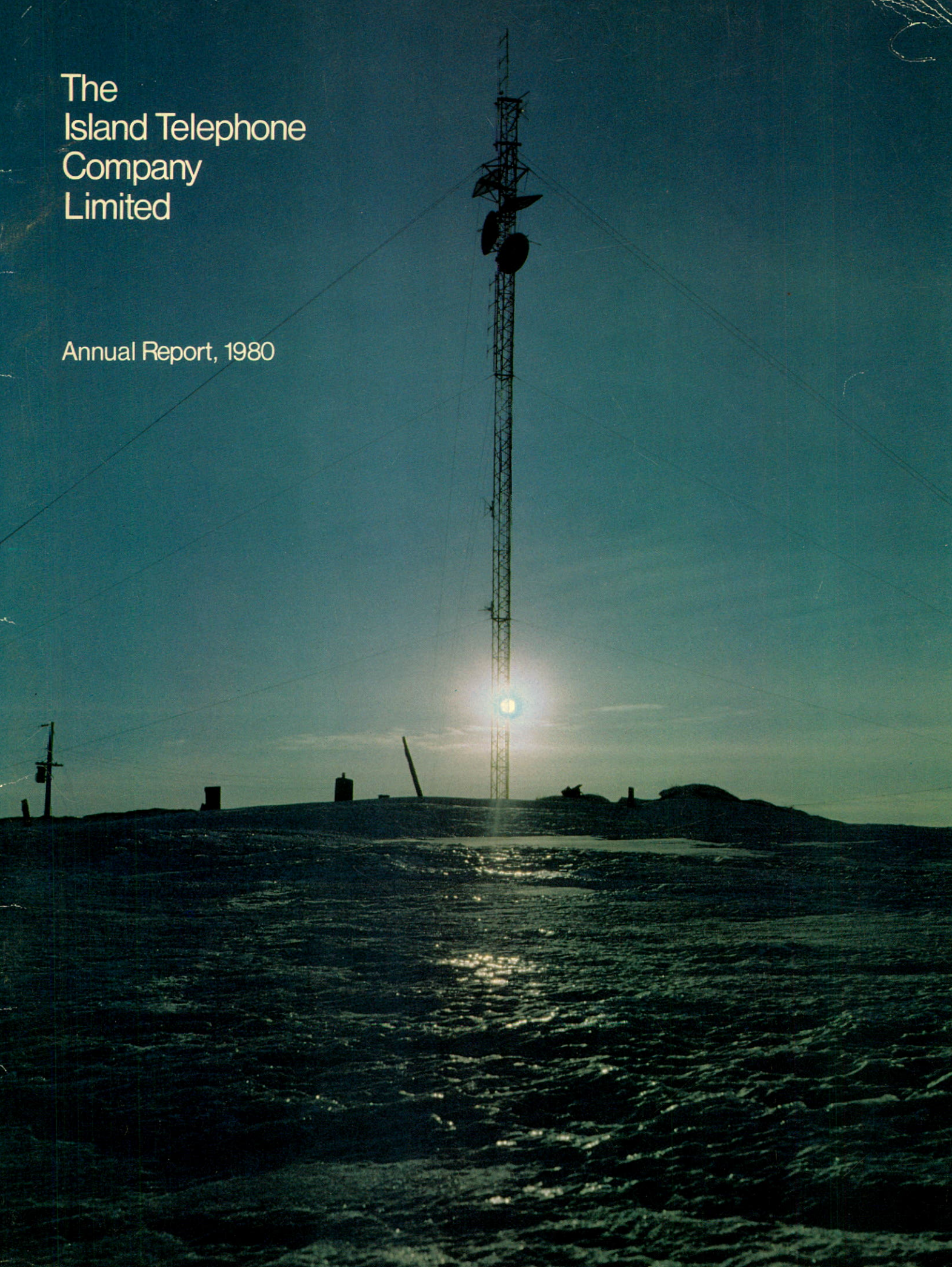


The
Island Telephone
Company
Limited

Annual Report, 1980



The Cover:

An Island Tel microwave tower located near Hazel Grove, Prince Edward Island is captured during a January sunrise by photographer, Anne MacKay.

The microwave tower is one example of the kind of sophisticated technology which Island Tel requires in providing telecommunications service across Prince Edward Island. As demand for service grows each year and technology improves, employees of the Company require increasingly sophisticated skills in managing and operating the telecommunications network. The training of employees has become an ongoing and continuous activity across the Company.

This training results in the best telecommunications service available at the lowest possible cost.

Acknowledgements

Island Tel wishes to extend sincere thanks to all those employees whose photographs appear in this Annual Report, including:

Philip Acorn, Sandra Affleck, Joanne Archer, David Barlow, Bill Bell, Leo Campbell, John Cox, Philip Coyle, Cliff Downe, Keith Francis, Doug Howard, Grace Kelly, Kathy Kent, Rick Kok, Don Livingstone, Bernard McKenna, Gerald MacLeod, Terry MacNeill, Billy MacPherson, Ken MacQuarrie, Blair Mayne, Jane Meek, Clarence Murphy, Dave O'Brien, Joan Peters, Kevin Quinn, Janice Skinner, Shelley Warren, Ev White, Moe Wood, John Woodworth

and to Mr. Clark Cudmore of Cudmore's Texaco, Charlottetown.

Annual Meeting

The Annual General Meeting of the shareholders will be held March 27, 1981. Shareholders will be entitled to vote shares held as of March 6, 1981, the record date established for determining voting.

The Island Telephone Company Limited

Incorporated under the laws of the Province of Prince Edward Island
Head Office: 69 Belvedere Avenue,
P.O. Box 820, 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,
4½% Preference shares, 4¾% Preference shares, 5½%
Preference shares, 7¼% Preference shares, 9¼%
(1974 Series) Preference shares and 9¼% (1977
Series) Preference shares

600 Dorchester Boulevard West, Montreal, Quebec
H3B 1N4. Common shares, 5½% Preference shares,
7¼% Preference shares, 9¼% (1974 Series) Preference
shares and 9¼% (1977 Series) Preference shares

20 Eglinton Avenue West, Toronto, Ontario M4R 2E2.
Common shares, 7¼% Preference shares, 9¼%
(1974 Series) Preference shares and 9¼% (1977
Series) Preference shares

311 Sixth Avenue, S. W. Calgary, Alberta T2P 0R6.
Common shares, 9¼% (1974 Series) Preference
shares and 9¼% (1977 Series) Preference shares

701 West Georgia Street, Vancouver, B.C. V7Y 1E5.
5½% Preference shares

1646 Barrington Street, Halifax, N.S. B3J 2P7.
Common shares, 5½% Preference shares, 7¼%
Preference shares, 9¼% (1974 Series) Preference
shares and 9¼% (1977 Series) Preference shares

Common Shares Listed

Montreal Stock Exchange
Toronto Stock Exchange

Valuation Day Prices

(December 22, 1971)

Common shares	\$10.25
4½% Preference shares	\$ 6.25
4¾% Preference shares	\$ 6.60
5½% Preference shares	\$15.25

The 1980 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.

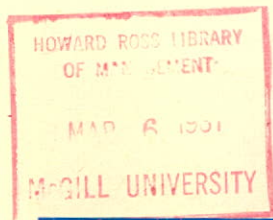
President's Message



Over the past five years, and again in 1980, Island Tel experienced above average growth in demand for most telecommunications services. Although 1980 did not surpass the record setting pace established in the previous two years, growth continued to be significant and the number of telephones in service reached 67 140, up 5.3 percent over the previous year. Long distance calling, which is a major source of the Company's revenue, also continued to increase steadily and revenues from this service were up 10.4 percent over 1979.

