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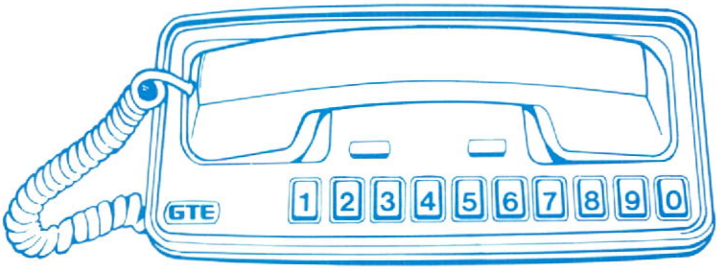
Anglo-Canadian Telephone Company

8750 CÔTE-DE-LIESSE ROAD, SAINT-LAURENT, QUEBEC H4T 1H3



ANNUAL REPORT 1983

ANGLO-CANADIAN TELEPHONE COMPANY (Incorporated under the Quebec Companies Act)

Directors

ROGER CHARBONNEAU
JOHN H. E. COLBY
JAMES M. DUNN, Jr.
CHARLES R. LEE
WILFRED R. JOYCE
JOEL P. MELLIS

Officers

CHARLES R. LEE
President
WILFRED R. JOYCE
Vice-President, Secretary and Treasurer
JOEL P. MELLIS
Assistant Secretary
LYLE E. ORSTAD
Assistant Treasurer

Transfer Agents and Registrars

CUMULATIVE PREFERRED STOCK
The Royal Trust Company, Montreal, Quebec, Canada
Co-Transfer and Co-Registrar Offices at
Toronto, Winnipeg, Vancouver, Saint John, Halifax and Calgary

COMMON STOCK
The Company

Si vous préférez recevoir ce rapport en français, veuillez vous adresser au secrétaire,
La Compagnie de Téléphone Anglo-Canadienne, 8750 Chemin Côte-de-Liesse, Saint-Laurent, Qué. H4T 1H3

To the Shareholders:

March 19, 1984

Consolidated revenues and sales for 1983 increased 4% to $1.5 billion and combined income before minority interest was up 20% to $128 million. After deducting minority interest and preferred dividends of subsidiaries, income before extraordinary item was $46 million, 18% higher than the $39 million earned last year. The results showed strong improvement in our telecommunications business, but manufacturing operations showed only a modest gain in net income due primarily to lower sales. The Company also recorded an extraordinary charge to 1983 income of $13 million resulting from the write-off of the remaining net investment in our telephone subsidiary in the Dominican Republic. This charge reduced consolidated net income to $32 million for the year.

Telecommunications revenues increased 8% to $1.3 billion and income from operations increased 18% to $122 million. The improvement in operating results reflects improved toll settlements with other telecommunications carriers, increases in rates, and lower interest costs. Long-distance calling volumes increased 3.3% this year compared with a decrease of 1.8% in 1982. Customer lines grew 2.5% to 1,570,080 by year-end compared with a gain of 1.2% last year. Manufacturing sales of $207 million were down 15% primarily due to reductions in capital spending by major telephone customers. However, income from these operations improved by $2 million, reflecting lower costs, including interest, and improved margins, as operations were streamlined to meet the current business environment.

Capital expenditures for expansion and improvement of facilities amounted to $385 million in 1983, 14% lower than 1982. Capital expenditures for 1984 are estimated at $401 million.

Financial highlights of our major Canadian subsidiaries are reviewed below.

British Columbia Telephone Company

British Columbia Telephone Company, 40.71% owned by Anglo and 10.12% by one of Anglo's affiliated companies, showed excellent progress during the year. Net income increased 20% to $107 million and earnings per ordinary share were $2.36, 12% higher than 1982 when there were 7% fewer average shares outstanding. Revenues rose 4% to $1.3 billion reflecting increases in both toll and local telecommunications revenues, which were partly offset by the lower manufacturing sales.

Gross expenditures for new plant and equipment during 1983 were $377 million, down 14% from 1982 and total investment in plant at the end of 1983 amounted to $3.5 billion. While growth in long-distance calling and customer lines were still below historic growth levels, both showed improvement during the year. Long-distance calls increased 3% compared with a 1.5% decrease in 1982, and customer lines in service were 1,360,588 at year-end, a gain of 2.6% compared with a 1.2% gain last year.

