

C
1981



Front Cover

Island Tel's continuing efforts to improve service have given Island subscribers a telephone system incorporating some of the most sophisticated telecommunications equipment available. The introduction of advanced equipment to several areas of Island Tel's network during 1981 will ensure both increased service reliability for the customer and the most efficient means of operating for the Company.

Acknowledgements

Island Tel wishes to extend sincere thanks to all those employees and others whose photographs appear in this Annual Report, including: Bud Antoniak, Errol Campbell, Donna Chandler, John Cox, Debbie Dennis, Wayne Doucette, Kevin Edgecomb, Allison Ellis, Stan Gordon, Rozanna Gorveatt, Art Holland, Bob Horobin, Steven Livingstone, Ron MacDougall, Billy MacKenzie, Fraser MacPhee, Joanne Madore, Helen McCoubrey, Jane Meek, Roger Meek, Wanda Nicholson, David O'Brien, Earl Pauley, Fred Richards, Kathy Sheppard, Janice Skinner, Earl Smith, Don Spence, Austin Trainor, Moe Wood and Ralph Woodside.

Annual Meeting

The Annual General Meeting of the shareholders will be held March 26, 1982. Shareholders will be entitled to vote shares held as of February 26, 1982, the record date established for determining voting.

Island Tel Today

The Island Telephone Company is the sole provider of telephone services throughout the province of Prince Edward Island. Serving a population of 124 000 the Company had a total of 69 727 telephones in service throughout 26 exchanges across the province at the end of 1981.

Island Tel is committed to providing a high standard of telephone and telecommunications services to its subscribers. To

this end, the Company is actively engaged in the progressive implementation of digital technology in the development of the telephone network. Also, the Company's record of success in the provision of data transmission, broadcast facilities, mobile communications and other telecommunications services has been maintained consistently. As a member of the TransCanada Telephone System (TCTS), the Company is an active parti-

cipant in the national telecommunications system.

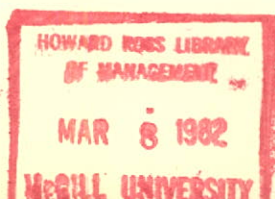
The Company has 305 employees, generated \$24.5 million in annual revenues in 1981 and has telecommunications facilities valued at \$79.9 million.

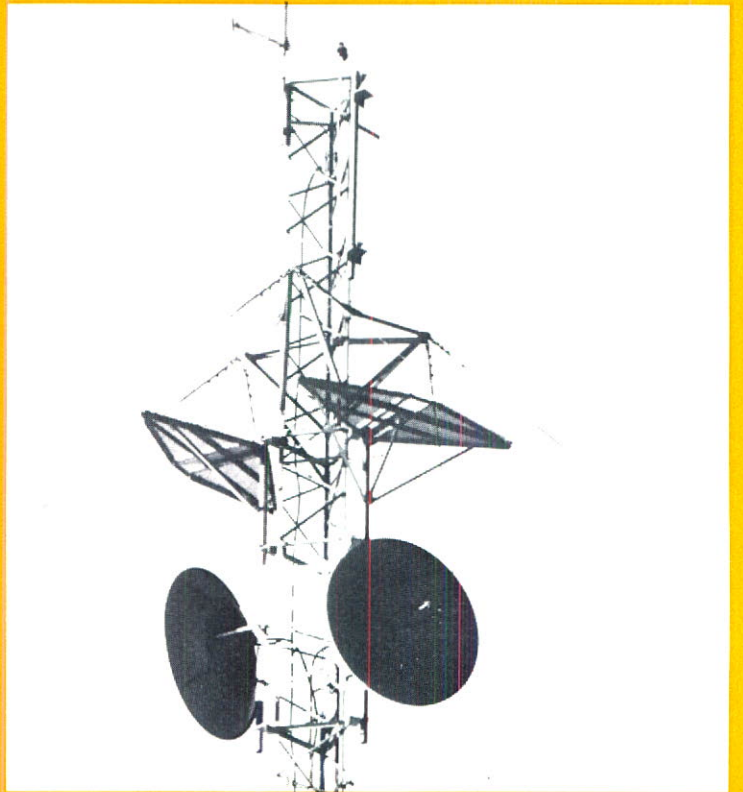
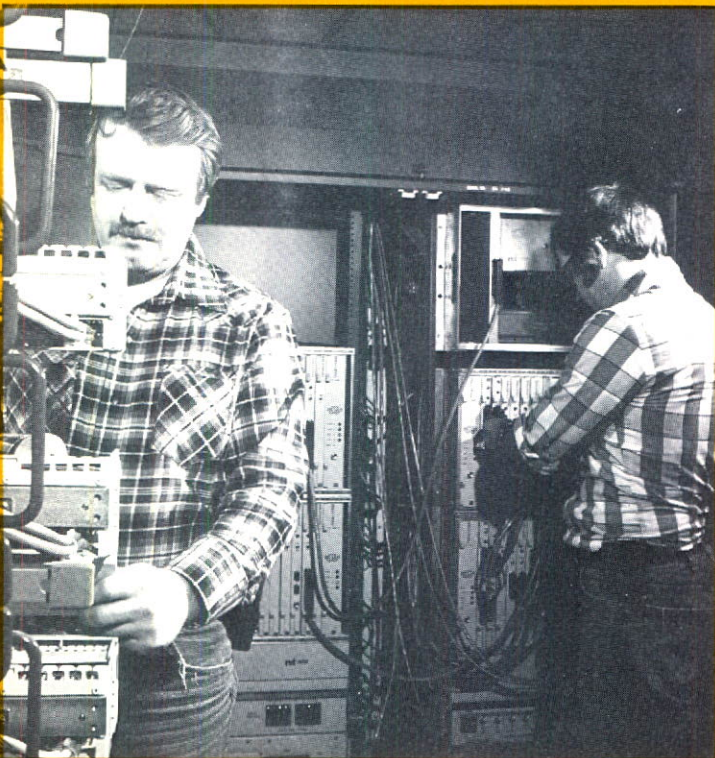
Island Tel is regulated by the Prince Edward Island Public Utilities Commission. Until 1976, a majority of the Company's common shares was owned by

Maritime Telegraph and Telephone Company, Limited (MT&T). Currently, MT&T remains the largest common shareholder with 40 percent of the issued and outstanding common shares. Of the Company's 1 542 holders of common shares, 598 are residents of PEI and the remaining shareholders are widely dispersed across Canada as well as other countries.

