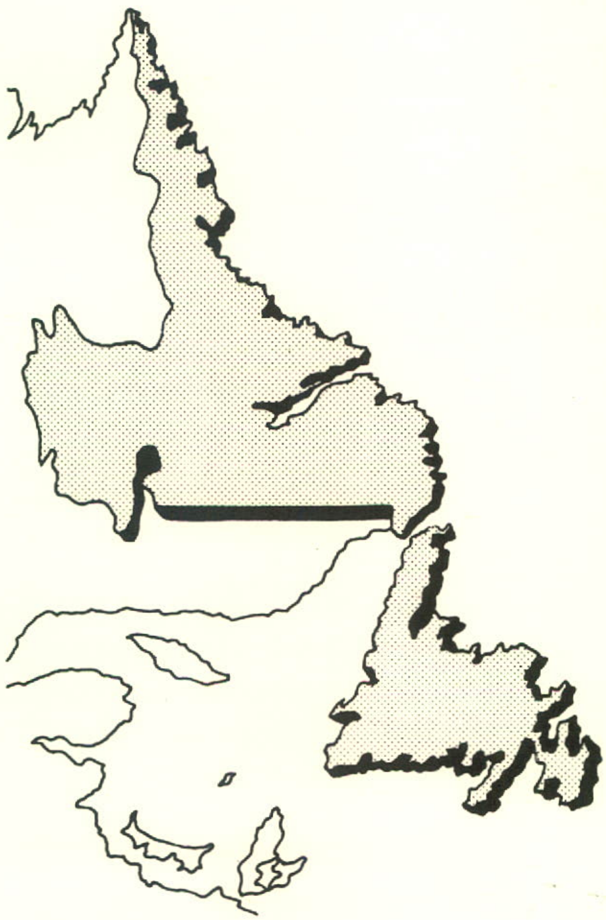
NEWFOUNDLAND LIGHT & POWER CO.

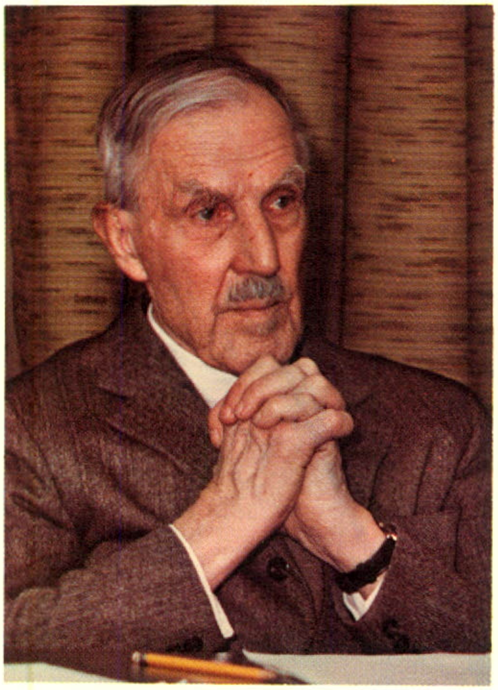
LIMITED



1979

ANNUAL REPORT

Denis Stairs, O.B.E., M.C.



On January 14, 1980 Canada lost an eminent engineer who for over fifty years had served the Company and one of its predecessors as a Director, President and Chairman of the Board.

In his capacity as a Director and Officer of Newfoundland Light & Power Co. Limited and as a renowned consulting engineer, Denis Stairs made many contributions to Newfoundland and Labrador. In the guidance of the design and construction of Newfoundland Light & Power's hydroelectric system, he was responsible for development of much of the hydroelectric potential of the Avalon Peninsula and central Newfoundland. His experience in the engineering, laying and protection of submarine cables to Bell Island later came in to play in conceptions for submarine cable crossings in difficult environments such as that of the Strait of Belle Isle. He conceived and negotiated with the Province the rural electrification scheme under which the Government and its agencies in partnership with the Company have extended electric service throughout Newfoundland. He and the late Charles F. Mallory, a former Director, Executive Vice-President and Chairman of the Board of the Company, were the architects of the amalgamation of the previous investor-owned electric utilities into the present Company. Mr. Stairs conceived the Churchill Falls diversion scheme which greatly increased the available capacity and energy of that development.

His contribution to the field of engineering was recognized in his native province, Nova Scotia, with the award of an honourary Doctor of Engineering degree from Nova Scotia Technical College and of an LL.D. from Dalhousie University.

Denis Stairs was a staunch Canadian and served his country well. He was wounded twice and decorated with the Military Cross in World War I, and was a member of the Intelligence Mission to Siberia in 1918-1919 which attempted to revitalize the remnants of the Imperial Russian Army.

During World War II, he served as Director-General of the Defence Projects Construction Division of the Department of Munitions and Supply under the Honourable C.D. Howe and in 1943 was appointed Deputy Power Controller. For these voluntary services he was made an Officer of the Order of the British Empire.

In the international field, in 1946, he was the leader of a study group which investigated hydroelectric sites for the National Resources Commission of the Republic of China. He also contributed greatly to the Colombo Plan, the forerunner of the Canadian International Development Agency. Under the auspices of the Plan, he provided technical assistance to Burma, and guidance in the development of the Kundah and Umtru hydroelectric developments in India.

Mr. Stairs was involved in the management of electric utility companies during most of his career and, in addition to his service with Newfoundland Light & Power Co. Limited, had been a Director, Vice-President and Chairman of Maritime Electric Company, Limited, and a Director of Calgary Power Ltd., Nova Scotia Light and Power Company Limited, Avon River Power Company, and Ottawa Valley Power Company.

He continued to work until the day of his death in his 91st year. In his final years he was interested in many far-sighted projects, among which were ways of renegotiating the Churchill Falls power contract, economical methods of developing Labrador power including an alternate route for the Strait of Belle Isle submarine cable, undersea pipelines and new oil exploration in the Arctic waters, and new forms of power generation including the use of fuels from renewable sources such as peat.

To the Shareholders:

An increase of 6.4% in kilowatt hour sales, the effect of a rate increase during 1983 and increased deferred fuel charges during 1984 resulted in gross revenues which were 15.1% higher than those recorded in 1983. Operating expenses for the year showed a 23.2% increase over 1983 while depreciation and finance charges were up by 5.5% and 10.3% respectively. At $19.8 million, net income for the year was 1.5% higher than that for 1983 and after provision for preferred share dividends, earnings applicable to common shares were $16.1 million, an increase over the previous year of 2.4%. On average common shares outstanding this represents $3.90 earnings per share which compares with per share earnings in 1983 of $3.89. An order of the Board of Commissioners of Public Utilities issued in December 1984 had a significant impact on the results for the year and adjustments made pursuant to that order caused distortions to fourth quarter results which make comparison with the same period in 1983 difficult.

Board Order No. P.U. 37 (1984), referred to above, was issued after public hearings on the Company's application seeking, among other things, determination of a rate base and fixing a rate of return.

The order approved an estimated average rate base for 1984 of $265,185,000 and set a rate of return on rate base in the range of 12.63% to 12.82%. Implicit in this range is a rate of return on average common equity of between 15.3% and 15.8%. The reduction in the allowable rate of return on common equity, coupled with increased sales and other items resulted in actual revenues in excess of the annual requirement. The Board ordered that the apparent excess revenue in 1984, estimated at $3.9 million, be set aside in a revenue rebate account. Part of this is to be used to satisfy the 1985 revenue requirement and the balance returned to the customer in the form of credits during 1985. The order also made changes in the determination of rate base and of average common equity for regulatory purposes, approved the implementation of the new contributory, funded pension plan, and approved a revised schedule of rules and regulations.

The Company has signed an agreement with TACA, which represents employees in certain technical and clerical classifications. The one year agreement terminates on May 31, 1985.

