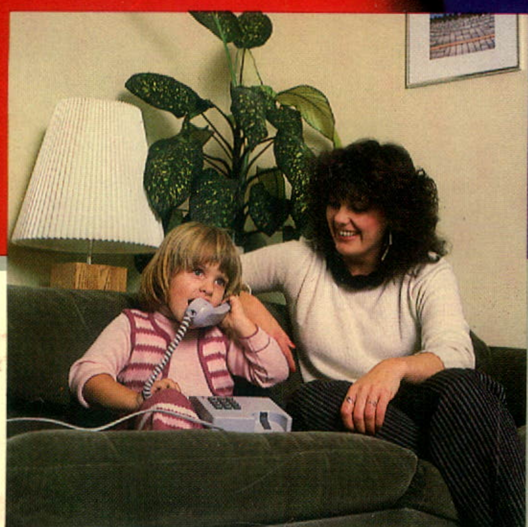
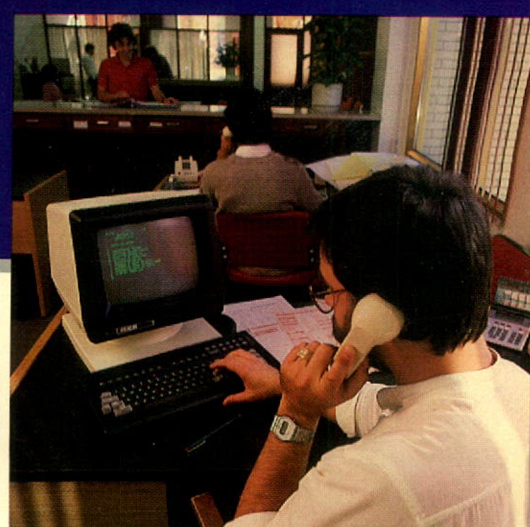
58th ANNUAL REPORT 1984

QUÉBEC-TÉLÉPHONE





On peut obtenir des exemplaires français de ce rapport à l'adresse suivante:

Le secrétaire
Québec-Téléphone
6, rue Saint-Jean
Rimouski (Québec)
G5L 7E4

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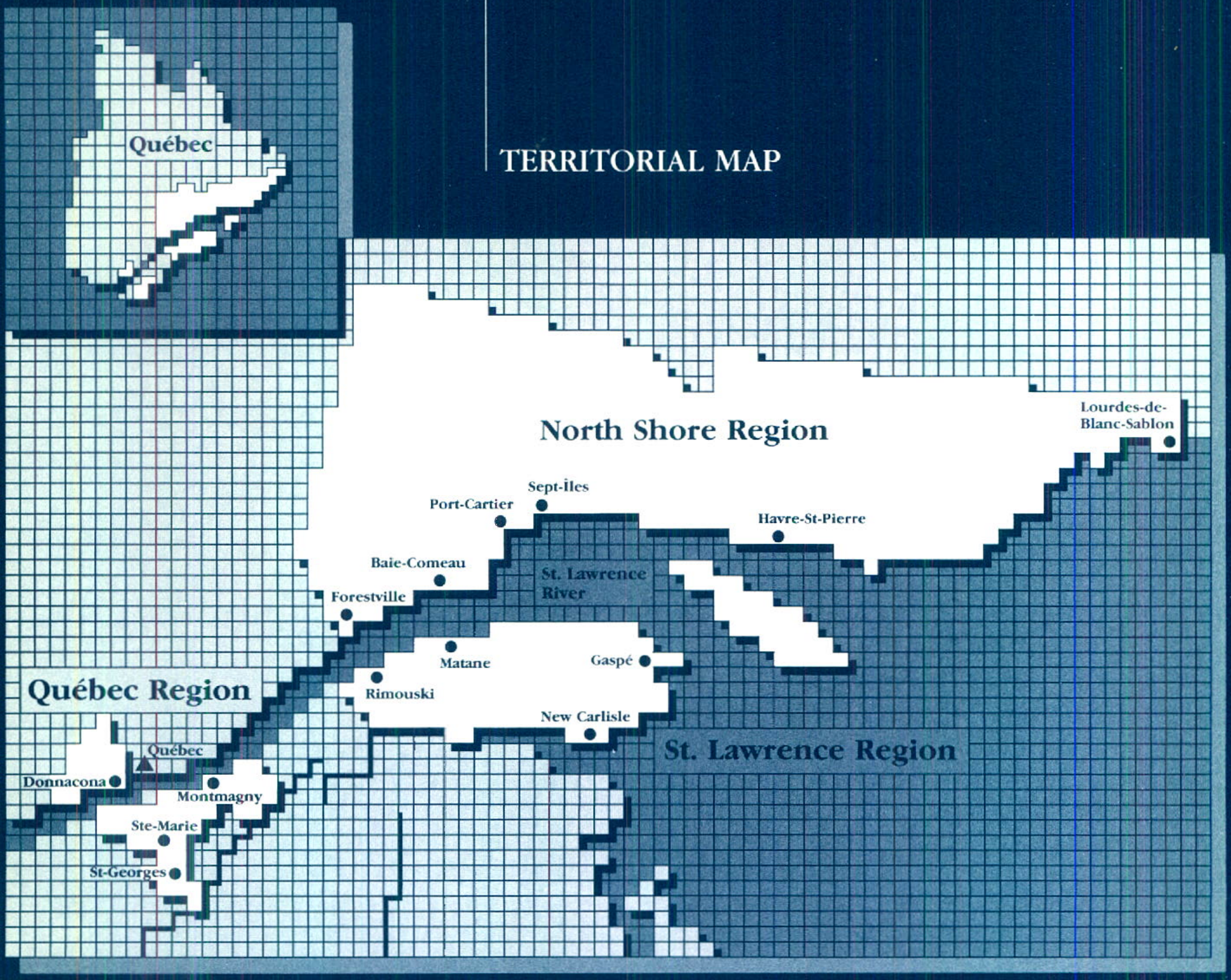
CORPORATE PROFILE

As a link in a worldwide network, Québec-Téléphone guarantees permanent and dependable service to its subscribers in their communications among themselves and with the rest of the world. To do so, the Company applies the best proven technologies to adequately service half a million people living on the outskirts of Québec City and in the Lower St.Lawrence, Gaspé and North Shore regions.

With the dedication of its two thousand employees as its main asset, Québec-Téléphone asserts its competence in sectors as diversified as telephony, computer communications, word processing, mobile radio and paging systems as well as the transmission of data and television programs.

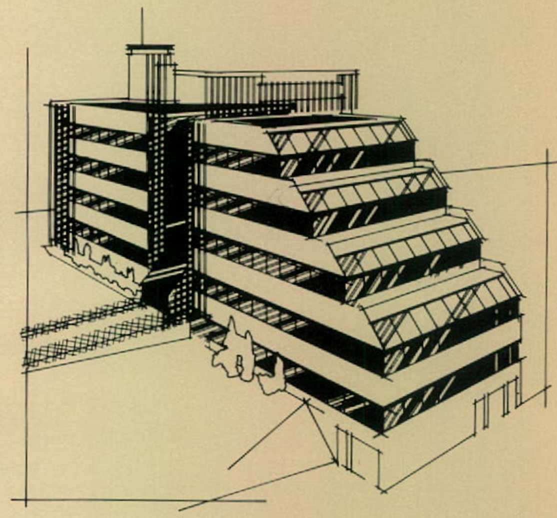
TERRITORIAL MAP



HARMONY AND SYNERGY

Québec-Téléphone has long considered Rimouski as its center of influence. Therefore, to better establish its presence in the heart of this city when the time came to enlarge its headquarters building, the Company opted for renovations in harmony with the urban environment. The new six-floor building requires an investment of $ 2.5 million. Its structure is inspired by the natural stepped plateaus typical of the local topography which extend from the sea coast to the summit of the city. The contemporary aspect of the new architectural complex is harmoniously accentuated by facing panels of natural stone aggregate contrasting with glass curtain walls.

The occupancy in May 1985 of an additional 3,000 square meters of floor space will facilitate the regrouping of employees from different work locations throughout Rimouski. We expect this move will improve synergy between the various sectors of activity which form the mosaic of services provided by Québec-Téléphone.



HIGHLIGHTS

		1984	1983	Increase (Decrease)
Financial (thousands of dollars)	Revenues	$ 164,066	$ 153,596	6.8 %
	Operating expenses, depreciation and general taxes	120,138	107,683	11.6 %
	Net income applicable to Common shares	18,075	18,045	0.2 %
	Dividends on Common shares	12,334	10,104	22.1 %
	Gross capital expenditures	31,734	29,190	8.7 %
	Telecommunications property, at cost*	477,267	463,385	3.0 %
	Salaries and wages	56,879	52,605	8.1 %
Shareholders items	Earnings per Common share	$ 3.71	$ 3.97	(6.5 %)
	Dividends declared per Common share	$ 2.53	$ 2.22	14.0 %
	Common equity per share*	$ 25.64	$ 24.11	6.3 %
	Return on average Common share equity	15.0 %	17.1 %	(12.3 %)
	Average number of Common shares (thousands)	4,870	4,547	7.1 %
	Number of Common shareholders*	6,312	3,955	59.6 %
Other statistics	Subscriber lines in service*	215,751	209,492	3.0 %
	Terminals in service*	290,892	290,713	0.1 %
	Toll messages handled (thousands)	31,099	29,501	5.4 %
	Number of employees*	1,993	2,023	(1.5 %)

* At December 31

MESSAGE FROM THE CHAIRMAN OF THE BOARD

Raymond Sirois
Chairman
of the Board

The vigorous and sustained economic recovery experienced in 1984 generated greater demand for Québec-Téléphone's services. The growth in long-distance communications, plus a constant increase in the number of lines in service and the favorable public response to our product offerings are major indications of the better position gained throughout our territory.

To a high degree, our success can be justly attributed to a year-long effort aimed at optimizing our work practices and methods. The firmness and vigilance applied to the management of our assets in the recent period of economic slowdown remained constant throughout the various programs that now help us keep our expense increases at reasonable levels. Although the improving economic situation justifies some optimism by diminishing our immediate concern for inflation, the positive upturn does not yet warrant any easing of the preventive measures applied previously.

