NEWFOUNDLAND LIGHT & POWER CO.

LIMITED

1981
ANNUAL REPORT

Directors

AARON BAILEY*† .... *Port Union, Newfoundland*

A.D. CAMERON † .... *Montreal, Quebec*

H. COLLINGWOOD* .... *St. John's, Newfoundland*

J.B. FOOTE .... *Grand Bank, Newfoundland*

D.C. HUNT, Q.C.† .... *St. John's, Newfoundland*

D.C. McLEOD .... *Toronto, Ontario*

A.E. O'REILLY .... *Montreal, Quebec*

G.R. PARSONS*† .... *Regina, Saskatchewan*

E.A. PRATT .... *St. John's, Newfoundland*

J.E. RORKE .... *Carbonear, Newfoundland*

G.N.C. RIVINGTON .... *Montreal, Quebec*

H.R. STEELE .... *Gander, Newfoundland*

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*

A.F. RYAN .... *Assistant General Manager*

G.J. ADAMS .... *Director of Finance*

K.S. WARR .... *Treasurer*

R.F. GOSINE .... *Secretary*

H.B. CURTIS .... *Assistant Secretary-Treasurer*

Head Office

Kenmount Road, St. John's, Newfoundland

Transfer Agent and Registrar

MONTREAL TRUST COMPANY

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

Oil exploration rigs and traditional fishing and commercial shipping vie for space on the modern St. John's Waterfront.

Modern power line construction can be asethetically pleasing while providing reliable service to customers.

Photo Credits:
Donald R. Lane
St. John's

Financial Highlights 1981

	1981	1980
*Operating revenue	$ 131,281	122,826
*Operating expenses	$ 84,252	78,739
*Income and other taxes	$ 12,974	12,668
*Net income	$ 14,497	12,697
Earnings per common share	$ 2.96	2.60
Dividends paid per common share	$ 1.48	1.40
*Capital expenditures	$ 30,640	23,171
*Gross fixed assets	$ 324,690	294,950
Number of customers	160,106	156,469
Sales in kilowatt-hours (millions)	2,832	2,848
Number of common shareholders	5,363	5,345

*in thousands

QUARTERLY SHARE STATISTICS

	1st	2nd	3rd	4th
Earnings per share	$ 1.11	1.05	0.25	0.55
Dividends paid	$ 0.35	0.375	0.375	0.375
Share price - High	$ 23	23½	22¼	22
Low	$ 19½	19½	17	16½

Report to Shareholders

The Company achieved a 13.8% growth in earnings per common share in 1981 in the face of a slight drop in kilowatt hour sales. An increase in operating expenses was moderated by heavy hydro run-off conditions early in the year and relatively favourable fuel prices. However, an increase in the unit cost at which the Company purchases power from Newfoundland and Labrador Hydro-Electric Corporation, increases in other expenses, and a sharp increase in the cost of capital necessitated applications to the Board of Commissioners of Public Utilities for increased rates.

An important part of the Company's sales depends upon the level of economic activity in the Province. Total investment in the provincial economy during the year is estimated to be approximately $1.4 billion. Offshore oil and gas exploration resulted in an investment estimated at $375 million. There was an increase of about 3,000 jobs during the year, but the unemployment rate increased from 13.5% in 1980 to 14.1% in 1981. Total housing starts in urban centres dropped about 15.3% to 1,504. Increases in the value of production in the iron ore and pulp and paper industries were partly offset by a lower value of production in the construction industry, while the value of fishery production increased somewhat. Consequently the Province's Gross Domestic Product increased by approximately 2% in real terms from that of 1980.

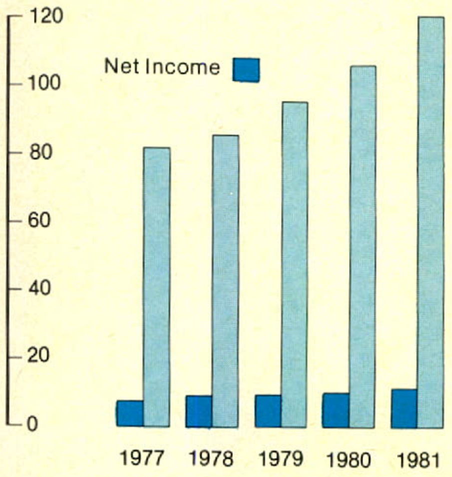
Further exploration of the Hibernia oilfield and, in particular, the K-18 delineation well, have increased the estimated reserves of this discovery to 1.85 billion barrels. It is hoped that the resolution of the Alberta oil price agreement and current negotiations between the Newfoundland and Federal Governments will provide an organizational framework within which the field may be brought into production and exploration expanded at a more rapid rate. It is estimated that drilling activity in Newfoundland and Labrador in 1982 will involve an increased expenditure of between $430 and $480 million. The upgrading of the Newfoundland Light & Power Co. Limited's transmission and distribution system, which has been proceeding in recent years, has given the Company the basic capability to meet the requirements of additional loads which may arise out of expansion of the oil and gas industry. However, specific extensions of the Company's system must await the filing of plans by prospective producers describing production methods, production support bases and other facilities.

Preliminary figures put the value of production in the mining industry at $1.2 billion, 15.3% over that of 1980. However, production was limited by shutdowns in the iron ore industry as a result of poor economic conditions in North America and shutdowns in the asbestos and copper mines due to economic conditions generally. The outlook for 1982 is still uncertain and the real value of mineral production is forecast to decline by 10 to 15% from that of 1981.

Conditions continued to be favourable in the pulp and paper industry during 1981. The new newsprint mill at Stephenville came into production and, with the other two major pulp and paper mills at Corner Brook and Grand Falls producing at above normal capacity levels, the total value of paper production was $350 million, an increase of 29.6% over that of 1980. The market for paper is expected to soften in 1982 and there are indications that at least one mill will be shut down for several weeks. However, with a full year's production at the new mill and an anticipated rise in primary forestry activity, an increase in output for the complete forest sector of 5 to 10% is forecast.

A loss of markets, particularly in the United States, and lower prices combined with high carrying charges resulted in many fish plant closings in the summer and autumn of 1981. Mainly as a result of the fish plant closings, fish landings for the year are expected to be about the same as in 1980, when landings were curtailed by protracted strikes. However, due to an improvement in the mix of processed fish products, the product value increased in real terms. A $15 million federal programme of temporary fish price support and some support measures for fish producers will alleviate conditions somewhat but the outlook for 1982 will depend on the market situation in the United States, which improved slightly towards the end of 1981. Based on available quotas and a gradual improvement in markets an increase of 15% in the catch has been forecast for 1982.

