1980 ANNUAL REPORT

MARITIME TELEGRAPH & TELEPHONE COMPANY, LIMITED

The 1980 Annual report is a summary of the operations of the Company in its 71st year of serving Nova Scotia. It is prepared for those who have invested in our Company, for those who are interested in the Company's performance and for our employees.

1980 Annual Report of the Directors to the Shareholders of Maritime Telegraph and Telephone Company, Limited

Incorporated under the laws of the Province of Nova Scotia

Head Office:
Maritime Centre, 1505 Barrington Street
P.O. Box 880, Halifax, Nova Scotia
Canada B3J 2W3
Telephone (902) 421-4311

Stock Registrar

Maritime Telegraph and Telephone Company, Limited, 1505 Barrington Street, Halifax, Nova Scotia is the Registrar for 7.0% preferred.

Canada Permanent Trust Company, at its offices in Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver, is the Registrar of common shares, 7.10%, 8.60%, 9.40% and 7.65% preferred shares of the capital stock of the Company.

Common shares, 7.10%, 8.60%, 9.40% and 7.65% preferred shares listed:

Montreal Stock Exchange
Toronto Stock Exchange

Valuation Day Prices
(December 22, 1971)

Common shares	$22.13
7% preferred shares	$ 9.63

Stock Transfer Offices

Maritime Telegraph and Telephone Company, Limited, 1505 Barrington Street Halifax, Nova Scotia (common shares, 7.0% preferred shares, 7.10% preferred shares, 8.60% preferred shares, 9.40% preferred shares and 7.65% preferred shares).

Common shares, 7.10%, 8.60%, 9.40% and 7.65% preferred can also be transferred at the offices of Canada Permanent Trust at the following locations:

600 Dorchester Blvd. West
Montreal, Quebec H3B 1N4

20 Eglinton Ave., West
Toronto, Ontario M4R 2E2

433 Portage Avenue
Winnipeg, Manitoba R3B 2E1

1778 Scarth Street
Regina, Saskatchewan S4P 2G1

311 Sixth Avenue, S.W.
Calgary, Alberta T2P 0R6

701 West Georgia Street
Vancouver, British Columbia V7Y 1E5

Notice of Annual Meeting

The annual general meeting of the shareholders of Maritime Telegraph and Telephone Company, Limited will be held at the Head Office of the Company, Maritime Centre, 1505 Barrington Street, Halifax, N.S. on Tuesday, the 24th day of March, 1981, at 11:30.

LETTER FROM THE PRESIDENT

The planning and implementation of change highlighted the Company's activities during 1980. Plans were finalized for the introduction of a further generation of technology which will provide telecommunications service through the 1980's, and a number of new service offerings were introduced in anticipation of changing market demands for our services.

The telecommunications world is advancing rapidly in terms of new equipment and features resulting from micro-processing, fibre-optic technology, digital switching equipment and the development of a highly sophisticated and demanding marketplace. Planning for the continued success and growth of the Company at such a time requires not only creative new approaches mixed with sound judgement, but also sound financial management, as very large investments will be required in the telecommunications network during the coming years.

One of the most exciting aspects of this new generation of technology is its ability to help increase the efficiency of Company operations while enhancing the scope and variety of service which can be offered to customers.

For example, during 1980, the Company announced a major program to introduce Extended Direct Distance Dialing (EDDD) throughout the province by 1985. The program is centered around new equipment which will allow customers to dial almost all long distance calls currently requiring operator assistance. The service will gradually be introduced beginning in Halifax at the end of 1982 and throughout the province by the end of 1985.

The introduction of EDDD will require MT&T to invest more than $14 million by 1985. On completion, it will allow the Company to realize more than $5 million per year in savings when compared to the existing methods of handling long distance calls.

Other major projects underway during 1980 include the installation of digital switching — the most modern in the world — in switching centers in Sydney and Bridgewater, the development of a computerized Directory Assistance system to provide faster name and number searches, testing of a new device to provide privacy and other benefits to rural party-line customers, final planning for the province's first fibre-optics installation and the signing of a contract with the Nova Scotia Power Corporation to provide remote meter reading, using a computer scanning system and telephone circuits.

The Company placed before the Public Utilities Board early in 1980 an application to allow us to provide Voice Paging service throughout the province and we are awaiting a decision.

During the year the Company also continued its province wide program of service improvements such as the expansion of base rate areas, within which private line service is provided with no mileage charges and Extended Area Service, which provides calling between designated communities without long distance charges.

Almost 24,000 telephones were added to the network, representing an annual growth rate of 5%. The installation of residence extensions and new business services was particularly strong, while the connection of new service to residential customers dropped somewhat from the previous year.

Growth in long distance calling, at 10.6% also matched previous years rates, with a total of 47.3 million calls placed. As a result, long distance revenues rose 11%.

The Company also continues to enlarge its customer base for special mobile services and computer communications services. Community Repeater service has been expanded in seven provincial locations; tone paging service continues to grow — 26.5% in 1980.

The year continued apace for the Computer Communications Group achieving the same success enjoyed in 1979. Kentville and Sydney were added to the high speed Datapac transmission network in August and plans are to add Bridgewater and New Glasgow early in 1981. We introduced two innovative transmission services and also made three additional video display terminals available to our customers.

Increased revenues from these additional service demands, coupled with improved productivity and efficiency largely offset, during 1980, the very heavy price increases faced by the Company in materials and services. Total earnings per average common share were $3.22 in 1980, up from $3.16 a year earlier. Return on average common equity, however, dropped slightly from 14.3% in 1979 to 13.8% in 1980. In the fourth quarter, the dividend paid to common shareholders was increased to 49¢, bringing the total dividend to $1.96 on an annual basis, up from $1.80 in 1979.

Entering 1981, the overall cost increases which the Company must pay to operate the network and undertake the capital investment program required, will surpass the gains made in revenue growth and productivity. Therefore, at year end the Company was preparing an application for increased telephone rates which was submitted to the Public Utilities Board on January 15 for subsequent public hearing in February. The application seeks an additional 9.1% in Company revenue on an annual basis, with an effective date of June 1, 1981.

We are confident that these increased revenues will enable the Company to maintain its financial integrity and make the very large investments required for future telecommunications development in Nova Scotia.

Struan Robertson

Struan Robertson
President and Chairman
of the Board

Halifax, N.S.
February 16, 1981

SERVICE TO CUSTOMERS

Telecommunications customers continued to place growing demands on the network during 1980, despite generally unfavorable economic conditions. A total of 23,931 telephones were added to the system throughout the year. Of this increase, 7,286 were for business customers, the second highest increase in the Company's history.

While the connection of new service to residential customers was down from 1979 largely because of declining housing completions, some 10,487 additional residential extensions were installed, our largest growth in a single year. At year end, the Company was fast approaching the milestone of its 500,000th telephone connected to the network in Nova Scotia as total telephones stood at 498,239.

Zone Phone — a new long distance calling service primarily for business.

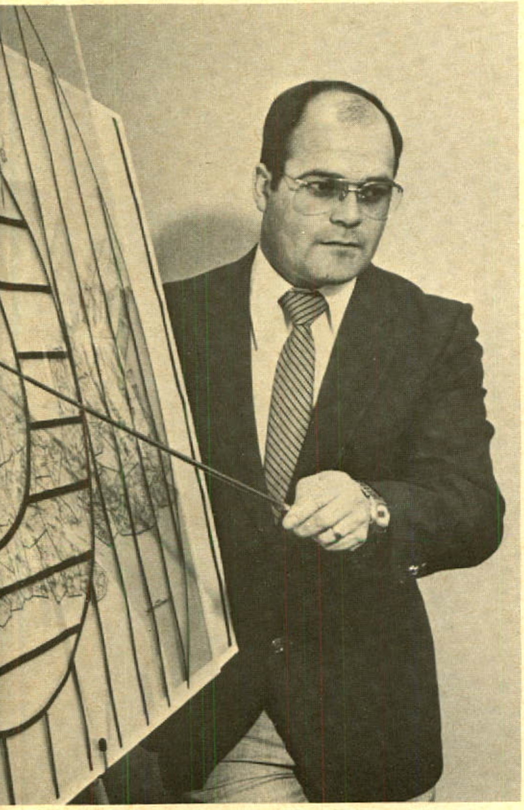
Customers continued to demonstrate the popularity of both Touch Tone service and Contempra telephones. More than 20,000 additional Touch Tone sets were placed in service, for a growth rate of 34.6%, while Contempra enjoyed an 8.6% increase from 1979.