The Company recognizes that improving service helps to generate growth in business and during 1980 the program to upgrade service to the many customers residing outside urban areas was continued with a further three quarter million dollars invested in additional telephone facilities in those areas. This expenditure was used primarily to improve multi-party service by reducing the number of customers on each multi-party line and to further extend one-party service. Also during the year a special task force was set up to assist in improving the quality of telephone service and to develop new approaches to minimize troubles experienced in using the network.

Inflation continues to be one of the biggest problems facing business today, and despite continuing growth in the Company's business and further improvements in operating efficiencies, rising costs and the federal income tax surtax caused the Company's 1980 earnings per average common share to decline to \$1.96 from \$2.07 in 1979.



The return on average invested capital also declined slightly to 10.9 percent and the return on average common equity was 13.0 percent, down from 14.5 percent for the previous two years.

To ensure future earnings are satisfactory to provide the additional investment in telecommunications property and facilities needed to expand and improve service, the Company applied to the Public Utilities Commission for the Province of Prince Edward Island for an increase in rates to be effective November 1, 1980. In granting the application for increased rates for implementation January 1, 1981, the Commission also approved an increase in the allowable rate of return on average common equity to 14.75 percent with an acceptable range of 0.5 percent in either direction. The additional revenue and the higher rate of return should provide the Company with the financial integrity necessary for future communications service.

During 1980, the Company invested \$9.2 million in construction expenditures and the Company's total investment in telecommunications property reached \$72.9 million as compared to \$39.7 million in 1975. The significant investment made by the Company

in recent years has provided for service improvements and met the requirement for steady growth caused by strong customer demand.

The substantial investment made by shareholders and other investors in the Company's telecommunications network brings an important responsibility to all employees to efficiently manage and administer Company operations. Today, more than ever before, training and employee development have become important to provide the sophistication and skills needed to operate the network in this age of increasing business and technological complexity.

This annual report offers as a theme a closer look at employee education and training — one of the essential ingredients in Island Tel's present success and future prospects.



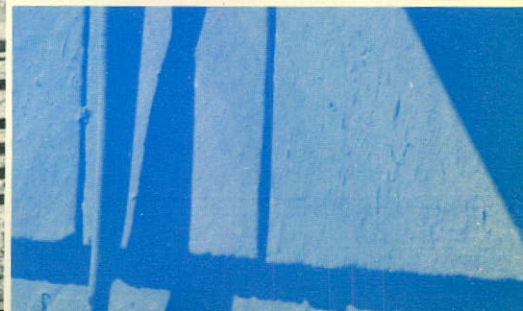
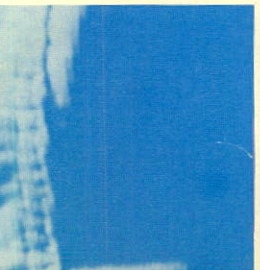
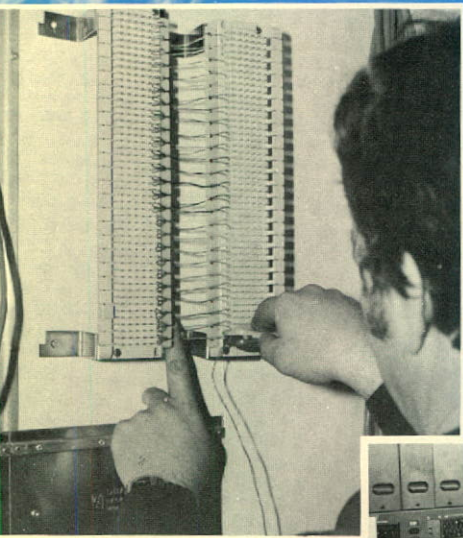
I.E.H. Duvar
Chairman of the Board
and President

Charlottetown
Prince Edward Island

February 16, 1981

The digital switching machine presently being installed in Charlottetown provides an example of how rapidly Canadian telecommunications technology is moving ahead. When integrated with the Company's previously installed digital transmission facilities, digital switching will provide greater operating efficiencies, reduced costs and improved service.

Digital technology and many other advancements, create the need for an increasingly sophisticated employee team.



Directors' Report

"The telephone system is in essence, an enormous distributed electronic computer with millions of inputs and outputs ... it is essential that each part be designed, operated and maintained in such a way that the whole functions satisfactorily."

— C.R. Kraus
President, Communications
Consulting Engineers, Inc.
In testimony to the
Public Utilities Commission for the
Province of Prince Edward Island.

Clearly, the people of Canada have among the most sophisticated and effective telecommunications systems in the world. Island Tel is charged with the responsibility of providing this high level of service across Canada's smallest province. The Company has met this challenge while maintaining financial integrity, through the development of an employee team which is dedicated to customer service and committed to continuous training in technical, administrative and managerial areas.

Island Tel's 300 men and women were engaged in formal and on the job training programs totalling 904 person days in 1980. This commitment to improvement of knowledge and skills is essential if the Company is to continue meeting its customers' demands for growth and improvement in the telecommunications network by introducing the most effective and cost efficient equipment and methods available.

In 1980, the Company completed an ambitious human resource management program specifically designed for Island Tel through the auspices of the Advanced Management Centre of Dalhousie University. Managers at all levels in the Company were exposed to the program which was developed to provide guidance in dealing with the important day-to-day decisions which must be made in an atmosphere of continuous growth. A total of 52 Company managers have now completed all phases of this program.

Managing Growth

Growth in the use of the telephone network and most other telecommunications services offered by the Company continued during 1980. The Company had a total of 67 140 telephones in service by the end of the year — up by 3 383 or 5.3 percent over the previous twelve months. The number of long distance calls also increased and revenue from long distance calls grew by 10.4 percent in 1980.

Increasing customer demand was also experienced in most other areas of Company operations including various feature telephone offerings, mobile services and custom designed communication systems. For instance in 1980, the number of residence extension telephones grew by 12.2 percent and Touch-Tone telephones in service increased by 25.3 percent. Radio paging was another area of continuing growth as revenues from this service increased 18.0 percent in 1980.

As the network expands due to increasing customer demand, employees with customer contact responsibilities are faced with higher volumes of work. As part of their daily work responsibilities, these employees must be prepared to satisfy increasingly sophisticated customer service requirements. Island Tel service representatives participate in formal and informal training programs which provide them with knowledge of the Company and its service offerings necessary to assist customers in Company business offices and Phone Centres. Also, telephone operators are prepared for their regular contacts with customers in the Company's Operator Training Centre which uses personal instruction and audio-visual techniques.

Telephone installation crews have front line responsibility for meeting customer growth requirements. Island Tel installation personnel are trained using nationally developed standards. Training occurs both on the job and in special training centres through

a service agreement with Maritime Telegraph & Telephone Company, Limited. In fact, a considerable amount of employee training is provided through service agreements with MT&T and other companies such as Bell Canada. These agreements provide the Company with efficient methods of training using the extensive facilities and training expertise available in these larger companies.

Expenditures for the 1980 construction program totalled \$9.2 million. Approximately 85 percent of construction expenditures are required in order to provide the additional cables, circuits, equipment and facilities necessary to meet subscriber demands for growth in service. The remaining expenditures were required in the continuing service improvement program. Since 1975, construction expenditures have totalled \$48.4 million and in 1981 a further \$8.9 million is estimated to be required.

To effectively manage the projects contained in the Company's construction program, employees in the Engineering Department attend a number of courses which provide them with the skills necessary to meet customer growth by efficiently enlarging the telecommunications network. The objective is to provide employees with the expertise needed to produce engineering work of high quality and ultimately the best possible telecommunications service to the customer at the lowest cost.