SHAREHOLDERS INVESTMENT
(Millions of Dollars)



The Company's operating revenues increased 6.9% over 1980 to $131.3 million and operating expenses were up 7.4% to $94.7 million. Earnings per common share were $2.96 in 1981, up from $2.60 in 1980. Dividends totalling $1.525 were declared on the Class A common shares, an increase of 8.9% over dividends declared in 1980. Equivalent stock dividends were declared on the Class B common shares. Approximately half of the earnings on the common shares is reinvested in the Company's electric system. The growth of earnings on the common shares reflects the increase in the common shareholders' investment in the Company's electric power system.

The planning and design of an electrical system requires a combination of skills and disciplines.

Capital expenditures in 1981 amounted to $30.6 million compared with $23.2 million in 1980. Major capital expenditures included the reinforcement and expansion of the electrical distribution system amounting to some $18.8 million and work in progress on the system control centre which will monitor and control the eastern part of the Company's system amounting to about $.9 million. Capital expenditures are forecast to be $34.5 million in 1982.

In order to adapt to high fuel costs, the Company is planning investments to augment its own hydro-electric capacity, and conserve energy in its operations. A number of small new hydro plants are being investigated on watersheds where the Company has rights together with renovation and expansion of other Company hydro plants. In addition measures are being taken to improve insulation and heat conservation in buildings and, as motor vehicles are replaced, both smaller and diesel-powered vehicles are being considered.

Energy conservation, on which the Company makes information available to its customers, continues to be a factor in a reduced rate of load growth. Actual energy sales for 1981 decreased slightly from those of 1980. Abnormally warm weather conditions affected this growth and when energy sales are normalized for weather, the 1981 growth would have been 4.9%. Based on normal weather conditions, a growth of sales of 4.7% is forecast for 1982.

With the bulk of the Company's power supply being purchased from Newfoundland and Labrador Hydro, future power supply costs will depend on Hydro's plans for the expansion of its generating system. Stabilization of power supply costs hinges on the development of the Lower Churchill River in Labrador. The start of the $3 billion Gull Island project on the Lower Churchill, with associated transmission costs of $2 billion, is still held up, pending negotiations for its financing and power transmission with the governments of Canada and Quebec. A deferment of this project will require a decision to proceed with a 150 megawatt oil-fired thermal unit in time to meet a forecast requirement in 1987. To meet more immediate requirements, Newfoundland Hydro is constructing the 84 megawatt Upper Salmon hydro-electric plant to be in operation in late 1982. During 1981 Newfoundland Hydro commenced construction of the Cat Arm hydro development, to be completed in 1984, with a capacity of 127 megawatts and estimated to cost $330 million.

After representations by the Company, other investor-owned electric and gas utilities and the provinces and the withdrawal by the Federal Government of the portion of bill C-24 which would have amended the Public Utilities Income Tax Transfer Act, the regulations under the Act were amended to restore to their original level interim payments to be made to the provinces under the Act and provide for payment to the provinces of the difference between the estimated amount and the amount paid for the fiscal year ended March 31, 1980. This amendment therefore confirms the intention of the Federal Government to maintain the amount of public utility income tax returned to the provinces at 95% and restores the difference between payments made since 1980 and the 95% level.

Financing the Company's capital expenditures in a year of uncertainties in the financial markets presented a challenge mitigated only by the fact that approximately 35% of capital expenditures was financed out of operations. External funds were obtained principally from the issue of $10 million of 14¼% First Preference shares and $17 million of First Mortgage bonds. In addition, $.8 million of common equity capital was obtained through the Dividend Reinvestment Plan, stock dividend programme and the Employee Share Purchase Plan.

Rapidly rising costs resulted in a year of marked regulatory hearing activity, including public hearings on the Company's street light rate structure and on the level of the price of fuel to be included in the base rates. The Company participated as an intervenor in the hearing before the Board of Commissioners of Public Utilities on Newfoundland and Labrador Hydro's referral for an increase in its rates to the Company. Following the Board's recommendation, the Lieutenant-Governor-in-Council approved a rate increase from 20.70 to 23.97 mills per kilowatt hour effective on August 14, 1981. The Board, in response to the Company's application to flow through increased purchased power costs to its customers, ordered a 7% increase in the Company's rates effective on October 1, 1981. After a public hearing in November into the Company's application for an increase in rates to cover increases in its own costs, the Board approved a new schedule of rates, effective December 1, 1981 increasing rates by an average of 7.1%. The Board determined that for 1981 and 1982 a just and reasonable rate of return on average rate base is between 12.25% and 12.75%, based on a rate of return on average common equity of 17%. The Board also approved new rates of depreciation, a revised percentage of operating expenses to be applied in computing the working capital allowance and a new structure for street light rates.

The Board inaugurated in 1981 regular monthly meetings with the management of the Company to discuss the Company's operating results and expected future developments bearing on the regulation of the Company. The Company expects that, under presently anticipated conditions, the rates now ordered by the Board will be adequate for 1982, and that its next rate hearing will be towards the end of 1982 in anticipation of 1983 requirements.

Recognizing the need of its customers for information on their electric power rates and the efficient use of electricity as energy costs rise, the Company is undertaking a customer survey as a basis for an improved customer communication programme.

For some years the Company has been making representations to government for a rationalization of municipal and school taxation of public utilities. It is hoped that legislation will be introduced during the coming year to implement all or part of these representations.

In March, Mr. A.S. Gordon, a director of the Company since its amalgamation, retired from the Board. The directors accepted Mr. Gordon's retirement with regret and express their gratitude to him for his wise counsel based on his extensive knowledge of electric utility financing. Mr. D.C. McLeod was appointed to the Board to fill this vacancy.

The Company has a highly competent and dedicated management and staff. For their loyalty and cooperation your directors are pleased to record their grateful appreciation.

Submitted on behalf of the Board.

A. Bailey

A. Bailey,
Chairman of the Board

A. D. Cameron

A.D. Cameron,
President

Operations Report

Customer Services and Distribution

Actual kilowatt hour sales in 1981 of 2,832 million were 0.5% less than our 1980 sales of 2,848 million. Since about 40% of the Company's sales are related to the amount of heating required by its customers, which in turn is related to the weather conditions during the year, a better comparison of growth may be obtained by adjusting each year to average weather conditions. Had 1980 and 1981 both been normal heating years it is estimated that 1981 sales would have increased 4.9% over 1980. This growth was somewhat less than expected due mainly to lower growth in the fishing and mining industries and a decline in activity in the construction industry as a result of high interest rates and poor economic conditions especially during the second half of the year. We forecast a growth in sales of 8.2% [illegible] 1982 over actual 1981 sales and [illegible].7% over normalized 1981 sales.

