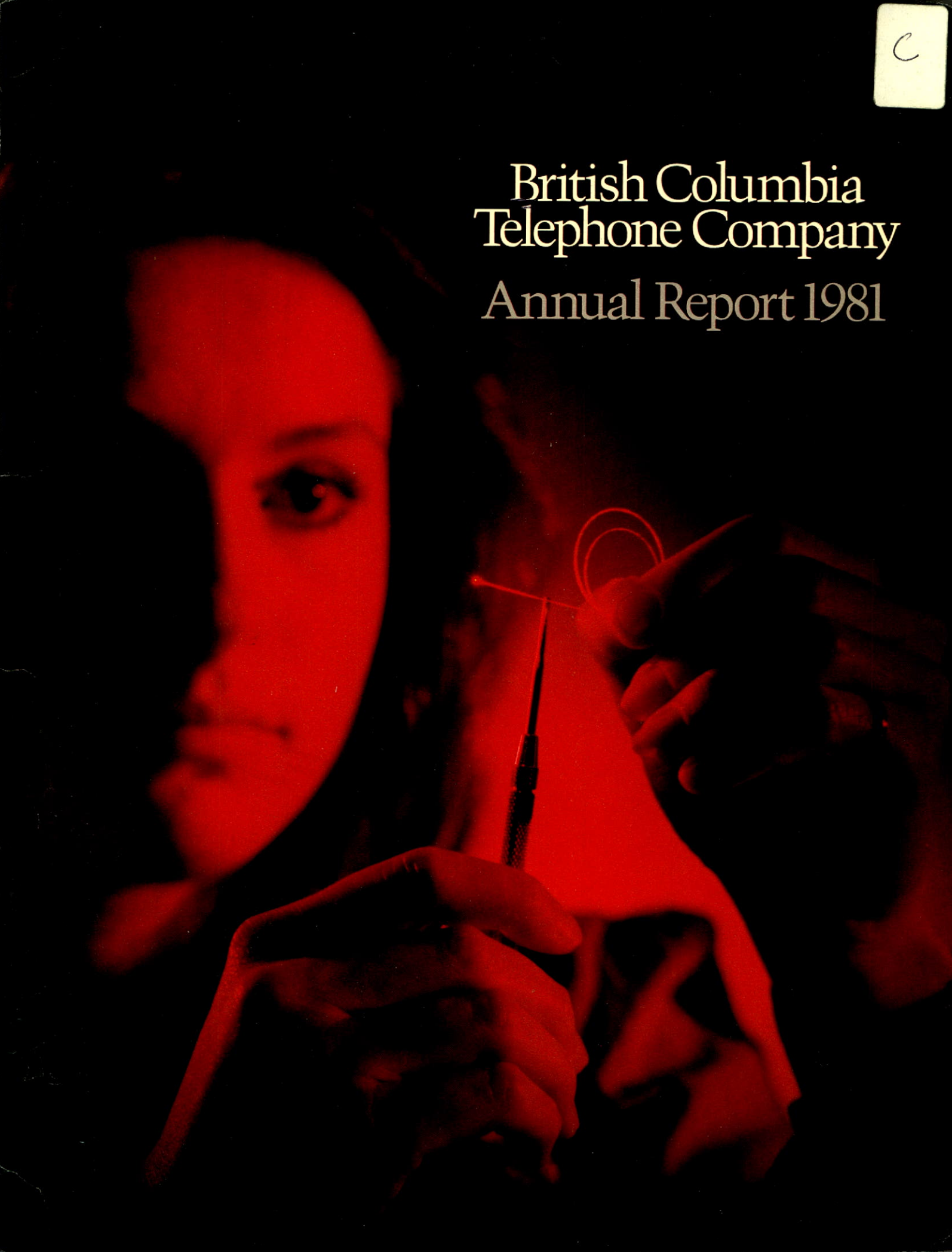


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British Columbia Telephone Company Annual Report 1981



British Columbia Telephone Company Ninetieth Annual Report 1981



Incorporated by Special Act of the Parliament of Canada, April 12, 1916



Our Cover and Photo Story

Many components are required to make a large, diversified enterprise such as B.C. Tel function successfully: high-technology electronic equipment, large plants and extensive facilities, sophisticated manufacturing machinery and processes, research and development laboratories.

But our primary asset and most valuable resource is our people. As we move into the new Information Economy, it is our people who will turn challenge into achievement. Our cover and the pictorial content of this Report salute the men and women who dedicate their efforts to the high tradition of service expected of the telecommunications industry.



Transmission engineer Debra Kunz (cover) works on the New Westminster to Vancouver fibre optic link. She and the other eight employees pictured at home, in their communities and on the job, provide a corporate portrait — the human side of our Company.

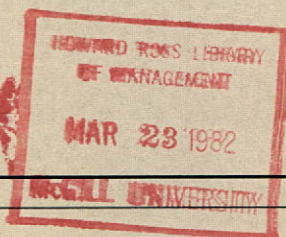
Comparative Highlights

For the years ended December 31

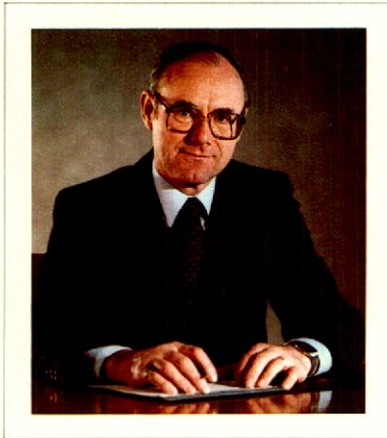
British Columbia Telephone Company

	1981	1980	Increase (Decrease)
Financial	Revenues, Expenses and Earnings (Millions of Dollars)		
	Telecommunications operations		
– revenues	\$894.3	\$754.5	18.5%
– expenses	\$643.1	\$534.7	20.3%
	Manufacturing operations		
– sales	\$188.9	\$188.4	.3%
– costs and expenses	\$184.7	\$175.9	5.0%
Combined operating earnings	\$255.4	\$232.3	9.9%
Ordinary share earnings	\$ 68.5	\$ 61.9	10.7%
	Ordinary Shareholders' Items		
Earnings per share	\$ 2.23	\$ 2.04	9.3%
Dividends declared per share	\$ 1.42	\$ 1.20	18.3%
Equity per share	\$16.36	\$15.73	4.0%
Average shares outstanding (Millions)	30.8	30.3	1.7%
Return on share equity	13.84%	13.48%	2.7%
	Invested Capital		
Average invested capital (Millions of Dollars)	\$1,651.1	\$1,556.4	6.1%
Return on average invested capital	11.00%	10.22%	7.6%
Other Statistics	Gross capital expenditures (Millions of Dollars)		
	\$371.3	\$323.0	15.0%
Subscriber lines in service	1,311,000	1,257,000	4.3%
Subscriber line gain for the year	54,000	67,000	(19.4%)
	Number of employees		
– British Columbia Telephone Company	14,406	13,235	8.8%
– Canadian Telephone & Supplies Ltd.	859	768	11.8%
– AEL Microtel Limited	3,038	2,935	3.5%
– Microtel Pacific Research Limited	263	241	9.1%

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The Chairman's Letter



Once again in 1981, B.C. Tel's strengths were tested by events and forces in its internal and external environments. And, once again, the Company demonstrated that its inherent stability, coupled with the resourcefulness and determination of its people could turn challenge into achievement.

Continuing inflation, a widespread recession and alarmingly high interest rates contributed to a downward trend in corporate earnings across the nation. B.C. Tel did not follow this trend.

Instead, thanks to effective control of costs, efficient and appropriate repricing of services and the degree of stability which is always present in our basic business, our Company was able to achieve a reasonable measure of growth. Our net earnings and the rate of return on total invested capital improved in 1981 compared with 1980.

This improved financial performance enabled us to address the concerns I expressed last year with respect to the lack of balance in the return that our shareholders have been receiving.

I am pleased to be able to report that our determination to improve this situation has resulted in two increases in our quarterly dividends in 1981, held in abeyance since 1979.

However, our financial results have not yet

reached the level considered to be adequate for today's financial market.

We believe that returns on ordinary equity in the range of 17.5% to 19.0% are necessary if we are to attract the funds required to provide the telecommunications services desired by our customers. Of equal importance is the necessity to service our investors' capital at compensatory levels.

As one means to that end, we made an application for a general increase in rates to become effective in May of this year and, at the same time, requested interim increases in rates to cover the first four months of 1982. Our regulatory body, the Canadian Radio-television and Telecommunications Commission (CRTC), has approved interim increases which became effective January 1, 1982 and which will produce some \$17.7 million in additional local service revenues. Inclusive of these revenues generated by the interim increases, the implementation of our requested general price increases in 1982, if approved, would generate some \$106 million in revenues. A decision on our application is expected in May.

An increase in rates to boost revenues is just one of the means we hope to utilize in our efforts to improve our financial performance and thereby enable us to meet our continuing service and financial obligations to our customers, our shareholders and our employees.

We will continue to improve our programs of cost control, but we will also ensure that these restraints do not impair the quality of service we provide our customers.

On a more positive level, we intend to pursue and exploit those competitive opportunities now open to us while ensuring that we are capable of taking full advantage of whatever competitive environment emerges as a result of regulatory decision or technological innovation.

In that connection, B.C. Tel has participated in the public hearings and discussions conducted by the CRTC to determine a public policy regarding competition as it relates to terminal attachment. Specifically, the Commission has been examining competition in the provision of terminal equipment such as telephone sets and business switchboards.

This is but one aspect of an extremely complex issue which has such far-reaching social and economic implications that, in our opinion, only the public interest can be used to measure and determine policy. To assist the Commission, B.C. Tel submitted its evaluation of the consequences of various degrees and types of competition related to interconnection, as well as the Company's position should liberalization of

competition in the supply of terminal equipment be deemed to be in the public interest.

It is the Company's position that the integrity and strength of the Canadian telecommunications system, including the role that B.C. Tel plays in that system, is a fundamental element of the public interest. Therefore, great care must be taken that contemplated changes affecting the system do not undermine these strengths.

Among other concerns, the Company believes that liberalization or deregulation of the terminal equipment marketplace should take place only under clearly specified conditions, including timing, so that planning and investment uncertainties can be kept to a minimum.

We believe we have a legitimate and beneficial role to play should a competitive marketplace in the supply of terminal equipment be deemed to be in the public interest. This Company has a significant presence in British Columbia as a result of the employment and training of a skilled workforce, and the very substantial investment made by the Company's shareholders and other investors.

As a result of an interim decision by the CRTC, some aspects of terminal equipment marketing have already become competitive. We are now competing vigorously in these areas and we fully intend to utilize our strengths to obtain our share of any expansion of the marketplace which might occur as a result of the Commission's decision. We ask only that the rules of competition be equal for all competitors and that, like other competitors, we have the option to enter or withdraw from markets.

In addition to the evident strengths of our telecommunications operations, our wholly-owned subsidiary AEL Microtel Limited and its research and development arm, Microtel Pacific Research Limited, provide one of Canada's largest telecommunications manufacturing, marketing and R&D complexes. As noted in the Report of Directors, Microtel continues to expand both its product line and the range of its marketing with its products now in use across Canada and in 55 other countries.

As the pictorial theme of this Report demonstrates, we are very much aware that the basis of our strength is the quality and performance of our people. The nature of our industrial relations is of paramount importance to this Company and I was, therefore, greatly concerned that at this time last year I had to report that we were operating under conditions imposed by a full-scale work stoppage.

However, inauspicious beginnings sometimes augur satisfactory conclusions and so it was for

the Company's industrial relations in 1981. The year began under a pall of labour strife which erupted into a full strike in early February. Normal operations resumed some six weeks later on March 23, with the signing of a new three-year collective agreement.

Almost immediately after the signing of the new agreement, I created a Human Relations Task Force under vice-president Don Champion. Its mandate was clear: to recommend ways to improve human relations and promote a supportive and mutually productive environment for all Company employees.

I am happy to report that progress is being made. Reciprocal invitations to attend formal and informal meetings were extended by both the Company and the Telecommunications Workers Union (TWU). Information meetings were held for senior managers who are passing on the results to all their employees. Employees have been given increased opportunities to learn the reasons for corporate decisions and to suggest ways to improve their jobs and working environment.

There has been cooperation between the Company and the TWU in developing a new craft training program and concepts such as Quality Circles are taking their place in our operations.

