BRITISH COLUMBIA TELEPHONE COMPANY
EIGHTY-NINTH ANNUAL REPORT 1980

THE REPORT AT A GLANCE

British Columbia Telephone Company

		1980	1979
Financial	**Revenues, Expenses and Earnings**		
	Telecommunications operations – revenues	**$ 754,490,000**	$ 675,265,000
	expenses	**$ 534,438,000**	$ 479,805,000
	Manufacturing operations – sales	**$ 188,374,000**	$ 47,850,000*
	costs and expenses	**$ 175,882,000**	$ 44,732,000*
	Combined earnings before interest and other deductions	**$ 237,914,000**	$ 206,960,000
	Invested Capital		
	Average invested capital	**$1,556,421,000**	$1,430,837,000
	Return on average invested capital	**10.22%**	9.81%
	Ordinary Shares		
	Share earnings	**$ 61,915,000**	$ 51,849,000
	Earnings per share	**$ 2.04**	$ 1.92
	Dividends declared per share	**$ 1.20**	$ 1.20
	Equity per share	**$ 15.73**	$ 14.91
	Average shares outstanding	**30,334,199**	27,055,113
	Gross Plant Additions	**$ 323,005,000**	$ 277,500,000
Other	Telephones in service	**1,893,355**	1,786,648
	Telephone gain for the year	**106,707**	103,227
	Number of employees	**15,120**	14,705

(For the period October 1 - December 31, 1979)*

BRITISH COLUMBIA TELEPHONE COMPANY
EIGHTY-NINTH ANNUAL REPORT 1980

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

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THE CHAIRMAN'S LETTER

The year 1980 was a period of solid achievement for this Company in spite of unexpected challenges and constraints. The results demonstrate the resiliency and basic stability of our Company and confirm last year's decision to broaden our corporate direction and diversify our resources.

The challenges and constraints we faced included the imposition of a 5 percent corporate surtax early in the year; the denial of our request for interim rate relief in June; a protracted rate hearing which eliminated any possible rate relief in 1980; increasingly high interest rates throughout the year, and a troubled labour relations climate.

Even with these pressures we were able to make, in total, a significant contribution to the social and economic well-being of the province we serve.

In its telecommunications operations, this Company provides what has become an essential service to the people, businesses and industries of British Columbia. We provide this service 24 hours a day, 365 days a year, year in and year out. We are able to do this because we can call on the experience and expertise of our people and utilize our very expensive and very complex equipment.

While the sum of our efforts is impressive, we must acknowledge that in a number of areas and in certain instances we have fallen short of our objectives. We have set ourselves high objectives, objectives which may have proven unreachable given the lack of whole-hearted co-operation from some segments of our employee population.

It is obvious that a number of our employees espouse a political philosophy which, if brought to fruition, would see this Company become a Crown Corporation of either the federal or provincial government. Whatever the philosophy, its proper place is the political arena and any attempt to further this concept, using Company premises as a forum, will continue to be discouraged.

The Company has a dual mandate. It must provide service in a manner which is in the public interest. It must also ensure that, in serving the public interest, it is able to provide a realistic return on investment to shareholders and a fair and reasonable wage to employees. Given this dual mandate, the Company must ensure that a proper balance of benefits accrues to each group.

For some time now there has been a lack of balance in the returns our shareholders have been receiving. We are determined to restore this balance.

I believe that our efforts in this regard, as well as the rate relief granted as a result of our application, will assist substantially in maintaining investor confidence in the Company.

Last year, in assessing our acquisition of a manufacturing and research component, I was able to report on a period of only three months. Now, with the addition of a full year of operations as a basis, I am pleased to report that our early expectations and enthusiasm have been more than justified. AEL Microtel has made a substantial contribution to our earnings. Of equal importance, it has broadened our perspective with regard to the potential benefits that can accrue from active participation in many of the developments of the Information Age.

We are moving more and more rapidly into an environment of competition where events shape policy. Although we have had many concerns with some aspects of competition in the area of interconnection, we have recognized that we must be flexible enough to develop our policies and practices to deal with the world as it is.

I am obliged to report that the process by which our telecommunications activities are regulated is a matter of growing concern. Our latest application for rate relief, submitted to our regulatory body, the Canadian Radio-television and Telecommunications Commission (CRTC) on March 24, 1980, had not been determined by our year-end and became effective February 2, 1981 — almost a year after application.

I should add, however, that the decision of the CRTC approves our request for a general increase in rates and concludes: ". . . that a range of 14 percent to 15.5 percent for the return on common equity constitutes a reasonable incentive for the Company."

I wish to place on record our appreciation of the perseverance of the Commission in conducting the lengthy hearings and evaluating the mass of evidence, pro and con, which was presented.

Labour-management relations continued to affect our operations to varying degrees throughout the year as the two parties sought a fair and reasonable labour contract to replace the one which ended December 31, 1979. Our employees went on strike on February 9, 1981. It is obvious that, following the signing of a new agreement, both parties must undertake a re-thinking of traditional roles and attitudes which have become fixed, reflexive and unreasonably adversarial.

I have confidence that with goodwill on both sides, we can move toward a mutually supportive, mutually beneficial working environment.

Our working environment is, of course, just one factor in the total equation which determines the well-being of the Company. The economic conditions which will prevail in 1981 and the years to follow are bound to affect this Company's operations and results. British Columbia has been spared the worst of the recession which affected other parts of the country and the world and its prospects are relatively favourable — given no dramatic upheaval in its marketplace.

We are engaged in many aspects of the Information Revolution, both in our telecommunications activities and in our manufacturing and research components. As this revolution gathers momentum and moves us toward what will become the Information Economy, this Company will be in a position to play an important and impressive role in that economy to the benefit of our customers, our shareholders and our employees.

As we have demonstrated this year, we can absorb set-backs, overcome obstacles and continue to fulfill an extremely high proportion of our responsibilities.

Gordon F. MacFarlane,
Chairman and
Chief Executive Officer

REPORT OF DIRECTORS

Top left: Marketed by B.C. Tel, the versatile Vutran terminal is currently used by the Royal Bank to allow customers access to their own accounts.

Top right: The Vancouver Stock Exchange, scene of record trading in 1980, depends on modern telecommunications like B.C. Tel's VuCom and Datacom computer terminals.

Lower: B.C. Tel product manager Rick Styles with portable computer terminal now becoming popular for communicating with data banks and other computers via the telephone network.

The broadening of the Company's direction, first undertaken in 1979 with the acquisition of manufacturing and research facilities, produced tangible and favourable results in 1980.

The manufacturing operations of our wholly-owned subsidiary, AEL Microtel Limited, acquired by an issue of ordinary shares of the Company, made a gratifying contribution of 25 cents per share on a share investment of $47.3 million, to the earnings of the consolidated Company. In addition, through aggressive marketing and imaginative product innovation and development, AEL Microtel has laid the groundwork for an expanding share of world-wide markets.

On the telecommunications side of our business, we are able to provide, in almost every instance, continually improving and expanding service to our customers in spite of several negative developments in our own corporate environment.

To permit financing of the construction programs needed to meet present and future service demands, the Company requested approval of a general increase in prices to become effective in two phases: an interim increase on June 1, and the full increase on December 17, 1980.

If approved on the dates requested, the increases would have resulted in increased revenues totalling some $9.6 million in 1980. As is outlined in the Regulatory section of the Report, the Company failed to obtain approval for these increases on the dates requested.

This shortfall in projected revenues, taken with the imposition of the 5 percent federal corporate surtax and the effect of inflation on the cost of money, placed a financial constraint upon the Company which was reflected, to some degree, in its bargaining position during labour contract negotiations.

However, in spite of these constraints and the effect of historically high costs of money, the Company was able to achieve financial results which, while not up to objectives, are a reflection of the Company's basic stability and its productivity.

It is interesting to note that for the first time in six years, B.C. Tel's 1980 operations and results were not affected in one way or another by the imposition in 1975 of anti-inflation measures.

FINANCIAL PERFORMANCE

Earnings

Net earnings for the year amounted to $61,915,000 or $2.04 per ordinary share based on the average number of shares outstanding during the year.

Net earnings in 1979 were $1.92 per share.

The Company's return on total invested capital for 1980 amounted to 10.22% compared with 9.81% in 1979. The rate of return on average ordinary share equity for 1980 was 13.48% compared with 13.32% in 1979.

Revenues and Expenses

Telecommunications operating revenues in 1980 increased by 14.8% to $754,490,000, compared with 1979 revenues of $656,940,000. Telecommunications operating expenses for 1980 totalled $534,438,000, an increase of 11.4% over 1979 operating expenses of $479,805,000.

Manufacturing operating sales amounted to $188,374,000 in 1980, the first full year of operations under B.C. Tel ownership. Manufacturing costs and expenses were $175,882,000 in 1980.

Ordinary Dividend

Ordinary dividends for the year totalled $1.20 per share.

Financing

No permanent financing through public issues was concluded during 1980.

Approximately 73% of the funds required for the construction program was raised internally, with the balance made up of short-term borrowings.

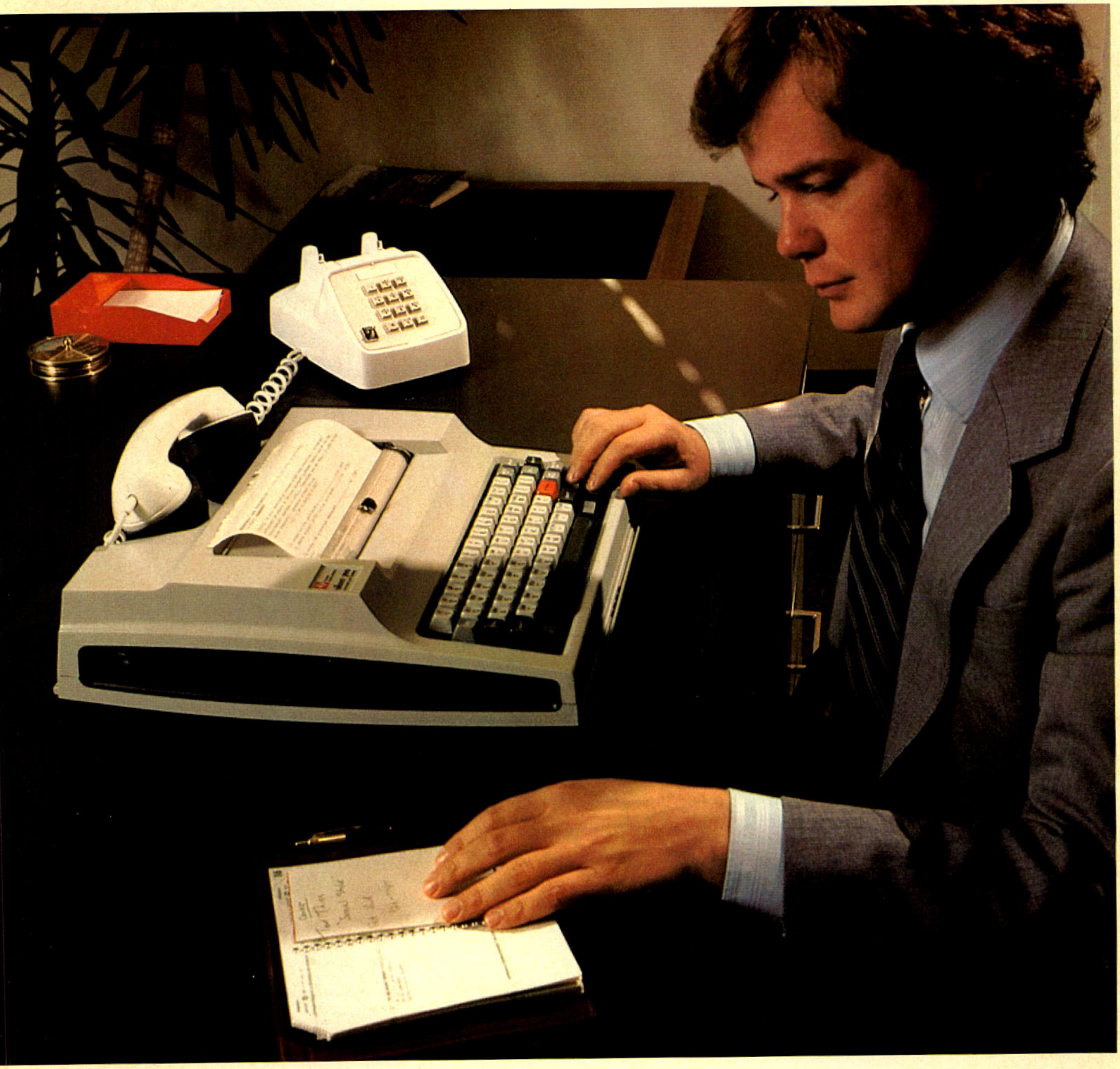
There was a $20 million redemption of Series Z Bonds on April 1, 1980, as well as redemptions of preferred shares totalling $8.1 million during the year.

