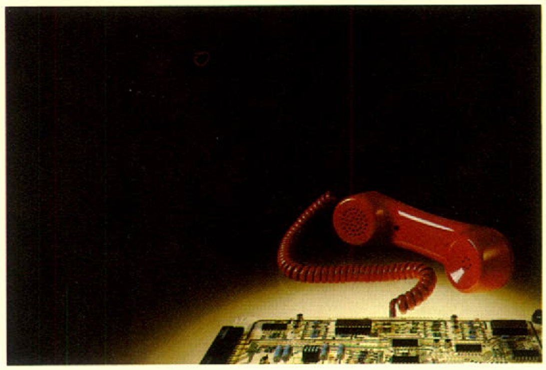
QUÉBEC-TÉLÉPHONE

ANNUAL REPORT 1980

Front cover

The advent of digital mode communication is ushering in a whole new era in telephone technology that will substantially increase the capacity and operational flexibility of switching systems. The use of computers and multiplexing techniques by coded pulses will ensure increased reliability and better interfacing of telecommunications networks.



Québec-Téléphone today

Since 1927 Québec-Téléphone has gradually expanded its territory and now covers more than 272,000 square kilometers - 40% of the inhabited area of Québec - with telecommunications services. Its one-half million people reside in 347 municipalities on the outskirts of Québec City and in the Lower St. Lawrence, Gaspé and North Shore regions and are serviced by 136 telephone exchanges in all.

The Company has 2,195 employees, generates $112.0 million in annual revenues, maintains 276,870 telephones in service and has telecommunications property worth some $394.6 million.

Québec-Téléphone's personnel has professional expertise in fields other than conventional telephone service too: voice and data transmission, radio and television broadcasting, cable T.V. circuit leasing, mobile radio communications and paging systems.

Québec-Téléphone is the leading telecommunications company under the jurisdiction of the Régie des services publics of Québec. Its two major common shareholders are La Compagnie de Téléphone Anglo-Canadienne (53.1%) and Caisse de dépôt et placement du Québec (14.8%).

Report in Brief

	1980	1979	1978
Financial (thousands of dollars)			
Operating revenues	**$ 112,000**	$ 101,303	$ 84,136
Operating expenses	**77,378**	69,082	56,761
Salaries and benefits	**44,033**	39,645	33,422
Net income applicable to Common shares	**9,875**	9,020	7,496
Common share dividends	**6,444**	5,875	5,119
Funds used for Construction	**41,364**	35,632	45,769
Telecommunications property, at cost[1]	**394,648**	361,496	341,954
Shareholders items			
Earnings per Common share	**$ 2.82**	$ 2.72	$ 2.49
Dividends declared per Common share	**$ 1.84**	$ 1.77	$ 1.70
Common equity per Common share[1]	**$ 20.44**	$ 19.16	$ 18.21
Per cent return on average Common share equity	**14.5%**	14.6%	14.0%
Average number of Common shares	**3,502,114**	3,318,706	3,010,975
Number of Common shareholders[1]	**2,815**	1,876	1,878
Other statistics			
Telephone gain for the year	**11,533**	11,483	12,872
Telephones in service[1]	**276,870**	265,337	253,854
Toll messages (in thousands)	**29,656**	27,929	26,015
Number of employees[1]	**2,195**	2,209	2,199

1. Year-end

54th Annual Directors' Report

Although Québec-Téléphone's growth was relatively moderate in 1980, a sustained effort by management personnel, combined with an efficient use of human, financial and technological resources, enabled the Company to cushion the adverse effects of an economic situation dominated by high inflation and unemployment.

Operating revenues climbed 10.6% from $101.3 million in 1979 to $112.0 million in 1980. This increase is mainly due to the addition of 11,533 telephones and the 6.2% growth in the number of long-distance calls.

In 1980, the rate of return on average common share equity was 14.5% compared to 14.6% last year. Earnings per common share amounted to $2.82, compared to $2.72 in 1979, taking into account a 5.5% increase in the average number of common shares outstanding.

Rate Adjustment

Québec-Téléphone's continued efforts to improve its efficiency and limit the increase in operating expenses could not entirely offset in 1980 the impact of higher interest rates and taxes, and ever-growing labour, energy, equipment and material costs.

In order to secure a more equitable operating base, the Company applied to the Régie des services publics of Québec on August 4, 1980 for a rate adjustment. Québec-Téléphone asked for $11.3 million (9.4%) in increased revenues for 1981 and $7.1 million (5.1%) for 1982. These increases would allow the Company to sustain the pace of its service improvement and network modernization programs.

Management

Québec-Téléphone's new associate member status in the TransCanada Telephone System (TCTS), the result of a great deal of time and effort, will enable the Company to share in planning and developing trans-Canada communications networks and participate in choosing products and services for future marketing.

With a view to adjusting to the rapid changes in its sector, the Company set up an administrative unit entrusted with the developing of strategies designed to maintain its leadership position in the Québec telecommunications industry.

In the Operations Division, staff from the Switching, Customer Services and Outside Plant departments were linked to a new vertical management structure in 1980. This marked the completion of Phase 2 of the restructuring program launched during the previous year to promote closer contact with subscribers and help the Company adapt to ever-changing technology.

Board of Directors

John Jay Douglas, Vice Chairman, General Telephone & Electronics Corporation, up to his retirement on October 1, 1980, resigned as a member of our Board of Directors as at November 4, 1980. Our Company is indebted to Mr. Douglas for his invaluable support and his entire cooperation during his 14 years as a member of the Board of Directors of Québec-Téléphone.

James L. Johnson, Group Vice President - Telephone Operating Group, GTE Service Corporation, was elected member of the Board of Directors of Québec-Téléphone on November 4, 1980.

Services

A Mechanized Directory Assistance System serving the North Shore and St. Lawrence Regions was introduced in the Rimouski Toll Centre. This innovation reduces operator research time, thus providing information to subscribers faster and more conveniently.

Québec-Téléphone uses professional polling methods to obtain customer feedback, as part of its program to provide continuous analysis of telephone service. Moreover, an intensive campaign was conducted during the year to inform subscribers of lower long-distance rates in off-peak hours.