It would be premature to conclude that we have now entered a new era of mutual understanding and cooperation but I am confident that we are moving in that direction. A new mood and improved morale are already evident in the workplace. I am confident that this improved attitude is widely shared by both elements in the labour-management equation and that it will continue to manifest itself in greater job satisfaction for all employees.

Our people, technology and resources are the elements which enabled us to achieve a measure of growth in a year which brought economic hardship to many Canadians and many Canadian businesses. Combined with our tradition of service and our commitment to serve the people, industries and institutions of this province, these same elements should ensure that this Company reaps its share of the benefits of the Information Economy in the years ahead.



Gordon F. MacFarlane
Chairman and Chief Executive Officer

JOHN WILSON:

“Small towns are special. You know everybody and everybody knows you. It gives you a sense of belonging. As district repairman, you become Mister Telephone. I guess I look at Ladysmith as my district.

“I used to criticize council — why don't they do this or that. Then one day I said: 'why don't I do something?' And I did. As alderman, I want the town to grow, but I want controlled growth.”

JOHN WILSON is district repairman in Ladysmith. He is married and has four children. A second-generation B.C. Tel employee, John joined the Company in 1956. John has been a volunteer fireman for the past 15 years, and serves in his third year as alderman. He hopes to run for mayor in 1983.



Report of Directors

In the annals of many Canadian corporations, the 1981 calendar will be bordered in black and, for some, the bottom-line figures written in red.

Seen against this generally gloomy background, B.C. Tel's record of improved earnings appears very impressive. However, to obtain a more accurate and relevant picture, this record must be measured against the Company's own circumstances and its own present and future requirements and obligations.

In this context, the level of earnings attained in 1981 must be regarded simply as a step in the right direction, not an acceptable plateau on which to rest.

Nevertheless, it is highly gratifying to have achieved this degree of growth in a year which, for both the telecommunications and manufacturing arms of the corporation, was marked by extended work stoppages and the subsequent requirement to restore service levels and production. In addition, the problems and pressures produced by inflation, historically high interest rates and a stubborn recession affected every aspect of our operations.

The work of maintaining, upgrading and extending the telecommunications network was intensified following the signing of a new collective agreement and positive steps were taken to improve the environment of the workplace.

The Company's manufacturing subsidiary, also affected by work stoppages, was able to produce innovative new products, penetrate new markets and expand in many of its established markets.

In sum, B.C. Tel weathered the storms of 1981 — external and internal — in a manner which reflects favourably on the collective enterprise and determination of its people.

Financial Performance

EARNINGS

Ordinary share earnings for the year were \$68.5 million or \$2.23 per ordinary share, based on the average number of shares outstanding during

the year. Ordinary share earnings for 1980 were \$2.04 per share.

The rate of return on average ordinary share equity for 1981 was 13.84%, compared with 13.48% in 1980. Return on total invested capital for 1981 was 11.00% compared with 10.22% in 1980.

The Company's objective for 1982 is to earn a return on ordinary equity in the range of 17.5% to 19.0%. This is the range requested by the Company in its current application to its regulatory body.

REVENUES AND EXPENSES

Operating revenues for telecommunications in 1981 increased by 18.5% to \$894.3 million, compared with revenues of \$754.5 million in 1980. In part, this increase in revenues is due to new rates which contributed an estimated \$47 million to revenues in 1981, but the major part of the increase is attributable to the nature of the Company's basic business — communications. There were more subscriber lines in service — 4.3% more than in 1980 — and customers made more use of the Company's long distance network, with an increase of 17.8% in these revenues.

Telecommunications operating expenses for 1981 totalled \$643.1 million, an increase of 20.3% over operating expenses of \$534.7 million in 1980. Higher wage and benefit levels flowing from the new collective agreement accounted for much of this increase. An increase in depreciation rates on telephone plant which is being retired or replaced as part of the Company's modernization program also contributed to increased expenses.

Manufacturing sales totalled \$188.9 million in 1981, compared with sales of \$188.4 million in 1980. Manufacturing costs and expenses were \$184.7 million, an increase of \$8.8 million over 1980 costs and expenses of \$175.9 million.

The marginal increase in manufacturing sales reflects the major delays in product completion and delivery — a consequence of mid-year labour disruptions. Higher wage and benefit costs account for much of the increase in manufacturing costs and expenses.

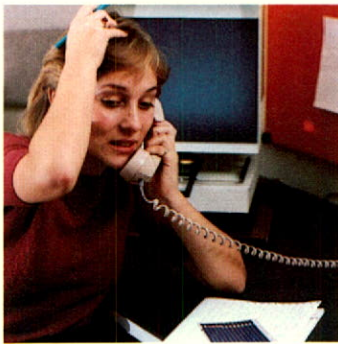
ORDINARY DIVIDENDS

The Company's improved financial performance permitted two increases in quarterly dividends in 1981.

On May 27, the quarterly dividend per ordinary share was increased from \$.30 to \$.36. On

NANCY McNAUGHTON:
“Dancing was always part of my life. When I was a kid, it was easy and fun. Later, it became discipline and sacrifice.

“Then I danced professionally, and the glamour soon wore off. I needed more stability. Now I teach kids. They are fun and they want to learn. It’s very gratifying.”



NANCY McNAUGHTON is a billing clerk who joined the Company in 1979. She began training in classical dance at the age of five, and later attended the Royal Ballet School in London and danced professionally in England.



November 24, the quarterly dividend was again increased to \$.40. The dividend on ordinary shares for the year was \$1.42 per share compared with \$1.20 per share in 1980.

FINANCING

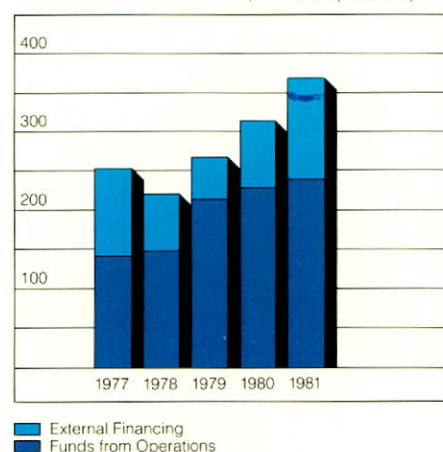
A total of \$125 million in public issues was raised during 1981. This amount included a \$75 million first mortgage bond issue, Series AG at 14.25% in April and an additional 3,343,504 ordinary shares issued at \$15.00 each in December.

Some 65% of the funds required for the construction program was raised internally, with the balance made up from external financing.

Details of financing transactions are contained in the Audited Financial Statements and the notes thereto.

In 1981, GTE reduced its ownership to the historical level of 50.72%, fully diluted. Details of this are contained on page 43.

Source of Funds Used for Construction
(Millions of Dollars)



Regulation

RATES

As a federally-regulated telecommunications carrier, B.C. Tel must seek regulatory approval from the Canadian Radio-television and Telecommunications Commission (CRTC) for any changes in the prices it charges for its services.

The ability to adjust the rates to reflect changing economic conditions, and the speed with which these changes can be implemented, are of increasing importance and concern to the Company.

The Company applied on March 24, 1980 for a rate increase. This was granted to become

effective February 2, 1981, almost a year later. That increase produced some \$47 million in additional revenue in 1981 in keeping with the CRTC's view that "... a range of 14.0% to 15.5% for return on average ordinary equity constitutes a reasonable incentive for the Company."

B.C. Tel did, in fact, achieve a return on average ordinary equity of 13.84% in 1981. However, events and pressures which neither the Company nor the Commission could have foreseen soon made this new level of earnings inappropriate and unsatisfactory.

B.C. Tel's construction programs are designed to provide an effective telecommunications system which can meet the increasingly sophisticated needs of its users. Although the Company is generating an increasing percentage of the required funds through internal sources, it must go to the market for the balance of the funds. In 1981, consolidated capital expenditures amounted to some \$371 million, and to undertake essential construction in 1982 will require about \$457 million. To raise even a fraction of these amounts from external sources, the Company must demonstrate satisfactory financial performance and provide realistic incentives for investors, and the Company therefore had no alternative but to seek additional rate increases.

On June 26, 1981, B.C. Tel informed the CRTC that it was the Company's intention to file an application on November 2, 1981, requesting a general increase in rates to come into effect on May 1, 1982. At the same time, the Company applied to the Commission for interim increases in rates.

As noted in the Chairman's Letter, the CRTC approved most of the requested interim increases which became effective January 1, 1982.

The Commission commenced public hearings on the Company's request for a general increase in February of this year and a decision is expected in May. The total increases requested, including those already granted in the interim for the period January 1 to April 30, 1982, would vary from 28% for basic residential service and 37% for basic business exchange service, to about 45% for some specific business services.

It is estimated that, taken in aggregate, these increases would yield some \$106 million in

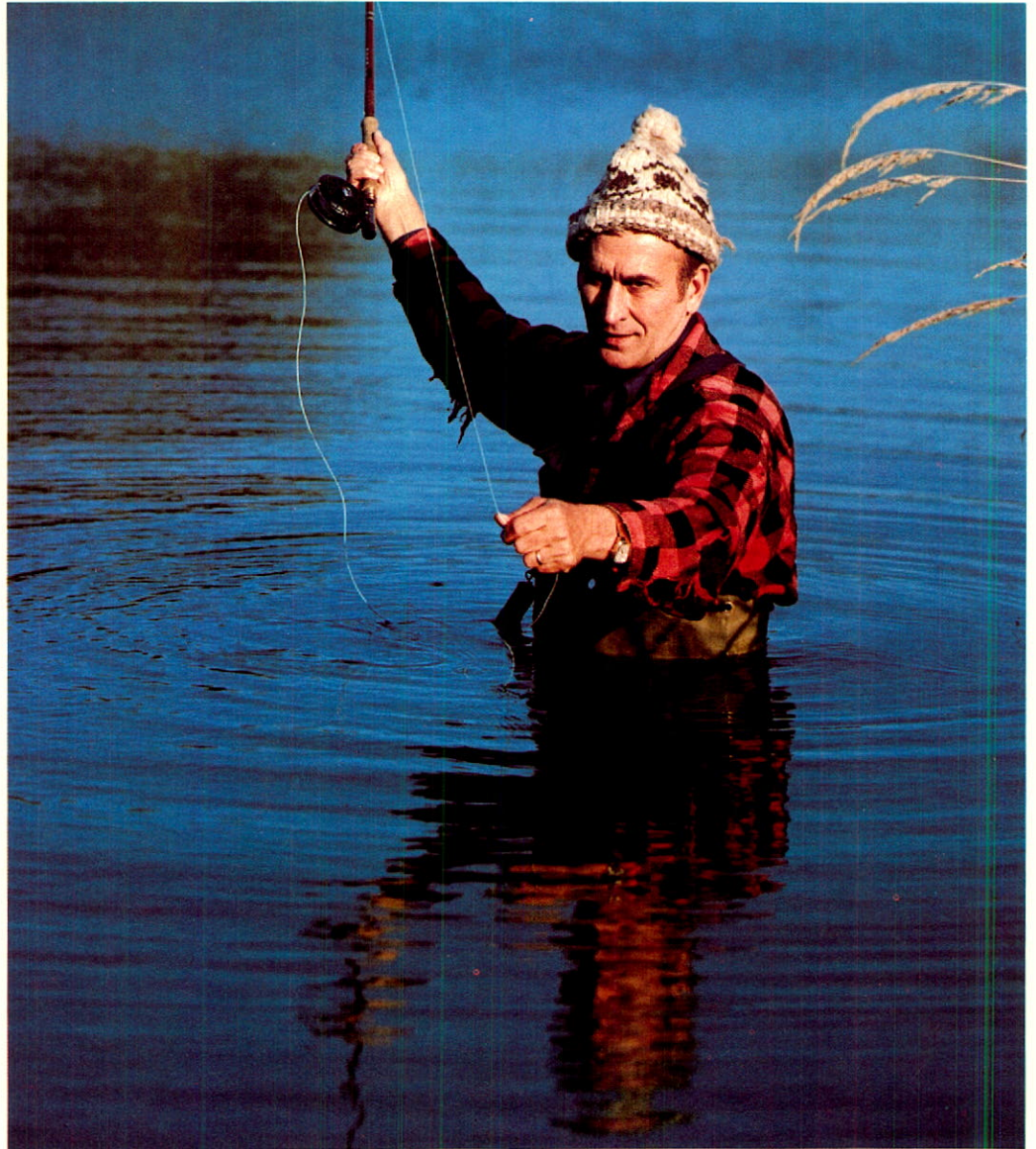
DON CHAMPION:

“In the past, we British Columbians have demonstrated strange attitudes. All too often, our working relationships have been adversarial and wasteful.