Successful Stance Against Competition

Topping the list of current developments which have decisive impacts in our field of activity is the liberalization of the communications market which does not eliminate any of the constraints that affect only the regulated companies.

If we were doing business in an openly competitive environment, we would be able to determine the services we want to offer, set our own prices, concentrate on specific markets and even withdraw from unprofitable sectors, as our competitors can do in relative autonomy. What we experience in fact since nearly two years is the exact opposite of what the public perceives, i.e. competition does not foster deregulation but rather increases regulation. Telephone companies are still burdened with the obligations and limitations from which newcomers in the field who attempt to skim the cream of lucrative sectors only can easily free themselves.

Fortunately, we can counter competition through our well-established and recognized reputation for service. Our numerous places of contact with the public as required by universal service, assure the visibility, continuity and dependability which earned us widespread public confidence. This was amply demonstrated by the facts that single-line customers generally continue leasing their telephone equipment and multi-line clients show a marked preference for progressively acquiring their business terminals from our Company.

Our success in the field of competition also had significant effects in our non-regulated activities. Although investments in this sector remain marginal, the results of our operations in this new area are more than encouraging.

Creative Dynamism

In an effort to better adjust our sale and leasing practices to the competitive environment, we remodelled our cost accounting procedures at the end of the second quarter of 1984. The global approach traditionally used in a monopolistic context was replaced by a profit-oriented administration of each individual line of products. This innovation is part of a general trend in the industry to adjust rates to reflect actual costs. A similar concern for our shareholders and subscribers prompted us to raise the depreciation rates of certain types of assets in order to recover invested capital during the useful life of our equipments.

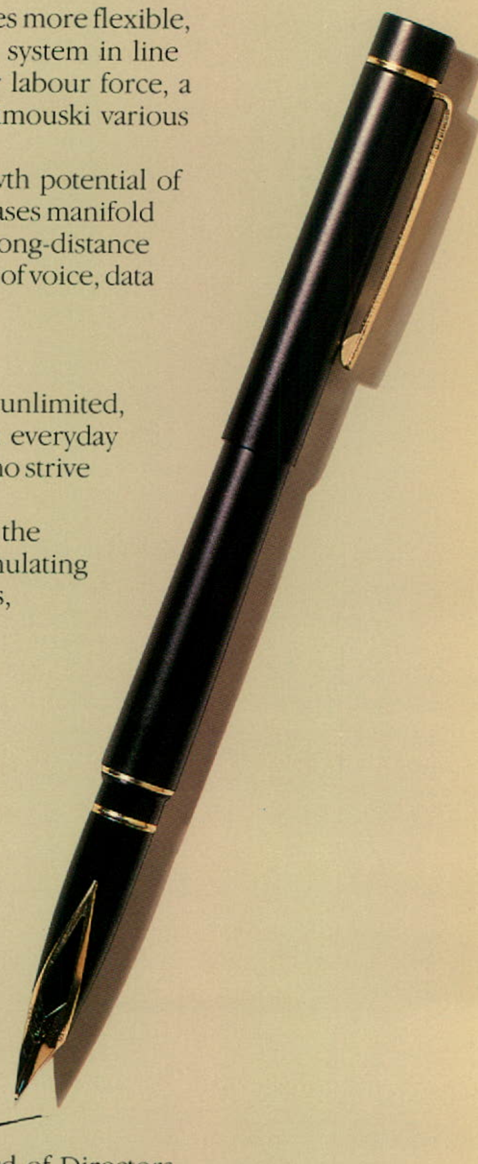
In trying to achieve a high degree of creativity, we made our structures more flexible, our management tools more objective and brought our remuneration system in line with regional salary practices. And to attain better cohesiveness of our labour force, a decision was made to relocate in enlarged facilities in the center of Rimouski various groups of employees previously disseminated in the city.

In the technical field, our options for the future support the growth potential of our network. The traffic-handling capacity of our new digital offices increases manifold the possibilities of service while decreasing costs. The conversion of our long-distance routes to fiber optics holds similar promises with the planned integration of voice, data and images at exceptional transmission speed and quality.

Attentive to Customers' Needs

As long as the basis of our activity remains the provision of geographically unlimited, reliable services which guarantee success in business and efficiency in everyday communications, we will find profitability in partnership with all those who strive for progress and innovation in our regions.

Moreover, we consider that the noble mission entrusted to us by the population to constantly interface humans and technology is most stimulating and to the achievement of this mission we devote our foremost talents, competence and efforts.



The Chairman of the Board of Directors

Raymond Sirois

Raymond Sirois
February 4, 1985

A YEAR RICH IN EVENTS

During the year, Québec-Téléphone had interesting opportunities to demonstrate its spirit of service in each of the regions it serves. Several major events held in its territory were occasions for the Company to expertly handle unique situations and therefore establish closer relationship with its clientele by participating in its festivities.

Québec Region

The participation of Canadian astronaut Marc Garneau to the Challenger scientific mission created great pride across the country and even more so around Garneau's hometown of Québec City. Due to the considerable public impact of the event, Québec-Téléphone offered its subscribers the possibility to access by telephone the conversations exchanged between the space shuttle and the earth launching base. This timely introduction of the "900 service" proved very popular with the adults as well as the youths, and the extensive coverage of the medias contributed largely in maintaining high public interest.

Also well received by the public was the announcement by Québec-Téléphone of major fiber-optic installations near Québec City which highlighted the Company's capabilities. The extensive news coverage which followed this announcement brought further light on the many advantages of optical fiber networks.

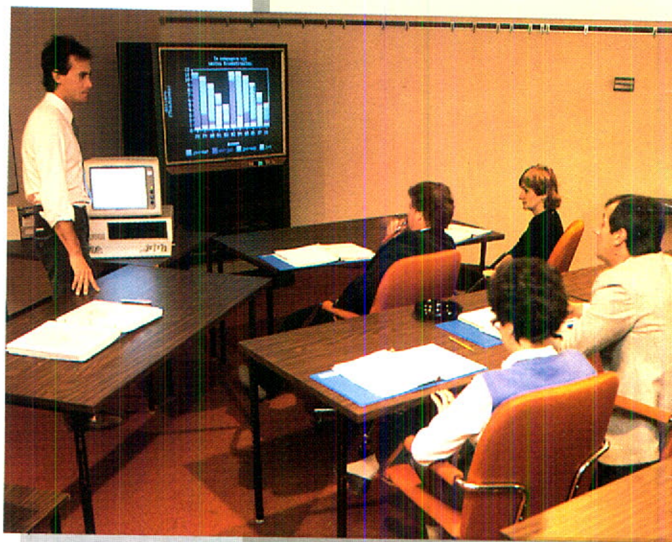
St.Lawrence Region

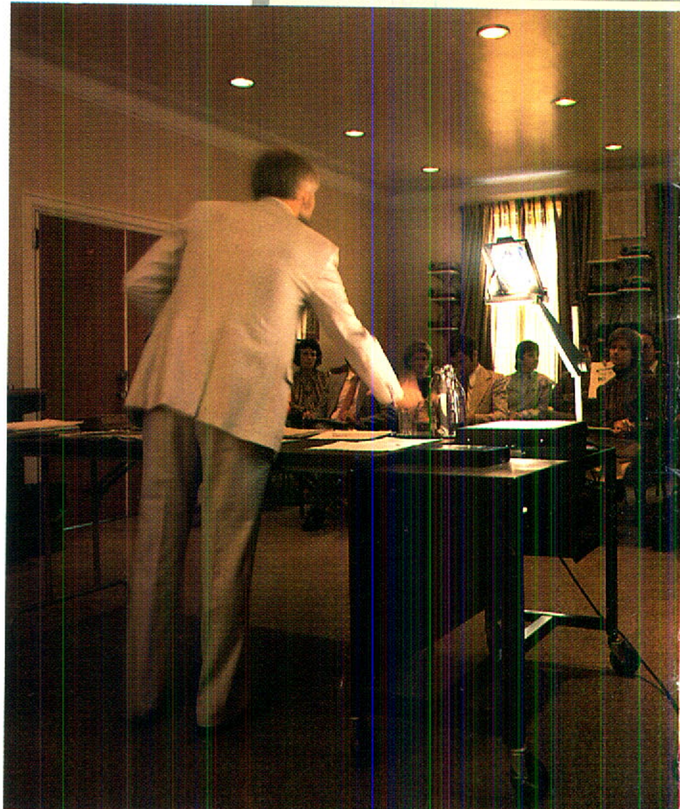
The Gaspé 1984 Festivities which marked the 450th anniversary of Jacques Cartier's discovery of Canada were a focal point of gaspesian life during the year. Many activities all around the peninsula focused on a marine heritage rooted in more than four hundred years of history. Québec-Téléphone participated actively in the organization of the festivities by planning and coordinating the wide range of marine and terrestrial communications required by this event of international magnitude. In spite of the long distances and the presence of high mountains, the various places of activity were served with a dependability which favorably impressed the promoters.

Similar recognition of Québec-Téléphone's expertise came from Fisheries and Oceans Canada when this federal department carried out a decentralization of its technical and administrative activities. The Company was awarded a contract to design and install an extensive radiocommunications network to link all the offices, sub-offices as well as sea and land mobile stations used to monitor and enforce the fisheries' laws and regulations throughout the area between Québec, Gaspé, Sept-Îles and Blanc-Sablon.

North Shore Region

In September, Québec-Téléphone lent its support to another event of national scope which mobilized energy on the North Shore: the news coverage of the federal elections which focused on the electoral district of Manicouagan represented by candidate Prime Minister, Mr. Brian Mulroney. Gathered in Baie-Comeau on this occasion were representatives from thirty news medias, including eight television networks, which required the installation of an impressive number of telephones lines, long-distance circuits and broadcasting channels. All the technical facilities required were efficiently provided in very stringent time frames. On September 4, 1984, images and voice signals originating on Québec-Téléphone's infrastructures brought the news of the Canadian polls to the world.





REVALUATION OF THE HUMAN FACTOR

In order to effectively meet new Company requirements, the range of technical and administrative courses has been extended.

The concern for objective and consistent performance assessment of each employee resulted in the development of a comprehensive appraisal program.