Labour Relations

Bargaining sessions were held during the year on the renewal of a number of collective agreements.

Three locals previously represented by the International Brotherhood of Electrical Workers were certified by the ministère du Travail et de la Main-d'oeuvre of Québec on October 24, 1980 as locals of the Interprovincial Brotherhood of Electrical Workers.

Moreover, 467 technical and professional sector employees were certified under the name of the Syndicat des Employés d'Administration, de Services et d'Ingénierie de Québec-Téléphone. The Company is contesting the membership of some 150 employees whom it regards as management representatives and not as employees within the meaning of the Labour Code.

Growth

The expansion and improvement of the Company's telecommunications property required $42.8 million in additional gross capital expenditures. Those investments were made for new switching equipment, local and long-distance circuits ($13.8 million), outside plant development ($11.0 million), purchase and connection of subscriber equipment ($11.2 million), construction and improvement of land and buildings ($4.1 million), and acquisition of furniture, office and data-processing equipment, vehicles and specialized tools ($2.7 million).

Within the scope of network modernization, two Digital Multiplex Switching Systems were installed at year-end in the Saint-Flavien and Chandler exchanges. Québec-Téléphone is among the first firms in Canada to introduce this system into its service infrastructure. This new generation of technology has given rise throughout the Company to a major renewal in network control and maintenance methods.

In conclusion, Québec-Téléphone's growth is based on a combination of several factors: unceasing effort on the part of all employees; confidence on the part of shareholders and other economic partners; and access to a state-of-the-art technology that has plenty of room for further innovation. Only through intelligent use of these resources will we be able to continue improving our service to the community.

On behalf of the
Board of Directors

Raymond Sirois

Raymond Sirois
Chairman of the Board
February 3, 1981

The computer ensures constant monitoring of the switching system.

Financial Review

Earnings and Dividends

In 1980, net income applicable to common shares increased by 9.5% over 1979 to $9.9 million from $9.0 million and was mainly due to higher revenues. Also contributing to this increase were the reduction of short-term loans following an issue of capital stock in the fourth quarter as well as lower dividend payments to preferred shareholders after conversion of convertible preferred shares into common shares and redemption of preferred shares for sinking fund purposes. Earnings per common share were $2.82 compared with $2.72 in 1979, taking into account a 5.5% increase in the average number of common shares outstanding. It is worth noting that the 1980 results have been affected by the temporary 5% federal surtax, which became effective January 1, 1980, and by the increase in provincial corporate income tax rates which rose from 12% to 13% on March 25, 1980. The rate of return on average common share equity reached 14.5% in 1980 as compared with 14.6% in 1979.

Regular quarterly dividends were paid to all preferred and subordinate preferred shareholders; quarterly dividends of $0.46 per share were paid to common shareholders of record in each quarter of 1980.

Operating revenues and expenses

Due to a continued growth in long-distance revenues, an increase in the number of telephones in service, and the rate adjustment of April 1, 1979 which was in force for all fiscal year 1980, operating revenues increased 10.6% to $112.0 million from $101.3 million. More specifically, local service revenues rose 7.9% to $40.7 million, while long-distance revenues amounted to $70.4 million, a 12.3% increase over 1979. During the year, 11,533 telephones were added to telecommunications property, bringing the total number of telephones in service at December 31, 1980 to 276,870. Despite weak economic growth, the number of long-distance calls handled during the last twelve-month period reached 29.7 million or a 6.2% increase over the same period in 1979.

calls ↑ 6.2%

Earnings and dividends per common share (Dollars)

		Dividends declared	Reinvested earnings
1976	2.16	1.55	0.61
1977	2.59	1.625	0.965
1978	2.49	1.70	0.79
1979	2.72	1.77	0.95
1980	2.82	1.84	0.98

Per cent return on average common share equity (%)

1976	13.3
1977	15.5
1978	14.0
1979	14.6
1980	14.5

Operating revenues (Millions of dollars)

		Long-distance service	Local service and miscellaneous
1976	64.7	40.8	23.9
1977	77.2	48.1	29.1
1978	84.1	51.9	32.2
1979	101.3	62.7	38.6
1980	112.0	70.4	41.6

Operating expenses, excluding depreciation and general taxes, increased to $47.8 million, a 13.6% rise over the $42.0 million in 1979. Despite a sustained effort by the employees and the automatization and modernization programs which are agressively pursued by the Company to lower costs, the adverse effects of inflation contributed to the excess of expense growth over revenue growth.

Financing

On October 1, 1980, the Company issued 600,000 additional common shares at a price of $22.25 per share in order to meet its capital requirements. This issue brought in net proceeds of $12.9 million which were used to reduce short-term bank indebtedness incurred to partially finance the Company's construction and expansion program. Of the Company's total capital requirements for new construction during the year, 72.8% were generated from operations.

During the next five years, the Company plans to spend $274 million to meet the demand for telecommunications services and to continue to expand and modernize its installations. Forecasted external capital requirements to fulfill these programs will be around $72 million.

Dividend Reinvestment

The Common Shareholders' Dividend Reinvestment and Share Purchase Plan became effective on April 1, 1980. During the nine months in which the Plan was in force, the Company issued 18,098 common shares and received $293,637 in reinvested dividends and $103,695 in cash payments.

As at January 2, 1981, some 9.0% of the Company's common shareholders, representing 17.0% of the common shares outstanding, had participated in the Plan.