Report Highlights

	1981	1980
	\$	\$
Operating Statistics (Thousands)		
Revenues	24 453	20 569
Expenses	15 580	13 347
Net Income Applicable to Common Shares	2 830	2 325
Common Dividends	1 820	1 497
Construction Program Expenditures	8 530	9 178
Telecommunications Property	79 937	72 890
Financial Statistics		
Earnings per Common Share	\$ 2.35	\$ 1.96
Dividends Declared per Common Share	\$ 1.485	\$ 1.26
Return on Average Common Equity	14.8%	13.0%
Return on Average Invested Capital	12.0%	10.9%
Equity per Common Share, December 31	\$16.14	\$15.39
Average Common Shares (Thousands)	1 202	1 184
Debt Ratio, December 31	50.9%	51.0%
Other Statistics		
Telecommunications Property per Telephone, December 31	\$1 146	\$1 085
Telephones in Service, December 31	69 727	67 140
Employees, December 31	305	300
Salaries and Wages (Thousands)	\$6 593	\$5 579
Long Distance Messages (Thousands)	5 854	5 388





A major reorganization of departments within Island Tel during 1981 resulted in an improvement in efficiency in almost every facet of Company operations. Coupled with the organizational changes, technological advancements implemented last year allow the Company to continue providing the latest telecommunications services in the most cost-efficient manner.

President's Message



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

Despite high inflation, high interest rates, and a lacklustre economy, Island Tel continued to achieve its service and financial objectives in 1981. Total company revenues were \$24.5 million, up 18.9 percent over 1980, due to the continuing growth in service and increased rates effective the first of the year. The number of telephones in service at the end of 1981 was 69 727 up 3.9 percent over 1980 and long distance calling increased by 8.6 percent during the year.

The Company invested \$8.5 million in construction expenditures in 1981. The bulk of these construction expenditures provided facilities for the continuing growth in service demand. Also, a part of the construction program was designed to improve service to subscribers and resulted in further reductions in the number of customers on each multi-party line as well as improved testing and maintenance capability.

The Company's financial position improved significantly in 1981 with earnings per share of \$2.35, compared to \$1.96 in 1980, and the return on average common equity of 14.8 percent up from 13.0 percent the previous year. With the cost of op-

erations continuing to rise and the current high cost of capital, in September 1981 the Company applied for an increase in rates and in allowable earnings. The Public Utilities Commission subsequently approved new rates effective January 1, 1982 with an allowable range of return on common equity investment of 17.25 percent to 18.25 percent. This improved earnings level should provide for the continuing healthy financial position necessary to expand and improve service to meet our ongoing customer requirements.

In 1981, an event of some significance was a decision of the Supreme Court of Prince Edward Island to allow the connection of customer-owned telephone terminals to Island Tel's network facilities. As a result, at year-end the Company filed rules and regulations with the Public Utilities Commission necessary to provide customers with the option of owning their telephone terminal equipment. Following a public hearing and Commission approval the provision of telephone terminals will be open to competition from other suppliers and the Company is actively preparing for the challenge of marketing telephone service in this environment.

During the past 10 years the Company has grown significantly while at the same time, developing new and improved services using the latest and most appropriate technology available. During this period, many improvements and changes in Company operations were made to more effectively meet the demand for growth in our services. In early 1981, a significant reorganization of Company operations was implemented with the objective of providing service in a more effective and efficient manner. The organization change, together with other projects undertaken in 1981 to improve the effectiveness of Company operations, is outlined in more detail in the Directors' report.

With the continuing uncertainty in our economic environment and the recent weakening in the economy, it has never been more important to manage the Company's operations in the most efficient and prudent manner possible. This challenge requires a strong, unified effort by everyone associated with the Company and we intend to succeed.

A handwritten signature in blue ink, appearing to read 'I.E.H. Duvar'.

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

Directors' Report

Perhaps the most characteristic aspect of the telecommunications industry is its state of constant change and development. In addition to continual improvements and growth within the industry, telecommunications achievements have inspired advancements with significant impact on other sectors of business and social life.

Island Tel, as the major provider of telecommunications services in Prince Edward Island, has traditionally met customer requirements for increasingly sophisticated telecommunications services. Using the latest and most economic technology available, together with the most efficient methods of operation possible, Island Tel has consistently maintained a high level of service.

Since 1971 the Company has increased the number of telephones in service from 35 715 to 69 727, an increase of 95 percent. This growth has created the need to revise operating procedures and changes have been made in the organization on a continual basis to provide for increased service requirements and the rapidly evolving technology that has been used to meet them.

In May of 1981, a major reorganization of the Company was implemented with the principal objective of effectively meeting the increasing service requirements of subscribers. Under the immediate direction of Vice President and General Manager, Donald R. Livingstone, three departments encompassing similar areas of Company operation

were established. These included the Customer Services Department, managed by David W. McLane, the Outside Plant and Administration Department, led by James L. Cameron, and the Network Services Department headed by Stanley L. Godfrey.



Don Livingstone:
Vice President and General Manager

"This change reflects the growth of the Company and the requirement to have a different type of organizational structure to face today's demands and the challenges anticipated in coming years. It is also in response to the tremendous growth in the number and sophistication of telecommunications services that the Company offers.

Although the structure is relatively new, increased productivity and efficiency are already apparent at Island Tel."

Customer Services

The Customer Services Department is comprised of employees who provide the Company's primary business contact with customers. This includes groups such as, Installation & Repair, Marketing, Customer Inquiries, etc.

During 1981, marketing activities at Island Tel increased significantly. The introduction of an advanced centrex system for large organizations was a major step undertaken by the Company during the year. This system uses sophisticated, state-of-the-art computer technology in the SL-1 switch. The SL-1 offers customers a wide choice of features to accommodate their specific needs. The Queen Elizabeth Hospital is the first institution on Prince Edward Island to receive this centrex service. Late in 1981, the Company was also successful in selling this service to the federal government for implementation in mid 1982.

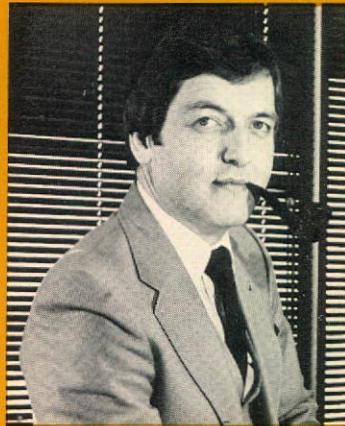
In 1982, the Company will be making application to the provincial Public Utilities Commission to gradually

introduce Patient Telephone Service to all acute care hospitals in the province. Patient Telephone Service will provide fast convenient telephone service on demand at an economic rate.

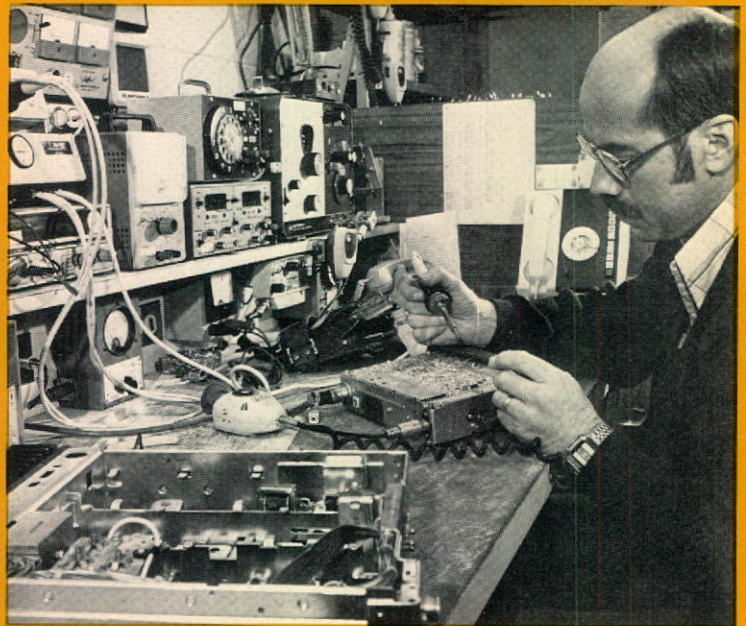
The Company continued to experience steady growth in the Data Services and Mobile Communications areas. Following the opening of a new Mobile facility in Charlottetown during 1980, the Company introduced a similar facility in Summerside in 1981. These new facilities were constructed to meet customer service requirements. During 1981, the Company experienced an increase of monthly revenues in the data services area of 38 percent.