“Now there seems to be an emerging recognition that there are better ways of doing things . . . of working together toward common goals.”



DON CHAMPION is the new vice-president for Personnel and Industrial Relations. He has served the Company for over 28 years in a number of managerial and executive positions. An avid angler, Don also believes in regular exercise, keeping fit by jogging each morning with wife Sheila. The couple has a family of three.



additional revenues in 1982. This would represent an increase of about 10% in operating revenues.

COMPETITION

The broad issue of competition in Canadian telecommunications has been a matter of debate, confusion and uncertainty for the best part of a decade. There has been no national policy on communications. As a result, the immediate pressures of technological developments and entrepreneurial demands have produced piecemeal, ad hoc responses from the various regulatory agencies concerned. This has been particularly evident in the area of terminal attachment.

The evolution of micro-electronic technology and a shift in regulatory direction have now made it practical for independent suppliers to compete with telecommunications utilities in the provision of terminal equipment such as telephones and business switchboards. Although there has been competition in this field for many years in the United States, it is only in the '80s that Canadian telecommunications enterprises and their regulators have started to come to grips with the issue and its implications.

In 1980, the CRTC issued an interim decision allowing the attachment to the Bell Canada network of approved, customer-provided extension residence and business telephones as well as business switchboards. On October 22, 1981, the terms of this interim decision were extended to affect B.C. Tel. While customers will continue to receive their primary telephone from B.C. Tel, the decision permits competition in the supply of extension telephones, key systems and switchboards, pending the outcome of the Commission's recent hearings on terminal attachment.

These public hearings began in November, 1981 and no firm date has been set for the Commission's final decision on this complex matter. As noted in the Chairman's Letter, B.C. Tel took part in these public meetings held by the Commission and has urged the Commission to consider only the public interest in reaching its decision.

It is in the best interests of the country and certainly in the best interests of those parties directly concerned that the uncertainties of this situation be resolved as quickly as possible. For B.C. Tel, these uncertainties can be dealt with only by wide-ranging and imaginative planning.

The Corporate Forum

Some years ago, to prepare for the profound changes which technological developments and

the possibility of competition could bring, B.C. Tel set up a corporate strategic planning function.

In 1981, the planning body or Corporate Forum, composed of the chairman and chief executive officer, the presidents of B.C. Tel, Microtel and Microtel Pacific Research, the Marketing vice-presidents and the vice-president of Corporate Planning, established twelve business planning units (BPUs) covering the telecommunications, manufacturing, research and development areas of the Company's activities. This initiative is designed to meet the challenge of planning more effectively in an environment with an accelerating pace of change.

Specifically, the Company intends to utilize the synergies of vertical integration whenever it is in the corporate and public interest to do so. The Company will concentrate its total resources to deal with opportunities as they arise.

The Corporate Forum emphasized the requirement for education and training programs to ensure that the Company has well-qualified employees to meet the challenges of the Information Economy.

TRAINING

At its Education Centre in Vancouver, B.C. Tel operates one of the most highly respected industrial education facilities in Canada. It is evidence of the Company's recognition of its responsibility to prepare employees for the demanding roles they must play in today's and tomorrow's world of telecommunications.

The Education Centre offers employees almost 300 different courses ranging from defensive driving to advanced management development. In 1981 some 8,000 employees took the opportunity to improve existing skills or acquire new ones. In 1982, approximately \$14 million will be invested in similar training activities.

In addition to training opportunities for its own



TONI WILLIAMS literally walked out of her native Hungary in the dead of night after the uprising of 1956. Holder of 12 Canadian women's records for gliding, Toni is also a draftsman with Microtel Pacific Research Limited. For the previous 15 years she was employed with Lenkurt Electric (Canada) Ltd. Toni is married and has one daughter.



TONI WILLIAMS:

“People always ask why I do it . . . what's it like to glide. I'm not sure what the answer is. The closest I've come to an answer is that for me, gliding is freedom.

“I can probably appreciate freedom more than Canadians who've never lost theirs”



employees, B.C. Tel provides training on a contract basis to other companies either through the sale of a training package or by training the students on Company premises. One of the most notable of these ventures involved a training contract for employees of Indonesia's national telephone service. Others include students from the Dominican Republic and students from Canadian and American companies who wish to take advantage of the expertise developed by B.C. Tel.

For its part, AEL Microtel has trained students either at its own training schools or abroad at client locations including China, Venezuela, Argentina, Brazil, the Philippines, Hong Kong and Saudi Arabia.

EMPLOYEES IN THE COMMUNITY

Many of the people who work for the Company also devote time and effort to their communities. For some, it is a matter of holding civic office, for others a willing hand for various volunteer organizations or the time spent coaching a hockey team. In addition to time and effort, our employees make individual financial contributions to community and charitable projects, notably through the Telephone Employees Community Fund (TECF).

The Directors wish to applaud the efforts and initiative of all employees who participated in the TECF campaign in 1981. An all-time record of more than \$400,000 was raised throughout the province-wide system. Given the facts of a work-stoppage and the generally gloomy atmosphere of recession in the province, this is a particularly impressive achievement and demonstrates, once again, the generous spirit and social commitment of so many of our people.

ORGANIZATION CHANGES

B.C. Tel

In a reassignment of duties, Don W. Champion, formerly vice-president Customer Service has become vice-president Personnel and Industrial Relations, and Frank S. Tucker, formerly

vice-president Personnel and Industrial Relations has become vice-president Customer Service.

AEL Microtel Limited

Effective January 1, 1982, Terence F. Heenan has been appointed president and chief executive officer of AEL Microtel Limited following a four-year term as president and chairman of the board of management of the TransCanada Telephone System. Mr. Heenan first joined B.C. Tel in 1967 and served at various times as vice-president Operations, vice-president Administration and chief financial officer from 1975 to 1978.

Mr. Heenan succeeds H. Ray Herron who retired on December 31, 1981. Mr. Herron began his telecommunications career with Lenkurt Electric in 1952, was elected president of Automatic Electric (Canada) Ltd. in 1977 and was subsequently appointed president and chief executive officer of the successor company, AEL Microtel Limited.

The board of directors wishes to pay tribute to Mr. Herron for the significant contributions he has made to the Canadian telecommunications industry in general and to this Company in particular.

Progress

MANUFACTURING AND R&D

With its six plants in five provinces, AEL Microtel Limited, B.C. Tel's wholly owned subsidiary, is one of Canada's largest manufacturers of telecommunications equipment.

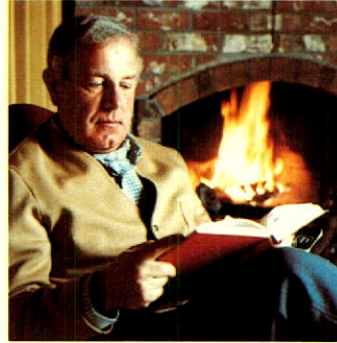
Although growth in Microtel sales for the year was disappointing, due to disruptions in production at its Lethbridge and Burnaby plants as well as a slowdown in international demand for analogue equipment, it is in a strong position, with orders for future delivery for some \$151 million. Microtel made significant penetrations of new market areas in 1981 among its telephone, railway and energy utility customers. It is also becoming a major supplier to the Canadian interconnect market.

Manitoba Telephone System became the fifth major Canadian telephone operating company to buy Microtel's digital central office switching

DAVID HUGHES:

“For me, sailing is a question of contrasts. I deal daily with people and high technology. Sailing or cross-country skiing gives me a chance to keep in touch with older traditions. It sort of puts things in perspective.

“Also, I’m rather competitive. At work, I compete with the marketplace. Sailing, I compete with the elements.”



DAVID HUGHES is general manager of sales and the Computer Communications Group. Cambridge educated and with international computer industry experience, David is also a craftsman who spent two years converting a 1959 wood lifeboat into a 30-foot sloop. David regularly cruises the Gulf Islands with wife Mary and their four sons.

system — the GTD-5 EAX. To date, nearly 300,000 lines of GTD-5 EAX have been ordered by Canadian companies, which indicates wide acceptance of this product. B.C. Tel is currently installing the GTD-5 EAX in its Wellington and Whalley exchanges.

Bell Canada's technical capabilities were enhanced in 1981 through the purchase from Microtel of microwave supervisory and control systems which totalled some \$2.7 million. Also, it is interesting to note that the first direct sale of single channel multiplex equipment to Bell was for use at the Western Economic Summit held in Montebello, Quebec last summer.

A further illustration of the diversity of Microtel's markets is a contract connected with the new underseas telephone cable which will link Canada with other Pacific Rim countries. Microtel will make the 'supergroup' equipment for the ANZCAN submarine cable.

During 1981, Microtel established itself as one of Canada's leading manufacturers of Telidon equipment and terminals with its introduction of the VTX family of Telidon terminals, designed by Microtel Pacific Research (MPR). Production of Telidon terminals is now underway at Microtel's manufacturing facility, Viscount Industries, in Vancouver using Telidon encoders supplied by the company's Brockville factory. Sales in 1982 are expected to exceed \$4 million.

New laboratories and headquarters for Microtel Pacific Research are under construction at the Simon Fraser University Discovery Park in Burnaby and will be occupied this spring. MPR has received a \$3.3 million contract from the Defence Industry Production program of the Canadian government to establish a micro-electronic design package and test centre. This contract, combined with a similar investment by Microtel, will permit the rapid design and test of the very large scale integrated circuits so necessary to retain a competitive edge in the future. In 1982, MPR will continue with one of its largest R&D programs to date: a new and highly sophisticated satellite communications system called Spacephone System. This system should simplify the provision of regular exchange service in remote areas and is of particular interest to B.C. Tel.

At year's end, Microtel had 3,301 employees including 243 scientists and support staff of

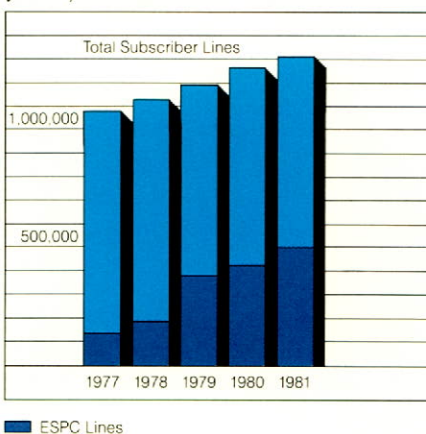
Microtel Pacific Research and 20 employees of Viscount Industries Limited.

Telecommunications

SERVICE AND CONSTRUCTION

Last year marked the end of the first decade of electronically controlled switching for B.C. Tel. It was in 1971 that the first small electronic switch was installed in the then new community of Sparwood. Today, B.C. Tel has 46 electronic switches operating in its telephone offices throughout the province — the result of the largest and most expensive capital program in the Company's history. At year-end some 38% of B.C. Tel's 1.3 million subscriber lines were electronically switched.

Electronic Stored Program Control (ESPC) Conversion



The 10 years of change from electro-mechanical to electronic switching have also seen a move from analogue to digital technologies which allow more messages to be transmitted on existing facilities with better clarity, resulting in more efficient use of the network.

B.C. Tel has several digital toll switches in operation, including those installed in Prince George and Kelowna in 1981. In November, it also

CAROL GROUNDWATER:
“Women have only recently begun to be accepted as achievers. But today’s opportunities and responsibilities also bring their share of stress.”

“Skiing, hiking, fishing and the great outdoors are my escape valve.”



CAROL GROUNDWATER is a product analyst in Marketing who joined B.C. Tel a year ago. She managed to squeeze in a lot of world travel when she worked on her commerce degree from Simon Fraser University.

placed its first digital local switch in operation in the municipality of Richmond.

The Company's commitment to provide and improve service — a commitment which is backed by many millions of dollars each year — can be seen in its remote communities program, which provides service to isolated communities of 50 or more potential subscribers and, by contrast, in its installation of its first operational fibre optics system associated with the new Victoria-Vancouver digital microwave transmission system.

It can also be seen in the continuing introduction and expansion of computer-assisted information services, customer records and service orders all of which speed or improve the service the customer receives.

