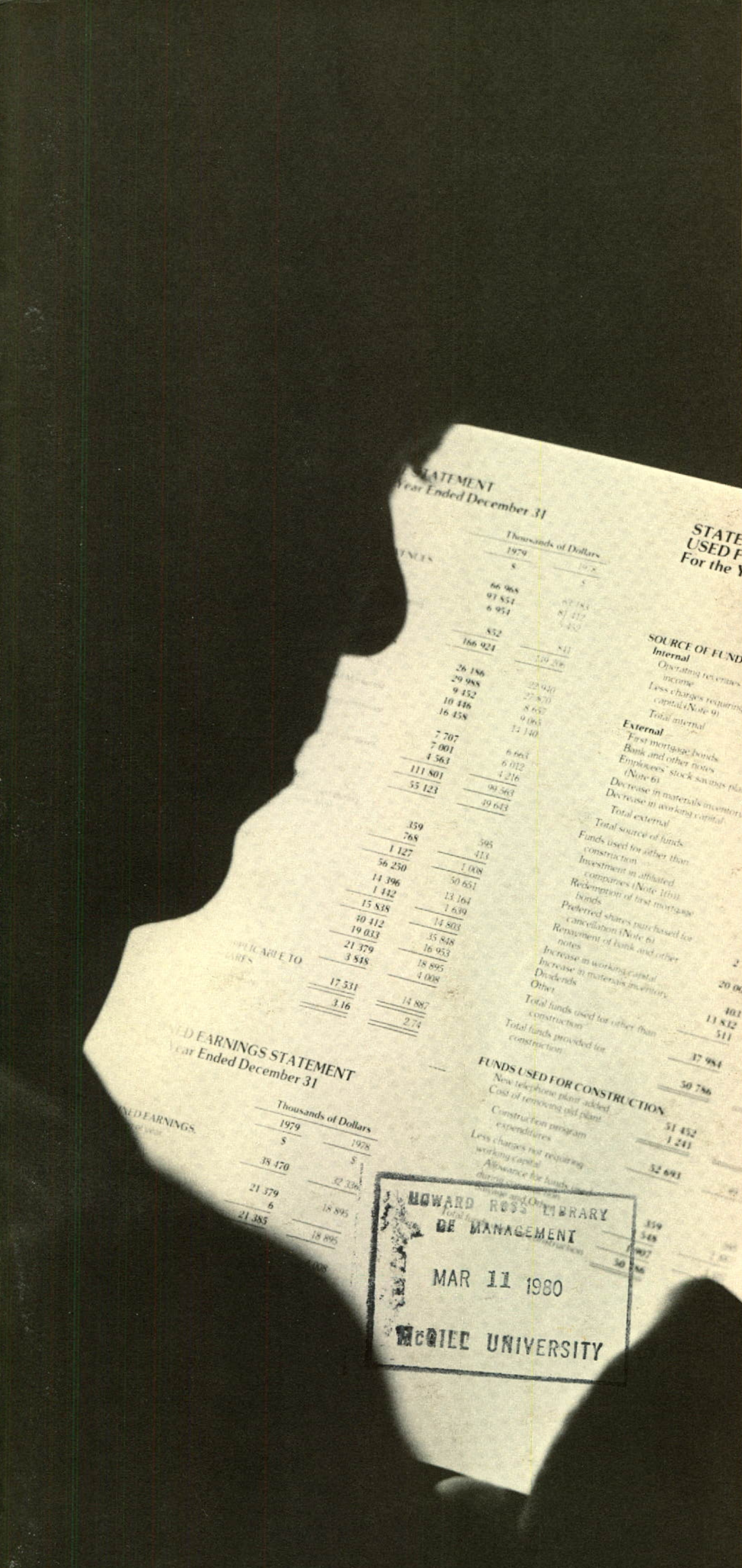
The 1979 Annual Report of Maritime Telegraph & Telephone Company, Limited



The earnings of any company are vital to its growth and development and its ability to continue to serve.

Maritime Tel and Tel believes that prudent management of the provincial telecommunications system has led to an appropriate balance between customer and shareholder needs.

In the current economic climate, it is important to place Company operations in an economic context, examining the needs of customers and shareholders and the balance achieved.

This annual report reviews the activities of 1979 in terms of their contribution to and impact on the financial integrity of Maritime Tel and Tel. At the same time, it provides descriptions of the terminology common to the telephone industry and of specific elements within the 1979 Income Statement.

The 1979 Annual report is a summary of the operations of the Company in its 70th 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.

1979 Annual Report of the Directors to the Shareholders of Maritime Telegraph & Telephone Company, Limited

Incorporated under the laws of the Province of Nova Scotia

Head Office: 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

315 Eighth Avenue, S.W.
Calgary, Alberta T2P 1C8

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 25th day of March, 1980, at 11:30.

FROM THE PRESIDENT

In many ways, 1979 was one of the best years in Maritime Tel and Tel's recent history. We were able to make significant improvements in service and earnings. At the same time we moved forward with plans to continue improving performance in the years to come.

In May, 1979, we introduced Supplementary Local Service (SLS), a package calling service designed to save customers money when calling nearby communities. This plan is estimated to have saved customers more than $400,000 over traditional calling rates during 1979.

Concurrently, we applied to the Board of Commissioners of Public Utilities for the Province of Nova Scotia for rate reductions which provided Nova Scotians with approximately $2.3 million in savings. The changes lowered the monthly cost for all extension telephones and reduced long distance rates on calls placed within the province between 5 and 17 per cent, depending on the distance called.

These cost reductions produced some stimulation in customer usage, as both the installation of extension telephones and the number of calls placed within the province grew substantially.

Total earnings per average common share rose to $3.16 from $2.74 in 1978, while return on common equity increased to 14.3 per cent from 13.1 per cent a year ago. Return on average invested capital was 11.2 per cent. Dividends paid to holders of common shares were increased by the Board of Directors to $1.80 on an annual basis, from the previous level of $1.60.

Thus, during the past year, the Company, largely through the efforts and commitment of its 3,621 employees, has been able to achieve the very different balance between providing service at the lowest possible cost to customers, and providing its shareholders a reasonable return on their investment.

While pricing structures for customer services are well understood, the role of "profit" in private industry is less clear. Profits, or earnings, provide dividends to common shareholders for their investment in the Company, and the generation of retained earnings for re-investment in the telephone network. Adequate earnings also underlie the Company's financial integrity and stimulate growth.

In October, MT&T applied to the Public Utilities Board to establish and approve a fair and reasonable rate of return on its investment in the telephone network across Nova Scotia — a total investment that now exceeds $536 million. This application did not seek any rate changes; in fact the Company stated in its testimony that it does not anticipate any rate increases throughout 1980. The 1979 return on common equity of 14.3 per cent and the anticipated return in 1980 fell within the 14 to 15 per cent range requested in the Company's application.

Financial performance and growth continue to be important measures of business performance. These alone, however, cannot completely indicate the success of Maritime Tel and Tel during 1979. Such factors as value to the community of the services provided, customer satisfaction, and the improvement and extension of services must also be considered.

During the year, we continued our investment program in the province-wide telecommunications network at the rate of $1 million per week — a total of $52.7 million. In 1980 capital expenditures will increase to $60.8 million.

Much of this investment must be secured externally and in 1979, the Company raised $25 million through the issue and sale of 20 year, 10⅜ per cent first mortgage bonds.

Internally generated funds, including retained earnings, provided $57.0 million for re-investment in the provincial telecommunications network. A large portion of these capital expenditures was devoted to expanding the network's capacity to handle growth in demand for service.

Service improvements continued to receive substantial attention within the 1979 capital program. Base Rate Extensions were provided in 14 communities and as a result single-party service is now available to an additional 4437 customers without a monthly mileage charge. Extended Area Service — the elimination of charges on calls placed between neighboring exchanges — was provided in 15 communities and the rural party-line fills were reduced by year's end to an average of 3.6 from 3.8 at the end of 1978.

During the past year, we have witnessed a continuation of solid growth, both in demand for new and extended telephone service, and particularly in use of the long distance network. Toll revenues increased by 15.3 per cent during

1979, despite what has been widely assumed to be a slowing economy.

Greater awareness of the increasing energy component of all forms of travel and its consequent costs will continue to draw attention to the value of long distance calling. Business activity, related to fuller development of fishing, ocean transportation and energy within the province, will demand not only new basic telephone service, but a wide range of sophisticated telecommunications services such as those provided by the Company's Computer Communications Group.