Quebec-Telephone

Quebec-Telephone, 50.92% owned by Anglo, also showed substantial improvement for the year. Net income increased 24% to $19 million and earnings per share were $3.97, 19% higher than the $3.35 per share earned in 1982 when there were 8% fewer average shares outstanding. Operating revenues increased 9% to $152 million reflecting higher toll and local revenues. Toll revenues were 8% higher due to increased use of Wide Area Telephone Service and leasing of private lines, as well as a

4.7% increase in long-distance volumes. Local revenues were also up 8% reflecting the effects of rate awards and a 2.4% gain in customer lines, which brought total customer lines in service to 209,492 at year-end. The gains in long-distance calling and customer lines this year reflect, to a large degree, the impact of an improving economy and compare with a 6.1% decline in long-distance calling and a 1.5% gain in customer lines last year.

Gross capital expenditures amounted to $29 million in 1983, 16% less than 1982 and total plant investment was $463 million at year-end 1983.

We are pleased with the results and progress for the year and we appreciate the dedicated efforts of our management and staff.

On behalf of the Board of Directors

Charles R. Lee

President

Consolidated Balance Sheets
December 31, 1983 and 1982

Assets

	1983	1982
	(Thousands of dollars)	
FIXED ASSETS:		
Telecommunications property, substantially at original cost	$3,963,951	$3,676,884
Accumulated depreciation	(1,164,726)	(1,016,032)
	2,799,225	2,660,852
Manufacturing property, at cost	69,128	64,109
Accumulated depreciation	(32,147)	(29,099)
	36,981	35,010
INVESTMENTS:		
Investment in unconsolidated subsidiary (Note 1)	—	29,803
Other	6,701	6,536
	6,701	36,339
CURRENT ASSETS:		
Cash and short-term deposits	3,185	36,671
Receivables	235,732	174,874
Inventories	46,370	56,061
Other	11,339	9,875
	296,626	277,481
DEFERRED CHARGES:		
Unamortized cost of issuing long-term debt	2,519	2,584
Unamortized loss on foreign exchange	11,686	12,251
Other	510	297
	14,715	15,132
	$3,154,248	$3,024,814

Signed on behalf of the Board:

J. H. E. Bell Director

Charles R. Lee Director

The accompanying notes form an integral part of these consolidated financial statements.

Shareholders' Equity and Liabilities

	1983	1982
	(Thousands of dollars)	
SHAREHOLDERS' EQUITY:		
Anglo-Canadian Telephone Company:		
Preferred shares (See page 8)	$ 37,500	$ 37,500
Common shares (Note 2)	12,037	12,037
Premium on common shares	34,218	34,218
Reinvested earnings	308,073	303,042
Contributed surplus	1,288	1,020
	393,116	387,817
Minority interest in consolidated subsidiaries:		
Preferred and preference shares (See page 8)	293,709	303,155
Common shares and reinvested earnings	458,719	390,887
	752,428	694,042
	1,145,544	1,081,859
LONG-TERM DEBT (See page 8)	1,137,598	1,002,867
CURRENT LIABILITIES:		
Loans for construction expected to be refinanced	47,429	121,832
Current portion of long-term debt	21,508	52,095
Accounts payable and accrued liabilities	184,253	182,588
Advance billings and customer deposits	50,100	46,826
Dividends	13,916	13,382
Accrued interest	26,432	25,883
Income taxes payable	49,773	27,722
	393,411	470,328
DEFERRED INCOME TAXES	477,695	469,760
COMMITMENTS AND CONTINGENT LIABILITIES (Note 4)		
	$3,154,248	$3,024,814

Consolidated Statements of Income

For the years ended December 31, 1983 and 1982

	1983	1982
	(Thousands of dollars)	
TELECOMMUNICATIONS OPERATIONS		
Operating Revenues:		
Toll service	$ 698,404	$ 642,721
Local service	495,321	475,836
Miscellaneous	62,542	44,223
	1,256,267	1,162,780
Operating Expenses:		
Operations	670,907	625,352
Depreciation	254,777	226,601
Income taxes	109,500	99,531
	1,035,184	951,484
Operating Earnings	221,083	211,296
Other income	7,282	5,998
Allowance for funds used during construction	17,303	12,092
Income before interest charges	245,668	229,386
Interest charges	123,808	126,491
Income from telecommunications operations	121,860	102,895
MANUFACTURING OPERATIONS		
Sales	206,530	243,589
Costs and expenses:		
Cost of sales	170,695	209,463
Selling and administrative expenses	23,581	21,801
Interest charges	4,488	8,270
Income taxes	1,643	333
	200,407	239,867
Income from manufacturing operations	6,123	3,722
Combined income before minority interest	127,983	106,617
Minority interest in net income and preferred and preference dividends of subsidiaries	82,254	67,953
Consolidated income from operations before extraordinary item	45,729	38,664
Extraordinary item — Provision for impairment of investment in an unconsolidated subsidiary (Note 1)	13,301	—
Consolidated net income	$ 32,428	$ 38,664