Telephones in service (Thousands)

	Total	Residence	Business
1976	227	161	66
1977	241	171	70
1978	254	180	74
1979	265	188	77
1980	277	197	80

Gross capital expenditures (Millions of dollars)

1976	32.5
1977	39.0
1978	46.4
1979	38.0
1980	42.8

Telecommunications property per telephone (Dollars)

1976	1,186
1977	1,250
1978	1,347
1979	1,362
1980	1,425

Statement of Income and Reinvested Earnings
for the year ended December 31

QUEBEC-TELEPHONE

	1980	1979
Operating revenues		
Local service	$ 40,687,453	$ 37,709,850
Long distance service	70,436,167	62,709,506
Miscellaneous	1,337,437	1,238,463
Less: uncollectible operating revenues	460,703	354,650
	112,000,354	101,303,169
Operating expenses (Note 4)		
Maintenance	19,584,151	17,232,620
Depreciation	22,469,973	20,838,869
Traffic	3,939,791	3,903,158
Customer services and marketing	6,588,953	5,732,072
Administrative and other expenses	15,695,041	12,942,652
Pension plans and other employee benefits (Note 5)	1,966,679	2,229,749
General taxes (Note 6)	7,132,868	6,203,156
	77,377,456	69,082,276
Operating income	34,622,898	32,220,893
Other income (Note 7)	1,176,597	1,043,560
Income before interest charges and income taxes	35,799,495	33,264,453
Interest charges		
Interest on long-term debt	11,266,151	11,283,577
Interest on short-term notes	1,205,868	893,516
Amortization of discount and expenses on long-term debt	170,016	170,247
	12,642,035	12,347,340
Income before income taxes	23,157,460	20,917,113
Income taxes (Note 12)	11,517,343	10,015,345
Net income	11,640,117	10,901,768
Preferred share and Subordinate Preferred share dividends	1,765,467	1,881,947
Net income applicable to Common shares	9,874,650	9,019,821
Reinvested earnings at beginning of year	27,485,906	24,340,984
	37,360,556	33,360,805
Common share dividends	6,443,935	5,874,899
Commission and expenses on sale of shares	204,800	—
	6,648,735	5,874,899
Reinvested earnings at end of year	$ 30,711,821	$ 27,485,906
Earnings per Common share	$ 2.82	$ 2.72
Dividends declared per Common share	$ 1.84	$ 1.77
Average number of Common shares	3,502,114	3,318,706

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

Balance Sheets
December 31

QUEBEC-TELEPHONE

ASSETS

		1980		1979
Telecommunications property, at cost (Notes 9 and 10)				
Buildings, plant and equipment	29487	$377,072,362		$347,585,303
Less: accumulated depreciation	14805	107,887,868		93,083,461
		269,184,494		254,501,842
Land		1,613,807		1,495,772
Property under construction		7,421,297		4,019,687
Material and supplies, at average cost	3674	8,540,485		8,395,693
		17 575 589		13 901 152
		286,760,083		268,412,994
Investment in Common shares of Télésat Canada, at cost		600,000		600,000
Current assets				
Cash		273,123		949,082
Accounts receivable		12,947,465		12,185,480
Prepaid expenses		689,311		620,259
		13,909,899	155	13,754,821
		22 455		
Deferred charges				
Unamortized discount and expenses on long-term debt		1,508,129		1,678,145
Other		1,007,499		321,949
		2,515,628		2,000,094
Total assets		$303,785,610		$284,767,909

On behalf of the Board of Directors, February 3, 1981:

Raymond Sirois

Raymond Sirois, Director

Hervé Belzile

Hervé Belzile, Director

QUEBEC-TELEPHONE

CAPITALIZATION AND LIABILITIES

	1980	1979
Capitalization (per accompanying statement)		
Common share equity	$ 81,315,660	$ 63,863,748
Subordinate Preferred shares	241,918	265,700
Preferred shares	24,126,058	25,524,630
Long-term debt	115,641,070	116,018,918
	221,324,706	205,672,996
Current liabilities		
Short-term debt (Note 11)	6,791,650	8,710,838
Accounts payable:		
Affiliates	219,221	170,896
Other	7,085,911	5,234,608
Income taxes payable (Note 12)	1,312,983	3,406,085
Dividends payable	2,259,539	1,991,076
Accrued interest	2,293,947	2,286,012
Other accrued liabilities	4,042,498	3,325,019
Unearned revenues	2,058,084	1,888,127
	26,063,833	27,012,661
	19272	~~26 8302~~ 18302
Deferred income taxes (Note 12)	56,397,071	52,082,252

(976)

Total capitalization and liabilities	$303,785,610	$284,767,909

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

Statement of Capitalization (Note 2)

December 31

QUEBEC-TELEPHONE

		1980		1979	
Capitalization					
Common share equity					
Common shares without nominal or par value		$ 50,603,839		$ 36,377,842	
Authorized	5,000,000				
Outstanding (1979: 3,333,384)	3,979,035				
Reinvested earnings (see accompanying statement)	1 010 965	30,711,821		27,485,906	
		81,315,660	37%	63,863,748	31%
Subordinate Preferred shares of the par value of $15 each					
Authorized	1,000,000				
Outstanding (1979: 16,591)	15,106				
$1.68 Cumulative Redeemable Convertible, Series B		226,590		248,865	
Premium on Subordinate Preferred shares, Series B		15,328		16,835	
		241,918	–%	265,700	–%
Cumulative Redeemable Preferred shares of the par value of $20 each					
Authorized	1,682,898				
Outstanding (1979: 1,337,951)	1,269,103				
Series					
1955 5% (sinking fund)		884,680		896,680	
1956 5% (sinking fund)		432,260		458,260	
1965 4 3/4%		8,000,000		8,000,000	
1973 7 3/4% (purchase fund)		4,940,000		5,054,000	
1975 9 3/4% (sinking fund)		3,000,000		3,600,000	
1977 7% (sinking fund)		8,125,120		8,750,080	
Less: sinking fund payments		1,256,002		1,234,390	
		$ 24,126,058	11%	$ 25,524,630	13%