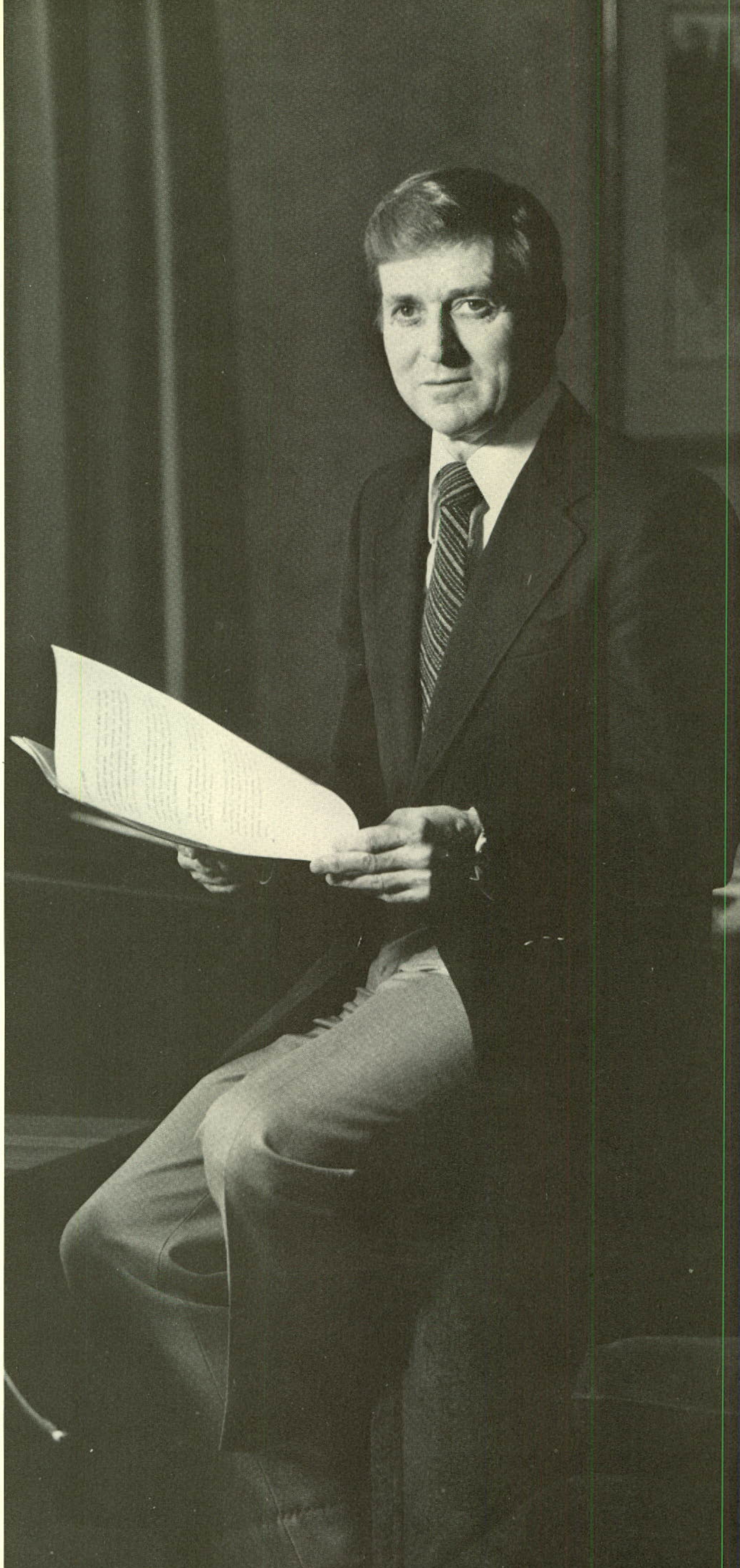
As we enter the 1980's, the technologies of both computer science and telecommunications are rapidly merging. We will witness, during this decade, a host of new products and services in telecommunications that could provide computer access from any residence, the electronic transfer of most information between business offices, new security services provided through the telephone network, and a variety of new voice message services designed for specific client groups.

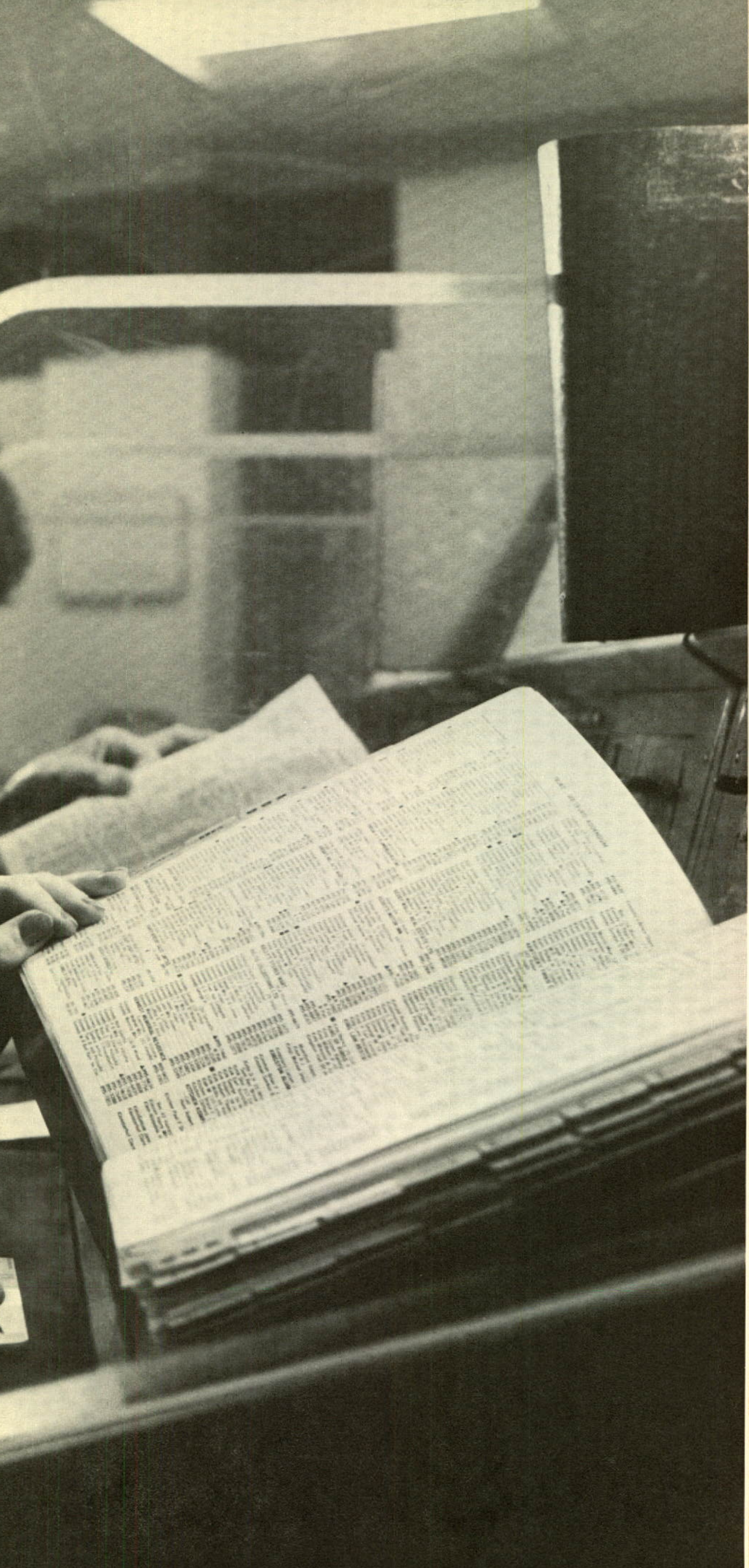
Maritime Tel and Tel is prepared not only for the many challenges such change will bring, but also to take advantage of the new technologies which are emerging.

Stewart Robertson

President and Chief
Executive Officer

Halifax, N.S.
February 16, 1980





Directory assistance operators

OPERATING REVENUES

Local Service

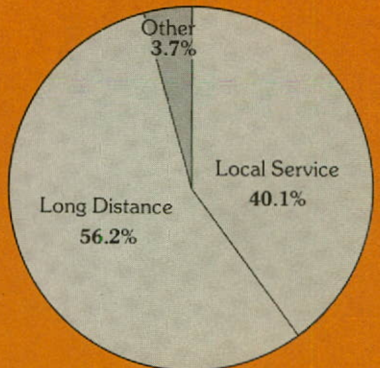
The revenues which contribute to MT&T's earnings come from two major sources: local service and long distance. The basic monthly charge for use of the network for local calling along with telephones and other terminal equipment necessary for that purpose are considered local service.

Local service also includes revenue from rental of extension sets, color and decorator telephones, installation charges, public telephones, mobile telephone systems, paging devices, special alarm circuits, local television and radio broadcast facilities, business switchboards and terminals and local computer communications.

Local Service comprised 40.1 per cent of total operating revenues for Maritime Tel and Tel in 1979, or $66,968,000. This represents an increase of 6.0 per cent over 1978 local service revenues. The two major components of this increase are the growth in the number of telephones in service, up 5.0 per cent, or 22,679 telephones over the previous year, and increased demand for touch-tone, color and extension telephones.

The number of touch-tone tele-

Operating Revenues



"rates for long distance calls within the province were reduced . . ."

phones in service increased 18,400, or 44 per cent during the last year to a total of 59,999. Extension telephones grew by 11.7 per cent, reflecting the reduced costs following the spring rate reductions.

During the year the Company opened its first two Phone Centres, as a component of the jack and plug program currently underway in the Halifax-Dartmouth metropolitan area. Approximately 21,000 homes were provided with the cost-free installation of jacks during 1979, and as a consequence can now enjoy the related conveniences of the Phone Centre operation. These include in most areas, same-day installation for those moving into homes or apartments equipped with the new outlets, the ability to change telephone color to complement decor, without service charge, and the portability of telephones by relocation to another outlet.

Long Distance

Long Distance (toll) telephone usage provided the majority, 56.2 per cent, of total MT&T operating revenues, totalling $93,854,000 in 1979, an increase of 15.3 per cent over 1978. Total long distance calling includes: calls dialed and completed within Nova Scotia; calls to and from other parts of Canada; those between Nova Scotia and countries outside Canada; and such long distance transmissions as broadcast signals and data communications.