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statements of Reinvested Earnings

For the years ended December 31, 1983 and 1982

	1983	1982
	(Thousands of dollars)	
BALANCE AT BEGINNING OF YEAR	$303,042	$266,545
ADD —		
Consolidated net income	32,428	38,664
	335,470	305,209
DEDUCT —		
Dividends paid on Common Shares	25,000	—
Dividends paid on Cumulative Preferred Shares:		
4½% Cumulative Preferred Shares	281	281
$2.90 Cumulative Preferred Shares	363	363
$2.65 Cumulative Preferred Shares	848	848
$3.15 Cumulative Preferred Shares	567	567
Share issue expenses of consolidated subsidiaries	338	108
	27,397	2,167
BALANCE AT END OF YEAR	$308,073	$303,042

Consolidated Statements of Changes In Financial Position

For the years ended December 31, 1983 and 1982

	1983	1982
	(Thousands of dollars)	
CAPITAL EXPENDITURES AND OTHER REQUIREMENTS		
Capital expenditures	$385,348	$445,961
Working capital increase (decrease), excluding construction loans	21,659	(434)
Other — net	5,225	(2,852)
Total	412,232	442,675
INTERNAL SOURCES OF FUNDS		
Consolidated income from operations before extraordinary item	45,729	38,664
Depreciation	260,266	230,901
Deferred income taxes	7,784	27,131
Decrease in investment in unconsolidated subsidiary	16,502	14,167
Other — net	9,324	9,081
Total funds from internal sources	339,605	319,944
Less — Dividends paid on preferred and common shares	27,059	2,059
Net funds from internal sources	312,546	317,885
EXTERNAL FUNDS REQUIRED	$ 99,686	$124,790
FUNDS FROM FINANCING		
Shares of subsidiaries issued, net of conversions	$ 38,793	$ 43,616
Sale or issuance of long-term debt, net of redemptions and unamortized loss on foreign exchange	135,296	100,591
Decrease in loans for construction	(74,403)	(19,417)
Net funds from financing	$ 99,686	$124,790

The accompanying notes form an integral part of these consolidated financial statements.

ANGLO-CANADIAN TELEPHONE COMPANY and Subsidiaries

Summaries of Preferred and Preference Shares and Long-Term Debt

December 31, 1983 and 1982

	Shares	1983	1982
		(Thousands of dollars)	
PREFERRED AND PREFERENCE SHARES:			
Anglo-Canadian Preferred shares, par value $50 per share, cumulative dividend. Authorized 1,000,000 shares redeemable at $53 per share; outstanding 750,000 shares:			
4½% Cumulative Preferred shares	125,000	$ 6,250	$ 6,250
$2.90 Cumulative Preferred shares	125,000	6,250	6,250
$2.65 Cumulative Preferred shares	320,000	16,000	16,000
$3.15 Cumulative Preferred shares	180,000	9,000	9,000
		$ 37,500	$ 37,500
Subsidiaries' Preferred and Preference shares:			
British Columbia Telephone Company			
6% Cumulative Redeemable Preferred and Preference shares ($100 par value)		$ 5,500	$ 5,500
4⅜% to 5¾% Cumulative Redeemable Preferred shares ($100 par value)		48,000	48,000
4.84% to 11.24% Cumulative Redeemable Preferred shares ($25 par value)		218,185	226,008
$2.32 Cumulative Redeemable Convertible Subordinate Preferred shares ($25 par value)		1,037	1,166
Québec-Téléphone			
4¾% to 9¾% Cumulative Redeemable Preferred shares ($20 par value)		20,836	22,273
$1.68 Cumulative Redeemable Convertible Subordinate Preferred shares ($15 par value)		141	195
Premium on Subordinate Preferred shares.......		10	13
		$ 293,709	$ 303,155
LONG-TERM DEBT:			
British Columbia Telephone Company and subsidiaries			
First Mortgage Bonds 5⅝% to 17¼%, due 1985 - 2003		$ 852,643	$ 869,044
Promissory notes (Note 3)		165,000	50,000
Notes payable			
Interest-rate conversion agreement due 1990 with an effective fixed rate of interest of approximately 12.1%		20,000	—
Other at varying rates of interest from 6% to 12.75%.......		4,755	845
Amounts due under capitalized leases.......		18,249	4,279
Québec-Téléphone			
First Mortgage Redeemable Sinking Fund Bonds 5½% to 11⅞%, due 1985 - 1996		85,235	87,905
Total principal amount		1,145,882	1,012,073
Less - Unamortized discount on long-term debt.......		8,284	9,206
Total long-term debt		$1,137,598	$1,002,867

