0% from 1978, before adjustments in each year for compliance with Anti-Inflation Act guidelines which applied to the Company's earnings through 1978.

Local service revenues increased by 9.0% as a result primarily of telephone growth. An increased volume of long distance calling brought with it a 16.7% improvement in toll service revenues. Other revenues, principally from directory advertising and sales, net of overall uncollectibles, increased to \$21,899,000 in 1979 from \$16,165,000 in 1978.

Anti-Inflation Guidelines Compliance

Earned revenues in the years 1979 and 1978, as indicated in the accompanying Consolidated Statement of Earnings, have been subject to adjustments for Anti-Inflation guidelines compliance. In December, 1978, the Canadian Radio-television and Telecommunications Commission, having determined that the Company had earned revenue in excess of the amount allowed under the guidelines, approved a compliance plan whereby the

Company was to carry \$25,325,000 of 1978 revenues into 1979. During 1979, the CRTC monitored the Company's "actual and expected 1979 performance on a month by month basis" and concluded that all except "\$7 million of the excess revenue in fiscal year 1979" would be absorbed "without generating a rate of return significantly above the 1978 figure." Accordingly, on November 7, 1979, the CRTC ordered the Company "to refund the sum of not less than \$7 million" to its subscribers. The Company implemented this decision in full and by year-end, having taken the balance of \$18,325,000 into the 1979 accounts, has complied fully with the Anti-Inflation Act guidelines.

Operating Expenses

A total of \$333,699,000 was expended in 1979 on Company telecommunications operations, including plant maintenance, operator services, customer service and financial operations. Expense charges for depreciation on plant and equipment brought operating expenses for 1979 to \$479,805,000 or 21.3% more than the 1978 total of \$395,397,000.

Cost Inquiry Implementation

Total operating expenses reflect refinements in accounting and financial practices. (See Note 3 to Consolidated Financial Statements.) Following earlier public hearings on Phase I of an Inquiry into Telecommunications Carriers' Costing and Accounting Procedures, the CRTC issued a decision directing the Company to initiate such changes in depreciation practices and timing of cost recognition as are necessary to achieve consistency with the principles of the decision. One objective of Phase I of the Inquiry had been to standardize the

approach followed on these matters by the four telecommunications carriers under CRTC jurisdiction and with few exceptions, the directives in the decision were in line with B.C.Tel's original recommendations to the Commission and provide for a faster recovery of costs from the revenue stream.

Telecommunications Earnings

Earnings from telecommunications operations before financing charges and income taxes in 1979 increased 22.5% to \$203,842,000, with the inclusion of other income and the allowance for funds used during construction. The latter declined to \$5,519,000 as a result of the completion during the year of several major Stored Program Control (SPC) central office switching projects which had represented a sizeable portion of our total plant under construction at the beginning of 1979.

MANUFACTURING OPERATIONS

Sales and earnings of the manufacturing subsidiary, AEL Microtel Limited, are presented for the three months since the effective date of acquisition, October 1, 1979. Sales for this period totalled \$47,850,000, with associated costs and expenses amounting to \$44,732,000, bringing manufacturing earnings available for consolidation with 1979 earnings from telecommunications operations to \$3,118,000. The net contribution to consolidated earnings, after interest costs and provision for income taxes was \$1,931,000.

INTEREST CHARGES

Consolidated interest and amortization charges on long-term debt increased in 1979 to \$68,892,000, from \$63,167,000 the previous year as a result of annualized interest charges on the Company's last bond issue completed in late 1978.

Other interest charges, despite rising interest rates during 1979 that saw the bank prime rate in Canada increase to 15% from 11½%, were reduced to \$3,159,000 in 1979 from

\$5,937,000 in 1978. The Company had lower short-term borrowing requirements in 1979 due to an improved ability to generate needed funds internally and the proceeds from additional preferred shares issued in July, 1979.

INCOME TAXES

Taxes on consolidated income in 1979, again taking into account the manufacturing subsidiary's income for the final quarter of 1979 only, amounted to \$65,734,000, compared with income taxes of \$46,015,000 in 1978.

NET EARNINGS AND ORDINARY SHARE EARNINGS

Net earnings, before dividends on preference and preferred shares, were significantly improved in 1979, totalling \$69,175,000 as compared with \$51,307,000 in 1978.

Preference and preferred dividends were only slightly altered, however, as share conversions offset the dividend requirements of a new preferred share issue. Ordinary share earnings increased to \$51,849,000 in 1979 from \$33,772,000 in the previous year. Substantially more ordinary shares were outstanding in 1979 as a result of share issues in 1978 and 1979.

CURRENT COST ACCOUNTING

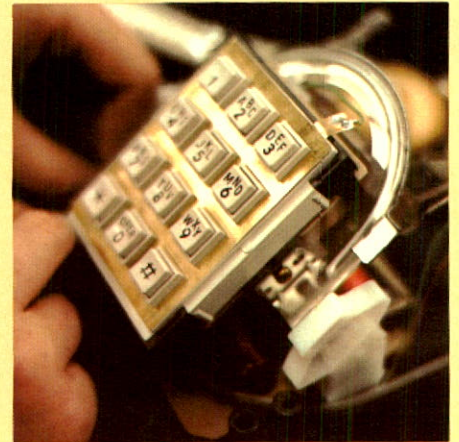
Inflation continues to be of concern to all Canadians and rapidly changing prices can have a major effect on a corporation such as B.C.Tel. Traditional accounting methods using historical cost data do not necessarily reflect the impact of inflation and a consensus has not yet been developed in Canada about the most appropriate method of accounting for the effect of changing prices.

B.C.Tel will be experimenting with the various methods proposed by the Accounting and Research Committee of the Canadian Institute of Chartered Accountants (CICA) in a recently published document. B.C.Tel intends to respond to CICA's request that companies and members of the business and financial community comment on its proposals for supplementary financial data by June 30, 1980.

It should be noted that most regulatory bodies, including the CRTC, use original cost as the basis of regulation.



Top: Beatrice Ell adjusts a telephone hookswitch in AEL Microtel's Lethbridge plant.



Lower: A touch calling telephone in the final assembly stage.