Calls completed within Nova Scotia make up 75 per cent of our long distance traffic, but only 44 per cent of long distance revenues. Growth in this segment has been steady, but comparison of year to year revenue or call figures can be misleading: every year a large number of long distance calls are affected by new Extended Area Service projects. Under this service improvement program, nearby exchanges are connected to enlarge the area which customers can call without long distance charges.

As noted in the President's letter at the beginning of this report, rates for long distance calls within the province were reduced, with Public Utilities Board approval, in May of 1979. The reductions ranged from 5 to 17 per cent, depending on the distance of the call, with the greater reductions applied to the longer distance calls. These lower rates have been a factor in the growth of total long distance revenues as customers have responded to lower costs by increased usage.

Savings to our customers as a result of these decreases exceeded $2.3 million for the seven and one-half months they were in effect during 1979. In the coming year, total savings to Nova Scotians will reach $4 million.

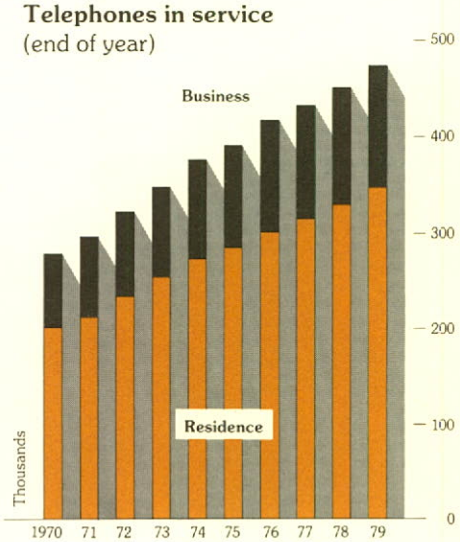
In May, a major new package calling service was offered to customers. Supplementary Local Service (SLS) was designed to save customers money on long distance calls to neighboring communities not covered by Extended Area Service. Under the plan, customers may purchase blocks of calling time to nearby exchanges at rates less than regular long distance charges.

Savings for those using the service have averaged 50 per cent over normal calling rates, or a total of $412,000 in 1979. The new service has been well received by customers, with 12,664 customers subscribing during 1979.

Long distance calls placed to, or received from other provinces obviously involve the facilities of other telephone companies. To plan facilities and develop the network capacity, and to ensure compatibility, MT&T cooperates with other Canadian telecommunications companies through an organization called the TransCanada Telephone System (TCTS). It is also through this organization that telephone companies share in revenues from calls which cross provincial boundaries.

Long distance calls placed to or from other countries may involve not only other Canadian telephone companies, but also those of other countries. For calls to and from the U.S., the TransCanada Tele-

Telephones in service
(end of year)



phone System cooperates with American telephone companies, while other international calls are handled by a government owned company, Teleglobe Canada. This organization negotiates with other countries throughout the world to facilitate the movement of long distance calling and to negotiate rates for calling such countries.

National and international calling constitute only 25 per cent of the total long distance calls made by MT&T customers, but because of the greater distances involved, they account for 56 per cent of total long distance revenues. As such features as Direct Dialing Overseas become available in Nova Scotia in the mid-1980's, the cost of placing such calls will drop, and the frequency of use will increase markedly.

Telecommunications services to institutional customers in 1979, including both terminals connected to the network and long distance revenues, increased by 40 per cent. This included substantial increases in sales by the Computer Communications Group.

Other Revenues

The other area in which MT&T earns revenue, while small by comparison to long distance is nevertheless very important. The Yellow Pages represent one of the most successful advertising mediums available to business and at the same time provides a useful service to all telephone subscribers. Revenues from this source rose 15.6 per cent, to $3.9 million in 1979.

MT&T engineers examine service extension maps

"the communications network is a valuable resource . . ."

Charges for telephone services must receive approval from the provincial Public Utilities Board before they can be applied. They are established on two basic principles: the value to the subscriber of the service provided, and system-wide pricing.

Following the value of service principle, customers in large exchanges, where access is provided to a large number of other telephones without long distance or usage charge, pay slightly more than customers in smaller exchanges where toll-free access to other telephones is smaller in number. And business rates are higher than those for residential customers, as the value of telephone service to business is demonstrably higher than for residence service.

System-wide pricing has been the basis for development of telephone service throughout Nova Scotia. It is a principle which results in equal payment for equivalent service in every area of the province. This, coupled with value of service has been and remains a key element in the provision of telecommunications service in sparsely populated areas where service provisioning is expensive.

MT&T, like other telephone systems in Canada, has developed as a 'natural monopoly' in order to make available to all residents of the province a reliable, efficient communication service at reasonable charge.

This policy has served the province well. MT&T as a publicly regulated, investor-owned common carrier has developed a versatile communications system. Service has been available at rates people are generally able and willing to pay.

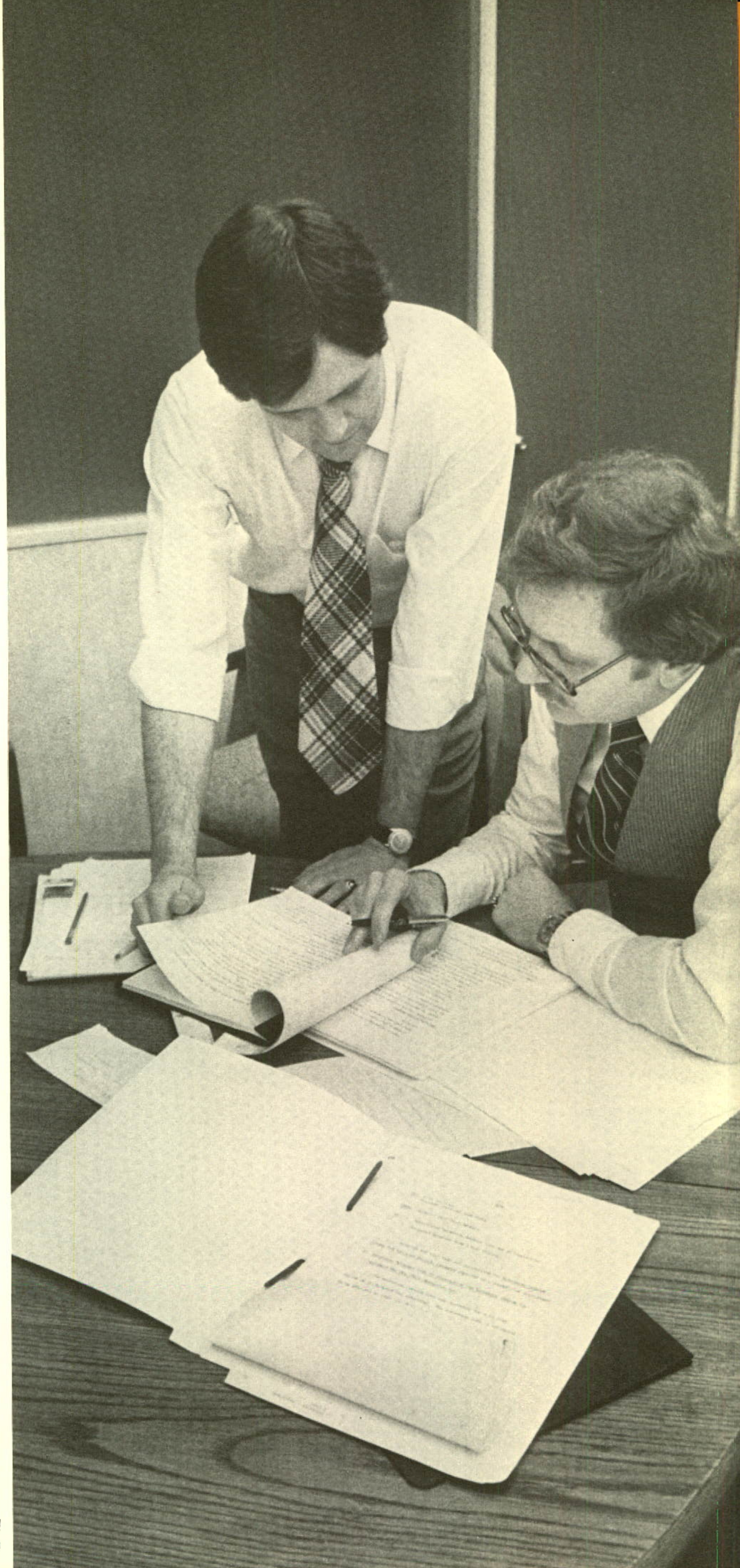
Now, the universal service, which was a dream less than 70 years ago, is a practical reality: virtually all Nova Scotia families have telephone service. And, of course, a primary reason is that rates have remained low in comparison with other products and services.

Today, the communications network is a valuable resource for business, government and the public in general. Obviously, the development of this system didn't just happen. It was made to happen by the regulated telephone companies.