Approximately $5 million was raised through new equity resulting from the Employee Share Purchase Plan and the Dividend Reinvestment and Share Purchase Plan. There were 2,648 employees participating in the employees' plan at year-end and 2,370 shareholder participants in the Dividend Reinvestment Plan. A total of 376,204 ordinary shares were issued during 1980 in connection with these plans.

Details of these financing transactions are contained in the Financial Report.

REGULATION

The Company's telecommunications planning and operational



activities were affected by a number of regulatory considerations and obligations during 1980. The total of the Company's resources which must be committed to meeting the various aspects of the regulatory process is significant, and should be weighed against the benefits which may accrue to the Company's customers, its shareholders, its employees or the public at large.

While the Company accepts the requirement for regulation for those of its services which are monopolistic in nature, we also believe that regulation in the competitive arena should consider the public interest and ensure that all participants are subject to the same regulatory process.

The Company has already made several submissions to the federal government, and it looks forward to a continuing participation in the drafting of a realistic and contemporary national communications policy. Such a policy would allow the country, the provinces, the industry and the public to attain the full benefits inherent in the new Information Age.

General Rate Increase

On March 24, 1980, the Company made its first application for approval of a general rate increase since December, 1976.

The application to the Canadian Radio-television and Telecommunications Commission (CRTC) consisted of a request for a two-phased general increase: an interim increase to be effective June 1, 1980, and the remaining portion to be effective December 17, 1980.

The requested increase amounted to 12.5 percent for individual line residence service and 15 percent for individual business service with some restructuring of intra-provincial and British Columbia-Alberta long distance rates.

The effect of the increases, if granted on the dates requested, would have been to increase the Company's operating revenues by some $9.6 million in 1980 and by some $49.3 million for the full year of 1981 — 6 percent of total operating revenues.

In a decision of May 23, 1980, the CRTC rejected the Company's application for the interim rate increase requested for June 1 and set September 30 as the date for the start of public hearings on the full application.

In preparation for the hearing, the Company filed an application of 550 pages; exhibits of 2,400 pages and an additional 2,400 pages of interrogatories and responses. In addition, the Company prepared and mailed 1,150,000 pieces of information to inform subscribers of the application.

As a result of the lengthy hearing process, the Commission was unable to bring down a decision by the requested implementation date of December 17, 1980.

The Commission's decision, dated January 29, 1981, approved the Company's request for the general rate increase and set an effective date of February 2, 1981, for implementation. This later implementation date will create a shortfall of some $4 million in estimated revenues in 1981.

In its decision, the Commission also concluded ". . . that a range of 14% to 15.5% for the return on common equity constitutes a reasonable incentive for the Company. However, in prescribing this range, the Commission is not authorizing an annual return on common equity in excess of 14% unless service quality exceeds the minimum level acceptable to the Commission, having regard to the indicators and standards used in this case and, where appropriate, those resulting from the quality of service proceeding."

Other Regulatory Activity

One of the regulatory matters which will affect this Company — the CRTC inquiry into TransCanada Telephone System rates, practices and procedures — reached the public hearing stage during the

An economic boom and the influx of new people into the province require constant upgrading and additions to network operations.


B.C. TELEPHONE CO

Top left: Joan Carrigan and Joyce Dobbie

Top right: Robson Square.

A major customer, the provincial government has been working with B.C. Tel and suppliers to develop a new integrated voice-data network.

Lower: Left to right, seated, Ray Mussenden, Director of Telecommunications Services, Ministry of Universities, Science and Communication; Dr. John Madden, President of Microtel Pacific Research Limited; Harold Page, Assistant Deputy Minister, Ministry of Universities, Science and Communication. Standing, Jack Kenny, Product Manager — PABX; Wally Nowick, B.C. Tel's Product Manager — Provincial Government.

spring of 1980. B.C. Tel participated in the public hearing, advancing its view that its participation in TCTS has been clearly and substantially in the public interest. A decision is pending on this hearing.

B.C. Tel and CNCP Telecommunications have thus far failed to resolve the matter of CNCP's desire to have the same kind of interconnection with B.C. Tel's switched network that it achieved, as a result of the Bell-CNCP interconnection decision, with Bell Canada's switched network. A decision is pending.

The Company participated in the CRTC study of Quality of Service Indicators. Following an extensive interrogatory procedure and a public meeting, the outcome of this study is pending. It is anticipated that a definition and acceptance of quality of service indices will result in a speeding-up of regulatory processes related to rate hearings.

Two other general inquiries involved the Company during 1980. These were the Restrictive Trade Practices Commission's inquiry into the appropriateness of vertical integration of manufacturing companies with telecommunications carriers, which started in 1977; and the CRTC Inquiry into Telecommunications Carriers' Costing and Accounting procedures which began in 1972.

PROGRESS

Both the telecommunications and the manufacturing operations made substantial progress in 1980 towards their common objective of providing the economy and the community with modern and appropriate telecommunications equipment and services.

Manufacturing Operations

Although AEL Microtel Limited has only been a part of B.C. Tel's corporate family for a little over a year, it has already made a significant contribution to the financial well-being of the parent company. Its earnings contributed 25 cents per share to the consolidated net earnings of the Company.

This gratifying result is a reflection of the knowledge and experience, the goodwill and reputation built up by the two former companies — GTE Automatic Electric (Canada) Ltd., and GTE Lenkurt Electric (Canada) Ltd. — in the decades of successful business experience in Canada prior to acquisition by B.C. Tel; and to the new directions and initiatives undertaken since becoming a new corporate entity — AEL Microtel Limited.

Microtel Pacific Research Limited, a wholly-owned subsidiary combining the research and development elements of both companies, was formed shortly after the formation of AEL Microtel. It has established corporate headquarters and new R&D laboratories on a temporary basis before moving to a new building to be constructed at Discovery Park near Simon Fraser University in Burnaby.

Another subsidiary, Viscount Industries Limited, has custom-manufacturing capabilities, as well as proprietary video switching and telephone testing products among its assets. It will be manufacturing the Telidon videotex business terminals, to be marketed by Microtel.

As the on-going melding of the two original companies took place, AEL Microtel moved into other new ventures. "Manutronics" was established to sub-contract the extensive manufacturing capabilities of Microtel to other electronic manufacturers. "TeleTraining Canada", which provides a wide range of specialized training courses from its Brockville base, has been expanded to meet the needs of Western Canada's customers from a new school in Burnaby. In addition, AEL Microtel has developed a new organization for the marketing of business information systems.

All of these new business facilities are in addition to the major manufacturing facilities of Microtel — the Switching Division's factory at Brockville employing 1,100 people; the Transmission Division's plant in Burnaby which, with its 955 employees is the largest secondary manufacturing industry in the province. There are smaller factories in Winnipeg, Saskatoon and Lethbridge.

Added to Microtel's Marketing Division and Head Office staff, these bring the total employee count to 3,039.

In addition to marketing its products and services throughout Canada, AEL Microtel has been successful in winning substantial contracts on world markets, and has sold to customers in 55 different countries around the globe, including both highly industrialized and emerging nations.

Telecommunications Operations

The resources of the telecommunications arm of the Company — people, money and equipment — were employed during 1980, as they are each year, to provide and maintain service to our customers; to undertake a vigorous marketing of our products and services; to enable our employees to benefit from modern training programs and techniques, and to play our role in the community-at-large.

Service

A record number of telephones was added to the B.C. Tel system for the second year in a row. The 1980 addition of 106,707 new telephones brought the total of sets in use to 1,893,355 for a gain of 6 percent over the 1979 figures.

An increase in long distance


Robson Square
Information

calling was responsible, in part, for the Company's ability to withstand some of the negative effects of the inflationary pressures and lack of rate relief mentioned earlier. Completed message volumes for long distance were up by 17 percent over 1979.

In view of some criticism of our service, it is revealing to note that during the Christmas Day and Boxing Day holidays in 1980, B.C. Tel employees and B.C. Tel equipment made it possible for more long distance calls to be completed than ever before. In the two-day period, some 775,000 long distance calls were completed, an increase of 21 percent over the same period in 1979.

Construction

B.C. Tel allocates its telecommunications construction budget to best meet the present and anticipated demands of its customers for service; to improve and maintain existing services and to modernize its equipment. These basic allocations are further broken down with geographical distribution to meet the particular needs of particular regions of the Company's operating territory.

By Area	1980	1979
Coastal	$178,900,000	$117,500,000
Island	41,000,000	49,900,000
Interior	29,600,000	36,000,000
Northern	45,600,000	52,500,000
Okanagan	23,800,000	20,600,000
	$318,900,000	$276,500,000

By Category	1980	1979
Central Office Facilities	$123,900,000	$81,100,000
Underground and Aerial Cable and Related Facilities	63,800,000	63,700,000
Purchase and Connection of Subscriber Equipment for Residential and Business Customers	101,300,000	83,100,000
Land and Buildings	16,900,000	25,100,000
Miscellaneous	13,000,000	23,500,000
	$318,900,000	$276,500,000

The Construction Story

The time required for the initial evaluation, engineering, purchasing, testing, installation and phasing-in of major items of equipment may carry over one or more calendar/fiscal years. As a result, any year's construction program is best viewed as one stage in the Company's ongoing commitment to the provision of basic, high-quality telephone service at prices which, for all practical purposes, permit universal access to the service. It should also be seen as another step toward the expansion and improvement of our network — to meet service requirements resulting from economic growth in British Columbia, and to meet customer expectations and desires for new and more sophisticated telecommunications services arising from the new technologies of our industry.

For example, the installation of B.C. Tel's first major digital electronic switch in New Westminster this year is a first step toward the all-digital network of the Information Age. During 1980, installation work was carried out on three other digital long distance switches in downtown Vancouver, Kelowna and Prince George.

Digital technology is a highly versatile process by which any signal can be converted into the language of an electronic computer. It is the latest development in the field of electronic switching and provides more reliable and improved telephone service. In a digital system, the telephone user's voice is converted from sound waves to electronic pulses. These take up less 'space' and are not as vulnerable to outside interference, thus reducing the problem of 'noise' on the line.

As part of its five-year program of conversion to Electronic Stored Program Control local switching machines, the Company in 1980

Customizing services to specific needs — whether the need of a child or a complex service like health care — is but one part of B.C. Tel's innovative marketing approach.