Last year, the Company allocated its capital funds in its telecommunications construction budget as follows:

By Area (Millions of Dollars)	1981	1980
Coastal	\$202.9	\$178.9
Island	46.9	41.0
Interior	37.3	29.6
Northern	45.0	45.6
Okanagan	25.2	23.8
	\$357.3	\$318.9
By Category (Millions of Dollars)	1981	1980
Primary Telephone Service	\$266.9	\$235.3
Modernization	33.2	39.4
Service Improvements	15.2	11.9
Operating Improvements	22.4	18.8
Administrative Support	19.6	13.5
	\$357.3	\$318.9

MARKETING

B.C. Tel intends to take optimum advantage of the new market opportunities presented as a result of the evolution of its business from one of

telephone switching and transmission to that of the transfer of information. The Company has made a major corporate commitment to marketing activities and is relying on the ingenuity, enterprise and human relations skills of its people to ensure that it can maintain and build upon its position as a major supplier in the communications marketplaces of the future.

Primary and secondary market research, detailed competitor analysis, computerized marketing information systems, dynamic promotional programs and market-wide distribution systems provide B.C. Tel with comprehensive marketing plans and programs. Its people provide the means to bring these plans and programs to fruition.

As a result of the interim decision of the CRTC to permit the attachment of customer-owned terminal equipment to our telephone network, the Company is now permitted to compete in the terminal equipment market and has been doing so with imagination and vigour.

The Company has already demonstrated some of its strengths through the successful marketing and installation of such diverse products as a special switchboard for the Canadian National Institute for the Blind — the first of its kind in Canada; the computer switchboard system specifically designed for military applications and installed at Canadian Armed Forces base, Comox; and the multitude of products and services involved in the move of the Vancouver Stock Exchange to its new premises.

This latter project included the provision of a new computer switchboard system, nearly 150 multi-line handsets on the trading floor, 10 Voicecom II units, Datapac and Dataroute lines, a 20-camera closed-circuit video system and hundreds of dedicated circuits from all over Canada feeding directly into the exchange.

B.C. Tel's people approached each of these projects with enthusiasm and completed them successfully. Any and all challenges presented by the Information Economy and a broadened competitive environment will be met with the same enthusiasm and efficiency.

The thrust of the Company is to provide new products and services demanded by the marketplace. The field trial of Telidon videotex, a two-way interactive television system, was launched in 1981. For the trial, 125 terminals built by Viscount Industries, a subsidiary of Microtel, were distributed to participating Vancouver businesses. The system was redesigned to fit more



DAVE BROWN is a storeman with the Company's Supply, Transportation and Buildings facilities in Burnaby. A 32-year veteran with B.C. Tel, Dave also had an impressive pro boxing career, winning 48 out of 56 bouts from 1939 to 1944. He is the chairman of the Vancouver Athletic Commission and has refereed many bouts in his spare time, including the Ali-Merritt and Ali-Chuvalo fights in 1972.

DAVE BROWN:

“Sooner or later, the fight game has got to teach you something. Just like in real life, you win some . . . you lose some.

“A lot of people have the wrong idea about boxing. The sport seems to have received a bad image in the past few years. But I've seen a lot of clean kids come up through the ranks. Boxing has taught them that nothing in life comes free.”



closely the business realities of the various participants.

Through its Computer Communications Group and in co-operation with the TransCanada Telephone System, the Company is actively pursuing the expanding messaging market, data transmission and digital services.

B.C. Tel is opening a Business Communications Centre in Vancouver early in 1982 to serve the business community more effectively.

Looking Ahead

In the face of prevailing economic conditions, it is obvious that the year ahead will be very difficult for this Company, as it will for most Canadian businesses. The effects of the long-heralded recession became more marked for B.C. Tel in the fourth quarter of 1981 and there is little doubt that the first half of 1982 will provide further evidence of the recession's depth and persistence.

However, there are some very positive considerations which should be set in balance against any overly-negative appraisal of this Company's prospects.

First, as the theme of this year's report states in words and pictures, our primary asset is our people. Time and again, in adverse circumstances, they have demonstrated resilience and a dedication to get the job done.

In that connection there is reason for a measure of optimism regarding the progress that is being made in improving human relations within the Company.

We can look to the strengths of the Company itself for further reassurance. We have years of experience and expertise built up in the application of technology.

Through its diversification which has resulted in the integration of manufacturing, research and development, marketing and telecommunications services, the Company is strongly positioned to take full advantage of whatever the future of communications in Canada holds — be it broadened competition or revolutionary new technologies.

In the immediate future, we look to our regulatory body to recognize the merit of our current application for rate increases.

On that same positive side of the appraisal

balance, we would place the long-term prospects of the province we serve. There will be growth for the province as a whole and, where this occurs, there will be growth for this Company, since it represents a major component of the economic infrastructure.

The year ahead will call for the most careful management of our corporate resources and we have strengthened our management tools to accomplish this goal. With a balance of prudence and vision, it should be possible to attain the financial objectives we have set and turn 1982 into another year of progress for B.C. Tel.

We will call on our inherent strengths of people, technology, experience and our tradition of service to turn the challenge of the year into achievement.

On behalf of the Board of Directors,



Gordon F. MacFarlane
Chairman and Chief Executive Officer

Burnaby, British Columbia
February 19, 1982

BEN FRIGON:

“I’ll sit in a coffee shop or in the park with a person who thinks he or she’s hit bottom, and we’ll talk. It takes time and patience, but after a while the person will bounce back and become whole again.

“That’s what we do through the Company’s employee assistance program – help people to help themselves. It gives me great personal satisfaction.”



BEN FRIGON is a cable splicer at the Company's facilities in Prince George. He is also counsellor for the Telecommunications Workers Union, Local 9, and a volunteer referral agent for the Company's employee assistance program. He joined B.C. Tel in 1949, is married and has two grown children.



Financial and Shareholder Information

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Financial Review

CONSOLIDATED EARNINGS

Consolidated earnings for 1981 amounted to \$2.23 per ordinary share, or \$2.22 per share fully diluted, compared with 1980 earnings of \$2.04 and \$2.02 per share respectively.

The improved earnings performance this past year was achieved despite escalating costs and an economic recession in the latter part of the year which seriously affected the province's primary resource industries.

1981 RATES OF RETURN

The implementation of rate increases, applied for in March, 1980 and put into effect in February, 1981, contributed measurably to the Company realizing an overall return on invested capital of 11.00% compared with 10.22% the previous year. On average ordinary equity, the return improved from 13.48% in 1980 to 13.84% in 1981.

TELECOMMUNICATIONS OPERATIONS

Operating Revenues

Annual operating revenues increased by \$139.8 million for the twelve months ended December 31, 1981. Revenues totalled \$894.3 million as compared with \$754.5 million the previous year, an increase of 18.5%.

Reflecting both subscriber line growth of 4.3% in 1981 and the rate increases granted by the Company's regulator in February, 1981, local service revenues increased by 20.6%. Toll service revenues posted an annual growth of 17.8%, primarily because calling volumes rose by 12.1%.

Operating Expenses

Operating expenses increased 20.3% during 1981, amounting to \$643.1 million compared with \$534.7 million for 1980. Negotiated wage settlements, depreciation on plant and increased property taxes accounted for the higher expenses incurred during 1981, and caused expenses to grow faster than revenues.

Accounting refinements introduced in 1981, in accordance with the CRTC Cost Inquiry Phase I decision of 1979, were responsible for increasing

expenses for the year by \$13.7 million. These refinements affect the timing of cost recognition for certain capital costs and accelerate their recovery from revenues.

Operating Earnings

Earnings from telecommunications operations, before debt service costs and income taxes for 1981, amounted to \$251.2 million as compared with \$219.8 million for 1980.

MANUFACTURING OPERATIONS

Sales

Sales by Microtel for 1981 amounted to \$188.9 million, as compared with \$188.4 million for 1980. Sales to customers outside Canada decreased from \$55 million in 1980 to \$28 million in 1981, but this decline was offset by improvement in domestic sales.

Sales in 1981 were affected by a planned changeover in central office switching products to the newer digital technology, sales of which began to be reflected during the second half of the year. Also affecting the 1981 sales total were extended labour disruptions in two of Microtel's manufacturing facilities, which were settled in mid-year.

Costs and Expenses

Costs and expenses for Microtel's overall operations amounted to \$184.7 million during 1981. The increase of \$8.8 million over the 1980 total reflects extensive expenditures on production start-up of the GTD-5 digital switch and on the acceleration of research and development, as Microtel Pacific Research Limited expanded its capacity for future growth.

Operating Earnings

Earnings from manufacturing operations (before debt service charges and income taxes) were \$4.2 million in 1981 compared with \$12.5 million in 1980.

The decrease in 1981 earnings reflects both the relatively static sales volume recorded for the year, and higher wage costs and other expenses that affected profit margins on a number of products.

DEBT SERVICE COSTS

Annual costs to service the Company's long-term and short-term borrowings increased substantially in 1981, due to unprecedented high interest rates and the additional long-term debt

incurred to finance the year's construction program. Debt service costs for 1981 amounted to \$91.9 million or \$15.7 million more than in 1980.

Long-term debt costs for 1981 reflected the maturities of earlier bond issues with interest rates of $8\frac{3}{4}\%$ and $10\frac{1}{4}\%$, which were repaid from borrowings at substantially higher rates of interest. These included the April 3, 1981 issue of First Mortgage Bonds, $14\frac{1}{4}\%$ Series AG, in the amount of \$75,000,000.

In addition, a high level of short-term borrowings during most of 1981 was required due to the absence of favourable equity and bond markets. Annual interest rates paid on these borrowings reached as high as $22\frac{3}{4}\%$, during a period when short-term loans outstanding exceeded \$150 million.

INCOME TAXES

Combined federal and provincial income taxes for the Company's consolidated operations in 1981 amounted to \$78.2 million as compared with \$76.5 million for the year 1980. Higher taxable earnings were a factor in the increase together with an increase in the British Columbia 1981 income tax rate from 15% to 16%.

Income taxes attributable to Microtel benefited from credits and allowances for research and development expenditures incurred during 1981, with the result that the subsidiary was able to record a net tax recovery exceeding \$6 million.

NET EARNINGS

Net earnings for the year amounted to \$85.3 million as compared with \$79.6 million for the year 1980. Reflecting preferred share redemptions and conversions occurring during the year, the allocation for preference and preferred dividends was reduced from \$17.7 million in 1980 to \$16.8 million in 1981.

The balance of 1981 earnings available for ordinary shares amounted to \$68.5 million or a 10.7% improvement over the previous year's net earnings figure of \$61.9 million.

Ordinary share dividend appropriations totalled \$43.6 million in 1981, or \$1.42 per share, as compared with \$36.4 million or \$1.20 per share the previous year. The balance of \$24.9 million

remaining from 1981 earnings was retained for reinvestment in the business, only slightly less than the \$25.5 million reinvested from 1980 earnings.

CHANGES IN FINANCIAL POSITION

Funds provided from operations during 1981, net of ordinary dividends, amounted to \$238.2 million or 65% of the net funds required for the Company's consolidated capital expenditures. This compared with \$227.2 million or 73% respectively in 1980.

External funding required to provide the balance of funds for capital expansion was accomplished in part by means of long-term debt financing. The Series AG $14\frac{1}{4}\%$ Bonds provided \$74.3 million in net proceeds while outstanding bond issues that matured and were repaid during 1981 amounted to \$36.0 million.

This long-term debt financing, coupled with the Company's issue of \$52.8 million of ordinary equity capital, resulted in maintaining the percentage of debt to total capitalization at 55%. Short-term obligations as a component of total debt increased from \$149.8 million in 1980 to \$193.8 million by year-end 1981. The Company plans to reduce this amount in 1982 by further long-term financings and accordingly, a preliminary prospectus has been filed with all securities commissions in Canada.

Management Report

To Our Shareholders:

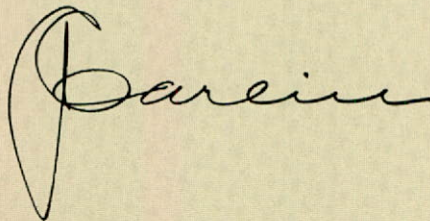
The consolidated financial statements of the Company and its subsidiaries include amounts based on estimates and judgements and all information available up to February 2, 1982.

