Anglo-Canadian Telephone Company

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

ANNUAL REPORT 1982

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

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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 18, 1983

Consolidated revenues and sales from telecommunications and manufacturing operations rose 14.7% to \$1.4 billion in 1982 while consolidated net income was up 6% to \$38.7 million. These results reflect gains in both operations despite the severe recessionary conditions which impacted our economy throughout the year.

Telecommunications revenues increased 12.1% to \$1.2 billion and income from operations increased by 7.5% to \$102.9 million. Rate awards received during the year were needed to offset higher operating expenses which resulted from the expensing of certain costs previously capitalized, as directed by the CRTC Cost Inquiry Phase I decision of 1979, as well as a number of adverse factors which resulted from a poor economy, including substantially reduced rates of growth in long-distance calling volumes and number of customer lines installed. Long-distance calling volumes decreased by 1.8% during the year while customer lines showed only a 1.2% growth to 1,531,055 lines by year end. Manufacturing sales were \$243.6 million, up 28.9% over last year when sales were adversely affected by mid-year work stoppages. Income from these operations increased by 11.5% to \$3.8 million.

Capital expenditures for expansion and improvement of facilities amounted to \$446 million in 1982, an increase of 8.5% over 1981. Capital expenditures for 1983 are currently estimated at \$433 million.

Financial highlights of our subsidiary companies are reviewed below.

British Columbia Telephone Company

British Columbia Telephone Company, 40.75% owned by Anglo and 10.11% by one of Anglo's affiliated companies, had 1,326,428 customer lines in service at year-end 1982, a gain of 1.2% for the year. Gross expenditures for new plant and equipment during 1982 amounted to \$439 million, an increase of 13.4% over 1981, bringing total investment in plant to \$3.2 billion at year-end.

Telecommunications operating revenues in 1982 rose to \$1 billion, an increase of 12.9%, reflecting higher local and toll service revenues. Local service rate awards of \$59 million on an annual basis were received during the year and an application for an additional award of \$56 million is pending. Message toll volumes for 1982 were 1.5% below last year. However, higher average revenues per message resulted in a 6.6% increase in toll revenues for the year. Net earnings for the year reflected higher income from both telecommunications and manufacturing operations. These earnings amounted to \$72.2 million or \$2.11 per ordinary share compared with \$68.5 million or \$2.23 per share in 1981, when there were 3.5 million fewer average shares outstanding.

Quebec-Telephone

Quebec-Telephone, 51% owned by Anglo, had 204,627 customer lines in service at year-end, a gain of 1.5% during the year. Gross expenditures for new plant and equipment were reduced 22% in 1982 to \$34.9 million, to adjust to the lower demand for services. Operating revenues increased 6.6% to \$139.6 million reflecting higher toll and local service revenues. Local service revenues increased 11.1% as a result of a local service rate award of \$6 million received during 1982, the carry over effect of rate awards received last year, and the increase in customer lines. Long distance calls decreased 6.1% during the year but increases in toll rates and use of wide area telephone service ("WATS") and private toll lines increased toll revenues by 4.6%. Net income applicable to common shares increased by 15.7% to $14.1 million, and earnings per share increased 10.9% to $3.35 compared with $3.02 for 1981.

Dominican Republic Subsidiary

Compania Dominicana de Telefonos C. por A. is a wholly-owned subsidiary but is not included in our consolidated results because of severe restrictions on our ability to control distribution of earnings. Pending easing of these restrictions we are following the practice of reducing the book value of this investment by cash dividends received. At year-end the Company had 118,421 lines in service, a gain of 3.9% over 1981. Gross expenditures on new plant and equipment during 1982 amounted to $23.3 million bringing the total gross plant investment to more than $182 million by the end of the year. Operating revenues increased by 27.8% to $89.1 million and net income was $24 million, compared to $16.4 million last year. Dividend remittances credited to the investment account were $14.2 million in 1982 compared to $2 million in 1981.

Our operating companies performed reasonably well considering the adverse economic conditions which prevailed during 1982. We thank our management and staff for their commitment and dedication during this difficult period.

On behalf of the Board of Directors

William H. Hanson

President

Consolidated Balance Sheets
December 31, 1982 and 1981

Assets

	1982	1981
	(Thousands of dollars)	
FIXED ASSETS:		
Telecommunications property, substantially at original cost	$3,676,884	$3,340,941
Accumulated depreciation	(1,016,032)	(894,776)
	2,660,852	2,446,165
Manufacturing property, at cost	64,109	57,270
Accumulated depreciation	(29,099)	(26,933)
	35,010	30,337
INVESTMENTS:		
Investment in unconsolidated subsidiary (Note 1)	29,803	43,970
Other	6,536	6,699
	36,339	50,669
CURRENT ASSETS:		
Cash and short-term deposits	36,671	12,421
Receivables	174,874	180,021
Inventories	56,061	68,043
Other	9,875	8,789
	277,481	269,274
DEFERRED CHARGES:		
Unamortized cost of issuing long-term debt	2,584	2,489
Unamortized loss on foreign exchange	12,251	10,908
Other	297	1,517
	15,132	14,914
	$3,024,814	$2,811,359