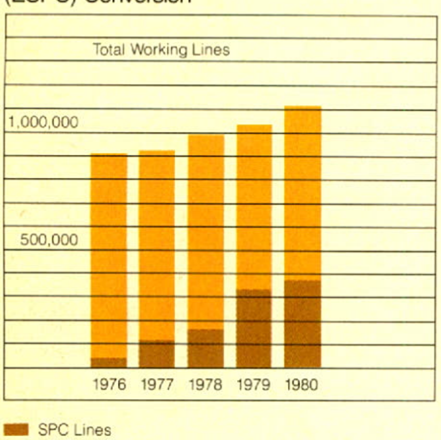
Page 11: The mining industry must go where the ore is, and B.C. Tel's services follow. The Company will require efficient planning and substantial capital investment to meet the demands of major developments like the recently-announced export plans for massive coal deposits in the north-east corner of the province.

brought the percentage of lines served electronically closer to its 1985 objective of 84 percent. At year-end 34 percent of our lines were served by ESPC. Electronic Stored Program Control can embrace both the new digital and the traditional analog technologies.

The Company respects its obligation to provide and improve service throughout its operating territory, not simply in populous Lower Mainland centres. In addition to the installation of a digital electronic long distance switch in Prince George, the Northern Division undertook the conversion of more than 10,500 lines to analog electronic capacity in Fort St. John and provided more radio coverage to isolated camps in the oil and gas fields in its territory.

Two major projects utilizing the technologies of the Information Age were undertaken by the Island Division: the start of a new digital radio system between Victoria, Nanaimo and Vancouver to carry long distance calls from the Island to the Lower Mainland; and B.C. Tel's first operational fibre optics system

Electronic Stored Program Control (ESPC) Conversion



to carry calls from the radio terminal in Victoria to the Victoria switching centre.

The Coastal area of the Company's operating territory includes the heavily populated Lower Mainland area and many smaller centres of population. Among them is the resort area of Whistler which received a new electronic central office.

The above is but a small sampling of some of the construction activities and projects undertaken in 1980 to meet demands for service and to modernize and upgrade services.

Among the service improvements carried out in 1980 was the ongoing extension of Automatic Number Identification (ANI). This feature enables customers to place and be billed for long distance calls without the aid of an operator. By 1983, it is estimated that 99 percent of B.C. Tel's one and two-party customers will have ANI.

The continuing program to offer one-way Extended Area Service (EAS) to customers who depend on a nearby larger community for basic needs such as shopping, medical services, police, fire protection, schools and government offices saw plebiscites held in 28 communities during 1980. The service was implemented in 11 areas following earlier plebiscites and implementation is scheduled for a further 19 areas in 1981. By 1985, a total of 76 one-way EAS routes could be in service if all plebiscites are approved.

Designed to reach far beyond the terrestrial borders of the Company's operating territories, a major link in what will be the world's first high-frequency satellite communications network took shape at B.C. Tel's Seymour Street building in downtown Vancouver. B.C. Tel and Telesat Canada are constructing an earth station on the roof of the William Farrell Building which will receive voice and television signals from the Anik C series of communications satellites, scheduled to be launched by space shuttle later this year.

When the new network goes into operation it will integrate Telesat's Anik C satellite with the land-based digital network now being established across Canada by member companies of the TransCanada Telephone System, including B.C. Tel.

Record demand for B.C. Tel network services is reflected in feverish construction activity.

Top left: June Howis and Marilyn Ames work the new computer-assisted switchboards. Both new installations are at Kelowna.

Top right: Rutherford Village Shopping Centre, Nanaimo.

Centre: Dave Smallshaw and Jim Commins monitor electronic switching equipment.

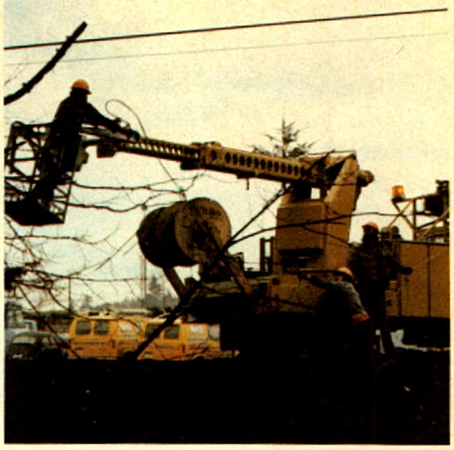
Lower: District engineering supervisor Mike Sutton at the new Eaglepoint subdivision, Nanaimo.

The Marketing Story

As the Company moves farther into an era which promises to become more and more competitive in many areas of the Company's operations, innovative and aggressive marketing policies and programs assume even greater importance.

The Company's marketing strategy is a mosaic of many programs, services and initiatives. These range from the active marketing of the Company's data communications products and services to the introduction of Charge-A-Call coinless telephones at selected high-traffic locations in the province.

The Company has achieved encouraging successes with its industry-specific marketing approach which utilizes intensive analysis and study of the target industries' specific and unique communications requirements. A variety of industries, including forestry, mining, transportation, government and distribution are currently being analyzed. Successful presentations have already been



made to the lodging, health care and real estate industries.

The Training Story

As technology advances, our employees have the need to upgrade existing skills or to acquire entirely new skills and expertise.

Through the operation of its centralized Education Centre, the Company provides employees with the opportunity to expand and develop their capabilities. The training offered includes career counselling and training in a wide variety of technical, managerial, marketing, customer service and other activities involved in our operations. Courses range from pole-climbing instruction to the operation and maintenance of the most sophisticated electronic switching equipment and alarm systems.

In 1980, the Company invested more than a million dollars a month, a total of $13.7 million, in the people of B.C. Tel. A staff of 145 full-time employees at the Education Centre provided a total of more than 545,000 hours of training for both management and bargaining unit employees.

The Community Story

The roles the telephone company and its employees play in the community are summed up in one story.

Record-breaking rainfalls over the Christmas holiday period caused heavy flooding in several parts of the province, including the Squamish and Gibsons areas in the Howe Sound — Sunshine Coast region, north of Vancouver.

One of the residents of the area who had to be evacuated by Canadian Armed Forces rescue helicopters had this reaction to the efforts of B.C. Tel's installer-repairmen to restore service:

> "I don't know how they managed to do anything under such conditions, but they did. They must have worked their butts off. When we were evacuated, the phone was dead. When we returned the next morning, we had to walk in because a bridge and a huge stretch of road were washed out. But the B.C. Tel people had been ahead of us. The phone was working."

CONTRACT NEGOTIATIONS

The three-year collective agreement between the Company and the Telecommunications Workers Union (TWU) expired December 31, 1979.

The Company and the Union first exchanged contract proposals in October, 1979. Since then there has been considerable bargaining progress, with concessions made on both sides. Federally appointed conciliators and mediators have taken part in the negotiating process from time to time.

However, the fact remains that, at the time of writing this Report, we are still without a contract and, as a result of job actions by the TWU, there have been serious disruptions in some aspects of our service.

The Company has been able to provide uninterrupted service in most areas in the face of an overtime ban imposed by the Union in May, 1980; an 18-day illegal strike by 188 TWU members in August, 1980; a strike action by more than 550 TWU construction workers, switchboard and special service installers and repairmen since September 22, 1980, and slowdowns and lack of productivity on the part of some Union members. On February 9, 1981, the TWU declared a Company-wide strike.

The Company is anxious to sign a collective agreement which is reasonable and fair to all parties concerned — our employees, the Company and our customers.

The directors of the Company

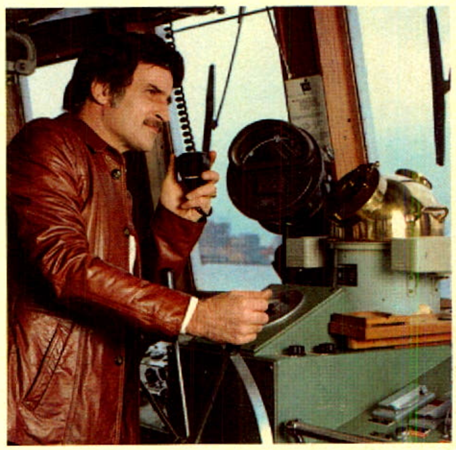
Modern transportation would be unthinkable without sophisticated telecommunications.

Top: Murray Olson of Pacific Western Airlines uses our new automatic call distribution unit as an efficient management tool to spread the workload evenly among the airline's agents.

Centre: Commercial fishermen rely heavily on radiotelephone.

Lower: George Carich at the helm of a Rivtow Straits Limited tug.

Page 15: Companies like Canadian Kenworth integrate Datapac, PABX and radiotelephone to communicate with customers and suppliers.




KENWORTH

Left: Edith Jones, Northwood Pulp and Timber Limited receptionist in Prince George, with our computer-assisted switchboard.

Right: Prince George Pulp and Paper Limited has several plants and operations linked via a sophisticated switchboard, supplied by B.C. Tel.

Page 17: Sophisticated telecommunications services are vital to the operation of integrated industries like MacMillan Bloedel Ltd., British Columbia's forestry giant.

recognize that the prolonged period of contract negotiations has been an unsettled and unsettling time for everyone concerned. The directors wish to thank the vast majority of our bargaining unit employees who, prior to the strike, carried out their assignments with diligence and enthusiasm throughout this trying time, unless otherwise directed by Union officials. The directors also wish to pay tribute to those management employees who have been working nights and weekends for more than five months under very trying conditions in an effort to close the gap created by the withdrawal of some segments of the bargaining unit. They have earned the gratitude of their fellow employees and the customers of the Company.

LOOKING AHEAD

Financial-Consolidated

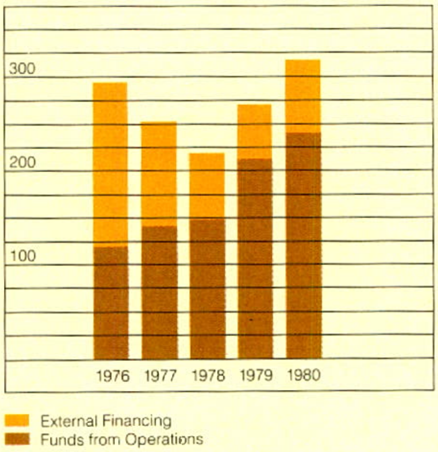
We are encouraged by the conclusion of the CRTC that a range of 14.0 to 15.5 percent for the rate of return on common equity constitutes a reasonable incentive for the Company. This marks the first time, since its decision of November, 1975, that the regulatory body has given an indication of what it would consider to be appropriate in this regard.

One of our financial objectives for 1981 is to have our return on common equity attain the range set out by the Commission.

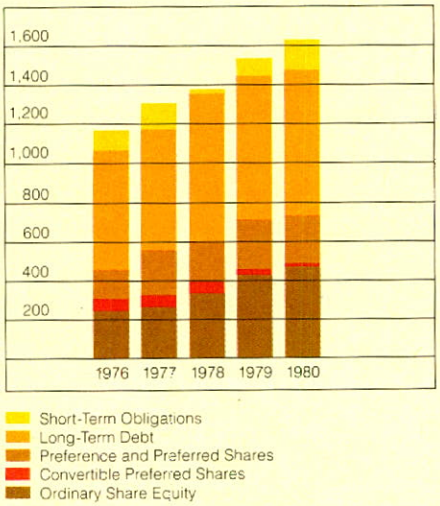
The percentage of funds generated from internal sources for use in our telecommunications construction program declined somewhat in 1980 and, given the record construction program projected for 1981, it is unlikely that there will be an appreciable improvement in this proportion. However, our objective of raising 80 percent of our funds required for construction from internal sources by 1984 still appears to be realistic.

