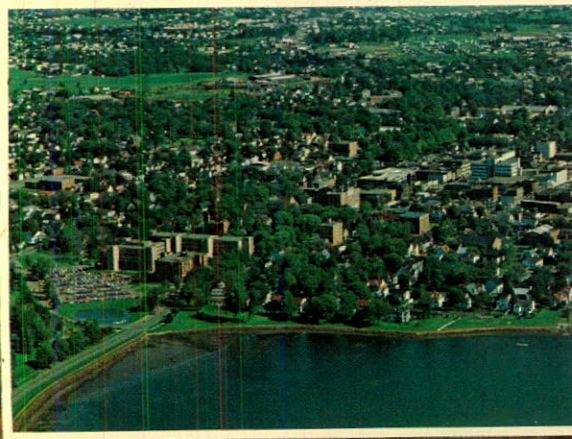
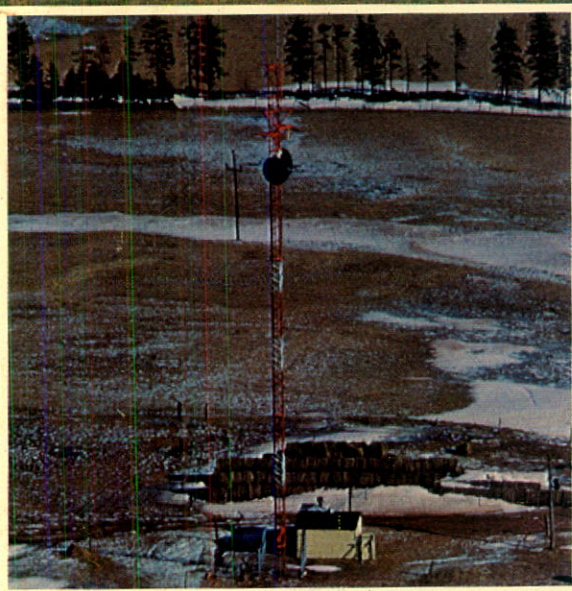
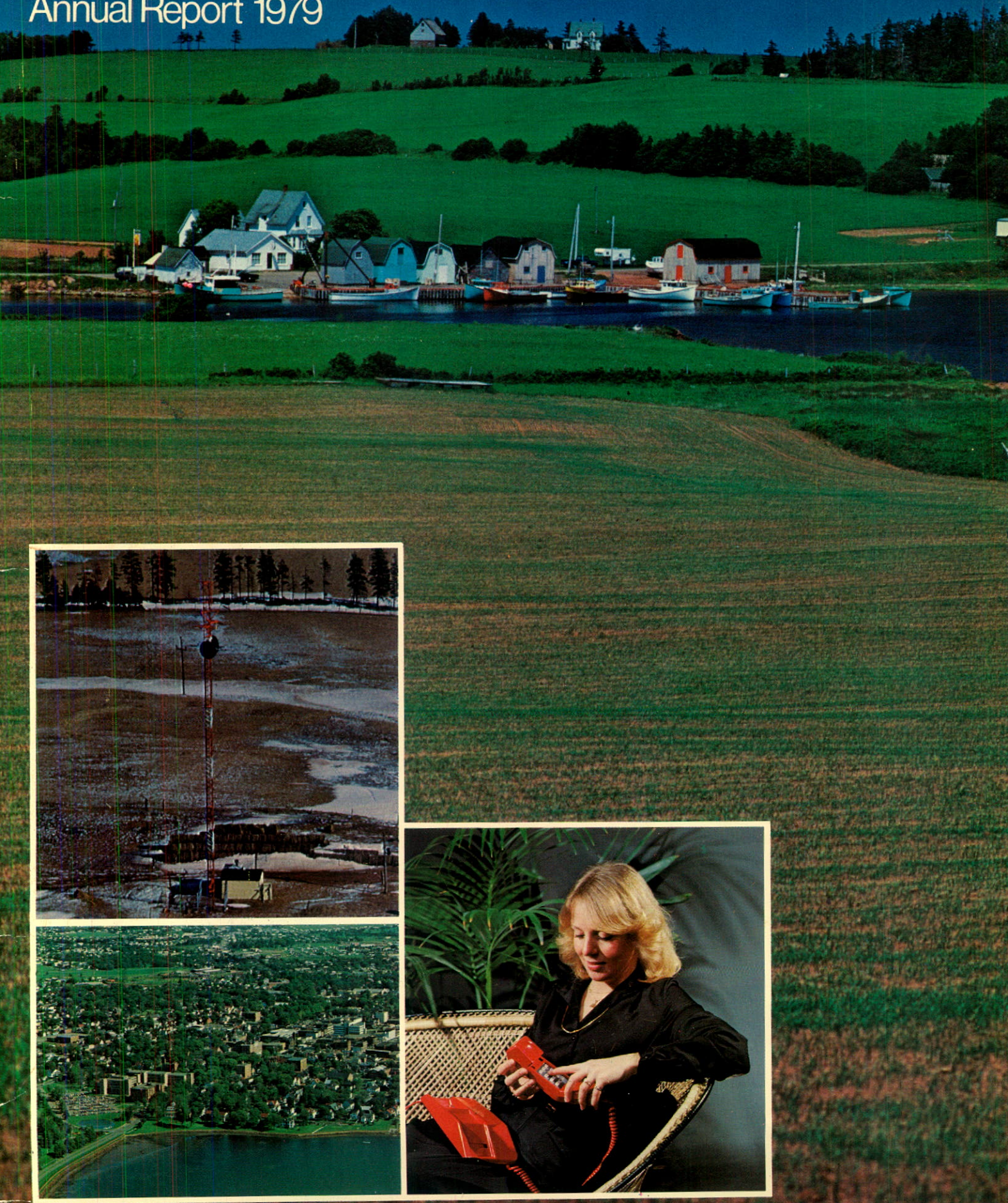


The Island Telephone Company, Limited

Annual Report 1979



1979 Annual Report to the Shareholders

The Cover

The economy of Prince Edward Island has grown steadily in recent years and telecommunications has been an area of particularly rapid growth. In small communities such as French River as well as urban areas such as Charlottetown (both pictured on the cover), the Company is successfully responding to increased customer requirements for more and improved service.

After a series of record-setting growth years for Island Tel, including 1979, the theme of this annual report is "Growing with the Island."

Acknowledgements

Island Tel wishes to extend sincere thanks to the following employees and customers who appear in the photographs in this Annual Report:

C. Blakney; D. Burgoyne; L. Cote; M. Coyle; E. Dover; B. Dunsford; B. Gallant; A. Holland; E. Hughes; J. Kelly; D. MacDonald; J. MacDonald; D. MacLean; J. Martell; B. Martin; S. McGuigan; G. Picketts; C. Power; B. Price; B. Rackman; J. Savident; B. Sawler; H. Sawler; S. Sawler; C. Westmoreland; B. Worth; D. Yetman.

The Company also wishes to gratefully acknowledge the assistance of numerous public agencies in providing statistical information and photographs regarding the economic development of Prince Edward Island. These include: The Institute of Man and Resources, Island Information Service, Statistics Canada, and the Prince Edward Island Departments of Agriculture and Forestry; Development; Fisheries; Tourism, Parks and Conservation.

Annual Meeting

The annual general meeting of the shareholders will be held March 28, 1980 at 11:30 a.m. at the Charlottetown Hotel. Shareholders will be entitled to vote shares held as of March 7, 1980 the record date established for determining voting.

President's Message



Through 1979 and in recent years, Island Tel has been one of the fastest growing telephone companies in Canada. In 1979 the 7.3 percent increase in telephones in service was exceeded in Canada only by Alberta. The net increase of 4,321 telephones to the system in 1979 was the largest growth in any single year in the history of the Company. Clearly, steady growth in the economy of Prince Edward Island has been reflected in greatly-increased customer demand for telephone service across the province.