Consolidated Statement of Earnings and Earnings Retained for Use in the Business

<i>For the years ended December 31</i>	1979	1978
	<i>(Thousands of Dollars)</i>	
TELECOMMUNICATIONS OPERATIONS		
Operating Revenues		
Local service	\$263,076	\$241,369
Toll service	371,965	318,765
Other, net of uncollectibles	21,899	16,165
	656,940	576,299
Adjustment for Anti-Inflation compliance (Note 3) ...	18,325	(25,325)
Total Operating Revenues	675,265	550,974
Operating Expenses (Note 3)		
Operations	333,699	282,778
Depreciation	146,106	112,619
Total Operating Expenses	479,805	395,397
Operating Earnings		
Other income	195,460	155,577
Allowance for funds used during construction	2,863	1,900
	5,519	8,949
Earnings Before Interest and Other Deductions	203,842	166,426
MANUFACTURING OPERATIONS (Note 4)		
Sales	47,850	—
Cost and Expenses		
Cost of sales	40,735	—
Selling and administrative expenses	3,997	—
	44,732	—
Earnings Before Interest and Other Deductions	3,118	—
Combined Earnings Before Interest and Other Deductions	206,960	166,426
Interest Charges		
Interest on long-term debt and amortization of issue costs	68,892	63,167
Other interest charges	3,159	5,937
	72,051	69,104
Earnings Before Income Taxes	134,909	97,322
Income Taxes	65,734	46,015
Net Earnings	69,175	51,307
Less — Preference and preferred share dividends	(17,326)	(17,535)
Ordinary Share Earnings	51,849	33,772
Earnings Retained for Use in the Business		
Balance at Beginning of Year	110,380	100,588
	162,229	134,360
Less — Ordinary share dividends	(32,468)	(23,510)
Share issue and redemption expense	(298)	(470)
Balance at End of Year	\$129,463	\$110,380
Earnings per Ordinary Share (Note 4)		
— Basic	\$ 1.92	\$ 1.55
— Fully diluted	\$ 1.87	\$ 1.49

Consolidated Balance Sheet As of December 31

Assets

	1979	1978
	<i>(Thousands of Dollars)</i>	
Telecommunications Property, at cost		
Buildings, plant and equipment (Note 6)	\$2,211,243	\$1,991,186
Less — Accumulated depreciation	(543,533)	(473,982)
	1,667,710	1,517,204
Land	17,851	13,851
Property under construction	68,676	110,751
Material and supplies	24,618	17,091
	1,778,855	1,658,897
Manufacturing Property, at cost		
Plant and equipment	43,420	—
Less — Accumulated depreciation	(23,338)	—
	20,082	—
	1,798,937	1,658,897
Investments and Other Assets, at cost		
Telesat Canada	3,300	3,300
Other	1,329	200
	4,629	3,500
Current Assets		
Short-term investments, at cost	—	9,882
Accounts receivable	110,977	80,262
Inventories	50,304	—
Prepaid expenses	6,306	5,244
	167,587	95,388
Deferred Charges		
Unrealized and deferred loss on foreign exchange (Note 5)	10,791	12,097
Unamortized cost of issuing debt securities	10,195	10,264
	20,986	22,361
	\$1,992,139	\$1,780,146

Approved by the Directors,

G. F. MacFarlane, Director
V. F. MacLean, Director

Capitalization and Liabilities

	1979	1978
	<i>(Thousands of Dollars)</i>	
Capitalization		
Equity (Note 7)		
Ordinary shares	\$ 442,952	\$ 340,719
Convertible subordinate preferred shares	8,059	43,315
Preference and preferred shares	254,410	210,200
Total equity	<u>705,421</u>	<u>594,234</u>
Long-term debt (Note 8)	733,742	774,926
	<u>1,439,163</u>	<u>1,369,160</u>
Current Liabilities		
Cheques issued in excess of bank balances	11,063	8,165
Short-term obligations (Note 9)	95,721	8,830
Accounts payable	54,533	29,756
Income taxes payable	10,705	13,553
Dividends payable	12,090	9,797
Accrued interest	15,488	15,394
Other accrued liabilities	21,865	19,922
Unearned and excess revenues (Note 3)	16,099	39,093
	<u>237,564</u>	<u>144,510</u>
Income Taxes Deferred	315,412	266,476
 Commitments and Contingent Liability (Notes 6 and 10)		
	<u>\$1,992,139</u>	<u>\$1,780,146</u>

Consolidated Statement of Changes in Financial Position

<i>For the years ended December 31</i>	1979	1978
	<i>(Thousands of Dollars)</i>	
Sources of Working Capital		
Operations		
Ordinary share earnings	\$ 51,849	\$ 33,772
Add (deduct) items not requiring working capital		
Depreciation	150,936	115,736
Income taxes deferred	44,535	28,854
Allowance for funds used during construction	(5,519)	(8,949)
Other, net	2,018	2,776
	243,819	172,189
Financing proceeds, net of related costs and expenses		
Ordinary shares issued		
— for cash	490	57,142
— on conversion of preferred shares	35,256	15,518
— on acquisition of subsidiary	47,359	—
Preferred shares issued for cash	49,828	33,347
Capitalization of equipment leases	7,553	—
Long-term debt	—	73,549
	140,486	179,556
Less — Redemptions, conversions or current maturities of long-term debt and preferred shares ..	(93,351)	(25,668)
	47,135	153,888
	290,954	326,077
Application of Working Capital		
Capital expenditures		
Gross capital expenditures	277,500	237,046
Increase in material and supplies	7,527	769
	285,027	237,815
Less — Salvage value of plant retired, net	(13,710)	(10,038)
Allowance for funds used during construction	(5,519)	(8,949)
	265,798	218,828
Ordinary share dividends	32,468	23,510
Acquisition of subsidiary (less working capital acquired of \$33,816,000)	13,543	—
	311,809	242,338
Increase (Decrease) in Working Capital	(20,855)	83,739
Working capital (deficiency), beginning of year	(49,122)	(132,861)
Working capital (deficiency), end of year	\$ (69,977)	\$ (49,122)

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

EARNINGS PER ORDINARY SHARE

Earnings per ordinary share have been computed based on the average number of shares outstanding each month during the year and eligible for quarterly dividends declared. Fully diluted earnings per ordinary share reflect the Employee Share Purchase Plan options and the potential full conversion of the \$2.32 convertible subordinate preferred shares.

CONSOLIDATION

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries North-west Telephone Company, Canadian Telephones and Supplies Ltd. (together with its wholly-owned subsidiary — Viscount Industries Ltd.), AEL Microtel Limited (together with its wholly-owned subsidiary — Microtel Pacific Research Limited) and Okanagan Telephone Company (99.9% owned). The excess of the cost of shares of subsidiaries over the Company's equity at the date of acquisition is included in telecommunications property and is being amortized over periods not exceeding thirty years. Such amortization amounted to \$662,000 in 1979 (\$255,000 – 1978).