Signed on behalf of the Board:

Director　　　　William H. Henson Director

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

Shareholders' Equity and Liabilities

	1982	1981
	(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	303,042	266,545
Contributed surplus	1,020	474
	387,817	350,774
Minority interest in consolidated subsidiaries:		
Preferred and preference shares (See page 8)	303,155	263,443
Common shares and reinvested earnings	390,887	373,408
	694,042	636,851
	1,081,859	987,625
LONG-TERM DEBT (See page 8)	1,002,867	900,933
CURRENT LIABILITIES:		
Loans for construction expected to be refinanced	121,832	141,249
Current portion of long-term debt	52,095	45,553
Accounts payable and accrued liabilities	182,588	202,894
Advance billings and customer deposits	46,826	33,368
Dividends	13,382	11,412
Accrued interest	25,883	20,706
Income taxes payable	27,722	25,922
	470,328	481,104
DEFERRED INCOME TAXES	469,760	441,697
COMMITMENTS AND CONTINGENT LIABILITIES (Note 4)		
	$3,024,814	$2,811,359

Consolidated Statements of Income

For the years ended December 31, 1982 and 1981

	1982	1981
	(Thousands of dollars)	
TELECOMMUNICATIONS OPERATIONS		
Operating Revenues:		
Toll service	$ 642,721	$ 604,674
Local service	475,836	392,341
Miscellaneous	44,223	40,347
	1,162,780	1,037,362
Operating Expenses:		
Operations	625,352	535,705
Depreciation	226,601	209,912
Income taxes	99,531	99,793
	951,484	845,410
Operating Earnings	211,296	191,952
Other income	5,998	4,322
Allowance for funds used during construction	12,092	9,440
Income before interest charges	229,386	205,714
Interest charges	126,491	109,983
Income from telecommunications operations	102,895	95,731
MANUFACTURING OPERATIONS		
Sales	243,589	188,930
Costs and expenses:		
Cost of sales	209,463	169,496
Selling and administrative expenses	21,801	15,220
Interest charges	8,270	7,059
Income taxes (recovery)	333	(6,183)
	239,867	185,592
Income from manufacturing operations	3,722	3,338
Combined income before minority interest	106,617	99,069
Minority interest in net income and preferred and preference dividends of subsidiaries	67,953	62,554
Consolidated net income	$ 38,664	$ 36,515

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

Consolidated Statements of Reinvested Earnings

For the years ended December 31, 1982 and 1981

	1982	1981
	(Thousands of dollars)	
BALANCE AT BEGINNING OF YEAR	$266,545	$232,496
ADD —		
Consolidated net income	38,664	36,515
	305,209	269,011
DEDUCT —		
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	108	407
	2,167	2,466
BALANCE AT END OF YEAR	$303,042	$266,545

Consolidated Statements of Changes In Financial Position

For the years ended December 31, 1982 and 1981

	1982	1981
	(Thousands of dollars)	
CAPITAL EXPENDITURES AND OTHER REQUIREMENTS		
Capital expenditures	$445,961	$411,284
Working capital decrease, excluding construction loans	(434)	(13,996)
Other — net	(2,852)	7,755
Total	442,675	405,043
INTERNAL SOURCES OF FUNDS		
Consolidated net income	38,664	36,515
Less — Dividends paid on preferred shares	(2,059)	(2,059)
	36,605	34,456
Depreciation	230,901	213,156
Deferred income taxes	27,131	31,713
Allowance for funds used during construction	(12,092)	(9,440)
Decrease in investment in unconsolidated subsidiary	14,167	2,038
Other — net	21,173	32,048
Total funds from internal sources	317,885	303,971
External funds required	$124,790	$101,072
FUNDS FROM FINANCING		
Shares of subsidiaries issued, net of conversions	$ 43,616	$ 35,174
Sale or issuance of long-term debt, net of redemptions and unamortized loss on foreign exchange	100,591	34,612
Increase (decrease) in loans for construction	(19,417)	31,286
Net funds from financing	$124,790	$101,072