Total customers served in 1981 increased by 3,637 to 160,106, a growth of 2.3% compared to 2.4% in 1980. High interest rates during the past year resulted in a drop in the number of housing starts in urban areas. The average annual use of regular domestic customers increased only slightly during 1981 and this trend is forecast to continue in 1982.

The average annual use of all-electric domestic customers continued to decline during 1981. Conservation measures now being practiced by many customers because of the rising cost of energy and in response to incentive plans offered by Government have resulted in this lower usage. A continuation of this trend is forecast for 1982.

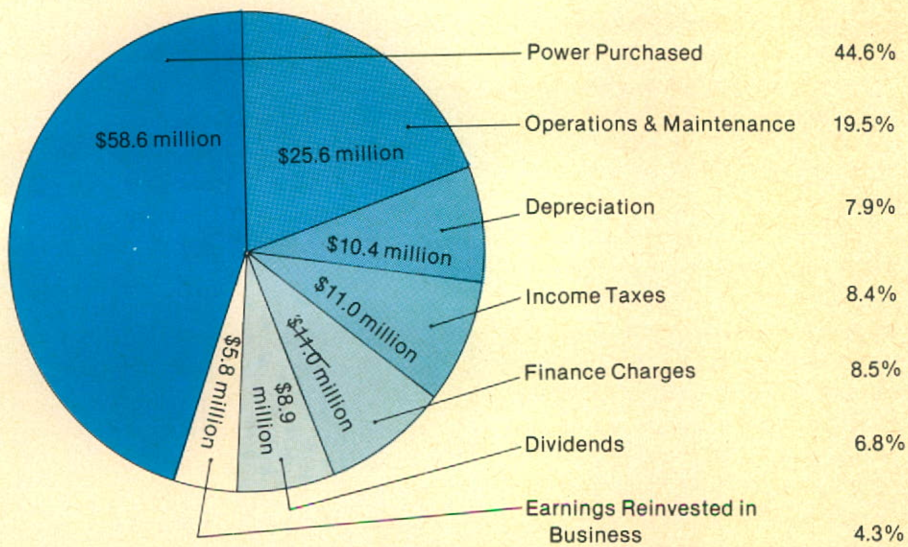
New rates and regulations for street and area lighting service were approved by the Public Utilities Board in 1981 following a detailed review of the cost of this service. In addition to achieving a uniform rate structure, provision was made for the introduction of high pressure sodium fixtures which are more energy-efficient than the type presently in service. These new fixtures will be used for all new installations and will gradually replace existing fixtures.

An automated remittance processing system which allows payments received by mail to be handled more efficiently was installed at head office. This system not only enables the Company to free various employees for other customer service activities but has also enhanced cash flow and decreased interest charges.

Power Supply

Energy produced and purchased during 1981 totalled 3,000 million kilowatt-hours. Of this 14.2% was supplied by the Company's plants, 83.0% by Newfoundland and

DISTRIBUTION OF REVENUE
(1981)



Labrador Hydro and 2.7% by Bowater Power Company Limited. The wet weather experienced in 1980 continued into 1981. For the twelve month period ending March 31, 1981, production from the Company's hydro plants reached a record of 487 million kilowatt-hours. At year-end, production from these plants was 425 million kilowatt-hours compared to 375 million kilowatt-hours in a normal year.

The heavy rainfall also provided above average production at Newfoundland Hydro's Bay D'Espoir plant and additional secondary energy generation by Bowater Power at Deer Lake. Newfoundland Hydro's Hinds Lake plant, which was commissioned in December 1980, was available to the system for the full twelve months in 1981. Generation from this plant was also above the forecast annual average production. These factors, combined with lower sales because of warmer than normal weather, resulted in the Company's total energy supply requirements from hydro sources rising to 91%, the remaining 9% being supplied by oil-fired thermal plants.

A return to more normal weather conditions in 1982 would increase the need for thermal production and we are forecasting a hydro/thermal ratio of 62/38. Newfoundland Hydro have under construction two new hydro plants: an 84 MW unit at Upper Salmon which is scheduled to be commissioned in December 1982 and a 127 MW unit at Cat Arm completed for commissioning in the fall of 1984. Both of these units will lessen the requirement for thermal production.

Dedicated and skilled workmen are required to maintain high levels of service.

Capital

Total capital expenditures in 1981 were $30.7 million, an increase of 7.5 million over 1980, bringing investment in plant after depreciation to $247.6 million at the year end. Extending and upgrading the distribution system to improve service to existing customers and to connect new customers required $16.6 million, approximately 55% of the budget.

A new 1,800 metre woodstave pipeline, 1 metre in diameter, was installed at the Topsail hydro generating plant at a cost of $1.9 million, replacing the original pipeline built in 1932. The new pipeline resulted in an immediate 20% increase in plant capacity. The second stage of this project to better utilize the watershed's resources is the planned 1983 installation of a larger turbine generator to give a further 90% increase in capacity.

A 275 metre woodstave pipeline, 1 metre in diameter was installed at the Lawn plant at a cost of $370,000, re-activating the plant which had been out of service for several months because of pipeline deterioration. At this plant also, a new unit is planned for 1983 and this will double the existing 300 kW plant capacity. Both the Topsail and Lawn projects have been made viable by the Federal Government's accelerated tax write-off program for mini-hydro projects.

At the Petty Harbour plant, $150,000 was spent making additions to the forebay dam to extend its useful life.

A 138 kV transmission line, 80 kilometres in length, was built from Bishops Falls to Cobbs Pond substation near Gander at a cost of $2.3 million. This completes a second transmission circuit from Grand Falls to Gander thereby firming up reliability. Other transmission line projects completed in 1981 include two 66 kV lines from Oxen Pond to Hunt's Lane to improve the load capability and reliability to the east end of the City of St. John's. On the west coast further upgrading was completed on the Gallants Substation to Abraham's Cove line on the Port au Port Peninsula and also from Gallants Substation to Harmon

Substation near Stephenville. Total transmission line expenditure was $5.1 million.

A new substation was built at Berry Head on the Port au Port Peninsula. Major work was completed at Cobbs Pond, Bishops Falls and Gallants substations for the termination of the new transmission lines. Total capital expenditure for substations was $3.5 million.

A System Control Centre is under construction at our Topsail Road building near St. John's. When substantially complete in late 1982, it will provide control of five hydro plants and twenty-one substations.

Approval has been obtained from the Public Utilities Board for 1982 capital expenditures totalling $34.5 million.