All significant intercompany transactions have been eliminated, except for purchases of telecommunications equipment and supplies by the Company from AEL Microtel Limited which are reflected in the consolidated balance sheet at cost to the parent, and are included in manufacturing sales in the consolidated statement of earnings. Intercompany sales for the three months ended December 31, 1979, totalled \$12,317,000. To the extent that any income on these sales has not been offset by depreciation or other operating expenses, it remains in consolidated income and retained earnings. This practice is generally followed in the industry.

TELECOMMUNICATIONS PROPERTY

Telecommunications property is recorded at original cost and includes certain payroll costs and general overheads applicable to the construction activity. In addition, the Company capitalizes the cost of funds used to finance construction, based on the size and duration of projects. The amounts of allowance for funds used during construction are an item of income in the consolidated statement of earnings. Such income is not realized in cash currently but will be realized over the service life of the plant.

DEPRECIATION

Depreciation rates for telecommunications property are determined by a continuing program of engineering studies for each class of plant, according to year of placing in service and estimated useful life. Depreciation provisions are calculated on a straight-line basis using such rates. The composite depreciation rate was 7.09% for 1979 (6.12% – 1978).

Depreciation on manufacturing property is provided over the estimated useful lives of the assets using a straight-line basis.

INCOME TAXES

The Company and its subsidiaries use the tax allocation basis of accounting for income taxes except as related to allowance for funds used during construction as it is not included in rate submissions to the Canadian Radio-television and Telecommunications Commission (CRTC). Of the current year's tax provision, \$44,535,000 is deferred (\$28,854,000 – 1978).

TRANSLATION OF FOREIGN CURRENCIES

Trade transactions completed in foreign currencies are reflected in Canadian dollars. Debt payable in U.S. funds is reflected in the financial statements at the Canadian dollar equivalent at the rate of exchange prevailing at year-end.

Currency gains and losses are included in net income for the year except for gains and losses on long-term debt which are amortized over the remaining lives of the related issues. Such amortization charged against income amounted to \$705,000 (\$658,000 – 1978).

INVENTORIES

Inventories held by the manufacturing subsidiary are valued at the lower of cost and net realizable value and comprise:

	<i>(Thousands of Dollars)</i>
Raw materials	\$ 3,176
Uncompleted contracts and work-in-process	42,188
Finished goods	4,940
	\$50,304

RESEARCH AND DEVELOPMENT

All research and development costs are charged to income as incurred.

2. Accounting Policy Change

Effective January 1, 1979, the Company and its subsidiaries revised their accounting policy relating to the method of accounting for lease transactions. Under the revised policy, leases are classified as capital or operating in accordance with the recommendations of the Canadian Institute of Chartered Accountants. This treatment is also in accordance with the directives of Phase I of the CRTC's Inquiry into Telecommunications Carriers' Costing and Accounting Procedures.

The revised policy has not been applied on a retroactive basis as the change has no material effect

on the Company's earnings or comparability of earnings for the current or prior periods. The Company's previous policy was to expense lease rentals on a straight-line basis over the life of the lease.

Assets recorded under capital leases are amortized on a straight-line basis over the life of the lease. The amount of such amortization was \$2,968,000. Payments on operating leases are expensed as incurred and such payments amounted to \$5,380,000 (\$5,964,000 – 1978).

3. Anti-Inflation Compliance and Accounting Refinements

The CRTC, in its decision of December 13, 1978, directed that \$25,325,000 of revenues generated in 1978 were in excess of revenues defined by the Anti-Inflation Act and regulations as allowable for that year and that those revenues were to be carried forward to 1979. Subsequently, in its decision of November 7, 1979, the CRTC directed the Company to refund not less than \$7,000,000 of those revenues to its 1979 customers. The Company has complied with this directive.

The May 8, 1979 Cost Inquiry Phase I decision of the CRTC introduced certain accounting refinements and directed their extension into the accounting practices of telecommunications carriers regulated by the CRTC so as to ensure uniformity of practices within the industry. The refinements introduced in 1979 charge to expense currently certain overhead costs previously capitalized as telecommunications plant and extend

the application of Equal Life Group depreciation practices to certain classes of plant acquired prior to 1975. The Company implemented Equal Life Group depreciation practices effective July 1, 1975 with respect to plant additions from that date forward but implementation of the other refinements was held in abeyance pending the Cost Inquiry Phase I decision.

The introduction of these refinements together with a significant increase in the depreciation rates on switching equipment being phased out as a result of the introduction of Stored Program Control switches has resulted in additional expense of \$20,282,000, which was offset to a large extent by the 1978 revenues carried forward. Full implementation of the Cost Inquiry Phase I decision will take place over a six year period and its effect will be included in the determination of the revenue requirements of the Company.

4. Acquisition of AEL Microtel Limited

Effective October 1, 1979, the Company acquired all of the outstanding common shares of GTE Automatic Electric (Canada) Ltd. and its subsidiary GTE Lenkurt Electric (Canada) Ltd. through the issuance of 2,757,876 ordinary shares valued at \$47,359,000. Subsequently these two companies merged to form AEL Microtel Limited.

AEL Microtel Limited is engaged in the business of manufacturing a variety of equipment used in telephone switching systems. It is also a manufacturer of transmission equipment, related components and telephone sets. Its subsidiary, Microtel Pacific Research Limited, conducts research and development in or relating to the telecommunications field.

Details of the acquisition, which has been accounted for by the purchase method, are as follows:

	<i>(Thousands of Dollars)</i>
Book value of assets	\$105,637
Liabilities	58,278
Total cost of investment	\$ 47,359

Consolidated earnings include the \$.03 contribution of AEL Microtel Limited's operations from October 1, 1979 and earnings per ordinary share reflect the additional shares issued as a result of this acquisition. Had the acquisition taken place on January 1, 1979, the consolidated statement of earnings for the Company would have reflected the following:

	<i>(Thousands of Dollars)</i>
Manufacturing Operations	
Sales	\$167,789
Cost and Expenses	
Cost of sales	147,634
Selling and administrative expenses	11,255
	<u>158,889</u>
Earnings Before Interest and Other Deductions	<u>\$ 8,900</u>

The above assumption would have resulted in Ordinary Share Earnings of \$54,763,000 for the year and consolidated basic earnings per share of \$1.86.