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, 1982 and 1981

	Shares	1982	1981
		(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)		226,008	184,595
$2.32 Cumulative Redeemable Convertible Subordinate Preferred shares ($25 par value)		1,166	1,534
Québec-Téléphone			
4¾% to 9¾% Cumulative Redeemable Preferred shares ($20 par value)		22,273	23,588
$1.68 Cumulative Redeemable Convertible Subordinate Preferred shares ($15 par value)		195	212
Premium on Subordinate Preferred shares.......		13	14
		$ 303,155	$263,443
LONG-TERM DEBT:			
Anglo-Canadian Telephone Company			
6½% Sinking Fund Debentures, Series A, due 1983.......		$ —	$ 260
British Columbia Telephone Company and subsidiaries			
First Mortgage Bonds 5⅝% to 17¼%, due 1984 - 2003		869,044	739,075
Promissory notes, 9.50% to 11.35% maturing on varying dates within one year (Note 3)		50,000	50,000
Notes payable 6% to 9.75%.......		845	934
Amounts due under capitalized equipment leases.......		4,279	2,318
Québec-Téléphone			
First Mortgage Redeemable Sinking Fund Bonds 5½% to 11⅞%, due 1984 - 1996		87,905	112,243
General Mortgage Sinking Fund Bonds 5¾% due 1983		—	3,575
Total principal amount		1,012,073	908,405
Less - Unamortized discount on long-term debt.......		9,206	7,472
Total long-term debt		$1,002,867	$900,933

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

Notes to Consolidated Financial Statements

For the years ended December 31, 1982 and 1981

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, 1982, were as follows:

	Percent Owned
British Columbia Telephone Company and subsidiaries	40.75
Dominion Directory Company Limited	100.00
Québec-Téléphone	51.00

GTE International Incorporated, Stamford, Connecticut, an affiliated company, also owned 10.11% of the outstanding ordinary shares of British Columbia Telephone Company.

The Company does not consolidate a wholly-owned subsidiary, Compania Dominicana de Telefons, 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. Pending the easing of such restrictions by the local government, the Company has not recorded earnings of this subsidiary since 1977, except as dividends were remitted, and further elected beginning in 1981 to reduce the book value of its investment by the amount of any cash dividends received. Dividends received and credited to the investment account during 1982 and 1981 were $14,167,000 and $2,038,000, respectively.

Management of the Dominican subsidiary is continuing to seek approval of increased dividend remittances. Management is of the opinion that the carrying value of the investment in Dominicana as of December 31, 1982 will ultimately be realized in full.

Summary financial information for Dominicana, translated to Canadian dollars, is as follows:

	1982	1981
	(Thousands of dollars)	
Telecommunications property, less accumulated depreciation	$128,374	$115,793
Total assets	186,695	170,292
Long-term debt	49,988	52,159
Net book value	106,469	92,978
Net earnings before unrealized gain or loss on translation from pesos to Canadian dollars	23,990	16,378

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 1982 and 1981 totalled $115,084,000 and $84,636,000, 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 $12,251,000 is being amortized over the remaining term of the debt. This amortization amounted to $1,860,000 in 1982 and $1,256,000 in 1981.

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. 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' 1983 construction programs, as now planned, approximate $433,000,000 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:

1983	$11,132,000
1984	11,160,000
1985	9,460,000
1986	30,735,000
1987	6,185,000

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:

1983	$ 52,095,000
1984	20,022,000
1985	17,374,000
1986	97,374,000
1987	106,124,000

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 $33,563,000 in 1982 and $26,284,000 in 1981, respectively, which includes $4,389,000 in 1982 and $2,177,000 in 1981 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, 1982, the latest valuation date. Due to the improvements made to certain pension plans during 1982 the present value of the estimated unfunded costs increased to approximately $20,230,000 at December 31, 1982, from $15,250,000 at December 31, 1981.

e) Contingent Liabilities

The Company is contingently liable in the amount of $5,402,000 for the payment of loans made to its unconsolidated Dominican subsidiary.

5. Related Party Transactions

Transactions with related parties (all affiliates of GTE Corporation) for 1982 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 1982, approximately 61% (58% - 1981) of the sales and 20% (27% - 1981) 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, 1982 and 1981 for each of the Company's business segments:

	Telecommunications Operations		Manufacturing Operations		Consolidated Operations	
	1982	1981	1982	1981	1982	1981
			(Millions of dollars)			
Sales to the public	$1,162.8	$1,037.3	$128.5	$104.3	$1,291.3	$1,141.6
Intersegment sales	—	—	115.1	84.6	115.1	84.6
Total revenues	1,162.8	1,037.3	243.6	188.9	1,406.4	1,226.2
Income from operations	102.9	95.7	3.7	3.3	106.6	99.0
Identifiable assets	2,895.0	2,672.0	129.8	139.4	3,024.8	2,811.4
Capital expenditures	436.9	397.3	9.1	14.0	446.0	411.3
Depreciation	226.6	209.9	4.3	3.2	230.9	213.1

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, 26% were to the export market in 1982 and in 1981.

7. Comparative Financial Statements

Certain reclassifications were made to the 1981 financial statements in order to make them comparable to those of 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, 1982 and 1981, 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, 1982 and 1981, 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 1, 1983.

GTE

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