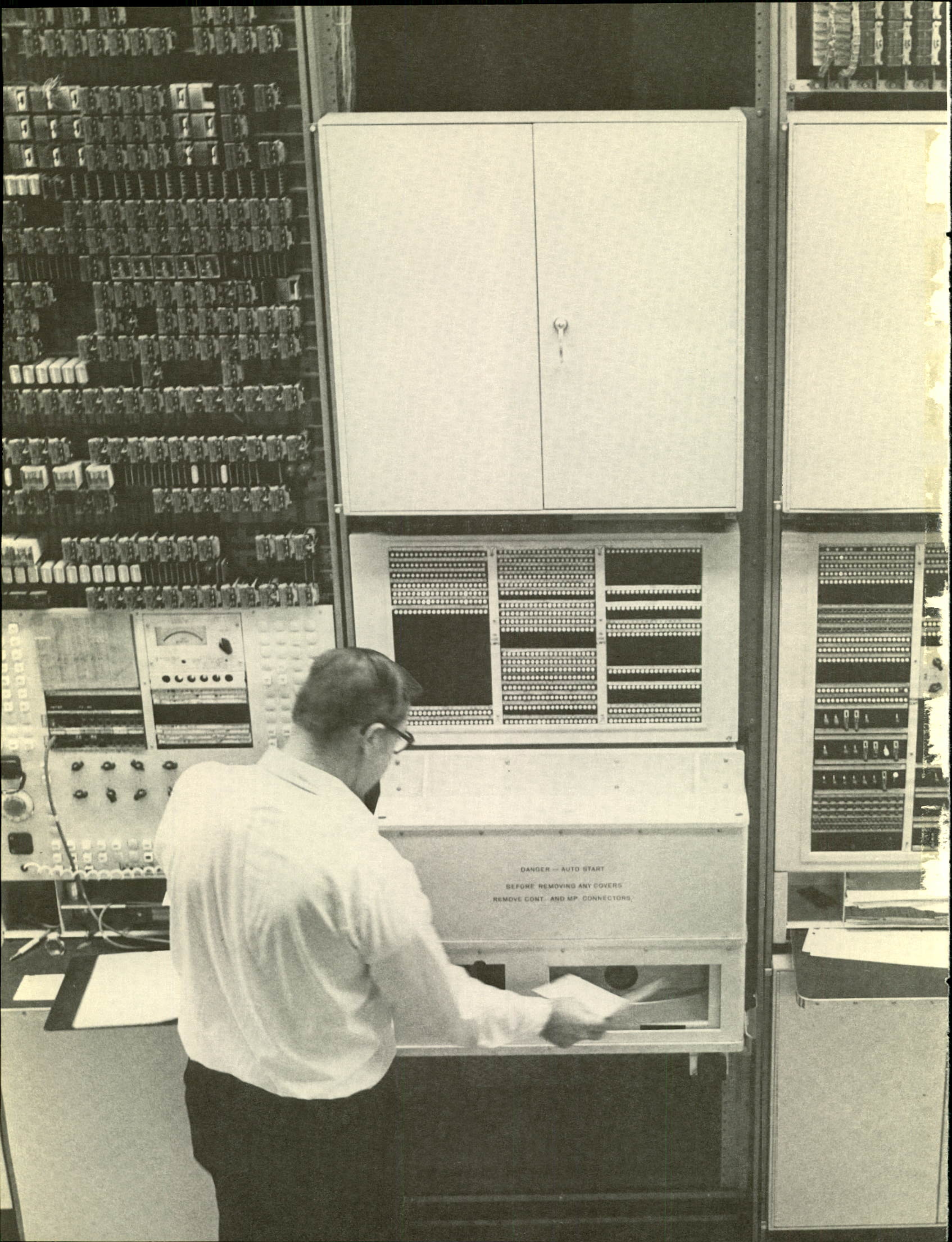
But during the past few years, a number of developments in other Canadian jurisdictions and in the United States have raised very serious questions for Maritime Tel and Tel. These include the decision, in 1979, of the federal Canadian Radio-Television and Telecommunications Commission (CRTC) to permit interconnection between the services of CNCP Telecommunications and those of the telephone network in Ontario and Quebec, and the growing attention to retail competition for business and residence telephones.

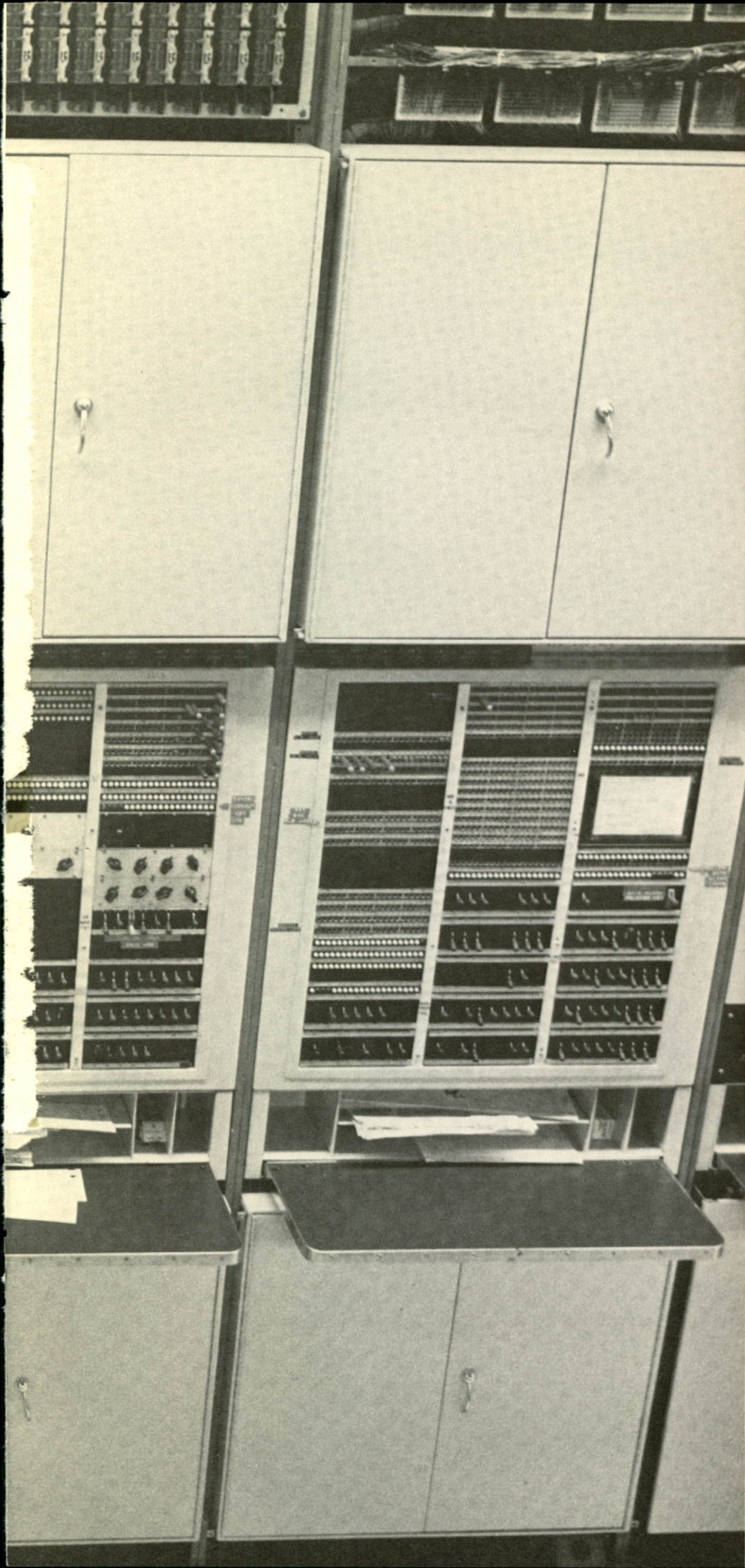
Such competition carries some advantages for a small number of telephone customers, but jeopardizes the pricing structures which permit the telephone company to provide the same level of service in a community of 100 as is offered in a metropolitan area of 250,000. Such competitive businesses typically compete in high volume areas where potential revenue returns are high, leaving the telephone company to support the far more costly areas of telephone service without the high return areas necessary to support them.

To study the implications of this trend, the Company established a special task force, which was asked to assess the potential impact of these trends on MT&T, and recommend Company policies to continue to meet the needs of Nova Scotians in a changing environment. We are currently analysing the policy options identified and developed by this task force.



Members of task force which was established to study the effects of competition


DANGER — AUTO START
BEFORE REMOVING ANY COVERS
REMOVE CONT. AND MP. CONNECTORS.



OPERATING EXPENSES

The cost of operating the voice and data network throughout the province totalled $111,800,000 in 1979.

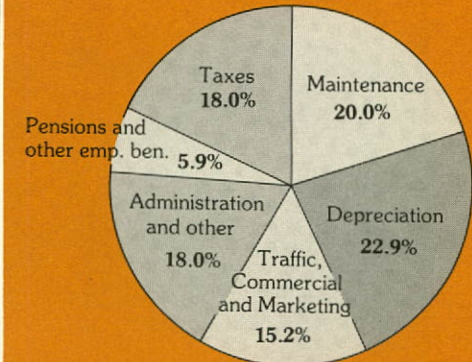
This cost of operation is one of the ways MT&T puts money to work in Nova Scotia. Money is, of course, one of the essential ingredients for the success of our economy and for the maintenance and improvements of our standard of living.

The first item of operating expense listed in the Income Statement is maintenance which is divided in three categories: operation of the telephone network, repair of defective equipment and relocation of equipment. Expenses in this category totalled $26,186,000, in 1979, or 20.0 per cent of the total operating expense and income taxes.