The accompanying notes form an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended December 31, 1983 and 1982

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

All subsidiaries have been included in the consolidated financial statements except a wholly-owned subsidiary in the Dominican Republic.

The consolidated subsidiaries and equity ownership at December 31, 1983, were as follows:

	Percent Owned
British Columbia Telephone Company and subsidiaries	40.71
Dominion Directory Company Limited	100.00
Québec-Téléphone	50.92

GTE International Incorporated, Stamford, Connecticut, an affiliated company, also owned 10.12% of the outstanding ordinary shares of British Columbia Telephone Company.

The Company does not consolidate a wholly-owned subsidiary, Compania Dominicana de Telefonos, C. por A. ("Dominicana"), operating in the Dominican Republic, because of severe restrictions which limit the Company's ability to control distribution of earnings from this investment. The Company has not recorded earnings of this subsidiary since 1977, except as dividends were remitted, and elected beginning in 1981 to reduce the book value of its investment by the amount of any cash dividends received. The Company further elected during 1983 to write off this investment due to the uncertainty involved in its ultimate realization. This item was treated as an extraordinary item in the accompanying financial statements.

A summary of the financial information for Dominicana, translated to Canadian dollars, is as follows:

	1983	1982
	(Thousands of dollars)	
Telecommunications property, less accumulated depreciation	$144,652	$128,374
Total assets	206,000	186,695
Long-term debt	37,645	49,988
Net book value	131,158	106,469
Net earnings before unrealized gain or loss on translation from pesos to Canadian dollars	42,047	23,990

All significant intercompany transactions have been eliminated, except for purchases of telecommunications equipment and supplies by the telephone subsidiaries from AEL Microtel Limited, a wholly-owned subsidiary of British Columbia Telephone Company, which are reflected in the consolidated financial statements at cost to the telephone subsidiaries, and are included in manufacturing sales in the consolidated statements of income. Intercompany sales for the years 1983 and 1982 totalled $113,500,000 and $115,084,000, respectively. To the extent that any income on these sales has not been offset by depreciation or other operating expenses, it remains in consolidated income and retained earnings. This practice is generally followed in the industry.

b) Depreciation

Depreciation of telecommunications property is provided on the straight-line method, for book purposes, based on engineering studies of the estimated lives and salvage value of the various classes of depreciable property.

Depreciation of the manufacturing property, for book purposes, is provided over the estimated useful lives of the assets using a straight-line basis.

c) Inventories

Inventories held by manufacturing subsidiaries are valued at the lower of cost or net realizable value.

d) Leases

Leases are classified as capital or operating leases depending upon the terms of the contract. Long-term lease rental agreements on equipment leased to customers are accounted for as operating leases. Assets, liabilities and amortization related to these leases are not material in amount.

e) Loans for construction

The loans for construction have been used, principally, to finance the subsidiaries' construction programs, and it is expected that they will in time be refinanced by issues of long-term debt or equity capital.

f) Deferred income taxes

Certain subsidiaries are presently claiming for income tax purposes capital cost allowances in excess of depreciation charged to the accounts and other expenditures which are capitalized in their accounts. The resulting reduction in income taxes is deferred.

g) Foreign exchange translation

Debt of consolidated subsidiaries payable in U.S. dollars is reflected in the financial statements at the rate of exchange prevailing at the end of the year. The unrealized loss on long-term debt of $11,686,000 is being amortized over the remaining term of the debt. This amortization amounted to $1,926,000 in 1983 and $1,860,000 in 1982.