Although the trend, so marked in 1978 and 1979, toward improvement in our debt-equity ratio slowed somewhat during 1980, we look for continuing improvement in this area as we move toward our target of 48 percent debt and 52 percent equity by 1985.

Source of Funds Used for Construction (Millions of Dollars)



Capital Structure (Millions of Dollars)



Telecommunications Operations

Although the protracted regulatory process resulted in our general rate increase becoming effective February 2, 1981, rather than on June 1 and December 17, 1980, as originally requested, the additional revenues will assist the Company to meet its obligations on all fronts — to our shareholders, our subscribers and our employees.

In its decision, the Commission predicated the new rates upon ". . . the expectation that adequate service quality will be available to subscribers while these rates are in effect."

While commending the Company for its efforts to improve service in three areas of its operations, the Commission placed the Company on notice that service must be improved in three other areas by year-end.

Our projected construction program for 1981 and our increasing utilization of advanced technology in the system will help us meet this requirement. However, until we have the full support and cooperation of our labour force, it will be very difficult to attain the level and quality of service our customers deserve and the Company desires.

To attain a greater degree of support and cooperation from our labour force and following the signing of a new collective agreement, intensive efforts will be made to place our labour-management relations on a more mutually beneficial basis.

We have planned a capital expansion program of some $375 million for 1981 to maintain, improve and expand our telecommunications system. This program is subject to a

process of continuous review and evaluation as we take into account the changing needs of our customers and the related suggestions contained in the CRTC decision. For example, we will be responding vigorously to the service problems created by unprecedented growth in our Island and Northern Divisions.

We will continue to introduce equipment embodying the advanced technologies of the Information Revolution and to adopt practices which will permit us to realize all the advantages inherent in this equipment.

We are studying the implications of recent developments and trends related to the interconnection of terminal equipment. The most recent development is the decision of Alberta Government Telephones to apply to Alberta's Public Utilities Board for permission to make a major change in its operating policy which would permit AGT customers to own their own telephones, business communications equipment such as switchboards and the wiring inside their residence or business.

In the light of such trends, this Company must continue to explore and evaluate its options and opportunities in both its telecommunications operations and those of its manufacturing arm.

Manufacturing Operations

Although our manufacturing and research and development arm, AEL Microtel Limited, has been a part of the Company for more than a year, there is still much to be done so that the strengths it offers can be utilized to maximum advantage. As noted earlier, AEL Microtel has had a very successful year in every aspect of its operations. But it is apparent that we have only scratched the surface of its potential for growth.

We anticipate that the close coordination and enthusiastic cooperation which has been developing between the two arms of the Company will broaden and deepen as we continue to strive to meet mutual objectives.

Government and Regulation

In spite of some measure of concern expressed by segments of the public, by industry and even by government itself, there seems little likelihood that any significant degree of de-regulation will take place, or that the presence of government will be less evident in most aspects of our business.

On the contrary, as government looks to the private sector to satisfy many social and economic goals which would otherwise have been funded through general tax revenues, we can look for increasing pressure from government to use our resources as its tools.

The services we offer, including basic telephone service, are regarded as essential to the economic and social well-being of society. This places the regulated telecommunications carrier in an anomalous position. While accepting that we have a role to play in the community at large, we must also ensure that in playing this role we do not jeopardize our responsibilities to our customer-body as a whole or to our shareholders or employees.

As far as regulatory jurisdiction is concerned, we continue to be faced with three possibilities: regulation by both the federal and provincial governments — that is, two-tier regulation; regulation by the provincial government, or a continuation of the present situation — regulation by an agency of the federal government. There seems little indication that this intergovernmental jurisdictional issue will be resolved in the near future.

The Economy

The economic outlook for 1981 would appear to be even more clouded than that of 1980, characterized by continuing inflation and slow growth. While we recognize that past performance in today's uncertain world may have no relation to what lies ahead, nevertheless we are heartened by the apparent strengths of the provincial economy and its ability to weather the economic storms which beset much of Canada during the past year.

We are also encouraged by the fact that our basic optimism and faith in the province and its people would appear to be widely shared. In 1980, this province attracted an average of 1,000 new inhabitants a week. Our Company quickly and directly reflects developments of this nature and it is reasonable to assume that this increasing population base will mean an increased service base and increasing revenues.

The economy of the province is powered largely by the export demand for its natural resources, most notably the products of its forests and mines. In both these areas the continued devaluation of the Canadian dollar augments a relatively stable demand for our products on international markets.

This demand has translated into increasing capital investment for the expansion of productive capacity in both forestry and mining industries as well as increased frontier development.

As our resource industries continue to expand already established facilities or bring whole new areas of the province into the development phase, our Company must have the ability to provide the essential infrastructure of modern telecommunications services. The recently announced multi-billion dollar coal development in the north-east corner of the province, for example, will undoubtedly place heavy demands upon our resources. We intend to be in a position to meet those demands and any other such demands as they arise.

It is the intention of this Company to continue to build upon its very evident strengths in the year ahead, while making every effort to contain or correct any unsatisfactory conditions. Your directors are confident that we shall do so.

On behalf of the Board of Directors

Gordon F. MacFarlane,
Chairman and Chief Executive Officer

Burnaby, British Columbia
February 17, 1981

Top left: Norm Kreger, market research supervisor with the videotex project, becoming acquainted with an information provider terminal. Field trials are scheduled for 1981.

Top centre and right: Sentel, B.C. Tel's security system, monitors and reports burglar, fire and medical emergencies. Field trial is under way in Vancouver and the North Shore.

Lower: Graham Smith, Microtel Pacific Research Limited, with the workings of a Telidon videotex terminal.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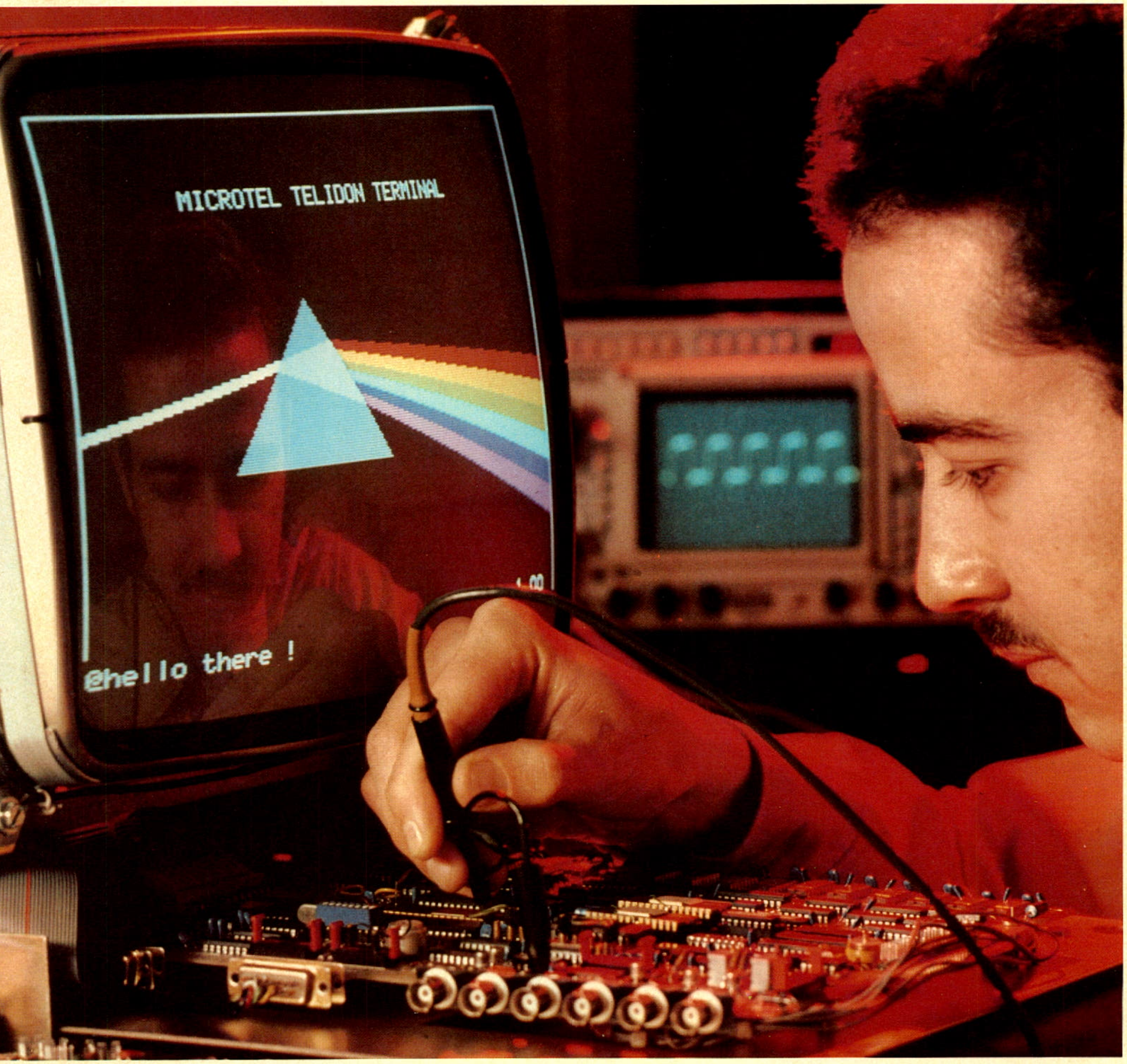

MICROTEL TELIDON TERMINAL
@hello there !

FINANCIAL REVIEW

CONSOLIDATED EARNINGS

Consolidated earnings per ordinary share were $2.04 in 1980 or $2.02 per share fully diluted. Earnings per share in 1979 were $1.92 and $1.87 respectively.

A significant contribution to 1980 earnings was made by AEL Microtel Limited, which was acquired October 1, 1979, by an issue of ordinary shares of the Company. In the first full year of operations, earnings of Microtel amounted to $.25 per share. Earnings of $.03 per share by our manufacturing subsidiary for 1979 were for the period from the date of acquisition.

RATES OF RETURN

The return on total invested capital in 1980 was 10.22% compared with 9.81% the previous year. The return on ordinary equity increased to 13.48% from 13.32% in 1979. These improvements in the rates of return on capital were achieved in spite of rising costs of operations during the year.

TELECOMMUNICATIONS OPERATIONS

Operating Revenues

Growth in annual revenues from telecommunications operations in 1980 amounted to 14.8%, bringing the total to $754,490,000 compared with $656,940,000 in 1979.

Local service revenues, which account for 38 percent of total operating revenues, increased by 8.9% primarily because of telephone growth during the year. Toll service revenues, comprising 59 percent of total revenues, increased by 19.0% due to the increased volume of long distance calling during 1980.

Operating Expenses

Operating expenses were held to an 11.4% increase over 1979 expenses and totalled $534,438,000 compared with $479,805,000 the previous year, reflecting efforts by the Company to constrain spending, wherever possible, in the face of rising inflation and as a reaction to the imposition of a corporate surtax and the denial of rate relief in 1980. Expenses identified with plant maintenance, operator services, customer service and administration increased principally as the result of higher material, payroll and payroll-related outlays.

Depreciation expense and annual property taxes also increased in line with the Company's expanded asset base in 1980.

Expenses of operations and depreciation in 1980 include the continuing effects of the phase-in of the CRTC Inquiry into Costs and Accounting Procedures, introduced in 1979 under Phase I directives. Further refinements in the timing of cost recognition were brought into effect, which provide for an accelerated recovery of capital costs from revenues.