5. Acquisition of the Assets of 70,074 Limited

In accordance with an agreement dated October 11, 1979, approved by the CRTC, the Company acquired the assets of its subsidiary, 70,074 Limited (currently in the process of liquidation), principally the Company's headquarters building, on December 19, 1979. In conjunction with the acquisition of the assets, the subsidiary's U.S. dollar 11% First Mortgage Loan was retired and replaced with short-term indebtedness pending refinancing. A foreign exchange loss of

\$2,636,000 resulting from the retirement of the mortgage is included in the consolidated balance sheet as a component of "Unrealized and deferred loss on foreign exchange" and is being amortized over the remaining life of the original mortgage. In the event that the refinancing term is shorter than the remaining life of the original mortgage, the amortization period will be reduced accordingly.

6. Leases

Telecommunications property includes equipment recorded under capital leases as follows:

	1979
	<i>(Thousands of Dollars)</i>
Equipment	\$ 8,744
Less — Accumulated amortization	(2,968)
	\$ 5,776

The future minimum lease payments under capital and operating leases as of December 31, 1979, are as follows:

	<i>Capital leases</i>	<i>Operating leases</i>
	<i>(Thousands of Dollars)</i>	
1980	\$ 2,429	\$ 6,318
1981	2,093	4,921
1982	1,883	2,930
1983	611	1,550
1984	51	799
Thereafter	—	2,057
Total future minimum lease payments	7,067	<u>\$18,575</u>
Less — Imputed interest	<u>(1,020)</u>	
	6,047	
Amount included under short-term obligations (Note 9)	1,922	
Amount included under long-term debt (Note 8)	<u>\$ 4,125</u>	

7. Equity

(a) Details of shareholders' equity:

		1979	1978
		<i>(Thousands of Dollars)</i>	
Ordinary Shares without par value			
29,698,863 shares outstanding (24,088,887 – 1978)		\$313,489	\$230,337
Earnings retained for use in the business		129,463	110,380
Minority interest in subsidiary		—	2
		<u>442,952</u>	<u>340,719</u>
	Redemption Premium		
\$2.32 Cumulative Redeemable Convertible Subordinate Preferred Shares			
Par Value of \$25 each	—	8,059	43,315
Cumulative Preference and Preferred Shares			
Par Value of \$100 each			
6% Preference	10%	1,000	1,000
6% Preferred	5%	4,500	4,500
4¾% Preferred	5%	7,500	7,500
4¾% Preferred (Series 1956)	4%	7,500	7,500
4½% Preferred	4%	5,000	5,000
4¾% Preferred	4%	6,000	6,000
5¾% Preferred	4%	10,000	10,000
5.15% Preferred	5%	12,000	12,000
Par Value of \$25 Each			
4.84% Preferred	4%	20,000	20,000
6.80% Preferred	6%	10,000	10,000
7.04% Preferred (Not redeemable before July, 1982)	7%	20,000	20,000
8¾% Preferred	—	8,500	10,200
10.16% Preferred	—	24,000	25,500
7% Preferred	—	35,000	37,500
7.65% Preferred (Not redeemable before August 1, 1983)	5%	33,410	33,500
7.40% Preferred (Not redeemable before July 15, 1984)	5%	50,000	—
		<u>254,410</u>	<u>210,200</u>
Total Equity		<u>\$705,421</u>	<u>\$594,234</u>

(b) Authorized capital

The Company is permitted, subject to directors' and shareholders' approval, to issue shares with or without par value up to the nominal amount of \$1,250,000,000. As at December 31, 1979 and 1978, the total share capital of the Company, as authorized by its bylaws, was \$750,000,000.

(c) Changes during 1979

Ordinary shares — 2,757,876 shares valued at \$47,359,000 were issued September 29, 1979 for the purchase of all the outstanding shares of GTE Automatic Electric (Canada) Ltd. and its subsidiary GTE Lenkurt Electric (Canada) Ltd., now AEL Microtel Limited. Further, 2,820,414 shares were issued during 1979 (1,241,478 shares – 1978) on conversion of 1,410,207 (620,739 shares – 1978) \$2.32 convertible subordinate preferred shares. In addition, 31,686 shares were issued during 1979 for \$538,000 through the Dividend Reinvestment and Share Purchase Plan and the Employee Share Purchase Plan.

Cumulative preferred shares — \$50,000,000 7.40% cumulative preferred shares were issued July 12, 1979. Mandatory redemptions of preferred shares in the amount of \$5,200,000 were made in 1979 and 1978 as described in Note 7(e). In addition, the Company redeemed 3,600 – 7.65% preferred shares in the amount of \$90,000 in 1979.

(d) Ordinary Shares Reserved

At December 31, 1979, 998,685 shares were reserved under the Company's Employee Share Purchase Plan as approved by the CRTC on March 20, 1979. On the first offering under the plan, subscriptions for a maximum of 744,484 shares to be issued over a two year period were received. Subscriptions totalling 42,949 shares have subsequently been cancelled. The purchase price per share will be 85% of the average market price on the first day or last day of each purchase period, whichever is the lesser, but not less than fully diluted book value at the commencement of each purchase period. During the year, the Company issued 1,315 shares under this plan. An additional 1,000,000 shares were reserved under the Dividend Reinvestment and Share Purchase Plan as approved by the CRTC on April 24, 1979. The purchase price for the plan is the average market price for the five days preceding the investment date. During the year, the Company issued 30,371 shares under this plan. As at December 31, 1979, 644,766 ordinary shares remain reserved for the conversion of the \$2.32 convertible subordinate preferred shares.

7. Equity (Continued)

- (e) Preferred share redemption requirements
- Redemption requirements apply to six issues:
- 8¾% preferred shares are subject to redemption of \$1,700,000 each year, to retire the issue by 1984.
 - 10.16% preferred shares are subject to (a) mandatory redemption at par value over a 20-year period with \$1,500,000 due annually on September 1 until 1995, and (b) voluntary redemption at the option of the Company in any amount on and after September 1, 1980, at a premium of 5%, declining annually thereafter to par after September 1, 1985.
 - 7% preferred shares are subject to redemption of \$2,500,000 each year until 1985, with the balance of \$20,000,000 due in 1986.
 - 7.65% preferred shares are subject to a purchase obligation requiring the Company to make all reasonable effort to purchase in each 12-month period commencing August 1, 1978, 40,200 shares at a price not exceeding \$25 per share excluding costs of purchase.
 - \$2.32 convertible subordinate preferred shares are subject to (a) a purchase obligation requiring the Company to purchase in the open market at a price not exceeding par value, specified quantities of such shares to the extent that they are available in each 12-month period commencing June 30, 1981, and (b) voluntary redemption at the option of the Company at any time at a premium of 8% to June 30, 1982, declining annually thereafter to par value after June 30, 1986.
 - 7.40% preferred shares are subject to a purchase obligation requiring the Company to make all reasonable effort to purchase in each 12-month period commencing July 15, 1979, 60,000 shares at a price not exceeding \$25 per share excluding costs of purchase.