Dave McLane:

Customer Services Manager



"The reorganization improves our ability to efficiently provide high quality service in an increasingly competitive and cost conscious environment. Through the reorganization, improvements in our administrative process will aid the Company in meeting its goals and will benefit customers, employees and investors alike."



A major role of the Customer Services Department is the provision of Data Services and Mobile Communications. Each piece of Mobile equipment that comes to Island Tel for repairs undergoes a complete testing of all its components to ensure that sets leave the office meeting Island Tel's high standards of performance. This kind of service is unparalleled on Prince Edward Island. Above, an Island Tel Special Services Repairman tests a Mobile Radio in the Company's Charlottetown Mobile office.

Company sales campaigns for various service offerings proved successful in 1981. A campaign promoting Contempra telephones achieved more than twice the total year's Contempra installation objectives in a one-month period. Since the introduction of province wide Touch-Tone services in 1977, a series of Touch-Tone promotional programs has resulted in the installation of 10 600 Touch-Tone telephones by the end of 1981. Again in 1981, Island Tel promoted Long

Distance Gift Certificates as Christmas gift suggestions, resulting in a 30 percent increase in the sale of certificates over the previous year.

With the Supreme Court of Prince Edward Island decision to allow terminal attachments, the Company's market plan has been expanded to include the introduction of a competitive telephone terminal market in the Province.

The Customer Services Department is also responsible for the Company's preventive maintenance program. In 1981 the number of problems reported by customers decreased steadily. As part of the program, an Automatic Line Insulation Testing facility was introduced in late 1981. This equipment tests subscribers lines in the Charlottetown area nightly to detect problems before they affect the customer. The success of this program to date warrants its expansion into

additional exchanges in 1982.

A major three year plan to introduce a remote testing program was completed in 1981. This will allow testing from Charlottetown of each subscriber's line in the province, reducing the number of service calls and improving the overall quality of the Island telecommunications network.



During 1981 Island Tel initiated successful promotional campaigns for several revenue generating products. Touch-Tone telephone, Contempra telephones and Long Distance Gift Certificates were promoted at different times of the year through advertising, bill inserts and Phone Centre displays such as the above.



Island Tel observed the International Year of Disabled Persons in 1981 with a number of projects. In addition to a special needs display at the Charlottetown Phone Centre and the production of a special needs brochure describing telephone aids for the handicapped, the Company applied to the Public Utilities Commission for basic telephone rates for disabled persons who require special telephone equipment. The PUC approved the application. The Company

also installed Amplified Receiver Handsets in various pay phones throughout the Province.

Late in 1981, the Company successfully applied for the introduction of two new in-province long distance calling services. Outward and Inward Calling Services have been designed to fill a recognized demand and will stimulate long distance calling and contribute to increased Company revenues. At the same time the Company successfully applied for Sup-

plementary Local Service. This optional service can reduce the cost of calling between adjacent exchanges and was introduced in response to the needs of numerous customers, particularly those in smaller exchanges.



One of the major projects Island Tel undertook in observing the International Year of Disabled Persons during 1981 was the official opening of the Special Needs display in the Charlottetown Phone Centre. Invited guests from various organizations for disabled persons across the province had the opportunity to view and test a variety of telephone aids. The Visual Ear, above, transmits typed messages by telephone and is one of the services most demanded by the deaf.

Outside Plant and Administration

The Outside Plant and Administration Department includes the employees involved with the design, engineering and construction of the network as well as general administration projects for the Company. This includes groups such as Outside Plant Engineering, Outside Plant Construction and Administration.

Jim Cameron
Outside Plant and
Administration Manager

"The co-ordination and efficiency in various aspects of Company operations is increased with the new organization structure. For example, work flow is more easily controlled and the improved use of employees' time has already resulted in cost savings to the Company."



The buildings, vehicles and supply area of this department has been reorganized to recognize the importance of fleet management. Late in 1981 one Foreman was placed in charge of vehicles and another in charge of buildings and supplies. Also during 1981, the Company established a Downsized Vehicle Program that will be monitored and maintained by

Outside Plant and Administration. This program will substantially reduce energy consumption as well as maintenance and operating costs of the Company fleet. By replacing vans as they are retired with specially-equipped smaller station wagons, the Company expects to achieve substantial annual gasoline savings.



In 1981 Island Tel became the first telephone company in Atlantic Canada to introduce specially-equipped small station wagons (above right) to its fleet. This program, in tandem with the recently-implemented computerized fleet management system, will reduce vehicle operating and maintenance costs.



The Outside Plant Engineering group of this department designs and constructs the Company's network facilities. In 1981, approximately \$3.0 million was spent in the introduction of a further 300 kilometers of aerial and buried cable throughout the Island.

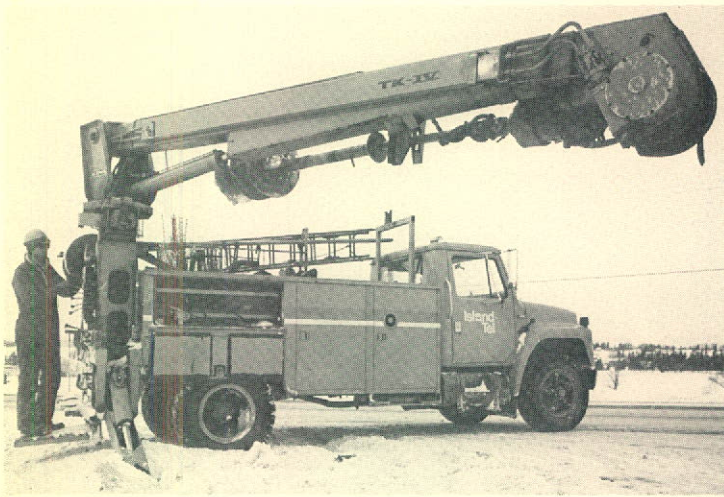
The Company's Rural Line Reduction Program required an expenditure of \$233 000 in 1981. Subscribers in rural areas of Prince Edward Island continue to benefit from this program which is designed to reduce the number of customers sharing each multi-party line. At the end of 1981, an average of 3.5 subscribers shared each of the

Company's multi-party lines. By the end of 1983, it is expected no more than four customers will share the same multi-party line anywhere in Prince Edward Island. At year-end 1981, a total of 13 exchanges had already been declared "maximum four party".