Earnings

Earnings from telecommunications operations before interest charges and income taxes increased in 1980 by 10.6% to $225,422,000.

MANUFACTURING OPERATIONS

Annual 1980 sales by Microtel's switching and transmission divisions totalled $188,374,000. This was 12.3% more than the 1979 total of $167,789,000 which, for comparison purposes, includes sales recorded in the 1979 period prior to acquisition. Costs and expenses of manufacturing operations totalled $175,882,000 or 10.7% more than the equivalent 1979 total of $158,889,000.

Earnings available for consolidation with 1980 earnings from telecommunications operations amounted to $12,492,000, before provision for interest charges and income taxes for the year.

INTEREST CHARGES

The annual cost of servicing the Company's consolidated debt obligations rose to $81,855,000 in 1980, an increase of 13.6% over 1979 interest charges. The reduction of long-term debt through maturities and repayments in 1980 caused annual interest on long-term debt to be less than the previous year's total. Interest charges relating to short-term borrowings, however, rose substantially from $3,159,000 to $17,324,000 in 1980, to reflect both a continued rise in interest rates and the Company's requirements for external funding.

INCOME TAXES

A 16.3% increase in income taxes was recorded in 1980, for a total of $76,470,000 compared with $65,734,000 in 1979. Contributing to the increase was the imposition of a 5% federal corporate surtax beginning in 1980 which brought the annual income tax rate to 52.8% from 51.0% in 1979.

NET EARNINGS AND ORDINARY SHARE EARNINGS

Net earnings available for the payment of dividends in 1980 totalled $79,589,000, up from $69,175,000 the previous year. After provision for dividends on preference and preferred shares of $17,674,000 ($17,326,000 in 1979), ordinary share earnings amounted to $61, 915,000 as compared with $51,849,000 in 1979. This allowed for a moderate increase in per share earnings, despite an increase in the average number of ordinary shares outstanding in 1980 that resulted from share issues in late 1979 and during 1980. These related to the Microtel acquisition and the Company's Employee Share Purchase Plan and Dividend Reinvestment and Share Purchase Plan.

CURRENT COST ACCOUNTING

Measuring the impact of inflation upon business enterprises is one of the more important challenges facing the financial community. It is widely acknowledged that historical cost financial statements do not adequately reveal the effects of inflation upon business enterprises. Responding to these concerns, the Accounting Research Committee of the Canadian Institute of Chartered Accountants (CICA), has published an exposure draft which proposes that historical cost financial statements be supplemented by selected current cost data.

B.C. Telephone has prepared estimates of the current cost of its investment in property, plant and equipment. These estimates are provided in Note 12 to the financial statements.

It should be noted that most regulatory bodies, including the CRTC, use historical cost as the basis of regulation.

CONSOLIDATED STATEMENT OF EARNINGS AND EARNINGS RETAINED FOR USE IN THE BUSINESS

British Columbia Telephone Company

For the years ended December 31		1980	1979
		(Thousands of Dollars)	
Telecommunications Operations	Operating revenues		
	Local service	**$286,478**	$263,076
	Toll service	**442,643**	371,965
	Other, net of uncollectibles	**25,369**	21,899
		754,490	656,940
	Adjustment for Anti-Inflation compliance	**—**	18,325
	Total operating revenues	**754,490**	675,265
	Operating expenses		
	Operations	**342,437**	303,395
	Depreciation	**158,507**	146,106
	Provincial, municipal and other taxes	**33,494**	30,304
	Total operating expenses	**534,438**	479,805
	Operating earnings	**220,052**	195,460
	Other income (loss)	**(367)**	2,863
	Allowance for funds used during construction	**5,737**	5,519
	Earnings before interest and other deductions	**225,422**	203,842
Manufacturing Operations	Sales	**188,374**	47,850
	Cost and expenses		
	Cost of sales	**162,430**	40,735
	Selling and administrative expenses	**13,452**	3,997
		175,882	44,732
	Earnings before interest and other deductions	**12,492**	3,118
	Combined earnings before interest and other deductions	**237,914**	206,960
	Interest charges		
	Interest on long-term debt	**63,732**	68,026
	Other interest	**17,324**	3,159
	Amortization of issue costs	**799**	866
		81,855	72,051
	Earnings before income taxes	**156,059**	134,909
	Income taxes	**76,470**	65,734
	Net earnings	**79,589**	69,175
	Less — preference and preferred share dividends	**(17,674)**	(17,326)
	Ordinary share earnings	**61,915**	51,849
Earnings Retained for Use in the Business	Balance at beginning of year	**129,463**	110,380
		191,378	162,229
	Less — Ordinary share dividends	**(36,401)**	(32,468)
	Share issue expense	**(7)**	(298)
	Balance at end of year	**$154,970**	$129,463
Earnings per Ordinary Share	Basic	**$ 2.04**	$ 1.92
	Fully diluted	**$ 2.02**	$ 1.87

CONSOLIDATED BALANCE SHEET

As of December 31 — British Columbia Telephone Company

ASSETS		1980	1979
		(Thousands of Dollars)	
Telecommunications Property, *at cost*	Buildings, plant and equipment *(Note 3)*	**$2,415,147**	$2,211,243
	Less — Accumulated depreciation	**(647,070)**	(543,533)
		1,768,077	1,667,710
	Land	**17,547**	17,851
	Property under construction	**117,231**	68,676
	Material and supplies	**27,563**	24,618
		1,930,418	1,778,855
Manufacturing Property, *at cost*	Plant and equipment	**46,063**	43,420
	Less — Accumulated depreciation	**(26,172)**	(23,338)
		19,891	20,082
		1,950,309	1,798,937
Investment and Other Assets, *at cost*	Telesat Canada	**3,300**	3,300
	Other	**1,231**	1,329
		4,531	4,629
Current Assets	Accounts receivable	**123,577**	99,166
	Accounts receivable — affiliated companies	**6,941**	11,811
	Inventories *(Note 4)*	**62,500**	50,304
	Prepaid expenses	**9,033**	6,306
		202,051	167,587
Deferred Charges	Unrealized and deferred losses on foreign exchange	**10,852**	10,791
	Unamortized cost of issuing debt securities	**9,002**	10,195
		19,854	20,986
		$2,176,745	$1,992,139

Approved by the Directors,

[signature] Director

[signature] Director

CAPITALIZATION AND LIABILITIES		**1980**	1979
		(Thousands of Dollars)	
Capitalization	Equity *(Note 5)*		
	Ordinary shares	**$ 479,002**	$ 442,952
	Convertible subordinate preferred shares	**3,267**	8,059
	Preference and preferred shares	**246,300**	254,410
	Total equity	**728,569**	705,421
	Long-term debt *(Note 6)*	**745,868**	733,742
		1,474,437	1,439,163
Current Liabilities	Cheques issued in excess of bank balances	**14,778**	11,063
	Short-term obligations *(Note 7)*	**149,762**	95,721
	Accounts payable	**82,745**	50,090
	Accounts payable — affiliated companies	**4,859**	4,443
	Income taxes payable	**20,478**	10,705
	Dividends payable	**12,107**	12,090
	Accrued interest	**15,719**	15,488
	Other accrued liabilities	**28,170**	21,865
	Unearned revenues	**20,582**	16,099
		349,200	237,564
Income Taxes Deferred		**353,108**	315,412
Commitments *(Note 8)*			
		$2,176,745	$1,992,139

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

British Columbia Telephone Company

For the years ended December 31		**1980**	1979
		(Thousands of Dollars)	
Sources of Working Capital	Operations		
	Ordinary share earnings	**$ 61,915**	$ 51,849
	Add (deduct) items not requiring working capital		
	Depreciation	**166,465**	150,936
	Income taxes deferred	**37,696**	44,535
	Allowance for funds used during construction	**(5,737)**	(5,519)
	Other, net	**3,221**	2,018
		263,560	243,819
	Financing proceeds, net of related costs and expenses		
	Ordinary shares issued		
	— for cash	**5,385**	490
	— on conversion of preferred shares	**4,792**	35,256
	— on acquisition of subsidiary	**—**	47,359
	Preferred shares issued for cash	**—**	49,828
	Capitalization of equipment leases	**—**	7,553
	Long-term debt *(Note 6)*	**50,000**	—
		60,177	140,486
	Less — redemptions, conversions or current maturities of long-term debt and preferred shares	**(51,541)**	(93,351)
		8,636	47,135
		272,196	290,954
Application of Working Capital	Capital expenditures		
	Gross capital expenditures	**323,005**	277,500
	Increase in material and supplies	**2,945**	7,527
		325,950	285,027
	Less — Salvage value of plant retired, net	**(7,246)**	(13,710)
	Allowance for funds used during construction	**(5,737)**	(5,519)
		312,967	265,798
	Ordinary share dividends	**36,401**	32,468
	Acquisition of subsidiary (less working capital acquired October 1, 1979, of $33,816,000)	**—**	13,543
		349,368	311,809
	Decrease in working capital	**77,172**	20,855
	Working capital deficiency, beginning of year	**69,977**	49,122
	Working capital deficiency, end of year	**$147,149**	$ 69,977

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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 Employee Share Purchase Plan options and the potential full conversion of the $2.32 convertible subordinate preferred shares.

CONSOLIDATION

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries, AEL Microtel Limited, acquired October 1, 1979 (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 $668,000 in 1980 ($662,000 in 1979).

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 (see Note 11). 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. This practice is generally followed in the industry.

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, defined for regulatory purposes, as the cost of funds used to finance construction. The allowance for funds used during construction (AFC) is included in income. Such income is not realized in cash currently but will be realized over the service life of the property.

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 6.99% (7.09% – 1979).

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

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.

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 year-end.

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. The amount charged against income net of gains was $2,145,000 ($308,000 – 1979) of which the amortized amount was $1,063,000 ($705,000 – 1979).

RESEARCH AND DEVELOPMENT

Expenditures for research and new product development and improvements are expensed as incurred.

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 in 1979 and 1980 result in the charge to expense of certain overhead costs previously capitalized as telecommunications property. The effect of implementation is included in the determination of the revenue requirements of the Company.

3. Leases

Telecommunications property includes equipment recorded under capital leases as follows:

	1980	1979
	(Thousands of Dollars)	
Equipment	**$8,744**	$8,744
Less – Accumulated amortization	**(4,825)**	(2,968)
	$3,919	$5,776

Assets recorded under capital leases are amortized on a straight-line basis over the life of the lease. The amount of such amortization was $2,060,000 in 1980 ($2,968,000 – 1979).

Payments on operating leases are expensed as incurred and such payments amounted to $8,100,000 in 1980 ($5,380,000 – 1979).