Another important reason for the exceptional increases in telephone service is customer response to the numerous service improvements initiated by the Company over the past few years. From 1974 to 1979, the Company spent more than \$47 million in capital construction projects. These expenditures provided for the necessary growth and expansion of the telephone network and also for important improvements to customer service which have resulted in increased demand.

Long distance calling which represents a significant portion of the Company's revenues, increased steadily in 1979. The substantial growth in long distance calling within the province was particularly notable as a response to the introduction of one minute minimum rates on these calls late in 1978.

It has been particularly rewarding to view customer response to our services, and particularly challenging to manage this growth. I would like to express sincere thanks to the more than 300 employees of Island Tel for their efforts and dedication during this extremely busy time. We take pride in the increasing sophistication and expertise of our employee group and the results they have achieved for the Company.

After 43 years of dedicated employment with the Company Mr. Walter C. Auld, Executive Vice President, commenced pre-retirement leave in 1979. Mr. Auld will continue to make a valuable contribution as a Company director. During 1979 the directors also announced the election of Mr. Donald R. Livingstone as Vice President and General Manager. Mr. Livingstone has been General Manager responsible for all Operating Departments throughout this period of growth.

Improved services and network growth would not be possible without satisfactory earnings. In 1979, earnings per average common share increased by 17¢ to \$2.07 a share. The rate of return on average invested capital was 11.1 percent and the return on average common equity totalled 14.5 percent. With the strong growth in demand for service and accompanying revenues, the Company slightly exceeded the maximum 14.5 percent return on average common equity allowed by the Public Utilities Commission of Prince Edward Island. The Commission has approved deferral to 1980 of earnings which exceeded this return. This enables the Company to use the results of its favorable 1979 performance in a positive manner in the year ahead.

As the telephone network grows in size and complexity and costs continue to rise, an essential ingredient in the Company's ability to continue to provide a high quality telecommunications service is the need to operate as efficiently as possible. The Company will continue to identify and implement cost reduction methods and procedures in all areas of operations as part of our commitment to provide Islanders with a highly effective telecommunications system at the lowest possible cost.

This annual report of the directors provides the Company's financial position as well as a summary of its achievements in 1979. The report portrays the relationship between the Company's expansion and the steady expansion of the economy of Prince Edward Island. Truly, our Company is "Growing with the Island".

A handwritten signature in dark ink, appearing to read "I.E.H. Duvar". The signature is fluid and cursive, with a large initial "D" at the end.

I.E.H. Duvar
Chairman of the Board and President

Directors' Report



Record Demand for Services

Islanders will remember the latter part of the 1970's as a time of steady growth in the provincial economy. For Island Tel, 1979 and indeed, the past few years have been marked by record demand for more telephone service and at the same time, substantial improvements in quality of service.

For the second consecutive year, most telephone and telecommunications services offered by the Company grew at a rapid rate. In addition to growth in basic exchange service, telephone subscribers evidenced strong demand for services such as extension telephones, Touch Tone and long distance calling.

The total number of long distance calls increased by 10.0 percent over the previous year and revenue from these calls grew by 19.0 percent. These rates of increase were higher than anticipated in view of the provision of toll free calling between many neighboring exchanges in the past two years, (eliminating toll charges on thousands of calls), and the establishment of one minute minimum rates on long distance calls within the province in late 1978.

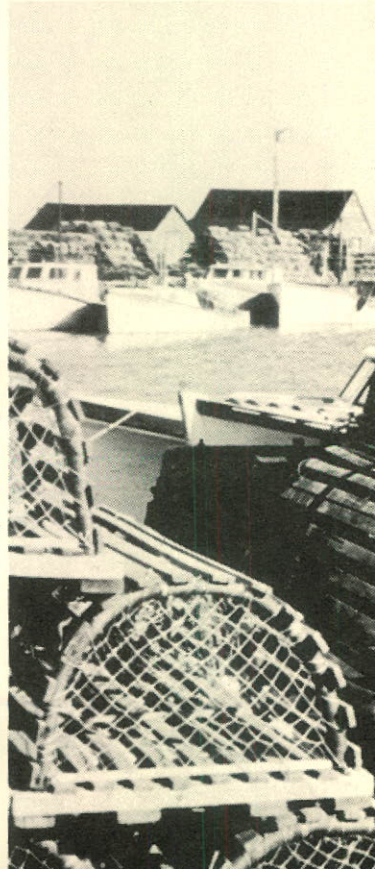
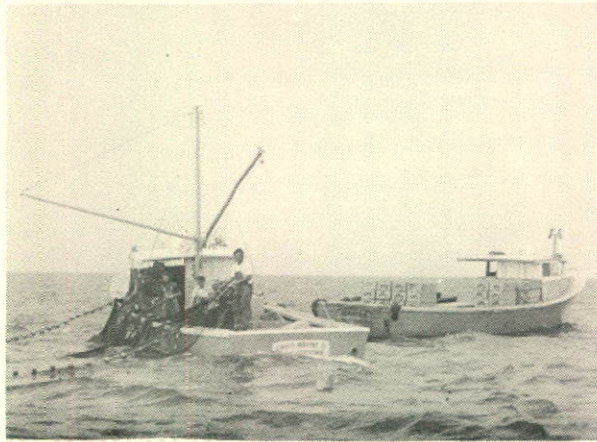
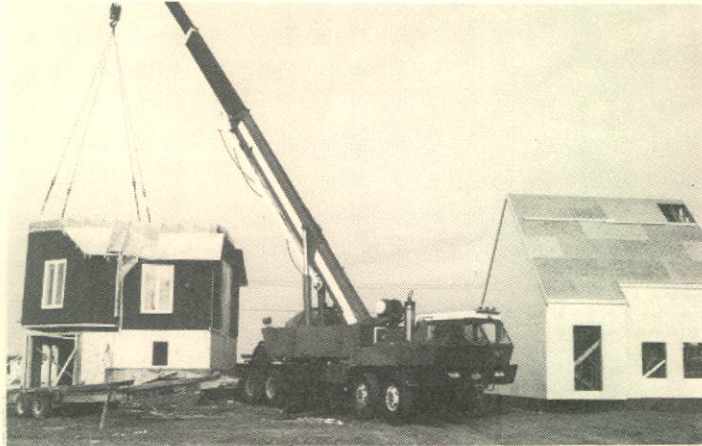
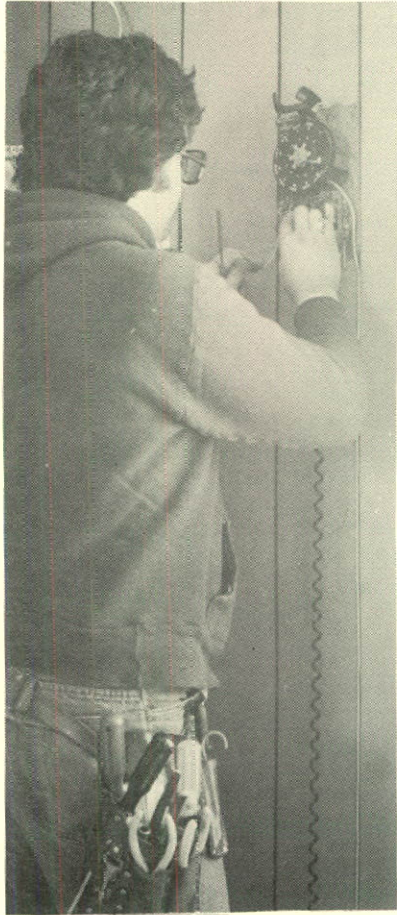
As the year ended, the Company had a total of 63,757 telephones in service — a gain of 4,321 telephones (7.3 percent), over the previous year. This represented the largest annual increase in telephones ever experienced by the Company and one of the highest annual rates of increase among Canadian telephone companies.

Included in the above telephone growth is a 19.1 percent increase in the total number of residential extension telephones. Customers are choosing the additional convenience of an extension telephone, as well as other feature telephone services in increasing numbers. By year-end, for every 100 main residential telephones there were an additional 32.3 extension telephones — up from 28.4 a year ago.