During the past several years the growth in capital expenditures has been restricted by the low levels of load growth and the programme to restrain the level of funds invested in new plant and equipment during the recent recession. This fact coupled with the success in the Company's various common share plans has led to a situation where the common equity portion of the company's capital structure is approaching the upper limit of the range which is felt to be reasonable. To maintain the equity ratio at an appropriate level the company is modifying the Dividend Reinvestment Plan, stock dividend programme and Customer Share Purchase Plan by eliminating the 5% discount from market price for the reinvestment of dividends. The terms and conditions of the optional cash investment in the Dividend Reinvestment Plan and stock dividend programme have also been changed. These changes have been approved by the Public Utilities Board and shareholders will be advised of the details.

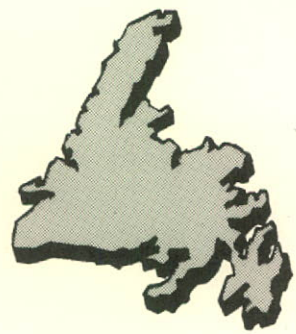
The Directors have proposed that a resolution approving a two for one share split of common shares be placed before the shareholders at the annual general meeting on May 1, 1985.

NEWFOUNDLAND LIGHT & POWER CO. LIMITED

C

NEWFOUNDLAND LIGHT & POWER CO.

LIMITED



DECEMBER 31, 1984

PRELIMINARY REPORT

INTERIM STATEMENT OF INCOME

Unaudited

	12 Months Ended December 31, 1984	12 Months Ended December 31, 1983
	(expressed in thousands of dollars)	
Operating revenue	$ 197,218	$ 171,349
Operating expenses	135,232	109,721
Provision for depreciation	14,269	13,519
	149,501	123,240
Operating income	47,717	48,109
Finance charges — net	13,810	12,519
Income before income taxes and transfers	33,907	35,590
Provision for income taxes	14,049	16,302
	19,858	19,288
Transfer (to) from:		
Weather Normalization Reserve	(27)	258
Net income	19,831	19,546
Dividends on preference shares	3,763	3,847
Earnings applicable to common shares	$ 16,068	$ 15,699
Total common shareholders investment — average	$ 102,737	$ 92,353
Average common shares outstanding	4,122,986	4,031,844
Earnings per common share	$3.90	$3.89

STATEMENT OF CHANGES IN FINANCIAL POSITION

Unaudited

	12 Months Ended December 31, 1984	12 Months Ended December 31, 1983
Source of Funds:	(expressed in thousands of dollars)	
Net income from operations	$19,831	$19,546
Non cash charges and credits	15,648	13,971
	35,479	33,517
Proceeds from bond issue	7,422	—
Dividend Reinvestment Plan	1,352	1,196
Employee Share Purchase Plan	120	134
Customer Share Purchase Plan	407	868
Stock dividend programme	402	318
Increase (decrease) in bank loans	2,375	8,525
Miscellaneous	1,892	1,062
	$49,449	$45,620
Application of Funds:		
Property, plant and equipment — net	$30,758	$31,146
Increase in deferred charges	—	30
Dividends	12,123	11,379
Reduction of long term debt	2,533	3,996
Redemption of preference shares	1,080	1,025
	46,494	47,576
Increase (decrease) in working capital	2,955	(1,956)
	$49,449	$45,620

The 1984 data is unaudited and subject to alteration.

ERRATA

The following corrections should be noted:

Page 1 — D. C. Hunt, Q.C., is a member of the Executive Committee.

Page 15 — Delete the text under Capital Stock reading:

"Orders of The Board required the Company to use the flow-through method of accounting for income taxes for all timing differences, other than certain deferred charges, during the period 1967 to 1978 and, commencing January 1, 1979, to use the tax allocation method for all depreciable assets acquired subsequent to that date. If the tax allocation basis of accounting, under which income tax is based on reported income, had been fully followed for the period 1967 to 1978, the cumulative amount of the deferred income tax credit would have been increasd by approximately $20,000,000 to December 31, 1979 (1978 — $18,150,000)."

Directors

AARON BAILEY* †	*Port Union, Newfoundland*
A. D. CAMERON †	*Montreal, Quebec*
H. COLLINGWOOD*	*St. John's, Newfoundland*
J. B. FOOTE	*Grand Bank, Newfoundland*
A. S. GORDON	*Montreal, Quebec*
D. C. HUNT, Q.C.	*St. John's, Newfoundland*
A. E. O'REILLY	*Montreal, Quebec*
G. R. PARSONS*	*Regina, Saskatchewan*
E. A. PRATT	*St. John's, Newfoundland*
J. E. RORKE	*Carbonear, Newfoundland*
DENIS STAIRS	*Montreal, Quebec*
D. S. TEMPLETON †	*St. John's, Newfoundland*
C. K. WELLS, Q.C.	*Corner Brook, Newfoundland*
M. M. WILLIAMS	*Calgary, Alberta*

† Executive Committee

* Audit Committee

Officers

AARON BAILEY	*Chairman of the Board*
A. D. CAMERON	*President*
D. S. TEMPLETON	*Vice-President and General Manager*
J. B. O'KEEFE	*Secretary*
G. J. ADAMS	*Treasurer*
K. S. WARR	*Assistant Secretary-Treasurer*
H. B. CURTIS	*Assistant Secretary-Treasurer*
R. F. GOSINE	*Assistant Secretary*

Head Office

Kenmount Road, St. John's, Newfoundland

Transfer Agent and Registrar

MONTREAL TRUST COMPANY

St. John's, Halifax, Montreal, Toronto, Calgary, and Vancouver

This page folds out

Financial Highlights 1979

	1979	1978
Operating revenue	**$ 108,204,023**	$ 92,222,937
Operating expenses	**$ 69,759,705**	$ 57,959,839
Income and other taxes	**$ 9,628,034**	$ 6,923,865
Net income	**$ 11,859,880**	$ 11,404,955
Earnings per common share	**$ 2.51**	$ 2.38
Dividends paid per common share	**$ 1.30**	$ 1.225
Capital expenditures	**$ 20,527,795**	$ 19,701,001
Gross fixed assets	**$ 272,584,608**	$ 254,760,369
Number of customers	**152,865**	149,283
Sales in kilowatt-hours (millions)	**2,690**	2,622
Number of common shareholders	**5,409**	5,366

A fisherman sets out against the misty background of the modern St. John's waterfront.

Report to Shareholders

The year under review saw a modest growth in earnings as a result of careful control of capital expenditures and operating expenses in the face of a lower rate of growth in electricity sales.

Investment in the Newfoundland economy showed remarkable growth in 1979, increasing in real terms by more than 20 per cent to nearly $1.4 billion. This includes approximately $250 million on off-shore oil and gas exploration. At least the same level of activity is forecast in off-shore exploration for 1980.

Chevron Standard Limited, the operator for a group of companies involved in the Hibernia P-15 oil well on the Grand Banks, has tested three principal zones, capable of producing 20,000 barrels of oil per day. Further drilling is proceeding to confirm the existence of commercially viable reserves.

Residential construction expanded, although at a lower rate than that of recent years, with housing starts increasing by 4.7 per cent to 2,999. Moderate growth is forecast for 1980.

The Province's Gross Domestic Product rose in real terms by 5.6 per cent to $3.2 billion. Iron ore production, representing about 85 per cent of the Province's total mineral output, approached $900 million, up 50 per cent from 1978 when there was a loss of production due to a four-month strike at the Iron Ore Company of Canada Limited. The output of the mining industry is expected to remain relatively stable in 1980.

The value of fish landings increased over 30 per cent to approximately $148 million, mainly due to the displacement of foreign fishing effort and improved prices. Fish stocks are only now beginning to recover from previous years over-fishing. In 1980 catches are forecast to grow by more than 20 per cent, although this figure could be affected by labour unrest.