Standard formulae used throughout the telephone industry to measure productivity have indicated that efficiency in the construction area of the Outside Plant and Administration Department improved approximately 10 percent during 1981.



The projects undertaken by the Engineering and Construction groups of Outside Plant and Administration prepare the network facilities for ongoing growth in service demand and technology.



Network Services

The Network Services Department includes the employees who efficiently maintain the Company's telecommunications network to ensure its quality, availability and reliability. This includes the following groups: Trunks and Switching, Dial Administration, Dial Assignment and Operator Services.

Regular monitoring indicates that productivity in the Trunks and Switching area of Network Services increased over 9 per cent in 1981. This group maintains the 2 450 circuits which Island Tel requires for the almost 70 000 telephones in service in Prince Edward Island.

To accommodate growth, dial switching equipment was expanded into the areas of Hunter River, Rusticoville, Cardigan, Crossroads, Borden, Mount Stewart and Alberton and were

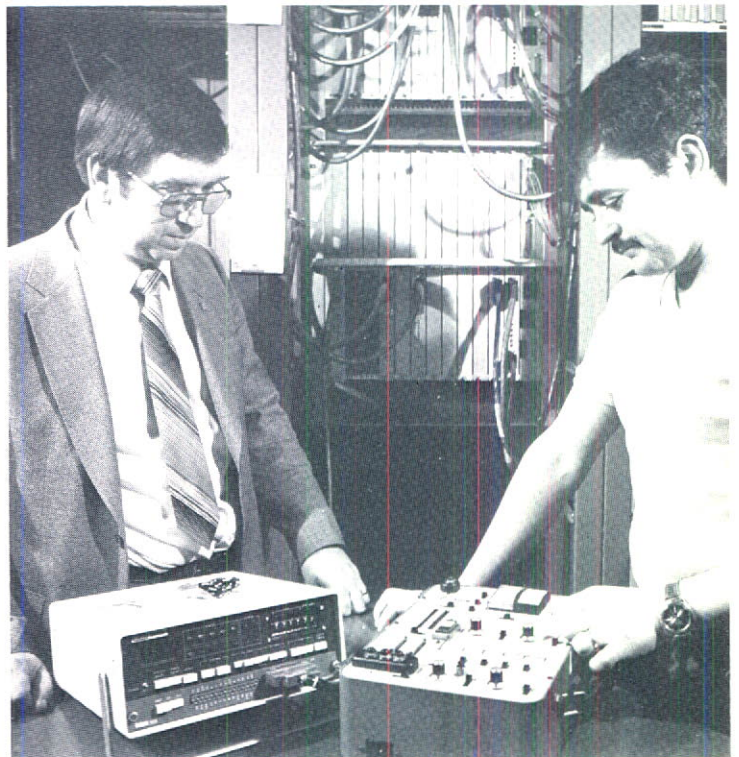
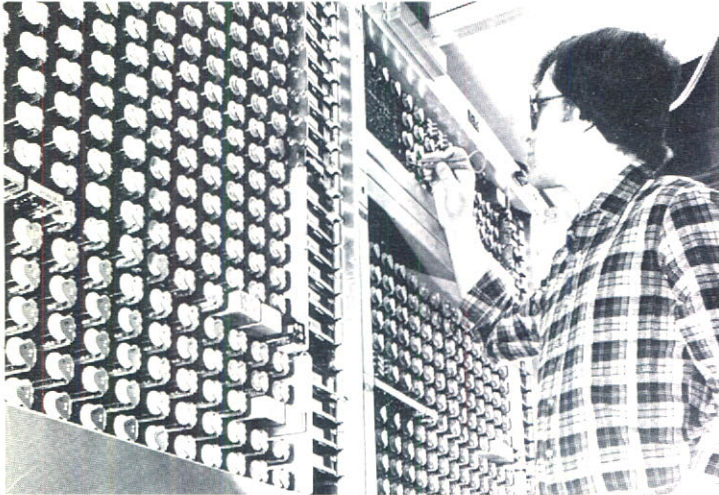
some of the major projects undertaken by Trunks and Switching this year. Line capacity increased between Charlottetown and Morell and between Summerside and Borden. Also, an alarm surveillance system was introduced in small switching offices on the Island that remotely monitors building security, temperature, power failures, major power alarms, circuit system failures plus other minor interruptions.

Stan Godfrey:
Network Services Manager



"The reorganization has meant improved communications from top to bottom in the Company. In addition, management can be more effective with tasks more evenly distributed and there is a high level of co-ordination possible within each department."

The quality of transmission on telephone lines is continually monitored by employees in the Network Services Department. Computerized testing equipment in Charlottetown (below left) detects trouble in telephone lines throughout the province and repair crews can be dispatched to a problem line immediately. Testing equipment such as this has significantly reduced the number of service complaints Island Tel received in the past year.



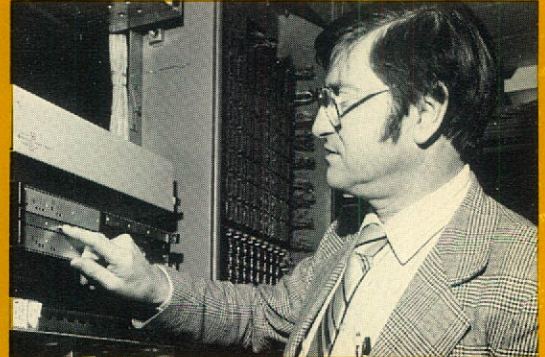
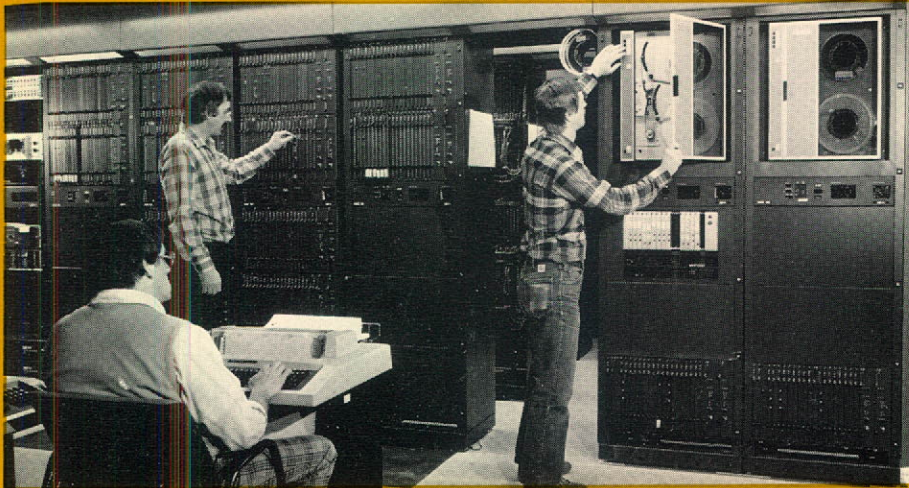


The DMS-100 (Digital Multiplex System), state-of-the-art digital switching equipment, was placed in service in the Charlottetown exchange in May. Digital technology provides for many times the capacity of the previous switching equipment and will be used to accommodate growth in Charlottetown. In addition to its increased capacity, the DMS-100 requires considerably less maintenance and minimal space requirements, features that will reduce Company operating costs.