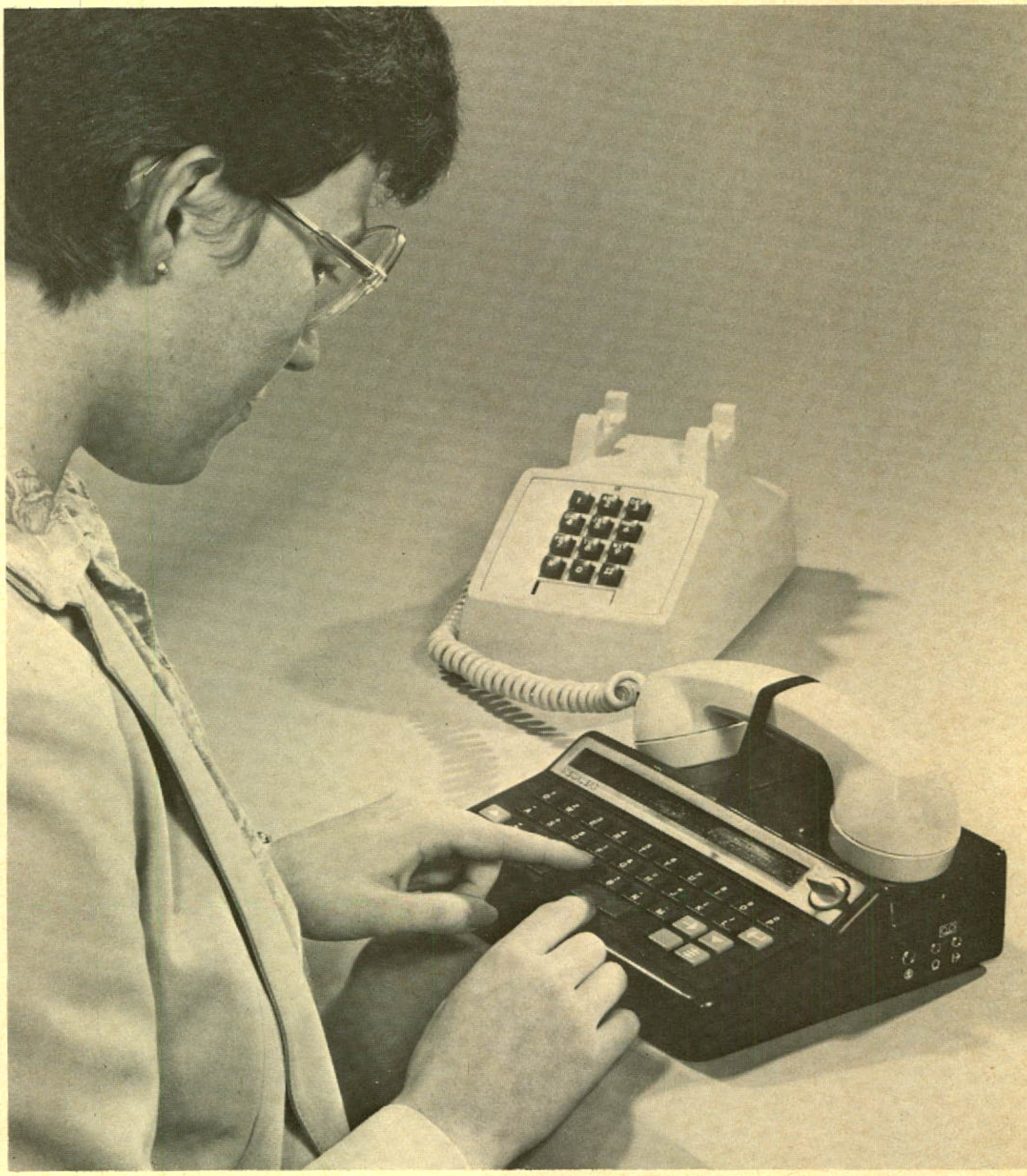
The Phone Centre program continued on schedule through 1980, with the installation of jack outlets in 19,446 customer premises. To help provide the convenience of Phone Centre operations to the more than 54,000 customer homes now equipped with jacks, a new Phone Centre was opened in September in a major shopping centre in Dartmouth.

Total long distance revenues during 1980 rose by 11%, to $104.2 million. The total volume of calls increased to 47.3 million, from 42.8 million in 1979.

In addition to the discount periods during which customers can save on the cost of making long distance calls, MT&T has two special programs for calling within the province to help customers save money. The first, Supplementary Local Service, permits customers to buy a monthly block of calling time to designated nearby communities. The minimum monthly charge for the service is $1.85 and $2.80 for residential and business customers respectively, providing 30 minutes of calling time, and savings up to 55% for customers using the service compared to regular long distance rates. At year end, 14,790 customers were using SLS, for a total saving of more than $1 million.

In September, the Company introduced a revised Zone Phone program for calling within the province, designed primarily for business, institutional and government customers. The service covers the entire province in four zones, measured in concentric circles from the customers premises. It provides either inward or outward long distance calling from a designated number. Once the customer has made calls which exceed the minimum monthly charge of the zone or zones subscribed, discounts of 25% or more are applied to additional calling.





The Visual Ear — a portable communications device for the deaf was introduced in 1980

Special services such as mobile telephones, community repeater and computer communications services grew during the year. In fact private mobile communications services grew by almost 20%.

Community Repeater Service which provides an economical mobile communications package to small business customers was extended in two phases during 1980. The first included expanded service in New Glasgow, Sydney, Kentville, Halifax and Dartmouth. The second phase included the communities of Port Hawkesbury, Bridgewater and Yarmouth.

Network paging with a tone only signal continues to grow at significant rates. In 1980 an additional 229 units were placed in service, an increase of 16.5% over the previous year.

During the summer, MT&T, in cooperation with the TransCanada Telephone System and Alberta Government Telephones installed the first offshore satellite communications system in Canada. A satellite dish was installed aboard the Mobil Oil rig, Rowan Juneau, by Telesat Canada, which sends and receives signals from the Anik B-1 satellite, enabling MT&T to provide telephone service to the oil rig terminating in Halifax.

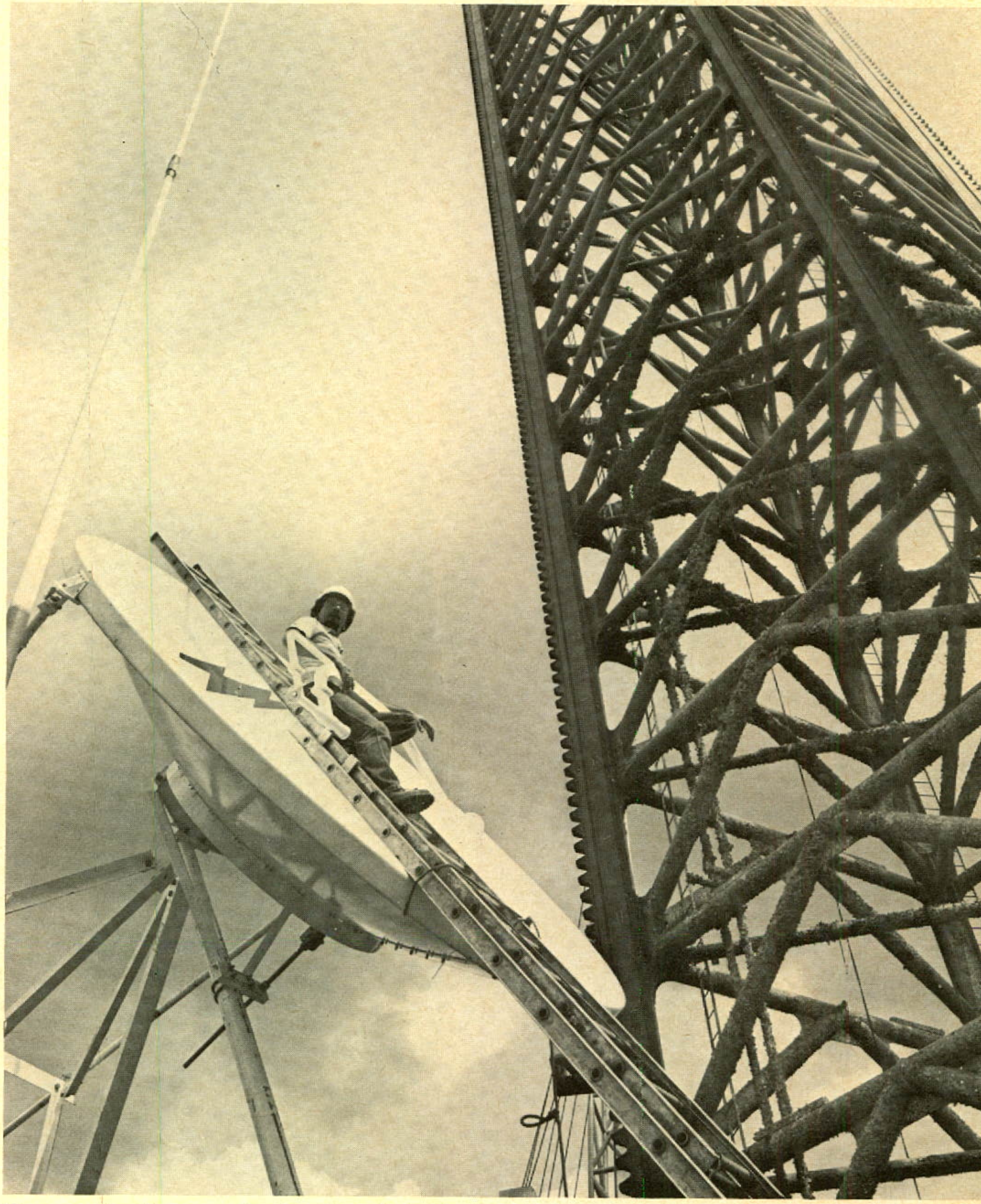
In addition to these services the Company provided experimental telephone service to Sable Island, using a VHF radio link. Prior to the installation residents of the 18 mile strip of sand off the coast of Nova Scotia used solely ship-to-shore radio.