Total manufacturing including processed fish products and newsprint increased 20 per cent to about $900 million. A third newsprint mill will be coming into production in 1980 when Abitibi-Price Inc. completes the conversion of the former Labrador Linerboard Limited mill at Stephenville.

The Company's operating revenues increased 17.3 per cent over 1978, while operating expenses were up 20.4 per cent. Earnings per common share increased from $2.38 to $2.51. Taxable dividends totalling $1.325 were declared on both Class A and Class B common shares. This included an increased quarterly dividend of 35 cents per common share payable March 1, 1980.

Under the voluntary guidelines agreed between the Board of Commissioners of Public Utilities and the Company, the year's operations resulted in an apparent excess income of $108,000. This excess was mainly the consequence of a saving in income tax made by the Company. The excess in the 1979 accounts has been transferred to the revenue rebate account for reduction of charges to the Company's customers during 1980.

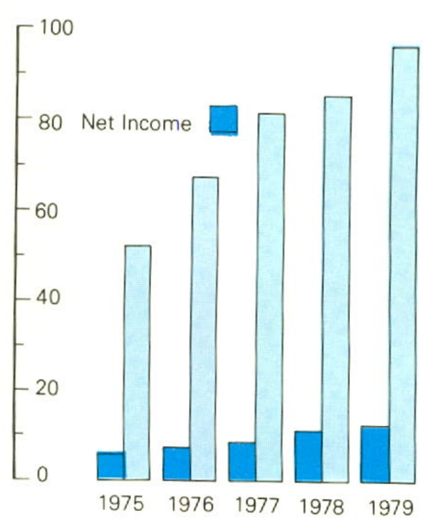
The growth of earnings applicable to the common shares is in keeping with the increased common shareholders' investment. Approximately half of the earnings on common shares is reinvested to finance capital expenditures required for expansion of service.

Capital expenditures were $20.5 million compared with $19.7 million in 1978 and are expected to be $25.9 million in 1980. The Company raised $11 million of additional capital from external sources during 1979, including a private placement of First Preference Shares ($6 million) and a private placement of First Mortgage Bonds ($5 million).

The Company together with a number of provinces and other investor-owned utilities continued to make representations to the Federal Government in respect of the Government's proposal to amend The Public Utilities Income Tax Transfer Act. This measure would have reintroduced an inequity between those provinces which are served by investor-owned utilities and those which are served by government-owned utilities. It would also have reduced the amount of public utility income taxes returned to the provinces from 95 per cent to 50 per cent. The

SHAREHOLDERS INVESTMENT

(Millions of Dollars)

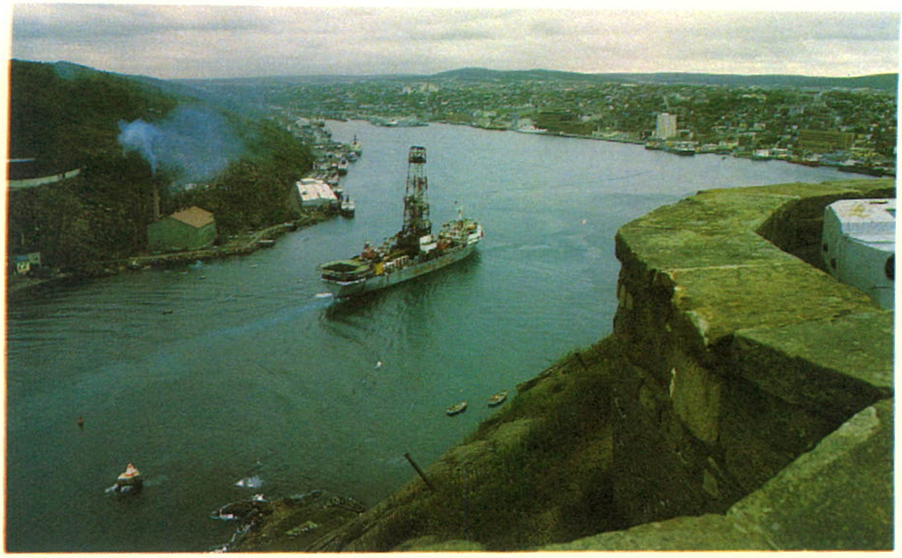


Bill lapsed with the dissolution of parliament for the May 1979 General Election and was not reintroduced in the November 1979 Budget. The Company will continue its representations to the end that the purposes of the original Act will be maintained.

After public hearings under The Electrical Power Control Act on the proposal of Newfoundland and Labrador Hydro to increase the rate at which it sells power to the Company, the Board of Commissioners of Public Utilities granted Hydro an interim increase effective from October 17, 1979 to 18.0 mills per kilowatt-hour. The Board concurrently gave approval on an interim basis for an 8 per cent increase in the Company's rates which represented a pass-through of its increased costs. The Board's final report is expected early in 1980 and this will be followed by a public hearing on final rates for the Company to pass through the increases approved for Newfoundland Hydro.

The growth of the Company's sales continues at a reduced level, namely, 2.6 per cent over that of 1978. The Company has an information programme to advise its customers on the wise use of electricity as a part of total energy conservation.

The greater part of the Company's 1979 capital expenditures comprised extensions to and reinforcement of the distribution system, accounting for some $13 million. The Company is making a review of its hydroelectric generating plants with the object of rationalizing replacements and maintenance and re-evaluating possible extensions and redevelopment of these plants in the light of the increasing cost of energy. The penstock of the Lookout Brook plant was replaced at a cost of $437,000. The Company proceeded with the planned addition of two storeys to its St. John's



Drilling rigs are becoming familiar sights in Newfoundland waters as the pace of offshore exploration picks up.

office building, incurring a cost in 1979 of $1.4 million.

It is with deep regret that your Directors record the death on January 14, 1980 of Denis Stairs, O.B.E., M.C. During a period extending over fifty years with the Company and one of its predecessors, Mr. Stairs served as a Director, President and Chairman of the Board. His many contributions to the growth and success of the Company will long be remembered, and his presence and wisdom will be greatly missed.

Your Directors, at a meeting held on May 9, 1979, appointed a standing Audit Committee. Although not yet a legal requirement for this Company, the appointment of this Committee is in keeping with present-day trends and legislation in other jurisdictions concerning the responsibilities of Directors and requirements for disclosure of information to shareholders and to the investing public .

The Company signed a three and one-half year collective agreement with Local Union No. 1620, I.B.E.W. early in 1980. The agreement includes a settlement of the 1979 wage re-opening clause of the prior agreement, an issue which had caused strike action during the year. It is hoped that this agreement will usher in a long period of the excellent labour-management relations which the Company has enjoyed in the past.

The success of the Company is due to a very great extent to the competence and diligence of all employees which are appreciatively acknowledged by your Directors.

Submitted on behalf of the Board:

A. Bailey
Chairman

A. D. Cameron
President

Operations Report

Customer Services and Distribution

Total energy sold in 1979 rose to 2,690 million kilowatt-hours, an increase of 2.6% over 1978. This relatively low rate of growth was partly due to warmer than normal weather in 1979. However, the moderation in load growth experienced in recent years is attributable to a great extent to customers' efforts to reduce their consumption in response to increasing rates and a recognition of the need to conserve energy. Throughout the year the Company continued its encouragement of the wise and efficient use of electricity through advertising programmes, the distribution of brochures and bill inserts, and through direct customer contact.

The number of customers increased by 2.6% to a total of 152,865 by year-end. Domestic customers accounted for 86,729 of these and Domestic All-Electric for 42,819, for a combined total of 129,548 which represents 85% of total customers. Sales in these classifications amounted to 55% of total energy sold. Average use per domestic customer remained level through 1979 while that for domestic customers with electric heat continued to decline. About 58% of new domestic connections during the year had electric heating and conversions to electric heating continued, although at a reduced level. The number of General Service customers at year-end was 16,941 which represents 11% of total customers and 44% of total energy sold.