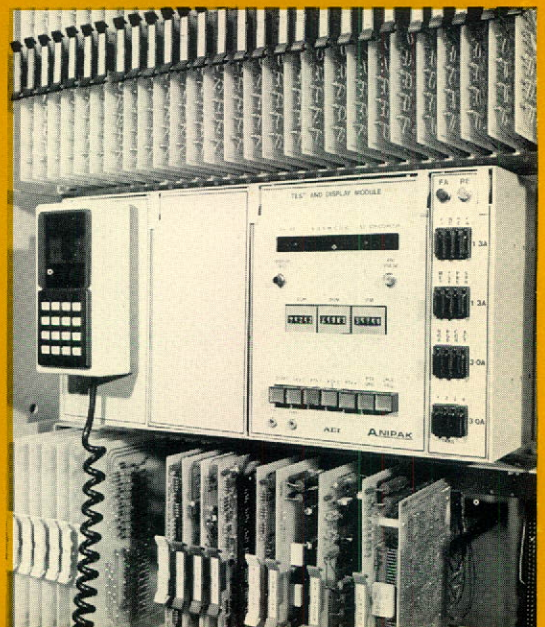
Network Services added two work functions in 1981 that were previously contracted to the Maritime Telegraph and Telephone Company, Limited. Dial Administration monitors network performance to ensure subscribers receive consistently high quality service. Dial Assignment provides the orderly assignment of the lines and numbers the Company requires for new growth.

Operator Services handled 5 838 700 calls and inquiries during the past year. Operator training for the introduction of a computerized Directory Assistance and Intercept Recording System began in 1981 for introduction in 1982. This system will mean more efficient records and less time spent by operators on directory assistance.

The on-going Automatic Number Identification Program continued in 1981 with implementation in the Tignish and Alberton exchanges. Eliminating the need for operator intervention in direct dialed long distance calls, the program will reduce operator workload and expenses associated with operator-handled calling.



Advanced improvements to the network, such as the DMS-100 (above), ensure telephone service on Prince Edward Island is maintained at the high level of reliability required by Company standards.



People at Island Tel

During 1981, 172 men and 133 women, were employed at Island Tel to provide a variety of telecommunications services to Islanders. To improve their ability to effectively carry out these responsibilities, over 33 percent of employees participated in formal and on the job training programs to upgrade knowledge and skills essential to the provision of quality telecommunications services. This represented 1 351 person days applied to employee training in 1981.

Island Tel employees maintained their excellent work safety record during the year. One hundred thirty-nine employees received awards for safe driving, including some for as many as 25 accident free years. A company-wide safety committee administers a formal accident prevention program and driver training, traffic safety and vehicle care continued to be emphasized by the Company for both employee and public safety.

In 1981, Island Tel's payroll expenditure amounted to \$6 592 500. In addition, the Company made the following contributions on behalf of its employees: \$697 600 in payments to the non-contributory pension plan; \$104 700 in pay-

ments for Unemployment Insurance; \$95 400 in payments for accident, group, supplementary hospital insurance and administration; \$74 300 in payments to the Canada Pension Plan.

Board of Directors

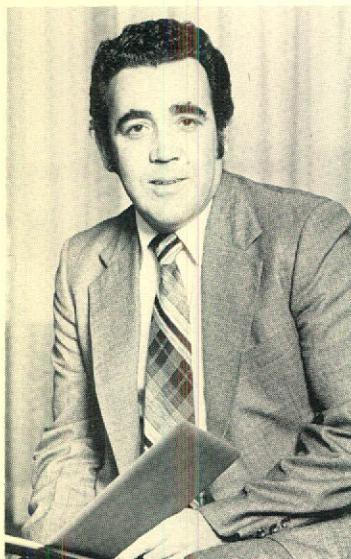
After 18 years of service on the Board of Directors, including 12 years as President, A. Gordon Archibald retired January 7, 1981. Mr. Archibald's contributions to the development of the Company have been very significant and important. In March 1981, Walter C. Auld was appointed Vice Chairman of the Board. Mr. Auld has been a member of the Board of Directors since 1973 and has been associated with the Company in various capacities for the past 45 years. Also, in March, J. Norman McLeod was elected to the Board of Directors at the Annual Meeting of the Company. Mr. McLeod is President of Williams, Murphy and McLeod (1971) Limited of Charlottetown.

Regulatory Rulings

Late in 1980, the Public Utilities Commission approved rate increases for a variety of telecommunications services. These increases became effective January 1, 1981 and contributed to the Company's overall earnings for the year.

In June, The Supreme Court of Prince Edward Island, in a reversal of a Public Utilities Commission decision, ordered the Company to file regulations allowing for the attachment of customer provided terminal equipment. On December 31, 1981 the Company complied with this order by filing the necessary regulations. These regulations, and associated changes to the Company's tariff, require approval by the PUC.

On September 14, 1981 the Company filed an application for increases in rates and its allowable rate of return on average common equity. The PUC approved most elements of this application effective January 1, 1982. In its decision The Public Utilities Commission allowed an increase in the allowable rate of return on average common equity to an approved range of 17.25 to 18.25 percent.



Edward J. Hicks
Vice President (Finance)

The Company achieved a significant improvement in earnings for the year despite continuing inflationary pressures on costs and in particular the effects of extremely high interest rates. This improvement was the result of continuing efforts to contain costs along with a rate increase at the beginning of the year. However, with persistently high levels of interest rates and further increases in other operating costs combined with a somewhat slower growth in business activity, the Company applied for and received approval for further rate increases effective on January 1, 1982. As a result, the Company should be in a position to meet the service requirements of its customers and continue to maintain its financial integrity.

Earnings

Earnings per average common share for the year 1981 were \$2.35 compared to \$1.96 for the prior year. The rate of return on average invested capital increased from 10.9 percent to 12 percent and the return on average common equity was 14.8 percent, up from 13 percent for 1980. Although the return on average common equity was at the high end of the earlier approved allowed range of between 14.25 percent and 15.25 percent, it was below the newly approved range of between 17.25 percent and 18.25 percent. The new permitted level of earnings was approved by the Public Utilities Commission of the Province of Prince Edward Island and reflects the current economic and capital market conditions.

Operating Revenues and Expenses

Operating revenues for the year increased 18.9 percent over 1980 and amounted to \$24 453 400. The increase in revenues resulted primarily from a 16.1 percent increase in local service revenues and a 21.2 percent increase in long distance revenues. The increase in local service revenues resulted from a 3.9 percent increase in the number of telephones in service and the increase in long distance revenues was due largely to a 8.6 percent increase in messages. Total operating expenses increased 16.7 percent over 1980 and amounted to \$15 580 600 for the year. Interest charges on Company borrowings amounted to \$2 813 600 for the year, \$387 700 higher than 1980, a 16 percent increase. As a result, net income for the year was \$3 312 500, up 18 percent from 1980. Net income was required to pay \$483 000 in preference dividends and \$1 819 800 in common dividends to support the equity investment by shareholders which was \$26 024 200 at year end. The 21.5 percent increase in common dividends over 1980 reflects the increase

in the quarterly dividend payment per share from 31.5¢ to 39¢ effective with the June 15, 1981 dividend payment. The balance of net income of \$1 009 700 was retained by the Company and re-invested in the telephone network.