In the management of its human resources, Québec-Téléphone emphasizes the employees' contribution to the success of its mission. Over the elapsed year, several facts indicate a fair and sustained effort to establish a climate more conducive to cooperation between internal partners.

Labour Relations

This new spirit marked the signature in June and September 1984 of collective agreements stressing the protection of experience and training acquirements. Agreements have been reformulated in order to better reflect the employees' expectations, their concern for keeping their employment, enriching their job or reorientating their work when necessary. Significant advantages were granted such as bumping rights in equivalent or inferior occupations in the case of job abolition, educational leaves as well as supplementary unemployment benefits during maternity leaves. Moreover, the Company agreed not to decrease or increase the normal workweek for the duration of these agreements. Expiry dates are November 12, 1985 for clerical employees, technicians, operators and craft workers, and June 28, 1986 for professional employees. Also worthy of note is the pursuit of common objectives by union and management representatives which led to the revival of committees aimed at reaching a consensus before arbitration and promoting greater occupational safety.

Personnel Appraisal

Personnel management is an important task requiring time and considerable application. In 1984, the concern for objective and consistent performance assessment of each employee resulted in the development of a comprehensive appraisal program. This approach integrates the analysis of potential, performance and individual development needs to help employees better accomplish their work. The attainment of this objective required a determination at least equal to that deployed by the Company since the last recession to manage material and financial resources more stringently.

The preparation of supervisors for this new approach will noticeably increase the effectiveness of appraisal interviews. Through more refined techniques less subject to distortion, it will become possible to collect punctual, diversified and often inaccessible data on constraints, degrees of effort and expectations of each person towards the fulfillment of his or her job.

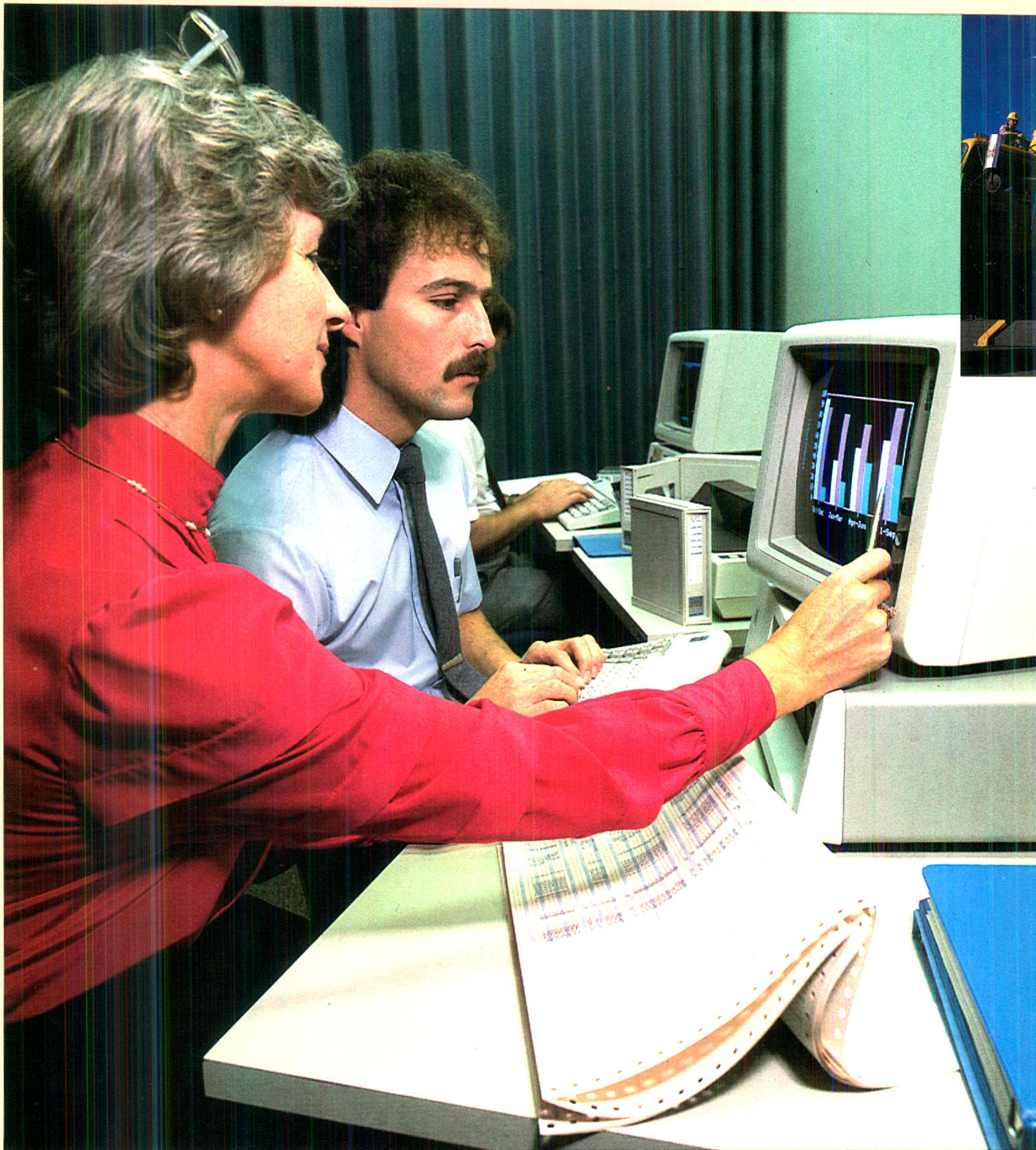
New Training Courses

In order to effectively meet new Company requirements, the range of technical and administrative courses has been extended. These are designed to satisfy various needs such as introduction to microcomputers, application of an improved and uniform methodology for carrying out economic studies, writing and presenting high-quality reports as well as appraising individual performance and potential more objectively. The implementation of fiber optics and the installation of new generic programs on various digital systems dominate the field of skills deemed essential for continued network modernization.

Internal Communications

Results of a survey conducted to evaluate the effectiveness of internal medias indicated that employees under 35, representing 48 % of the labour force, were interested by more frequent written information which focuses on team work and results. In response to the survey, the periodicity of the Company's internal newspaper was increased from ten to twenty issues a year and its content revised to be more reflective of internal dynamics. Numerous favorable comments indicate that the result is greatly appreciated among all age groups.

The high interest raised by the introduction in 1984 of several walk-in computer service centers as well as the popularity of a new course on the use of microcomputers are indicative of a general willingness to master the languages and machines that could well be essential tools in the society of the future.



SEEKING MAXIMUM EFFICIENCY

A joint cable-purchase program with other Canadian GTE affiliates saved the Company $ 500,000 in the very first year of implementation.

The optimal operation of the network and the best possible use of all material resources through innovative management remained high-ranking priorities for Québec-Téléphone during the year. This concern for efficiency is evidenced by the implementation of improvement programs in various sectors of the Company's activity.

Engineering Department Reorganization
The administrative remodelling of the engineering function led to the creation of four new units: Network Planning; Network Program Management; Network Engineering; and Plant Construction and Equipment Installation. The need to better reconcile the customers changing needs with the rapid technological development while determining the most economical equipment modernization schedules all pointed to the adoption of the new structure. The resulting units reflect more appropriately the growing interdependance of transmission, switching and distribution. They are also well suited to the application of the new methods and procedures required by the introduction of digital and optoelectronic technologies. Lower operating costs and continued service improvements are ultimate goals.

Material Resources Management
By applying energy-performance ratio as replacement criteria for its cars and vans, Québec-Téléphone continued to improve the efficiency of its fleet of vehicles. Average gas consumption, which was 29,8 liters per 100 km in 1981, has decreased to 22,3 liters per 100 km in 1984. The aggregate differential of 7,5 liters per 100 km generated this year savings estimated at $ 500,000.

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The addition of a new computerized mailing system which offers flexibility and high performance was the major feature of the Company's stationery and mail services reorganization. The new system enables differentiation between user categories or geographical locations for the purpose of mailing monthly bill inserts. Moreover, the system has the ability to place consignments in sequential order for postal delivery patterns and bundling, which gives the Company the benefit of an eight-cent postage rebate on each consignment, an annual saving of $ 170,000.

Office Automation Plan
The combined use of data processing and digital switching will improve the handling of information and facilitate management activities and communications. This vision of the future inspired studies conducted by Québec-Téléphone for the implementation of the innovative resources of office automation within the Company over the next three years.

The various scenarios submitted to minute examination showed prospects of productivity gains compatible with the search for increased work satisfaction. They also justified expectations for a profitable sharing of the internal experimentation's most conclusive results with our business customers.

The office automation plan, as contemplated, is made up of four distinctive elements: word processing, for maximum flexibility in the production of documents; electronic mail, for instantaneous delivery of written and oral messages; electronic filing, for efficient administrative support; and individual data processing, as an aid to analysis and calculation.

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DYNAMIC RELATIONS

The new deregulated market for telephone terminals has made customers much more aware of the value of the products and services they require. The judicious exercise of choice has also developed among several of them the habit of cooperating actively through dynamic interaction modes made possible by new service policies adopted by Québec-Téléphone. Numerous facts attest to the abundance and quality of these relations.

Revised General Tariff
A long and exacting job, the revision of the Company's General Tariff presents internal and external users with precise conditions governing the provision of all basic services. The new edition in three volumes which reflects the recent evolution of rates and regulations has been approved by the *Régie des services publics* of Québec. Subject to more frequent references in the future, the General Tariff will help create and maintain greater trust and understanding between the Company and its customers.

Expanding *Télécentres*
Our *Télécentres* have been highly patronized during 1984; some 250,000 visits were recorded. Obviously, customers are attracted by their numerous advantages: reduced waiting periods and service charges, a wide range of products on display and direct access to repair facilities. The positive effects of this closer contact with its customers prompted Québec-Téléphone to offer some of the advantages of *Télécentres* to other urban communities. Consequently, distribution agencies managed by sole agents were recently created to carry out distribution and exchange of leased telephones on an inexpensive basis.