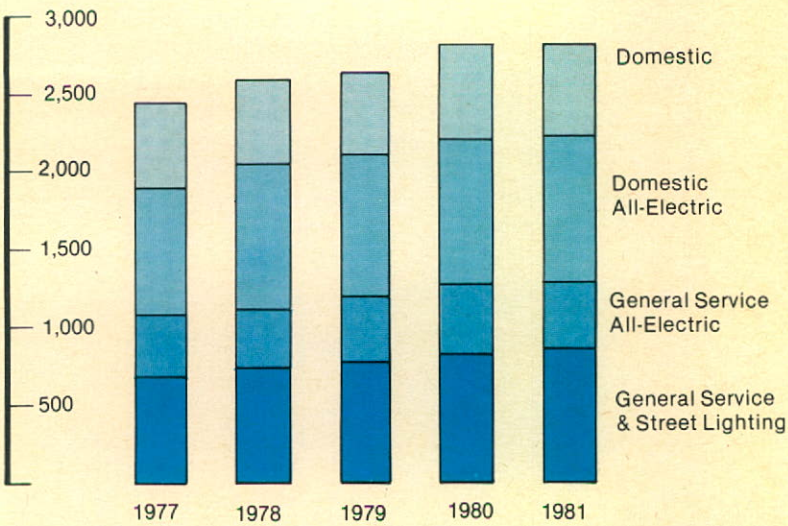
Staff

The Company has a contract to September 30, 1983 with I.B.E.W. Local 1620 covering the trades and crafts groups. A certification order for the same local to represent the office and technical employees of the Company was disallowed by the Supreme Court of Newfoundland on November 4, 1981.

The number of regular employees has remained at a constant level since 1976 and was 1,014 at December 31, 1981. Training programmes for all levels of employees were increased in size and scope during the year. In September, 25 apprentices enrolled in our four year linesman course, the first group to enroll since 1978. The Company received the Canadian Electrical Association safety award for the fourth successive year in 1980.

The end product of the Company's activities is service to the individual customer.

ENERGY SALES
(millions kWh)



Financial Review

During 1981 operating revenues grew by 6.9% and reached a total of $131.3 million. This growth is attributable to increased prices since total kilowatt hour sales were marginally below those of the preceding year. Higher than average temperatures during the year curtailed sales for electric heat purposes whereas in 1980 the opposite was true. When both years are adjusted to reflect the normal 1981 has an indicated growth in kWh sales of 4.9%.

At $94.7 million operating expenses showed a year-over-year increase of 7.4%. Power purchased, the largest single expense item, increased by 4.5% to $58.6 million and operating salaries and wages were $15.9 million or 10.2% more than in 1980. Financing costs grew by 10.6% and the annual provision for depreciation of fixed assets was $10.4 million, an increase of 10.8% over that provided in 1980. The total provision for income tax of $11.1 million was down by 1.2%, however, with the change to normalizing the tax on the timing differences between depreciation and capital cost allowance on all property, $1,191,504 of the total was deferred.

From net income of $14.5 million, $2.9 million was required for preferred dividends which left $11.6 million as applicable to common shares. On an average of 3,908,340 common shares outstanding this represented $2.96 per share or 13.8% more than last year. After the declaration of dividends of $1.525 per share, amounting to $6.0 million, there remained a balance of $5.6 million or $1.435 per common share which was reinvested in the business. This reinvestment represents 38.6% of net income for the year while the comparable results for 1980 were $4.6 million and 34.2%.

In 1981 the Company spent $30.6 million on new fixed assets and the replacement or extension of existing ones. Thirty-five per cent of the funds needed for this capital expenditure programme came from internal sources while the balance was provided by external financing. In January, $7 million 14¼ Series X First Mortgage Bonds were sold by private placement. During October, the sale by public subscription of 1 million $10 par value 14¼% Preference Shares of Series I raised $10,000,000 and in December the private placement of 18¼% First Mortgage Bonds designated Series Y raised a further $10,000,000. Additional financing came from the Company's Dividend Reinvestment Plan, stock dividend programme and Employee Share Purchase Plan which contributed $814,041 and this represents an increase of 31.7% over that provided by these sources in the prior year.

In response to comment at the last annual meeting the Company arranged the listing of both Series A and Series B preference shares on the Montreal Stock Exchange. To help establish a market for these securities the Company set up a small voluntary purchase fund.

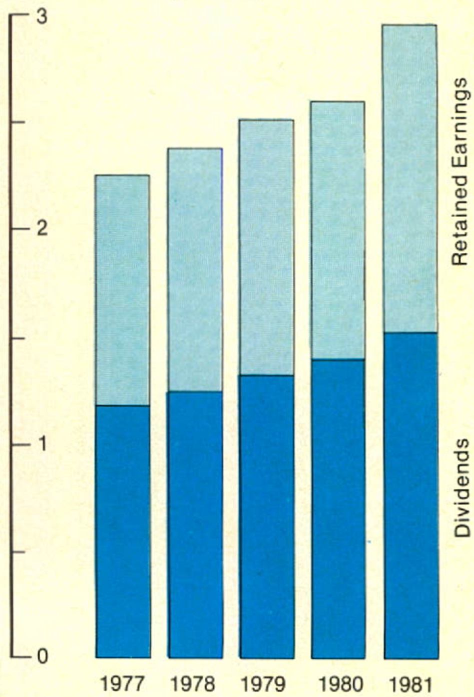
The requirements of equity investors for higher returns under economic uncertainty coupled with interest rates at record levels and a precarious capital market led the Company to apply to the Public Utilities Board for, among other things, an increase in the allowable

	Number of Participants	Common Shareholders (%)	Investment
1977			
Dividend Reinvestment	402	7.7	$137,100
1978			
Dividend Reinvestment	738	13.8	272,800
Employee Shares	148	—	60,100
1979			
Dividend Reinvestment	902	16.8	385,300
Employee Shares	152	—	82,000
1980			
Dividend Reinvestment	925	17.5	442,400
Stock Dividend	73	—	95,700
Employee Shares	148	—	80,600
1981			
Dividend Reinvestment	976	18.2	512,800
Stock Dividend	81	—	194,100
Employee Shares	172	—	107,200

Participation in the Dividend Reinvestment and Employee Share Purchase Plans and the Stock Dividend Programme is a significant source of new common equity.

EARNINGS PER SHARE

(Dollars)



rate of return together with an increase in rates sufficient to achieve it. In December, the Board ordered a rate of return on rate base in the range of 12.25% to 12.75% which allows a 17% return on common common equity of 34.0% of total capitalization. The new rates were approved too late in the year to completely offset the deterioration in the rate of return on equity and interest coverage in 1981; however, it is forecast that under normal conditions, these changes will allow a full restoration of interest coverage and this coupled with the higher level of earnings will allow the Company to maintain its credit rating and finance its capital expenditure programme without undue difficulty.

Accurate meter reading is the first step in the revenue recording process.