The sophistication and understanding of customers of computer telecommunications systems is becoming increasingly apparent. To meet the demands for these high technology services MT&T introduced three additional Video Display Terminals to the product line. All these are microprocessor based combining state-of-the-art technology with the need for efficient, cost effective terminals for the customer. 1980 also showed a shift of customers from the rental or lease plans to purchase. This is a result of a better understanding of their existing as well as future needs. Datapac service was established in Kentville and Sydney in 1980 and two new Datapac services were provided from all six Datapac serving locations.

During the year, a contract was signed with the Nova Scotia Power Corporation, under which MT&T will provide a remote meter reading service to NSPC using microprocessors in customer premises and transmitting information via telephone circuits. The project is intended to provide the Power Corporation with extensive information on customer power usage. Concurrent with the service being provided, MT&T will also utilize the installed equipment to undertake market trials of such advanced communications services as burglar and fire alarm systems.

In the fall, the Company began a trial service in Rockingham, a suburb of Halifax, to provide call waiting service to selected customers. The service enables customers already talking on the telephone to be informed of another call waiting on the line by means of a short tone. Customers may then answer the second call merely by depressing the switch hook briefly. Approximately 1,000 customers were involved in this initial trial. Subsequent service, offered at $1.25 per month was fully subscribed. As equipment in other exchanges permits, the Company intends to proceed with the offering.

Prior to Christmas, Maritime Tel & Tel joined with four other members of the TransCanada Telephone System in a trial offering of Long Distance Gift Certificates. The offering provides four, $5 gift certificates enclosed in an attractive Christmas card. It was promoted through advertising and an employee incentive program. While evaluation of the trial is still underway, initial study indicates a very positive response from customers.



Communications service for the oil rig Rowan Juneau.

INVESTING IN THE FUTURE

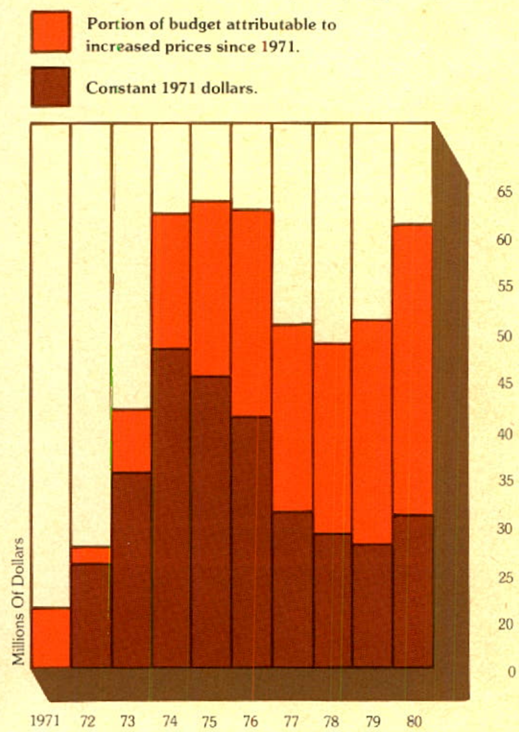
As additional customers are added to the telephone network, and increased calling volumes place greater demand on facilities, it is necessary to add capacity to our switching centers, and replace older equipment nearing the end of its useful life. The newest generation of switching equipment utilizes digital technology, providing lower levels of maintenance requirements and the ability to offer new features to customers, and substantial savings to the Company in network operation.

During 1980, plans were finalized, and in some cases work begun, on the installation of five new digital switching machines at an estimated cost of $46 million. The first to go into service will be located in Bridgewater, and will be in operation in 1981.

A second digital machine, dedicated to long distance calls will be installed at North Street in Halifax. During the year, construction work began on an extension to the Bishop office in Halifax to house a new digital switch for completion in 1982. A similar project will provide new equipment in Bedford late in 1982.

Digital switching equipment being installed in the Bridgewater office.

Construction program expenditures
(Based on composite of materials and labor prices within the capital program.)



A major project underway in industrial Cape Breton involves a substantial building addition, near completion at year end, and the installation of a digital switch. As a result, Extended Area Service will be provided between Sydney and the nearby communities of North Sydney, Sydney Mines, Glace Bay, New Waterford, Dominion and Port Morien by the end of 1982.

To provide additional circuits for long distance calling, MT&T is building a digital microwave link extending from Halifax to the New Brunswick border. Similar projects are underway in southern and western Nova Scotia to handle growth requirements of the long distance network.

Particular emphasis was placed on improvements to the internal operating efficiency of the Company. Projects included the development of improved systems and investment in new equipment for a variety of Company operations.

These special projects, when combined with the on-going process of adding network capacity, new telephone installations, equipment repairs and replacements and service improvement programs such as Base Rate Extension and Extended Area Service, require very heavy investments of capital during the coming three years. However, they will have the combined effect of improving the quality and reliability of service, and providing very substantial savings to the Company and its customers in operating costs.

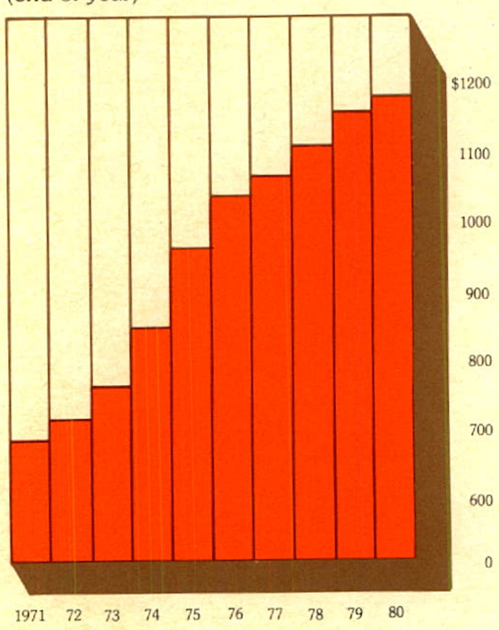
While the introduction of new technology promises very substantial benefits to the Company in future savings and efficiency, and to customers in enhanced service, the initial cost of installation are very substantial.