Telephone Mobility
Mass conversion of telephones to the plug-in concept brought about a greater cooperation from subscribers to the management of their service. The new telephone recovery policy entails the payment of a bonus encouraging customers to bring back their telephones. It will also gradually abolish the former practice allowing telephones to be left in place when users move out. According to the present schedule, more than 60 % of housing units will have been equipped with plug-in jacks by the end of this decade.

Product Promotion
The intensive campaign which marked the launching of the new push-button Harmony telephone has met unprecedented success. Public acceptance of the product has largely contributed to the promotion of touch calling in residential areas for faster and more accurate communications. Simultaneously, the most popular product with small businesses has been the Meritor, a brand new electronic telephone system which integrates several computer functions designed to save time and increase productivity.

The promotion of a complete range of innovative products was largely supported by the very effective telemarketing techniques. Moreover, Québec-Téléphone seized many occasions to publicize its resources by participating in several data processing exhibitions and forums held throughout the year in each of the served areas.

Service Improvements
Approximately seven million dollars were invested in the conversion of the Causapscal, Donnacona, Saint-Augustin and Saint-Basile exchanges within the Company's network digitization program. The installation of these new switching systems enhances the speed, dependability, economy and flexibility of the service. Digital equipment also increases the accuracy of diagnosis and speed of repair in case of failures by permitting corrective action even before customers notice or are affected by the problems. Moreover, the addition of equipment in various central offices on the North Shore ended two years of intense effort to provide all exchanges of this region with Automatic Number Identification (ANI). This service appreciably improves the reliability of long-distance billing. In all the territory served by Québec-Téléphone, 90 % of access lines are already equipped with this ANI feature.

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Télécentres *have been highly patronized during 1984; over 250,000 customer visits were recorded.*

A RESOURCE WITH A BRIGHT FUTURE

In October 1984, Québec-Téléphone made public its plan to implement an optical fiber network by the end of the present decade. The proposed facility will run from the heart of the province of Québec, in the vicinity of Trois-Rivières, to the border of New Brunswick, near Campbellton. This modernization program which is already in progress will benefit the regions of Portneuf, Beauce, Montmagny, Rimouski and Matapédia. The acquisition and installation of fiber-optic cable over the 900-kilometer distance will entail a twenty million dollar outlay while the link with auxiliary systems on lateral routes and related work will require an additional five million dollar expenditure.

An Economical Alternative

Many studies conducted all across Canada by different companies, including Québec-Téléphone, have clearly demonstrated the economic superiority of fiber optics over other transmission mediums such as conventional copper cables and microwave systems. Among the benefits derived from the optoelectronic technology are a very significant reduction in the costs of long-distance for the carriers and subsequent capping of charges to the subscriber.

Unlike microwave systems, which convey messages over considerable distances in the air disregarding the regional communities of interest, optical fiber combines short-, medium- and long-distance communications capacity in a terrestrial facility without altering signal quality. This unique capability eliminates the need for duplicated network traditionally required to carry communications between neighboring and distant exchanges on separate facilities.

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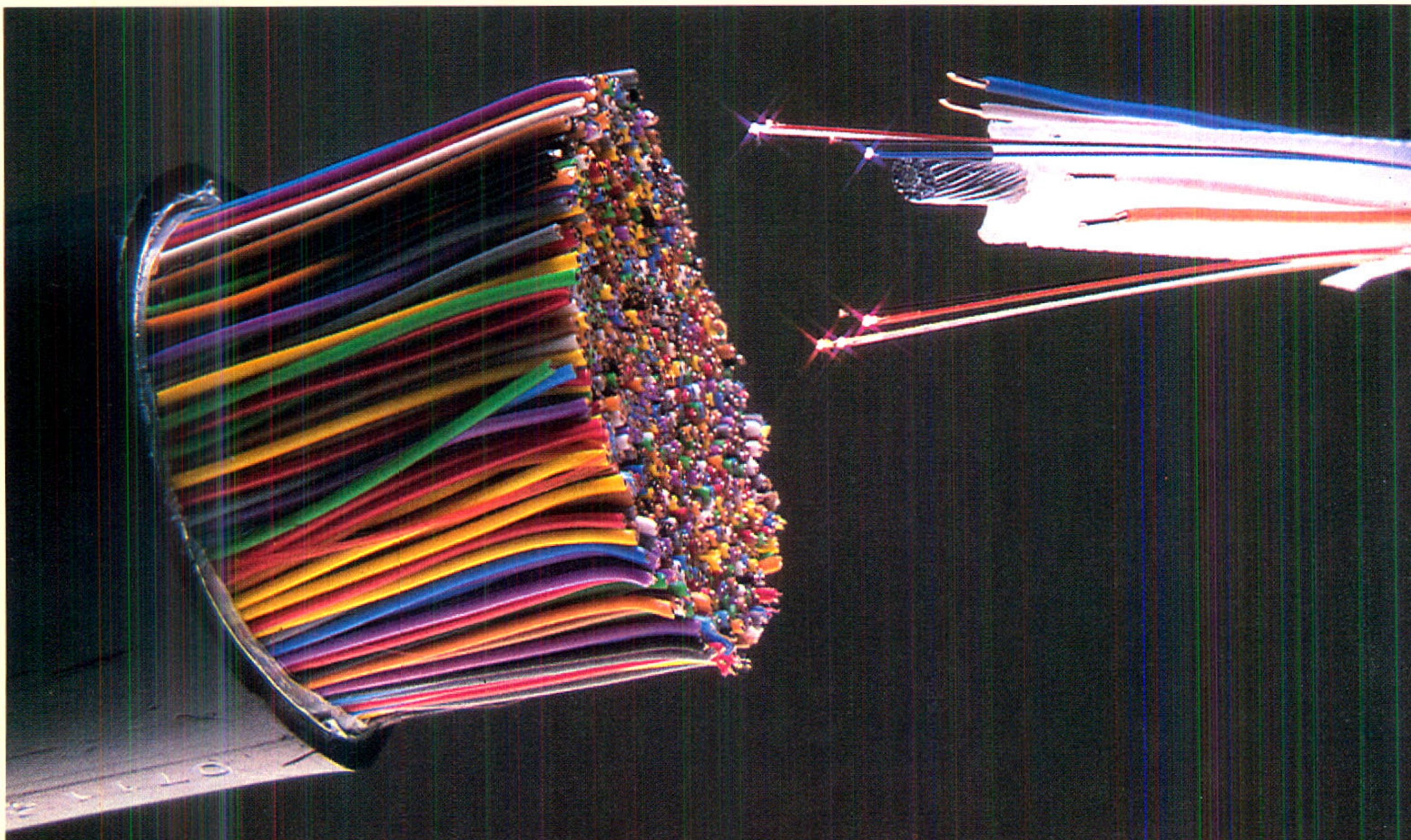


Fiber optics further allows to economically increase the carrying capacity of systems and to offer a wide range of interactive services for which demand will keep increasing from now to the end of the century. Customers will then have the opportunity to access information of their choice through a network integrating voice and data by using their home terminal and without the need for additional circuits.

Technical Advantages

Compared to traditional systems, fiber-optic cables offer exceptional material and technical advantages. For example, a 135 million bits per second system now conveys on a single pair of glass fibers 2,016 simultaneous conversations or 4,000 pages of densely printed text per second. With the planned capacity increased to 565 million bits, the same system could carry the equivalent of 8,064 conversations or 16,000 pages of text. Moreover, a three-color code will guarantee the addition of two levels of information, which will mean three times more data on a single fiber. And the number of possibilities reaches breathtaking proportions when multiple fibers are placed together inside the same sheath to meet future demand.

Another important feature of optical technology is its low transmission loss. The resultant lower number of repeaters required enhances communications dependability. Finally, the quality of transmission on fiber-optic cables is totally unaffected by external electromagnetic interferences or temperature variations because the fibers are made of non-conductive materials (glass and plastic).

Multiple Applications

For all these reasons, Québec-Téléphone is confident that the optical fiber network will effectively help meet the communications needs of the coming years. Among the varied applications planned by the Company are interoffice and intercity trunks, data transmission, home-of-the-future services, teleconferencing, security systems, links between central and remote processing units. The versatility of fiber optics is not imaginary; it is indeed very real and already workable.

Québec-Téléphone's five-year plan calls for the installation of optical fiber main routes over 900 kilometers from 1984 to 1988.

Earnings

In its Order 9746-H dated December 21, 1984, the *Régie des services publics* of Québec set the maximum rate of return on average common share equity at 15 % for the year 1984. To comply with this 15 % limit, the Company has been authorized by the *Régie* to charge to its 1984 results an accelerated depreciation expense with respect to certain assets of a type for which, since the beginning of 1984, current acquisitions are expensed. Consequently, an additional depreciation provision of $ 1.4 million has been charged to the current year results, with retroactive effect to January 1, 1984, whereas a schedule of depreciation, in respect of those assets, previously submitted to the *Régie* by the Company had been prepared on a basis of depreciation being taken over a longer period.

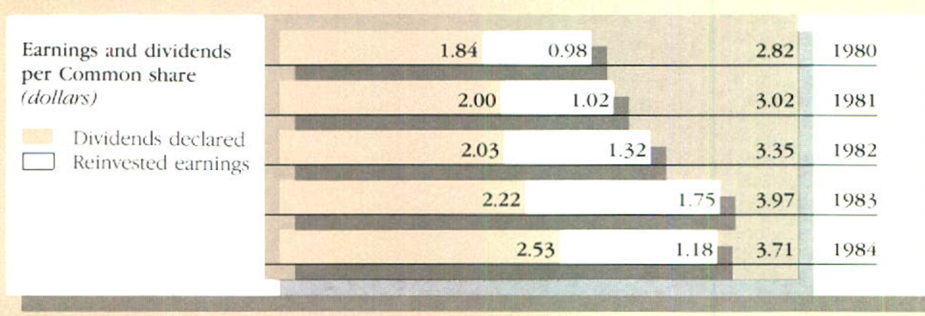
After giving effect to this, net income applicable to common shares was $ 18.1 million compared to $ 18.0 million in 1983. Due to a 7.1 % increase in the average number of common shares outstanding, earnings per share were $ 3.71 in comparison to $ 3.97 a year ago. On the other hand, the rate of return on average invested capital was 13.0 % in 1984 and 13.2 % the previous year.