8. Long-Term Debt (exclusive of current maturities)

(a) Details of and total long-term debt:

	(Thousands of Dollars)				1979	1978
First Mortgage Bonds	5-7⅞%	8⅞-8¾%	9-9⅞%	10¼-11%		
Due 1980	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 20,000
1981	—	11,000	—	25,000	36,000	36,000
1982	25,000	—	—	2,002	27,002	27,021
1983	20,000	—	—	2,002	22,002	22,021
1984-1993	130,000	40,000	21,807	20,026	211,833	212,016
1994-2003	25,000	58,419	200,000	146,101	429,520	429,839
	<u>\$200,000</u>	<u>\$109,419</u>	<u>\$221,807</u>	<u>\$195,131</u>	726,357	746,897
Composite interest rate	6.12%	8.43%	9.55%	10.47%		
AEL Microtel Limited						
10% notes payable, due in semi-annual installments of \$500,000					2,000	—
Other at varying rates of interest from 6% to 15¾%					1,260	—
Amounts due under capitalized equipment leases (Note 6)					4,125	—
70,074 Limited 11% First Mortgage Loan (Note 5)					—	28,029
					<u>\$733,742</u>	<u>\$774,926</u>

The 1979 amounts include \$50,000,000 (\$73,677,000 – 1978) payable in U.S. funds at the current Canadian dollar equivalent of \$58,550,000 (\$87,119,000 – 1978).

- (b) Property pledged and sinking fund requirements
- The Company's telecommunications plant is subject to the liens under the Deed of Trust and Mortgage under which the First Mortgage Bonds are issued. The Deed of Trust and Mortgage requires either an annual sinking fund payment of 1% of the principal amount of bonds outstanding or

the pledge of additional unmortgaged property. Company practice is to use the latter alternative and accordingly it does not make sinking fund payments.

- (c) Redemption requirements
- The First Mortgage Bonds, except for Series W, Z and AB, are redeemable, other than for financial advantage, at various premiums to a maximum of 9%.

9. Short-term Obligations, due within one year

Amounts falling due for redemption within one year including short-term indebtedness pending permanent financing are as follows:

	1979	1978
	<i>(Thousands of Dollars)</i>	
Bank demand loans – 15% interest	\$13,647	\$ 274
Promissory Notes – 10% to 14.7% interest	56,618	8,414
First Mortgage Bonds, 8% series Z, due April 1, 1980	20,000	—
Amounts held under Employee Share Purchase Plan – 8% interest	3,534	—
Amounts due under capitalized equipment leases (Note 6)	1,922	—
Principal due on First Mortgage Loan of 70,074 Limited	—	142
	<u>\$95,721</u>	<u>\$ 8,830</u>

Short-term obligations are included in total capitalization for regulatory purposes in computing capitalization ratios and rates of return on capital.

The Company estimates capital expenditures to cost \$301,000,000 in 1980 and that sum plus short-term obligations of \$95,721,000 represent the Company's financing requirements for the ensuing year. Financing requirements, in excess of funds generated from operations, are subject to approval by the CRTC with respect to share issues, and to interest earnings coverage ratios as required under the Deed of Trust and Mortgage for First Mortgage Bond issues. As of December 31, 1979 the Company had obtained no commitments for such financing.

10. Commitments and Contingent Liability

The Company estimates the construction programs for additional telecommunications plant and facilities to cost \$301,000,000 in 1980 and substantial purchase commitments have been made in connection therewith.

AEL Microtel Limited is contingently liable in the amount of \$7,034,000 for the collection of notes receivable sold to an affiliated company.

11. Pension Plans

The Company and its subsidiaries have pension plans covering substantially all employees, subject to conditions related to age and period of service. The annual accrued pension costs are placed in trustee funds, the value of which exceeded the benefits vested with the employees at the date of the last actuarial review.

The Company is governed by and complies with the Canada Pension Benefits Standards Act which contains provisions regarding the solvency of pension plans. Actuarial studies are prepared at least every three years and experience deficiencies, if any, in the plans are funded and amortized over the succeeding

five-year period. Based upon the 1978 actuarial valuations, the estimated unfunded liability as at December 31, 1979 is \$18,955,000 for the management pension plans.

The pension plans for bargaining unit employees require that the Company contribute a fixed percentage of gross employee earnings without liability for the benefits payable.

Total pension costs were \$22,708,000 (\$20,358,000 – 1978) which include \$5,126,000 (\$4,126,000 – 1978) for amortization of past service and experience deficiencies.

12. Remuneration of Directors and Officers

During the year, 11 directors of British Columbia Telephone Company received aggregate remuneration of \$95,000 (\$86,000 – 1978) as directors of the Company and its subsidiaries and 15 officers received

aggregate remuneration of \$834,000 (\$745,000 – 1978). None of the officers of British Columbia Telephone Company received remuneration from subsidiary companies.

13. Quarterly Financial Data (unaudited)

Quarterly statements of earnings for 1979, restated to reflect the effects of accounting refinements and the CRTC decision on Anti-Inflation compliance (Note 3):

	QUARTER ENDED				1979
	March 31	June 30	September 30	December 31	
	<i>(Thousands of Dollars)</i>				
Telecommunications operations					
Operating revenues	\$154,470	\$159,872	\$169,097	\$173,501	\$656,940
Add revenue adjustment for Anti-Inflation compliance	3,631	5,591	6,491	2,612	18,325
	158,101	165,463	175,588	176,113	675,265
Operating expenses	115,817	120,725	122,344	120,919	479,805
Net operating earnings before income taxes	42,284	44,738	53,244	55,194	195,460
Other income	2,587	1,864	2,498	1,433	8,382
	44,871	46,602	55,742	56,627	203,842
Interest and other deductions	18,317	17,834	17,329	17,752	71,232
Net earnings before income taxes	26,554	28,768	38,413	38,875	132,610
Income taxes	12,523	14,134	19,159	19,550	65,366
Net earnings	14,031	14,634	19,254	19,325	67,244
Manufacturing operations					
Net earnings	—	—	—	1,931	1,931
Consolidated net earnings	14,031	14,634	19,254	21,256	69,175
Dividends on preference and preferred shares	4,174	3,901	4,663	4,588	17,326
Consolidated net earnings available for ordinary shares	\$ 9,857	\$ 10,733	\$ 14,591	\$ 16,668	\$ 51,849
Earnings per ordinary share					
— basic	\$.39	\$.40	\$.55	\$.58	\$ 1.92
— fully diluted	\$.38	\$.40	\$.54	\$.55	\$ 1.87

14. 1978 Presentation

The 1978 amounts have been reclassified, where applicable, to conform with the 1979 presentation.