The Company has a system of internal accounting controls which provides management with reasonable assurance that transactions are recorded and executed in accordance with its authorizations, that assets are properly safeguarded and accounted for, and that financial records are maintained so as to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in Canada and conforming in all material respects with International Accounting Standards.

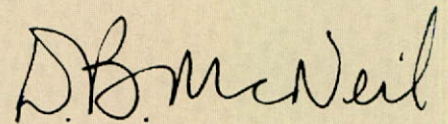
This system includes written policies and procedures, an organizational structure that segregates duties, and a comprehensive program of periodic audits by the internal auditors. The Company has also instituted policies and guidelines which require employees to maintain the highest level of ethical standards.

In addition, the audit committee of the Board of Directors, consisting solely of outside directors, meets periodically with management, the internal auditors and the external auditors to review internal accounting controls, audit results and accounting principles and practices, and annually recommends to the Board of Directors the selection of the external auditors.

In the opinion of management, the consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in Note 1 of the notes to consolidated financial statements. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.



J. C. Carlile,
President and Chief Operating Officer



D. B. McNeil,
Vice President – Administration
Chief Financial Officer

Auditors' Report

To the Shareholders of
British Columbia Telephone Company

We have examined the consolidated balance sheet of BRITISH COLUMBIA TELEPHONE COMPANY (incorporated under an Act of the Parliament of Canada) and subsidiaries as of December 31, 1981 and 1980, and the consolidated statements of earnings and earnings retained for use in the business and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements appearing on pages 23 to 35, inclusive, present fairly the financial position of the Company and subsidiaries as of December 31, 1981 and 1980, and the results of their operations and the changes in financial position for the years then ended in accordance with generally accepted accounting principles consistently applied during the periods.

Vancouver, Canada
February 2, 1982

ARTHUR ANDERSEN & CO.,
CHARTERED ACCOUNTANTS

**Consolidated Statement
of Earnings and Earnings Retained for Use in the Business**
For the years ended December 31

British Columbia Telephone Company

		1981	1980
		<i>(Millions of Dollars)</i>	
Telecommunications Operations	Operating revenues <i>(Note 4)</i>	\$894.3	\$754.5
	Operating expenses <i>(Notes 3 and 5)</i>	643.1	534.7
	Telecommunications operating earnings	251.2	219.8
Manufacturing Operations	Sales	188.9	188.4
	Costs and expenses		
	Cost of sales	169.5	162.4
	Selling and administrative expenses	15.2	13.5
		184.7	175.9
	Manufacturing operating earnings	4.2	12.5
Combined Operating Earnings		255.4	232.3
	Debt service costs — net <i>(Notes 3 and 6)</i>	91.9	76.2
	Earnings before income taxes	163.5	156.1
	Income taxes <i>(Note 7)</i>	78.2	76.5
	Net earnings	85.3	79.6
	Less — Preference and preferred share dividends	(16.8)	(17.7)
Ordinary Share Earnings		68.5	61.9
Earnings Retained for Use in the Business	Balance at beginning of year	155.0	129.5
		223.5	191.4
	Less — Ordinary share dividends	(43.6)	(36.4)
	— Share issue expense	(1.0)	—
	Balance at end of year	\$178.9	\$155.0
Earnings per Ordinary Share	Basic	\$ 2.23	\$ 2.04
	Fully diluted	\$ 2.22	\$ 2.02

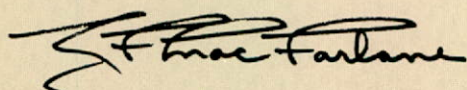
Consolidated Balance Sheet

As of December 31

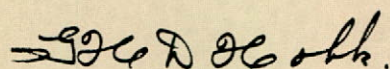
British Columbia Telephone Company

ASSETS		1981	1980
		(Millions of Dollars)	
Telecommunications Property, at cost	Buildings, plant and equipment (Note 10)	\$2,653.7	\$2,415.1
	Less — Accumulated depreciation	(768.4)	(647.1)
		1,885.3	1,768.0
	Land	17.8	17.6
	Property under construction	158.6	117.2
	Material and supplies	43.1	27.6
		2,104.8	1,930.4
Manufacturing Property, at cost	Plant and equipment	57.2	46.1
	Less — Accumulated depreciation	(26.9)	(26.2)
		30.3	19.9
		2,135.1	1,950.3
Investments and Other Assets, at cost	Telesat Canada	3.3	3.3
	Other	1.2	1.2
		4.5	4.5
Current Assets	Accounts receivable	157.4	123.6
	Accounts receivable — affiliated companies	9.4	6.9
	Inventories (Note 8)	68.0	62.5
	Prepaid expenses	9.6	9.0
		244.4	202.0
Deferred Charges	Unrealized and deferred losses on foreign exchange, less amortization	9.2	10.9
	Unamortized cost of issuing debt securities	8.9	9.0
		18.1	19.9
		\$2,402.1	\$2,176.7

Approved by the Directors,



Director



Director

CAPITALIZATION AND LIABILITIES		1981	1980
		<i>(Millions of Dollars)</i>	
Capitalization	Equity <i>(Note 9)</i>		
	Ordinary shares	\$ 559.3	\$ 479.0
	Preference and preferred shares	239.6	249.6
	Total equity	798.9	728.6
	Long-term debt <i>(Note 10)</i>	792.0	745.8
		1,590.9	1,474.4
Current Liabilities	Cheques issued in excess of bank balances	25.4	14.8
	Short-term obligations <i>(Note 11)</i>	193.8	149.8
	Accounts payable	97.5	82.7
	Accounts payable — affiliated companies	.6	4.8
	Income taxes payable	18.6	20.5
	Dividends payable	15.2	12.1
	Accrued interest	18.1	15.7
	Other accrued liabilities	31.8	28.2
	Unearned revenues	29.1	20.6
		430.1	349.2
Income Taxes Deferred		381.1	353.1

Commitments *(Note 13)*

	\$2,402.1	\$2,176.7
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Consolidated Statement of Changes in Financial Position

For the years ended December 31

British Columbia Telephone Company

	1981	1980
	(Millions of Dollars)	
Sources of Working Capital		
Operations		
Ordinary share earnings	\$ 68.5	\$ 61.9
Add (deduct) items not requiring working capital		
Depreciation	191.1	166.5
Income taxes deferred	27.9	37.7
Allowance for funds used during construction	(8.6)	(5.7)
Other, net	3.2	3.2
	282.1	263.6
Financing proceeds, net of related costs and expenses		
Ordinary shares issued		
— for cash	52.8	5.4
— on conversion of preferred shares	1.7	4.8
Long-term debt (Note 10)	74.3	50.0
	128.8	60.2
Less — Redemptions, conversions or current maturities of long-term debt and preferred shares	(37.6)	(51.6)
	91.2	8.6
	373.3	272.2
Application of Working Capital		
Capital expenditures		
Gross capital expenditures	371.3	323.0
Increase in material and supplies	15.6	2.9
	386.9	325.9
Less — Salvage value of plant retired, net	(10.1)	(7.2)
Allowance for funds used during construction	(8.6)	(5.7)
	368.2	313.0
Ordinary share dividends	43.6	36.4
	411.8	349.4
Decrease in working capital	38.5	77.2
Working capital deficiency, beginning of year	147.2	70.0
Working capital deficiency, end of year	\$185.7	\$147.2

Notes to Consolidated Financial Statements

British Columbia Telephone Company

1. Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and in conformity with prevailing practices in the Canadian telecommunications industry. These statements conform in all material respects with International Accounting Standards.

British Columbia Telephone Company is regulated by the Canadian Radio-television and Telecommunications Commission (CRTC). In its role as regulator, the CRTC sets allowable rates of return, approves equity financing, approves tariffs for certain of the Company's goods and services and periodically issues directives which affect the accounting treatment of specific items in the Company's accounts. (Note 2.)

Earnings Per Ordinary Share

Earnings per ordinary share have been computed based on the average number of shares outstanding each month during the period. Fully diluted earnings per ordinary share reflect the potential full conversion of the \$2.32 convertible subordinate preferred shares and applications that were outstanding for share purchases under the Employee Share Purchase Plan.

Consolidation

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries, AEL Microtel Limited (together with its wholly-owned subsidiaries, Viscount Industries Limited, acquired April 1, 1980 from Canadian Telephones and Supplies Ltd., and Microtel Pacific Research Limited), North-west Telephone Company, and Canadian Telephones and Supplies Ltd. The excess of the cost of shares of subsidiaries over the Company's equity at the date of acquisition is included in telecommunications property and is being amortized over periods not exceeding thirty years. Such amortization amounted to \$700,000 in 1981 (\$700,000 – 1980).

All significant intercompany transactions have been eliminated except for purchases of telecommunications equipment and supplies by British Columbia Telephone Company from AEL Microtel Limited (Microtel) which are reflected in the consolidated balance sheet at cost to the parent, and are included in manufacturing sales in the consolidated statement of earnings (Note 16). To the extent that any income on these sales has not been offset by depreciation and other operating expenses, it remains in consolidated income and retained earnings.

Telecommunications Property

Telecommunications property is recorded at historical cost and includes certain payroll costs and general overheads applicable to the construction activity. In addition, the Company capitalizes an amount for the cost of funds used to finance construction. This allowance for funds used during construction (AFC) is included in income by way of an offset against debt service costs. The capitalization rate (defined by the CRTC as the rate of return on average invested capital earned by the utility during the preceding fiscal year) was 10.09% in 1981 (9.80% – 1980). Such income is not realized in cash currently but will be realized over the service life of the property.

When depreciable telecommunications property is finally retired, the historical cost of the property is charged to accumulated depreciation.

1. Summary of Significant Accounting Policies *(continued)*

Depreciation

Depreciation rates for telecommunications property are determined by a continuing program of engineering studies for each class of property, according to year of placing in service and estimated useful life. Depreciation provisions are calculated on a straight-line basis using such rates. The composite depreciation rate was 7.39% for 1981 (6.99% – 1980).

Depreciation on manufacturing property is provided over the estimated useful lives of the assets using a straight-line basis.

Investment in Telesat Canada

The investment in 330,000 common shares of Telesat Canada is recorded at original cost. There is no quoted market value for this investment, however, based upon the latest financial information available, the book value of the net assets is greater than the Company's original cost.

Income Taxes

The Company and its subsidiaries use the deferral method of income tax allocation by providing for deferred income taxes on all timing differences between accounting income and taxable income except for AFC where no deferred tax is provided as no such provision is allowed for regulatory purposes. (Note 7.)

Translation of Foreign Currencies

Trade transactions completed in foreign currencies are reflected in Canadian dollars. 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 balance sheet date.

Currency gains and losses are included in net income for the year except for gains and losses on long-term debt which are amortized over the remaining lives of the related issues. (Note 6.)

Research and Development

Expenditures in the nature of research for new product development and improvements are expensed as incurred.

Leases

Leases are classified as capital or operating leases depending upon the terms of the contract. Assets recorded under capital leases are amortized on a straight-line basis over the life of the lease. Obligations recorded under capital leases are reduced by rental payments net of imputed interest. Assets, liabilities and amortization related to these leases are not material in amount.

Long-term lease rental agreements on equipment leased to customers are accounted for as operating leases. Income is recognized over the term of the lease, generally five or ten years. The equipment is depreciated in accordance with existing depreciation policy. Assets, liabilities and amortization related to these leases are not material in amount.

2. Accounting Refinements

The May 8, 1979 Cost Inquiry Phase I decision of the CRTC recommended certain accounting refinements and directed their extension into the accounting practices of telecommunications carriers regulated by the CRTC so as to ensure uniformity of practices within the industry. The refinements introduced by the Company result in the charge to expense of certain overhead costs previously capitalized as telecommunications property. Refinements introduced in the year increased expenses by approximately \$13,700,000 in 1981 (\$4,100,000 – 1980). The final accounting refinement of the Cost Inquiry Phase I decision was implemented late in 1981. The CRTC in setting the Company's allowable rate of return includes these amounts in determining the Company's revenue requirement.

3. Prior Year Presentation

The 1980 amounts have been reclassified, where applicable, to conform with the 1981 presentation. Other non-operating loss in 1980 of \$400,000 has been reclassified as \$300,000 to Operating Expenses and \$100,000 to Debt Service Costs. Allowance for funds used during construction previously shown separately has been reclassified to Debt Service Costs.