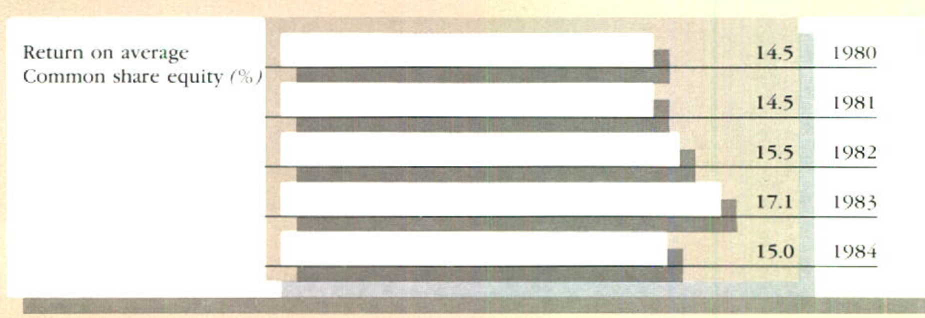
The quarterly dividend payable on common shares was raised from $ 0.58 to $ 0.65 per share on July 1, 1984, bringing the annual dividend to $ 2.60 from $ 2.32 per share. For the year ended December 31, 1984, dividends declared on common shares totalled $ 12.3 million or $ 2.53 per share as compared with $ 10.1 million or $ 2.22 per share in 1983.

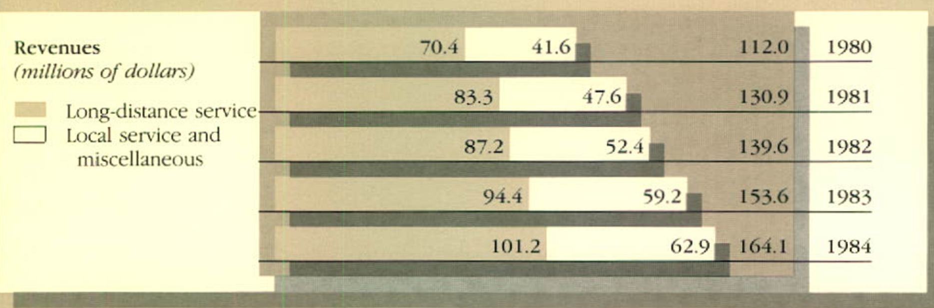
Revenues

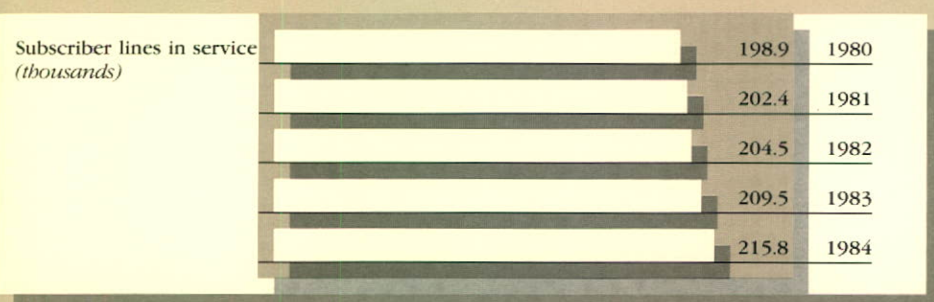
For the year ended December 31, 1984, revenues were $ 164.1 million, 6.8 % over the $ 153.6 million obtained in 1983. During the year, network access lines were up 6,259 units to 215,751 lines in service at year-end. These additional lines accounted for approximately half of the increase in local service revenues, the other half being derived from the full effect of unbundling rates for terminal attachment. This procedure, in effect since June 15,1983, allows the billing of higher service charges which are closer to the actual cost of providing the service. The reduced growth of local service revenues, arising from the start-up of interconnection, has been largely offset by sales and leasing campaigns for terminal equipment, as well as other competitive services. These promotion efforts have contributed to a substantial increase of other revenues which reached $ 6.5 million as compared to $ 3.9 million in 1983.

Toll service revenues, which represent 61.7 % of total revenues, (61.4 % in 1983) attained $ 101.2 million, 7.3 % over the $ 94.4 million the year before. The volume of long-distance calls kept growing in 1984 to 27.4 million, a 5.9 % increase compared to 6.1 % in 1983. However, revenues generated by this sector which constituted 43.5 % of the Company's total, went up only 4.9 % when compared to those of the year before. On the other hand, revenues from Wide Area Telephone Service (WATS) rose more rapidly totalling $ 14.6 million, 17.8 % ahead of the $ 12.4 million in 1983. Finally, a higher demand for toll private lines also









contributed to improve revenues with an increase of $ 1.3 million or 9.4 % over the $ 13.9 million in 1983.

Expenses
Operating expenses grew by $ 7.3 million or 10.9 % over the previous year to attain $ 74.4 million in comparison to $ 67.1 million in 1983. Although this increase results in part from a raise in salaries and related fringe benefits, an important portion comes from costs associated with terminal attachment as well as the retirement and reinstallation costs of certain types of equipment. These costs are charged directly to operating expenses since July 1, 1983 and January 1, 1984 respectively rather than being capitalized and recovered through depreciation. Disregarding the effects of this accounting refinement which represented over $ 2.0 million in the growth of operating expenses, the actual increase of controllable expenses was only $ 5.3 million or 7.9 %.

Depreciation charges for 1984 were $ 32.6 million, up 14.7 %, compared to $ 28.5 million in 1983. This increase is due to the continuous addition of new telecommunications property, the full effect of the application, since July 1, 1983, of revised depreciation rates for certain categories of assets, as well as the impact of the special provision for depreciation, in accordance with Order 9746-H of the *Régie des services publics* of Québec.

Financial Expenses
For the current year, financial expenses went down again to $ 12.4 million, 5.1 % less than 1983, due to a decrease in the average total debt. This debt reduction was achieved through proceeds from the issue of common shares under various share purchase plans offered to shareholders and employees as well as internally-generated cash flow in excess of the investment in telecommunications property. It is worth noting that the average debt cost was 10.8 % compared to 10.2 % in 1983.

Labour Relations
On June 11, 1984, the Company's representatives and those of the *Syndicat des employés d'exécution de Québec-Téléphone* signed three collective agreements covering 1,400 skilled workers, clerical employees and telephone operators whose labor contracts were terminated since November 1982; these new agreements will expire in November 1985. Moreover, on September 11, 1984, the collective agreement of some 280 professional employees, expired since July 1983, was renewed for a three-year period ending June 28, 1986.

Expansion and Improvement
In 1984, investments in telecommunications property were $ 31.7 million against $ 29.2 million in 1983. Of that total, $ 11.4 million were devoted to equipment modernization and service improvement, in particular the digitization of several switching systems; out of this latter amount, $ 3.1 million were allocated to the rural upgrading program which provided 3,800 additional subscribers with access to individual line service. Basic service required an outlay of $ 16.6 million. Despite the fact that the

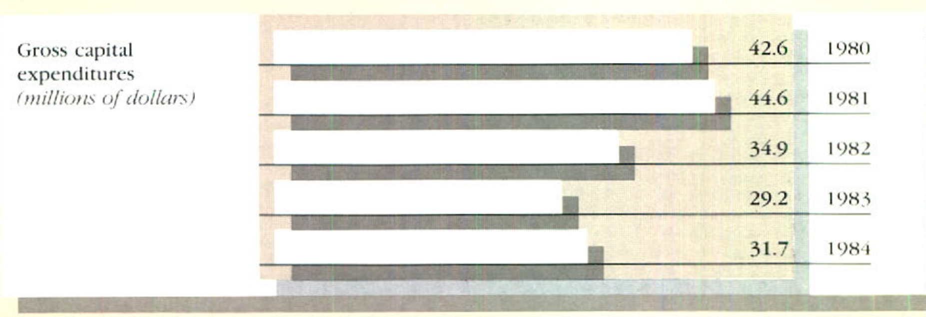
number of leased terminals has not significantly increased during the year, the number of network access lines has increased by 3.0 %, or 6,259 lines, to reach 215,751 lines in service at year-end. The renovation and expansion of the headquarters building which started in June 1984 have required $ 1.7 million in new funds up to December 31; this construction project estimated at approximately $ 2.5 million will be completed by the end of April 1985. Finally, $ 2.0 million were used mainly for the addition and replacement of vehicles, tools and office equipment.

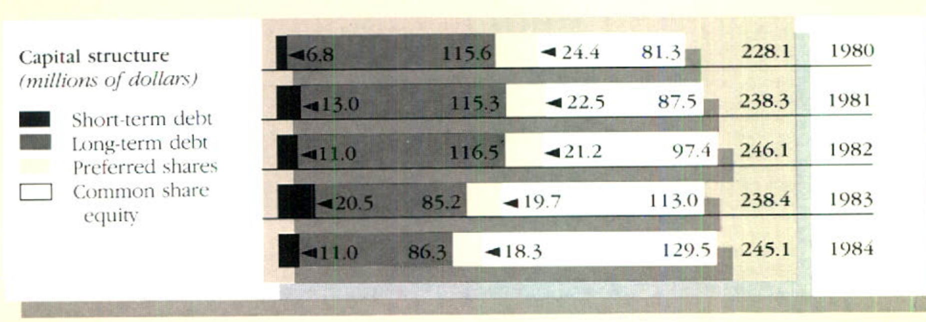
Capital Structure

During the year ended December 31, 1984, $ 10.8 million in common equity were invested by shareholders participating in the Dividend Reinvestment, Stock Dividend and Share Purchase Plans as well as by employees participating in the Employees' Stock Purchase Plan through salary deductions; under these plans, 363,964 new common shares were issued during the year.

Since their introduction in 1980, the two plans offered to shareholders have generated more than $ 22.5 million in equity, including $ 9.8 million in 1984, which increased rapidly the equity ratio in the capital structure; as of December 31, 1984, the debt-equity ratio was 40:60 as compared to 44:56 at year-end 1983. The flexibility desired to eventually obtain funds under other forms having been attained, the Company suspended at the end of September, for an undetermined period, the share purchase option through cash payments under these two plans; however, the dividend reinvestment and stock dividend options were maintained. As of December 31, 2,365 shareholders were participating in these plans in comparison with 961 at the same date last year.