QUEBEC-TELEPHONE

					1980		1979	
				Issued				
Long-term debt								
First Mortgage Bonds								
Series	Rate	Maturing						
F	5⅝%	December 1,	1984	$ 3,000,000 (U.S.)	$ 2,464,868		$ 2,513,516	
G	5½%	October 15,	1982	5,000,000	3,457,000		3,567,000	
H	5½%	June 1,	1987	6,000,000	4,355,000		4,455,000	
I	6 %	October 15,	1990	5,000,000	4,625,000		4,700,000	
J	7 %	January 2,	1989	5,000,000	5,000,000		5,000,000	
L	9⅛%	April 15,	1991	7,500,000	389,000		404,000	
M	8¾%	May 15,	1992	7,500,000	7,500,000		7,500,000	
N	8½%	March 15,	1993	8,500,000	8,500,000		8,500,000	
O	9¾%	July 1,	1994	16,500,000 (U.S.)	15,920,850		15,920,850	
P	11⅞%	October 15,	1995	15,000,000	15,000,000		15,000,000	
Q	10⅝%	December 15,	1996	20,000,000	20,000,000		20,000,000	
R	10½%	December 2,	1983	25,000,000	25,000,000		25,000,000	
Less: sinking fund payments					220,648		266,448	
					111,991,070		112,293,918	
General Mortgage Bonds								
Series	Rate	Maturing						
D	5¾%	April 1,	1983	5,000,000	3,715,000		3,800,000	
Less: sinking fund payment					65,000		75,000	
					3,650,000		3,725,000	
					115,641,070	52%	116,018,918	56%
Total capitalization					$221,324,706	100%	$205,672,996	100%

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

Statement of Source of Funds used for Construction

for the year ended December 31

QUEBEC-TELEPHONE

	1980	1979
Source of Funds		
From operations		
Net income applicable to Common shares	$ 9,874,650	$ 9,019,821
Expenses not requiring a cash outlay:		
Depreciation	22,469,973	20,838,869
Deferred income taxes (Note 12)	4,158,609	3,990,383
Other expenses	31,495	646,732
Less: Common share dividends	6,443,935	5,874,899
	30,090,792	28,620,906
Net proceeds from financing		
Common shares	13,997,415	450,416
Change in short-term notes	(1,885,000)	1,400,000
Less: redemptions of Preferred shares and long-term debt	1,810,608	1,769,108
	10,301,807	81,308
Other		
Change in working capital other than short-term debt (Note 13)	815,282	2,818,763
Increase in deferred income taxes - prior years (Note 12)	156,210	87,457
Net proceeds from sale of a coaxial cable network	–	4,023,637
	971,492	6,929,857
	$41,364,091	$35,632,071
Funds used for Construction		
Gross capital expenditures	$42,786,055	$38,024,918
Less: charges not requiring a cash outlay	1,421,964	2,392,847
	$41,364,091	$35,632,071

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

Notes to Financial Statements
for the years ended December 31, 1980 and 1979

1. Summary of Significant Accounting Policies

The following summary of significant accounting policies is included in order to facilitate the reading of the financial statements. The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and in conformity with prevailing practices in the Canadian telecommunications industry.

Earnings per Common Share
Earnings per Common share are calculated using the quarterly weighted average number of outstanding Common shares eligible for quarterly dividend.

Principles of Consolidation
These financial statements are consolidated and include the accounts of La Compagnie de Téléphone Bonaventure et Gaspé, Limitée, a wholly-owned subsidiary, which is presently inactive.

Telecommunications Property
Telecommunications property is recorded at original cost and includes certain costs related to pension, payroll taxes, funds used during construction and general overheads applicable to the construction activity. In conformity with the prevailing practice in the Canadian telecommunications industry, the Company charges to operating expenses the costs of maintenance of property and replacement and renewals of items that are not units of property. Additions, replacements and renewals of property considered to be units of property are charged to telecommunications property accounts. The original cost of telecommunications property retired is charged to accumulated depreciation or transferred to material and supplies when such property can be re-used; therefore, no gain or loss on retirement is recognized in the statement of income.

Depreciation
Depreciation is computed on the straight-line method using rates based on the estimated useful lives of the assets. The composite depreciation rate was 6.37% in 1979 and 6.49% in 1980.

Investment
The investment in Common shares of Télésat Canada is recorded at original cost. Its estimated value under the equity method as at December 31, 1980 was $976,000.

Amortization of Discount and Expenses on Long-Term Debt
The discount and expenses on long-term debt are amortized over the life of each series of bonds and the amortization is included in interest charges.

Deferred Income Taxes
Deferred income taxes result from the difference between depreciation of the telecommunications property charged in the account and the capital cost allowance claimed for tax purposes and the deduction for tax purposes of the allowance for funds used during construction and other capitalized expenditures.

Long Distance Service Revenues
The Company receives part of its long distance service revenues pursuant to agreements with other telecommunications companies for services provided jointly. The Company's actual share of the joint business cannot be specifically determined before the completion of settlement studies. In management's opinion, such revenues are reasonable estimates of the amounts ultimately accruing to the Company.

Translation of Foreign Currencies
Current and long-term debt transactions completed in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the respective transaction date except for long-term debt issued before June 1, 1970 which has been translated at the rate of exchange prevailing before the Canadian dollar was floated.

Exchange gains or losses are reflected in the statement of income as they occur.

2. Capitalization

Capital Stock
During 1980, transactions related to the capital stock of the Company were as follows:

	Common	Subordinate Series B	Preferred
Shares outstanding at December 31, 1979	3,333,384	16,591	1,337,951
Issued	644,166	—	—
Redeemed	—	—	(68,848)
Converted	1,485	(1,485)	—
Shares outstanding at December 31, 1980	3,979,035	15,106	1,269,103

Common Shares
On October 1, 1980, 600,000 Common shares were issued for cash at a price of $22.25 per share. During the year 1980, 1,485 $1.68 Cumulative Redeemable Convertible Subordinate Preferred shares Series B were converted into 1,485 Common shares. Also, 44,166 Common shares amounting to $852,215 were issued in 1980 under the Common Shareholders' Dividend Reinvestment and

Share Purchase Plan and under the Employees' Stock Purchase Plan.

As of December 31, 1980, 165,484 Common shares were reserved for conversion of the Convertible Subordinate Preferred shares and for issuance under the Common Shareholders' Dividend Reinvestment and Share Purchase Plan and the Employees' Stock Purchase Plan.

Subordinate Preferred Shares
The $1.68 Cumulative Redeemable Convertible Subordinate Preferred shares Series B are convertible at the option of the holders thereof at any time on or before June 30, 1986, into one Common share for each share so converted.

Since more than 85% of the original issue has now been converted into Common shares, the Company has the option at any time to redeem all or part of the outstanding Series B shares at the then current redemption price.

Preferred Shares
In order to meet the sinking fund requirements for the 1955 and 1956 Series, payments for the next five years will be as follows: $31,042 in 1981 and $50,000 for each of the years 1982, 1983, 1984 and 1985.