During the 1970's the Company introduced digital transmission facilities and by the end of 1980, 55 percent of the circuits connecting telephone offices used digital transmission. Commencing in 1981, service growth in the Charlottetown exchange will be provided by a new switching machine which uses state of the art digital technology. Thus, the advantages of an integrated digital network will begin to become available to the Company. Digital switching is the most economic way to provide service growth in the Charlottetown exchange and significantly, this new equipment offers higher quality service as well as reduced maintenance problems and associated costs. Plans are also well underway for the provision of another digital switching machine in the Summerside exchange in 1983.

The advent of digital technology with its unique advantages, has created another important employee training need for Island Tel. Courses in solid state electronic digital equipment and the associated computer hardware and software are provided to maintenance employees through the facilities of Bell Canada and the equipment manufacturer.

Improving Service and Efficiency

During 1980 and in recent years, increased emphasis has been placed upon the development of employee skills to assist in upgrading the quality of all Company services. A total of \$785 000 was spent on the Company-wide service improvement program during the year.

The ongoing Rural Line Reduction program required an expenditure of \$223 000 in 1980. Subscribers in rural areas of Prince Edward Island continue to benefit from this program which in recent years has substantially reduced the number of customers sharing each multi-party line. At year end 1975, an average of 5.0 customers shared each of the Company's multi-party lines but by December 31, 1980 this number had been reduced to 3.4. As part of this program, Island Tel's objective is that no more than four customers would share the same multi-party line anywhere in the province by the end of 1983. A total of eight exchanges have already been declared "maximum four party" including Crapaud, Eldon, Georgetown, Morell-St. Peter's, New London, South Lake, Tyne Valley and Mount Stewart in 1980.

Many employees are involved in Rural Line Reduction and other programs designed to improve services to customers. Training programs for these employees are emphasized in order to allow them to implement service improvement programs by using the most effective and cost efficient techniques. Managers and clerical staff who coordinate these programs receive administrative training while other employees engaged in telephone cable design, route planning and installation receive training specially designed to apply to their work responsibilities.

Other service improvement programs continued during 1980 including the provision of base rate area extensions (wider exchange boundaries eliminating or reducing mileage charges) in the Montague and Charlottetown exchanges and a local base rate was provided in the Tignish exchange.

The establishment of a Plant Department task force in late 1979 has proven to be an important element in the Company's service improvement program. One major objective of the task force was to assist Plant Department personnel in reducing the number of "troubles" experienced throughout the telephone network. The task force has been successful and the incidence of troubles was reduced by 15.4 percent during 1980. It is anticipated this rate will be further reduced in 1981. Members of the task force also provided training and assistance in areas related to efficient operations such as inter-departmental communications and future staffing requirements.



The Operator Training Centre uses audiovisual and other techniques to prepare operators for their challenging customer service responsibilities.

Other employees who work directly with customers such as service representatives and managers are given special training programs to assist them.



Many steps were taken during 1980 to improve the efficiency of the Company's operations. In July, the Company completed the move of various administrative departments to the new Head Office building at 69 Belvedere Avenue in Charlottetown. The new building was required to meet the increasing need for office space caused by the Company's growth in recent years. Total cost of construction of the building, as well as major renovations to the adjacent service centre building, was \$2.1 million and the project was completed in 11 months.

The additional space offered by the new building allowed the Company to use space in the downtown Charlottetown central office to house new switching and other equipment necessary to meet future service growth. Space was also provided for a centralized Test Centre capable of testing telephone circuits and equipment throughout the province.

The growth of the Company, combined with increased working space provided by the new building, enabled Island Tel to add new working groups whose functions were formerly performed under contract by Maritime Telegraph & Telephone Company, Limited. This includes a Coin Centre responsible for pay telephone collections and administration which opened in the new Head Office building in August. Also during the year, a number of services were consolidated in a centralized Service Bureau. The traffic assignment and administration functions will begin operation in Charlottetown during 1981.

Business Services

The Company provides a wide variety of service offerings primarily designed for business customers. These include mobile services (mobile telephone, radio and paging), data services, microwave and video transmission facilities, as well as telephone sets and accessories designed for business use. Modern business telecommunications is a complex and extremely competitive field in which the Company has grown rapidly.

As a member of the TransCanada Telephone System, the Company participates in nation-wide sales management training for employees of the Marketing Department. Graduates of these training programs are capable of determining business telecommunications needs and applying proper equipment to meet them. The Company has also developed highly skilled employees capable of recognizing unique requirements and custom designing special systems for these customers.

The rapidly growing data communications business is one area where the design of specialized systems assumes great importance. Texaco Canada and Island Tel jointly implemented a credit card verification system installed at each of the 26 Texaco service stations in Prince Edward Island. The system was placed in service in December of 1980 and may prove to be a prototype for a nation-wide program established by Texaco and the Computer Communications Group of the TransCanada Telephone System.

In the second quarter of the year, the Company specially designed a mobile communications package for Hudson's Bay Oil and Gas Company Limited. This system provided instant communications between all the company's P.E.I. based personnel in land based vehicles, support ships and a mobile drilling platform located in the Gulf of St. Lawrence, 40 kilometers from the Island's northeast coast.

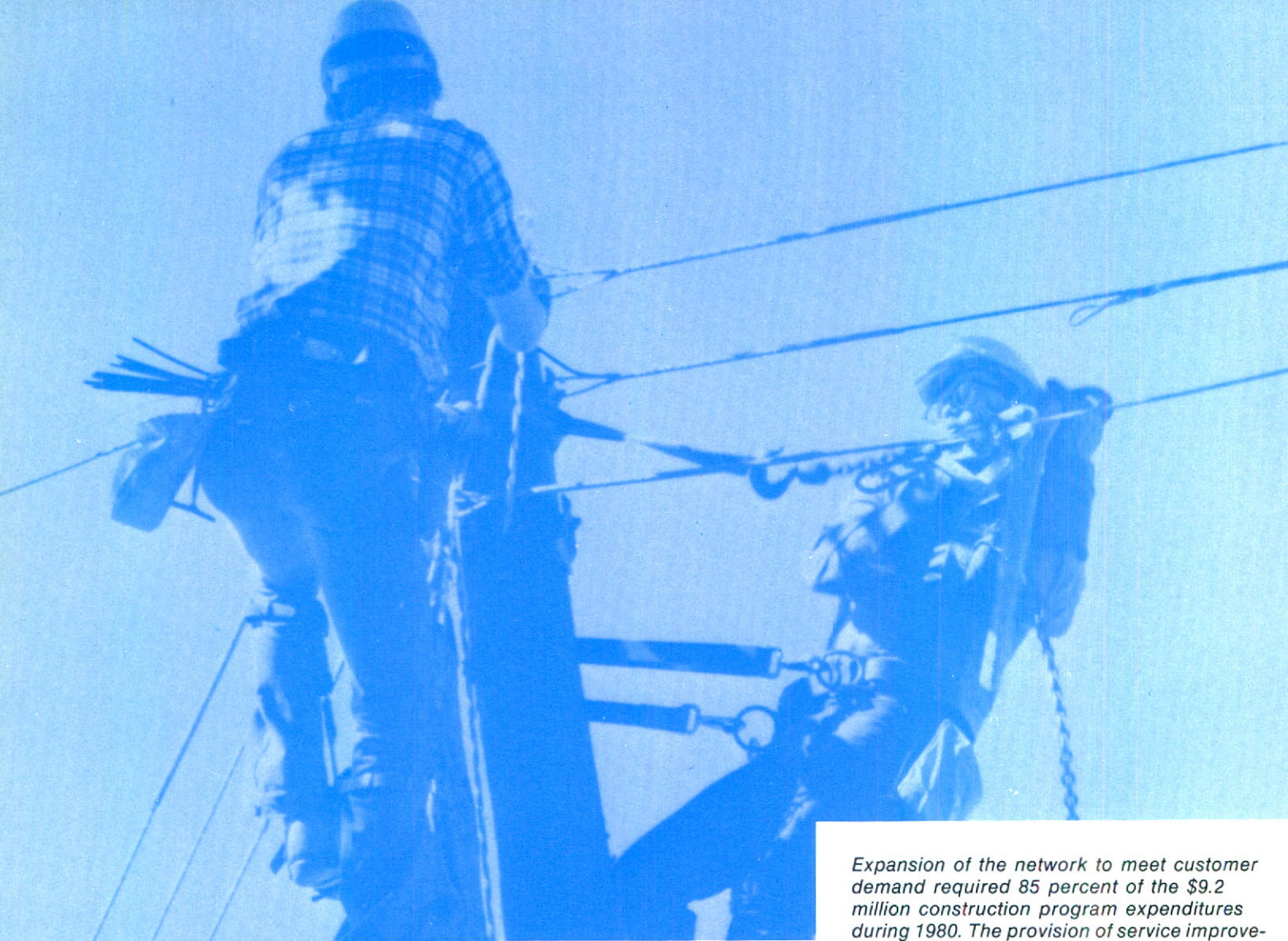
Intensive employee training has played a major role in allowing the Company to achieve substantial growth and increased revenues by successfully competing in the business telecommunications market.