As the system is expanded to provide service for new customers and meet the requirements of increased load, higher distribution voltages are utilized to increase system capacity and efficiency. In 1979 the 5,000 volt system was reduced by 4.8% to 444 pole miles and the 12,500 and 25,000 volt systems expanded by 35.2% to 4,208 pole miles.

A new joint use agreement to share distribution poles with Newfoundland Telephone Company Limited was negotiated and signed during this year. A pole rental agreement was negotiated with Terra Nova Telecommunications Inc. and an application filed with the Board of Commissioners of Public Utilities for rates to be charged that Corporation for its use of the Company's poles.

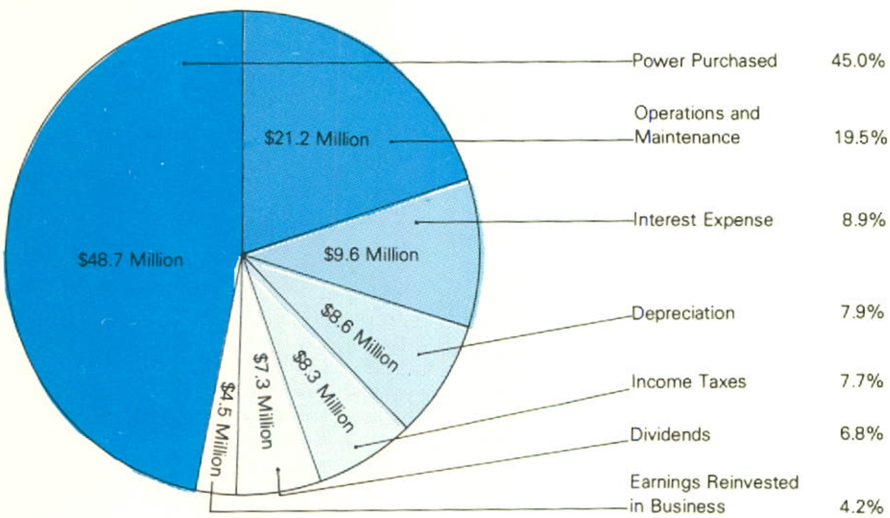
Generation and Transmission

Total energy produced and purchased increased to 2,862 million kilowatt-hours. Of this amount, 359 million kilowatt-hours (12.5%) were produced by our plants, 93 million kilowatt-hours (3.3%) were purchased from The Bowater Power Company Limited in Deer Lake and the remainder, 2,410 kilowatt-hours (84.2%) were purchased from Newfoundland and Labrador Hydro Corporation.

During 1979, 70% of the total energy produced and purchased by the Company came from hydroelectric generation as compared with 82% in 1978. All growth in load will be supplied from thermal sources until the Newfoundland Hydro 70 MW plant at Hinds Lake is completed in late 1980.

DISTRIBUTION OF REVENUE

(1979)



The Company operates 1,287 miles of transmission lines of which 389 miles are at 138 kV and 898 miles are at 69 kV or below. The acquisition of rights-of-way for new lines requires more lead time each year and it is now necessary to commence negotiations with property owners and planners two or three years ahead of actual construction.

Capital Programme

Capital expenditures for the year totalled $20.5 million, and the total plant investment at year end stood at $272.6 million. The 1979 expenditures included $13 million spent on extending and upgrading the distribution system. The capacity of distribution substations, where power is transformed from the higher transmission voltage to the lower distribution voltage, was increased by 56,000 kVa to a total of 746,500 kVa at a cost of $2.25 million. Total capital expenditure on production plant was $1.0 million, including replacement of the woodstave pipeline at Lookout Brook with a steel penstock at a cost of $437,000. Expenditures on communications, including the automatic or remote control of several hydro plants and substations, amounted to $95,000. A new warehouse and service centre at Corner Brook was opened in March. The planned expansion of the head office building in St. John's was started in September 1979 and is scheduled to be completed in April 1980.

The 1980 capital budget totals $25.9 million. Of this, $13 million will be spent on distribution, $2.2 million on transmission and $3.5 million on substations.

Constant monitoring of the electrical system at control centres helps maintain a high level of service.

Staff

In 1977 the Company commenced an intensive safety drive, the results of which have been very gratifying. Lost time accidents in 1979 totalled 14 compared with 79 in 1976. In 1977 and 1978 the Company received safety awards from the Canadian Electrical Association in recognition of this accomplishment. A successful safety record cannot be achieved without the support of all employees and the results of this campaign are an indication of the cooperaton being received.

On February 8, 1980 the Company and Local Union No. 1620, I.B.E.W. signed a collective agreement effective February 29, 1980 through September 30, 1983. The terms of this contract include a lump sum settlement of the 1979 wage reopening clause of the previous agreement which had caused rotating strike action since March 9, 1979. The Company was able to maintain service to its customers during this trying period through the support and dedication of its supervisory and management staff.

Financial Review

Operating revenues for the year were $108.2 million, an increase of 17.3% over those for 1978. Approximately 2.5% of this increase arose from the growth in energy sales and the balance as the result of increases in rates, fuel adjustment charges and miscellaneous revenue. Operating expenses increased by 20.4% to $69.8 million and the largest single operating component, power purchased, rose to $48.7 million for a growth of 23.2% while wages and salaries increased at the rate of 11.3% and totalled $14.6 million. Interest charges rose by 6.7% to $9.7 million and depreciation on property and plant investment increased by 9.3% to $8.6 million. The total income tax provision was 43.4% higher than in 1978 and amounted to $8.3 million of which $0.3 million was the result of the partial use of deferred tax allocation ordered by the Board for 1979 and subsequent years.

Earnings applicable to common shares of $9.6 million amounted to $2.51 per share on an average of 3,847,981 common shares outstanding. This compares to the 1978 results of $9.1 million earnings or $2.38 per share on 3,826,281 shares outstanding. After declaration of $1.325 per share in dividends the balance of $4.5 million representing $1.185 per share was retained for use in the business.

During the year $20.5 million was spent on additions to property, plant and equipment. Part of this was supplied by internally generated funds and the rest by sources outside the Company, which included two issues of new securities. In May $6 million of 7.60% Series G First Preference Shares were issued and in November an issue of First Mortgage Bonds of $5 million with a coupon rate of 11½% was sold. Both issues were privately placed with groups of institutional investors in Canada. In addition, the Employees' Share Purchase Plan and the Dividend Reinvestment Plan continued to be growing sources of new common equity capital as can be seen in the accompanying table.

EMPLOYEE SHARE PURCHASE AND DIVIDEND REINVESTMENT PLANS

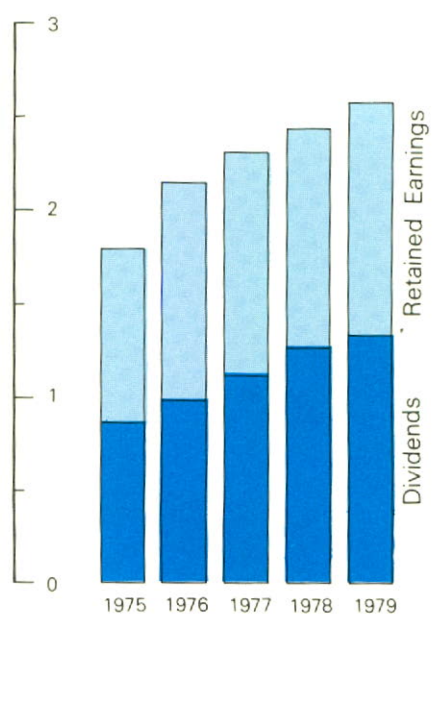
	Number of Participants	Percent of Common Shareholders	Amount Invested
1976			
Dividend	280	6.1	$ 51,000
1977			
Dividend	402	7.09	137,100
1978			
Dividend	738	13.8	272,800
Employee	148	—	60,100
1979			
Dividend	902	16.8	385,300
Employee	152	—	82,000
			$988,300

The gradual trend toward a stronger capital structure was maintained in 1979. At year-end capitalization consisted of 52.1% debt, 14.4% preference shares and 33.5% common equity. The increase in total debt interest coverage from 2.8 times in 1978 to 3.0 times in 1979 should improve the ability to market securities and combined with other positive factors, assist in the upgrading of the Company's credit rating.