In addition, the Company must redeem each year 30,000 Preferred shares Series 1975, at par value and make all reasonable efforts to redeem each year 9,000 Preferred shares Series 1973, at a price not exceeding $20.

The Company must call for redemption and redeem 31,248 Preferred shares Series 1977 on October 1, in each of the years 1981 to 1985 inclusive, and the remaining 250,016 Preferred shares Series 1977 on October 1, 1986 at their par value.

Long-Term Debt
The Trust Deeds of the Company require the use of a sinking fund or the pledge of additional unmortgaged property for each of the series as follows:

a) Series F, G, H and I, First Mortgage and Series D, General Mortgage:
Annual payment of 1 1/2% of the principal amount of the bonds issued.

b) Series J, M, N, O, P, Q and R, First Mortgage:
Annual payment of 1% or additional mortgage of 1 1/2% of the principal amount of bonds issued. During the previous years, the Company used the latter alternative.

c) Series L, First Mortgage:
Annual payment of $8,960 representing 2% of the aggregate principal amount of bonds issued and not prepaid on April 15, 1975.

To meet the sinking fund requirements and the debt retirements, the following payments will have to be made during the next five years:

Year ending December 31	Requirements: Sinking fund payments	Requirements: Debt retirements
	(thousands of dollars)	
1981	$286	$ —
1982	292	3,425
1983	223	28,575
1984	174	2,319
1985	174	—

As of December 31, 1980, the principal amount of the Series F and Series O which principal and interest are payable in United States funds amounted to $2,464,868 and $15,920,850 respectively. At the rate of exchange prevailing on December 31, 1980, the Series F would stand at $2,721,864 and the Series O at $19,697,700.

First Mortgage Bonds of all series are secured equally and rateably under a fixed and specific hypothec, mortgage, pledge, charge, cession and transfer of/and on all immovable property, such as buildings, equipment, telephone lines and apparatus, rights-of-way and similar rights and a floating charge on all other assets. The security provided for the General Mortgage Bonds is similar but subordinated to that provided for the First Mortgage Bonds.

3. Construction Program

The cost of the Company's program for improvements and construction of new plant and facilities in 1981, as now planned, is estimated at $50.9 million, including the cost of re-usable material and equipment; purchase commitments amounting to approximately $7.5 million have been made in connection therewith as of December 31, 1980.

4. Operating Expenses

Traffic expenses represent mainly operators' wages incurred in handling telephone calls; customer services and marketing expenses represent costs incurred in business relations with customers, advertising and directories; administrative and other expenses include principally accounting, data processing, budget, internal auditing and engineering costs incurred for planning and administrative purposes.

5. Pension Plans

The Company maintains funded pension plans for the benefit of its employees and conforms to the requirements of the Québec Supplemental Pension Plans Act. The Company requires an annual actuarial study.

The resulting surplus from the actuarial study as of December 31, 1979, issued in April 1980 and filed with the Régie des rentes du Québec, contributed to reduce the unrecorded estimated liability for past services from $3,524,889 at the end of 1979 to $707,602 as of December 31, 1980. The estimated liability for past services together with interest thereon will be amortized by annual instalments of $77,260 to December 31, 1993.

The cost of pension plans charged to operating expenses was $1,222,000 for the year ended December 31, 1980 and $1,656,000 for 1979.

6. General Taxes

General taxes were as follows:

	1980	1979
	(thousands of dollars)	
Tax on capital	$ 573	$ 702
Tax based on the Real Estate Assessment Act	4,834	3,995
Other real estate taxes	395	385
Payroll taxes	1,570	1,391
Other taxes	84	44
	7,456	6,517
Less: portion capitalized	323	314
	$7,133	$6,203

7. Other Income

This account includes an allowance for the cost of funds used during construction. For the year ended December 31, 1980 $505,482 ($377,935 in 1979) was applied to the telecommunications property at the rate of 10.94% (10.34% in 1979) and credited to other income. This rate is computed using the cost of capital for the preceding year.

8. Remuneration of Directors and Officers

The total direct remuneration of the directors and officers was $549,248 in 1980 ($441,345 in 1979).

9. Long-term Leases

The Company has no material contingent liability with respect to long-term leases.

10. Accumulated Depreciation

Changes in the accumulated depreciation account were as follows:

	1980	1979
	(thousands of dollars)	
Balance at beginning of year	$ 93,083	$83,826
Depreciation charged to operations	22,470	20,839
Depreciation on motor vehicles, tools and others	929	1,060
Less: telecommunications property retired (net value)	8,594	12,642
Balance at end of year	$107,888	$93,083

11. Short-Term Debt

At December 31, short-term debt included:

	1980	1979
	(thousands of dollars)	
Short-term notes		
Bank	$5,250	$4,135
La Compagnie de Téléphone Anglo-Canadienne	—	3,000
	5,250	7,135
Sinking fund payments on Cumulative Redeemable Preferred shares	1,256	1,234
Sinking fund payments on long-term debt	286	342
	$6,792	$8,711

The average interest rate on short-term notes was 13.44% in 1980 and 12.07% in 1979.

The Company's policy is to utilize short-term financing mainly to finance its construction program pending long-term financing. In computing the rate of return on average invested capital and interest as a percentage of average debt, short-term debt is included in total capitalization.

12. Income Taxes

The Company has been assessed by the Department of National Revenue and by the Minister of Revenue of Québec up to and including the year ended December 31, 1979. The Company will be reassessed by the Minister of Revenue of Québec following filing notices of objection for the years 1972 and 1975. No material adjustments affecting reported income are expected.