Financing

During 1981, the Company expended \$8 530 400 for the construction of equipment and facilities required to meet the service needs of its customers. The Company does not generate all of the funds necessary to finance its ongoing construction expenditure program from internal sources and, as a result, must raise funds from time to time in the external capital markets. Although the Company did not issue any long term or permanent capital during the year, its short term borrowings amounted to \$3 250 000 at year end. These short term borrowings will be replaced by a more permanent form of capital in due course.

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

Directors

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

*Walter C. Auld
Vice Chairman of the Board
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.

*Member Executive Committee

**Member Audit Committee

J. Norman MacLeod
(elected March 27, 1981)
President
Williams, Murphy & MacLeod (1971) Ltd.
Charlottetown, P.E.I.

Alan K. Scales, Q.C.
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
Vice Chairman of the Board

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

D.W. McLane
Customer Services Manager

A.E. Holland
Commercial Manager

R.B. Read
Marketing Manager

D.C. Rogers
Supervisor - Installation

R. Livingstone
Supervisor - Repair

P.A. Acorn
Acting Staff Supervisor -
Customer Services

S.L. Godfrey
Network Services Manager

K.M. Frizzell
Operator Services Manager

R.E. Meek
Supervisor - Trunks and Switching

J.L. Cameron
Outside Plant and Administration Manager

D.C. Barlow
Staff Supervisor - Administration

E.F. Smith
Engineering Supervisor - Outside Plant

P.A. Trainor
Supervisor - Construction

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 1981 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.

FINANCIAL POSITION STATEMENT

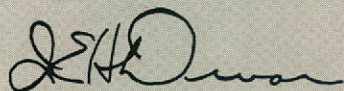
As at December 31

Assets	1981	1980
	\$	\$
TELECOMMUNICATIONS PROPERTY		
Buildings, equipment and facilities in service	77 601 900	69 576 600
Less accumulated depreciation	19 176 000	16 028 800
	58 425 900	53 547 800
Land, and property under construction	1 835 000	2 731 900
Construction materials inventory	500 400	581 300
	60 761 300	56 861 000
INVESTMENTS (Note 4)	111 300	150 300
CURRENT ASSETS		
Cash	189 100	9 000
Accounts receivable	3 369 000	2 745 700
Prepayments	180 200	165 800
	3 738 300	2 920 500
DEFERRED CHARGES		
Unamortized long-term debt expenses	250 700	273 300
Other deferred charges	339 200	260 300
	589 900	533 600
	65 200 800	60 465 400
Liabilities and Shareholders' Equity	1981	1980
	\$	\$
SHAREHOLDERS' EQUITY		
Common stock (Note 5)	6 125 800	6 009 300
Premium on common stock (Note 6)	6 749 100	6 601 200
Retained earnings	6 899 300	5 891 300
	19 774 200	18 501 800
Preference stock (Note 5)	6 250 000	6 250 000
	26 024 200	24 751 800
LONG-TERM DEBT (Note 7)	23 750 000	23 750 000
CURRENT LIABILITIES		
Due to Maritime Telegraph & Telephone Company, Limited	323 400	129 100
Accounts payable	1 280 700	948 200
Income taxes payable	748 100	500
Interest accrued	463 000	469 900
Debt due within one year (Note 8)	3 250 000	2 050 000
Other current liabilities	660 600	572 900
	6 725 800	4 170 600
DEFERRED CREDITS		
Income taxes	8 674 300	7 792 000
Other deferred credits	26 500	1 000
	8 700 800	7 793 000
	65 200 800	60 465 400

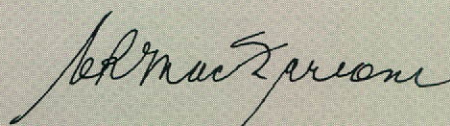
See accompanying notes

On behalf of the Board:

Director



Director



INCOME STATEMENT

For the Year Ended December 31

	1981	1980
	\$	\$
REVENUES		
Local service	9 939 200	8 561 800
Long distance service	13 983 800	11 540 100
Other, net of uncollectible revenues	530 400	467 000
	24 453 400	20 568 900
EXPENSES		
Depreciation	4 259 300	3 821 200
Operating including maintenance	7 961 700	6 668 800
General and administrative	2 623 400	2 244 700
Pensions and benefits	736 200	612 200
	15 580 600	13 346 900
	8 872 800	7 222 000
OTHER INCOME		
Allowance for funds used during construction	130 800	232 900
Other	94 600	40 800
	9 098 200	7 495 700
INTEREST AND OTHER DEBT EXPENSES (Note 3)	2 813 600	2 425 900
	6 284 600	5 069 800
INCOME TAXES	2 972 100	2 337 100
NET INCOME BEFORE TRANSFER	3 312 500	2 732 700
Deferred income transfer	-	75 600
NET INCOME	3 312 500	2 808 300
Preference dividends	483 000	483 000
NET INCOME APPLICABLE TO COMMON SHARES	2 829 500	2 325 300
EARNINGS PER COMMON SHARE	2.35	1.96

RETAINED EARNINGS STATEMENT

For the Year Ended December 31

	1981	1980
	\$	\$
BALANCE AT BEGINNING OF YEAR	5 891 300	5 070 400
ADDITION		
Net Income	3 312 500	2 808 300
DEDUCTIONS		
Preference dividends	483 000	483 000
Common dividends	1 819 800	1 497 300
Capital stock expenses	1 700	7 100
	2 304 500	1 987 400
BALANCE AT END OF YEAR	6 899 300	5 891 300

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31

	1981	1980
	\$	\$
SOURCE OF FUNDS		
Operations		
Net income	3 312 500	2 808 300
Items not requiring funds		
Depreciation	4 259 300	3 821 200
Deferred income taxes	882 300	953 900
Allowance for funds used during construction	(130 800)	(232 900)
Other, net	78 100	77 100
	8 401 400	7 427 600
Employees' stock savings plan	264 400	214 900
First mortgage bonds	-	4 000 000
Proceeds on sale of investment	65 000	-
	8 730 800	11 642 500
APPLICATION OF FUNDS		
Funds used for construction		
Construction program expenditures	8 530 400	9 178 100
Change in construction materials inventory	(80 900)	141 700
	8 449 500	9 319 800
Less items not requiring funds		
Salvage and other	211 700	192 100
Allowance for funds used during construction	130 800	232 900
	342 500	425 000
	8 107 000	8 894 800
Dividends	2 302 800	1 980 300
Investments	26 000	39 000
Current maturity of long-term debt	-	500 000
Other, net	32 400	136 800
	10 468 200	11 550 900
INCREASE (DECREASE) IN WORKING CAPITAL	(1 737 400)	91 600

See accompanying notes

Comptroller

D. S. Saksen

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) 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 1981 of 5.9% (1980, 5.9%).