4. Operating Revenues – Telecommunications Operations		1981	1980
		<i>(Millions of Dollars)</i>	
	Local service	\$ 345.6	\$ 286.5
	Toll service	521.3	442.6
	Other, net of uncollectibles	27.4	25.4
		\$ 894.3	\$ 754.5
5. Operating Expenses – Telecommunications Operations		1981	1980
		<i>(Millions of Dollars)</i>	
	Operations	\$ 417.9	\$ 342.7
	Depreciation	183.5	158.5
	Provincial, municipal and other taxes	41.7	33.5
		\$ 643.1	\$ 534.7
6. Debt Service Costs		1981	1980
		<i>(Millions of Dollars)</i>	
	Interest on long-term debt	\$ 79.4	\$ 63.7
	Other interest	19.9	18.3
	Amortization of unrealized and deferred losses on foreign exchange	4.3	1.1
	Amortization of issue costs	.8	.8
		104.4	83.9
	Less – Allowance for funds used during construction	(8.6)	(5.7)
	– Service charges on overdue accounts	(3.9)	(2.0)
		\$ 91.9	\$ 76.2
7. Income Taxes		1981	1980
		<i>(Millions of Dollars)</i>	
	Currently payable – Federal	\$ 36.3	\$ 28.9
	– Provincial	15.1	12.4
	Deferred	26.8	35.2
		\$ 78.2	\$ 76.5
8. Inventories — Manufacturing Operations	Inventories are valued at the lower of cost and net realizable value:		
		1981	1980
		<i>(Millions of Dollars)</i>	
	Finished goods	\$ 5.1	\$ 5.4
	Uncompleted contracts and work in process	57.1	46.1
	Raw materials	5.8	11.0
		\$ 68.0	\$ 62.5

9. Equity

(a) Details of Shareholders' Equity

		1981 (Millions of Dollars)	1980
Ordinary Shares without par value:			
34,183,505 shares outstanding (30,458,447 – 1980)		\$379.2	\$323.7
Earnings retained for use in the business		178.9	155.0
Contributed surplus (Note 9c)		1.2	.3
		559.3	479.0
	Redemption Premium (Note 9e)		
\$2.32 Cumulative Redeemable Convertible Subordinate Preferred Shares			
Par Value of \$25 Each	—	1.5	3.3
Cumulative Preference and Preferred Shares			
Par Value of \$100 Each			
6% Preference	10%	1.0	1.0
4½% Preferred	4%	5.0	5.0
4⅜% Preferred	4%	6.0	6.0
4¾% Preferred	5%	7.5	7.5
4¾% Preferred (Series 1956)	4%	7.5	7.5
5.15% Preferred	5%	12.0	12.0
5¾% Preferred	4%	10.0	10.0
6% Preferred	5%	4.5	4.5
Par Value of \$25 Each			
4.84% Preferred	4%	20.0	20.0
6.80% Preferred	6%	10.0	10.0
7% Preferred	—	30.0	32.5
7.04% Preferred (Not redeemable before July, 1982)	7%	20.0	20.0
7.40% Preferred (Not redeemable before July 15, 1984)	5%	47.0	48.5
7.65% Preferred (Not redeemable before August 1, 1983)	5%	31.5	32.5
8¾% Preferred	—	5.1	6.8
10.16% Preferred	5%	21.0	22.5
		238.1	246.3
Total Equity		\$798.9	\$728.6

(b) Authorized Capital

The Company is permitted, subject to directors' and shareholders' approval, to issue shares with or without par value up to the nominal amount of \$1,250,000,000. As at December 31, 1981 and 1980, the total approved share capital of the Company was \$750,000,000.

(c) Changes During 1981

Ordinary shares

- 3,343,504 shares were issued in December, 1981 for \$50,200,000.
- 138,664 shares (383,380 – 1980) were issued during 1981 on conversion of 69,332 \$2.32 convertible subordinate preferred shares (191,690 – 1980).
- 242,890 shares (376,204 – 1980) were issued during 1981 for \$3,700,000 (\$5,400,000 – 1980) through the Dividend Reinvestment and Share Purchase Plan and the Employee Share Purchase Plan.

9. Equity (continued)

Preferred shares

- Mandatory redemptions of preferred shares in the amount of \$5,700,000 were made in 1981 and 1980 as described in Note 9e.
- the Company redeemed 40,200 – 7.65% preferred shares in 1981 (36,600 in 1980) in the amount of \$1,000,000 (\$900,000 – 1980) and 60,000 – 7.40% preferred shares (59,800 in 1980) in the amount of \$1,500,000 (\$1,500,000 – 1980). These redemptions resulted in \$900,000 of contributed surplus (\$300,000 – 1980).

(d) *Ordinary Shares Reserved*

At December 31, 1981, the following shares remained reserved:

- 496,676 shares under the Company's Employee Share Purchase Plan as approved by the CRTC on March 20, 1979. There are presently no offerings outstanding under the Plan.
- 852,544 shares under the Dividend Reinvestment and Share Purchase Plan as approved by the CRTC on April 24, 1979. The purchase price for the plan is the average market price for the five days preceding the investment date.
- 122,722 ordinary shares for the conversion of the \$2.32 convertible subordinate preferred shares. The \$2.32 convertible preferred shares are convertible on the basis of two ordinary for each preferred share at any time prior to July 1, 1986.

(e) *Preferred Share Redemption Requirements*

Redemption requirements apply to six issues:

- \$2.32 convertible subordinate preferred shares are subject to (a) a purchase obligation requiring the Company to purchase specified quantities of such shares in the open market at a price not exceeding par value, to the extent that they are available in each 12-month period commencing June 30, 1981, and (b) voluntary redemption at the option of the Company at any time at a premium of 8% to June 30, 1982, declining annually thereafter to par value after June 30, 1986.
- 7% preferred shares are subject to redemption of \$2,500,000 each year until 1985, with the balance of \$20,000,000 due in 1986.
- 7.40% preferred shares are subject to a purchase obligation requiring the Company to make all reasonable effort to purchase in each 12-month period 60,000 shares at a price not exceeding \$25 per share excluding costs of purchase.
- 7.65% preferred shares are subject to a purchase obligation requiring the Company to make all reasonable effort to purchase in each 12-month period, 40,200 shares at a price not exceeding \$25 per share excluding costs of purchase.
- 8¾% preferred shares are subject to redemption of \$1,700,000 each year, to retire the issue by 1984.
- 10.16% preferred shares are subject to (a) mandatory redemption at par value over a 20-year period with \$1,500,000 due annually on September 1 until 1995, and (b) voluntary redemption at the option of the Company in any amount on and after September 1, 1980 at a premium of 5% declining annually thereafter to par after September 1, 1985.

Other issues are redeemable at the stated redemption premium only at the Company's option.

10. Long-Term Debt

(a) Details of Long-Term Debt

	1981	1980
	(Millions of Dollars)	
British Columbia Telephone Company		
First Mortgage Bonds		
Series F 5% due April 1, 1982	\$ 25.0	\$ 25.0
Series G 5¼% due November 1, 1983	20.0	20.0
Series H 6% due September 15, 1984	15.0	15.0
Series I 5¾% due August 1, 1985	15.0	15.0
Series J 5¾% due July 15, 1986	20.0	20.0
Series K 5⅝% due April 15, 1988	20.0	20.0
Series L 6¾% due October 15, 1989	30.0	30.0
Series M 6⅜% due March 15, 1991	30.0	30.0
Series N 9⅛% due April 1, 1990	3.3	3.3
Series O 9⅝% due November 15, 1992	18.0	18.0
Series P 9⅛% due November 15, 1992	.5	.5
Series Q 8¼% due March 1, 1994	35.0	35.0
Series S 7⅞% due November 15, 1995	25.0	25.0
Series T 8⅝% due October 15, 1993	40.0	40.0
Series U 8⅞% due November 1, 1996	23.7	23.9
(\$20 million U.S. funds)		
Series V 9% due October 1, 1997	40.0	40.0
Series W 8¾% due January 15, 1981	—	11.0
Series X 9¼% due April 15, 1998	35.0	35.0
Series Y 11% due January 15, 1996	45.0	45.0
Series AA 10¼% due April 1, 1995	30.0	30.0
Series AB 10¼% due December 1, 1981	—	25.0
Series AC 10½% due February 1, 1982-96	35.6	35.8
(\$30 million U.S. funds)		
Series AD 10¼% due October 15, 2001	60.0	60.0
Series AE 9.70% due June 15, 1999	50.0	50.0
Series AF 9⅞% due November 1, 2003	75.0	75.0
Series AG 14¼% due April 1, 1986	75.0	—
	766.1	727.5
Promissory Notes		
Payable in Canadian funds and issued at varying rates of interest from 14.90% to 18.65% and maturing on varying dates within one year (Note 10(c))	50.0	50.0
AEL Microtel Limited		
10% notes payable, due in semi-annual instalments of \$.5 million	1.0	2.0
Other at varying rates of interest from 6% to 9.75%	1.0	1.3
	2.0	3.3
Amounts due under capitalized equipment leases		
	4.1	4.3
Total Long-Term Debt	822.2	785.1
Less – Current portion (Note 11)	30.2	39.2
Long-Term Debt	\$792.0	\$745.9

(b) Property Pledged and Sinking Fund Requirements

The Company's telecommunications property is subject to the liens under the Deed of Trust and Mortgage under which the First Mortgage Bonds are issued. The Deed of Trust and Mortgage requires either an annual sinking fund payment of 1% of the principal amount of bonds outstanding or the pledge of additional unmortgaged property in the amount of 1½% of the principal. Company practice has been to use the latter alternative and accordingly it does not make sinking fund payments.

10. Long-Term Debt (continued)

(c) Promissory Notes

The promissory notes are issued to obtain funds for general corporate purposes including the cost of extension and improvements to the plant and properties of the Company. These borrowings will be repaid from the proceeds of long-term financings.

In 1980, the Company entered into an agreement for a ten-year revolving loan facility for up to \$50,000,000. Drawdowns under the agreement are by way of promissory notes issued for periods of 30 days to 365 days. Interest payable by the Company thereon will be comparable to rates obtained on promissory notes issued on the commercial paper market. To the extent that the promissory notes in total exceed the maximum of the agreement, they are included in short-term obligations.

(d) Redemption Requirements

The First Mortgage Bonds, except for Series AG, are redeemable, other than for financial advantage, at various premiums to a maximum of 8.10%. The Series AC Bonds mature serially in the amount of \$1,700,000 (U.S.) on February 1, in each of the years 1982 to 1995 and the remaining \$6,100,000 (U.S.) matures on February 1, 1996. Series AG Bonds are renewable at the holder's option for a further five-year period to commence after April 1, 1986.

The total long-term debt maturities during each of the next five years for the Company are:

	(Millions of Dollars)
1982	\$ 28.1
1983	\$ 22.1
1984	\$ 17.1
1985	\$ 17.1
1986	\$ 97.1

11. Short-Term Obligations

Amounts falling due for redemption within one year including short-term indebtedness pending permanent financing are as follows:

	1981	1980
	(Millions of Dollars)	
Current portion of long-term debt (Note 10)		
First Mortgage Bonds, current maturities		
8 ³ / ₄ % series W, due January 15, 1981	\$ —	\$ 11.0
10 ¹ / ₄ % series AB, due December 1, 1981	—	25.0
5% series F due April 1, 1982	25.0	—
10 ¹ / ₂ % series AC, due February 1, 1982 (\$1,700,000 U.S.)	2.1	—
Current maturities of long-term debt of subsidiaries	1.1	1.3
Amounts due under capitalized equipment leases	2.0	1.9
	30.2	39.2
Bank loans (\$Can.), 16.70% to 17.25% interest	15.3	1.7
Bank loans (\$15,700,000 U.S.), 13.20% to 15.75% interest	18.6	.2
Promissory Notes, current maturities 14.90% to 18.65% interest	129.7	105.7
Amounts held under Employee Share Purchase Plan	—	3.0
	\$193.8	\$149.8

Short-term obligations are included in total capitalization for regulatory purposes in computing capitalization ratios and rates of return on capital.

The Company estimates capital expenditures to cost \$457,000,000 in 1982 and this sum plus short-term obligations of \$193,800,000 represent the Company's financing requirements for the ensuing year. Financing requirements, in excess of funds generated from operations, are subject to approval by the CRTC with respect to share issues, and to interest earnings coverage ratios as required under the Deed of Trust and Mortgage with respect to First Mortgage Bond issues.