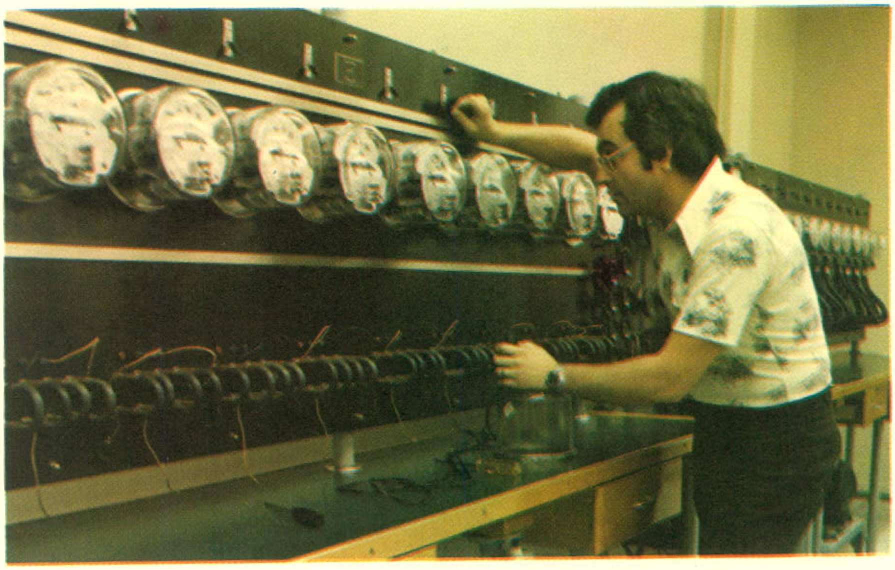
The Company has, together with Newfoundland, a number of other provinces, and members of the utility industry, continued to make representations to the Government of Canada in the matter of the reduction in the transfer of federal utility income tax payments to the provinces. The original 1978 plan to eliminate such transfers was subsequently modified to continue them at 50% rather than at the 95% rate introduced by The Public Utilities Income Tax Transfer Act. The Company's view is that only a return to the full rate of the transfers will restore the equity between investor and publicly-owned utilities the Act was designed to accomplish.

EARNINGS PER SHARE

(Dollars)



Rate Regulation



The meters recording the Company's revenue are periodically tested to insure accuracy.

The Company is regulated by the Board of Commissioners of Public Utilities of Newfoundland under the provisions of The Public Utilities Act of 1970 and The Electrical Power Control Act of 1977. The Board has jurisdiction, among other things, over rates, capital expenditures and the issue of securities. Orders and decisions of the Board are final except upon questions of jurisdiction or of law for which leave to appeal to the Supreme Court of Newfoundland may be obtained.

The rates of Newfoundland and Labrador Hydro, from which the Company purchases more than 80% of its power requirements, are regulated under the provisions of The Electrical Power Control Act. The first public hearings into Hydro's rates took place in late 1977 and early 1978 and the Company contested the increase as an intervenor.

On March 14, 1978 the Board submitted its report to the Government on rates proposed by Hydro and its recommendation was accepted. The Board also approved an interim increase in the Company's rates to its customers to recover the additional costs arising from Hydro's increase.

On April 28, 1978 the Company applied to the Board for confirmation of the interim rate increase, annual rates of depreciation based on the unit summation procedure, the allocation against current income of deferred income taxes, an increase in the rate of return and a further increase in rates. After public hearings in May and June the Board issued Order No. P.U. 20 (1978) on June 30, 1978 confirming the interim rate adjustment as well as approving a new schedule of rates commencing July 1, 1978 which further increased the Company's revenue. The order also approved the changes in depreciation and income tax accounting, both effective for assets acquired on and after January 1, 1979. The Board also determined that for 1978 and 1979 a just and reasonable rate of return on average rate base should be from 10.81% to 11.16% and the rate of return on average common equity should be in the range of 14.5% to 15.0%. This is the most recent order of the Board dealing with depreciation, income tax accounting and rate of return.

On July 19, 1979 Hydro referred a proposal to the Board to increase the rate at which it sells electricity to the Company from 15.27 to 18.62 mills per kilowatt-hour effective October 15, 1979 and to 21.34 mills per kilowatt-hour on April 1, 1980. The Company filed notice of intervention and participated in the public hearings which commenced in August and were completed in December 1979. The Company also applied to the Board for an increase in the rates charged to its customers sufficient to offset the proposed Hydro rate increases.

During the course of the hearings Hydro requested and received approval, effective October 17, 1979 for an interim rate increase for electricity supplied to the Company from 15.27 to 18.0 mills per kilowatt-hour. Concurrently, the Board gave approval for an interim 8% increase in the Company's rates which represents a pass-through of its increased costs.

Following the Board's final report and subsequent Government action, the Company will pursue its application for final approval of the interim increase granted in October 1979 and any further rate increases required to pass through increases approved in Hydro's charges. Under The Anti-Inflation Act the Board has been regulating the Company's prices and profits in a manner consistent with The Public Utilities Act. The Anti-Inflation Act has not been in effect since 1978 but the Board, after discussion with the utilities involved, has decided to follow a procedure similar to that adopted under The Anti-Inflation Act which will ensure that earnings in excess of those required to produce the allowable rate of return will be carried forward against the revenue requirement of the following year. The Board has determined that the Company's excess earnings in 1979 were $108,000. This amount will be taken into account in determining the revenue requirement and rates in 1980.

NEWFOUNDLAND LIGHT & POWER CO. LIMITED
(Incorporated under the laws of the Province of Newfoundland)

Balance Sheet

Assets

	December 31 1979	December 31 1978
PROPERTY, PLANT AND EQUIPMENT	$272,584,608	$254,760,369
DEFERRED CHARGES		
Unamortized debt discount and expense	1,684,038	1,778,390
Unamortized capital stock issue expense	1,495,672	1,525,674
	3,179,710	3,304,064
CURRENT ASSETS		
Cash	187,076	112,101
Accounts receivable	12,582,798	11,207,386
Deferred fuel costs	189,176	786,894
Inventories of materials and supplies at average cost	5,104,494	3,996,641
Prepaid expenses	190,876	156,289
	18,254,420	16,259,311
	$294,018,738	$274,323,744

Approved on behalf of the Board:

D. S. Templeton Director

Geoffrey R. Parsons Director

Shareholders' Equity and Liabilities

	December 31 1979	December 31 1978
SHAREHOLDERS' EQUITY		
Common shares (Note 2)	$ 24,368,694	$ 23,901,389
Contributed surplus — premiums received on capital stock	1,451,641	1,447,338
Excess of appraised value of fixed assets over net book value at dates of appraisal	1,237,932	1,237,932
Weather Normalization Reserve	384,799	492,692
The Capital Redemption Reserve Fund (Note 2)	2,156,000	1,399,000
Earnings retained and invested in the business	37,154,940	33,373,151
Common shareholders' equity	66,754,006	61,851,502
Preference shares (Note 2)	28,844,000	23,601,000
	95,598,006	85,452,502
LONG TERM DEBT (Note 3)	93,596,928	89,800,395
ACCUMULATED DEPRECIATION	61,512,926	53,921,220
CONTRIBUTIONS IN AID OF CONSTRUCTION	4,931,712	4,610,941
CONTRIBUTIONS — RURAL ELECTRIFICATION SYSTEM	6,661,250	7,085,696
DEFERRED INCOME TAXES (Note 4)	4,809,793	4,496,112
CURRENT LIABILITIES		
Bank loans	9,350,000	11,725,000
Accounts payable and accrued charges	11,772,605	9,418,244
Interest accrued on long term debt	1,779,838	1,719,426
Current installments of long term debt	1,204,467	1,026,972
Income taxes payable	762,493	2,746,419
Dividends payable	1,930,720	1,728,817
Revenue rebate account (Note 6)	108,000	592,000
	26,908,123	28,956,878
	$294,018,738	$274,323,744

See accompanying notes to financial statements.