(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 in arriving at taxable income by deducting 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. Accounting refinements – during 1981 the Company made further changes in the application of accounting principles to bring its accounting practices more in line with other industries. Certain costs that had been capitalized in prior years and recovered through depreciation, are now being expensed directly, resulting in a charge to expense of approximately \$100 000 in 1981.

These revisions were approved by the Public Utilities Commission of the Province of Prince Edward Island to be effective July 1, 1981 and were included in the allowable costs of the Company for the determination of its revenue requirements.

3. Interest and other debt expenses –

	1981	1980
	\$	\$
Interest on long-term debt	2 484 400	2 047 900
Amortization of long-term debt expenses	22 600	20 500
Interest on bank and other notes	283 700	335 800
Interest on deposits held	22 900	21 700
	2 813 600	2 425 900

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

5. Capital stock –

	1981	1980
Authorized:	\$20 000 000	\$20 000 000
	Shares Outstanding at Jan. 1, 1981	Shares Outstanding at Dec. 31, 1981
Issued:	Issued For Cash	
Common, par value \$5.00	1 201 857	23 294
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	1 554 357	23 294
Value at par, of issued common and preference shares	\$12 259 300	\$116 500
		\$12 375 800

For the year 1981, the Company reserved 25 000 common shares for issuance under the Employees' Stock Savings Plan and during the year issued 23 294 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.

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.

6. Premium on common stock –

	1981	1980
	\$	\$
Beginning of year	6 601 200	6 477 400
On shares issued during year	147 900	123 800
End of year	6 749 100	6 601 200

7. 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 Bonds are secured by a Deed of Trust and Mortgage and by deeds supplemental thereto containing a first fixed 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.

8. Debt due within one year –

	1981	1980
	\$	\$
Bank and other notes	3 250 000	1 550 000
First mortgage bonds, series E, 5½%, due October 2, 1981	-	500 000
	3 250 000	2 050 000

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.

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, 1981 amounted to \$697 600 (1980, \$595 200). The actuarial review as of December 31, 1980, based on earnings and service to that date, show that all vested benefits are fully funded.

10. Related party transactions – Maritime Telegraph and Telephone Company, Limited owns 40.0% of the Company's issued common shares.

During the year the Company paid \$928 000 to the Maritime Telegraph and 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.

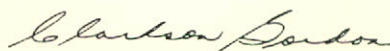
AUDITORS' REPORT

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, 1981 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, 1981 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, except for the changes in accounting practices as explained in note (2) to the financial statements, with which we concur, on a basis consistent with that of the preceding year.