12. Chartered Bank Lines of Credit	At December 31, 1981, the Company had in place aggregate lines of credit with chartered banks totalling \$337,000,000 (\$250,000,000 – 1980). The Company maintains unused lines of chartered bank credit at least equivalent to the aggregate of promissory notes outstanding.
13. Commitments	The Company estimates the construction programs for additional telecommunications plant and facilities to cost \$452,000,000 in 1982. Substantial purchase commitments have been made in connection with these programs.
14. Pension Plans	<p>The Company maintains a number of pension plans covering substantially all employees, subject to conditions related to age and period of service.</p> <p>The annual accrued pension costs for management and exempt employees and the bargaining unit employees in Manufacturing Operations are placed in trust funds, the value of which exceeded the benefits vested with the employees at the date of the last actuarial review. The pension plans for bargaining unit employees in Telecommunications Operations require that the Company contribute a fixed percentage of gross employee earnings without liability for the benefits payable.</p> <p>The Company is governed by and complies with the Canada Pension Benefits Standards Act which contains provisions regarding the solvency of pension plans. Actuarial studies are prepared at least every three years and experience deficiencies, if any, in the plans are funded and amortized over the succeeding five-year period. Based on the most recent actuarial valuations, as at December 31, 1981, the pension plan for management and exempt employees in Telecommunications Operations has an estimated unfunded liability of \$12,500,000 (\$13,300,000 – 1980).</p> <p>Total pension costs were \$24,400,000 (\$26,600,000 – 1980) which includes \$2,100,000 (\$5,100,000 – 1980) for amortization of past service and experience deficiencies.</p>
15. Remuneration of Directors and Officers	During the year, 11 directors of British Columbia Telephone Company received aggregate remuneration of \$109,000 (\$102,000 – 1980) as directors of the Company and 15 officers received aggregate remuneration of \$1,258,000 (\$961,000 – 1980). None of the officers of the Company received remuneration from subsidiary companies.
16. Related Party Transactions	Transactions with related parties (all affiliates of General Telephone and Electronics Corporation) for the year ended December 31, 1981 were purchases and sales of telecommunications equipment and supplies (Note 1), directory advertising commissions, royalties on equipment manufactured under licence and payments for services rendered under cost-sharing agreements. Approximately 58% (67% – 1980) of the sales and 27% (25% – 1980) of the purchases of Microtel were to and from related parties. Such sales include \$79,900,000 to the Company for 1981 (\$73,500,000 – 1980). Microtel sales of telecommunications equipment to the Company are at prices and terms as low as those offered to Microtel's most favoured customers for like materials and services under comparable conditions.

17. Industry Segments Information

British Columbia Telephone Company and its subsidiary companies operate principally in two business segments:

1. Telecommunications operations, which includes local exchange and long distance telephone services, teletype, transmission of facsimile and data and other telecommunications services; and
2. Telecommunications equipment manufacturing, which includes research and development and sales of telecommunications equipment, training, engineering, installation services and distributed products.

The following table sets forth revenues, operating profits and supplementary data for the years ended December 31, 1981 and 1980 for each of the company's business segments:

	Telecommunications Operations		Manufacturing Operations		Consolidated Operations	
	1981	1980	1981	1980	1981	1980
	<i>(Millions of Dollars)</i>					
Sales to the public	\$ 894.3	\$ 754.5	\$109.0	\$114.9	\$1,003.3	\$ 869.4
Inter-segment sales	—	—	79.9	73.5	79.9	73.5
Total revenues	894.3	754.5	188.9	188.4	1,083.2	942.9
Segment operating profit	251.2	225.4	4.2	12.5	255.4	237.9
Interest charges	(84.8)	(79.5)	(7.1)	(2.4)	(91.9)	(81.9)
Income taxes	(84.4)	(73.8)	6.2	(2.6)	(78.2)	(76.4)
Net earnings	\$ 82.0	\$ 72.1	\$ 3.3	\$ 7.5	\$ 85.3	\$ 79.6
Identifiable assets	\$2,262.7	\$2,069.3	\$139.4	\$107.4	\$2,402.1	\$2,176.7
Capital expenditures	\$ 357.3	\$ 321.9	\$ 14.0	\$ 4.1		
Depreciation & amortization	\$ 183.5	\$ 158.5	\$ 3.2	\$ 4.1		

Telecommunications Operations are conducted in the Province of British Columbia. Manufacturing Operations have plants located in the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. 26% of manufacturing sales to the public were to the export market (48% – 1980).

Interim Financial Data

Three Months Ended	
Telecommunications Operations	Operating revenues
	Operating expenses
	Telecommunications operating earnings
Manufacturing Operations	Sales
	Costs and expenses
	Manufacturing operating earnings
Combined Operating Earnings	
	Debt service costs
	Earnings before income taxes
	Income taxes
	Net earnings
	Less — Preference and preferred share dividends
	Ordinary share earnings
Earnings Per Ordinary Share	— basic
	— fully diluted

Current Cost Data

The current cost data given below represents the Company's estimate of the current replacement cost on the basis of repricing the existing in-service property at a point in time, together with the effect on depreciation expense and manufacturing cost of sales. The data provides a comparison between historical cost and current cost for existing assets. To that extent it complies with the proposed guidelines for current cost reporting issued by the Canadian Institute of Chartered Accountants. Actual replacement of property, however, will utilize the most appropriate mix of existing and new technology which will affect the capital cost, operating cost and revenue streams of the Company in a manner which is impracticable to estimate. For this reason a complete restatement of earnings adjusted for the effects of inflation has not been made.

Comparative Statement of Selected Current Cost Data

		1981		1980	
		Historical Cost	Current Cost	Historical Cost	Current Cost
<i>(Millions of Dollars)</i>					
Telecommunications Operations	Buildings, plant and equipment	\$2,653.7	\$4,410.0	\$2,415.1	\$3,789.8
	Less – Accumulated depreciation	768.4	1,321.7	647.1	1,026.7
	Net property investment	1,885.3	3,088.3	1,768.0	2,763.1
	Depreciation expense	183.5	311.9	158.5	251.5
Manufacturing Operations	Plant and equipment	57.2	113.6	46.1	88.4
	Less – Accumulated depreciation	26.9	61.4	26.2	48.5
	Net property investment	30.3	52.2	19.9	39.9
	Cost of sales	169.5	171.3	162.4	165.5

	March 31	June 30 (Millions of Dollars)	Sept. 30	Dec. 31	Total 1981
	\$201.5	\$224.3	\$235.6	\$232.9	\$894.3
	136.9	164.6	166.8	174.8	643.1
	64.6	59.7	68.8	58.1	251.2
	40.0	43.8	31.7	73.4	188.9
	38.9	44.6	35.0	66.2	184.7
	1.1	(.8)	(3.3)	7.2	4.2
	65.7	58.9	65.5	65.3	255.4
	20.2	22.3	24.6	24.8	91.9
	45.5	36.6	40.9	40.5	163.5
	23.7	16.9	20.1	17.5	78.2
	21.8	19.7	20.8	23.0	85.3
	(4.3)	(4.3)	(4.1)	(4.1)	(16.8)
	\$ 17.5	\$ 15.4	\$ 16.7	\$ 18.9	\$ 68.5
	\$.57	\$.51	\$.54	\$.61	\$ 2.23
	\$.57	\$.50	\$.54	\$.61	\$ 2.22

Current Cost Data (continued)

Current Cost Concepts and Estimating Procedures

(a) Property

The current cost of property has been estimated on the basis of what it would cost at December 31, 1981 and 1980 to replace the existing investment with identical property. The estimates were developed by restating the historical cost property balances from the date of being placed in service, through the use of specific price indices based on the Company's own experiences. In some instances, where internal indices were unavailable, external indices were used. Property under construction was not restated as the historical cost approximates current cost.

No current cost estimate has been made for the Company's investment in land since the productive capacity will not have to be replaced.

(b) Accumulated Depreciation and Depreciation Expense

The estimated remaining life and the depreciation rates used in the current cost estimates are the same as those used for the historical cost estimates. Depreciation expense was estimated on the basis of the average current cost for the year.

(c) Cost of Sales (Manufacturing Operations)

Cost of sales was estimated on the basis of current cost at the date of sale, and also reflects the current cost depreciation charge.

Consolidated Five-Year Statistics

Selected Income Items⁽¹⁾ (Millions of Dollars)

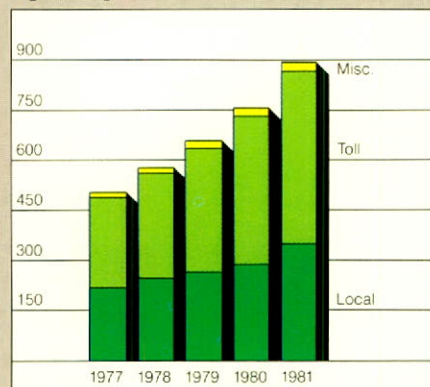
Telecommunications operating revenues ⁽²⁾
Telecommunications operating expenses
Salaries and wages expense
Provincial, municipal and other taxes
Other operating expense
Depreciation
Manufacturing sales
Manufacturing cost of sales
Manufacturing selling and administrative expenses
Combined operating earnings
Debt service costs
Income taxes
Preference and preferred dividends
Ordinary share earnings
Ordinary share dividends

Financial Ratios

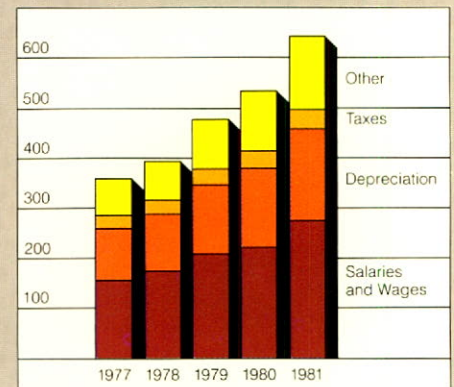
Earnings per ordinary share
Dividends declared per ordinary share
Equity per ordinary share
Percent return on average ordinary share equity
Percent return on average invested capital
Percent debt to total capitalization

NOTES: (1) Microtel included effective from the date of acquisition, October 1, 1979.
(2) 1979-1978 revenues are before adjustment to comply with Anti-Inflation guidelines.

**Telecommunications
Operating Revenues** (Millions of Dollars)

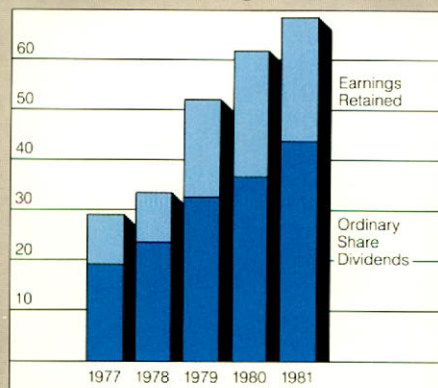


**Telecommunications
Operating Expenses** (Millions of Dollars)

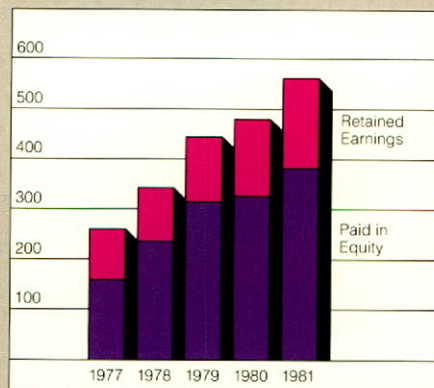


1981	1980	1979	1978	1977
\$ 894.3	\$ 754.5	\$ 656.9	\$ 576.3	\$ 501.5
643.1	534.7	478.5	395.2	357.9
274.3	220.9	200.9	172.2	152.3
41.7	33.5	30.3	28.4	24.8
143.6	121.8	101.2	82.0	79.6
183.5	158.5	146.1	112.6	101.2
188.9	188.4	47.8 ⁽¹⁾	—	—
169.5	162.4	40.7 ⁽¹⁾	—	—
15.2	13.5	4.0 ⁽¹⁾	—	—
255.4	232.3	199.8	155.8	143.6
91.9	76.2	64.9	58.4	54.8
78.2	76.5	65.7	46.0	42.1
16.8	17.7	17.3	17.5	17.7
68.5	61.9	51.8	33.8	29.1
43.6	36.4	32.5	23.5	19.2
\$ 2.23	\$ 2.04	\$ 1.92	\$ 1.55	\$ 1.54
\$ 1.42	\$ 1.20	\$ 1.20	\$ 1.08	\$ 1.02
\$ 16.36	\$ 15.73	\$ 14.91	\$ 14.14	\$ 13.70
13.84	13.48	13.32	11.32	11.59
11.00	10.22	9.81	9.02	8.92
55	55	54	57	62