Statement of Income

	Year Ended December 31 1979	1978
OPERATING REVENUES	$108,204,023	$92,222,937
OPERATING REVENUE DEDUCTIONS		
Operating expenses	69,759,705	57,959,839
Provision for depreciation	8,573,825	7,845,445
	78,333,530	65,805,284
OPERATING INCOME	29,870,493	26,417,653
INCOME DEDUCTIONS		
Interest on long term debt	8,756,685	8,900,986
Amortization of debt discount and expense	136,406	140,368
	8,893,091	9,041,354
Other interest	1,051,562	346,493
Interest charged to construction	(265,276)	(269,914)
Discount on bonds purchased for sinking fund	(81,599)	(61,932)
Amortization of deferred charges	92,439	153,879
	9,690,217	9,209,880
INCOME BEFORE INCOME TAXES AND TRANSFERS	20,180,276	17,207,773
PROVISION FOR INCOME TAXES (Note 4)	8,320,396	5,802,818
	11,859,880	11,404,955
TRANSFER FROM WEATHER NORMALIZATION RESERVE	107,893	175,637
TRANSFER TO REVENUE REBATE ACCOUNT (Note 6)	(108,000)	(489,000)
NET INCOME	11,859,773	11,091,592
DIVIDEND ON PREFERENCE SHARES	2,216,087	1,994,032
EARNINGS APPLICABLE TO COMMON SHARES	$ 9,643,686	$ 9,097,560
EARNINGS PER COMMON SHARE	$2.51	$2.38

Statement of Retained Earnings

	1979	1978
BALANCE AT BEGINNING OF YEAR	$33,373,151	$29,833,546
Net income for the year	11,859,773	11,091,592
	45,232,924	40,925,138
DIVIDENDS		
Preference shares	2,216,087	1,994,032
Common shares	5,104,897	4,787,955
	7,320,984	6,781,987
Transfer to The Capital Redemption Reserve Fund	757,000	770,000
	8,077,984	7,551,987
BALANCE AT END OF YEAR	$37,154,940	$33,373,151

See accompanying notes to financial statements.

Statement of Changes in Financial Position

	Year Ended December 31	
	1979	1978
SOURCE OF FUNDS		
From operations		
Income for the year	$11,859,773	$11,091,592
Non-cash charges and credits		
Depreciation	8,573,825	7,845,445
Amortization of deferred charges	228,845	294,247
Deferred income taxes	313,681	(20,588)
Transfer from Weather Normalization Reserve	(107,893)	(175,637)
	9,008,458	7,943,467
	20,868,231	19,035,059
Contributions in aid of construction	535,959	430,735
Net proceeds of bond issue	4,962,500	
Net proceeds from issue of preference shares	5,949,000	
Proceeds from issue of common shares	467,305	332,870
Increase in bank loans		10,600,000
	32,782,995	30,398,664
APPLICATION OF FUNDS		
Property, plant and equipment	20,527,795	19,701,001
Dismantling costs net of salvage and income taxes	(1,081,804)	235,913
	19,445,991	19,936,914
Decrease in bank loans	2,375,000	
Increase in deferred charges	15,992	3,818
Dividends		
Preference shares	2,216,087	1,994,032
Common shares	5,104,897	4,787,955
Reduction of long term debt	1,203,467	4,531,542
Redemption of preference shares	752,697	767,622
	31,114,131	32,021,883
INCREASE (DECREASE) IN WORKING CAPITAL	1,668,864	(1,623,219)
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	(972,567)	650,652
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	$ 696,297	$ (972,567)

See accompanying notes to financial statements.

Notes to Financial Statements

For the year ended December 31, 1979

1. Summary of Accounting Policies

The Company's accounting policies conform to generally accepted accounting principles and to accounting requirements established from time to time by the Board of Commissioners of Public Utilities of the Province of Newfoundland ("The Board").

Property, Plant and Equipment

Utility property, plant and equipment is stated at values approved by The Board as at June 30, 1966 with subsequent additions at cost. Maintenance and repairs are charged against revenue, while renewals and betterments are capitalized. The cost of plant and equipment retired, net of salvage, is charged to the accumulated depreciation account. For major disposals of property, any gain or loss on net depreciated cost is carried to income.

Depreciation

Depreciation is currently provided in the accounts at classified rates varying from 2.0% to 15.4% on the straight line method based on estimated service life of plant and equipment, as approved by The Board in Order No. P.U. 20 (1978). The composite rate for the year is approximately 3.5% (1978 — 3.4%) before reduction for the amortization of Contributions in Aid of Construction and Contributions — Rural Electrification System.

Interest Charged to Construction

On certain construction projects interest at a rate not exceeding the maximum rate of return allowed by The Board is capitalized and included as a cost in the appropriate property accounts.

Deferred Charges

Deferred charges are being amortized as follows:

Debt discount and expense — over the life of each issue.
Capital stock issue expense — over a 20 year period from date of issue.

Deferred Fuel Costs

The Company's rates include a fuel adjustment clause which permits the recovery of fuel costs in excess of a base cost, as fixed by Board Orders. There is a time lag, however, between the periods in which these excess costs are incurred and the periods in which they are billed to customers. Such excess costs are deferred to the periods in which they are billed to achieve a proper matching of cost and revenue.

Weather Normalization Reserve

The Board has ordered provision of a Weather Normalization Reserve to adjust within the Company's accounts the effect of variations in temperature and stream flow when measured against long-term averages. The balance in the Weather Normalization Reserve as at December 31, 1979 and the underlying calculations have been approved by The Board in Order No. P.U. 4 (1980).

Contributions in Aid of Construction

This account is being reduced annually by an amount equal to the charge for depreciation provided on the contributed portion of the cost of the assets constructed.

Contributions — Rural Electrification System

Under agreements with the Province of Newfoundland, the Company acquired title to certain rural systems constructed under the Provincial Rural Electrification Plan. The Province holds an option to reacquire these properties at any time. Furthermore, under agreements with the Governments of Canada and the Province of Newfoundland, the Company acquired title to certain other systems owned by those Governments. To facilitate the accounting for the eventual retirement of all of these properties the original cost and accumulated depreciation computed at Company rates to the date of transfer have been added to the property accounts. An amount of $10,805,405, being the excess of the depreciated value over the consideration paid, was credited to an account titled Contributions — Rural Electrification System. This account is being reduced annually by an amount equal to the charge for depreciation provided on the contributed portion of the cost of the assets transferred.

Revenue

The company follows an accepted practice in the utility industry, whereby it records monthly sales on the basis of meter readings made throughout the month. Although each fiscal year includes twelve months electricity sales and costs, there are at the end of each accounting period, sales, the cost of which was charged to expense, while the related revenue is not recorded until the following period.