Even more striking has been the almost instant popularity of Touch Tone service which was introduced on a province-wide basis in late 1978. The Company had almost 7,600 Touch Tone telephones in service at the end of 1979 — 133 percent more than the previous year. Touch Tone telephones represented 11.9 percent of total telephones compared to 5.4 percent in 1978.

To a considerable extent, this demand for telephone service is a reflection of growth in the provincial economy during the past few years. This can be illustrated with the following examples:

- During the first 10 months of 1979 the value of fish landings in the province was \$24.9 million. This compares favorably with \$24.6 million during full-year 1978, \$15.2 million in the previous year and \$10.7 million in 1975. The value of the fishery to the economy of P.E.I. is estimated at more than \$70 million in 1979.
- New capital investment continues to increase — reaching \$180.5 million in 1979 compared to \$164.2 million the previous year. Between 1976 and 1978 new public and private investment in the province increased 43 percent.
- Gross Provincial Product in 1979 is estimated at \$683 million — up from \$621 million in 1978.
- Between 1976 and 1978 expenditures by tourists visiting the province grew 23.3 percent and the value of new building permits increased by 52.5 percent.



Island Tel installation crews were busy throughout 1979 meeting the unprecedented customer demand for telephone service. The 7.3 percent increase in telephones in service, and 10.0 percent increase in the number of long distance calls were indicative of the Island's good economic performance in recent years. The fishing, housing and tourism industries have been particularly buoyant.



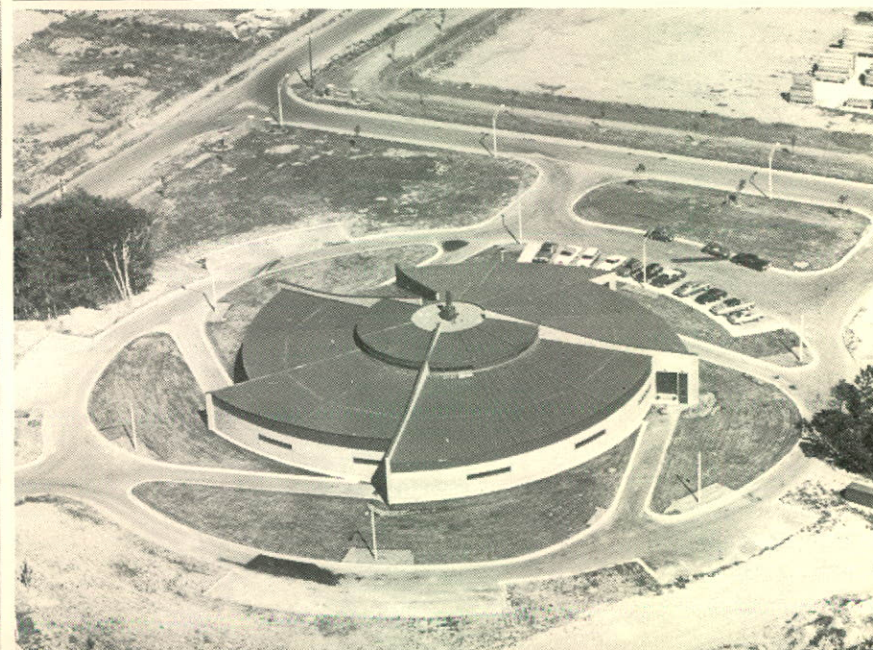
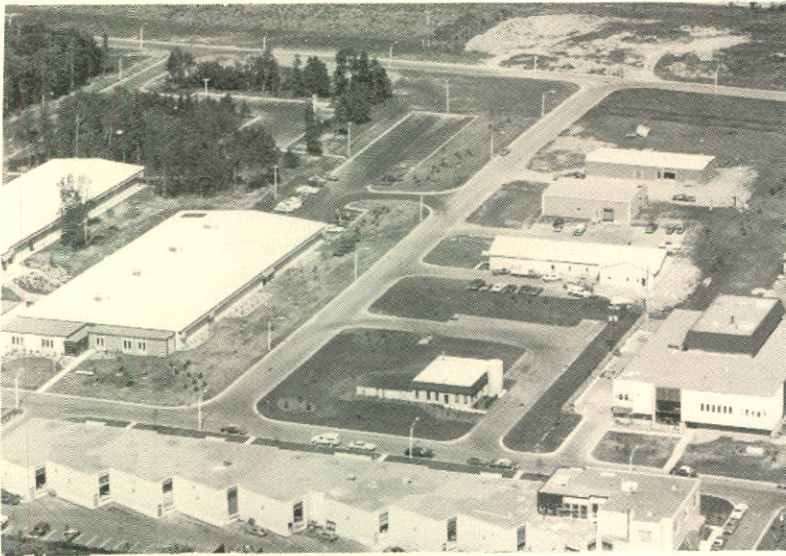
Island Tel's business services, many of which are highly competitive, have also grown at a strong pace during this period of provincial economic growth. During the summer period, demand for the Company's radio paging services was very high and exceeded expectations. The number of radio paging units in service during 1979 increased by 17.3 percent to 283.

All mobile communications services continue to be popular as customers place increasing emphasis on staying in touch, particularly while they are in their vehicles. The number of mobile telephones in service increased 15 percent during 1979 and the number of calls to and from these telephones grew by 13 percent. Aggressive marketing and innovative pricing allowed the Company to increase the number of private mobile radio units in service during the year. At year-end, the Company had 117 mobile radio systems in service compared to 79 systems at the end of 1978. A total of 777 mobile radio units were included in these systems.

To expand mobile communications services in Eastern P.E.I., the Company commenced development of a new radio transmitter site at Caledonia. Upon completion in 1980, mobile telephone and radio subscribers travelling in this part of the province will notice improvements in the service.

Island Tel's Special Services group continues to demonstrate a high level of technical skill in the design of special telecommunications services, private radio and data communications systems. The Company experienced significant growth in the field of data communications during 1979. As a member of the Computer Communications Group of the TransCanada Telephone System, the Company increased the number of data terminals in service across the province by 72.9 percent over 1978. The provincial and federal elections during 1979 resulted in substantial computer communications sales as the Company met the specialized communications requirements associated with major elections.

As the year ended, the Company was involved in detailed discussions with officials of the Department of Veterans Affairs and the new Queen Elizabeth Hospital. Both groups will require modern and unique telecommunications services during 1980 and the Company will ensure these are successfully introduced.



Growth in business districts such as the industrial parks in West Royalty (above left), and Summerside (lower right), resulted in increased demand for most of the Company's business services. Radio paging and other mobile communications devices, and data communications were areas of particularly strong growth for the Company in 1979.

Directors' Report



Emphasis on Improving Services

The Company has met the challenge of keeping its service improvement program on schedule during this period of strong growth.

The major effort to reduce the number of subscribers sharing each multi-party line in rural areas was continued throughout 1979. By year-end this average was reduced to 3.3 customers per multi-party line compared to 3.7 in 1978 and 4.2 in 1977. This important program will continue to receive a high priority and by 1983 the average will have been reduced to 2.6 and the maximum number of subscribers on any multi-party line will be 4.

The two-year program offering private line service to all business customers in rural areas was completed in 1979. Provision of this service was beneficial to many businesses and their customers and reduced the number of businesses sharing multi-party lines with residential subscribers.

The Company achieved another milestone with the introduction of Extended Area Service (elimination of long distance charges) between the exchanges of Morell-St. Peter's and Charlottetown. Now, 100 percent of Company subscribers are provided with calling to one or more neighboring exchanges without long distance charges.

The Company continued to bury as much telephone cable and wire as possible. Buried cable results in reduced interruptions in telephone service caused by storms. More than 244 miles of cable and 71 miles of wire and service leads were buried during the year.

As a further effort to ensure reliability of telephone service, the Company placed increased emphasis on a public information program designed to reduce the incidence of accidental cuts in buried telephone cable. Indications are that this program has also been successful in reducing telephone service interruptions.