Approximately 60 per cent of the maintenance budget is spent in wages and salaries for employees who operate and repair the network. The balance is directed to a wide variety of tasks and materials such as equipment relocation and operation of vehicles for repair service.

The operation of the network involves such functions as regular monitoring and maintenance of

Operating Expenses and Taxes



Halifax toll office test board

"A number of new data-related products were introduced during 1

central offices housing switching equipment, maintenance of microwave and radio transmitter sites, and regular testing of all equipment.

Repairs include the costs of repairing weather damage to aerial cable and telephone poles, repair of telephones, switchboards, and other equipment used by customers and the replacement of parts and materials due to regular wear and tear.

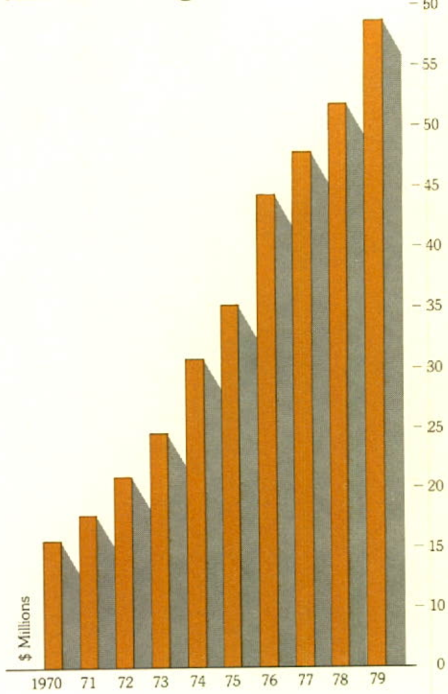
The major part of expenses associated with Traffic, Marketing, and Commercial Departments is in salaries and wages for the men and women who provide our service. The Traffic Department is responsible for the 24 hour-a-day provision of operator service, forecasting and administration of facilities and equipment necessary to the efficient operation of the network, and employs 743 people. Marketing employs 175 people who undertake research and select new service offerings, who are responsible for sales of equipment and services to government, business and other institutional customers and who provide special services including the design, installation and maintenance of such offerings as mobile telephone, paging systems, special switchboards and computer communications equipment. The Commercial Department's 394 employees are the Company's main contact with customers, answering requests for service, operating business offices and phone stores, and also handling public telephones and the publication of telephone directories.

A number of new data-related products were introduced during 1979, including two new printing terminals, a new terminal which displays information on a screen, Vutran, a small terminal ideally suited to such applications as credit card approvals, and Datapac 3303, an additional service within the "intelligent" nation-wide data network.

In mid 1979, five new Nova Scotia communities — Bridgewater, Kentville, Truro, Sydney, and New Glasgow — were added to the national Dataroute network, making high speed data communications available to business customers in these communities.

A new service primarily for inshore fishermen was introduced early in the year for Environment Canada. Marine meteorological information is transmitted on high frequency radio at 11 Company sites. As a result, fishermen within a 65 kilometer radius of these transmitters now have constant access to updated weather information.

Salaries and wages



979 . . ."

Administration

The administration category listed in operating expenses includes eight other departments within Maritime Tel and Tel. They handle such diverse supporting functions as: accounting and financial transactions, dealings with shareholders, recruiting, salary and benefit administration, public affairs and advertising, internal auditing service and rate planning, purchasing and vehicle and building maintenance, and operating the Company's computer systems and data centre.

Aside from many support functions which these departments provide, they are also the sources of many projects designed to improve the efficiency and level of service of MT&T.

In 1979, for example, a new system of company budget planning was introduced. This system focuses attention on establishing priorities for all the Company expenditures to operate and expand the telephone system. It involves all levels of Company management in establishing priorities for future activities.

An example of the efficiencies the Company has achieved can be found in the 1980 forecast of operating expenditures which will rise approximately 8.0 per cent over 1979, somewhat below the current rate of inflation.

The clear implication is that MT&T will provide an expanded level of service in 1980, at a cost, in real terms, below that of 1979.

Engineering department draftsman

"It's our job to . . . lay the groundwork for the future . . ."

In addition to the operating expenses previously outlined, MT&T expenses during 1979 included $29,988,000 in depreciation of its capital assets, and $4,563,000 in taxes paid to municipalities. The tasks of Engineering and Plant Departments, two of the Company's largest groups, are not clearly identified within the financial statements, as their work covers both operating and capital projects. Engineering designs the switching network and buildings to house the equipment. Plant employees are responsible for installation, maintenance and repair of equipment including poles and cable.

Payroll, Pensions, and Benefits
The success of 1979 would not have been possible without a well-trained and well-motivated organization of 3,621 telephone men and women. Total payroll of these employees in 1979 was $58,879,000.

Telephone people have always been a key factor in providing good service. Obviously, the Company can commit no less energy to the development of its human resources than it does to its technical resources.

MT&T has a continuing training program consisting of Company sponsored training and assistance with personal education.

Employee benefits include group life insurance, extended health care insurance, long term disability benefits, Workers' Compensation payments, the operation of the Company's Medical Centre, the Canada Pension Plan, vacation and holiday pay, and the employee stock savings plan. As well, the Company provides pension benefits for 376 retired employees.

CAPITAL EXPENDITURES

The people of Nova Scotia receive first class telecommunications services today, and they will expect even more — and better — service tomorrow.

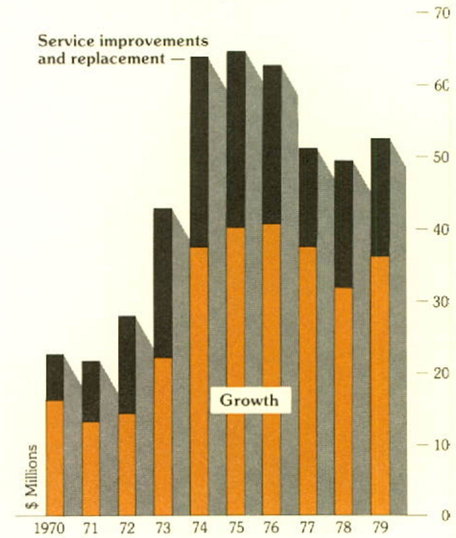
It's our job to provide that service and lay the groundwork for the future. But being ready to serve requires more than foresight; it requires substantial funding. Our capital spending for 1979 amounted to $52,693,000 and during the next three years it will approach $200 million.

There are five major types of equipment purchased, constructed or installed as part of capital spending. Outside plant is, as its name implies, that portion of the telecommunications network not housed within buildings or within customer premises.

It includes the thousands of miles of underground and aerial cable to carry telephone calls, and associated poles and hardware and underground conduit. Total capital spending on outside plant during 1979 was $19,470,000, or 37 per cent of construction expenditures.

An integral element of the telephone network is the switching equipment housed in 164 central offices. As the number of telephone circuits increases daily to meet new customers demands, the

Construction expenditures



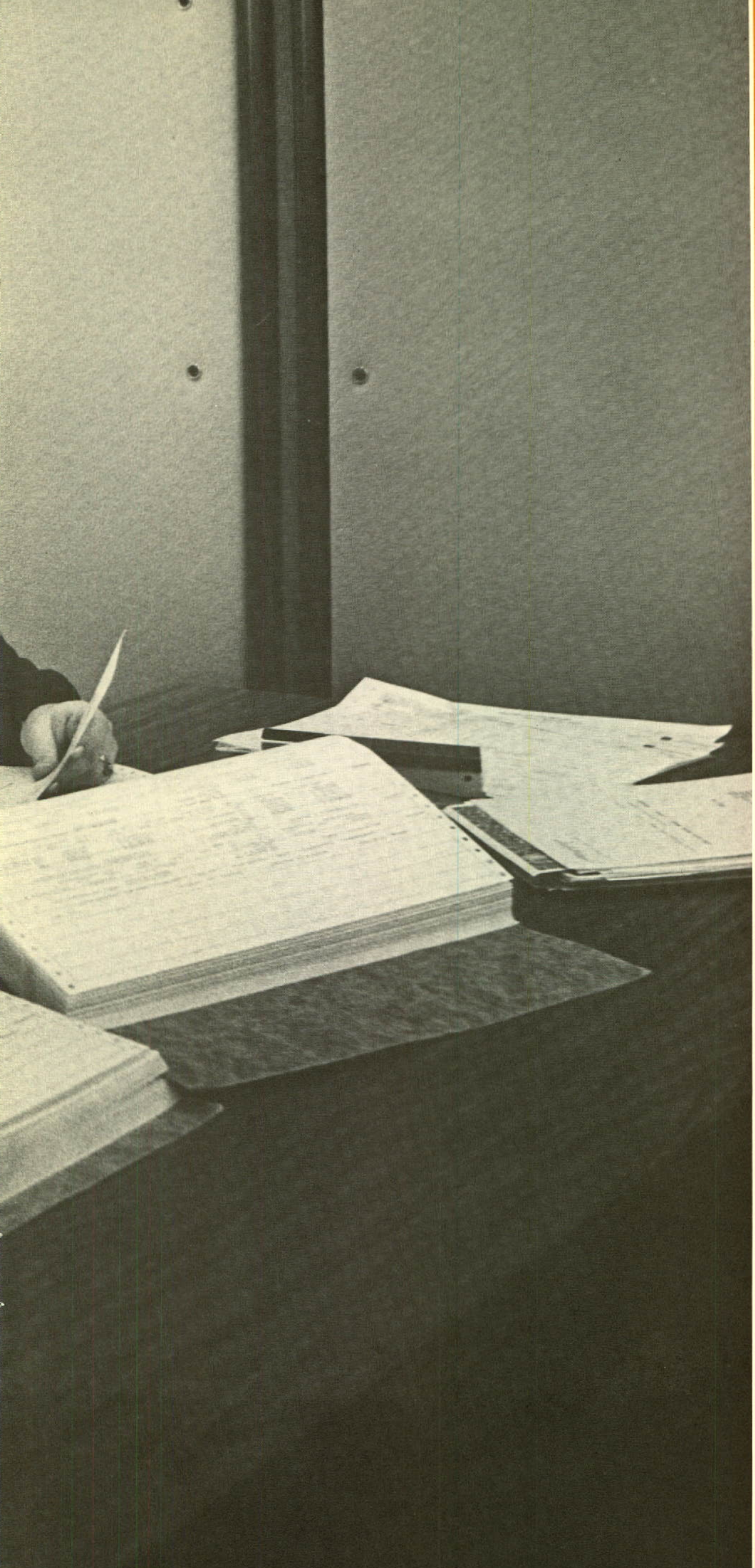
switching capacity of the network must be expanded, and as older equipment becomes worn out, replacements must be made. During the past year MT&T spent $6,950,000 on the purchase and installation of new switching equipment, representing 13.2 per cent of capital spending.