Current and deferred income taxes for the year were as follows:

	1980	1979
	(thousands of dollars)	
Current	$ 7,358	$ 6,025
Deferred	4,159	3,990
	$11,517	$10,015

The reconciliation of the income tax accounts shown in the balance sheet is presented below:

	Current income taxes		Deferred income taxes	
	1980	1979	1980	1979
	(thousands of dollars)			
Balance at beginning of year	$3,406	$ 32	$52,082	$48,004
Payments	(9,082)	(2,665)	—	—
Provision	7,358	6,025	4,159	3,990
Prior years' adjustments	(369)	14	156	88
Balance at end of year	$1,313	$3,406	$56,397	$52,082

13. Change in Working Capital other than Short-Term Debt

The change in working capital is accounted for by:

	1980	1979
	(thousands of dollars)	
Increase (decrease) in current assets		
Cash	$ (676)	$ 296
Accounts receivable	762	1,724
Prepaid expenses	69	173
(Increase) decrease in current liabilities		
Accounts payable and other accrued liabilities	(3,063)	(1,637)
Income taxes payable	2,093	(3,374)
Increase (decrease) in working capital	$ (815)	$(2,818)

14. Related Party Transactions

GTE International Incorporated, GTE Service Corporation, La Compagnie de Téléphone Anglo-Canadienne, AEL Microtel Limited, GTE Sylvania Canada Limited and Dominion Directory Company Limited and their respective subsidiaries are direct or indirect affiliates of the Company.

The Company policy is to purchase high-quality goods and services at the best possible price. Consequently, no advantage is given to affiliates and transactions with these are made on a competitive basis, that is at the same or better conditions which would have prevailed if the parties had not been affiliated.

During 1980, the Company has paid in dividends, goods and services the sum of $68.8 million of which $7.5 million to affiliates. The Company has also paid to La Compagnie de Téléphone Anglo-Canadienne interests on short-term notes amounting to $0.4 million; the rate of interest on these notes being the same as on promissory notes.

Management's Report

Management is responsible for the integrity and objectivity of data in the financial statements and complementary notes to the annual report.

Fully aware of this responsibility, Québec-Téléphone maintains elaborate systems of internal controls to ensure that the books and records supporting the financial statements present fairly all the transactions in accordance with generally accepted accounting principles and to ensure compliance with policies and administrative rules of conduct. The systems of internal controls are strengthened through periodic examinations conducted by the internal auditors and through the examination of financial statements by the external auditors, Arthur Andersen & Cie and Samson, Bélair & Associés, Chartered Accountants.

The Board of Directors pursues its responsibility for these financial statements principally through its Audit Committee which meets periodically with management as well as with the internal and external auditors who have full and free access to the Audit Committee, and meet with it, with and without management being present, to discuss auditing and financial reporting matters.

On behalf of management,

Simon Soucy

Simon Soucy
Vice President - Finance
and Treasurer

Raymond Sirois

Raymond Sirois
President and Chief
Executive Officer

Auditors' Report

To the Shareholders of Québec-Téléphone:

We have examined the consolidated balance sheets and consolidated statements of capitalization of Québec-Téléphone (a Québec company) and subsidiary as of December 31, 1980 and 1979, and the related consolidated statements of income and reinvested earnings and source of funds used for construction for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Québec-Téléphone and subsidiary as of December 31, 1980 and 1979, and the results of their operations and the source of funds used for construction for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis during the periods.

Samson, Bélair & Associés

Samson, Bélair & Associés
Chartered Accountants

Arthur Andersen & Cie

Arthur Andersen & Cie
Chartered Accountants

January 27, 1981

Five Years of Progress

QUEBEC-TELEPHONE

	1980	1979	1978	1977	1976
Selected results and reinvested earnings items (thousands of dollars)					
Operating revenues	$ 112,000	$ 101,303	$ 84,136	$ 77,191	$ 64,692
Operating expenses (excluding depreciation and general taxes)	47,775	42,040	34,137	31,156	27,254
Depreciation of telecommunications property	22,470	20,839	18,514	16,240	12,971
General taxes	7,133	6,203	4,110	3,405	3,073
Operating expenses	77,378	69,082	56,761	50,801	43,298
Interest charges	12,642	12,347	10,936	10,846	9,450
Income taxes	11,517	10,015	8,718	8,045	6,418
Net income	11,640	10,902	9,590	8,643	6,919
Dividends on Preferred shares and Subordinate Preferred shares	1,765	1,882	2,094	2,332	1,823
Net income applicable to Common shares	9,875	9,020	7,496	6,311	5,096
Common share dividends	6,444	5,875	5,119	3,957	3,655
Reinvested net income	3,431	3,145	2,224	2,306	1,312
Selected balance sheet items (thousands of dollars)					
Telecommunications property, at cost	$ 394,648	$ 361,496	$ 341,954	$ 301,140	$ 268,687
Accumulated depreciation	107,888	93,083	83,826	69,811	57,716
Capitalization	221,325	205,673	203,842	169,107	138,463
Common share equity	81,316	63,864	60,225	45,668	38,945
Preferred shares and Subordinate Preferred shares	24,368	25,790	27,225	31,682	27,381
Long-term debt	115,641	116,019	116,392	91,757	72,137
Short-term debt	6,792	8,711	7,316	17,019	32,253
Financial statistics					
Average number of Common shares	3,502,114	3,318,706	3,010,975	2,431,980	2,358,103
Earnings per Common share	$ 2.82	$ 2.72	$ 2.49	$ 2.59	$ 2.16
Dividends declared per Common share	$ 1.84	$ 1.77	$ 1.70	$ 1.625	$ 1.55
Per cent net income applicable to Common shares paid in dividends	65.3%	65.1%	68.3%	62.7%	71.7%
Value of Common shares issued					
Equity per Common share[1]	$ 20.44	$ 19.16	$ 18.21	$ 17.32	$ 16.51
Market value (high-low)[2]	$ 23-18	$ 26-21½	$ 24½-20½	$ 21-16½	$ 18-14½
Per cent return					
On average Common share equity	14.5%	14.6%	14.0%	15.5%	13.3%
On average invested capital[3]	11.0%	10.9%	10.3%	10.7%	9.9%
Interest in percentage of average debt[3]	10.1%	10.0%	9.5%	9.9%	9.2%
Per cent long-term debt to total capitalization	52%	56%	57%	54%	53%
Times interest earned before taxes	3.06	2.85	3.06	2.93	3.06
Number of Common shareholders	2,815	1,876	1,878	1,877	1,901
Other statistics					
Number of employees[1]	2,195	2,209	2,199	2,081	2,054
Salaries and benefits (thousands of dollars)	$ 44,033	$ 39,645	$ 33,422	$ 30,398	$ 27,185
Funds used for construction (thousands of dollars)	$ 41,364	$ 35,632	$ 45,769	$ 37,069	$ 31,252
Telecommunications property per telephone[1]	$ 1,425	$ 1,362	$ 1,347	$ 1,250	$ 1,186
Telephones in service[1]	276,870	265,337	253,854	240,982	226,604
Per cent Automatic Number Identification	66.2%	66.5%	64.8%	62.4%	53.5%
Toll messages (thousands)	29,656	27,929	26,015	24,265	23,184

1. Year-end.
2. Valuation day value (December 22, 1971): $13.75 per share.
3. See Note 11 to the accompanying financial statements.