As a member of the TransCanada Telephone System, the Company offered customers a new all-day 25 percent Saturday discount program on overseas calls to many of the most frequently called overseas nations. This discount offering was well received and it will be continued in 1980.

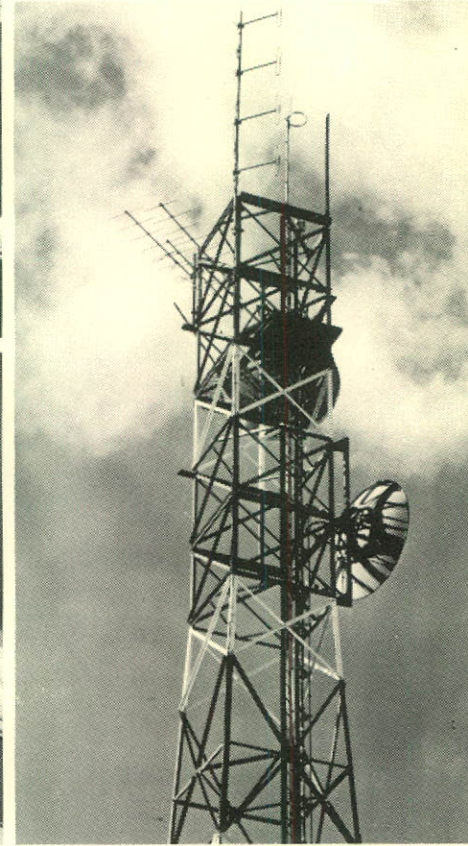
The Company has placed a high priority on improving its ability to control and measure the quality of telephone service across the province. Late in the year, the Company established a task force which will introduce short and long-term measures designed to ensure our high quality standards are consistently maintained. This task force is one of the Company's major current efforts to provide its customers with as high quality a telephone system as can be found anywhere.

Expanding the Network

A total of \$8.8 million was expended during 1979 in the Company's capital construction program. These funds were used in expanding the network to meet customer growth and in the provision of important service improvements.

During 1979, the Company placed almost 415 miles of buried and aerial cable and wire at a cost of \$2 million. Much of this cable is used to provide telephone lines between customers. To add long distance calling capacity, a total of \$225,000 was expended for the provision of additional radio, multiplex and digital carrier facilities for long distance circuits required to expand capacity for toll calling.

Expanded line capacity was provided for seven of the Company's switching offices in 1979. At a total cost of \$865,000, the Company provided 1,220 additional telephone lines in these offices during the year and began work to provide more lines in other central offices in 1980.



The Company spent \$8.8 million in 1979 on capital projects designed to provide the required growth in the telephone network and to improve services across the province. Reduction of the average number of customers sharing each multi-party line in rural areas is one important program and major attention is also given to improvement in the quality and reliability of the telephone network. The result is a high level of telephone service.





The Rural Line Reduction program which reduces the number of subscribers sharing each multi-party line, resulted in an expenditure of \$500,000 during 1979. Also included in the capital construction program was \$150,000 for Extended Area Service between Morell-St. Peter's and Charlottetown, \$223,000 for a Base Rate Area extension during 1980, and \$124,000 for improvements to the microwave network between Egmont Bay and Summerside. A further \$199,000 was spent on various programs designed to improve network efficiency and reliability. Included was the provision of standby power systems and alternate microwave transmission routes.

Construction of a new corporate head office building was commenced in 1979 and will be completed during 1980. This building is being constructed on land owned by the Company, adjacent to the office and service centre building on Belvedere Avenue in Charlottetown. The building is required to allow the Company sufficient office and service facilities to meet present and future needs.

Costs for the 1980 capital construction program are estimated to be \$9.4 million and it is anticipated the Company will have a net increase of 3,850 telephones in service in 1980.

People

The Company is one of the largest private employers in Prince Edward Island. At the end of 1979, the Company employed 302 people — 128 women and 174 men — compared to 293 a year ago. Total salaries and wages in 1979 were \$5,109,600.

The Company also paid 17.4 percent of payroll as the employer's contribution to various staff benefit plans. These total as follows:

- \$673,600 to the non-contributory pension plan;
- \$97,400 in payments for sickness, accident, group insurance and supplementary hospital insurance;
- \$58,500 in payments for unemployment insurance;
- \$58,400 in payments to the Canada Pension Plan.

Almost one of every three employees attended company-sponsored training courses in 1979. This high proportion reflects the Company's commitment to continued emphasis on employee training in our highly specialized and technical field.

Safety

Again in 1979, the Company achieved an excellent record of employee safety. Not surprisingly, this occurs as a result of the substantial emphasis placed on safety by both the Company and its employees. Monthly safety meetings are held in every department and a corporate committee meets to discuss safety issues on a regular basis.

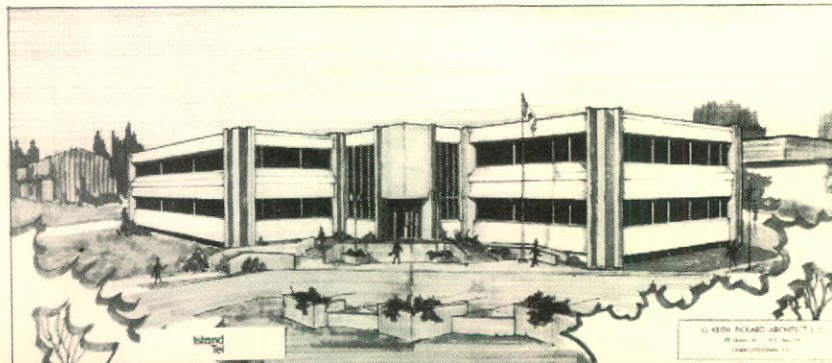
The Worker's Compensation Board of P.E.I. presented the Gold Cap award to Company employee Claude Brothers during 1979. Mr. Brothers received the award by avoiding serious injury through wearing his safety hat when struck by a falling object.

The Company takes pride that during 1979, Island Tel achieved one of the lowest lost days safety rates in P.E.I.



The Company's new head office building in Charlottetown (construction photo above left, design drawing below right), will be completed in 1980.

A highly skilled team of employees is required to maintain the telephone network, plan for future growth and provide professional customer service. Employee development through training and on-the-job safety programs are emphasized.



Directors' Report



Organization Changes

Pre-retirement leave commenced in June 1979 for Executive Vice President Walter C. Auld. Mr. Auld will be remembered with great affection by people at all levels within the Company which he served for forty-three years. The Company is fortunate that he will continue to serve as a Director.

The election of Donald R. Livingstone as Vice President and General Manager of the Company was announced by the Board of Directors in July 1979. Mr. Livingstone who has been General Manager since 1973 and has twenty-seven years of service, is responsible for all operating departments.

Summing Up

During this period of extensive growth in service, the Company has provided for the increased customer demand and has achieved satisfactory earnings.

The Company's earnings performance has contributed to the continuation of the capital construction program. This program has provided for the growth in the telephone network required to meet customer demand and for improvements in the quality of service.

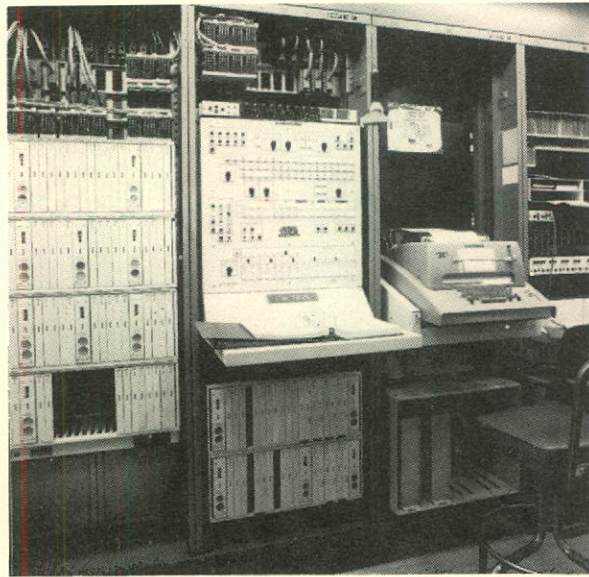
With each passing year, the telephone network becomes larger and increasingly complex. This places great responsibility on the more than 300 people employed by the Company. Their efforts in planning sufficient facilities and equipment to meet customer requirements, maintaining a high quality network, and effectively administering our operations are important to the success of the Company. The increasing skill of our employee group represents a notable achievement for the Company and a major reason for its success.