The future minimum lease payments under capital and operating leases are as follows:

	1980	
	Capital leases	Operating leases
	(Thousands of Dollars)	
1981	$ 2,256	$ 7,087
1982	1,883	5,049
1983	611	2,056
1984	51	1,137
1985	—	425
Thereafter	—	1,192
Total future minimum lease payments	4,801	$16,946
Less – Imputed interest	(514)	
Net minimum lease payments *(Note 6)*	$ 4,287	

4. Inventories — Manufacturing Operations

Inventories are valued at the lower of cost and net realizable value:

	1980	1979
	(Thousands of Dollars)	
Finished goods	**$ 5,354**	$ 4,940
Uncompleted contracts and work-in process	**46,078**	42,188
Raw materials	**11,068**	3,176
	$62,500	$50,304

5. Equity

(a) Details of Shareholders' Equity

	Redemption Premium	1980	1979
		(Thousands of Dollars)	
Ordinary Shares without par value: 30,458,447 shares outstanding (29,698,863 – 1979)		**$323,673**	$313,489
Earnings retained for use in the business		**154,970**	129,463
Contributed surplus *(c)*		**359**	—
		479,002	442,952
$2.32 Cumulative Redeemable Convertible Subordinate Preferred Shares Par Value of $25 each	—	**3,267**	8,059
Cumulative Preference and Preferred Shares Par Value of $100 each			
4½% Preferred	4%	**5,000**	5,000
4⅜% Preferred	4%	**6,000**	6,000
4¾% Preferred	5%	**7,500**	7,500
4¾% Preferred (Series 1956)	4%	**7,500**	7,500
5.15% Preferred	5%	**12,000**	12,000
5¾% Preferred	4%	**10,000**	10,000
6% Preference	10%	**1,000**	1,000
6% Preferred	5%	**4,500**	4,500
Par Value of $25 Each			
4.84% Preferred	4%	**20,000**	20,000
6.80% Preferred	6%	**10,000**	10,000
7% Preferred	—	**32,500**	35,000
7.04% Preferred (Not redeemable before July, 1982)	7%	**20,000**	20,000
7.40% Preferred (Not redeemable before July 15, 1984)	5%	**48,505**	50,000
7.65% Preferred (Not redeemable before August 1, 1983)	5%	**32,495**	33,410
8¾% Preferred	—	**6,800**	8,500
10.16% Preferred	5%	**22,500**	24,000
		246,300	254,410
Total Equity		**$728,569**	$705,421

(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, 1980 and 1979, the total approved share capital of the Company was $750,000,000.

(c) Changes

Ordinary shares

— 383,380 shares (2,820,414 – 1979) were issued during 1980 on conversion of 191,690 $2.32 convertible subordinate preferred shares (1,410,207 – 1979).

— 376,204 shares (31,686 – 1979) were issued during 1980 for $5,392,000 ($538,000 – 1979) through the Dividend Reinvestment and Share Purchase Plan and the Employee Share Purchase Plan.

— 2,757,876 shares valued at $47,359,000 were issued in 1979 on acquisition of Microtel.

Preferred shares

— Mandatory redemptions of preferred shares in the amount of $5,700,000 were made in 1980 and 1979 as described in (e).

— the Company redeemed 36,600 — 7.65% preferred shares in 1980 (3,600 – 1979) in the amount of $915,000 ($90,000 – 1979) and 59,800 — 7.40% preferred shares in the amount of $1,495,000. These redemptions resulted in $359,000 of contributed surplus.

5. Equity *(continued)*

(d) Ordinary Shares Reserved

At December 31, 1980, the following shares remain reserved:

— 678,610 shares under the Company's Employee Share Purchase Plan as approved by the CRTC on March 20, 1979 and subscriptions for 167,874 shares remain outstanding. The purchase price per share will be 85% of the average market price on the last day of the purchase period or $15.09 whichever is the lesser, but not less than fully diluted book value at the commencement of the purchase period.

— 913,500 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.

— 261,386 ordinary shares for the conversion of the $2.32 convertible subordinate preferred shares.

(e) Preferred Share Redemption Requirements

Redemption requirements apply to six issues:

— 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.

— 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.

— 7.65% preferred shares are subject to a purchase obligation requiring the Company to make all reasonable effort to purchase 40,200 shares in each 12-month period, at a price not exceeding $25 per share excluding costs of purchase.

— $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.

— 7.40% preferred shares are subject to a purchase obligation requiring the Company to make all reasonable effort to purchase 60,000 shares in each 12-month period at a price not exceeding $25 per share excluding costs of purchase.

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

6. Long-Term Debt

(a) Details of Long-Term Debt

	1980	1979
	(Thousands of Dollars)	
British Columbia Telephone Company		
First Mortgage Bonds		
Series F 5% due April 1, 1982	**$ 25,000**	$ 25,000
Series G 5¼% due November 1, 1983	**20,000**	20,000
Series H 6% due September 15, 1984	**15,000**	15,000
Series I 5¾% due August 1, 1985	**15,000**	15,000
Series J 5¾% due July 15, 1986	**20,000**	20,000
Series K 5⅝% due April 15, 1988	**20,000**	20,000
Series L 6¾% due October 15, 1989	**30,000**	30,000
Series M 6⅜% due March 15, 1991	**30,000**	30,000
Series N 9⅛% due April 1, 1990	**3,263**	3,263
Series O 9⅝% due November 15, 1992	**18,000**	18,000
Series P 9⅛% due November 15, 1992	**544**	544
Series Q 8¼% due March 1, 1994	**35,000**	35,000
Series S 7⅞% due November 15, 1995	**25,000**	25,000
Series T 8⅝% due October 15, 1993	**40,000**	40,000
Series U 8⅛% due November 1, 1996 ($20 million U.S. funds)	**23,867**	23,419
Series V 9% due October 1, 1997	**40,000**	40,000
Series W 8¾% due January 15, 1981	**11,000**	11,000
Series X 9¼% due April 15, 1998	**35,000**	35,000
Series Y 11% due January 15, 1996	**45,000**	45,000
Series Z 8⅜% due April 1, 1980	**—**	20,000
Series AA 10¼% due April 1, 1995	**30,000**	30,000
Series AB 10¼% due December 1, 1981	**25,000**	25,000
Series AC 10½% due February 1, 1982-96 ($30 million U.S. funds)	**35,807**	35,131
Series AD 10¼% due October 15, 2001	**60,000**	60,000
Series AE 9.70% due June 15, 1999	**50,000**	50,000
Series AF 9⅞% due November 1, 2003	**75,000**	75,000
	727,481	746,357
Promissory Notes		
Payable in Canadian funds and issued at varying rates of interest from 11.25% to 18.76% and maturing on varying dates within one year (c).	**50,000**	—
AEL Microtel Limited		
10% notes payable, due in semi-annual instalments of $500,000	**2,000**	3,000
Other at varying rates of interest from 6% to 19%	**1,260**	1,648
	3,260	4,648
Amounts due under capitalized equipment leases *(Note 3)*	**4,287**	6,047
Total Long-Term Debt	**785,028**	757,052
Less Current portion *(Note 7)*	**39,160**	23,310
	$745,868	$733,742

(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.

6. 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 with Barclays Canada Limited for a ten year revolving loan facility for up to $50 million. Drawdowns under it are by way of promissory notes issued to Barclays with interest thereon fixed for periods of 30 days to 365 days. Interest payable by the Company thereon will be comparable to rates obtainable 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 W and AB, are redeemable, other than for financial advantage, at various premiums to a maximum of 8.55%. The Series AC Bonds mature serially in the amount of $1,710,000 (U.S.) on February 1, in each of the years 1982 to 1995 and the remaining $6,060,000 (U.S.) matures on February 1, 1996.

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

	(Thousands of Dollars)
1981	$39,160
1982	$29,851
1983	$22,714
1984	$17,175
1985	$17,125

7. Short-Term Obligations

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

	1980	1979
	(Thousands of Dollars)	
Current portion of long-term debt *(Note 6)*		
First Mortgage Bonds, current maturities		
$8\frac{3}{8}$% series Z, due April 1, 1980	**$ —**	$20,000
$8\frac{3}{4}$% series W, due January 15, 1981	**11,000**	—
$10\frac{1}{4}$% series AB, due December 1, 1981	**25,000**	—
Current maturities of long-term debt of subsidiaries	**1,237**	1,388
Amounts due under capitalized equipment leases	**1,923**	1,922
	39,160	23,310
Bank demand loans, 18.25% to 21% interest	**1,934**	13,647
Promissory Notes, current maturities 11.25% to 18.76% interest	**105,724**	55,230
Amounts held under Employee Share Purchase Plan, 11% interest	**2,944**	3,534
	$149,762	$95,721

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 $375,000,000 in 1981 and that sum plus short-term obligations of $149,762,000 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 for First Mortgage Bond issues. The Company has on file with all Securities Commissions in Canada a preliminary prospectus for a possible issue of First Mortgage Bonds.

8. Commitments	The Company estimates the construction programs for additional telecommunications plant and facilities to cost $375,000,000 in 1981. Substantial purchase commitments have been made in connection with these programs.
9. Pension Plans	The Company and its subsidiaries have pension plans covering substantially all employees, subject to conditions related to age and period of service. The annual accrued pension costs for management and exempt employees are placed in trustee 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 require that the Company contribute a fixed percentage of gross employee earnings without liability for the benefits payable. 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 upon the 1978 actuarial valuations, the estimated unfunded liability as at December 31, 1980 is $13,322,000 for the management and exempt employees pension plans. Total pension costs were $26,630,000 ($22,708,000 – 1979) which include $5,081,000 ($5,126,000 – 1979) for amortization of past service and experience deficiencies.
10. Remuneration of Directors and Officers	During the year, 11 directors of British Columbia Telephone Company received aggregate remuneration of $102,000 ($95,000 – 1979) as directors of the Company and 15 officers received aggregate remuneration of $961,000 ($834,000 – 1979). None of the officers of the Company received remuneration from subsidiary companies.
11. Related Party Transactions	Transactions with related parties (all affiliates of General Telephone and Electronics Corporation) for the year ended December 31, 1980 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 67% of the sales and 25% of the purchases of Microtel were to and from related parties. Such sales include $73,480,000 to the Company for 1980 ($12,317,000 for the three months ended December 31, 1979). 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.

12. Current Cost Data *(unaudited)*

The current cost data given below represents the Company's estimate of capital required 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 the capital requirements for existing assets under historical cost and current cost and to that extent complies with the proposed guidelines for current cost reporting issued by the Canadian Institute of Chartered Accountants. However, actual replacement of property 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 impractical 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

	1980		1979	
	Historical Cost	Current Cost	Historical Cost	Current Cost
		(Thousands of Dollars)		
TELECOMMUNICATIONS OPERATIONS				
Buildings, Plant and Equipment	**$2,415,147**	**$3,789,825**	$2,211,243	$3,287,544
Less – Accumulated Depreciation	**(647,070)**	**(1,026,712)**	(543,533)	(932,770)
Net Property Investment	**1,768,077**	**2,763,113**	1,667,710	2,354,774
Depreciation Expense	**158,507**	**251,512**	146,106	217,570
MANUFACTURING OPERATIONS				
Plant and Equipment	**46,063**	**88,350**	43,420	82,388
Less – Accumulated Depreciation	**(26,172)**	**(48,447)**	(23,338)	(42,547)
Net Property Investment	**19,891**	**39,903**	20,082	39,841
Cost of Sales	**162,430**	**165,474**	40,735	41,987

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, 1980 and December 31, 1979 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 statements. 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.

13. Prior Year Presentation

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

14. Subsequent Event

On January 29, 1981, the CRTC approved rate increases that will provide an estimated $47,000,000 additional revenue in 1981. These rate increases were implemented effective February 2, 1981.

MANAGEMENT REPORT

To Our Shareholders:

The consolidated financial statements of the Company and its subsidiaries are the responsibility of management and accordingly include amounts based on its estimates and judgements and all information available up to February 2, 1981.