Safety

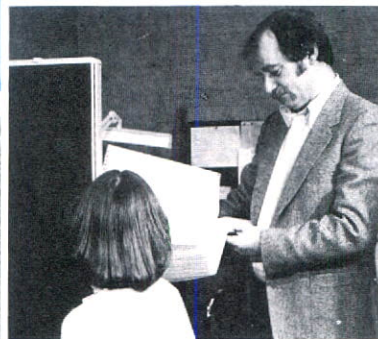
Island Tel employees have an excellent work safety record reflecting their diligence and the Company's emphasis on employee and public safety.

A Company-wide safety committee meets regularly to administer a formal accident prevention program which features tailored training packages for all positions within the Company. The accident prevention program is based on one-to-one contact between each supervisor and employee as well as "tailgate meetings" which are held whenever safety matters should be discussed during the course of regular work.

Driver training, traffic safety and vehicle care are critical elements in the safety program. The Company has two qualified driver training instructors on staff and as well, many drivers are sent to courses offered by other organizations. Regular driver refresher courses are also important parts of the program.



Expansion of the network to meet customer demand required 85 percent of the \$9.2 million construction program expenditures during 1980. The provision of service improvements, including the substantial Rural Line Reduction program, accounted for the remaining 15 percent.



Engineering Department and other employees engaged in these efforts are intensively trained in construction engineering, telecommunications design and other disciplines which provide them with the skills necessary to expand and improve the network in the most cost efficient manner.



Directors

After 13 years service on the Board of Directors, Percy J. Smith reached retirement age and left the Board in May, 1980. Later in the year, the employees and directors of the Company were saddened by the death of Mr. Smith. Also in May, Alan K. Scales, Q.C. was elected to the Board of Directors. Mr. Scales is senior partner in the Charlottetown law firm of Scales, Ghiz, Jenkins and McQuaid.

Looking Ahead

Over the next three years, forecast customer service needs require the Company to plan for construction expenditures totalling \$30.2 million. This investment in future growth allows Island Tel to provide the expansion of the network, new facilities and service improvements necessary to meet customer requirements.

It is our view that demand for basic telephone services and various feature offerings associated with the telephone system will continue to grow steadily. Provision for this growth and various service improvements, will be made more efficiently than ever before due to improved telephone technology.

Competition will become increasingly keen in the rapidly growing business communications market. The Company intends to maintain its leadership position and significantly increase revenues from this growing market segment by emphasizing its strengths — its highly trained group of sales and service professionals, modern facilities and equipment.

The development and training of employees will continue to be an important part of work life at Island Tel. An environment featuring a growing market, sophisticated equipment and increasing competition contributes to the importance of maintaining a high level of employee expertise. The training programs mentioned in this report represent only a small portion of the total amount of training regularly undertaken by the Company. Plus, the Company encourages and sponsors employee participation in approved correspondence courses and continuing education programs. In all cases, the purpose of employee training is the provision of better customer service at the lowest possible cost.

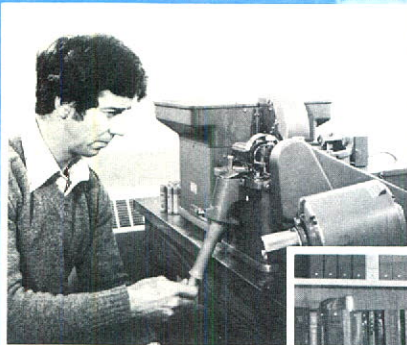
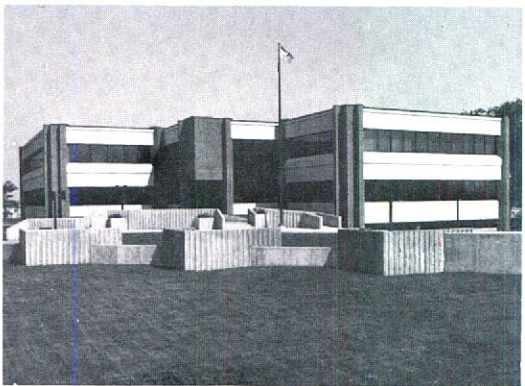
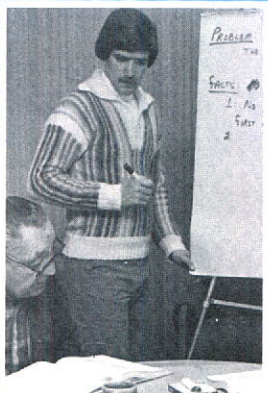
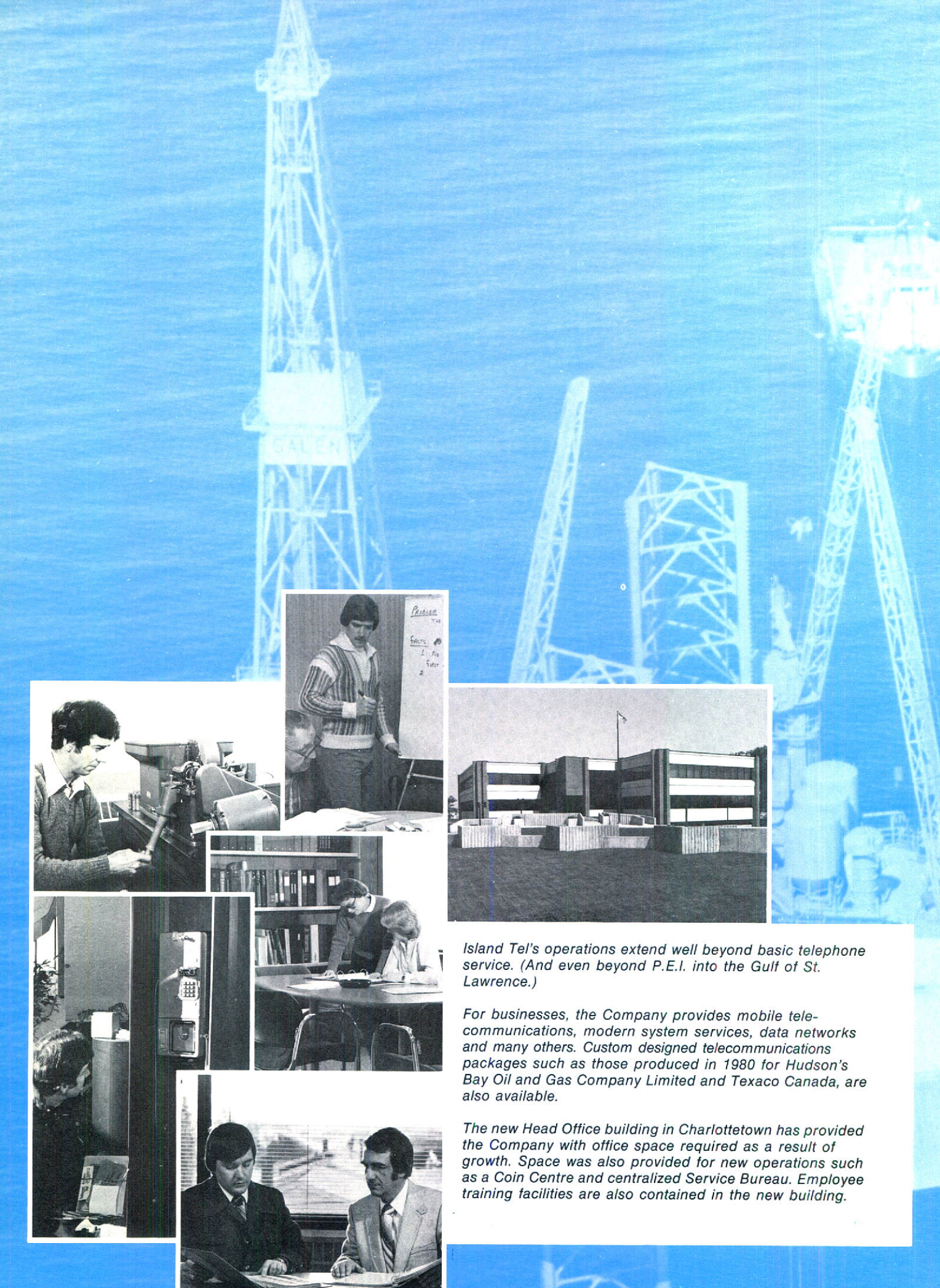
At every level, in every job — Island Tel people are prepared to meet today's requirements and are preparing for tomorrow's.