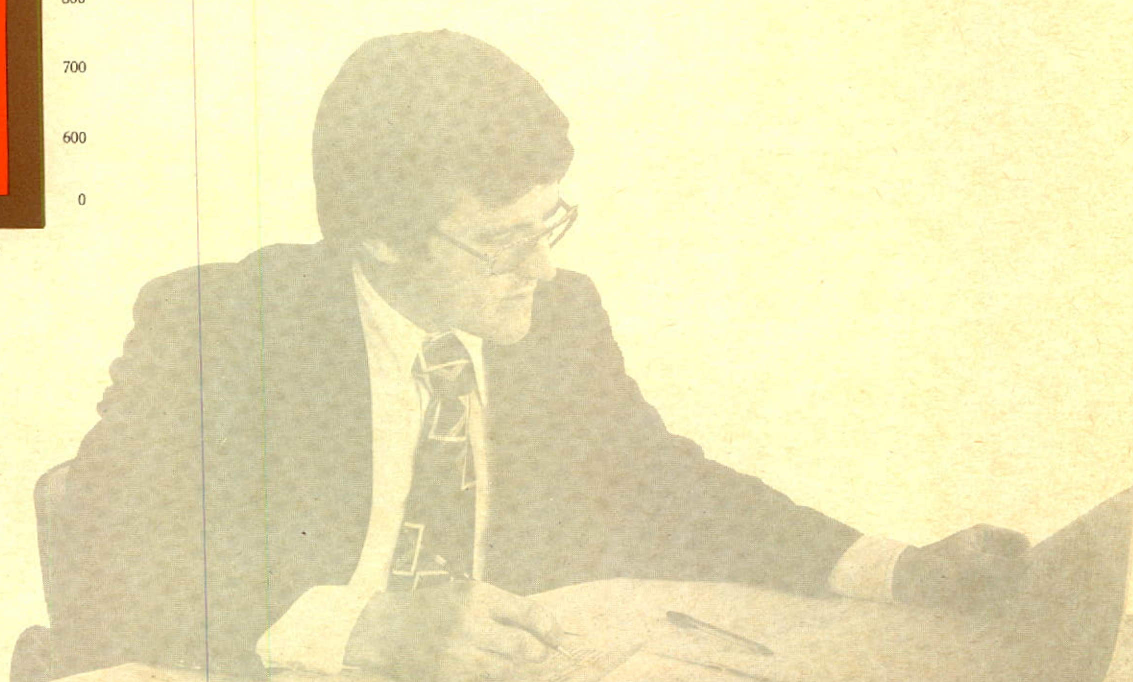
In 1980, the Company's capital expenditure program was $61.8 million. In the coming three years, this will grow to about $80 million per year, for a total of almost $240 million.

One of the largest projects currently being undertaken is the provision of Extended Direct Distance Dialing, associated with new digital switching equipment. New computerized operator work stations, and the provision of new machines to give hotels and motels automatic billing information on customer calls will be purchased.

As a result of the project, customers will be able to dial directly to 71 overseas countries, place almost all of their long distance calls themselves, requiring operators to come on the line only for billing instructions, service to hotels and motels will be improved, and the overall placement of long distance calls will be speeded up.

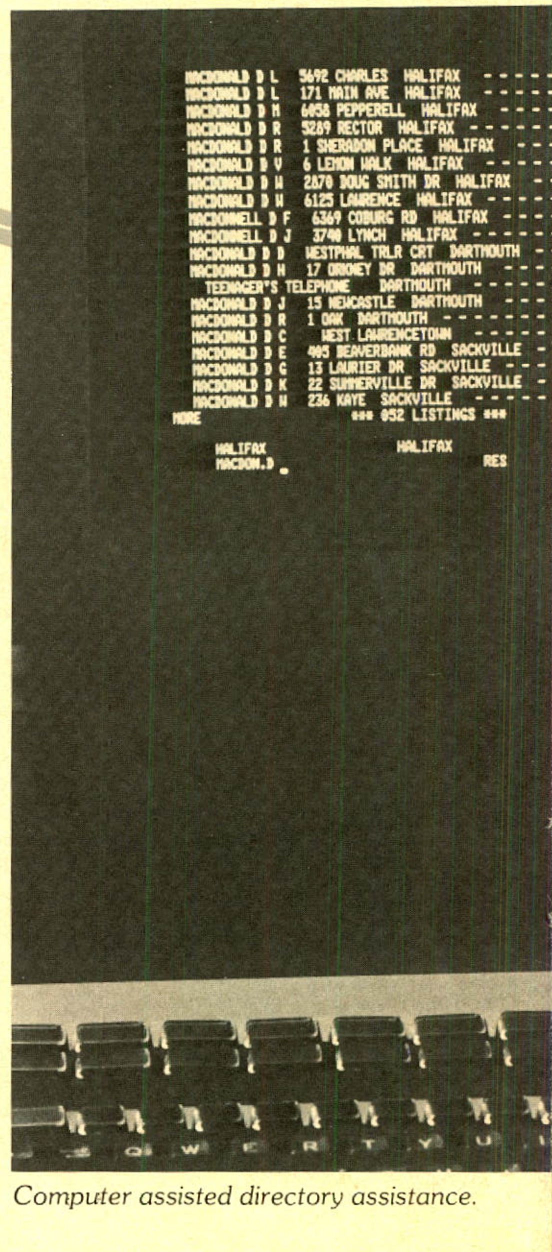
Telecommunications property per telephone
(end of year)





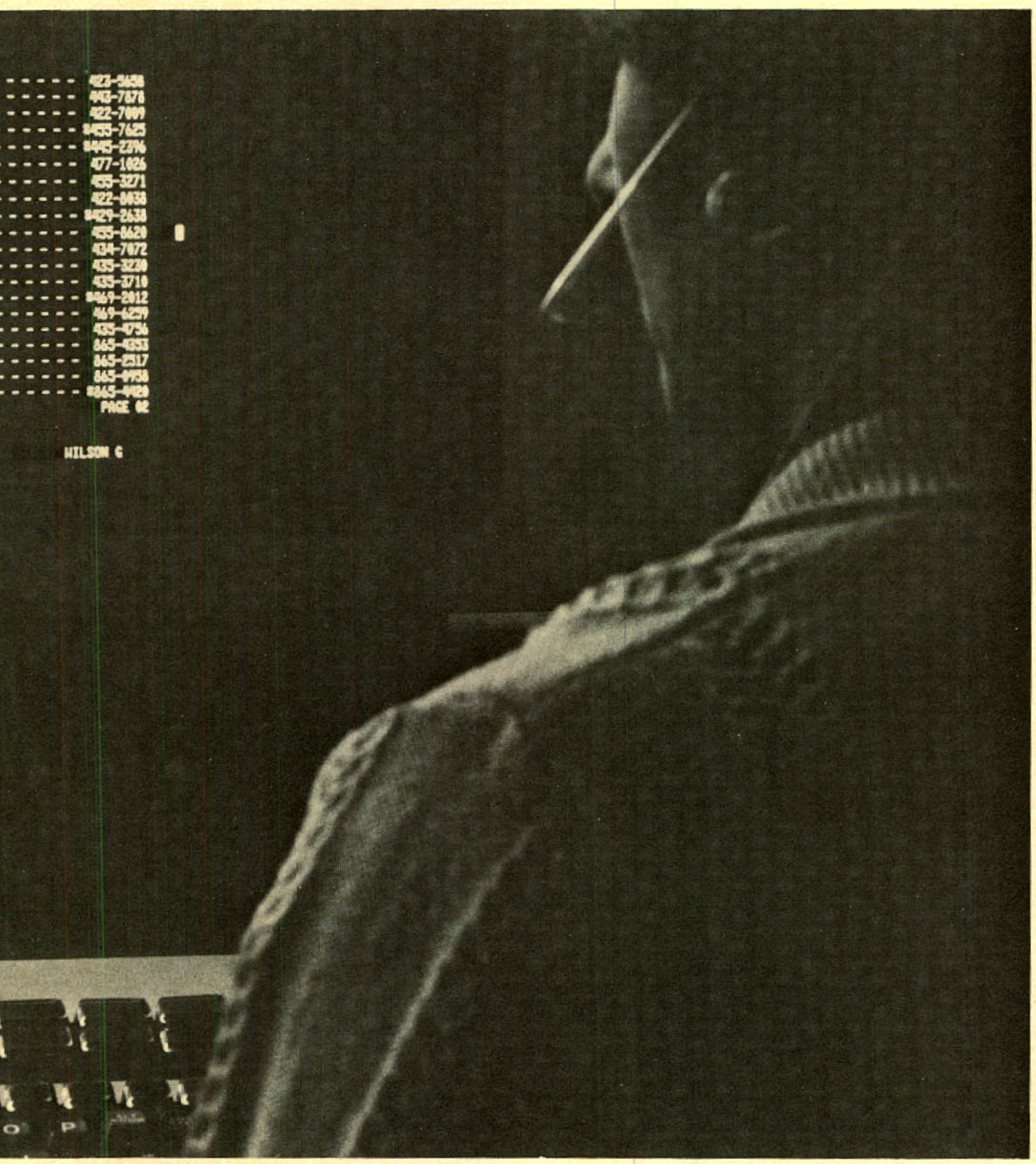
As the Company converts to this new method of handling long distance calling, four of our eight long distance operating centers will be closed by the end of 1985. Traffic offices in Yarmouth, Bridgewater, Truro and Amherst will gradually be phased out of operation during that period, to be accompanied by a relocation and retraining program for existing operators in those communities. Operators will continue to be employed in Sydney, New Glasgow, Kentville and Halifax. The overall staff reductions from levels which would have been required to handle calling and associated economics will provide savings to MT&T of approximately $5 million per year by 1985.