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 financial statements in accordance with accounting principles generally accepted in Canada and conforming in all material respect 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 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 the consolidated financial statements. Financial information presented elsewhere in this Annual Report is consistent with that in the 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, 1980 and 1979, 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 present fairly the financial position of the Company and subsidiaries as of December 31, 1980 and 1979, 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, 1981

ARTHUR ANDERSEN & CO.,
CHARTERED ACCOUNTANTS

CONSOLIDATED FIVE-YEAR RECORD OF PROGRESS

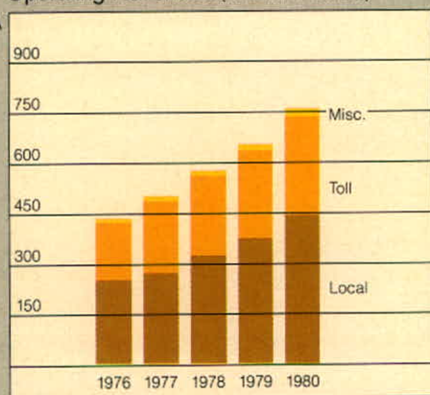
		(Dollars in Millions except per share amounts)	1980	1979
Selected Income Items[1]	A	1 Total telecommunications operating revenues[2]	$ 754.5	$ 656.9
	B	2 Total telecommunications operating expenses	534.4	479.8
		3 Salaries and wages expense	220.9	200.9
		4 Provincial, municipal and other taxes	33.5	30.3
		5 Other operating expense	121.5	102.5
		6 Depreciation	158.5	146.1
		7 Manufacturing sales	188.4	47.8
		8 Manufacturing cost of sales	162.4	40.7
		9 Manufacturing selling and administrative expenses	13.5	4.0
		10 Interest charges	81.9	72.1
		11 Income taxes	76.5	65.7
		12 Preference and preferred dividends	17.7	17.3
	C	13 Ordinary share earnings	61.9	51.8
		14 Ordinary share dividends	36.4	32.5
Selected Balance Sheet Items	D	15 Total property, at cost	$2,623.6	$2,365.8
		16 Accumulated depreciation	673.2	566.9
		17 Total capitalization[3]	1,624.2	1,534.9
		18 Long-term debt	745.9	733.7
		19 Preference and preferred shares	249.6	262.5
		20 Ordinary share equity	479.0	443.0
Financial Ratios		21 Earnings per ordinary share	$ 2.04	$ 1.92
		22 Dividends declared per ordinary share	$ 1.20	$ 1.20
		23 Equity per ordinary share	$ 15.73	$ 14.91
		24 Percent return on average ordinary share equity	13.48	13.32
		25 Percent return on average invested capital	10.22	9.81
		26 Percent debt to total capitalization	55	54
Telecommunications Statistics	E	27 Gross capital expenditures	$ 318.9	$ 276.5
		28 Total salaries and wages[4]	$ 316.9	$ 283.3
		29 Total pensions and related payroll costs	$ 34.4	$ 35.6
		30 Telephones in service *(in thousands)*	1,893.4	1,768.6
		31 Percent electronic switched telephone lines	33.5	31.2
		32 Net telecommunications property investment per telephone *(in dollars)*	$ 1,020	$ 996
		33 Local calls completed — daily average *(in thousands)*	9,072.0	7,236.0
	F	34 Toll calls completed — daily average *(in thousands)*	509.0	432.0
		35 Number of employees *(in thousands)*	15.1	14.7
		36 Number of shareholders *(in thousands)*	28.0	26.2

[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.*
[3] *Includes short-term obligations.*
[4] *Includes amounts capitalized.*

1978	1977	1976
$ 576.3	$ 501.6	$ 435.9
395.4	358.5	313.1
172.2	152.3	147.9
28.4	24.8	22.1
82.2	80.2	60.0
112.6	101.2	83.2
—	—	—
—	—	—
—	—	—
69.1	64.2	55.8
46.0	42.1	35.9
17.5	17.7	12.9
33.8	29.1	27.8
23.5	19.2	18.1
$2,132.8	$1,962.0	$1,742.7
474.0	414.6	350.7
1,378.0	1,303.7	1,174.8
774.9	691.2	626.8
253.5	241.3	204.4
340.7	258.0	248.4
$ 1.55	$ 1.54	$ 1.48
$ 1.08	$ 1.02	$ .96
$ 14.14	$ 13.70	$ 13.19
11.32	11.59	11.37
9.02	8.92	8.93
57	62	61
$ 237.0	$ 262.9	$ 301.4
$ 238.3	$ 221.4	$ 216.7
$ 30.7	$ 31.8	$ 25.9
1,683.4	1,600.5	1,543.3
16.2	12.4	4.5
$ 985	$ 967	$ 902
6,356.0	6,373.0	6,250.0
368.0	322.0	323.0
13.9	13.7	13.7
27.6	27.3	27.6

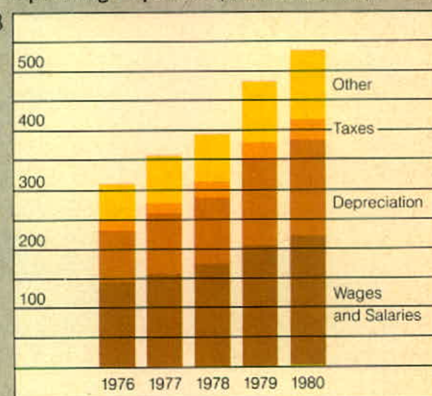
Operating Revenues (Millions of Dollars)

A



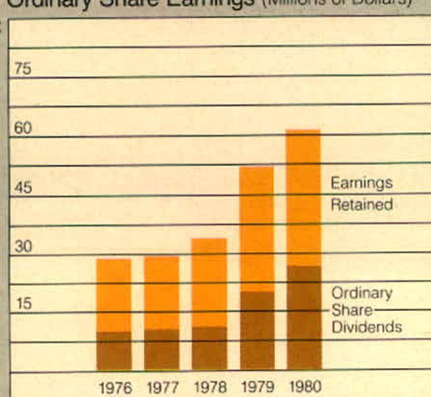
Operating Expenses (Millions of Dollars)

B



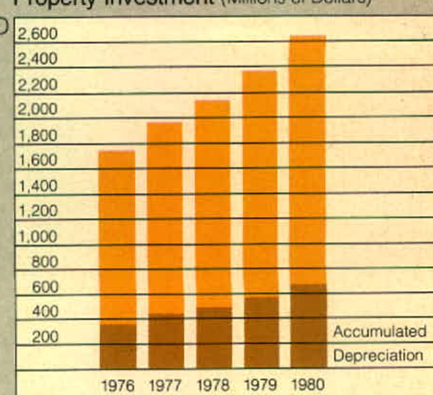
Ordinary Share Earnings (Millions of Dollars)

C



Property Investment (Millions of Dollars)

D



Capital Expenditures (Millions of Dollars)

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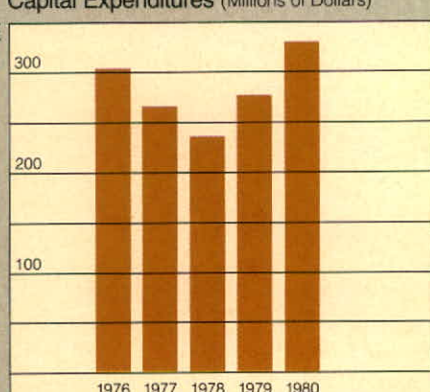

Toll Calls Completed (Daily average – thousands)

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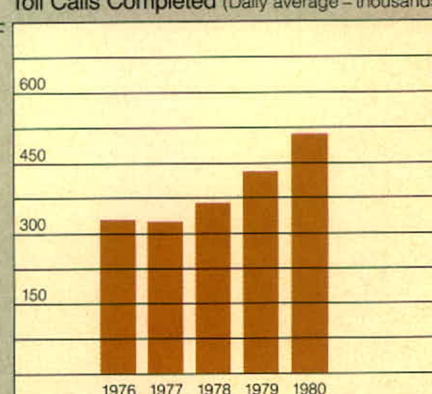

AEL MICROTEL LIMITED

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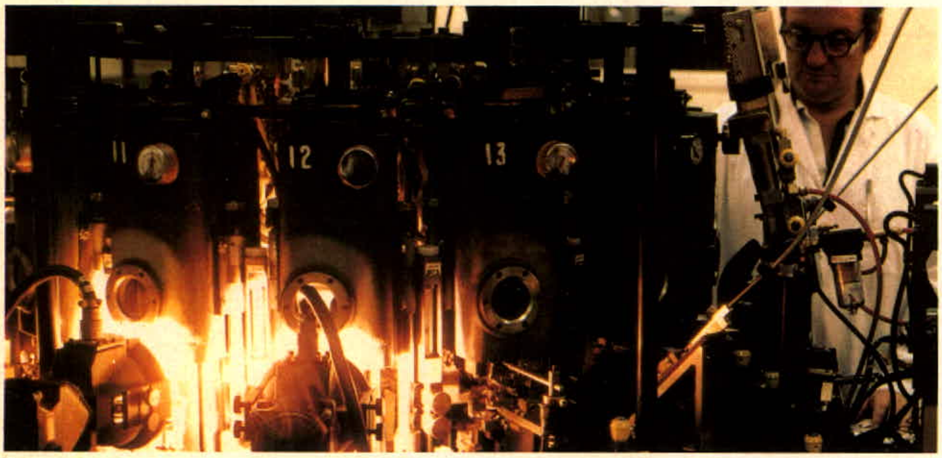

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District and Branch Marketing Offices and Field Project Offices:

Alberta District — 17235-105th Avenue, Edmonton, Alta. T5S 1H2 (Transmission and Switching). Sales Office — #520-604 1st Street S.W., Calgary, Alta. T2P 1M7

Atlantic District — 10 Akerley Blvd. P.O. Box 895, Dartmouth, N.S. B2Y 3Z6 (Transmission and Switching) Sales Office — P.O. Box 2040, Station "C", St. John's Nfld.

B.C. District — 7018 Lougheed Highway, Burnaby, B.C. V5A 1W3 (Transmission) 6940-14th Avenue, Burnaby, B.C. V3N 1Y9 (Switching)

Manitoba & Lakehead District — 80 Paramount Road, Winnipeg, Man. R2X 2W3 (Transmission) No. 18 Border Place, 1313 Border Street, Winnipeg, Man. R3H 9X4 (Switching)

Ontario District — 1110 Kamato Road, Unit 1, Mississauga, Ont. L4W 2P3 (Transmission) 185 Bartley Dr., Toronto, Ont., M4A 1E9 (Switching and distributed products)

Quebec District — 2323 Halpern St., St. Laurent, Que., H4S 1S3 (Transmission and Switching) Sales Office — (Switching) — 148 St. Germain E., P.O. Box 964, Rimouski, Que. G5L 7E1

Saskatchewan District — 511 E. Ross Avenue, Regina, Sask. S4N 4W5 (Transmission and Switching)

Factories:

Burnaby, B.C. 7018 Lougheed Hwy. V5C 5T5	Transmission Division, (main factory)
Saskatoon, Sask. 2610 Koyl Ave. S7L 5X9	Transmission
Winnipeg, Man. 80 Paramount Rd. R2X 2W3	Microwave Radio Systems
Brockville, Ont. 100 Strowger Blvd. K6V 5W8	Switching Equipment and Custom Manufacturing
Lethbridge, Alta. 3030 Fifth Ave. N. P.O. Box 970 T1H 0P3	Subscriber Equipment

Subsidiaries:

Microtel Pacific Research Limited 4664 Lougheed Hwy. Burnaby, B.C. V5C 5T5	Research and Development (temporary quarters)
Viscount Industries 105 E. 69th Ave. Vancouver V5X 2W9	Video Switching Equipment, Telephone Testing Equipment and Custom Manufacturing

6

1 Video switcher at Viscount Industries Limited.

2 Circuit board inspection at AEL Microtel's Burnaby plant.

3 Reed capsule sealing machine Brockville.

4 Semi-automatic wiring machine at AEL's Brockville plant.

5 Unit testing, Saskatoon.

6 *Left to right:* Ray Herron, President and Chief Executive Officer, AEL Microtel Limited; Gordon MacFarlane, Chairman and Chief Executive Officer, B.C. Tel; and the Hon. Patrick McGeer, Minister of Universities, Science and Communication, at Discovery Parks ceremony.