Board of Directors

Hervé Belzile †
President
Alliance Compagnie mutuelle d'assurance-vie

Roger Charbonneau †
President
Laboratoires Anglo-French Limitée

Roger DeSerres *
President
Omer DeSerres Ltée

John J. Douglas
Vice Chairman of the Board
General Telephone & Electronics Corporation
(resigned as at November 4,1980)

James L. Johnson
Group Vice President - Telephone Operating Group
GTE Service Corporation
(since November 4, 1980)

Charles Mercier *
Vice President - Marketing and Customer Service
Québec-Téléphone

M. Brian Mulroney *
President
Compagnie minière I O C

Bernard Panet-Raymond * †
Executive Vice President
La Compagnie de Papier Q.N.S. Limitée

Claude Pratte, Q.C. *
Advocate

William C. Rowland
Executive Vice President - Telephone Operating Group
General Telephone & Electronics Corporation

Raymond Sirois **
President and Chairman of the Board
Québec-Téléphone

Antoine Turmel
Chairman and Chief Executive Officer
Provigo Inc.

** president of executive committee
* member of executive committee
† member of audit committee

Officers

Raymond Sirois
President and Chief Executive Officer

Charles Mercier
Vice President - Marketing and Customer Service

Jean-Marc Tremblay
Vice President - Human Resources and Legal Affairs, Secretary

Denis Mercier
Vice President - Network Engineering and Construction

Simon Soucy
Vice President - Finance and Treasurer

Henri Dionne
Vice President - Public Relations

Ghislain Bouchard
General Counsel and Assistant Secretary

General Information

Québec-Téléphone is incorporated under the laws of Québec by Letters Patent dated June 7, 1927 and is subject to the regulations of the Régie des services publics of Québec.

Major Shareholder
As at December 31, 1980, La Compagnie de Téléphone Anglo-Canadienne, 715 Victoria Square, Montréal, Québec, owned 2,113,940 Common shares of Québec-Téléphone, or 53.1% of outstanding Common shares.

Listing of Shares
Common shares, 4¾% Preferred shares, 1965 Series, 7¾% Preferred shares, 1973 Series and $1.68 Cumulative Redeemable Convertible Subordinate Preferred shares, Series B are listed on the Montréal and Toronto Stock Exchanges. The 5% Preferred shares, 1955 and 1956 Series, are listed on the Montréal Stock Exchange.

Stock Transfer Offices
Trust Général du Canada, 10 ouest, rue Saint-Jacques, Montréal, Québec, is the Registrar and Transfer Agent for all classes of shares of the Company. Compagnie Trust Royal is the Co-Transfer Agent and Registrar for the 4¾% Preferred shares, 1965 Series, at its offices in Toronto and Winnipeg, and is the Co-Transfer Agent and Registrar for the 7¾% Preferred shares 1973 Series, for the $1.68 Cumulative Redeemable Convertible Subordinate Preferred shares, Series B and for the Company's Common shares at its offices in Saint John, N.B., Toronto, Winnipeg, Regina, Calgary and Vancouver.

Trustee for Bonds
Trust Général du Canada
10 ouest, rue Saint-Jacques
Montréal, Québec

Bankers
Banque Nationale du Canada
Banque de Montréal

Subsidiary
La Compagnie de Téléphone Bonaventure et Gaspé, Limitée, New Carlisle, Québec

Annual Meeting
Your Directors appreciate the interest shown by shareholders who attend the Annual General Meetings and who participate in the discussion of the Company's affairs. This year the meeting will be held on April 14, 1981, in Rimouski, Québec. All shareholders who find it possible to attend are urged to do so.

An avenue to the future - the digital technology

Switching equipment is evolving at an increasingly fast pace. Electronic technology, which in 1965 replaced the electromechanical equipment of the 40's, is itself being supplanted by the new digital exchanges.

What is this revolution all about? Basically, we are looking at the four-step process controlled by large capacity computers: breaking up the human voice into millions of digital codes; sampling these coded pulses systematically; transmitting the data over the distances required; and reconstructing the original message accurately.

Using the new digital switching systems and transmission networks to process telephone calls will significantly increase capacity and operational flexibility and result in considerable savings on space and maintenance.

The St. Lawrence and Québec Regions will be the first to benefit from the conversion to digital technology – the technology of tomorrow, here today.

Reliability

Management

Since the creation of study and forecasting task forces in 1980, strategic planning as a management philosophy has been widely accepted throughout the Company as a collective incentive to leave no decision, no matter how unimportant, to chance, to ask all the right questions at the right times, to increase interdepartmental communications and to publicize Québec-Téléphone's expertise in its fields of operation.

Another sign of the administrative overhaul was the reorganization of the management structure in the Switching, Customer Services and Outside Plant departments. This fresh approach arose from a concern for better coordination of efforts throughout the Company in each field of expertise. Thus, administrative support staff groups now form part of the same management unit. This rationalization of human and material resources has resulted in greater specialization by personnel in their respective spheres of activity, especially in areas where an ever-growing variety of information has to be processed reliably.

Personnel

Intensive manpower planning programs have allowed the Company to further develop the potential and creative power of its employees with a view to securing competent human resources and tailoring them to foreseeable future requirements. Ample proof of this can be found in the high enrollment rates for technical and administrative training courses given throughout the year. In 1980, employees attended courses for a total of 44,231 training hours.