Ordinary Share Earnings (Millions of Dollars)



Ordinary Share Equity (Millions of Dollars)



Consolidated Five-Year Statistics

Selected Balance Sheet Items⁽¹⁾ (Millions of Dollars)

Total property, at cost
Accumulated depreciation
Total capitalization
Short-term obligations
Long-term debt
Preference and preferred shares
Ordinary share equity

Telecommunications Statistics

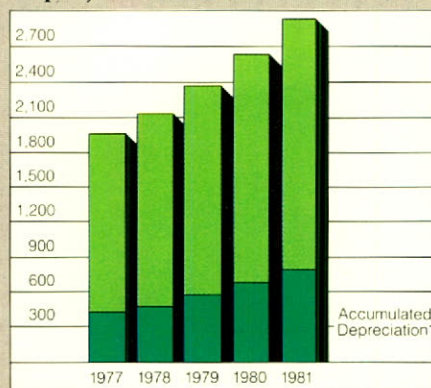
Gross capital expenditures <i>(In Millions)</i>
Subscriber lines in service <i>(In Thousands)</i>
Percent electronic switched subscriber lines
Net telecommunications property investment per subscriber line <i>(In Dollars)</i>
Local calls completed — daily average <i>(In Thousands)</i>
Toll calls completed — daily average <i>(In Thousands)</i>
Regular full time employees
British Columbia Telephone Company
Canadian Telephones and Supplies Ltd.
Number of shareholders

Manufacturing Statistics⁽¹⁾ (Millions of Dollars)

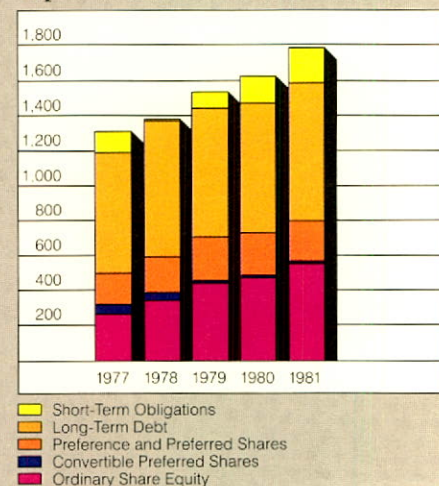
Domestic sales
Export sales
Research and development expenditures
Regular full time employees
AEL Microtel Limited
Microtel Pacific Research Limited

NOTE: (1) Microtel included effective from the date of acquisition, October 1, 1979.

Property Investment (Millions of Dollars)

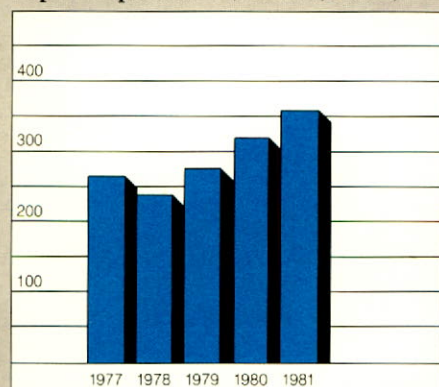


Capital Structure (Millions of Dollars)

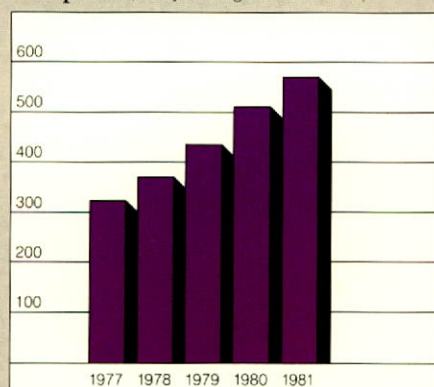


1981	1980	1979	1978	1977
\$2,930.4	\$2,623.6	\$2,365.8	\$2,132.8	\$1,962.0
795.3	673.2	566.9	474.0	414.6
1,784.7	1,624.2	1,534.9	1,378.0	1,303.7
193.8	149.8	95.7	8.8	112.8
792.0	745.8	733.7	774.9	691.2
239.6	249.6	262.5	253.5	241.3
559.3	479.0	443.0	340.7	258.0
\$ 357.3	\$ 318.9	\$ 276.5	\$ 237.0	\$ 262.9
1,311	1,257	1,190	1,128	1,073
38.0	32.9	31.2	16.2	12.4
\$ 1,606	\$ 1,536	\$ 1,494	\$ 1,470	\$ 1,441
9,493	9,072	7,236	6,356	6,373
570	509	432	368	322
14,406	13,235	12,890	11,336	11,039
859	768	787	957	1,130
26,409	28,016	26,171	27,574	27,324
\$ 161.4	\$ 133.3	\$ 27.4 ⁽¹⁾	—	—
27.5	55.1	20.4 ⁽¹⁾	—	—
8.4	8.8	2.2 ⁽¹⁾	—	—
3,038	2,935	3,030	—	—
263	241	—	—	—

**Telecommunications
Capital Expenditures** (Millions of Dollars)



**Toll Calls
Completed** (Daily average – Thousands)



Employee Costs

		Telecommunications ⁽¹⁾		Manufacturing		Consolidated	
		1981	1980	1981	1980	1981	1980
		(Millions of Dollars)					
Total employee costs analysed as follows:		\$ 412.5	\$ 356.3	\$ 70.4	\$ 62.2	\$ 482.9	\$ 418.5
Salaries and wages as payment for:	Time on the job	\$ 303.5	\$ 257.8	\$ 56.6	\$ 50.2	\$ 360.1	\$ 308.0
	Vacations and holidays	39.1	32.7	7.5	5.8	46.6	38.5
	Occupational training (Ed. Centre)	9.2	7.7	.2	.1	9.4	7.8
	Other	19.9	18.5	.4	.5	20.3	19.0
		68.2	58.9	8.1	6.4	76.3	65.3
	Total Salaries and Wages	371.7	316.7	64.7	56.6	436.4	373.3
Related Costs:	Company funding to pension plans	23.0	24.4	1.4	2.2	24.4	26.6
	Group medical/dental benefit payments	5.9	6.1	1.4	1.2	7.3	7.3
	Other employee benefits	2.5	2.1	.8	.6	3.3	2.7
	Canada Pension Plan/Quebec Pension Plan	3.8	3.2	.8	.7	4.6	3.9
	Unemployment Insurance	4.8	3.2	1.0	.6	5.8	3.8
	Workers' Compensation	.8	.6	.3	.3	1.1	.9
	Total Related Costs	40.8	39.6	5.7	5.6	46.5	45.2
	Total	\$ 412.5	\$ 356.3	\$ 70.4	\$ 62.2	\$ 482.9	\$ 418.5

Taxes Levied by Governments in Canada

		1981	1980
		(Millions of Dollars)	
Income taxes			
Federal		\$ 55.2	\$ 53.9
Provincial		23.0	22.6
Property and machinery taxes		33.4	27.1
Capital taxes		2.9	2.6
Payroll taxes ⁽¹⁾		11.5	8.6
		\$ 126.0	\$ 114.8

NOTE: (1) Includes amounts capitalized

Shareholder Information

	1981	1980
Number of ordinary shareholders	11,430	11,661
Number of shares outstanding at December 31	34,183,505	30,458,447
Volume of shares traded:	2,460,891	1,928,357
The Toronto Stock Exchange		
Price Ranges (High-Low):	\$17 ¹ / ₄ -14	\$17 ⁵ / ₈ -13 ³ / ₄

Principal Ownership

The Company's outstanding ordinary shares totalled 34,183,505 as at December 31, 1981.

General Telephone & Electronics Corporation (GTE) of Stamford, Connecticut, through its subsidiaries, Anglo-Canadian Telephone Company of Montreal and GTE International Incorporated, was at December 31, 1981 the owner of 17,399,306 shares, or 50.90% of the total ordinary shares outstanding (50.72% fully diluted).

The issue of 3,343,504 ordinary shares on December 23, 1981 included the purchase of 593,504 shares by GTE, through its subsidiaries. GTE limited their purchase of shares in order that their ownership position would be reduced to the historical level of 50.72%, fully diluted. As a result, a voting trust which had restricted the GTE voting position to 50.72% was terminated.

Conversion

The \$2.32 convertible subordinate preferred shares are convertible into ordinary shares of the Company at any time prior to the close of business on June 30, 1986, on the basis of two ordinary shares for each convertible preferred share. As at December 31, 1981, 61,361 or 2.6% of such shares had not yet been converted.

Dividend Reinvestment and Share Purchase Plan

The Company maintains a plan whereby holders of all classes of shares can elect to acquire ordinary shares through automatic reinvestment of dividends and investment of optional cash payments. For a brochure explaining this plan, please write to:

Investor Relations, 19th Floor, 3777 Kingsway, Burnaby, B.C. V5H 3Z7

Dividends

Dividends are payable quarterly on the first days of January, April, July and October. In 1981, dividends declared amounted to \$.30 per ordinary share for the first quarter, increasing to \$.36 for the second and third quarters and increasing again to \$.40 for the fourth quarter, for an annual total of \$1.42.

Market trading

Shares are listed for trading on the Toronto, Montreal and Vancouver Stock Exchanges.

Directors

Gordon F. MacFarlane
*Chairman and
Chief Executive Officer
British Columbia Telephone
Company
Burnaby, B.C.*

W. Thomas Brown²
*Chairman
Odlum Brown & T. B. Read Ltd.
Vancouver, B.C.*

M. Rendina K. Hamilton³
*Barrister and Solicitor
Kelowna, B.C.*

Justin V. Harbord³
*Chairman
J. V. Harbord Company Ltd.
Victoria, B.C.*

Gerald H. D. Hobbs¹
*Private Investor
Vancouver, B.C.*

Allan M. McGavin²
*Company Director
Vancouver, B.C.*

Victor F. MacLean³
*Company Director
Vancouver, B.C.*

John W. Pitts¹
*Company Director
Vancouver, B.C.*

J. Ernest Richardson¹
*Company Director
Vancouver, B.C.*

Horace B. Simpson³
*Vice-President
Okanagan Holdings Ltd.
Kelowna, B.C.*

Hugh R. Stephen²
*Company Director
Victoria, B.C.*

Member of:

1 Audit Committee

2 Salary Committee

3 Pension Trust Committee

and Officers

Gordon F. MacFarlane
*Chairman and
Chief Executive Officer*

Jack C. Carlile
*President and
Chief Operating Officer*

Gilbert F. Auchinleck
*Vice-President
Network Services*

Donald W. Champion
*Vice-President
Personnel and Industrial
Relations*

Leo J. Dooling
Treasurer

James A. MacInnes
*Vice-President
Marketing*

D. Barry McNeil
*Vice-President
Administration*

K. Donald A. Morrison
*Vice-President
General Counsel and Secretary*

Colin G. Patterson
*Vice-President
Corporate Planning*

Betty J. Rumford
Assistant Secretary

Gordon M. Smith
*Vice-President
Revenue Requirements*

Robert H. Stevens
*Vice-President
Supply, Transportation and
Buildings*

J. Neil Stewart
Comptroller

Frank S. Tucker
*Vice-President
Customer Service*

Peter C. Watson
Assistant Treasurer

Head Office

3777 Kingsway
Burnaby, B.C.
V5H 3Z7

**Transfer Agent and
Registrar**

Montreal Trust Company

Duplicate Annual Reports

Every effort has been made to eliminate duplications in our shareholders' mailing list. However, if you have more than one holding you will receive a separate report for each registration unless your shares are registered under exactly the same name.

Annual Meeting

The Annual General Meeting of the Shareholders will be held on Thursday, March 25, 1982 at 11:00 a.m. in the Auditorium of the British Columbia Telephone Company Building, 3777 Kingsway, Burnaby, B.C., Canada.

Additional information or copies of the Annual Report may be obtained by writing to Investor Relations at the Head Office address above. Residents in the Vancouver area may also call 432-4410, while residents elsewhere in British Columbia may call free of charge 112-800-663-9405. From elsewhere in Canada, please call free of charge 1-800-663-9405.

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