The 1980's promise to be an exciting and demanding time in the provision of telecommunications services across the province. As the decade begins, the Company is planning significant expansion in the use of a new technology in the telephone network. The advent of digital switching equipment which will be first introduced in the Charlottetown central office in 1980 and integrated with digital transmission facilities already in use, will ultimately revolutionize telephone service by improving its quality and cost effectiveness as well as providing new and innovative services to our customers.

We look forward to a decade of further progress and high quality service.

I.E.H. Duvar

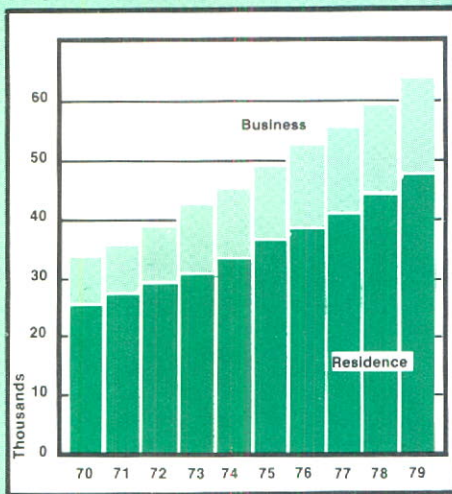
Chairman of the Board and President



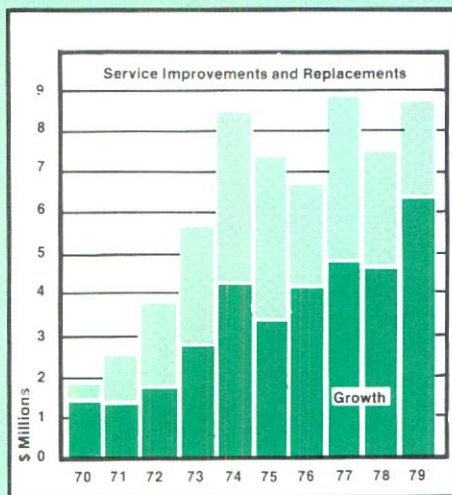
Telecommunications technology will continue to rapidly develop through the 1980's. The Company looks ahead to widespread introduction of digital technology, growth in data communications and further developments in specialized and unique telecommunications equipment — all designed to provide the high quality telecommunications system required by our customers.

Financial Review

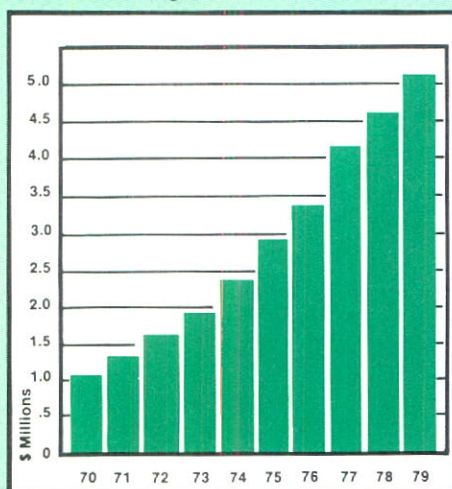
Telephones in Service



Construction Program Expenditures



Salaries and Wages



Earnings

Financial results for the year show a continued annual improvement with earnings per average common share of \$2.07 compared to \$1.90 in 1978. The rate of return on average invested capital rose to 11.1 percent from 10.9 percent in 1978. The return on average common equity at 14.5 percent, the maximum allowed by the Public Utilities Commission of Prince Edward Island, was achieved after deferring \$75,600 of earnings, after income taxes, to the year 1980. This deferral was approved by the Commission. As a result, the return on average common equity for the year was the same as that of the previous year.

Operating Revenues and Expenses

Operating revenues for 1979 were \$19,044,700, compared to \$16,534,700 for 1978, a 15.2 percent increase. This strong growth resulted largely from the 19.0 percent increase in long distance calling and the 7.3 percent increase in the total number of telephones in service. Operating expenses, and other taxes for the year were \$12,077,000 an increase of 14.7 percent over expenses of \$10,532,500 for 1978. Notably, Maintenance expenses for the ongoing operation and upkeep of the system were \$3,789,400 and Depreciation expense was \$3,386,200 for the year. Net Income for the year, after the deferral of income into 1980, was \$2,679,300, an increase of 16.2 percent from 1978. This net income was required to pay \$483,000 in preference dividends and \$1,304,400 in common dividends to support the equity investment by shareholders of \$23,716,000 at year end. The balance of net income of \$891,900 was retained by the Company and re-invested in telephone plant and equipment used in the provision of telecommunications service.

Financing

To finance its capital expenditure program, the Company from time to time must raise funds in financial markets to augment funds generated from internal sources. This year, the Company issued and sold 200,000 shares of common stock at \$17.25 per share and the \$3,450,000 proceeds formed part of the Company's ongoing financing to support its capital expenditures program which totalled \$8.8 million in 1979.

In 1980

In 1980, the \$75,600 of income deferred from 1979 will assist the Company in maintaining a satisfactory level of earnings, however, continued increases in operating revenues will also be required. A satisfactory level of earnings is necessary to support the external financing required to meet the Company's ongoing capital expenditures. For 1980, the Company has planned capital expenditures of \$9.4 million, a record high level of spending, to meet the continuing customer requirements for telecommunications services.

In Brief

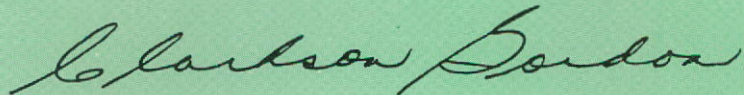
	1979	1978
Earnings Per Common Share	\$ 2.07	\$ 1.90
Dividends Per Common Share	\$ 1.20	\$ 1.12
Return on Average Common Equity	14.5%	14.5%
Return on Average Invested Capital	11.1%	10.9%
Equity Per Common Share, December 31	\$ 14.76	\$ 13.45
Construction Program Expenditures (thousands)	\$ 8,786	\$ 7,470
Telephone Plant Per Telephone, December 31	\$ 1,019	\$ 969
Telephones In Service, December 31	63,757	59,436
Long-Term Debt % Total Invested Capital, December 31	47.5%	52.8%
Employees, December 31	302	293
Salaries and Wages (thousands)	\$ 5,110	\$ 4,580
Average Common Shares	1,060,816	957,609

Auditors' Report

To the Shareholders of
The Island Telephone Company Limited:

We have examined the financial position statement of The Island Telephone Company Limited as at December 31, 1979 and the statements of income, retained earnings and sources of funds used for construction for the year 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, these financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the sources of its funds used for construction for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Chartered Accountants

Halifax, Canada
January 31, 1980

Financial Position Statement

As at December 31

ASSETS

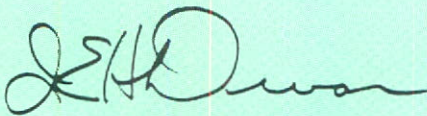
	1979	1978
	\$	\$
TELEPHONE PLANT (Note 1 (b))		
Depreciable telephone plant in service	61,507,100	56,078,200
Other telephone plant (Note 3)	2,993,600	1,153,900
	<u>64,500,700</u>	<u>57,232,100</u>
Less accumulated depreciation	13,317,800	11,199,100
	<u>51,182,900</u>	<u>46,033,000</u>
Materials inventory	439,600	353,000
	<u>51,622,500</u>	<u>46,386,000</u>
INVESTMENTS (Note 4)	111,300	111,300
CURRENT ASSETS		
Cash	35,100	261,100
Accounts receivable	2,735,200	2,132,700
Prepayments	144,500	152,400
	<u>2,914,800</u>	<u>2,546,200</u>
DEFERRED CHARGES		
Unamortized long-term debt expenses	235,500	254,200
Other deferred charges	198,300	164,300
	<u>433,800</u>	<u>418,500</u>
	<u>55,082,400</u>	<u>49,462,000</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