COMPARATIVE PROPERTY ACCOUNT
(in thousands)

	1981		1980	
	Original Cost	Adjusted Current Cost	Original Cost	Adjusted Current Cost
Fixed Assets	$324,690	$759,235	$294,950	$662,689
Accumulated Depreciation	77,132	241,566	68,943	222,507
	$247,558	$517,669	$226,007	$440,182

SELECTED FINANCIAL DATA
CPI ADJUSTED

		1981	1980	1979	1978	1977
Consumer Price Index-Canada December 31 . . .		248.0	221.3	199.0	181.3	167.2
* Operating Revenue	$	131,281	137,651	134,843	126,152	108,976
* Operating Expenses	$	84,252	88,242	86,935	79,283	68,286
* Net Income	$	14,497	14,230	14,780	15,173	13,857
Earnings per Share	$	2.96	2.91	3.13	3.26	3.49
Dividends Paid per Common Share	$	1.48	1.57	1.62	1.68	1.56
Share Price - close December 31.	$	20.0	25.2	26.8	25.0	23.7

*in thousands

Inflation is still rampant throughout the economy of the Western world and the debate on an acceptable means of disclosing the effects of this pernicious economic malady continues. Two tables are included in this report as experiments in disclosure of several facets of this problem. This presentation reflects some of the principles contained in the re-exposure draft by the Canadian Institute of Chartered Accountants now being circulated for comment. In the Comparative Property Account a comparison is made of the original cost of fixed assets and accumulated depreciation with the adjusted current cost of these items. The assets were revalued by applying suitable indices to various types of property classified by year of installation. Current cost amounts for depreciation have been derived from a depreciation study of the Company's property. In the second table some elements of performance are compared for the five year period 1977 through 1981 with the results adjusted to 1981 dollars by means of the Consumer Price Index — Canada.

Since these disclosures are experimental in nature the Company would welcome any comment readers may care to make. The address is Director of Finance, Newfoundland Light & Power Co. Limited, P.O. Box 8910, St. John's, Newfoundland A1B 3P6.

Regulation

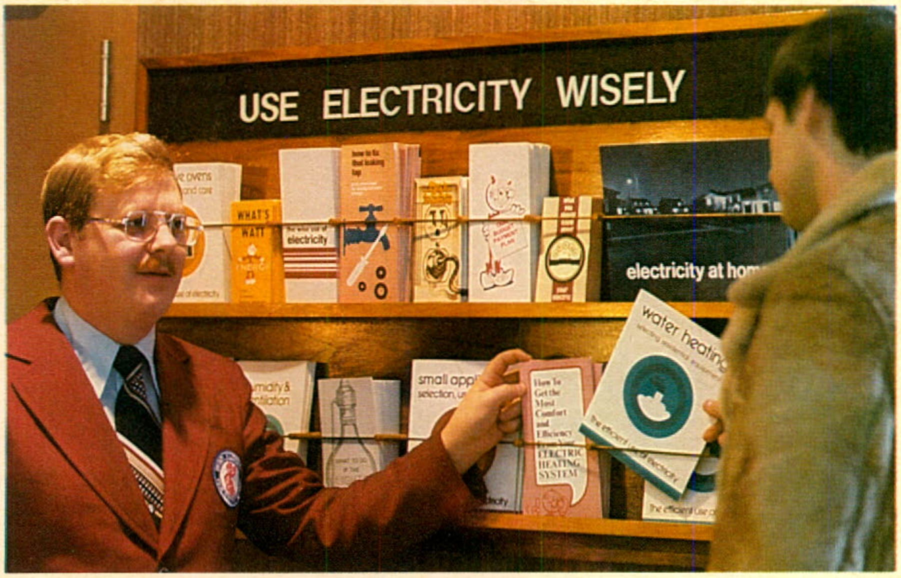
The Company is regulated by The Board of Commissioners of Public Utilities of Newfoundland under the provisions of The Public Utilities Act of 1970 and The Electrical Power Control Act of 1977. The Board has jurisdiction, among other things, over rates, capital expenditures and the issue of securities. 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 Company purchases more than 80% of its power requirements from Newfoundland and Labrador Hydro. Hydro's rates to the Company are regulated under the provisions of The Electrical Power Control Act.

During 1981 the Company participated in a number of public hearings conducted by the Board. The Board approved two Company securities issues. The results of other hearings during the year are summarized below.

On April 24, 1981 the Company applied to the Board for a revision in the rate schedule covering street and area lighting. A public hearing was held in June following which the Board issued Order No. P.U.21 (1981) dated July 17, 1981 in which, while accepting the principles set forth in the Company's submission, it postponed any changes in the rate schedule until the next general application by the Company.

During June 1981 the Company participated as an intervenor in public hearings before the Board on Hydro's application for an increase in the rates it charges to the Company. The Board's report, dated July 29, 1981, recommended a rate increase from 20.70 to 23.97 mills per kilowatt hour and this rate increase was approved by the Lieutenant-Governor-in-Council on July 30th with effect from August 14th. Following a public hearing on the Company's application for a rate increase to offset the increased costs arising from the increase in Hydro's rates, the Board issued Order No. P.U.22 (1981) dated August 17, 1981 approving a new schedule of rates averaging 7% above the preceding schedule and effective October 1, 1981.

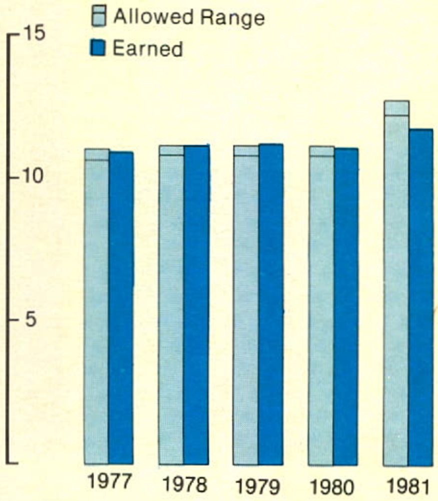


Customer information service helps fulfill the slogan.

In June 1981 the Company also appeared as an intervenor at a hearing called to consider the level of the base price of fuel for Hydro's fuel adjustment clause. After hearing evidence the Board adjourned the hearing and, mainly because of uncertainties in forecasting the price of fuel, the matter is still under review.