At year-end, the two major holders of the Company's common shares were *La Compagnie de Téléphone Anglo-Canadienne* and *Caisse de dépôt et placement du Québec* which owned respectively 50.6 % and 13.8 % of the 5,050,755 common shares outstanding; the remainder was held by more than 6,300 other shareholders including some 500 employees of the Company.





QUÉBEC-TÉLÉPHONE

FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

QUÉBEC-TÉLÉPHONE

The consolidated financial statements of Québec-Téléphone and all financial information in this annual report are the responsibility of Management and have been approved by the Board of Directors. These consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, in certain circumstances, include amounts that are based on best estimates and judgments.

The Company has a high-quality system of internal control and of audit within the limits of acceptable costs. These controls are designed to provide reasonable assurance that financial transactions are properly recorded and executed in accordance with required approvals, that consolidated financial statements are properly prepared and assets safeguarded.

The Board of Directors fulfils its responsibility with regard to the consolidated financial statements contained in this annual report principally through its Audit Committee, consisting solely of outside directors, which meets periodically with Management as well as with the internal and external auditors. The latter 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 of Québec-Téléphone (a Québec company) and subsidiary as of December 31, 1984 and 1983, and the related consolidated statements of income and reinvested earnings and changes in financial position 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, 1984 and 1983, and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis during the years.

Samson Bélair

Samson Bélair
Chartered Accountants

Arthur Andersen & Cie

Arthur Andersen & Cie
Chartered Accountants

January 24, 1985

STATEMENTS OF INCOME AND REINVESTED EARNINGS

QUEBEC-TELEPHONE

	For the years ended December 31	1984	1983
		Thousands of dollars	
Revenues	Local service	$ 56,852	$ 55,993
	Long-distance service	101,240	94,354
	Other	6,452	3,936
	Less: uncollectible accounts	478	687
		164,066	153,596
Expenses	Operations (Note 5)	74,417	67,116
	Depreciation	32,635	28,453
	General taxes (Note 6)	13,086	12,114
		120,138	107,683
Operating income		43,928	45,913
	Other income (Note 7)	1,598	1,253
Income before financial expenses and income taxes		45,526	47,166
Financial expenses	Interest on long-term debt	8,423	10,759
	Other interest	3,071	1,649
	Unrealized loss on foreign currency	775	471
	Amortization of discount and expenses on long-term debt	100	150
		12,369	13,029
Income before income taxes		33,157	34,137
	Income taxes (Note 11)	13,812	14,707
Net income		19,345	19,430
	Dividends on Preferred and Subordinate Preferred shares	1,270	1,385
Net income applicable to Common shares		18,075	18,045
Reinvested earnings	At beginning of year	48,305	40,364
		66,380	58,409
	Less: dividends on Common shares	12,334	10,104
	At end of year	$ 54,046	$ 48,305
Earnings per Common share		$ 3.71	$ 3.97
Dividends declared per Common share		$ 2.53	$ 2.22
Average number of Common shares (thousands)		4,870	4,547

ASSETS

	December 31	1984	1983
		Thousands of dollars	
Telecommunications property, at cost	Buildings, plant and equipment	$ 457,563	$ 445,830
	Less: accumulated depreciation (Note 9)	173,228	155,232
		284,335	290,598
	Land	1,823	1,787
	Property under construction	11,942	8,176
	Construction materials, at average cost	5,939	7,592
		304,039	308,153
Investment in Common shares of Telesat Canada, at cost		600	600
Current assets	Cash	597	465
	Accounts receivable	20,369	17,580
	Prepaid expenses and other	1,196	1,254
		22,162	19,299
Deferred charges	Unamortized discount and expenses on long-term debt	919	1,019
	Unrealized loss on foreign currency	4,682	4,020
	Other	1,034	1,590
		6,635	6,629
Total assets		$ 333,436	$ 334,681

On behalf of the Board of Directors, February 4, 1985

Raymond Sirois

Raymond Sirois, Director

Hervé Belzile

Hervé Belzile, Director

SHAREHOLDERS' EQUITY AND LIABILITIES

	December 31	1984	1983
		Thousands of dollars	
Shareholders' equity (Note 2)	Common share equity		
	Common shares	$ 75,465	$ 64,661
	Reinvested earnings	54,046	48,305
		129,511	112,966
	Subordinate Preferred shares	129	151
	Preferred shares	18,198	19,594
		147,838	132,711
Long-term debt (Note 3)		86,306	85,235
Current liabilities	Cheques issued in excess of bank balances	3,619	3,090
	Short-term debt (Note 10)	11,011	20,453
	Accounts payable		
	Affiliates	791	536
	Other	6,634	9,144
	Advance billing	3,198	3,092
	Dividends payable	3,589	3,052
	Income taxes payable (Note 11)	723	6,156
	Accrued interest	4,211	2,713
	Other accrued liabilities	8,647	7,353
		42,423	55,589
Deferred income taxes (Note 11)		56,869	61,146
Total shareholders' equity and liabilities		$ 333,436	$ 334,681

Simon Soucy

Simon Soucy
Vice President - Finance and Treasurer

CHANGES IN FINANCIAL POSITION

QUÉBEC-TÉLÉPHONE

	For the years ended December 31	1984	1983
		Thousands of dollars	
Source of funds	**From operations**		
	Net income applicable to Common shares	$ 18,075	$ 18,045
	Expenses not requiring an outlay of funds		
	Depreciation	32,635	28,453
	Deferred income taxes — this year (Note 11)	(3,043)	(2,366)
	Allowance for funds used during construction	(528)	(446)
	Other	1,853	1,451
		48,992	45,137
	Net proceeds from financing		
	Common shares	10,781	7,537
	Increase (decrease) in short-term notes	(6,790)	6,810
		3,991	14,347
		52,983	59,484
Application of funds	**Telecommunications property**		
	Gross capital expenditures	31,734	29,190
	Increase (decrease) in construction materials	(1,653)	1,028
		30,081	30,218
	Less: additions not requiring an outlay of funds	1,577	2,618
		28,504	27,600
	Decrease (increase) in deferred income taxes — prior years (Note 11)	1,234	(122)
	Other		
	Dividends on Common shares	12,334	10,104
	Redemptions of Preferred shares and repayments of long-term debt	4,324	30,123
		16,658	40,227
		46,396	67,705
	Increase (decrease) in working capital (Note 12)	6,587	(8,221)
	Working capital deficiency, beginning of year	(15,837)	(7,616)
	Working capital deficiency, end of year	$ (9,250)	$ (15,837)

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 1984 and 1983

1. Significant Accounting Policies

The financial statements have been prepared in conformity with Canadian generally accepted accounting principles, and in accordance with prevailing practices in the Canadian telecommunications industry. Certain reclassifications were made in the financial statements of the preceding year to conform to the presentation adopted in 1984.

The regulated activities of the Company are subject to regulations of the *Régie des services publics* of Québec.

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

Consolidation
The financial statements include the accounts of *La Compagnie de Téléphone Bonaventure et Gaspé, Limitée,* an inactive wholly-owned subsidiary.

Accounting for Certain Costs
Along with other telecommunications companies and with the concurrence of the *Régie des services publics* of Québec, the Company has, for some years, been charging to expense certain costs which previously would have been capitalized. The accounting refinements applied during the year represent additional costs of approximately $ 1,165,000.

Telecommunications Property
Telecommunications property is recorded at original cost and includes certain costs related to pension, payroll taxes and funds used during construction applicable to the construction activity. The original cost of retired telecommunications property is charged to accumulated depreciation or to construction materials, when such property can be re-used; therefore, no gain or loss on retirement is recognized in the statement of income.

Depreciation
In its Order 9746-H dated December 21, 1984, the *Régie des services publics* of Québec set the maximum rate of return on average common share equity at 15 % for the year 1984. To comply with this 15 % limit, the Company has been authorized by the *Régie* to charge to its 1984 results an accelerated depreciation expense with respect to certain assets of a type for which, since the beginning of 1984, current acquisitions are expensed. Consequently, an additional depreciation provision of $ 1.4 million has been charged to the current year results, with retroactive effect to January 1, 1984, whereas a schedule of depreciation, in respect of those assets, previously submitted to the *Régie* by the Company had been prepared on a basis of depreciation being taken over a longer period.

The regular depreciation expense amounting to $ 31.2 million in 1984, has been calculated under the straight-line method using rates based on the estimated service life of the assets. The composite depreciation rate including the special amount of depreciation was 7.22 % in 1984 (6.55 % in 1983).

Investment
The investment in Common shares of Telesat Canada is recorded at original cost. There is no quoted market value for this investment, however, its estimated book value was $ 1,420,000 as at December 31, 1984.

Amortization of Discount and Expenses on Long-Term Debt
Discount and expenses on long-term debt are amortized using the straight-line method over the life of the related commitments.

Income Taxes
The Company uses the tax allocation method to account for income taxes.

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. Related provisions are recorded in the books.

Translation of Foreign Currencies
Purchases of materials, operating costs and interest paid in foreign currency are stated in these financial statements in Canadian dollars at the rate of exchange prevailing at the transaction date and resulting gains or losses are included in income for the year in which they occur.

The long-term debt payable in U.S. funds is reflected in the financial statements at the Canadian dollar equivalent at the rate of exchange prevailing at the date of balance sheets. Resulting gains or losses are amortized over the remaining life of this long-term debt.

2. Shareholders' Equity

Number of shares at December 31

	Authorized	Outstanding 1984	Outstanding 1983
Common shares without nominal or par value	Unlimited	5,050,755	4,685,410
$ 1.68 Cumulative Redeemable Convertible Subordinate Preferred shares Series B of the par value of $ 15 each	541,322	8,051	9,432
Cumulative Redeemable Preferred shares of the par value of $ 20 each	1,297,279	972,147	1,041,778

During 1984, transactions related to the capital stock were as follows:

	Common	Subordinate Preferred	Preferred
Shares outstanding at December 31, 1983	4,685,410	9,432	1,041,778
Issued	363,964	—	—
Redeemed	—	—	(69,631)
Converted	1,381	(1,381)	—
Shares outstanding at December 31, 1984	5,050,755	8,051	972,147

Common Shares

During 1984, 363,964 Common shares were issued for $ 10,781,282 under the following plans intended to shareholders and employees:

a) Common Shareholders' Dividend Reinvestment and Share Purchase Plan
b) Common Shareholders' Stock Dividend and Share Purchase Plan
c) Employees' Stock Purchase Plan.