Local and long distance circuits to carry telephone calls and other information interconnect all switching offices. The transmission facilities required to provide these services include microwave, inter-exchange cable carrier systems and associated test equipment and remote alarm equipment. Investment in this equipment accounted for 11.2 per cent, or $5,900,000 of the capital program, with the majority directed toward network growth.

New telephones and other terminal equipment, and the costs of 202,679 customer requests for the installation and removal of telephones totalled $13,630,000, in 1979, or 25.9 per cent of the capital budget.

General equipment, which includes such things as business and office equipment, vehicles, tools, and data processing equipment, accounted for $6,743,000 representing the remaining 12.7 per cent of capital spending.

Commercial department service representatives



FINANCIAL REPORT

As noted earlier in this report, MT&T has been able to introduce rate reductions and new services to save customers money, and at the same time, has improved earnings to provide a fair return to shareholders. As a result, we have improved our financial integrity.

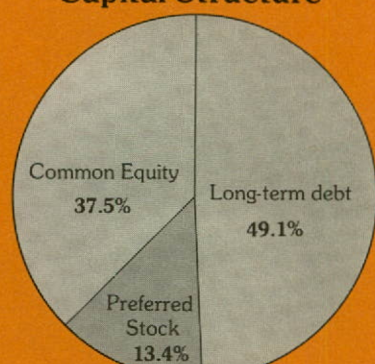
A good indication of this improvement was provided during 1979 by the upgrading in ratings of MT&T first mortgage bonds by Canada's two major bond rating services.

For those familiar with financial statements, the improved financial integrity is clearly shown in the balance sheet. For those less familiar with the details and terminology of such statements, this section will provide a brief outline of those key elements not discussed previously in the report.

Maritime Tel and Tel currently has $166,364,000 outstanding in first mortgage bonds — one of its sources of external financing. Interest rates on these bonds are established at their time of issuance, and vary with each issue according to the state of the financial markets. During 1979, total interest on the Company's outstanding bonds was $14,396,000.

The Company's net income

Capital Structure



Stock transfer clerks with the Treasurer's office

"Maritime Tel and Tel has a foundation of financial integrity . . ."

before income taxes, amounted to $40,412,000 in 1979. On this income, the total income taxes were $19,033,000. As a result, the Company's net income after taxes was $21,379,000.

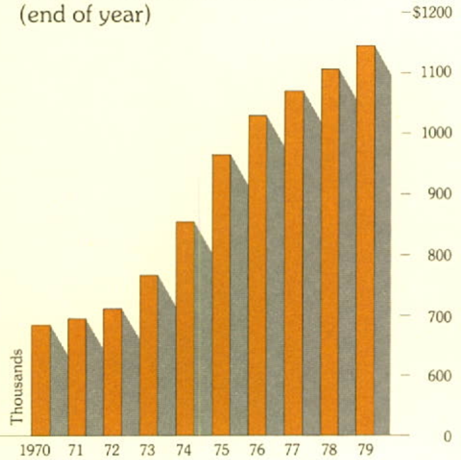
From this net income, the Company compensates holders of preferred and comon shares, whose investment totals $174,877,000. Preferred shareholders were paid $3,848,000 in dividends for the use of their investment.

As a result, the Company had $17,531,000 in net income applicable to common shares, of which there averaged 5,547,000 outstanding during the year. This represents earnings per common share of $3.16, compared to $2.74 in 1978. Of this total, $1.80 per share, or 57 per cent of the earnings was paid in dividends to shareholders, which totalled $9,984,000. The balance, retained earnings of $7,547,000, was re-invested in the telephone network.

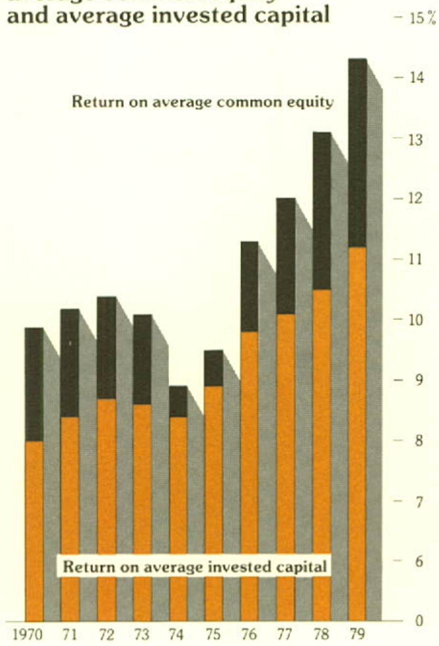
Common equity, at the end of 1979, totalled $128,952,000, or 37.5 per cent of the Company's capital structure. Preferred shares total $45,925,000, or 13.4 per cent; long-term debt (bonds), $166,364,000, or 48.4 per cent; and short-term loans $2,400,000 or 0.7 per cent.

During 1979, $25,000,000 in first mortgage bonds were sold, and $2,548,000 in common shares were sold under the employee stock savings plan. Preferred shares of $2,118,000 were redeemed under the provisions applying to such shares.

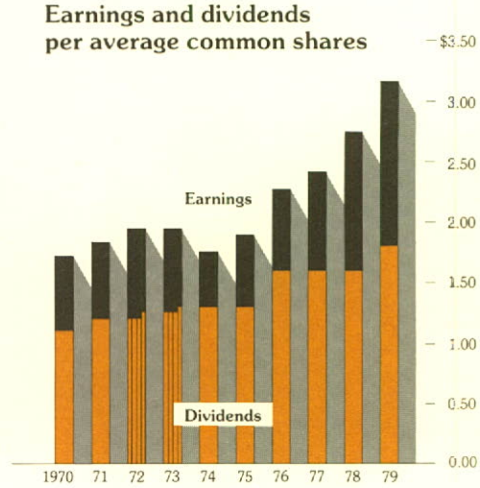
Telephone plant per telephone
(end of year)



Rates of return on average common equity and average invested capital



Earnings and dividends per average common shares



The financial performance of the Company is commonly measured in a variety of ways. Earnings per average common share is the net income applicable to common shares, divided by the average number of common shares outstanding in 1979. As noted, in 1979, these earnings rose to $3.16 per average common share.