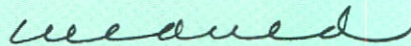
	1979	1978
	\$	\$
SHAREHOLDERS' EQUITY		
Common stock (Note 5)	5,918,200	4,845,700
Premium on common stock (Note 6)	6,477,400	3,922,600
Retained earnings	5,070,400	4,271,500
Total common equity	<u>17,466,000</u>	<u>13,039,800</u>
Preference stock (Note 5)	6,250,000	6,250,000
	<u>23,716,000</u>	<u>19,289,800</u>
LONG-TERM DEBT (Note 7)		
First mortgage bonds	20,250,000	20,250,000
Bank and other notes	1,225,000	1,300,000
	<u>21,475,000</u>	<u>21,550,000</u>
CURRENT LIABILITIES		
Due to Maritime Telegraph & Telephone Company, Limited	293,400	195,100
Accounts payable	1,466,000	1,237,500
Income taxes payable	335,400	400,300
Interest accrued	353,200	353,200
Other current liabilities	507,900	469,500
Deferred income (Note 10)	75,600	—
	<u>3,031,500</u>	<u>2,655,600</u>
DEFERRED CREDITS		
Income taxes (Note 1 (c))	6,838,100	5,937,500
Other deferred credits	21,800	29,100
	<u>6,859,900</u>	<u>5,966,600</u>
	<u>55,082,400</u>	<u>49,462,000</u>

The accompanying notes form an integral part of these financial statements

On behalf of the Board:



Director



Director

Income Statement

For the Year Ended December 31

	1979	1978
	\$	\$
OPERATING REVENUES		
Local service	8,067,900	7,394,300
Long distance service	10,451,400	8,783,300
Other	595,700	428,600
Less Uncollectible operating revenues	70,300	71,500
	<u>19,044,700</u>	<u>16,534,700</u>
OPERATING EXPENSES		
Maintenance	3,789,400	3,297,700
Depreciation (Note 1 (b))	3,386,200	2,971,400
Traffic	1,054,000	931,400
Commercial & Marketing	1,058,300	882,100
Administrative	1,250,300	1,082,000
Pensions and other employee benefits	624,200	640,100
Other	625,500	463,400
Taxes other than income taxes	289,100	264,400
	<u>12,077,000</u>	<u>10,532,500</u>
	<u>6,967,700</u>	<u>6,002,200</u>
OTHER INCOME		
Allowance for funds used during construction (Note 1 (d))	86,100	91,300
Other	50,300	3,200
	<u>136,400</u>	<u>94,500</u>
	<u>7,104,100</u>	<u>6,096,700</u>
INTEREST		
Bond interest	1,931,300	1,702,700
Other (Note 2)	101,100	165,300
	<u>2,032,400</u>	<u>1,868,000</u>
	<u>5,071,700</u>	<u>4,228,700</u>
Income taxes (Note 1 (c))	2,316,800	1,923,800
NET INCOME BEFORE TRANSFER	<u>2,754,900</u>	<u>2,304,900</u>
Transfer to Deferred income (Note 10)	75,600	—
NET INCOME	<u>2,679,300</u>	<u>2,304,900</u>
Preference dividends	483,000	483,000
NET INCOME APPLICABLE TO COMMON SHARES	<u>2,196,300</u>	<u>1,821,900</u>
Earnings per common share	<u>2.07</u>	<u>1.90</u>

Retained Earnings Statement

For the Year Ended December 31

	1979	1978
	\$	\$
RETAINED EARNINGS,		
beginning of year	4,271,500	3,524,700
ADDITIONS:		
Net Income	2,679,300	2,304,900
DEDUCTIONS:		
Preference dividends	483,000	483,000
Common dividends	1,304,400	1,073,700
Commission and expenses of issuing capital stock and other deductions	93,000	1,400
	<u>1,880,400</u>	<u>1,558,100</u>
RETAINED EARNINGS		
end of year	<u>5,070,400</u>	<u>4,271,500</u>

Statement of Sources of Funds Used for Construction

For the Year Ended December 31

	1979	1978
	\$	\$
SOURCE OF FUNDS:		
Internal —		
Operating revenues,		
Other income and Deferred income	19,105,500	16,629,200
Less charges requiring working capital (Note 8)	12,160,600	10,431,000
Total internal	<u>6,944,900</u>	<u>6,198,200</u>
External —		
Common stock	3,450,000	—
First mortgage bonds	—	2,500,000
Bank and other notes	1,225,000	1,300,000
Employees' stock savings plan (Note 5)	177,300	128,100
Decrease in materials inventory	—	45,700
Decrease in working capital	7,300	—
Total external	<u>4,859,600</u>	<u>3,973,800</u>
Total source of funds	<u>11,804,500</u>	<u>10,172,000</u>
Funds used for other than construction —		
Redemption of Series D Bonds	—	500,000
Repayment of bank and other notes	1,300,000	500,000
Increase in materials inventory	86,600	—
Increase in working capital	—	340,700
Dividends	1,787,400	1,556,700
Other	133,500	137,000
Total funds used for other than construction	<u>3,307,500</u>	<u>3,034,400</u>
Total funds provided for construction	<u>8,497,000</u>	<u>7,137,600</u>
FUNDS USED FOR CONSTRUCTION:		
New telephone plant added	8,617,800	7,334,700
Cost of removing old plant	168,700	135,100
Construction program expenditures	<u>8,786,500</u>	<u>7,469,800</u>
Less charges not requiring working capital		
— Allowance for funds used during construction	86,100	91,300
— Salvage and Other	203,400	240,900
	<u>289,500</u>	<u>332,200</u>
Total funds used for construction	<u>8,497,000</u>	<u>7,137,600</u>



Comptroller

Notes to Financial Statements

1. Summary of significant accounting policies —

(a) System of accounts:

The Company is subject to regulation, including examination of accounting practices, by the Public Utilities Commission for the Province of Prince Edward Island. The system of accounts and accounting practices are similar to those being used by other companies in the telecommunications industry.

(b) Telephone plant:

Telephone plant is recorded at cost.

Materials inventory consists of items which will be used in the construction program.

Depreciation is charged on a straight-line basis using composite rates for classes of plant, determined by a continuing program of engineering studies, as approved from time to time by the Public Utilities Commission for the Province of Prince Edward Island. These rates provide for depreciation of the assets over their estimated service lives and resulted in a composite rate for 1979 of 5.9% (1978, 5.8%).

(c) Income taxes:

Deferred tax accounting has been followed with respect to all timing differences. Income tax expense is based on income reported in the Income Statement. The company defers the payment of a portion of the income tax expense by deducting from taxable income certain expenses in amounts greater than are charged in the Income Statement. Taxes deferred in this manner appear in the Financial Position Statement as a deferred credit.

(d) Allowance for funds used during construction:

The Company is allowed a return on capital invested in new telephone plant while under construction by including an "allowance for funds used during construction" as an addition to the cost of the plant constructed.

(e) Unamortized long-term debt expenses:

Unamortized long-term debt expenses are being amortized over the duration of the various debt issues.

2. Other Interest — includes interest on bank and other notes of \$69,400 (1978, \$139,800) and amortization of long-term debt expenses amounting to \$19,800 (1978, \$17,500).

3. Other telephone plant — consists of land and telephone plant under construction.

4. Investments — includes investment, at cost, in miscellaneous physical property (\$51,300) and shares of Telesat Canada (\$60,000).