Income Taxes

Orders of The Board required the Company to use the flow-through method of accounting for income taxes for all timing differences, other than certain deferred charges, during the period 1967 to 1978 and, commencing January 1, 1979, to use the tax allocation method for all depreciable assets acquired subsequent to that date. If the tax allocation basis of accounting, under which income tax is based on reported income, had been fully followed for the period 1967 to 1978, the cumulative amount of the deferred income tax credit would have been increased by approximately $20,000,000 to December 31, 1979 (1978 — $18,150,000).

Changes in Financial Position

The Company's bank loans have been considered to be non-current liabilities in the preparation of the statement of changes in financial position.

2. Capital Stock

Orders of The Board required the Company to use the flow-through method of accounting for income taxes for all timing differences, other than certain deferred charges, during the period 1967 to 1978 and, commencing January 1, 1979, to use the tax allocation method for all depreciable assets acquired subsequent to that date. If the tax allocation basis of accounting, under which income tax is based on reported income, had been fully followed for the period 1967 to 1978, the cumulative amount of the deferred income tax credit would have been increased by approximately $20,000,000 to December 31, 1979 (1978 — $18,150,000).

		December 31 1979	December 31 1978
Authorized			
Common shares without nominal or par value			
Class A convertible		5,000,000	5,000,000
Class B convertible		5,000,000	5,000,000
Cumulative redeemable voting first preference shares of a par value of $10 each, issuable in series		4,000,000	4,000,000
Cumulative redeemable voting second preference shares of a par value of $20 each, issuable in series		1,000,000	1,000,000
Issued and outstanding			
3,648,042	Class A shares		
212,742	Class B shares		
3,860,784	common shares (3,836,879 shares — December 31, 1978)	$24,368,694	$23,901,389
200,000	5½% first preference shares Series A, redeemable at the option of the Company at a premium of 5% of the par value thereof	$ 2,000,000	$ 2,000,000
350,000	5¼% first preference shares Series B, redeemable at the option of the Company at a premium of 5% of the par value thereof	3,500,000	3,500,000
21,430	6% first preference shares Series C, redeemable at the option of the Company at a premium of 6% of the par value thereof	214,300	214,300
380,770	7¼% first preference shares Series D, redeemable at the option of the Company at a premium of 5¾% of the par value thereof, on or before June 1, 1979 such premiums decreasing ¾ of 1% each two year period thereafter to a minimum of 2% (386,470 shares — December 31, 1978)	3,807,700	3,864,700
472,200	9% first preference shares Series E, redeemable at the option of the Company at par value under the provisions of the Purchase Fund or at a premium of 7% subsequent to July 1, 1979 and on or before July 1, 1981 such premiums decreasing 1% each two year period thereafter to a minimum of 1%	4,722,000	4,722,000
860,000	9.84% first preference shares Series F, redeemable at the option of the company at par value under the provisions of the Sinking Fund or at a premium of 7% subsequent to July 1, 1983 and on or before July 1, 1984 such premiums decreasing 1% each year thereafter until July 1, 1990 after which there shall be no premium (930,000 shares — December 31, 1978)	8,600,000	9,300,000
600,000	7.60% first preference shares Series G, redeemable at the option of the Company at par value under the provisions of the Sinking Fund or at a premium of 4½% subsequent to July 1, 1984 and on or before July 1, 1985 such premiums decreasing ½ of 1% each year thereafter until July 1, 1993 after which there shall be no premium	6,000,000	
2,884,400		$28,844,000	$23,601,000

The Company's common shares are designated as 5,000,000 Class A convertible common shares without nominal or par value and 5,000,000 Class B convertible common shares without nominal or par value. However, the total issued Class A and Class B shares outstanding at any time cannot exceed in the aggregate 5,000,000 shares. The shares of each class are inter-convertible on a share for share basis and rank equally in all respects including dividends.

Pursuant to the Company's Dividend Reinvestment Plan, 19,778 common shares were issued to holders of common shares during the year for $385,281.

Pursuant to the Company's Employee Share Purchase Plan, 4,127 common shares were issued during the year for $82,024.

Under the conditions of the respective issues, the Company has the right to purchase limited amounts of Series D, E, F and G first preference shares at or below par.

In 1979, the Company purchased 5,700 Series D preference shares and 70,000 Series F preference shares for a gain, net of income taxes, of $4,304 which has been credited to contributed surplus. The par value of the shares purchased to date in the amount of $2,156,000 has been set aside from Retained Earnings to The Capital Redemption Reserve Fund in accordance with Section 49 of The Newfoundland Companies Act.

3. Long term Debt

	December 31 1979	December 31 1978
First mortgage sinking fund bonds:		
5¾% Series E, due 1984	$ 2,675,000	$ 2,675,000
4¾% Series H, due 1981	600,500	602,500
5¾% Series I, due 1982	1,260,000	1,306,500
5¾% Series J, due 1983	1,000,000	1,012,500
7% Series K, due 1985	1,438,000	1,477,000
6½% Series L, due 1986	796,000	796,000
6¼% Series P, due 1981	187,000	187,000
7% Series R, due 1986	4,476,000	4,615,000
7¾% Series S, due 1988	2,584,000	2,602,000
8% Series T, due 1991	4,978,000	5,215,000
11¼% Series V, due 1996	20,000,000	20,000,000
11½% Series W, due 1999	5,000,000	
	44,994,500	40,488,500
5⅜% Series M, due 1990 (U.S. $2,175,000)	2,349,000	2,376,000
8¼% Series U, due 1992 (U.S. $8,000,000)	7,973,600	7,973,600
	55,317,100	50,838,100
General mortgage sinking fund bonds:		
9½% Series D, due 1990	3,655,000	3,850,000
11¼% Series F, due 1994	14,976,000	14,976,000
10½% Series G, due 1997	19,800,000	20,000,000
	38,431,000	38,826,000
7% Promissory Note, payable in eight equal semi-annual installments commencing April 5, 1980 (U.S. $456,885)	464,531	464,531
8½% Bills of Exchange payable in eight equal semi-annual amounts (U.K. £180,310)	392,626	490,782
11% first mortgage payable in 111 monthly blended installments of principal and interest of $2,842 each	196,138	207,954
	1,053,295	1,163,267
	94,801,395	90,827,367
Less: Current installments	1,204,467	1,026,972
	$93,596,928	$89,800,395

Long term debt obligations in foreign currencies are carried at the Canadian exchange rate prevailing when the obligations were incurred. As at December 31, 1979, $12,868,772 Canadian was required to translate foreign currency obligations carried at $11,179,757. As at December 31, 1978, $13,182,824 was required to translate foreign currency obligations carried at $11,304,913.

The annual requirements to meet sinking fund payments, installments and maturing issues of long term debt outstanding as at December 31, 1979 for each of the years to 1984 are as follows:

	1980	1981	1982	1983	1984
Sinking fund payments and installments	$1,204,467	$1,198,499	$1,199,199	$1,189,593	$ 947,422
Maturing issues		759,500	1,230,000	962,500	2,555,000
	$1,204,467	$1,957,999	$2,429,199	$2,152,093	$3,502,422

The trust deeds securing the first mortgage and general mortgage bonds contain conditions precedent which if not met restrict the payment of dividends. At December 31, 1979 these conditions had been met.

4. Income Taxes

The annual provision for income taxes is a component of the operating expenses allowed by The Board when setting the Company's rates to its customers.

The current provision includes an increase of $314,000 caused by the change in the basis of calculating the provision as outlined in Note 1.

5. Retirement of Employees

The present practice of the Company is to pay an income supplement to retired officers and employees charging the cost thereof to current operations and the Company has advised its employees of the basis upon which such payments may be made.

The Public Utilities Act provides that reasonable payments of this nature are expenses that The Board may allow as reasonable and prudent and properly chargeable to the operating account of the utility. By Order No. P.U. 17 (1979), The Board has so allowed the income supplements being paid.