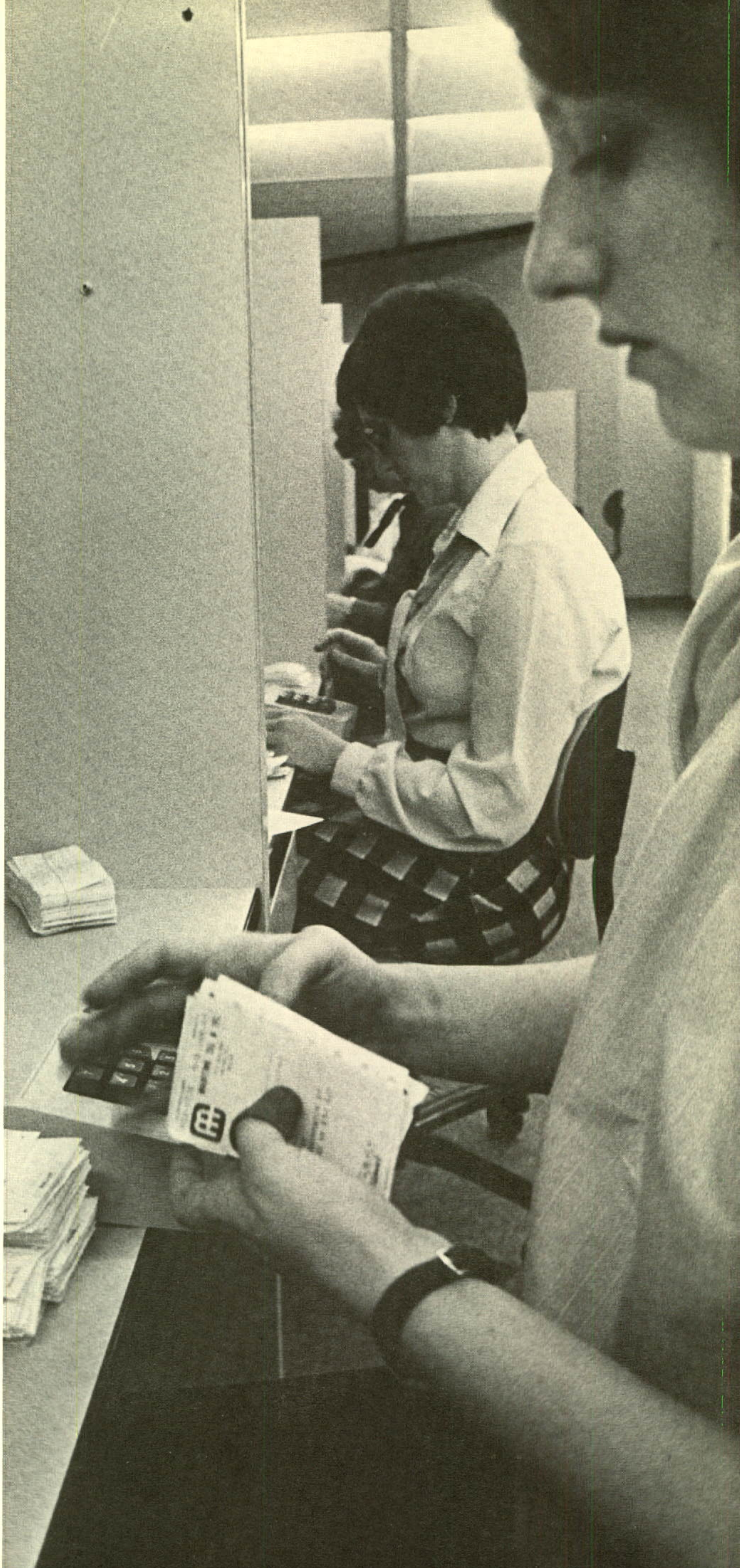
Another common yardstick is returned on average common equity, the net income applicable to common shares divided by the average common equity, including retained earnings.

In 1979, this was 14.3 per cent, up from 13.1 per cent the previous year.

Return on average invested capital is a measure of interest paid to bond holders, dividends on preferred shares, and return on average common equity — in other words the rate MT&T earns on its total invested capital. In 1979, this stood at 11.2 per cent, compared to 10.5 per cent a year earlier.

The equity per common share, or book value, which is the total common equity divided by the number of common shares outstanding, rose to $22.69 from $21.43 at the end of 1978.

Thus, entering the 1980's, Maritime Tel and Tel has a foundation of financial integrity which will be of significant benefit to the Company and its customers as we enter a period of growth and new service requirements which will call for capital spending of nearly $200 million in the next three years.



Customer records and billing

In Brief

	1979	1978
Earnings Per Common Share	**$ 3.16**	$ 2.74
Dividends Per Common Share	**$ 1.80**	$ 1.60
Return on Average Common Equity	**14.3%**	13.1%
Return on Average Invested Capital	**11.2%**	10.5%
Equity Per Common Share, December 31	**$ 22.69**	$ 21.43
Construction Program Expenditures (thousands)	**$ 52 693**	$ 49 508
Telephone Plant Per Telephone, December 31	**$ 1 144**	$ 1 107
Telephones In Service, December 31	**474 308**	451 629
Long-Term Debt % Total Invested Capital, December 31	**49.1%**	49.2%
Employees, December 31	**3 621**	3 551
Salaries and Wages (thousands)	**$ 58 879**	$ 51 992
Average Common Shares (thousands)	**5 547**	5 425

Auditors' Report

To the Shareholders of
Maritime Telegraph and Telephone Company, Limited:

We have examined the financial position statement of Maritime Telegraph and Telephone Company, Limited as at December 31, 1979 and the statements of income, retained earnings and sources of funds used for construction 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, 1979 and the results of its operations and the sources of its funds used for construction 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 31, 1980

INCOME STATEMENT
For the Year Ended December 31

	Thousands of Dollars 1979	1978
	$	$
OPERATING REVENUES		
Local service	66 968	63 183
Long distance service	93 854	81 412
Other	6 954	5 452
Less: Uncollectible operating revenues	852	841
	166 924	149 206
OPERATING EXPENSES		
Maintenance	26 186	22 940
Depreciation (Note 1(c))	29 988	27 870
Traffic	9 452	8 657
Commercial and Marketing	10 446	9 065
Administrative	16 458	14 140
Pensions and other employee benefits	7 707	6 663
Other	7 001	6 012
Taxes other than income taxes	4 563	4 216
	111 801	99 563
	55 123	49 643
OTHER INCOME		
Allowance for funds used during construction (Note 1(e))	359	595
Other (Note 2)	768	413
	1 127	1 008
	56 250	50 651
INTEREST		
Bond interest	14 396	13 164
Other (Note 3)	1 442	1 639
	15 838	14 803
	40 412	35 848
Income taxes (Note 1(d))	19 033	16 953
NET INCOME	21 379	18 895
Preferred dividends	3 848	4 008
NET INCOME APPLICABLE TO COMMON SHARES	17 531	14 887
Earnings per common share	3.16	2.74

RETAINED EARNINGS STATEMENT
For the Year Ended December 31

	Thousands of Dollars 1979	1978
	$	$
RETAINED EARNINGS, beginning of year	38 470	32 336
ADDITIONS:		
Net Income	21 379	18 895
Other	6	—
	21 385	18 895
DEDUCTIONS:		
Preferred dividends	3 848	4 008
Common dividends	9 984	8 681
Other	—	72
	13 832	12 761
RETAINED EARNINGS, end of year	46 023	38 470

D. S. Inkpen
Comptroller

STATEMENT OF SOURCES OF FUNDS USED FOR CONSTRUCTION
For the Year Ended December 31

	Thousands of Dollars 1979	1978
	$	$
SOURCE OF FUNDS:		
Internal —		
Operating revenues and other income	168 051	150 214
Less charges requiring working capital (Note 9)	111 052	97 949
Total internal	56 999	52 265
External —		
First mortgage bonds	25 000	—
Bank and other notes	2 400	20 000
Employees' stock savings plan (Note 6)	2 548	2 116
Decrease in materials inventory	—	700
Decrease in working capital	1 823	—
Total external	31 771	22 816
Total source of funds	88 770	75 081
Funds used for other than construction —		
Investment in affiliated companies (Note 1(b))	1 121	300
Redemption of first mortgage bonds	—	3 500
Preferred shares purchased for cancellation (Note 6)	2 118	1 691
Repayment of bank and other notes	20 000	7 850
Increase in working capital	—	2 918
Increase in materials inventory	403	—
Dividends	13 832	12 689
Other	510	107
Total funds used for other than construction	37 984	29 055
Total funds provided for construction	50 786	46 026

	1979	1978
FUNDS USED FOR CONSTRUCTION:		
New telephone plant added	51 452	48 201
Cost of removing old plant	1 241	1 307
Construction program expenditures	52 693	49 508
Less charges not requiring working capital		
— Allowance for funds used during construction	359	595
— Salvage and Other	1 548	2 887
	1 907	3 482
Total funds used for construction	50 786	46 026

LIABILITIES AND SHAREHOLDERS' EQUITY

	Thousands of Dollars	
	1979	1978
	$	$
SHAREHOLDERS' EQUITY		
Common stock (Note 6)	**56 837**	55 460
Premium on common stock (Note 7)	**26 092**	24 920
Retained earnings	**46 023**	38 470
Total common equity	**128 952**	118 850
Preferred stock (Note 6)	**45 925**	48 043
	174 877	166 893
LONG-TERM DEBT (Note 8)		
First mortgage bonds	**166 364**	141 364
Bank and other notes	**2 400**	20 000
	168 764	161 364
CURRENT LIABILITIES		
Accounts payable	**16 643**	10 781
Income taxes payable	**2 263**	4 311
Interest accrued	**2 349**	2 241
Dividends payable	**3 442**	3 162
Other current liabilities	**982**	791
	25 679	21 286
DEFERRED CREDITS		
Income taxes (Note 1 (d))	**65 109**	59 294
Other deferred credits	**57**	55
	65 166	59 349
COMMITMENTS (Note 11)		
	434 486	408 892

gral part of these financial statements.

the Board:

A. G. Archibald

Director

FINANCIAL POSITION STATEMENT
As at December 31

ASSETS

	Thousands of Dollars	
	1979	1978
	$	$
TELEPHONE PLANT (Note 1 (c))		
Depreciable telephone plant in service	**527 250**	486 401
Other telephone plant (Note 4)	**9 226**	7 826
	536 476	494 227
Less accumulated depreciation	**148 231**	126 793
	388 245	367 434
Materials inventory	**6 210**	5 807
	394 455	373 241
INVESTMENTS (Note 5)		
Investment in affiliated companies	**7 287**	5 767
Other investments	**1 166**	1 154
	8 453	6 921
CURRENT ASSETS		
Cash	**854**	207
Accounts receivable	**24 234**	22 447
Prepayments	**1 956**	1 821
	27 044	24 475
DEFERRED CHARGES		
Unamortized long-term debt expenses	**2 528**	2 225
Other deferred charges	**2 006**	2 030
	4 534	4 255
	434 486	408 892

The accompanying notes form an int

On behalf o

Stewan Robertson

Director

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) Telephone plant:
Telephone plant is recorded at cost.

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

Depreciation is charged on a straight-line basis using composite rates for classes of plant, 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 a composite rate for 1979 of 6.1% (1978, 6.2%).