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

Charlottetown
Prince Edward Island

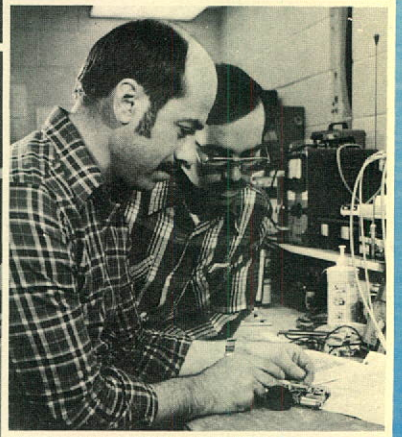
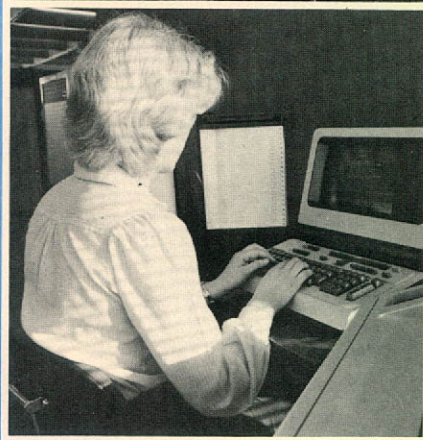
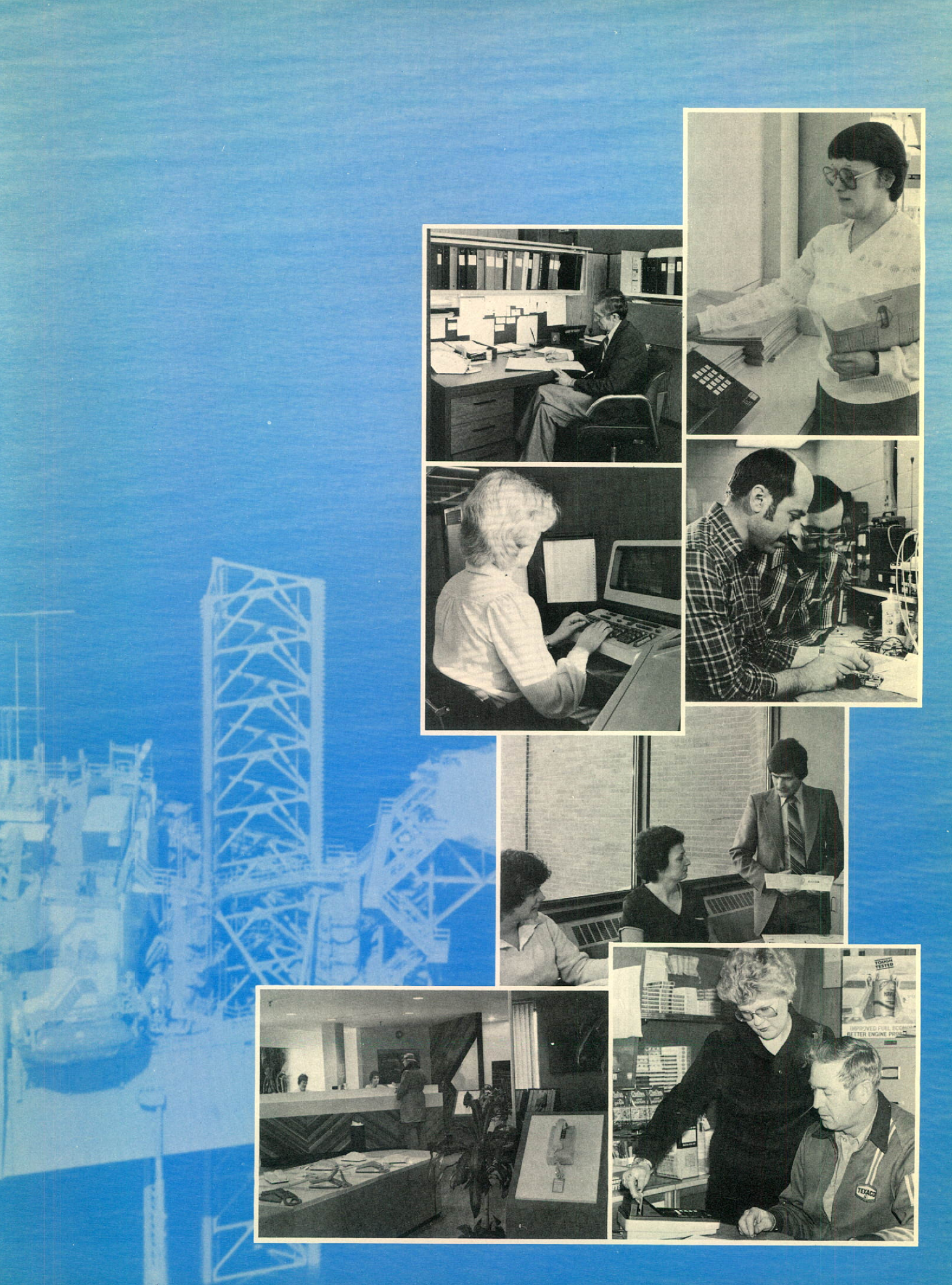
February 16, 1981



Island Tel's operations extend well beyond basic telephone service. (And even beyond P.E.I. into the Gulf of St. Lawrence.)