At year end the installation of new equipment to mechanize the operation of directory assistance was nearing completion. When placed in service later in 1981, the new system will provide computerized searching for directory listings, speeding up both the time required to find a listing and the up-dating process for changes and additions.



Computer assisted directory assistance.

SERVICE IMPROVEMENTS



Each year, the Company devotes a portion of its capital budget to the provision of service improvements throughout the province. These are designed to increase the availability of single party service at basic exchange rates, reduce the average number of customers on party lines, and increase the areas within which the customers can place calls without long distance charges.

Each of the Company's exchanges contains an area of relatively dense population called a Base Rate Area within which customers are provided with single party service at the monthly rate for that size exchange. Customers some distance beyond the base rate pay additional monthly mileage charges for single party service, or receive party line service. In 1980, base rate areas were extended in ten communities providing for the inclusion of an additional 3,500 customers within base rate boundaries. Through this program, a total of 11,450 customers have been able to receive single party service without additional charge since the beginning of 1978.

Extended Area Service is a program to provide calling to designated nearby communities without long distance charges. In 1980, such "free calling" was provided to 5882 customers in new EAS routes between Monastery and Antigonish, Port Hawkesbury and Arichat, and between Port Hood and Port Hawkesbury.

In 1980, the Company designated an additional 50 of its exchanges as "four party". This means that the maximum number of customers on a party line within that exchange will be held to four. A total of 88 exchanges have been so designated to date, resulting in an average number of customers on party lines of 2.8. The percent of party-line customers on multi party lines (more than four) was reduced to 9.0% in 1980 from 12.7% in 1979.

At the end of 1980, Automatic Number Identification was available to more than 83% of our customers, with 66 offices being equipped for this service. The installation of such equipment in central offices removes the requirement for the operator to come on the line when a customer is making a D.D.D. call, to ask for the originating number.

During the coming three years, the continuation of these and other service improvement programs will require capital expenditures by the Company of more than $25 million.

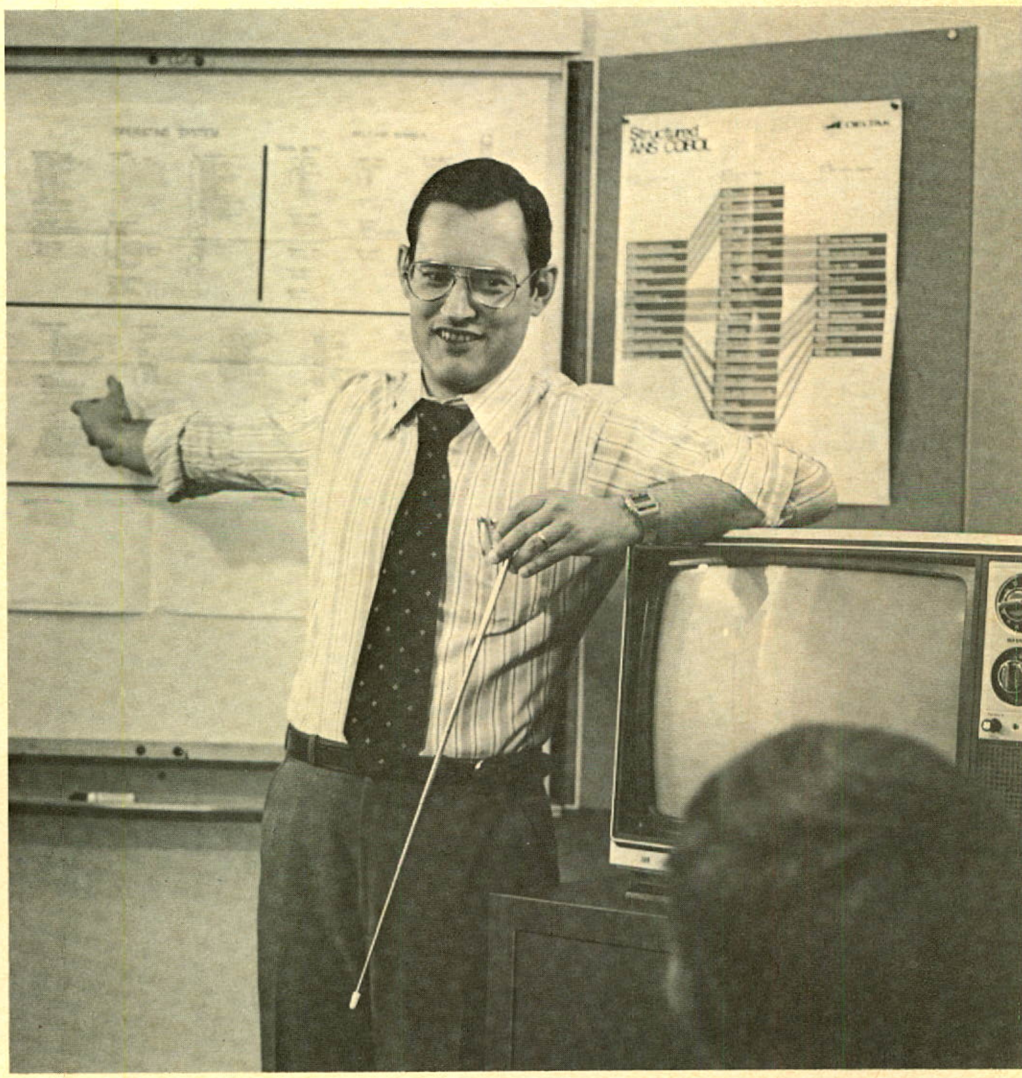
Computers assist in many areas of Company planning and operation.

HUMAN RESOURCES

The rapid introduction of new technology brings two clear implications for the 3,600 people who operate the telecommunications network in Nova Scotia: the challenge of managing the orderly introduction of such change, and coping with its impact on individuals.

A plan for re-organization of the operating groups within the Company was completed during the year for introduction January 1, 1981.

The traditional telephone company departments — Plant (installations and repairs), Commercial (primary customer contact), Traffic (planning and operating the network), and Marketing (planning for and di-



Employees participating in training programs.

rect selling to customers) — have been totally re-structured into four new departments to meet customer requirements: Residence Services, Business Services, Network Services and Operations Staff.

The introduction of new equipment and changing functional responsibilities both impact individual job content and employment security, requiring careful management of and planning for the Company's human resources. The Company initially informed all employees that no existing regular employee need be laid off as a result of the various projects currently underway. We are developing retraining programs where employees are faced either with new techniques or different job content. Whenever possible, new job requirements are being met by the relocation of existing employees. In cases where employees are unable or unwilling to relocate, a program of counselling and Company sponsored retraining is in place to help them find alternate employment within their community.

In the fall months, labour agreements covering the Company's 1617 craft workers and traffic operators expired. New, 25-month agreements were successfully negotiated, and were ratified by union membership early in 1981.

We are confident that with careful management of human resources we will be able to continue introducing the new methods and equipment that improve service to our customers and improve the efficiency of operations while continuing to develop the 3,600 men and women who provide telecommunications service to 855,000 Nova Scotians.

On January 7, 1981, A. Gordon Archibald retired as Chairman of the Board of Directors. Mr. Archibald had been an employee of Maritime Tel & Tel for 42 years, retiring as Chief Executive Officer in 1976. He had served on the Board of Directors since 1959. Throughout his service, Mr. Archibald has made a major contribution to the development of telecommunications in Nova Scotia.