(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 telephone plant while under construction by including an "allowance for funds used during construction" as an addition to the cost of the plant 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 $948 000 (1978, $497 000), less other income charges.

(3) Other interest — includes amortization of long-term debt expenses amounting to $159 000 (1978, $148 000).

(4) Other telephone plant — consists of land and telephone plant under construction.

(5) Investments — Investments in affiliated companies consists mainly of shares in The Island Telephone Company Limited. During the year the Company purchased 65 000 (32.5%) of the new common shares issued by The Island Telephone Company Limited of Prince Edward Island. The Company's ownership interest in The Island Telephone Company Limited was thereby reduced from 43.9% to 41.4% of the common shares in the capital stock of that Company. Other investments consist principally of shares in Telesat Canada at a cost of $738 000.

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

	1979 Shares	1978 Shares
Authorized:	**14 584 668**	14 796 409

Issued:

	Shares Outstanding at Jan. 1, 1979	Issued For Cash	Redemptions and Purchases of Preferred Shares For Cancellation	Shares Outstanding at Dec. 31, 1979
Common	5 546 009	137 738		5 683 747
Preferred				
7 %	150 000	—	—	150 000
7.10%	791 299	—	15 108	776 191
7.65%	1 496 375	—	45 000	1 451 375
8.60%	879 133	—	29 133	850 000
9.40%	1 487 475	—	122 500	1 364 975
	4 804 282	—	211 741	4 592 541
	10 350 291	137 738	211 741	10 276 288

By orders of the Supreme Court of Nova Scotia to December 31, 1979 the reduction of the Company's authorized share capital from $147 964 090 to $145 846 680 was confirmed.

The Company reserved 140 000 common shares for issuance under the Employees' Stock Savings Plan and during the year issued 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.

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 calendar 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 calendar 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.

(7) Premium on Common Stock

	1979	1978
	$	$
Beginning of year	**24 920 000**	24 021 000
On shares issued during year	**1 172 000**	899 000
End of year	**26 092 000**	24 920 000

(8) Long-term debt —

(a) First mortgage bonds:

Series	Rate	Maturing	Principal
K	5½%	November 1, 1980	$ 4 000 000
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
			$166 364 000

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.

(b) Bank and other notes $ 2 400 000.

In order to permit the Company to time its issues of debt or capital stock most advantageously the Company maintains a substantial bank line of credit and from time to time sells short-term promissory notes. Such short-term credit is replaced in the normal course by longer term financing and currently maturing debt issues are likewise normally refinanced. For this reason the Company does not classify these items as current liabilities.

Likewise the Company does not classify as current assets excess funds received through financing and temporarily invested in short-term investments.

(9) Charges requiring working capital —

	1979	1978
	$	$
Operating expenses, interest and taxes	**146 672 000**	131 319 000
Less charges not requiring an outlay of working capital during the period		
— Depreciation	**29 988 000**	27 870 000
— Deferred income taxes	**5 815 000**	5 900 000
— Other	**575 000**	519 000
	36 378 000	34 289 000
	110 294 000	97 030 000
Add credits not producing working capital		
— Allowance for funds used during construction	**359 000**	595 000
— Other	**399 000**	324 000
	758 000	919 000
	111 052 000	97 949 000

(10) 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, 1979 amounted to $8 066 000 (1978, $7 100 000). The actuarial reviews as of December 31, 1976, based on earnings and service to that date, show that all vested benefits are fully funded.

(11) Commitments —

Operating leases:

(a) The Company leases space in Maritime Centre with annual rental payments of approximately $1 697 000. 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 $98 000.

(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 $311 000.

THE YEARS IN REVIEW

	1979	1978	1977	1976	1975	1974	1973
Financial Position at December 31 (in thousands)							
Telephone plant	**$542 686**	$500 034	$461 517	$427 211	$378 857	$323 444	$267 627
Accumulated depreciation	**148 231**	126 793	105 948	95 453	85 149	73 706	66 462
Investments	**8 453**	6 921	6 377	5 149	4 430	4 083	6 608
Current assets	**27 044**	24 475	21 298	18 523	22 214	16 107	11 449
Deferred charges	**4 534**	4 255	4 398	3 725	2 947	2 249	1 635
Shareholders' equity	**174 877**	166 893	160 340	140 026	120 177	100 892	88 600
Long-term debt	**168 764**	161 364	152 714	155 234	150 164	125 000	95 690
Current liabilities	**25 679**	21 286	21 027	17 247	13 712	12 860	9 933
Deferred credits	**65 166**	59 349	53 561	46 648	39 246	33 425	26 634
Income (in thousands)							
Operating revenues and extraordinary items	**$166 924**	$149 206	$129 655	$111 695	$ 90 621	$ 73 469	$ 62 153
Operating expenses and other taxes	**111 801**	99 563	85 979	74 754	62 484	50 806	41 180
Other income	**1 127**	1 008	1 274	1 760	2 249	1 381	995
Interest	**15 838**	14 803	14 432	14 056	11 677	8 473	6 024
Income taxes	**19 033**	16 953	14 278	11 224	8 141	7 275	7 530
Net income for year	**21 379**	18 895	16 240	13 421	10 568	8 296	8 414
Statistics — at December 31							
Telephone plant per telephone	**$ 1 144**	$ 1 107	$ 1 070	$ 1 030	$ 965	$ 854	$ 766
Equity per common share	**$ 22.69**	$ 21.43	$ 20.39	$ 19.79	$ 19.98	$ 19.66	$ 19.43
Embedded debt cost	**9.5%**	9.3%	9.2%	9.2%	8.8%	8.2%	7.6%
Long-term debt % total invested capital	**49.1%**	49.2%	48.8%	52.6%	55.6%	55.3%	51.9%
Employees	**3 621**	3 551	3 448	3 447	3 526	3 466	3 152
Telephones in service	**474 308**	451 629	431 129	414 855	392 441	378 823	349 590
Statistics — for year							
Earnings per common share	**$ 3.16**	$ 2.74	$ 2.41	$ 2.27	$ 1.89	$ 1.75	$ 1.94
Dividends per common share	**$ 1.80**	$ 1.60	$ 1.60	$ 1.60	$ 1.30	$ 1.30	$ 1.26
Times bond interest earned — before taxes	**3.9**	3.8	3.3	2.9	3.0	3.2	4.1
Times bond interest earned — after taxes	**2.6**	2.6	2.3	2.1	2.2	2.3	2.7
Return on average invested capital	**11.2%**	10.5%	10.1%	9.8%	8.9%	8.4%	8.6%
Return on rate base	**9.0%**	8.6%	8.3%	8.0%	7.4%	6.7%	7.4%
Return on average common equity	**14.3%**	13.1%	12.0%	11.3%	9.5%	8.9%	10.1%
Construction program expenditures (in thousands)	**$ 52 693**	$ 49 508	$ 51 424	$ 62 635	$ 64 477	$ 63 889	$ 42 619
Average common shares (in thousands)	**5 547**	5 425	5 304	4 574	4 110	4 024	3 961
Salaries and wages (in thousands)	**$ 58 879**	$ 51 992	$ 47 836	$ 44 365	$ 35 263	$ 30 701	$ 24 651
Toll messages (in thousands)	**42 800**	38 440	34 942	31 696	29 924	26 749	22 835

1972	1971	1970
$230 123	$205 984	$190 400
59 465	51 758	46 892
6 379	3 588	3 548
8 875	9 921	7 548
1 433	1 091	953
84 541	72 104	68 957
74 700	72 150	65 650
7 113	5 220	5 788
20 991	19 352	15 162
$ 54 892	$ 48 325	$ 43 986
35 845	30 877	27 674
810	675	567
5 076	4 574	3 758
6 650	6 401	6 514
8 131	7 148	6 607
$ 711	$ 692	$ 682
$ 18.84	$ 18.19	$ 17.64
7.3%	6.8%	6.1%
46.9%	50.0%	48.8%
2 877	2 649	2 529
323 762	297 877	279 268
$ 1.94	$ 1.83	$ 1.71
$ 1.21	$ 1.20	$ 1.10
4.1	4.3	5.1
2.7	2.8	3.1
8.7%	8.4%	8.0%
7.6%	7.4%	7.3%
10.4%	10.2%	9.9%
$ 27 912	$ 21 518	$ 22 606
3 907	3 854	3 796
$ 20 968	$ 17 724	$ 15 684
20 039	17 426	15 644

Directors

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

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Chairman of the Board
Maritime Telegraph & Telephone
Co., Ltd.
Halifax

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Port Williams

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Lunenburg

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Halifax

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Chairman of the Board
Maritime Builders Limited
Sydney

Struan Robertson
President and Chief
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Halifax

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Montreal

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Maritime Telegraph & Telephone
Co., Ltd.
Truro

Catherine T. Wallace
Chairman
Maritime Provinces Higher
Education Commission
Fredericton

*Member of Audit Committee

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Chairman of the Board

Struan Robertson
President and Chief Executive
Officer

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Assistant Secretary

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Manager

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Chief Engineer

Murray W. Wallace
General Traffic
Manager

Herbert C. Kingsbury
General Marketing
Manager

M. John McGrath
General Commercial
Manager

Paul D. Murphy
General Business
Information Systems
Manager

Ernest C. Hicks
General Organization
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Phillip G. Henderson
General Corporate
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& Public Affairs
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