7 Microtel Pacific Research has a major involvement in the development of the GTD-5 family of digital switches. AEL Microtel Limited already has commitments totalling more than $25 million to manufacture the GTD-5 for four Canadian telephone companies, including B.C. Tel.

8 *Left to right:* The Hon. Patrick McGeer; David Broussan, Chairman, Discovery Parks Incorporated; and Ray Herron, AEL Microtel Limited, at news conference announcing Discovery Parks. Microtel Pacific Research Limited has committed $9.1 million to the development of a 9,000-square-metre site adjacent to Simon Fraser University.

9 Assembly of touch calling units, Lethbridge.

10 Factory test areas, Winnipeg.

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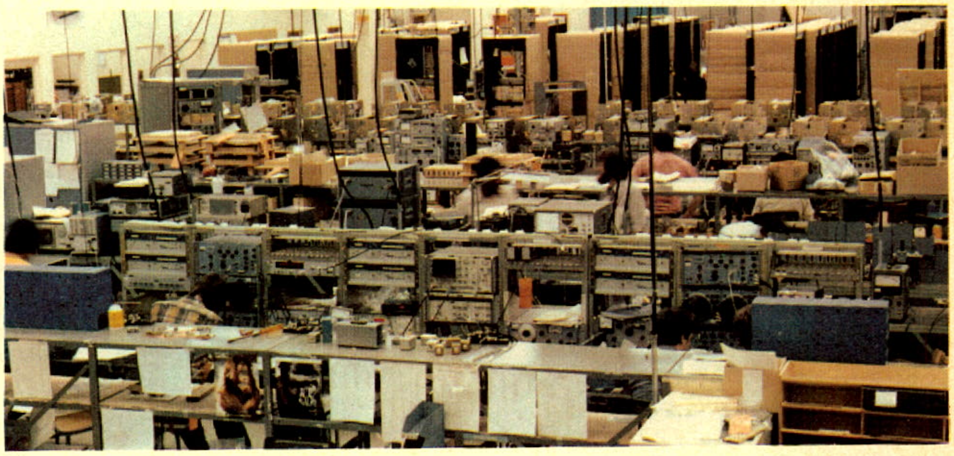

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DIRECTORS

First row left to right:

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

M. Rendina K. Hamilton
Barrister and Solicitor
Kelowna, B.C.

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

Gerald H. D. Hobbs
Private Investor
Vancouver, B.C.

Allan M. McGavin
Chairman of the Board
McGavin Foods Limited
Vancouver, B.C.

Second row: left to right:

Victor F. MacLean
Company Director
Vancouver, B.C.

John W. Pitts
Chairman and President
Okanagan Helicopters Ltd.
Vancouver, B.C.

J. Ernest Richardson
Vice-Chairman of the Board
MacMillan Bloedel Limited
Vancouver, B.C.

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

Hugh R. Stephen
Company Director
Victoria, B.C.

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

OFFICERS

Gordon F. MacFarlane
Chairman and
Chief Executive Officer
(see photo above)

First row left to right:

Jack C. Carlile
President and
Chief Operating Officer

Gilbert F. Auchinleck
Vice-President
Network Services

Donald W. Champion
Vice-President
Customer Service

Leo J. Dooling, *left*
Treasurer

Peter C. Watson, *right*
Assistant Treasurer

Second row left to right:

James A. MacInnes
Vice-President
Marketing

D. Barry McNeil
Vice-President
Administration

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

Betty J. Rumford, *right*
Assistant Secretary

Colin G. Patterson,
Vice-President
Corporate Planning

Third row left to right:

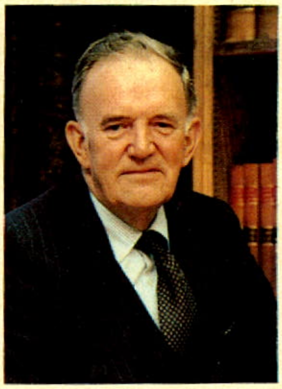
Gordon M. Smith
Vice-President
Revenue Requirements

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

J. Neil Stewart
Comptroller

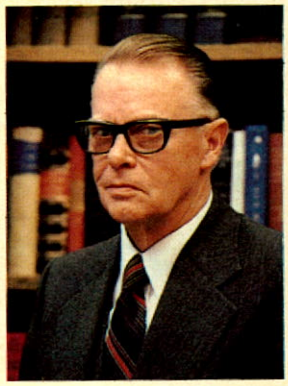
Frank S. Tucker
Vice-President
Personnel and Industrial
Relations

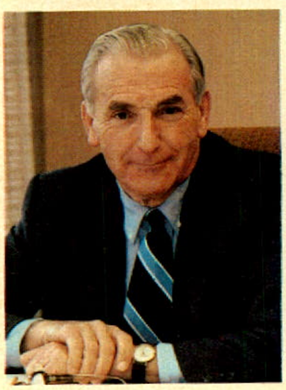


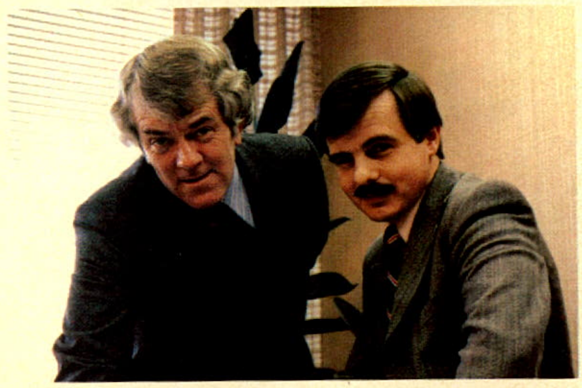


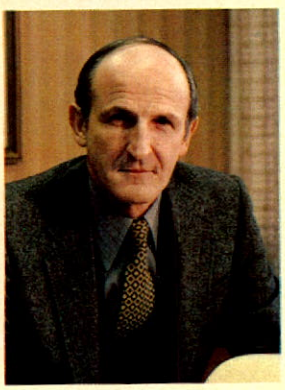






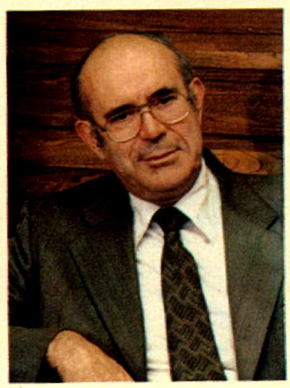










COMMITTEES OF THE DIRECTORS

EXECUTIVE COMMITTEE

J. Ernest Richardson, Chairman
W. Thomas Brown
Allan M. McGavin

The Executive Committee is responsible for the nomination of candidates for membership on the Board, for the structure of executive management and the succession of officers within the Company.

SALARY COMMITTEE

Gordon F. MacFarlane, Chairman
W. Thomas Brown
Allan M. McGavin
Hugh R. Stephen

The Salary Committee determines the salaries of all officers of the Company and reviews the basic compensation policy with respect to the Company's management personnel. Recommendations as to changes in benefit programs for salaried personnel are also reviewed by this committee.

AUDIT COMMITTEE

Gerald H. D. Hobbs, Chairman
John W. Pitts
J. Ernest Richardson

The Audit Committee is composed of outside directors who review the Company's internal controls, financial structure and general reporting mechanism in order to assure the independent objectivity and integrity of financial statements presented to the shareholders.

The Audit Committee is also required to review the appointment of the Company's auditors.

PENSION TRUST COMMITTEE

Horace B. Simpson, Chairman
M. Rendina K. Hamilton
Justin V. Harbord
Victor F. MacLean

The Pension Trust Committee meets twice yearly to review the investments held in trust on behalf of certain employee pension plans within the Company. Investment performance and policy, the actuarial soundness of the pension funds and legal compliance of investments are among the items reviewed by the Committee.

HEAD OFFICE
3777 Kingsway
Burnaby, B.C.
V5H 3Z7

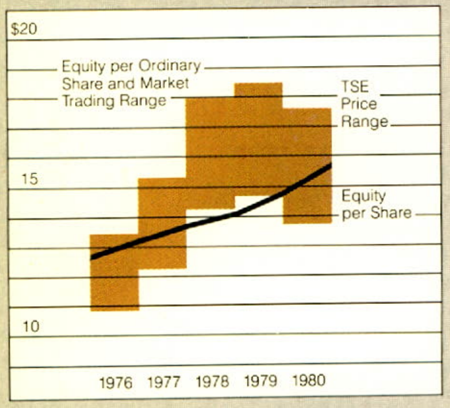
TRANSFER AGENT AND REGISTRAR
Montreal Trust Company

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 26, 1981, 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.

SELECTED INFORMATION FOR ORDINARY SHAREHOLDERS



Federal Government Valuation Day Value (December 22, 1971) **$12.75/Share**

	1980	1979
Number of ordinary shareholders	**11,661**	8,830
Number of shares outstanding at December 31	**30,458,447**	29,698,863
Distribution of shares:		
Canada	**89.5%**	90.2%
United States	**10.3**	9.6
Other	**.2**	.2
	100.0%	100.0%
Volume of shares traded:		
Toronto	**1,729,400**	1,383,300
Montreal	**198,607**	359,328
Vancouver	**350**	5,600
	1,928,357	1,748,228
The Toronto Stock Exchange		
Price Ranges (High-Low):		
First Quarter	**$17⅝-13¾**	$18¼-16¾
Second Quarter	**17⅜-13¾**	18½-17⅛
Third Quarter	**17½-15¼**	18 -16⅞
Fourth Quarter	**16⅝-15¼**	17¼-14¾

Principal Ownership
The Company's outstanding ordinary shares totalled 30,458,447 as at December 31, 1980.

General Telephone & Electronics Corporation (GTE) of Stamford, Connecticut, through its subsidiaries, Anglo-Canadian Telephone Company of Montreal and GTE International Incorporated, is the owner of 16,767,802 shares. Voting control by GTE is restricted, however, to 50.72% of the issued and outstanding ordinary shares of the Company at any time.

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, 1980, 130,693 or 5.6% 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
20th Floor
3777 Kingsway
Burnaby, B.C. V5H 3Z7

Dividends
Dividends are payable quarterly on the first days of January, April, July and October. In 1980, these amounted to $.30 per ordinary share for each quarter, for a total of $1.20.

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

PRINTED IN CANADA

Our Cover and Photo Story

Our cover photo of the new transceiver antenna, or 'dish', atop B.C. Tel's William Farrell Building in Vancouver symbolizes B.C. Tel's participation in the world-wide communications networks of the Information Age as well as its down-to-earth presence in the communities it serves.

Other photographs in the Report illustrate B.C. Tel's central role in the life of the province — serving both metropolitan and remote areas, small businesses and major industries and meeting the many and varied communications needs of the people of British Columbia.

The dish on the cover is part of an earth station currently being constructed by Telesat Canada and B.C. Tel. When completed and put in service it will provide a major link in the world's first high frequency satellite communications network. It will receive and transmit voice, data and television signals from the Anik C series of communications satellites, scheduled to be launched by space shuttle later this year.

When the new network goes into operation it will integrate Telesat's Anik C satellite with the land-based digital long-distance radio network now being established across Canada by member companies of the TransCanada Telephone System.

B.C. TEL
TransCanada Telephone System