On reaching the mandatory retirement age of 70 three other Directors retired during the year following lengthy periods of service: Charles E. Stanfield, Percy J. Smith, and Garnet Angus were replaced by John Bragg, President, Oxford Foods Limited; J. William E. Mingo, Q.C., Partner, Stewart, MacKeen & Covert; and Donald R. Sobey, President Empire Company.

Installers worked on more than 100,000 customer orders in 1980.

As a result of increased operating revenues and careful management of expenses, Maritime Tel and Tel was able to generate a modest increase in earnings per average common share, without the necessity for rate increases. For the majority of customers, local monthly exchange rates have remained the same for almost four years and long distance rates within the province were reduced in 1979.

During that time, the Company has faced rapidly increasing costs affecting both its operating expenses and its capital budget. Since the beginning of 1978, our construction program has faced cost increases of 25.5%, while such operating expenses as energy and total payroll costs have gone up 72% and 36% respectively.

It is only as a result of steadily increasing revenues from increased use of the network and constant gains in productivity that the Company has been able to maintain a reasonable level of financial return.

However, during 1981, the inflation in costs would surpass the combination of revenue increases and productivity gains without rate relief. Therefore, the Company has applied to the Public Utilities Board for a general increase in rates to provide an additional 9.1% in revenue on an annual basis. In a recent decision following an application by MT&T seeking determination of an appropriate rate of return on common equity, the Public Utilities Board concluded that had the Company sought rate revisions during the latter part of 1979, (the time of public hearings in the matter), it would have used a rate of return on common equity of 14% in calculating the Company's revenue requirements.

In its 1981 application for rate increases, the Company has calculated its revenue requirements using a 14.5% return on common equity due to changed economic conditions as compared to late 1979. The Company has asked that the new rates go into effect on June 1, 1981.

In 1980 operating revenues rose 8.8% to $181.6 million, including an 11% increase in long distance revenues. Operating expenses grew by 9.2% to $122.0, providing a net income of $43.4 million before taxes.

Income taxes for the year totalled $21.5 million, while $3.6 million was paid in dividends to preferred shareholders. As a result, net income of $18.3 million was applicable to common shares, representing earnings of $3.22 per average common share. This compares with $3.16 per average common share in 1979. Of these earnings $1.84 was paid in dividends to common shareholders, for a total of $10.5 million. The balance, retained earnings of $7,865,000, was reinvested in the telecommunications network.

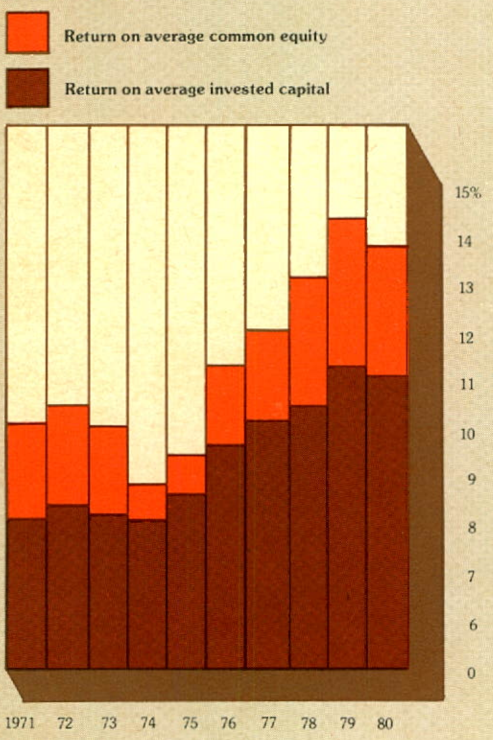
Return on average invested capital during 1980 was 11.1%, compared to 11.2% a year earlier. Equity per common share, or book value, rose to $23.93, from $22.69 at the end of 1979.

Under the employees' stock savings plan, 163,108 common shares were issued during the year. Preferred shares of $3,180,000 were redeemed under the provisions applying to such shares. At year end, the Company's capital structure consisted of 43.6% long-term debt, 11.5% in preferred shares, 37.7% in common equity, and short term loans represented the remaining 7.2%.

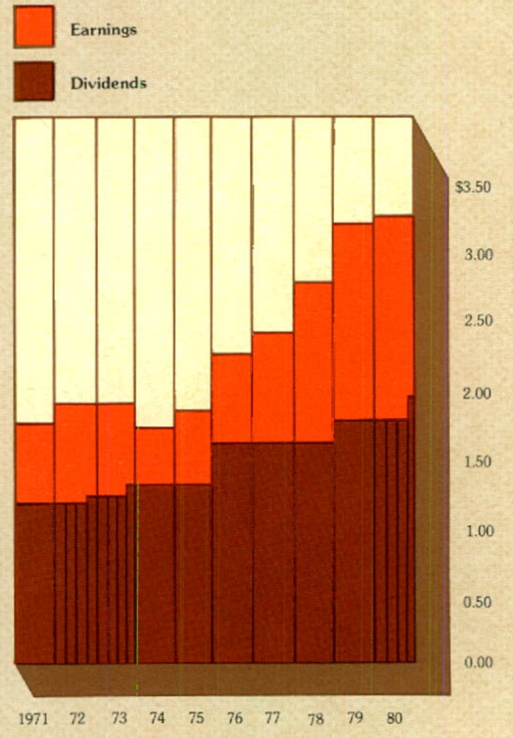
The Company introduced a dividend reinvestment plan for holders of common shares in 1980, to provide the option of purchasing additional common shares through the reinvestment of dividends. While only in operation for part of the year, an additional 8,147 shares were issued to existing shareholders under the plan in 1980.

Total capital expenditures during 1980 were $61.8 million, up from $52.7 million in 1979. While the Company undertook no external financing during the year, short term indebtedness at year end totalled $26.8 million. This short term debt will be replaced in 1981 as the Company plans to seek additional external investment of capital.

Rates of return on average common equity and average invested capital



Earnings and dividends per average common shares



In brief

	1980	1979
Earnings Per Common Share	$ 3.22	$ 3.16
Dividends Per Common Share	$ 1.84	$ 1.80
Return on Average Common Equity	13.8%	14.3%
Return on Average Invested Capital	11.1%	11.2%
Equity Per Common Share, December 31	$ 23.93	$ 22.69
Construction Program Expenditures (thousands)	$ 61 826	$ 52 693
Telecommunications Property Per Telephone, December 31	$ 1 190	$ 1 144
Telephones In Service, December 31	498 239	474 308
Debt Ratio, December 31	50.8%	49.1%
Employees, December 31	3 578	3 621
Salaries and Wages (thousands)	$ 65 326	$ 58 879
Average Common Shares (thousands)	5 685	5 547

Auditors' Report

To the Shareholders of
Maritime Telegraph and Telephone
Company, Limited

We have examined the financial position statement of the Maritime Telegraph and Telephone Company, Limited as at December 31, 1980 and the statements of income, retained earnings and changes in financial position for the year 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, these financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon

Chartered Accountants

Halifax, Canada
January 30, 1981

FINANCIAL POSITION STATEMENT As at December 31

Assets	1980	1979
	$ Thousands	$
TELECOMMUNICATIONS PROPERTY (Note 1 (c))		
Buildings, equipment and facilities in service	**568 482**	527 250
Less accumulated depreciation	**170 964**	148 231
	397 518	379 019
Land, and property under construction	**18 562**	9 226
Construction materials inventory	**5 756**	6 210
	421 836	394 455
INVESTMENTS (Note 4)		
Investment in affiliated companies	**7 602**	7 287
Other investments	**1 394**	1 166
	8 996	8 453
CURRENT ASSETS		
Cash	**460**	854
Accounts receivable	**27 372**	24 234
Prepayments	**2 430**	1 956
	30 262	27 044
DEFERRED CHARGES		
Unamortized long-term debt expenses	**2 359**	2 528
Other deferred charges	**1 848**	2 006
	4 207	4 534
	465 301	434 486

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

On behalf of the Board:

Director

Liabilities and Shareholders' Equity

	1980	1979
	$ Thousands	$
SHAREHOLDERS' EQUITY		
Common stock (Note 5)	**58 550**	56 837
Premium on common stock (Note 6)	**27 550**	26 092
Retained earnings	**53 997**	46 023
	140 097	128 952
Preferred stock (Note 5)	**42 745**	45 925
	182 842	174 877
LONG-TERM DEBT (Note 7)	**162 364**	162 364
CURRENT LIABILITIES		
Accounts payable	**13 069**	16 643
Income taxes payable	**2 170**	2 263
Interest accrued	**2 312**	2 349
Dividends payable	**3 668**	3 442
Debt due within one year (Note 8)	**26 800**	6 400
Other current liabilities	**990**	982
	49 009	32 079
DEFERRED CREDITS		
Income taxes (Note 1 (d))	**71 040**	65 109
Other deferred credits	**46**	57
	71 086	65 166
COMMITMENTS (Note 10)		
	465 301	434 486