For businesses, the Company provides mobile telecommunications, modern system services, data networks and many others. Custom designed telecommunications packages such as those produced in 1980 for Hudson's Bay Oil and Gas Company Limited and Texaco Canada, are also available.

The new Head Office building in Charlottetown has provided the Company with office space required as a result of growth. Space was also provided for new operations such as a Coin Centre and centralized Service Bureau. Employee training facilities are also contained in the new building.

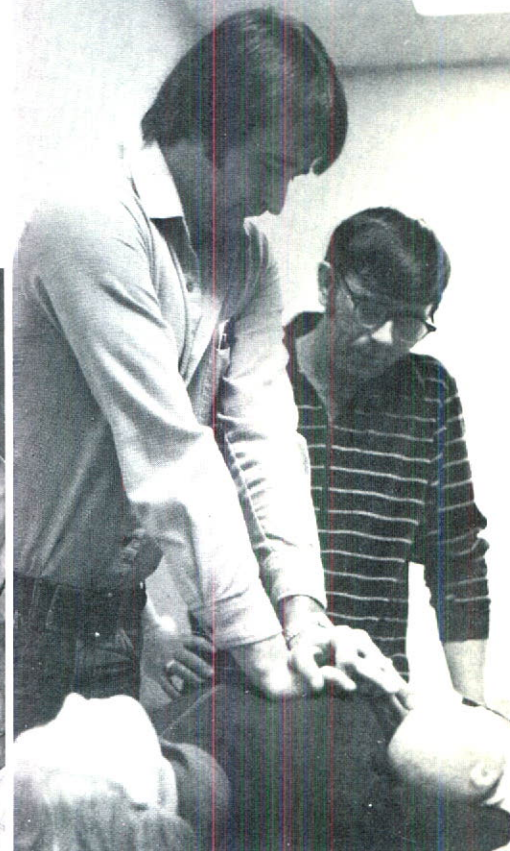




An emphasis on employee and public safety is continued on a year round basis at Island Tel. Driver training and traffic safety is emphasized; employees are given awards for successful safety records.

Many employees participate in a Company sponsored cardio-pulmonary resuscitation program.

Company equipment is designed, installed and maintained with care to ensure safe use by employees and subscribers.



With continuing inflationary pressure on operating costs and despite further improvements in operating efficiencies, the Company experienced a modest downturn in earnings in 1980. This change in trend in earnings was recognized during the year and resulted in an application for rate relief which was subsequently approved effective January 1, 1981. This sequence of events was the highlight of the Company's financial year.

Earnings

Earnings per average common share were \$1.96 compared to \$2.07 for the year 1979. The rate of return on average invested capital declined somewhat to 10.9 percent from 11.1 percent in the prior year. The rate of return on average common equity at 13.0 percent was below the prior year's 14.5 percent and fell short of the allowed rate of return for the year 1980 of between 13.5 percent and 14.5 percent on average common equity. Associated with the approval of increased rates effective January 1, 1981, the Public Utilities Commission for the Province of Prince Edward Island updated the allowed return on average common equity to reflect more current conditions. The new permitted range of earnings is between 14.25 percent and 15.25 percent on average common equity. Earnings for the year would have been somewhat higher had the application for rate relief been approved by the Commission on the requested November 1, 1980 date.

Operating Revenues and Expenses

Operating revenues for 1980 totalled \$20 568 900, up 8.0 percent from 1979. Local service revenues increased 6.1 percent, due primarily to a 5.3 percent increase in the number of telephones in service, and long distance revenues increased 10.4 percent over the previous year. Total expenses were \$13 346 900 for the year, up 10.5 percent over 1979. Primarily as

a result of this faster growth in operating expenses, net income for the year increased by only 4.8 percent to \$2 808 300. This income was required to pay \$483 000 in preference dividends, the same amount as in 1979 and \$1 497 300 in common dividends, up 14.8 percent from the prior year, to support the equity investment by shareholders of \$24 751 800 at year end. The increase in common dividends reflects the increase in the quarterly dividend from 30¢ per share to 31.5¢ effective with the March 15, 1980 dividend payment. The balance of net income of \$828 000 was retained by the Company and re-invested in buildings, equipment and facilities used in the provision of telecommunications services.

Financing

During the year, construction expenditures for buildings, equipment and facilities amounted to \$9.2 million, up 4.5 percent from the \$8.8 million in 1979. To finance the construction expenditure program, the Company must raise funds from time to time in the external capital markets to augment funds generating from internal sources. In October, 1980, the Company issued and sold \$4 million of 14.0 percent, Series "N" first mortgage bonds, at par, to mature in the year 2000.

Looking Ahead

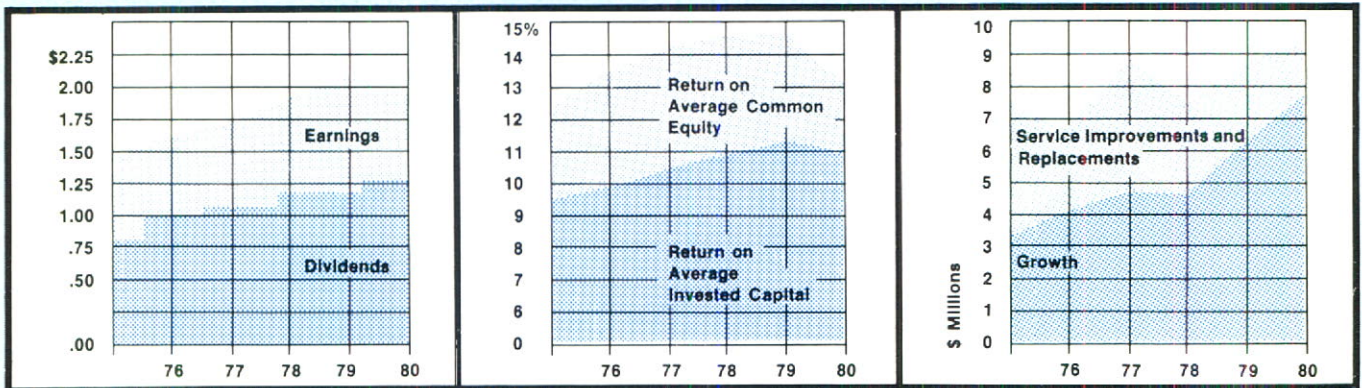
To meet the continuing requirements for telecommunications services throughout the province, the Company has planned construction expenditures of \$8.9 million for the year 1981. With new tariffs effective January 1, 1981, it is anticipated that the Company's earnings will be sufficient to maintain its financial integrity and enable the Company to raise the necessary funds in the external capital markets to meet these planned construction expenditures.