5. Capital Stock —

Authorized:

	1979	1978
Authorized:	\$20,000,000	\$20,000,000

Issued:

	Shares Outstanding at Jan. 1, 1979	Shares Issued For Cash	Shares Outstanding at Dec. 31, 1979
Common, par value \$5.00	969,140	214,512	1,183,652
Preference			
4 ¹ / ₂ % par value \$10.00	40,000		40,000
4 ³ / ₄ % par value \$10.00	40,000		40,000
5 ¹ / ₂ % par value \$20.00	37,500		37,500
7 ¹ / ₄ % par value \$20.00	75,000		75,000
9 ¹ / ₄ % par value \$20.00	100,000		100,000
9 ¹ / ₄ % par value \$20.00 (1977 Series)	60,000		60,000
	352,500		352,500
TOTAL ISSUED	1,321,640	214,512	1,536,152
Value at par, of issued common and preference shares	\$11,095,700	\$1,072,600	\$12,168,300

The Company reserved 15,000 common shares for issuance under the Employees' Stock Savings Plan and during the year issued 14,512 shares to employees under the terms and conditions of the Plan. These shares are generally issued in December of each year after the completion of twelve months of contributions at a purchase price equivalent to 80% of the average market price of the stock.

Preference Shares

All series are cumulative, redeemable and are non-voting unless eight quarterly dividends are in arrears.

4¹/₂%, 4³/₄%, and 5¹/₂% Preference Shares:

The Company may redeem the shares at any time, upon giving thirty days notice to the holders, at par plus a stated premium in each case and any accrued but unpaid dividends.

7¹/₄% Preference Shares

The Company may redeem all or part of the outstanding shares at a premium of \$1.00 if redeemed before June 15, 1981, the premium thereafter decreasing \$0.20 every three years until June 15, 1990.

9¹/₄% Preference Shares

The shares are not redeemable prior to June 15, 1979. After June 15, 1979 the Company may redeem all or part of the outstanding shares at a premium of \$1.45, the premium decreasing \$0.20 every three years until June 15, 1997.

9¹/₄% Preference Shares — 1977 Series

The shares are not redeemable prior to April 15, 1982. After April 15, 1982 the Company may redeem all or part of the outstanding shares at a premium of \$1.45, the premium thereafter decreases \$0.20 every three years until April 15, 2000.

6. Premium on Common Stock —

	1979	1978
	\$	\$
Beginning of year	3,922,600	3,852,400
On shares issued during year	2,554,800	70,200
End of year	<u>6,477,400</u>	<u>3,922,600</u>

7. Long-term debt —

(a) First mortgage bonds —

Series	Rate	Maturing	Principal
E	5½%	October 2, 1981	\$ 500,000
F	5½%	June 15, 1983	750,000
G	7⅞%	February 1, 1988	1,000,000
H	8 %	December 15, 1991	3,000,000
I	9¼%	December 15, 1993	4,000,000
J*	11 %	January 15, 1995	3,500,000
K	11 %	March 31, 1996	2,500,000
L	10⅜%	June 1, 1997	2,500,000
M	10⅜%	December 1, 1998	2,500,000
			<u>\$20,250,000</u>

*The holders of Series J Bonds have the right to require the Company to repay the principal amount at par on January 15, 1985.

The First Mortgage Bonds are secured by a Deed of Trust and Mortgage and by deeds supplemental thereto containing a first and specific mortgage, pledge and charge upon all real and immovable property of the Company and a first floating charge on all other property, both present and future of the Company.

(b) Bank and other notes \$1,225,000

In order to permit the Company to time its new issues of debt or capital most advantageously the Company maintains a substantial bank line of credit and from time to time sells short-term promissory notes. Such short-term credit is replaced in the normal course by longer term financing and currently maturing debt issues are likewise normally refinanced. For this reason, the Company does not classify these items as current liabilities.

Likewise, the Company does not classify as current assets excess funds received through financing and temporarily invested in short-term investments.

8. Charges requiring working capital —

	1979	1978
	\$	\$
Operating expenses, interest and taxes	16,426,200	14,324,300
Less charges not requiring an outlay of working capital during the period		
— Depreciation	3,386,200	2,971,400
— Deferred income taxes	900,600	955,500
— Other	64,900	57,700
	<u>12,074,500</u>	<u>10,339,700</u>
Add credits not producing working capital		
— Allowance for funds used during construction	86,100	91,300
	<u>12,160,600</u>	<u>10,431,000</u>

9. Pension fund —

Pension fund obligations are accounted for and paid over the estimated future working lifetime of employees of the Company. The contribution to the pension fund for the year ended December 31, 1979 amounted to \$673,600 (1978, \$703,300). The actuarial reviews as of December 31, 1976, based on earnings and service to that date, show that all vested benefits are fully funded.

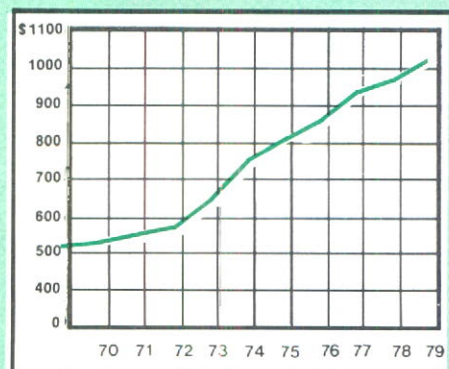
10. Deferred income —

The Company's earnings in 1979 were in excess of the rate of return allowed by the Public Utilities Commission for the Province of Prince Edward Island. Accordingly, the Commission has authorized the Company to defer, from 1979 into 1980, \$75,600 in earnings after allowance for income taxes.