2. Common Shares, $10 par Value

Authorized — 1,700,000 shares

Issued and outstanding — 1,203,685 shares

3. 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 British Columbia Telephone Company. These borrowings will be repaid from the proceeds of long-term financings.

In 1980, British Columbia Telephone Company entered into an agreement for a ten-year revolving loan facility for up to $50,000,000 and further extended to $165,000,000 in 1983. Drawdowns under the agreement are by way of promissory notes issued for periods of 30 days to 365 days. Interest payable by the subsidiary thereon will be comparable to rates obtained on promissory notes issued on the commercial paper market. To the extent that the promissory notes in total exceed the maximum of the agreement, they are included in short-term obligations.

4. Commitments and Contingent Liabilities

a) Construction programs

The consolidated telephone subsidiaries' 1984 construction programs, as now planned, approximate $401,000,000 for which substantial purchase commitments have been made. These construction programs will be financed by cash available from operations and loans for construction pending permanent financing.

b) Preferred share redemption requirements

To meet the preferred share redemption requirements, the following payments will have to be made during the next five years:

1984	$11,126,000
1985	9,447,000
1986	31,335,000
1987	6,335,000
1988	6,335,000

c) Long-term debt repayment

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

1984	$ 20,017,000
1985	17,374,000
1986	97,374,000
1987	106,124,000
1988	72,284,000

Notes to Consolidated Financial Statements (continued)

d) Pension plans

All companies maintain funded pension plans for the benefit of substantially all employees. The actuarially determined aggregate cost of maintaining the pension plans was $32,000,000 in 1983 and $33,563,000 in 1982, respectively, which includes $1,254,000 in 1983 and $4,389,000 in 1982, respectively, for the amortization of past service costs and of experience deficiencies. Such amounts were paid to trustees. The pension fund assets exceeded the actuarially computed value of the vested pension benefits of the plans at December 31, 1983, the latest valuation date. Due to the improvements made to certain pension plans during 1983 the present value of the estimated unfunded costs increased to approximately $26,263,000 at December 31, 1983, from $20,230,000 at December 31, 1982.

e) Contingent Liabilities

The Company is contingently liable in the amount of $3,393,000 for the payment of loans made to a subsidiary.

5. Related Party Transactions

Transactions with related parties (all affiliates of GTE Corporation) for 1983 were purchases and sales of telecommunications equipment and supplies (see Note 1), directory advertising commissions, royalties on equipment manufactured under licence and payments for services rendered under cost-sharing agreements. In 1983, approximately 63% (61% - 1982) of the sales and 14% (20% - 1982) of the purchases of the manufacturing subsidiary, AEL Microtel Limited, were to and from related parties.

6. Industry Segments Information

The subsidiaries operate principally in two business segments:

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

The following table sets forth revenues, income from operations and supplementary data for the years ended December 31, 1983 and 1982 for each of the Company's business segments:

	Telecommunications Operations		Manufacturing Operations		Consolidated Operations	
	1983	1982	1983	1982	1983	1982
			(Millions of dollars)			
Sales to the public	$1,256.3	$1,162.8	$ 93.0	$128.5	$1,349.3	$1,291.3
Intersegment sales	—	—	113.5	115.1	113.5	115.1
Total revenues	1,256.3	1,162.8	206.5	243.6	1,462.8	1,406.4
Income from operations	121.9	102.9	6.1	3.7	128.0	106.6
Identifiable assets	3,032.0	2,895.0	122.2	129.8	3,154.2	3,024.8
Capital expenditures	378.7	436.9	6.6	9.1	385.3	446.0
Depreciation	254.8	226.6	5.5	4.3	260.3	230.9

Telecommunications operations are conducted in the Provinces of British Columbia and Quebec. Manufacturing operations are conducted in the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. Of the total manufacturing sales to the public, 10% were to the export market in 1983 and 26% in 1982.

Auditors' Report

To the Shareholders of
Anglo-Canadian Telephone Company:

We have examined the consolidated balance sheets and the summaries of preferred and preference shares and long-term debt of Anglo-Canadian Telephone Company (a Quebec company) and subsidiaries as of December 31, 1983 and 1982, and the related consolidated statements of income, reinvested earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Anglo-Canadian Telephone Company and subsidiaries as of December 31, 1983 and 1982, and the results of their operations and changes in financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis during the periods.

Arthur Andersen & Cie,
Chartered Accountants.

Montreal, February 3, 1984.

GTE

Litho Canada
PLOW & WATTERS