As a supplement to these courses, the participants were encouraged and motivated through administrative follow-up, which prompted employees to apply their newly-acquired skills in actual work situations. The Company also instituted a periodic assessment program of management potential.

Furthermore, the Employees' 1980 Stock Purchase Plan is evidence of the personnel's confidence in the Company's performance: 437 employees subscribed for a total of 60,000 shares made available under this Plan.

Service

Among the many services Québec-Téléphone offers its customers, we note the following innovations. Directory Assistance has changed – bulky telephone directories listing subscribers' numbers have been replaced by mini-computers, cathode screens and keyboards. These new reference tools enable the operator to give the user the information he needs more quickly than before. This new form of customer assistance has increased efficiency at the Rimouski Toll Centre and will be extended to the Québec Region in 1981. The resulting centralization will be more beneficial to the general public and less burdensome to the Company.

At the Switching Network Analysis Centre, remote monitoring and equipment inspection programs have been extended to improve operating efficiency. Any abnormal situation can now be detected promptly with rapid co-ordination of corrective measures and expert technical assistance.

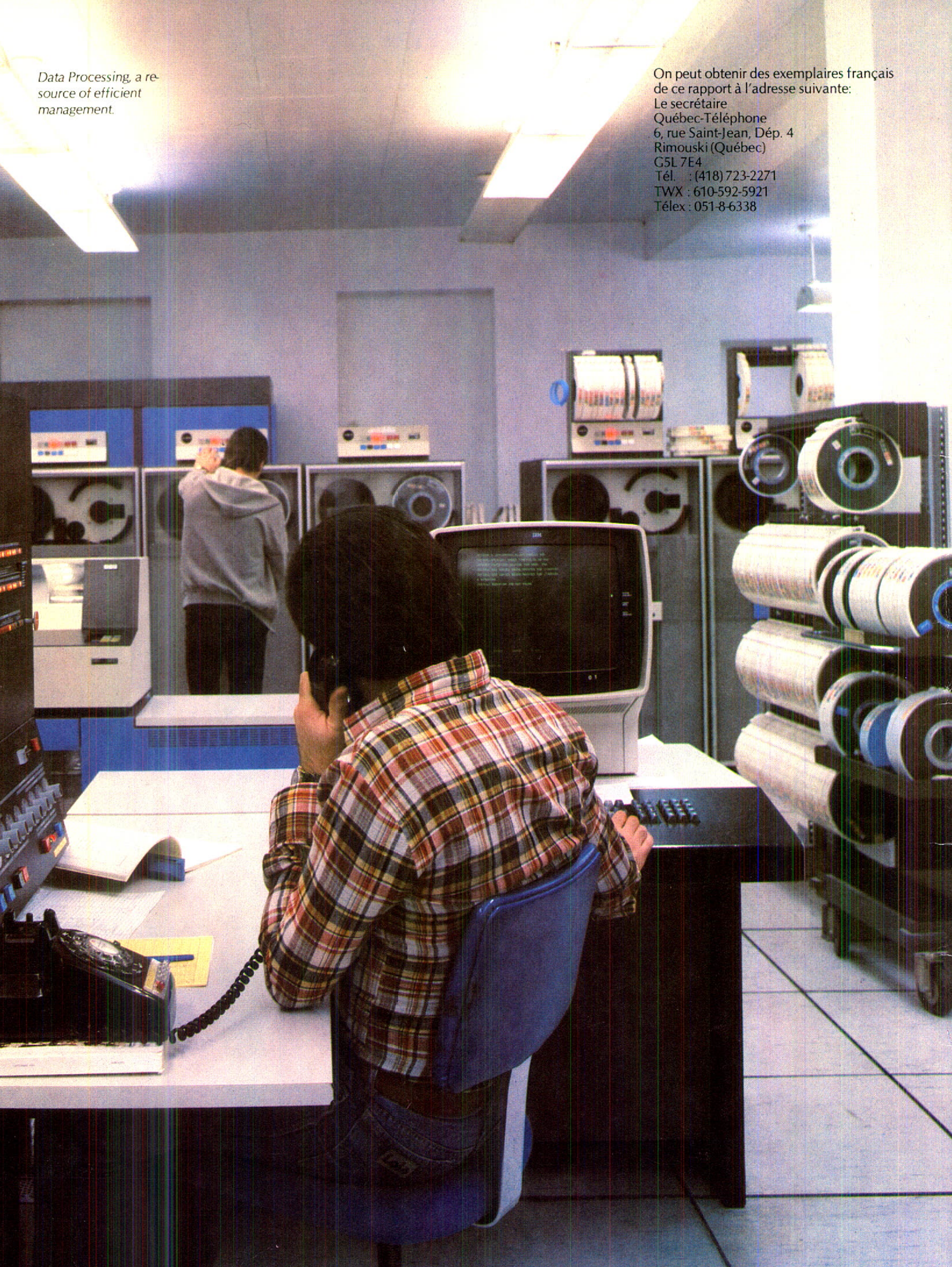
Dialogue

Our Consumer Office has initiated an ongoing telephone service survey and analysis program to improve its knowledge of customer opinions and expectations.

Data is processed by computer and delivered to the departments concerned in the form of monthly reports, making it easier for the Company to constantly adjust its operations to customer needs.

In addition to this polling method, the Company maintains an active presence throughout its operating territory. In this respect, Customer Services has multiplied its regional contacts with public representatives, opinion leaders, research groups and community action and pressure groups to publicize the Company's projects and achievements as well as its potential and limitations within the parameters of its civic, economic and technological objectives.

Indeed, it is a major concern among all of Québec-Téléphone's 2,195 employees that the Company's service to the public remain both reliable and consistently high in quality.



Data Processing, a resource of efficient management.

On peut obtenir des exemplaires français de ce rapport à l'adresse suivante:
Le secrétaire
Québec-Téléphone
6, rue Saint-Jean, Dép. 4
Rimouski (Québec)
G5L 7E4
Tél.   : (418) 723-2271
TWX : 610-592-5921
Télex : 051-8-6338

QUÉBEC-TÉLÉPHONE

Head Office: 6, rue Saint-Jean, Rimouski (Québec) G5L 7E4