The Company made a general application to the Board on September 21, 1981 seeking determination of rate base, rate of return on common equity and on rate base, revised depreciation rates, working capital and a new rate schedule including revisions to the street and area lighting rates. The public hearing on this application commenced on November 2 and concluded on November 18, 1981. Following the hearing the Board issued Order No. P.U.37 (1981) dated November 30, 1981 approving a new schedule of rates effective December 1, 1981 which increased the Company's rates by 7.1% over the levels in effect in November 1981. The Order also approved an average rate base of $203,229,000 for 1980 and determined that a just and reasonable rate of return on average rate base for 1981 and 1982 is between 12.25% and 12.75%. A rate of return on common equity was not specifically ordered by the Board but in its decision the Board found that a rate of return of 17% on common equity would allow the Company to maintain its credit rating and attract capital on reasonable terms and accordingly ordered rates estimated to allow the Company an opportunity to earn 17% on common equity. Included in the Order were revised rates of depreciation determined in the depreciation study submitted by the Company at the hearing, a method for estimating the working capital allowance to be included in rate base and a method for calculating interest during construction.

RATE OF RETURN ON RATE BASE (%)



Management Report

The management and the Board of Directors of Newfoundland Light & Power Co. Limited are responsible for the accompanying financial statements and other information in this annual report. The financial statements have been prepared in accordance with appropriate generally accepted accounting principles and all other information is consistent with the financial statements.

The Company's system of internal accounting controls is designed to provide reasonable assurance of the reliability of the financial information in this report. These controls are monitored and checked by an internal audit program.

The financial statements have been examined by the external auditors, Touche Ross & Co. Their role is to render an independent professional opinion on the fairness with which the financial statements, as prepared by management, present the financial position, results of operations, and changes in financial position of the Company. This opinion is based on examinations conducted in accordance with generally accepted auditing standards.

The Audit Committee of the Board of Directors meets with the internal and external auditors, with and without management being present, to discuss auditing, financial reporting and matters concerning internal control.

President

Director of Finance

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, 1981 and the statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1981 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.

St. John's, Newfoundland,
February 23, 1982.

Touche Ross & Co.
Chartered Accountants

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

Balance Sheet

Assets

	December 31 1981	December 31 1980
	(in thousands)	
PROPERTY ACCOUNT		
Property, plant and equipment	$324,690	$294,950
Accumulated depreciation	77,132	68,943
	247,558	226,007
DEFERRED CHARGES		
Unamortized debt discount and expense	1,558	1,550
Unamortized capital stock issue expense	1,756	1,448
	3,314	2,998
CURRENT ASSETS		
Cash	71	208
Accounts receivable	13,396	12,036
Income taxes receivable	1,055	
Inventories of materials and supplies at average cost	6,152	5,853
Prepaid expenses	240	178
Deferred fuel account	414	
	21,328	18,275
	$272,200	$247,280

Approved on behalf of the Board:

D. S. Templeton *Director*

Geoffrey R. Parsons *Director*

Shareholders' Equity and Liabilities

	December 31 1981	December 31 1980
	(in thousands)	
SHAREHOLDERS' EQUITY		
Common shares (Note 2)	$ 25,801	$ 24,987
Contributed surplus	1,745	1,496
Weather normalization account		1,379
The Capital Redemption Reserve Fund (Note 2)	4,127	2,959
Earnings retained and invested in the business	46,662	42,237
Common shareholders' equity	78,335	73,058
Preference shares (Note 2)	41,873	33,041
	120,208	106,099
LONG TERM DEBT (Note 3)	105,968	91,631
DEFERRED CREDITS		
Contributions in aid of construction	5,724	5,325
Contributions — rural electrification system	10,189	8,395
Deferred income taxes	6,473	5,281
Weather normalization account	1,478	
	23,864	19,001
CURRENT LIABILITIES		
Bank loans	3,150	10,825
Accounts payable and accrued charges	11,601	11,276
Interest accrued on long term debt	2,325	1,750
Current installments of long term debt	2,582	1,996
Income taxes payable		2,333
Dividends payable	2,502	2,034
Deferred fuel account		335
	22,160	30,549
	$272,200	$247,280

See accompanying notes to financial statements

Statement of Income

	Year Ended December 31 1981	1980
	(in thousands)	
OPERATING REVENUES	$131,281	$122,826
EXPENSES		
Purchased power	58,573	56,042
Other operating expenses	25,679	22,697
Provision for depreciation	10,408	9,393
	94,660	88,132
OPERATING INCOME	36,621	34,694
FINANCE CHARGES (Note 4)	10,973	9,923
INCOME BEFORE INCOME TAXES AND TRANSFERS	25,648	24,771
PROVISION FOR INCOME TAXES	11,052	11,188
	14,596	13,583
TRANSFER (TO) FROM WEATHER NORMALIZATION ACCOUNT	(99)	(994)
TRANSFER (TO) FROM REVENUE REBATE ACCOUNT		108
NET INCOME	14,497	12,697
DIVIDENDS ON PREFERENCE SHARES	2,931	2,622
EARNINGS APPLICABLE TO COMMON SHARES	$ 11,566	$ 10,075
EARNINGS PER COMMON SHARE	$2.96	$2.60

Statement of Retained Earnings

	1981	1980
	(in thousands)	
BALANCE AT BEGINNING OF YEAR	$42,237	$37,155
Net income for the year	14,497	12,697
Transfer from excess of appraised value of fixed assets over net book value		1,238
	56,734	51,090
DIVIDENDS		
Preference shares	2,931	2,622
Common shares	5,973	5,428
	8,904	8,050
Transfer to The Capital Redemption Reserve Fund	1,168	803
	10,072	8,853
BALANCE AT END OF YEAR	$46,662	$42,237

See accompanying notes to financial statements.

Statement of Changes in Financial Position

	Year Ended December 31	
	1981	1980
	(in thousands)	
SOURCE OF FUNDS		
From operations		
Income for the year	$14,497	$12,697
Non cash charges and credits		
Depreciation	10,408	9,393
Amortization of deferred charges	253	234
Deferred income taxes	1,192	471
Transfer to weather normalization account	99	995
	11,952	11,093
	26,449	23,790
Contributions in aid of construction	653	733
Net proceeds of bond issues	16,847	
Net proceeds from issue of preference shares	9,584	4,952
Proceeds from issue of common shares	814	618
Increase in bank loans		1,475
	54,347	31,568
APPLICATION OF FUNDS		
Property, plant and equipment	30,640	23,171
Salvage net of dismantling costs and related income taxes	221	236
	30,419	22,935
Decrease in bank loans	7,675	
Increase in deferred charges		4
Dividends		
Preference shares	2,931	2,622
Common shares	5,973	5,428
Reduction of long term debt	2,663	1,966
Redemption of preference shares	919	758
	50,580	33,713
INCREASE (DECREASE) IN WORKING CAPITAL	3,767	(2,145)
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	(1,449)	696
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	$ 2,318	$ (1,449)

See accompanying notes to financial statements.

NEWFOUNDLAND LIGHT & POWER CO. LIMITED

Notes to Financial Statements

For the year ended December 31, 1981

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").