Auditors' Report

TO THE SHAREHOLDERS OF
BRITISH COLUMBIA TELEPHONE COMPANY

We have examined the consolidated balance sheet of BRITISH COLUMBIA TELEPHONE COMPANY (incorporated under an Act of the Parliament of Canada) and subsidiaries as of December 31, 1979 and 1978, and the consolidated statements of earnings and earnings retained for use in the business and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of the Company and subsidiaries as of December 31, 1979 and 1978, and the results of their operations and the changes in financial position for the years then ended in accordance with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.,
CHARTERED ACCOUNTANTS

Vancouver, Canada
February 1, 1980



Howard McGuin forms metal components on a heavy duty press.

PARTICULARS

		1979 (Note 1)
Selected Income Items (Thousands of dollars)		
A	1 Total operating revenues (Note 2)	\$ 656,940
	2 Local service	263,076
	3 Toll service	371,965
B	4 Total operating expenses	479,805
	5 Salaries and wages	200,877
	6 Other operations expense	132,822
	7 Depreciation	146,106
	8 Interest charges	72,051
	9 Income taxes	65,734
	10 Preference and preferred dividends	17,326
C	11 Ordinary share earnings	51,849
	12 Ordinary share dividends	32,468

Selected Balance Sheet Items (Thousands of dollars)		
D	13 Total property, at cost	\$2,365,808
	14 Accumulated depreciation	566,871
	15 Total capitalization (Note 3)	1,534,884
	16 Long-term debt	733,742
	17 Preference and preferred shares	262,469
	18 Ordinary share equity	442,952

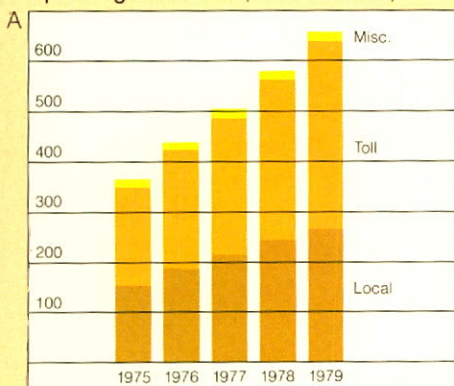
Financial Ratios

19	Earnings per ordinary share	\$ 1.92
20	Dividends declared per ordinary share	\$ 1.20
21	Equity per ordinary share	\$ 14.91
22	Percent return on average ordinary share equity	13.32
23	Percent return on average invested capital	9.81
24	Percent debt to total capitalization	54

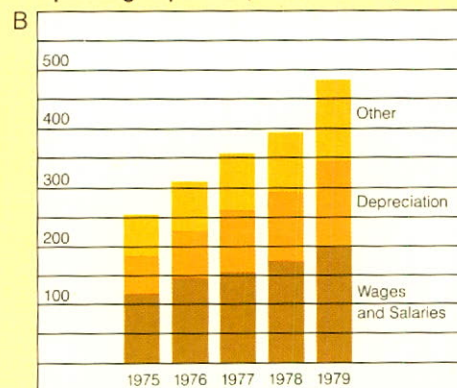
Other Statistics

25	Telephones in service	1,786,648
26	Percent SPC (telephone lines)	31.2
27	Net telecommunications property investment per telephone	\$ 996
E	28 Gross capital expenditures (Thousands of dollars)	\$ 277,500
	29 Local calls completed — daily average	7,236,000
F	30 Toll calls completed — daily average	432,000
	31 Total salaries and wages (Thousands of dollars)	\$ 283,325
	32 Total pensions and related payroll costs (Thousands of dollars)	\$ 34,591
	33 Number of employees	14,705
	34 Number of shareholders	26,171

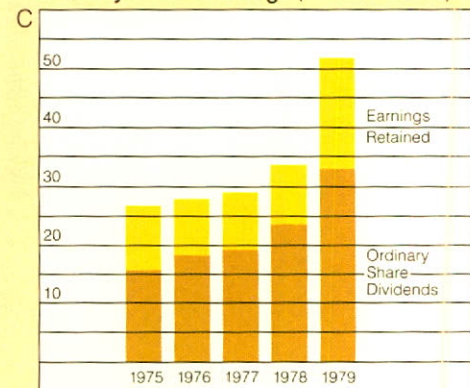
Operating Revenues (Millions of Dollars)



Operating Expenses (Millions of Dollars)



Ordinary Share Earnings (Millions of Dollars)



Record of Progress

1978	1977	1976	1975
\$ 576,299	\$ 501,554	\$ 435,839	\$ 360,687
241,369	216,098	187,694	154,956
318,765	270,323	235,813	194,905
395,397	358,453	313,138	254,341
172,230	152,267	147,870	120,456
110,548	104,976	82,073	67,971
112,619	101,210	83,195	65,914
69,104	64,163	55,776	47,365
46,015	42,102	35,903	31,729
17,535	17,697	12,931	8,023
33,772	29,019	27,785	26,859
23,510	19,211	18,079	15,819

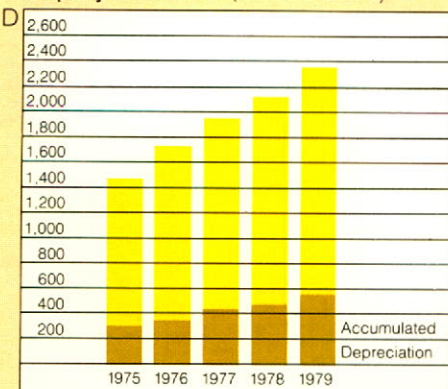
\$2,132,879	\$1,961,959	\$1,742,651	\$1,484,489
473,982	414,595	350,700	310,303
1,377,990	1,303,652	1,174,800	1,021,007
774,926	691,171	626,835	549,120
253,515	241,233	204,434	145,600
340,717	258,010	248,351	239,161