6. Revenue Rebate

The Board regulates the Company's earnings and has determined for 1979 that there is an apparent excess income of $108,000 net of income taxes. By Order No. P.U. 2 (1980), The Board directed that this amount be set aside in the Revenue Rebate Account to be used as part of its revenue requirements for 1980. The balance of $592,000 in the Revenue Rebate Account as at December 31, 1978 was used to reduce the monthly charges to the Company's customers under the Fuel Adjustment Clause during the first six months of 1979.

Auditors' Report

The Shareholders,
Newfoundland Light & Power Co. Limited.

We have examined the accompanying balance sheet of Newfoundland Light & Power Co. Limited as at December 31, 1979 and the statement 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, 1979 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, except for the change in the method of providing for income taxes referred to in Note 4.

St. John's, Newfoundland
February 29, 1980

Touche Ross & Co.
Chartered Accountants

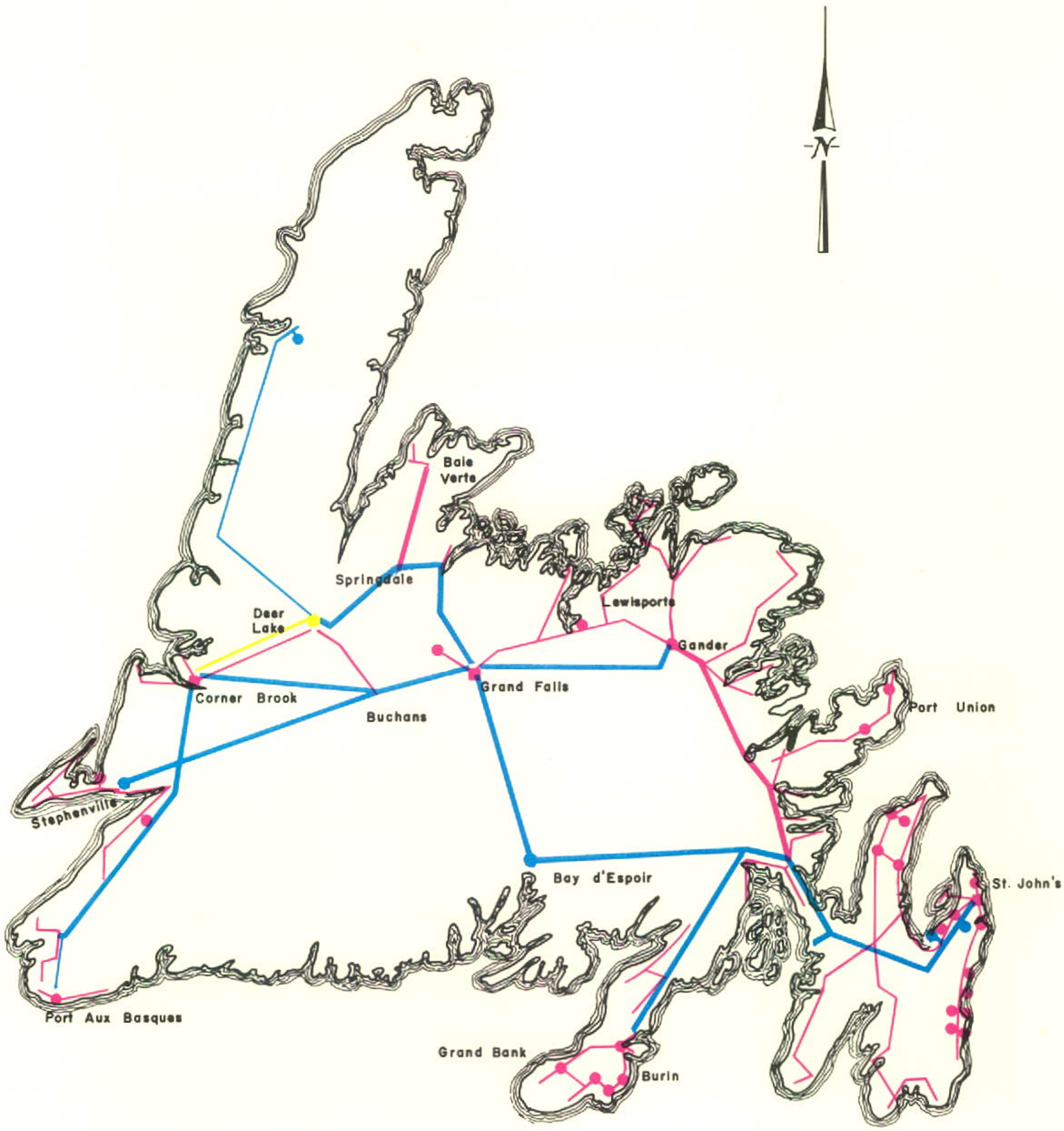
NEWFOUNDLAND LIGHT & POWER CO. LIMITED

Five Year Summary

	1979	1978	1977	1976	1975
INCOME AND EXPENDITURE					
(thousands of dollars)					
Operating revenue	$108,204	$ 92,223	$ 73,469	$ 60,259	$ 45,022
Operating expenses	69,760	57,960	46,037	37,541	28,214
Interest	9,598	9,056	8,543	6,840	5,053
Depreciation	8,574	7,845	6,702	5,582	4,695
Income taxes	8,320	5,803	3,076	2,434	1,533
Balance after preference dividends	9,644	9,098	7,338	6,093	4,546
Dividends on common shares	5,105	4,788	3,819	2,777	2,237
Retained in the business	4,539	3,540	3,402	3,055	2,152
Number of common shares at year end (thousands)	3,861	3,837	3,817	3,057	2,775
Earnings per common share ($)	2.51	2.38	2.35	2.17	1.81
BALANCE SHEET DATA					
(thousands of dollars)					
Property, plant and equipment	272,585	254,760	238,008	210,611	181,178
Accumulated depreciation	61,513	53,921	48,608	43,251	40,240
Net fixed assets	211,072	200,839	189,400	167,360	140,938
First mortgage bonds	55,317	50,838	53,623	54,337	34,916
Other long term debt, bank loans and notes payable	48,834	51,714	43,062	32,807	42,383
Total debt	104,151	102,552	96,685	87,144	77,299
Preference shares	28,844	23,601	24,371	24,488	14,749
Common equity	66,754	61,852	57,382	42,298	35,998
Total capital	199,749	188,005	178,438	153,930	128,046
OPERATING STATISTICS					
Sources of Energy (millions of kWh)					
Purchased	2,503	2,446	2,286	2,077	1,870
Generated	359	378	332	380	340
Total	2,862	2,824	2,618	2,457	2,210
Sales (millions of kWh)					
Domestic	589	591	598	611	619
Domestic all-electric	881	878	801	715	526
General service all-electric	463	430	386	365	313
General service and street lighting	757	723	684	587	535
Total	2,690	2,622	2,469	2,278	1,993
Customers (year-end)					
Domestic	86,729	86,787	87,780	87,962	90,666
Domestic all-electric	42,819	39,605	35,713	30,856	23,447
General service all-electric	3,828	3,499	3,107	2,680	2,219
General service and street lighting	19,489	19,392	19,085	18,747	18,127
Total	152,865	149,283	145,685	140,245	134,459
Annual degree days — St. John's (Celsius)	4,641	5,088	4,808	4,805	5,099

A ten year financial statistical summary containing additional information is available upon request to:

The Treasurer
Newfoundland Light & Power Co. Limited
P. O. Box 8910
St. John's, Newfoundland A1B 3P6



Newfoundland Light & Power Co. Limited
Newfoundland and Labrador Hydro
The Bowater Paper Company Limited
Power Plants
Lines

Miles 20 0 20 40 60 80 Miles
SCALE

PHOTO CREDITS

Donald R. Lane, St. John's, Pages 3, 7, 9

Department of Industrial Development, Province of Newfoundland, Page 5