In Brief	1980	1979
Earnings Per Common Share	\$ 1.96	\$ 2.07
Dividends Per Common Share	\$ 1.26	\$ 1.20
Return on Average Common Equity	13.0%	14.5%
Return on Average Invested Capital	10.9%	11.1%
Equity Per Common Share, December 31	\$ 15.39	\$ 14.76
Construction Program Expenditures (thousands)	\$ 9 178	\$ 8 786
Telecommunications Property Per Telephone, December 31	\$ 1 085	\$ 1 019
Telephones In Service, December 31	67 140	63 757
Debt Ratio, December 31	51.0%	47.5%
Employees, December 31	300	302
Salaries and Wages (thousands)	\$ 5 579	\$ 5 110
Average Common Shares (thousands)	1 184	1 061

Earnings and Dividends per Average Common Share

Rate of Return on Average Common Equity and Average Invested Capital

Construction Program Expenditures



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, 1980 and the statements of income, retained earnings and changes in financial position 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, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon

Chartered Accountants

Halifax, Canada
January 30, 1981

FINANCIAL POSITION STATEMENT

15

As at December 31

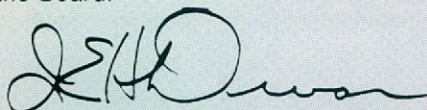
ASSETS	1980	1979
	\$	\$
TELECOMMUNICATIONS PROPERTY (Note 1 (b))		
Buildings, equipment and facilities in service	69 576 600	61 507 100
Less accumulated depreciation	16 028 800	13 317 800
	53 547 800	48 189 300
Land, and property under construction	2 731 900	2 993 600
Construction materials inventory	581 300	439 600
	56 861 000	51 622 500
INVESTMENTS (Note 3)	150 300	111 300
CURRENT ASSETS		
Cash	9 000	35 100
Accounts receivable	2 745 700	2 735 200
Prepayments	165 800	144 500
	2 920 500	2 914 800
DEFERRED CHARGES		
Unamortized long-term debt expenses	273 300	235 500
Other deferred charges	260 300	198 300
	533 600	433 800
	60 465 400	55 082 400

LIABILITIES AND SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY		
Common stock (Note 4)	6 009 300	5 918 200
Premium on common stock (Note 5)	6 601 200	6 477 400
Retained earnings	5 891 300	5 070 400
	18 501 800	17 466 000
Preference stock (Note 4)	6 250 000	6 250 000
	24 751 800	23 716 000
LONG-TERM DEBT (Note 6)	23 750 000	20 250 000
CURRENT LIABILITIES		
Due to Maritime Telegraph & Telephone Company, Limited	129 100	293 400
Accounts payable	948 200	1 466 000
Income taxes payable	500	335 400
Interest accrued	469 900	353 200
Debt due within one year (Note 7)	2 050 000	1 225 000
Other current liabilities	572 900	507 900
Deferred income (Note 9)	-	75 600
	4 170 600	4 256 500
DEFERRED CREDITS		
Income taxes (Note 1 (c))	7 792 000	6 838 100
Other deferred credits	1 000	21 800
	7 793 000	6 859 900
	60 465 400	55 082 400

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

16

	1980	1979
	\$	\$
REVENUES		
Local service	8 561 800	8 067 900
Long distance service	11 540 100	10 451 400
Other, net of uncollectible revenues	467 000	525 400
	20 568 900	19 044 700
EXPENSES		
Depreciation (Note 1 (b))	3 821 200	3 386 200
Operating	6 412 700	5 931 800
General and administrative	2 500 800	2 134 800
Pensions and benefits	612 200	624 200
	13 346 900	12 077 000
	7 222 000	6 967 700
OTHER INCOME		
Allowance for funds used during construction (Note 1 (d))	232 900	86 100
Other	40 800	50 300
	7 495 700	7 104 100
INTEREST		
Bond interest	2 047 900	1 931 300
Other (Note 2)	378 000	101 100
	2 425 900	2 032 400
	5 069 800	5 071 700
INCOME TAXES (Note 1 (c))	2 337 100	2 316 800
NET INCOME BEFORE TRANSFER	2 732 700	2 754 900
Deferred income transfer (Note 9)	75 600	(75 600)
NET INCOME	2 808 300	2 679 300
Preference dividends	483 000	483 000
NET INCOME APPLICABLE TO COMMON SHARES	2 325 300	2 196 300
EARNINGS PER COMMON SHARE	1.96	2.07

RETAINED EARNINGS STATEMENT

For the Year Ended December 31

	1980	1979
	\$	\$
BALANCE AT BEGINNING OF YEAR	5 070 400	4 271 500
ADDITION:		
Net Income	2 808 300	2 679 300
DEDUCTIONS:		
Preference dividends	483 000	483 000
Common dividends	1 497 300	1 304 400
Commission and expenses of issuing capital stock and other deductions	7 100	93 000
	1 987 400	1 880 400
BALANCE AT END OF YEAR	5 891 300	5 070 400

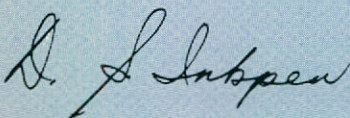
STATEMENT OF CHANGES IN FINANCIAL POSITION

17

For the Year Ended December 31

	1980	1979
	\$	\$
SOURCE OF FUNDS:		
Operations		
Net income	2 808 300	2 679 300
Items not requiring funds		
Depreciation	3 821 200	3 386 200
Deferred income taxes	953 900	900 600
Allowance for funds used during construction	(232 900)	(86 100)
Other, net	77 100	64 900
	7 427 600	6 944 900
Employees' stock savings plan	214 900	177 300
Common Stock	-	3 450 000
First mortgage bonds	4 000 000	-
	11 642 500	10 572 200
APPLICATION OF FUNDS:		
Funds used for construction		
Construction program expenditures	9 178 100	8 786 500
Change in construction materials inventory	141 700	86 600
	9 319 800	8 873 100
Less items not requiring funds		
Salvage and other	192 100	203 400
Allowance for funds used during construction	232 900	86 100
	425 000	289 500
	8 894 800	8 583 600
Dividends	1 980 300	1 787 400
Investments	39 000	-
Current maturities of long-term debt	500 000	-
Other, net	136 800	133 500
	11 550 900	10 504 500
INCREASE IN WORKING CAPITAL	91 600	67 700

The accompanying notes form an integral part of these financial statements.



Comptroller

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) Telecommunications property:

Telecommunications property is recorded at cost.

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

Depreciation is charged on a straight-line basis using rates for classes of property, 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 an average rate for 1980 of 5.9 percent (1979, 5.9 percent).

(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 telecommunications property while under construction by including an "allowance for funds used during construction" as an addition to the cost of the property 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 \$335 800 (1979, \$69 400) and amortization of long-term debt expenses amounting to \$20 500 (1979, \$19 800).

3. Investments — includes investment, at cost, in miscellaneous physical property \$51 300, shares of Telesat Canada \$60 000 and intelTerm Systems Limited \$39 000.

4. Capital Stock —

	1980		1979
Authorized:	\$20 000 000		\$20 000 000
	Shares Outstanding at	Issued For Cash	Shares Outstanding at
Issued:	Jan. 1, 1980		Dec. 31, 1980
Common, par value \$5.00	1 183 652	18 205	1 201 857
Preference			
4½% par value \$10.00	40 000		40 000
4¾% par value \$10.00	40 000		40 000
5½% par value \$20.00	37 500		37 500
7¼% par value \$20.00	75 000		75 000
9¼% par value \$20.00	100 000		100 000
9¼% par value \$20.00 (1977 Series)	60 000		60 000
	352 500		352 500
Total Issued:	1 536 152	18 205	1 554 357
Value at par, of issued common and preference shares	\$12 168 300	\$91 000	\$12 259 300

For the year 1980, the Company reserved 20 000 common shares for issuance under the Employees' Stock Savings Plan and during the year issued 18 205 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 percent 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.

4½%, 4¾%, and 5½% 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.

7¼% 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.

9¼% Preference Shares

The Company may redeem all or part of the outstanding shares at a premium of \$1.45 if redeemed before June 15, 1982, the premium thereafter decreasing \$0.20 every three years until June 15, 1997.

9¼% 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 decreasing \$0.20 every three years until April 15, 2000.

5. Premium on Common Stock —

	1980	1979
	\$	\$
Beginning of year	6 477 400	3 922 600
On shares issued during year	123 800	2 554 800
End of year	6 601 200	6 477 400

6. Long-term debt —

Series	Rate	Maturing	Principal
			\$
F	5½%	June 15, 1983	750 000
G	7¾%	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	10¾%	June 1, 1997	2 500 000
M	10¾%	December 1, 1998	2 500 000
N	14 %	October 15, 2000	4 000 000
			23 750 000

* 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.