In addition, 1,381 $ 1.68 Cumulative Redeemable Convertible Subordinate Preferred shares Series B were converted into 1,381 Common shares.

As of December 31, 1984, 313,764 Common shares were reserved for issuance under these plans and for conversion of Subordinate Preferred shares.

Subordinate Preferred Shares

The $ 1.68 Cumulative Redeemable Convertible Subordinate Preferred shares Series B are convertible at the option of the holders 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 agreed upon redemption price.

Preferred Shares

Series			1984	1983
				Thousands of dollars
1955	5 %	(sinking fund)	$ 732	$ 742
1956	5 %	(sinking fund)	297	331
1965	4 3/4 %		8,000	8,000
1973	7 3/4 %	(purchase fund)	4,189	4,312
1975	9 3/4 %	(sinking fund)	600	1,200
1977	7 %	(sinking fund)	5,625	6,250
Less: current portion			1,245	1,241
			$ 18,198	$ 19,594

In order to meet the sinking fund requirements for the 1955 and 1956 Series, payments for the next five years will be as follows: $ 20,178 in 1985 and $ 50,000 for each of the years 1986, 1987, 1988 and 1989.

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 at par for cancellation 31,248 Preferred shares Series 1977 on October 1, 1985, and the remaining 250,016 shares on October 1, 1986.

The Company has met all requirements with respect to sinking and purchase funds.

3. Long-Term Debt

First Mortgage Bonds

Series	Rate	Maturing		Issued	1984	1983
					Thousands of dollars	
F	5 ⅝ %	December 1,	1984	$ 3,000,000 (U.S.)	$ —	$ 2,668
H	5 ½ %	June 1,	1987	6,000,000	4,014	4,089
I	6 %	October 15,	1990	5,000,000	4,322	4,397
J	7 %	January 2,	1989	5,000,000	5,000	5,000
L	9 ⅛ %	April 15,	1991	7,500,000	363	375
M	8 ¾ %	May 15,	1992	7,500,000	7,500	7,500
N	8 ½ %	March 15,	1993	8,500,000	8,500	8,500
O	9 ¾ %	July 1,	1994	16,500,000 (U.S.)	21,768	20,523
P	11 ⅞ %	October 15,	1995	15,000,000	15,000	15,000
Q	10 ⅝ %	December 15,	1996	20,000,000	20,000	20,000
Less: current portion					161	2,817
					$ 86,306	$ 85,235

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 H and I, First Mortgage:
Annual payment of 1 ½ % of the principal amount of the bonds issued.

b) Series J, M, N, O, P and Q, First Mortgage:
Annual payment of 1 % or additional mortgage of 1 ½ % of the principal amount of bonds issued; the Company has constantly 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.

During 1984, the Company has redeemed $ 2,145,000 U.S. ($ 2,832,185 Can.) First Mortgage Bonds Series F, the redemption date being December 1, 1984.

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	Thousands of dollars
1985	$ 161
1986	174
1987	3,924
1988	84
1989	5,084

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.

4. Capital Expenditures Program

The capital expenditures program in 1985 is estimated at $ 36.0 million, including the cost of re-usable material and equipment; purchase commitments amounting to approximately $ 4.7 million have been made in connection therewith as of December 31, 1984.

5. Operations

This caption mainly includes maintenance, wages and expenses of traffic, customer service, marketing, accounting, data processing, industrial relations and human resources, engineering costs incurred for planning and administrative purposes, cost of goods sold, stationery expenses and office services such as mail, house service and the administration of a purchasing department as well as pension plans (Note 13) and other employee benefits.

6. General Taxes

	1984	1983
	Thousands of dollars	
Tax on capital	$ 1,388	$ 1,355
Tax assessed under the Municipal Taxation Act	7,218	6,683
Real estate taxes	482	473
Payroll taxes	3,587	3,287
Other taxes	717	661
	13,392	12,459
Less: allocation to telecommunications property	306	345
	$ 13,086	$ 12,114

7. Other Income

Among others, this caption includes administration costs calculated on accounts receivable, as well as an allowance for funds used during construction. This allowance which amounted to $ 528,164 in 1984 ($ 446,065 in 1983) was applied to the telecommunications property at the rate of 13.18 % (12.06 % in 1983) and credited to other income. This rate reflects the Company's rate of return on total invested capital for the previous year.

8. Remuneration of Directors and Officers

The total direct remuneration, including benefits, paid to directors and officers was $ 710,305 for the year ended December 31, 1984 and $ 658,144 for 1983.

9. Accumulated Depreciation

	1984	1983
	Thousands of dollars	
Balance at beginning of year	$ 155,232	$ 136,819
Amount charged to depreciation account	32,635	28,447
Less: telecommunications property retired (net value)	14,639	10,034
Balance at end of year	$ 173,228	$ 155,232

10. Short-Term Debt

	1984	1983
	Thousands of dollars	
Short-term notes		
Bank	$ 6,605	$ 7,395
La Compagnie de Téléphone Anglo-Canadienne	—	7,000
Promissory notes	3,000	2,000
Current portion of Cumulative Redeemable Preferred shares	1,245	1,241
Current portion of long-term debt	161	2,817
	$ 11,011	$ 20,453

The average interest rate on short-term notes was 11.31 % in 1984 and 9.98 % in 1983.

The Company's policy is to utilize short-term debt as interim financing.

The short-term debt is considered in computing the average debt service cost and the rate of return on average invested capital.

11. Income Taxes

The Company has been assessed by the Department of National Revenue up to and including December 31, 1983 and by the *Ministère du Revenu* of Québec up to and including December 31, 1982. Audits have not yet been completed by the Department of National Revenue for the fiscal periods 1980 to 1982 and by the *Ministère du Revenu* of Québec for the fiscal periods 1974 to 1978. Management estimates that no significant liability should ensue.

The reconciliation of the statutory and effective income tax rates is as follows:

	1984	1983
Statutory income tax rate (federal and provincial)	41.5 %	41.5 %
Provision for eventual loss on foreign currency	1.5	0.6
Reversal of deferred income taxes, at historical rates	(1.8)	—
Federal surtax 2.5 %	—	0.9
Other items	0.4	0.1
Effective income tax rate	41.6 %	43.1 %

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

	1984	1983 Thousands of dollars
Current	$ 16,855	$ 17,073
Deferred	(3,043)	(2,366)
	$ 13,812	$ 14,707

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

	Income taxes payable		Deferred income taxes	
	1984	1983 Thousands of dollars	1984	1983 Thousands of dollars
Balance at beginning of year	$ 6,156	$ 2,385	$ 61,146	$ 63,390
Payments	(23,219)	(13,481)	—	—
Provision	16,855	17,073	(3,043)	(2,366)
Prior years' adjustments	931	179	(1,234)	122
Balance at end of year	$ 723	$ 6,156	$ 56,869	$ 61,146

12. Changes in Working Capital other than Short-Term Debt

	1984	1983 Thousands of dollars
Increase (decrease) in current assets		
Cash	$ 132	$ (309)
Accounts receivable	2,789	1,654
Prepaid expenses and other	(58)	641
(Increase) decrease in current liabilities		
Cheques issued in excess of bank balances	(529)	(2,683)
Accounts payable and others	(1,180)	(3,753)
Income taxes payable	5,433	(3,771)
Increase (decrease) in working capital	$ 6,587	$ (8,221)

13. Pension Plans

The Company maintains funded pension plans for the benefit of its employees and complies with the requirements of the Québec Supplemental Pension Plans Act. The unfunded liability, determined by actuarial valuation, is funded by annual payments charged to operating expenses in accordance with legal requirements. An actuarial valuation as of December 31, 1984 will be made and the results will be filed with the *Régie des rentes du Québec.*

Based on the actuarial valuation as of December 31, 1981, the unfunded liability was $ 2,584,937 as of December 31, 1984 and will be amortized by annual instalments of $ 389,054 including interest, up to December 31, 1996.

Pension costs were $ 2,256,557 for the year ended December 31, 1984 and $ 2,226,142 for 1983.

14. Related Party Transactions

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

The Company's 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.

Out of a total disbursement of $ 67.8 million in dividends, goods and services, in 1984, the Company has paid $ 12.2 million to affiliates of which $ 0.4 million to *La Compagnie de Téléphone Anglo-Canadienne* as interest on short-term notes; the rate of interest on these notes was the same as on 30-day Canadian commercial paper.

QUÉBEC-TELEPHONE

QUARTERLY FINANCIAL DATA 1984

(unaudited)

Three months ended	March 31	June 30	Sept. 30	Dec. 31
				Thousands of dollars
Revenues	$ 39,013	$ 40,939	$ 41,680	$ 42,434
Operating expenses	18,065	18,833	18,242	19,277
Depreciation	8,095	8,092	8,176	8,272
General taxes	3,237	3,448	3,189	3,212
	29,397	30,373	29,607	30,761
Operating income	9,616	10,566	12,073	11,673
Other income	356	306	363	573
Income before financial expenses and income taxes	9,972	10,872	12,436	12,246
Financial expenses	2,835	3,045	3,134	3,355
Income before income taxes	7,137	7,827	9,302	8,891
Income taxes	2,838	3,180	3,858	3,936
Net income	4,299	4,647	5,444	4,955
Dividends on Preferred and Subordinate Preferred shares	330	317	317	306
Net income applicable to Common shares	$ 3,969	$ 4,330	$ 5,127	$ 4,649
Earnings per Common share	$ 0.84	$ 0.90	$ 1.05	$ 0.92
Dividends declared per Common share	$ 0.58	$ 0.65	$ 0.65	$ 0.65

Note: Results for the first three quarters have been restated to reflect Order 9746-H issued by the *Régie des services publics* of Québec (see **Depreciation** in note 1 to financial statements). Earnings per Common share for each of the first three quarters, before restatement, were as follows: March 31 $ 0.88, June 30 $ 0.94 and September 30 $ 1.09.