\$ 1.55	\$ 1.54	\$ 1.48	\$ 1.43
\$ 1.08	\$ 1.02	\$.96	\$.84
\$ 14.14	\$ 13.70	\$ 13.19	\$ 12.70
11.32	11.59	11.37	11.62
9.02	8.92	8.93	8.62
57	62	61	62

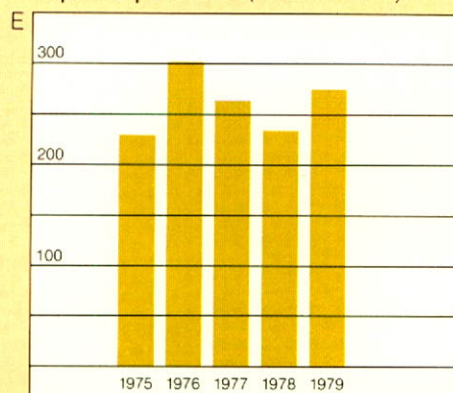
1,683,421	1,600,512	1,543,310	1,473,183
16.2	12.4	4.5	3.8
\$ 985	\$ 967	\$ 902	\$ 797
\$ 237,046	\$ 262,855	\$ 301,385	\$ 230,241
6,356,000	6,373,000	6,250,000	6,187,000
368,000	322,000	323,000	285,000
\$ 238,291	\$ 221,447	\$ 216,692	\$ 180,511
\$ 30,657	\$ 31,824	\$ 25,931	\$ 17,875
13,925	13,724	13,749	13,122
27,574	27,324	27,639	25,047

(Note 1 – Lines 1-7 and 25-33 exclude manufacturing operations)
 (Note 2 – 1979-1978 revenues are before adjustment to comply with Anti-Inflation guidelines)
 (Note 3 – Includes short-term obligations)

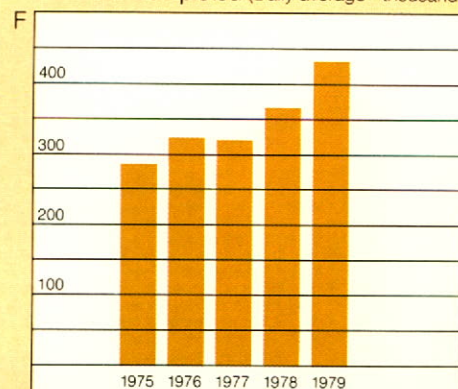
Property Investment (Millions of Dollars)



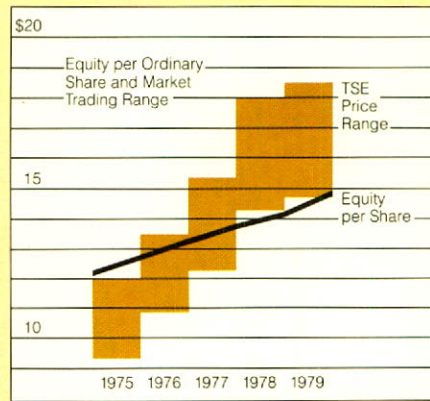
Capital Expenditures (Millions of Dollars)



Toll Calls Completed (Daily average – thousands)



Selected Information for Ordinary Shareholders



Principal Ownership

The Company's outstanding ordinary shares totalled 29,698,863 as at December 31, 1979.

General Telephone & Electronics Corporation (GTE) of Stamford, Connecticut, through its subsidiaries, Anglo-Canadian Telephone Company of Montreal and GTE International Incorporated, is the owner of 16,400,460 shares. Voting control by GTE is restricted, however, to 50.72% of the issued and outstanding ordinary shares of the Company at any time.

Conversion

The \$2.32 convertible subordinate preferred shares are convertible into ordinary shares of the Company at any time prior to the close of business on June 30, 1986, on the basis of two ordinary shares for each convertible preferred share. As at December 31, 1979, 322,383 or 13.7% of such shares remained for conversion.

Dividend Reinvestment and Share Purchase Plan

The Company introduced a plan in 1979, whereby holders of all classes of shares can elect to acquire ordinary shares through automatic reinvestment of dividends and investment of optional cash payments. Details of this plan were sent to all shareholders at the time and are available upon request from the Treasurer of the Company.

Dividends

Dividends are payable quarterly on the first days of January, April, July and October. In 1979, these amounted to \$.30 per ordinary share for each quarter, for a total of \$1.20.

Market Trading

Shares are listed for trading on the Toronto, Montreal and Vancouver Stock Exchanges.

Federal Government
Valuation Day Value
(December 22, 1971) **\$12.75/Share**

	1979	1978
Number of Ordinary Shareholders	8,830	8,353
Number of Shares Outstanding at December 31	29,698,863	24,088,887
Distribution of Shares:		
Canada	90.2%	99.3%
United States	9.6	.4
Other2	.3
	100.0%	100.0%
Volume of Shares Traded:		
Toronto	1,383,300	2,100,900
Montreal	359,328	272,406
Vancouver	5,600	92,320
	1,748,228	2,465,626
The Toronto Stock Exchange Price Ranges (High-Low):		
First Quarter	\$18¼-16¾	\$15¼-14¼
Second Quarter	18½-17½	16⅞-14⅝
Third Quarter	18 -16⅞	18 -15¾
Fourth Quarter	17¼-14¾	17⅞-16¾



Directors

Gordon F. MacFarlane
Chairman and
Chief Executive Officer
British Columbia Telephone
Company
Burnaby, B.C.

Harry M. Boyce
Company Director
Vancouver, B.C.

W. Thomas Brown
Chairman
Odlum Brown & T. B. Read Ltd.
Vancouver, B.C.

Justin V. Harbord
Chairman
J. V. Harbord Company Ltd.
Victoria, B.C.

Gerald H. D. Hobbs
Chairman
Cominco Ltd.
Vancouver, B.C.

Allan M. McGavin
Chairman of the Board
McGavin Foods Limited
Vancouver, B.C.

Victor F. MacLean
Company Director
Vancouver, B.C.

John W. Pitts
Chairman and President
Okanagan Helicopters Ltd.
Vancouver, B.C.

J. Ernest Richardson
Chairman of the Board
MacMillan Bloedel Limited
Vancouver, B.C.

Horace B. Simpson
Vice-President
Okanagan Holdings Ltd.
Kelowna, B.C.

Hugh R. Stephen
Company Director
Victoria, B.C.