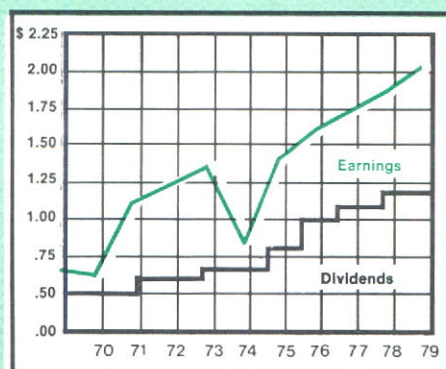
The Years in Review

	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970
Financial Position at December 31 (in thousands)										
Telephone plant	\$ 64,940	\$ 57,585	\$ 51,896	\$ 44,826	\$ 39,676	\$ 35,081	\$ 27,753	\$ 23,026	\$ 19,947	\$ 18,163
Accumulated depreciation	13,318	11,199	9,682	8,438	7,556	7,183	6,157	5,458	5,063	4,606
Investments	111	111	111	111	73	72	72	72	1,562	106
Current assets	2,915	2,546	2,036	1,600	1,973	1,346	1,006	755	614	553
Deferred charges	434	419	323	272	284	214	194	67	105	37
Shareholders' equity	23,716	19,290	18,415	13,924	11,717	11,291	9,229	8,778	6,942	6,571
Long-term debt	21,475	21,550	18,750	18,225	17,790	12,723	10,230	7,125	8,000	5,906
Current liabilities	3,031	2,655	2,486	1,991	1,470	2,539	1,003	746	647	422
Deferred credits	6,860	5,967	5,033	4,231	3,473	2,977	2,406	1,813	1,576	1,354
Income (in thousands)										
Operating revenues	\$ 19,045	\$ 16,535	\$ 14,234	\$ 11,417	\$ 9,776	\$ 7,648	\$ 6,548	\$ 5,440	\$ 4,784	\$ 3,903
Operating expenses	12,077	10,533	9,200	7,362	6,497	5,385	4,253	3,494	3,013	2,690
Other income	136	95	118	86	235	87	70	24	15	9
Interest	2,032	1,868	1,776	1,682	1,463	927	615	495	432	401
Income taxes	2,317	1,924	1,522	1,110	888	684	829	672	654	409
Net income for year	2,679	2,305	1,854	1,349	1,163	739	921	803	700	412
Statistics — at December 31										
Telephone plant per telephone	\$ 1,019	\$ 969	\$ 939	\$ 857	\$ 807	\$ 765	\$ 656	\$ 593	\$ 559	\$ 534
Equity per common share	\$ 14.76	\$ 13.45	\$ 12.70	\$ 11.89	\$ 11.66	\$ 11.10	\$ 11.16	\$ 10.48	\$ 9.95	\$ 9.35
Embedded debt cost	9.6%	9.6%	9.4%	9.2%	8.9%	8.1%	8.1%	6.8%	7.4%	7.1%
Long-term debt % total invested capital	47.5%	52.8%	50.5%	56.7%	60.3%	53.0%	52.6%	44.8%	53.5%	47.3%
Employees	302	293	299	288	279	297	258	259	225	221
Telephones in service	63,757	59,436	55,296	52,325	49,156	45,866	42,314	38,841	35,715	33,999
Shareholders	3,482	3,334	3,285	2,828	2,626	2,615	2,192	2,160	1,791	1,788
Statistics — for year										
Earnings per common share	\$ 2.07	\$ 1.90	\$ 1.74	\$ 1.61	\$ 1.40	\$.82	\$ 1.34	\$ 1.26	\$ 1.15	\$.63
Average common shares	1,060,816	957,609	804,964	606,603	562,878	554,315	549,281	544,636	540,084	535,216
Dividends per common share	\$ 1.20	\$ 1.12	\$ 1.05	\$.92	\$.74	\$.65	\$.62	\$.60	\$.51	\$.50
Times bond interest earned-before taxes	3.7	3.6	3.2	3.0	3.1	3.0	5.3	4.15	4.95	3.66
Times bond interest earned-after taxes	2.5	2.5	2.3	2.2	2.3	2.1	3.4	2.74	3.14	2.43
Return on average invested capital	11.1%	10.9%	10.4%	10.0%	9.5%	7.8%	8.8%	8.8%	8.7%	6.7%
Return on earnings base	9.2%	9.0%	8.9%	8.6%	8.1%	6.7%	7.7%	8.0%	7.8%	6.1%
Return on average common equity	14.5%	14.5%	14.1%	13.5%	12.4%	7.2%	12.3%	12.3%	12.0%	6.7%
Construction program expenditures (in thousands)	\$ 8,786	\$ 7,470	\$ 8,883	\$ 6,754	\$ 7,298	\$ 8,423	\$ 5,648	\$ 3,702	\$ 2,429	\$ 1,951
Salaries and wages (in thousands)	\$ 5,110	\$ 4,580	\$ 4,125	\$ 3,374	\$ 2,910	\$ 2,382	\$ 1,919	\$ 1,606	\$ 1,324	\$ 1,096
Toll messages (in thousands)	5,193	4,723	4,483	4,106	3,746	3,457	3,181	2,753	2,492	2,285

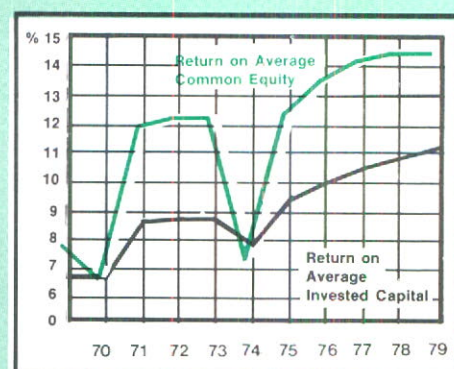
Telephone Plant per Telephone



Earnings and Dividends per Average Common Share



Rate of Return on Average Common Equity and Average Invested Capital



The Island Telephone Company, Limited

Incorporated under the laws of the Province of
Prince Edward Island
Head Office: 71 Belvedere Avenue, Charlottetown,
Prince Edward Island, Canada C1A 7M1
(902) 894-5501

Registrar and Stock Transfer Offices

Canada Permanent Trust Company

129 Kent Street, Charlottetown, P.E.I. C1A 1N3
(Common shares, 4 $\frac{1}{2}$ % Preference shares, 4 $\frac{3}{4}$ % Preference
shares, 5 $\frac{1}{2}$ % Preference shares, 7 $\frac{1}{4}$ % Preference shares,
9 $\frac{1}{4}$ % Preference shares, and 9 $\frac{1}{4}$ % (1977 series) Preference
shares)

600 Dorchester Boulevard West, Montreal, Quebec H3B 1N4
(Common shares, 5 $\frac{1}{2}$ % Preference shares, 7 $\frac{1}{4}$ % Preference
shares, 9 $\frac{1}{4}$ % Preference shares and 9 $\frac{1}{4}$ % (1977 series)
Preference shares

20 Eglinton Avenue West, Toronto, Ontario M4R 2E2
(Common shares, 7 $\frac{1}{4}$ % Preference shares, 9 $\frac{1}{4}$ % Preference
shares and 9 $\frac{1}{4}$ % (1977 series) Preference shares

315 Eighth Avenue, S.W. Calgary, Alberta T2P 1C8
(Common shares, 9 $\frac{1}{4}$ % Preference shares and 9 $\frac{1}{4}$ % (1977
series) Preference shares

701 West Georgia Street, Vancouver, B.C. V7Y 1E5
(5 $\frac{1}{2}$ % Preference shares)

1646 Barrington Street, Halifax, N.S. B3J 2P7
(Common shares, 5 $\frac{1}{2}$ % Preference shares, 7 $\frac{1}{4}$ % Preference
shares, 9 $\frac{1}{4}$ % Preference shares and 9 $\frac{1}{4}$ % (1977 series)
Preference shares

Common Shares Listed

Montreal Stock Exchange
Toronto Stock Exchange

Valuation Day Prices

(December 22, 1971)

Common Shares	\$10.25
4 $\frac{1}{2}$ % Preference shares	\$ 6.25
4 $\frac{3}{4}$ % Preference shares	\$ 6.60
5 $\frac{1}{2}$ % Preference shares	\$15.25

The 1979 Annual Report is a summary of the operations of the Company in its service to the people of Prince Edward Island. It is prepared for those who have invested in the Company, for those who are interested in the Company's performance and for the employees.

The Island Telephone Company, Limited

Directors

*Ivan E.H. Duvar
Chairman of the Board & President
The Island Telephone Company, Limited
Charlottetown, P.E.I.

*A. Gordon Archibald
Chairman of the Board
Maritime Telegraph & Telephone Co., Ltd.
Halifax, N.S.

*Walter C. Auld
Executive Vice President
The Island Telephone Company, Limited
Charlottetown, P.E.I.

Charles J. Fraser
Director
The Island Telephone Company, Limited
Montague, P.E.I.

*Edward J. Hicks
Vice President (Finance)
The Island Telephone Company, Limited
Charlottetown, P.E.I.

John J. Howatt
President
Darlington Farms Ltd.
Darlington, P.E.I.

William Herbert C. Leavitt
President
The Leavitt's Maple Tree Craft
Alberton, P.E.I.

*Horace R. MacFarlane
President
Prince Edward Island
Bag Company, Limited
Summerside, P.E.I.

*Percy J. Smith
Vice President
The Great Eastern Corporation Ltd.
Halifax, N.S.

*Member Executive Committee

Officers

Ivan E.H. Duvar
Chairman of the Board
& President

Walter C. Auld
Executive Vice President

Edward J. Hicks
Vice President (Finance)

Donald R. Livingstone
Vice President &
General Manager

David S. Inkpen
Comptroller

Donald B. Quinn
Treasurer

Stephen E. Jefferson
Secretary

James L. Cameron
Assistant Secretary

Operations

James L. Cameron
General Administration
Manager

D.C. Barlow
Staff Supervisor -
Administration

E.F. Smith
Acting Engineering
Supervisor-Outside Plant

S.L. Godfrey
Plant Manager

R. Livingstone
Supervisor - Repair

R.E. Meek
Supervisor - Trucks &
Switching

D.C. Rogers
Supervisor-Installation

P.A. Trainor
Supervisor-Construction

D.W. McLane
Task Force Supervisor

K.M. Frizzell
Operator Services
Manager

A.E. Holland
Commercial Manager

R.B. Read
Acting Marketing
Manager



**Island
Tel**