7. Debt due within one year —

	1980	1979
	\$	\$
Bank and other notes	1 550 000	1 225 000
First mortgage bonds, Series E, 5½% due October 2, 1981	500 000	—
	2 050 000	1 225 000

Debt due within one year is normally refinanced out of the proceeds of longer term financing. This amount is included in total capital in computing capitalization ratios and rates of return on capital.

8. 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, 1980 amounted to \$595 200 (1979, \$673 600). The actuarial review as of December 31, 1979, based on earnings and service to that date, shows that all vested benefits are fully funded. The actuarial review further reflects revised actuarial assumptions and changes in employee and fund experience which have resulted in a reduction in the contribution rate for the year 1980.

9. 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 authorized the Company to defer, from 1979 into 1980, \$75 600 in earnings after allowance for income taxes.

10. Related party transactions —

Maritime Telegraph & Telephone Company, Limited owns 40.8 percent of the Company's issued common shares.

During the year the Company paid \$767 500 to Maritime Telegraph & Telephone Company, Limited under a contract for the supply of technical, administrative and management services. This amount is included in operating and general and administrative expenses.

11. 1979 presentation —

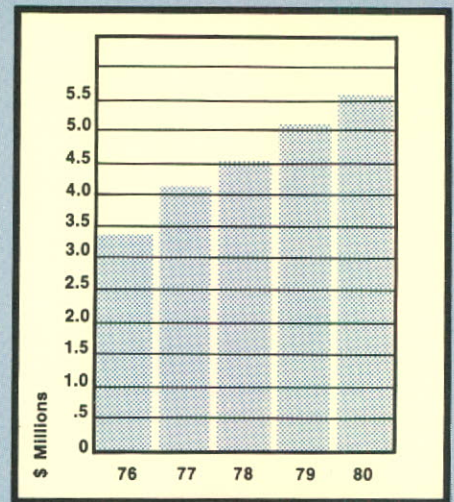
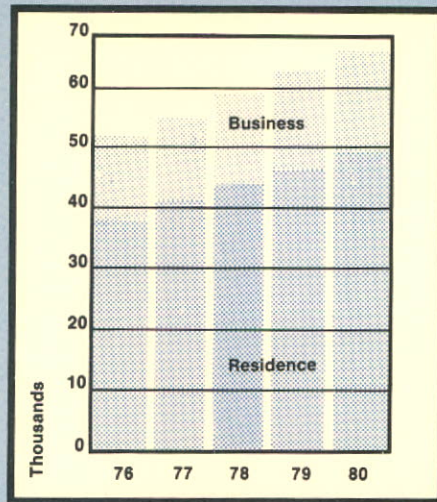
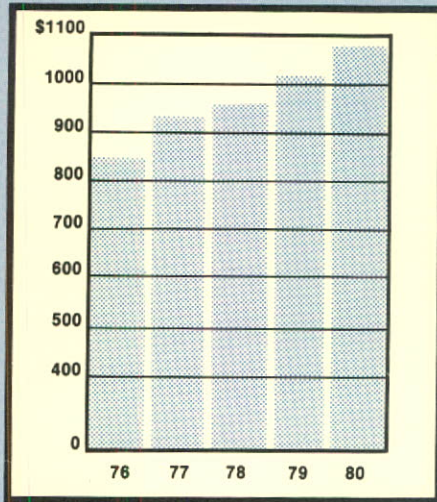
The 1979 comparative figures have been reclassified, where applicable, to conform with the 1980 presentation.

	1980	1979	1978	1977	1976
Financial Position at December 31 (In thousands)					
Telecommunications property	\$ 72 890	\$ 64 940	\$ 57 585	\$ 51 896	\$ 44 826
Accumulated depreciation	16 029	13 318	11 199	9 682	8 438
Investments	150	111	111	111	111
Current assets	2 921	2 915	2 546	2 036	1 600
Deferred charges	534	434	419	323	272
Shareholders' equity	24 752	23 716	19 290	18 415	13 924
Long-term debt	23 750	20 250	20 250	17 750	15 750
Current liabilities	4 171	4 256	3 955	3 486	4 466
Deferred credits	7 793	6 860	5 967	5 033	4 231
Income (In thousands)					
Revenues	\$ 20 569	\$ 19 045	\$ 16 535	\$ 14 234	\$ 11 417
Expenses	13 347	12 077	10 533	9 200	7 362
Other income	274	136	95	118	86
Interest	2 426	2 032	1 868	1 776	1 682
Income taxes	2 337	2 317	1 924	1 522	1 110
Net income for year	2 808	2 679	2 305	1 854	1 349
Statistics — at December 31					
Telecommunications property per telephone	\$ 1 085	\$ 1 019	\$ 969	\$ 939	\$ 857
Equity per common share	\$ 15.39	\$ 14.76	\$ 13.45	\$ 12.70	\$ 11.89
Embedded debt cost	10.3%	9.6%	9.6%	9.4%	9.2%
Debt ratio	51.0%	47.5%	52.8%	50.5%	56.7%
Employees	300	302	293	299	288
Telephones in service	67 140	63 757	59 436	55 296	52 325
Shareholders	3 414	3 482	3 334	3 285	2 854
Statistics — for year					
Earnings per common share	\$ 1.96	\$ 2.07	\$ 1.90	\$ 1.74	\$ 1.61
Average common shares (in thousands)	1 184	1 061	958	805	607
Dividends per common share	\$ 1.26	\$ 1.20	\$ 1.12	\$ 1.05	\$ 0.92
Times bond interest earned — before taxes	3.7	3.7	3.6	3.2	3.0
Times bond interest earned — after taxes	2.5	2.5	2.5	2.3	2.2
Return on average invested capital	10.9%	11.1%	10.9%	10.4%	10.0%
Return on earnings base	9.1%	9.2%	9.0%	8.9%	8.6%
Return on average common equity	13.0%	14.5%	14.5%	14.1%	13.5%
Construction program expenditures (in thousands)	\$ 9 178	\$ 8 786	\$ 7 470	\$ 8 883	\$ 6 754
Salaries and wages (in thousands)	\$ 5 579	\$ 5 110	\$ 4 580	\$ 4 125	\$ 3 374
Toll messages (in thousands)	5 388	5 193	4 723	4 483	4 106

Telecommunications Property per Telephone

Telephones in Service

Salaries and Wages



The Island Telephone Company Limited

Directors

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

*A. Gordon Archibald
(Retired Jan. 7, 1981)
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
(Retired May 5, 1980)
Vice President
The Great Eastern Corporation Ltd.
Halifax, N.S.

Alan K. Scales, Q.C.
(Elected May 5, 1980)
Lawyer and Senior Partner
Scales, Ghiz, Jenkins and McQuaid
Charlottetown, P.E.I.

Officers

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

Walter C. Auld
Executive Vice President

Edward J. Hicks
Vice President (Finance)

Donald R. Livingstone
Vice President and General Manager

David S. Inkpen
Comptroller

Donald B. Quinn
Treasurer

Stephen E. Jefferson
Secretary

James L. Cameron
Assistant Secretary

Operations

J. L. Cameron
General Administration Manager

D.C. Barlow
Staff Supervisor-Administration

E. F. Smith
Engineering Supervisor-Outside Plant

S. L. Godfrey
Plant Manager

R. Livingstone
Supervisor-Repair

R.E. Meek
Supervisor-Trunks and Switching

D. C. Rogers
Supervisor-Installation

P. A. Trainor
Supervisor-Construction

K. M. Frizzell
Operator Services Manager

A. E. Holland
Commercial Manager

D. W. McLane
Marketing Manager

*Member Executive Committee

**Member Audit Committee

**Island
Tel**