Director

INCOME STATEMENT For the Year Ended December 31

	1980		1979
	$	Thousands	$
REVENUES			
Local service	**70 481**		66 968
Long distance service	**104 171**		93 854
Other, net of uncollectible revenue	**6 912**		6 102
	181 564		166 924
EXPENSES			
Depreciation (Note 1(c))	**32 502**		29 988
Operating	**50 838**		46 292
General and administrative	**31 349**		27 814
Pensions and benefits	**7 357**		7 707
	122 046		111 801
	59 518		55 123
OTHER INCOME			
Allowance for funds used during construction (Note 1(e))	**703**		359
Other (Note 2)	**894**		768
	61 115		56 250
INTEREST			
Bond interest	**15 591**		14 396
Other (Note 3)	**2 088**		1 442
	17 679		15 838
	43 436		40 412
INCOME TAXES (Note 1(d))	**21 500**		19 033
NET INCOME	**21 936**		21 379
Preferred dividends	**3 609**		3 848
NET INCOME APPLICABLE TO COMMON SHARES	**18 327**		17 531
EARNINGS PER COMMON SHARE	**3.22**		3.16

RETAINED EARNINGS STATEMENT For the Year Ended December 31

	1980		1979
	$	Thousands	$
BALANCE AT BEGINNING OF YEAR	**46 023**		38 470
ADDITIONS:			
Net Income	**21 936**		21 379
Other	**109**		6
	22 045		21 385
DEDUCTIONS:			
Preferred dividends	**3 609**		3 848
Common dividends	**10 462**		9 984
	14 071		13 832
BALANCE AT END OF YEAR	**53 997**		46 023

STATEMENT OF CHANGES IN FINANCIAL POSITION For the Year Ended December 31

	1980		1979
	$	Thousands	$
SOURCE OF FUNDS:			
Operations			
Net income	**21 936**		21 379
Items not requiring funds			
Depreciation	**32 502**		29 988
Deferred income taxes	**5 931**		5 815
Allowance for funds used during construction	**(703)**		(359)
Other, net	**316**		176
	59 982		56 999
Employees' stock savings plan	**2 989**		2 548
Common shareholder dividend reinvestment plan	**185**		—
Long-term debt	—		25 000
	63 156		84 547
APPLICATION OF FUNDS:			
Funds used for construction			
Construction program expenditures	**61 826**		52 693
Change in construction materials inventory	**(454)**		403
	61 372		53 096
Less items not requiring funds			
Salvage and other	**1 452**		1 548
Allowance for funds used during construction	**703**		359
	2 155		1 907
	59 217		51 189
Dividends	**14 071**		13 832
Investments	**228**		1 121
Preferred shares purchased for cancellation	**3 180**		2 118
Current maturity of long-term debt	—		4 000
Other, net	**172**		510
	76 868		72 770
INCREASE (DECREASE) IN WORKING CAPITAL	**(13 712)**		11 777

The accompanying notes form an integral part of these financial statements

D. S. Inkpen

Comptroller

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

(a) System of accounts:
The Company is subject to regulation, including examination of accounting practices, by the Board of Commissioners of Public Utilities for the Province of Nova Scotia. The system of accounts and accounting practices are similar to those being used by other companies in the telecommunications industry.

(b) Investment in affiliated companies:
The investment in The Island Telephone Company Limited and Maritime Computers Limited is accounted for by the equity method, whereby the investment is carried at its cost plus the Company's share of retained earnings since acquisition.

(c) Telecommunications property:
Telecommunications property is recorded at cost.

Construction materials inventory consists of items which will be used in the construction program.

Depreciation is charged on a straight-line basis using rates for classes of property, determined by a continuing program of engineering studies, as approved from time to time by the Board of Commissioners of Public Utilities for the Province of Nova Scotia. These rates provide for depreciation of the assets over their estimated service lives and resulted in an average rate of 6.1% for 1980 (1979, 6.1%).

(d) Income taxes:
Deferred tax accounting has been followed with respect to all timing differences. Income tax expense is based on income reported in the Income Statement. The Company defers the payment of a portion of the income tax expense by deducting from taxable income certain expenses in amounts greater than are charged in the Income Statement. Taxes deferred in this manner appear in the Financial Position Statement as a deferred credit.

(e) Allowance for funds used during construction:
The Company is allowed a return on capital invested in new telecommunications property while under construction by including an "allowance for funds used during construction" as an addition to the cost of the property constructed.

(f) Unamortized long-term debt expenses:
Unamortized long-term debt expenses are being amortized over the duration of the various debt issues.

(2) Other income — includes the Company's portion of The Island Telephone Company Limited and Maritime Computers Limited net income of $933 000 (1979, $948 000), less other income charges.

(3) Other interest — includes amortization of long-term debt expenses amounting to $169 000 (1979, $159 000).

(4) Investments — Investments in affiliated companies consists mainly of shares in The Island Telephone Company Limited. At December 31 the Company's ownership interest in The Island Telephone Company Limited was 40.8% (1979 41.4%). Other investments consist principally of shares in Telesat Canada at a cost of $738 000 and in intelTerm Systems Limited at a cost of $273 000.

(5) Capital Stock — par value $10 per share

	1980	1979
	Shares	Shares
Authorized:	14 266 597	14 584 668

Issued:

	Shares Outstanding at Jan. 1, 1980	Issued For Cash	Redemptions and Purchases of Preferred Shares For Cancellation	Shares Outstanding at Dec. 31, 1980
Common	5 683 747	171 255		5 855 002
Preferred				
7 %	150 000	—	—	150 000
7.10%	776 191	—	22 500	753 691
7.65%	1 451 375	—	44 426	1 406 949
8.60%	850 000	—	60 000	790 000
9.40%	1 364 975	—	191 145	1 173 830
	4 592 541	—	318 071	4 274 470
	10 276 288	171 255	318 071	10 129 472

As confirmed by order of the Supreme Court of Nova Scotia, the Company's authorized share capital as at December 31, 1980 was reduced from $145 846 680 to $142 665 970.

For the year 1980, the Company reserved 180 000 common shares for issuance under the Employees' Stock Savings Plan and during the year issued 163 108 shares to employees under the terms and conditions of the Plan. These shares are generally issued in December of each year after the completion of twelve months of contributions at a purchase price equivalent to 80% of the average market price of the stock.

The Company introduced a Common Shareholder Dividend Reinvestment Plan in 1980, whereby holders of common shares have the option to acquire additional common shares through the reinvestment of dividends. These shareholders may then elect to purchase additional common shares through the investment of specified amounts of cash. During the year 8 147 shares were issued under the terms and conditions of the Plan.

By amendment to the Company's Act of Incorporation in 1966 any shareholder or group of associated shareholders owning 1 000 or more voting shares (common or 7% cumulative preferred) is limited to 1 000 votes at any meeting of the shareholders.

Preferred Shares:
All series have a par value of $10.00 per share.

7% cumulative preferred carry one vote per share and are non-redeemable.

All series (7.10%, 7.65%, 8.60%, 9.40%) of cumulative, redeemable preferred shares are non-voting unless six quarterly dividends are in arrears. The other provisions attached to each series are:

7.10% — The Company shall attempt to purchase for cancellation 22 500 shares at or below par value in each calender year. The Company may redeem all or part of the outstanding shares after April 15, 1978 at a premium of $0.50 per share. This premium applies until April 15, 1981 after which time the premium decreases $0.10 every three years until April 15, 1990 and thereafter may be redeemed at $10.10.

7.65% — The Company shall attempt to purchase for cancellation 45 000 shares at or below par value in each calender year. The Company may redeem all or part of the outstanding shares after August 22, 1982 at a premium of $0.60 per share. This premium applies until August 22, 1983 after which time the premium decreases $0.075 every year until August 22, 1990 and thereafter may be redeemed at $10.00.