		1984	1983	1982	1981	1980
Selected results and reinvested earnings items (thousands of dollars)	Revenues	$ 164,066	$ 153,596	$ 139,587	$ 130,884	$ 112,000
	Operating expenses (excluding depreciation and general taxes)	74,417	67,116	62,534	56,455	47,775
	Depreciation	32,635	28,453	24,627	26,318	22,470
	General taxes	13,086	12,114	11,190	9,115	7,133
	Total operating expenses	120,138	107,683	98,351	91,888	77,378
	Financial expenses	12,369	13,029	13,927	13,119	12,642
	Income taxes	13,812	14,707	13,182	13,821	11,517
	Net income	19,345	19,430	15,634	13,824	11,640
	Dividends on Preferred and Subordinate Preferred shares	1,270	1,385	1,507	1,619	1,765
	Net income applicable to Common shares	18,075	18,045	14,127	12,205	9,875
	Dividends on Common shares	12,334	10,104	8,576	8,089	6,444
Selected balance sheet items (thousands of dollars)	Telecommunications property, at cost	$ 477,267	$ 463,385	$ 445,771	$ 428,517	$ 394,648
	Accumulated depreciation	173,228	155,232	136,819	126,325	107,888
	Common share equity	129,511	112,966	97,431	87,461	81,316
	Preferred and Subordinate Preferred shares	18,327	19,745	21,233	22,549	24,368
	Long-term debt	86,306	85,235	116,465	115,329	115,641
	Short-term debt	11,011	20,453	11,017	12,971	6,792
Financial statistics	Earnings per Common share	$ 3.71	$ 3.97	$ 3.35	$ 3.02	$ 2.82
	Dividends declared per Common share	$ 2.53	$ 2.22	$ 2.03	$ 2.00	$ 1.84
	Dividend payout ratio	68.2 %	56.0 %	60.7 %	66.3 %	65.3 %
	Common equity per share (1)	$ 25.64	$ 24.11	$ 22.35	$ 21.36	$ 20.44
	Common share market price (2)					
	High	$ 34.00	$ 31.50	$ 20.875	$ 20.875	$ 23.00
	Low	$ 28.875	$ 19.75	$ 15.75	$ 16.50	$ 18.00
	Close	$ 34.00	$ 30.00	$ 20.875	$ 17.00	$ 18.00
	Return on average Common share equity	15.0 %	17.1 %	15.5 %	14.5 %	14.5 %
	Return on average invested capital (3)	13.0 %	13.2 %	12.1 %	11.6 %	11.0 %
	Average debt service cost (3)	10.8 %	10.2 %	10.6 %	10.6 %	10.1 %
	Debt ratio (3)	39.7 %	44.3 %	51.8 %	53.8 %	53.7 %
	Interest coverage on long-term debt (times)	4.94	4.17	3.54	3.45	3.06
Other statistics	Average number of Common shares (thousands)	4,870	4,547	4,222	4,044	3,502
	Number of Common shareholders (1)	6,312	3,955	3,617	3,295	2,815
	Number of employees (1)	1,993	2,023	2,036	2,166	2,195
	Salaries and wages (thousands of dollars)	$ 56,879	$ 52,605	$ 50,213	$ 48,389	$ 42,134
	Gross capital expenditures (thousands of dollars)	$ 31,734	$ 29,190	$ 34,869	$ 44,550	$ 42,641
	Telecommunications property per subscriber line in service (1)	$ 2,212	$ 2,212	$ 2,180	$ 2,117	$ 1,984
	Subscriber lines in service (1)	215,751	209,492	204,455	202,419	198,931
	Terminals in service (1)	290,892	290,713	287,318	284,458	279,556
	Toll messages handled (thousands)	31,099	29,501	28,175	30,002	29,656

(1) At December 31
(2) Valuation day value (December 22, 1971): $ 13.75 per share
(3) See note 10 to financial statements

BOARD OF DIRECTORS

Hervé Belzile †
Chairman and Chief Executive Officer
Alliance compagnie mutuelle d'assurance-vie

Roger Charbonneau †
President
Laboratoires Anglo-French Limitée

Roger DeSerres *
Chairman of the Board
Produits Cellulaires Waterville

James L. Johnson
President -
Telephone Operating Group
GTE Service Corporation

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

Roger Néron
President and Chief Executive Officer
Culinar Inc.

Bernard Panet-Raymond * †
President
O.R.C. Canada Inc.

Claude Pratte, Q.C. *
Advocate

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

William E. Starkey
Group Vice President -
Telephone Operating Group
GTE Service Corporation

Antoine Turmel, O.C.
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

Ghislain Bouchard
Vice President -
Human Resources and Legal Affairs, Secretary

Robert Duchesne
Vice President -
Network Engineering and Construction

Simon Soucy
Vice President -
Finance and Treasurer

Gilles Laroche
Vice President -
Business Development

Andrée Bélanger
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 regulatory authority of the *Régie des services publics* of Québec.

Major Shareholder
As at December 31, 1984, *La Compagnie de Téléphone Anglo-Canadienne*, 8750, chemin de la Côte-de-Liesse, Saint-Laurent, Québec, owned 2,553,848 Common shares of Québec-Téléphone, or 50.6 % of outstanding Common shares.

Listing of Shares
Common shares, 4 ¾ % Preferred shares Series 1965, 7 ¾ % Preferred shares Series 1973 and $ 1.68 Cumulative Redeemable Convertible Subordinate Preferred shares Series B are listed on the Montréal and Toronto stock exchanges. The 5 % Preferred shares Series 1955 and 1956 are listed on the Montréal stock exchange.

Stock Transfer Offices
Trust Général du Canada, 1100, rue University, 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 4 ¾ % Preferred shares Series 1965, at its offices in Toronto and Winnipeg, and is the Co-Transfer Agent and Registrar for the 7 ¾ % Preferred shares Series 1973, 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.

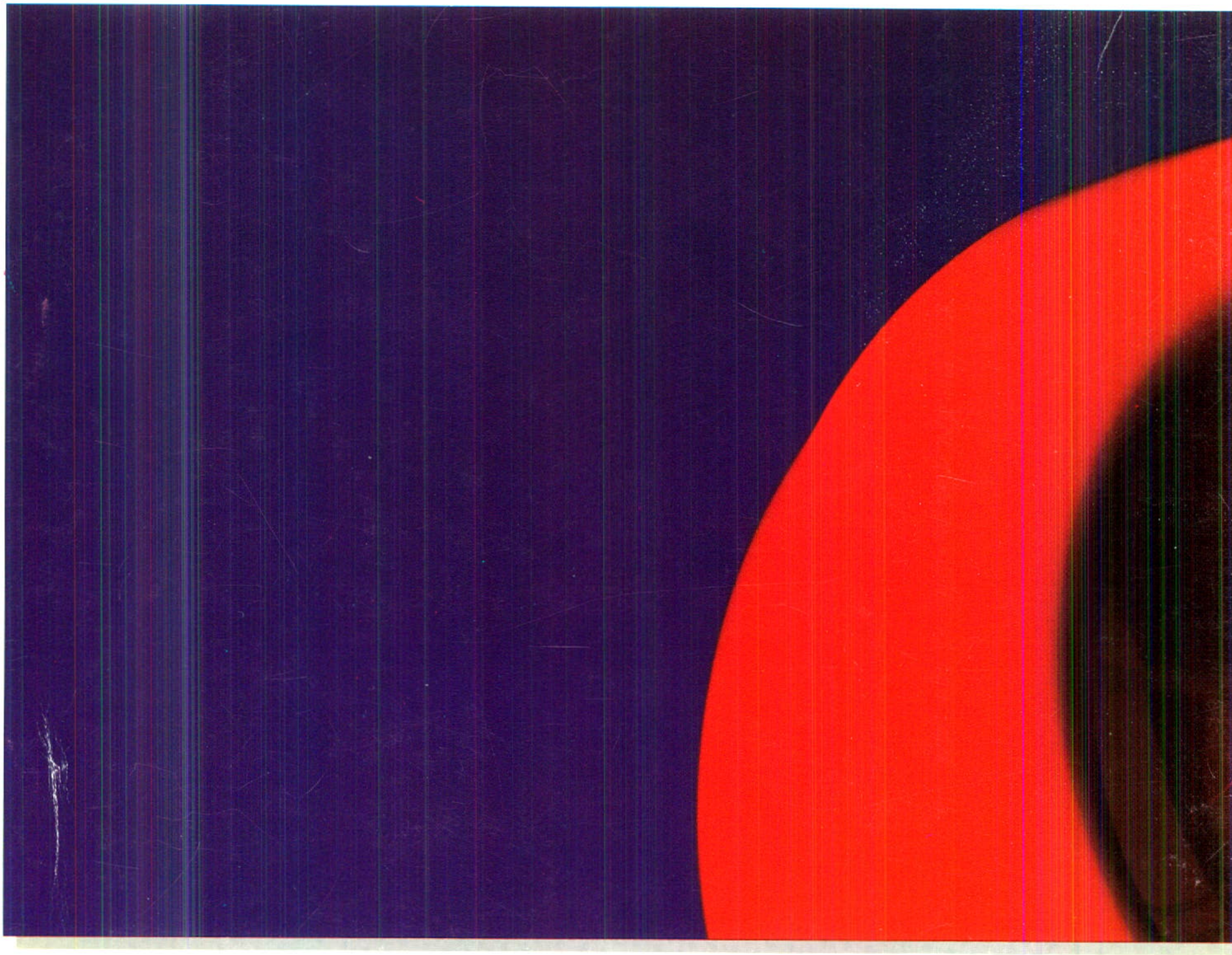
Trustee for Bonds
Trust Général du Canada
1100, rue University
Montréal, Québec

Bankers
Banque Nationale du Canada
Banque de Montréal

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

Annual Meeting
The 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 1, 1985, in Rimouski, Québec. All shareholders who find it possible to attend are urged to do so.

ANNUAL REPORT 1984



QUÉBEC-TÉLÉPHONE

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