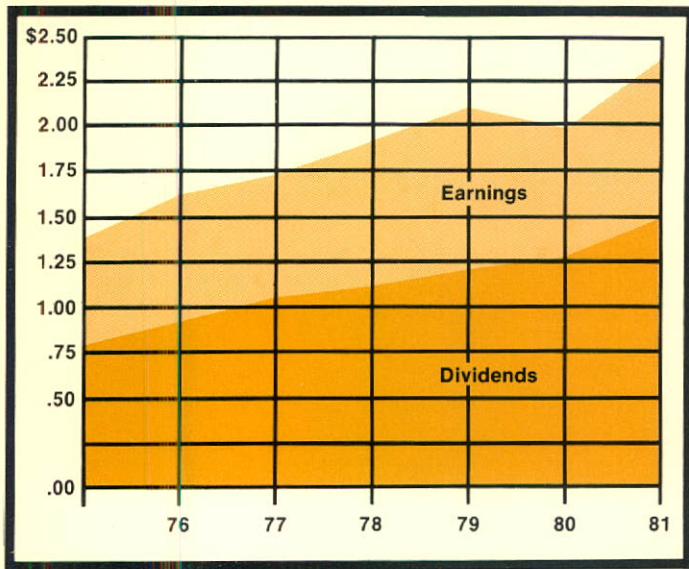
Halifax, Canada
January 29, 1982


Chartered Accountants

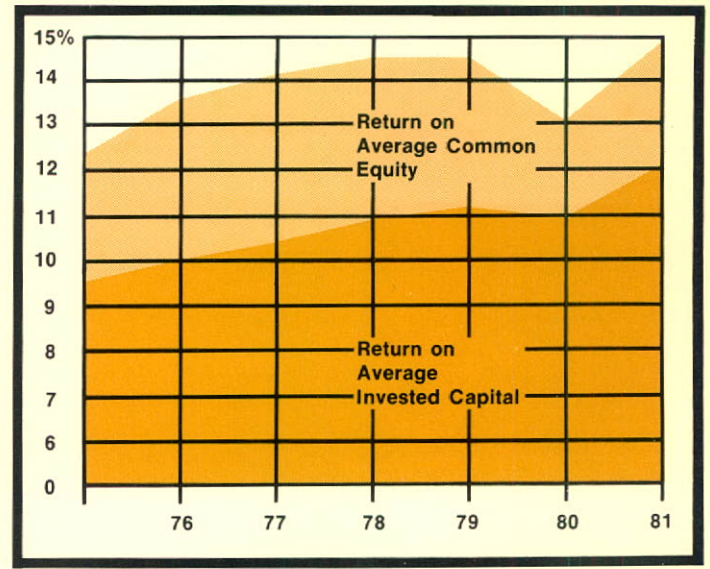
THE YEARS IN REVIEW

	1981	1980	1979	1978	1977	1976
Financial Position at December 31 (Thousands)						
Telecommunications property	\$ 79 937	\$ 72 890	\$ 64 940	\$ 57 585	\$ 51 896	\$ 44 826
Accumulated depreciation	19 176	16 029	13 318	11 199	9 682	8 438
Investments	111	150	111	111	111	111
Current assets	3 739	2 921	2 915	2 546	2 036	1 600
Deferred charges	590	534	434	419	323	272
Shareholders' equity	26 024	24 752	23 716	19 290	18 415	13 924
Long-term debt	23 750	23 750	20 250	20 250	17 750	15 750
Current liabilities	6 726	4 171	4 256	3 955	3 486	4 466
Deferred credits	8 701	7 793	6 860	5 967	5 033	4 231
Income (Thousands)						
Revenues	\$ 24 453	\$ 20 569	\$ 19 045	\$ 16 535	\$ 14 234	\$ 11 417
Expenses	15 580	13 347	12 077	10 533	9 200	7 362
Other income	225	274	136	95	118	86
Interest	2 813	2 426	2 032	1 868	1 776	1 682
Income taxes	2 972	2 337	2 317	1 924	1 522	1 110
Net income	3 313	2 808	2 679	2 305	1 854	1 349
Statistics – at December 31						
Telecommunications property per telephone	\$ 1 146	\$ 1 085	\$ 1 019	\$ 969	\$ 939	\$ 857
Equity per common share	\$ 16.14	\$ 15.39	\$ 14.76	\$ 13.45	\$ 12.70	\$ 11.89
Embedded debt cost	10.5%	10.3%	9.6%	9.6%	9.4%	9.2%
Debt ratio	50.9%	51.0%	47.5%	52.8%	50.5%	56.7%
Employees	305	300	302	293	299	288
Telephones in service	69 727	67 140	63 757	59 436	55 296	52 325
Shareholders	3 356	3 414	3 482	3 334	3 285	2 854
Statistics – for year						
Earnings per common share	\$ 2.35	\$ 1.96	\$ 2.07	\$ 1.90	\$ 1.74	\$ 1.61
Average common shares (thousands)	1 202	1 184	1 061	958	805	607
Dividends declared per common share	\$ 1.485	\$ 1.26	\$ 1.20	\$ 1.12	\$ 1.05	\$ 0.92
Times bond interest earned - before taxes	3.7	3.7	3.7	3.6	3.2	3.0
Times total interest charges earned - before taxes	3.2	2.5	2.5	2.5	2.3	2.2
Return on average invested capital	12.0%	10.9%	11.1%	10.9%	10.4%	10.0%
Return on earnings base	10.1%	9.1%	9.2%	9.0%	8.9%	8.6%
Return on average common equity	14.8%	13.0%	14.5%	14.5%	14.1%	13.5%
Construction program expenditures (thousands)	\$ 8 530	\$ 9 178	\$ 8 786	\$ 7 470	\$ 8 883	\$ 6 754
Salaries and wages (thousands)	\$ 6 593	\$ 5 579	\$ 5 110	\$ 4 580	\$ 4 125	\$ 3 374
Toll messages (thousands)	5 854	5 388	5 193	4 723	4 483	4 106

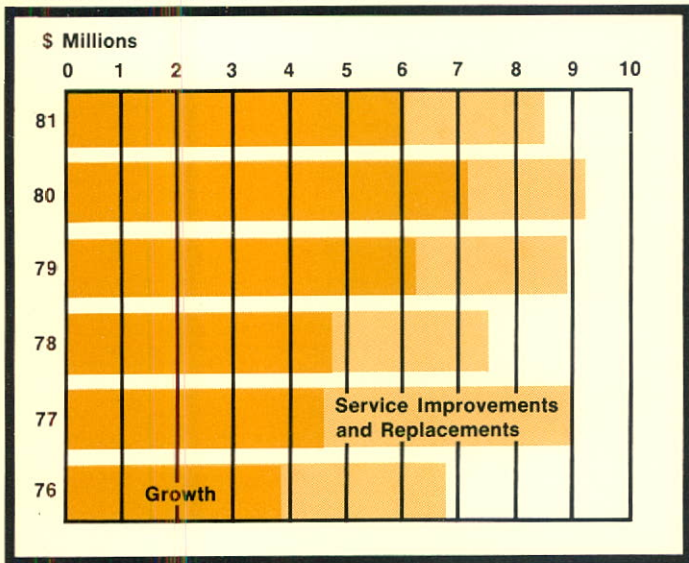
Earnings and Dividends per Average Common Share



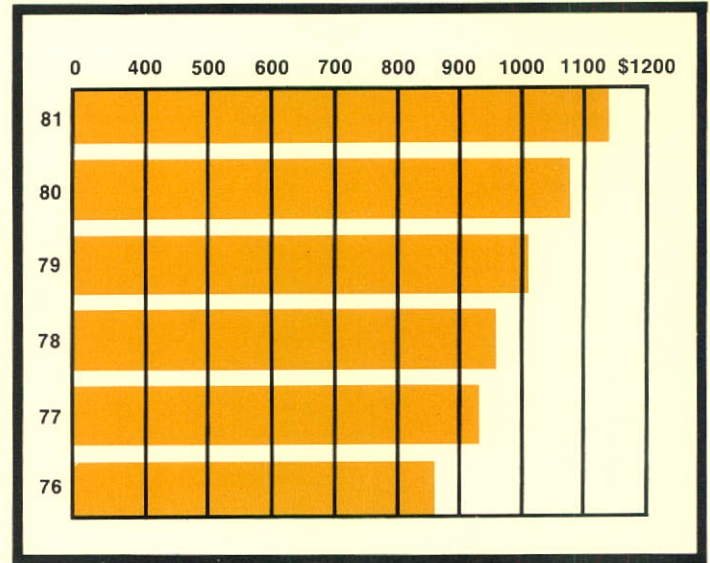
Rate of Return on Average Common Equity and Average Invested Capital



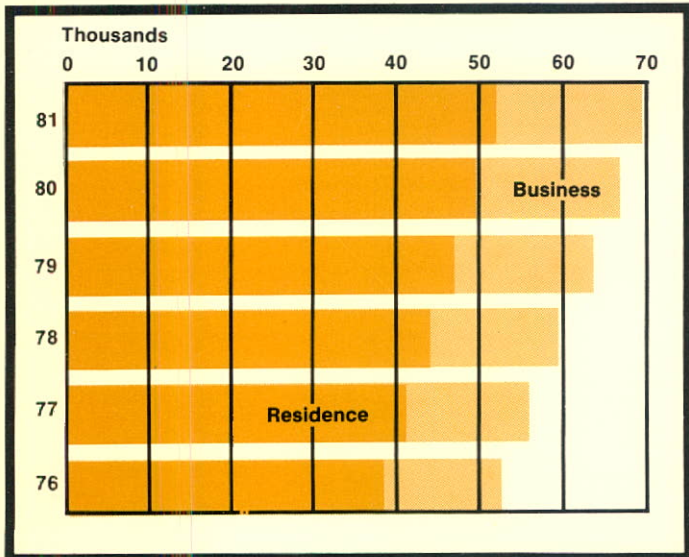
Construction Program Expenditures



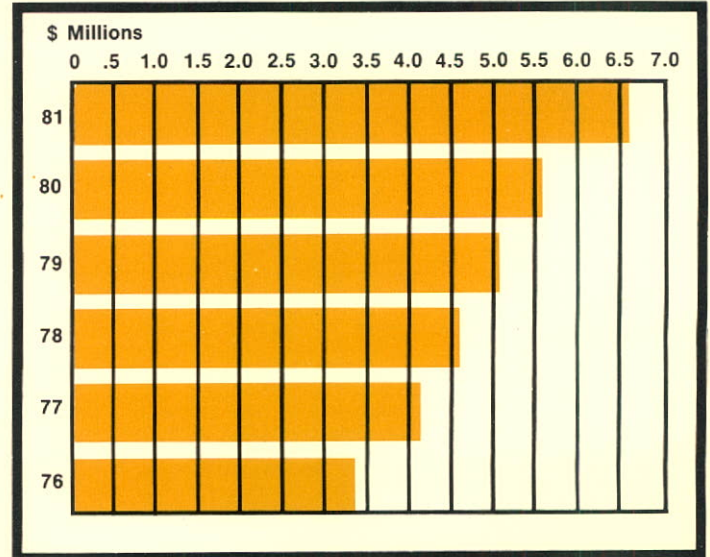
Telecommunications Property per Telephone



Telephones in Service



Salaries and Wages



Island
Tel