Officers

Gordon F. MacFarlane
Chairman and
Chief Executive Officer

Jack C. Carlile
President and
Chief Operating Officer

Gilbert F. Auchinleck
Vice-President
Network Services

Donald W. Champion
Vice-President
Customer Service

Leo J. Dooling
Treasurer

James A. MacInnes
Vice-President
Marketing

D. Barry McNeil
Vice-President
Administration

K. Donald A. Morrison
Vice-President
General Counsel and Secretary

Colin G. Patterson
Vice-President
Corporate Planning

Betty J. Rumford
Assistant Secretary

Gordon M. Smith
Vice-President
Revenue Requirements

Robert H. Stevens
Vice-President
Supply, Transportation
and Buildings

J. Neil Stewart
Comptroller

Frank S. Tucker
Vice-President
Personnel and Industrial
Relations

Peter C. Watson
Assistant Treasurer

Head Office
3777 Kingsway
Burnaby, B.C.
V5H 3Z7

Transfer Agent and Registrar
Montreal Trust Company

Duplicate Annual Reports

Every effort has been made to eliminate duplications in our shareholders' mailing list. However, if you have more than one holding you will receive a separate report for each registration unless your shares are registered under exactly the same name.

Annual Meeting

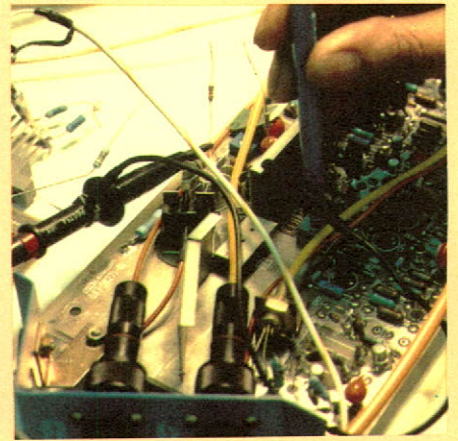
The Annual General Meeting of the Shareholders will be held on Thursday, March 27, 1980, at 2:00 p.m. in the Auditorium of the British Columbia Telephone Company Building, 3777 Kingsway, Burnaby, B.C., Canada.

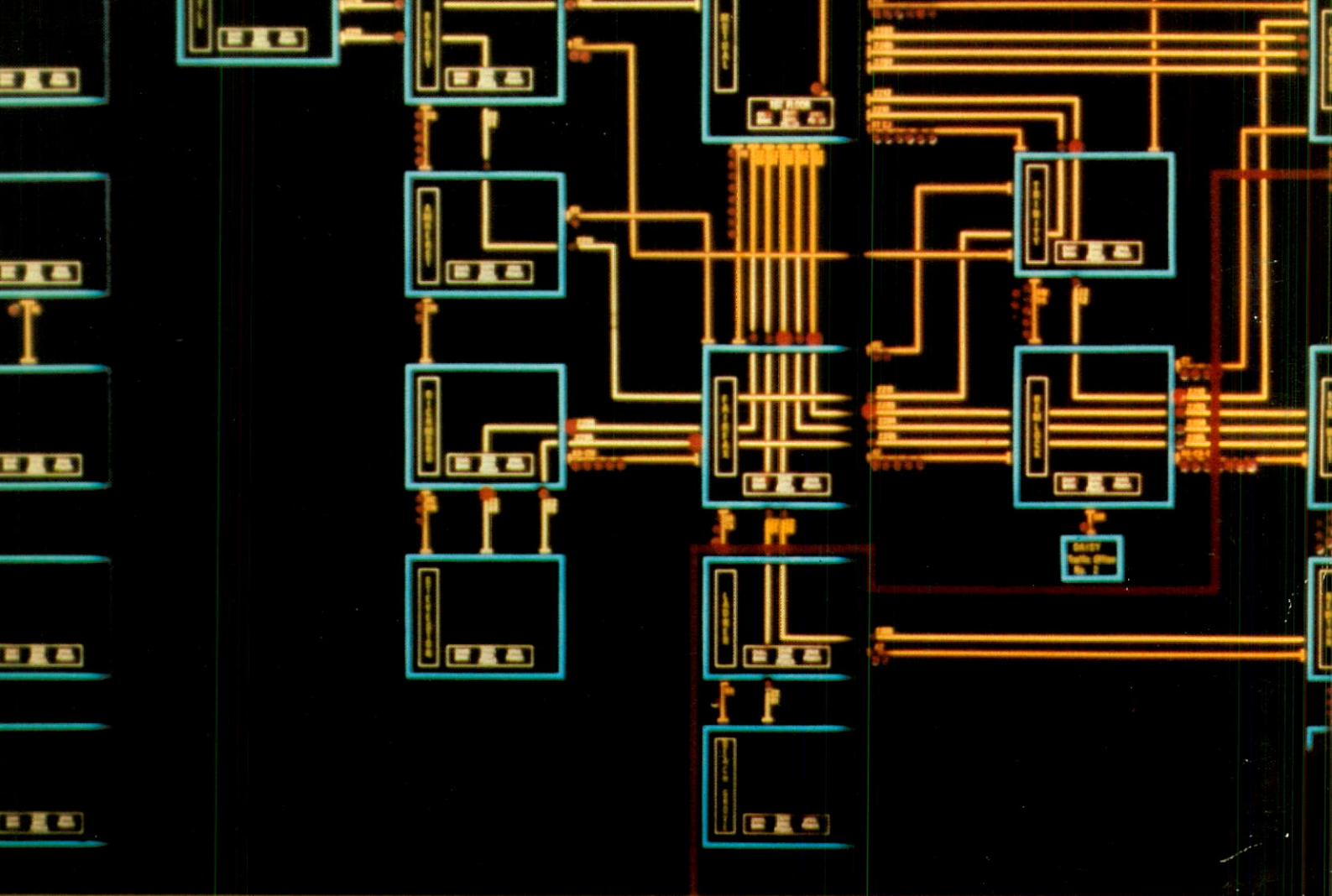
Additional information or copies of the Annual Report may be obtained by writing to Investor Relations at the Head Office address above. Residents in the Vancouver area may also call 432-4410, while residents elsewhere in British Columbia may call free of charge 112-800-663-9405. From elsewhere in Canada, please call free of charge 1-800-663-9405.

Left: Inspecting complex electronic hybrid assemblies used in digital switching machines.



Right: Microtel Pacific Research uses this complex device to conduct experiments in fibre optics transmission.





B.C. TEL 
TransCanada Telephone System