Source of Revenue

The Company is engaged solely in the regulated production and sale of electricity in the Province of Newfoundland.

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, less net salvage, is charged to accumulated depreciation. For major property disposals, any gain or loss on net depreciated cost is carried to income.

Depreciation

Depreciation is 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. The composite rate is approximately 3.6% 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 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 except Series I preference shares which is amortized over 7 years ending October 1, 1989.

Deferred Fuel Account

The Company's rates include a fuel adjustment clause which permits the recovery of differences between actual fuel cost and a cost calculated by using a fixed base unit price. There is, however, a time lag between the periods where these differences occur and the periods in which they are billed to customers and they are deferred until that time to achieve a proper matching between cost and revenue.

Foreign Currency Translation

Debt obligations in foreign currencies are recorded at the Canadian exchange rate prevailing when incurred.

Unrealized exchange gains and losses are not recognized. As at December 31, 1981, $12,500,000 Canadian was required to translate foreign currency carried at $10,696,000. As at December 31, 1980, $12,900,000 was required to translate foreign currency obligations carried at $10,938,000.

Customer and Government Contributions

Contributions in aid of construction and rural electrification system represent the cost of property, plant and equipment contributed by customers and governments. Certain contributions by the Province of Newfoundland carry conditional options allowing the province to reacquire the plant so contributed. These accounts are being reduced annually by an amount equal to the charge for depreciation provided on the contributed portion of the cost of the assets involved.

Deferred 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. Commencing January 1, 1979, The Board allowed the tax allocation method with respect to the timing difference between depreciation and capital cost allowances for depreciable assets acquired subsequent to that date and commencing January 1, 1981 for all depreciable assets.

If the full tax allocation method of accouinting, under which income tax is based on reported income, had been followed commencing in 1967, the cumulative amount of the deferred income tax credit would have been increased by approximately $24,500,000 to December 31, 1981 (1980 - $22,000,000).

Weather Normalization Account

The Board has ordered provision of a weather normalization account 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 account as at December 31, 1981 and the underlying calculations have been approved by the Board. By Order of the Board the weather normalization account was reclassified as a deferred credit effective January 1, 1981.

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.

Changes in Financial Position

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

2. Capital Stock

	December 31 1981	December 31 1980
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	5,000,000	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		
3,783,445 Class A shares		
147,747 Class B shares	(in thousands)	
3,931,192 common shares (3,888,206 shares December 31, 1980)	$ 25,801	$ 24,987
First preference shares		
198,000 5½% Series A	$ 1,980	$ 2,000
346,000 5¼% Series B	3,460	3,500
18,717 6% Series C	187	214
359,770 7¼% Series D	3,598	3,701
440,800 9% Series E	4,408	4,606
780,000 9.84% Series F	7,800	8,200
564,000 7.60% Series G	5,640	5,820
480,000 91/8% Series H	4,800	5,000
1,000,000 14¼% Series I	10,000	
4,187,287 (3,304,100 shares December 31, 1980)	$41,873	$33,041

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 interconvertible on a share for share basis and rank equally in all respects including dividends.

Common shares were issued during the year as follows:

	Shares	(in thousands)
Dividend reinvestment plan	27,152	$ 513
Stock dividends on Class B	10,427	194
Employee share purchase plan	5,407	107
	42,986	$ 814

Each series of first preference shares is redeemable at the option of the Company at a premium not in excess of the annual dividend rate, except that certain series may not be redeemed prior to designated dates. The Company is required to redeem on October 1, 1984 and October 1, 1989 any Series I First Preference Shares tendered on or before August 31, 1984 and August 31, 1989, respectively, at a price of $10 per share plus all accrued and unpaid dividends to October 1, 1984 and October 1, 1989 respectively. Certain series of first preference shares are subject to the operation of purchase and/or sinking funds. The Company has the right to purchase limited amounts of Series D,E,F,G,H and I at or below par and call limited amounts of Series F and H at par to satisfy the conditions of these funds.

Changes in preference shares during the year were as follows:

	Shares	(in thousands)
Issued for cash	1,000,000	$10,000
Redeemed	(116,813)	(1,168)
	883,187	$ 8,832

The gain on redemption of preference shares ($248,984) has been credited to contributed surplus.

The par value of preference shares purchased to date in the amount of $4,127,130 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 1981	December 31 1980
		(in thousands)	
First mortgage sinking fund bonds:			
5¾%	Series E, due 1984	$ 2,675	$ 2,675
4¾%	Series H, due 1981		590
5¾%	Series I, due 1982	1,211	1,231
5¾%	Series J, due 1983	975	987
7%	Series K, due 1985	1,382	1,429
6½%	Series L, due 1986	776	776
6¼%	Series P, due 1981		187
7%	Series R, due 1986	4,315	4,390
7¾%	Series S, due 1988	2,497	2,537
8%	Series T, due 1991	4,878	4,978
11¼%	Series V, due 1996	19,345	19,695
11½%	Series W due 1999	5,000	5,000
14¼%	Series X, due 1987	7,000	
18¼%	Series Y, due 1988	10,000	
		60,054	44,475
5⅜%	Series M, due 1990(U.S. $2,125,000)	2,295	2,322
8¼%	Series U, due 1992 (U.S. $8,000,000)	7,974	7,974
		70,323	54,771
General mortgage sinking fund bonds:			
9½%	Series D, due 1990	3,537	3,587
11¼%	Series F, due 1994	14,894	14,894
10½%	Series G, due 1997	19,200	19,550
		37,631	38,031
7% Promissory Note, payable in four equal semi-annual installments (U.S. $227,617)		232	348
8½% Bills of Exchange payable in four equal semi-annual installments (U.K. £90,155)		196	294
11% first mortgage payable in 87 monthly blended installments		168	183
		596	825
		108,550	93,627
Less: Current installments		2,582	1,996
		$105,968	$91,631

The first mortgage bonds are secured by a first fixed and specific charge on property, plant and equipment owned or to be acquired by the Company and by a floating charge over all other assets.

The annual requirements to meet sinking fund payments, installments and maturing issues of long-term debt outstanding as at December 31, 1981 for each of the years to 1986 are as follows:

	1982	1983	1984	1985	1986
			(in thousands)		
Sinking fund payments and installments	$1,371	$1,358	$1,117	$1,100	$1,092
Maturing issues	1,211	963	2,615	1,322	4,801
	$2,582	$2,321	$3,732	$2,422	$5,893

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, 1981 these conditions had been met.