8.60% — The Company shall retire 30 000 shares by May 28 of each year, either by calling for redemption at par value or by purchasing for cancellation at a price not exceeding the price at which such shares are otherwise redeemable. The Company may redeem all or part of the outstanding shares after May 28, 1979 at a premium of $0.70 per share. This premium applies until May 28, 1982 after which time the premium decreases $0.10 every three years until May 28, 1997 and thereafter may be redeemed at $10.10.

9.40% — The Company shall retire 70 000 shares by April 15 of each year, either by calling for redemption at par value or by purchasing for cancellation at a price not exceeding the price at which such shares are otherwise redeemable. The Company has the option to redeem an additional 52 500 shares at par value by April 15 of each year. The Company may redeem all or part of the outstanding shares after April 15, 1980 at a premium of $0.70 per share. This premium applies until April 15, 1983 after which time the premium decreases $0.10 every three years until April 15, 1998 and thereafter may be redeemed at $10.10.

(6) Premium on Common Stock

	1980	1979
	$	$
Beginning of year	**26 092 000**	24 920 000
On shares issued during year	**1 458 000**	1 172 000
End of year	**27 550 000**	26 092 000

(7) Long-term debt —

Series	Rate	Maturing	Principal
L	5½%	June 15, 1983	5 000 000
M	5½%	May 1, 1985	7 000 000
N	6½%	March 15, 1987	10 000 000
Q	9¼%	June 1, 1990	1 364 000
R	8⅜%	May 1, 1991	12 000 000
T	8¾%	December 15, 1993	20 000 000
S	8⅝%	August 1, 1994	12 000 000
U	10¾%	November 1, 1995	20 000 000
V	11 %	June 15, 1996	25 000 000
W	10¾%	March 15, 1997	25 000 000
X	10⅜%	June 15, 1999	25 000 000
			$162 364 000

All the real and immovable property, shares and other securities owned by the Company are pledged by a first fixed and specific mortgage and charge as security for the Bonds. The Trustee for the Bondholders also has a first floating charge on all other property of the Company both present and future.

(8) Debt due within one year —

	1980	1979
	$	$
Bank and other notes	**26 800 000**	2 400 000
First mortgage bonds, series K, 5½%, due November 1, 1980	—	4 000 000
	26 800 000	6 400 000

Debt due within one year is normally refinanced out of the proceeds of longer term financing. This amount is included in total capital in computing capitalization ratios and rates of return on capital.

(9) Pension Fund —
Pension fund obligations are accounted for and paid over the estimated future working lifetime of employees of the Company. The total contribution to the pension fund for the year ended December 31, 1980 amounted to $7 415 000 (1979, $8 066 000). The actuarial review as of December 31, 1979, based on earnings and service to that date, shows that all vested benefits are fully funded. The actuarial review further reflects revised actuarial assumptions and changes in employee and fund experience which have resulted in a reduction in the contribution rate for the year 1980.

(10) Commitments —
Operating leases:

(a) The Company leases space in Maritime Centre with annual rental payments of approximately $1 713 000. The agreement expires in 1997 and the Company has an option to extend the term of the lease to the year 2002.

(b) The Company leases its tenant improvements in Maritime Centre. This agreement calls for annual rental payments of approximately $276 000 and expires in 1987.

(c) The Company leases a substantial number of telecommunication circuits in the ordinary course of its business for which it pays annual rents of approximately $84 000.

(d) The Company has several agreements with regard to the Telesat Communications Satellite, Anik 1 with respect to circuit leases through the TransCanada Telephone System for which it pays an annual rental of $418 000.

(11) Related party transactions —
The Company has a contract to supply technical, administrative and management services to The Island Telephone Company Limited. Under the terms of the contract the Company received $767 000 during the year. This amount is included in revenues.

The Company, in the normal course of business, made sales to and purchases from Maritime Computers Limited. These transactions were conducted at the fair market value of services rendered and were not significant.

(12) 1979 Presentation —
The 1979 comparative figures have been reclassified, where applicable, to conform with the 1980 presentation.

FIVE YEARS IN REVIEW

	1980	1979	1978	1977	1976
Financial Position at December 31 (in Thousands)					
Telecommunications property	**$592 800**	$542 686	$500 034	$461 517	$427 211
Accumulated depreciation	**170 964**	148 231	126 793	105 948	95 453
Investments	**8 996**	8 453	6 921	6 377	5 149
Current assets	**30 262**	27 044	24 475	21 298	18 523
Deferred charges	**4 207**	4 534	4 255	4 398	3 725
Shareholders' equity	**182 842**	174 877	166 893	160 340	140 026
Long-term debt	**162 364**	162 364	141 364	141 364	144 864
Current liabilities	**49 009**	32 079	41 286	32 377	27 617
Deferred credits	**71 040**	65 166	59 349	53 561	46 648
Income (in thousands)					
Revenues	**$181 564**	$166 924	$149 206	$129 655	$111 695
Expenses	**122 046**	111 801	99 563	85 979	74 754
Other income	**1 597**	1 127	1 008	1 274	1 760
Interest	**17 679**	15 838	14 803	14 432	14 056
Income taxes	**21 500**	19 033	16 953	14 278	11 224
Net income for year	**21 936**	21 379	18 895	16 240	13 421
Statistics — at December 31					
Telecommunications property per telephone	**$ 1 190**	$ 1 144	$ 1 107	$ 1 070	$ 1 030
Equity per common share	**$ 23.93**	$ 22.69	$ 21.43	$ 20.39	$ 19.79
Embedded debt cost	**9.6%**	9.5%	9.3%	9.2%	9.2%
Debt ratio	**50.8%**	49.1%	49.2%	48.8%	52.6%
Employees	**3 578**	3 621	3 551	3 448	3 447
Telephones in service	**498 239**	474 308	451 629	431 129	414 855
Statistics — for year					
Earnings per common share	**$ 3.22**	$ 3.16	$ 2.74	$ 2.41	$ 2.27
Dividends per common share	**$ 1.84**	$ 1.80	$ 1.60	$ 1.60	$ 1.60
Times bond interest earned — before taxes	**3.9**	3.9	3.8	3.3	2.9
Times bond interest earned — after taxes	**2.5**	2.6	2.6	2.3	2.1
Return on average invested capital	**11.1%**	11.2%	10.5%	10.1%	9.8%
Return on rate base	**9.1%**	9.1%	8.7%	8.4%	8.0%
Return on average common equity	**13.8%**	14.3%	13.1%	12.0%	11.3%
Construction program expenditures (in thousands)	**$ 61 826**	$ 52 693	$ 49 508	$ 51 424	$ 62 635
Average common shares (in thousands)	**5 685**	5 547	5 425	5 304	4 574
Salaries and wages (in thousands)	**$ 65 326**	$ 58 879	$ 51 992	$ 47 836	$ 44 365
Toll messages (in thousands)	**47 345**	42 800	38 440	34 942	31 696

Directors

1 **Garnet L. Angus**
President
G.L. Angus Real Estate and Appraisals Ltd.
Amherst

2 **A. Gordon Archibald**
Chairman of the Board
Maritime Telegraph & Telephone Co., Ltd.
Halifax

***Donald F. Archibald**
President
Archibald Farms Limited
Port Williams

John L. Bragg
President
Oxford Frozen Foods Ltd.
Oxford

***D. Andrew Eisenhauer**
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Lunenburg

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Atlantic Trust Co.
Halifax

Frederick E. Ibey
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Chairman of the Board
Maritime Builders Limited
Sydney

Struan Robertson
President and
Chairman of the Board
Maritime Telegraph & Telephone Co., Ltd.
Halifax

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Halifax

Donald C. R. Sobey
President
Empire Investments Limited
Stellarton

J. Stuart Spalding
Vice-President & Treasurer
Bell Canada
Montreal

4 **Charles E. Stanfield**
Director
Maritime Telegraph & Telephone Co., Ltd.
Truro

Catherine T. Wallace
Chairman
Maritime Provinces Higher Education
Commission
Fredericton

*Member of Audit Committee
1. Retired March 9, 1980
2. Retired January 7, 1981.
3. Retired May 5, 1980; since deceased
4. Retired Sept. 23, 1980.

Officers

2 **A. Gordon Archibald**
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Struan Robertson
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Vice President (Finance)

Donald B. Quinn
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Comptroller

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Kathryn E. Watt
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Support Services

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Chief Engineer

Peter G. Hebb
General Manager
Public Affairs

Phillip G. Henderson
General Manager
Corporate Development

Ernest C. Hicks
General Manager
Organization Development

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