4. Finance Charges

	1981	1980
	(in thousands)	
Interest — long-term debt	$10,118	$ 9,158
— other	1,602	936
	11,720	10,094
Amortization — debt discount and expense	145	138
— capital stock issue expense	108	96
	253	234
	11,973	10,328
Less: Interest charged to construction	560	244
Discount on bonds purchased for sinking fund	261	109
Interest earned	179	52
	1,000	405
	$10,973	$ 9,923

5. Retirement of Employees

The Company has no guaranteed or funded pension or retirement benefit plan for 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 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. The Board has so allowed the income supplements being paid.

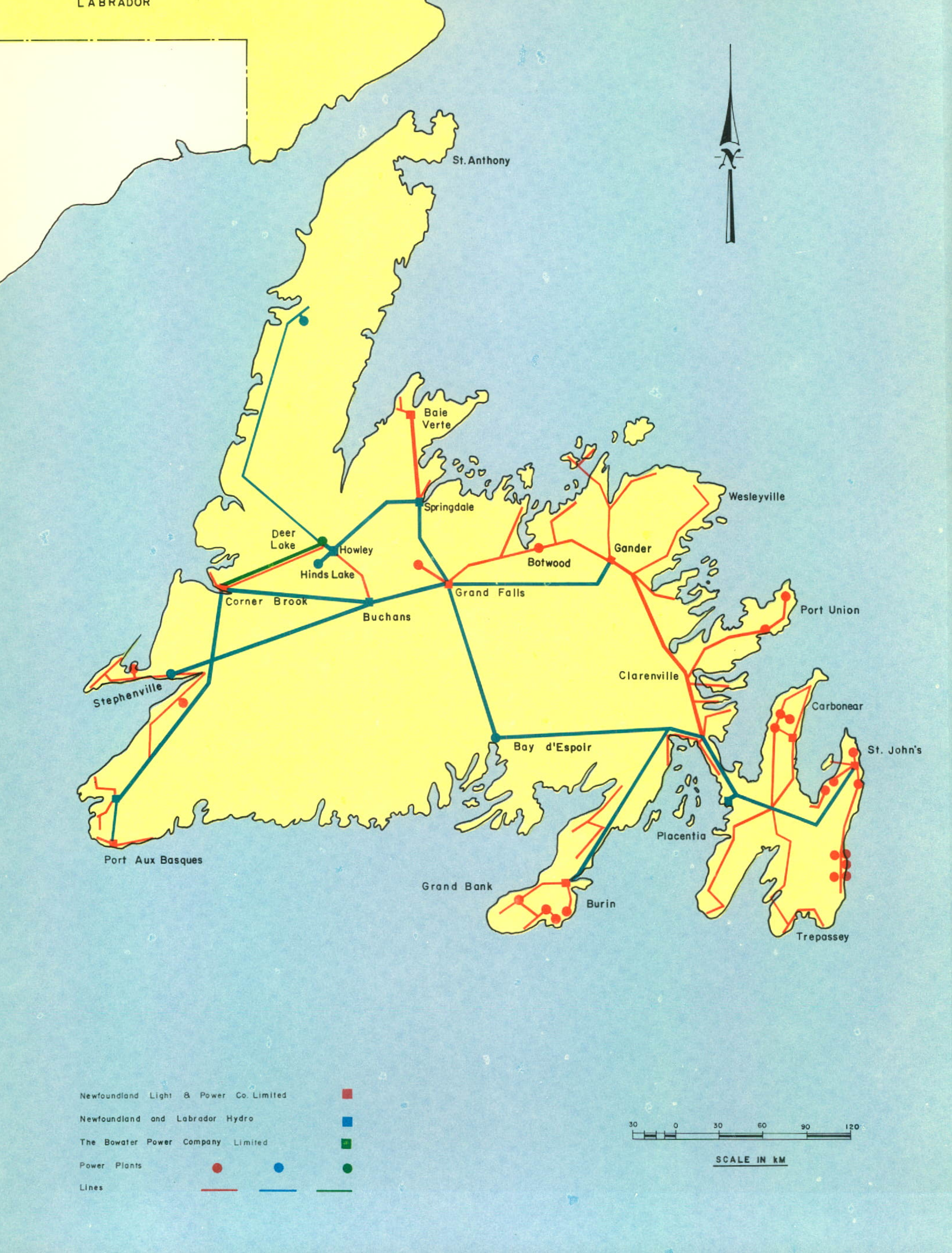
NEWFOUNDLAND LIGHT & POWER CO. LIMITED

Five Year Summary

	1981	1980	1979	1978	1977
INCOME AND EXPENDITURE					
(thousands of dollars)					
Operating revenue	$131,281	$122,826	$108,204	$ 92,223	$ 73,469
Operating expenses	84,252	78,739	69,760	57,960	46,037
Finance charges	10,973	9,923	9,690	9,210	8,668
Depreciation	10,408	9,393	8,574	7,845	6,702
Income taxes	11,052	11,188	8,320	5,803	3,076
Balance after preference dividends	11,566	10,075	9,644	9,098	7,338
Dividends on common shares	5,973	5,428	5,105	4,788	3,819
Retained in the business	5,593	4,647	4,539	3,540	3,402
Number of common shares at year end (thousands)	3,931	3,888	3,861	3,837	3,817
Earnings per common share ($)	2.96	2.60	2.51	2.38	2.35
BALANCE SHEET DATA					
(thousands of dollars)					
Property, plant and equipment	324,690	294,950	272,585	254,760	238,008
Accumulated depreciation	77,132	68,943	61,513	53,921	48,608
Net fixed assets	247,558	226,007	211,072	200,839	189,400
First mortgage bonds	68,373	53,404	55,317	50,838	53,623
Other long term debt, bank loans and notes payable	40,745	49,052	48,834	51,714	43,062
Total debt	109,118	102,456	104,151	102,552	96,685
Preference shares	41,873	33,041	28,844	23,601	24,371
Common equity	78,335	73,058	66,754	61,852	57,382
Total capital	229,326	208,555	199,749	188,005	178,438
OPERATING STATISTICS					
Sources of Energy (millions of kWh)					
Purchased	2,575	2,597	2,503	2,446	2,286
Generated	425	462	359	378	332
Total	3,000	3,059	2,862	2,622	2,618
Sales (millions of kWh)					
Domestic	607	608	589	591	598
Domestic all-electric	941	966	881	878	801
General service all-electric	465	464	463	430	386
General service and street lighting	819	810	757	723	684
Total	2,832	2,848	2,690	2,622	2,469
Customers (year-end)					
Domestic	86,370	86,916	86,729	86,787	87,780
Domestic all-electric	49,426	45,764	42,819	39,605	35,713
General service all-electric	3,840	3,516	3,828	3,499	3,107
General service and street lighting	20,470	20,273	19,489	19,392	19,085
Total	160,106	156,469	152,865	149,283	145,685
Annual degree days — St. John's (Celsius)	4,428	5,095	4,641	5,088	4,808

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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