Newfoundland Light & Power Co. Limited

1985 Annual Report

Table of Contents

The Company

Newfoundland Light & Power Co. Limited and its predecessor companies have been generating and distributing electricity on the island portion of the province for over 100 years. The Company now serves 172,000 customers in over 600 communities, and employs 938 people with varied skills and trades. Gross fixed assets (property, plant and equipment) at December 31, 1985, amounted to $432 million.

The Company serves 85% of the electrical consumers in the province and three-quarters of all sales are to domestic and small general service customers. The Company owns and operates 30 small generating plants but the bulk of its energy requirements is purchased for distribution and resale. It maintains 9,062 kilometres of transmission and distribution lines.

The number of Common shares outstanding exceeds 8,447,000 and these are widely distributed among more than 6,300 shareholders. Common shares are traded on the Montreal and Toronto exchanges and public issues of First Preference shares are traded on The Montreal Exchange.

Newfoundland Light & Power Co. Limited

NOTICE TO SHAREHOLDERS
AND
INFORMATION CIRCULAR

ANNUAL GENERAL MEETING

MAY 1, 1986

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting of the Shareholders of Newfoundland Light & Power Co. Limited will be held in the Garrison Room, Hotel Newfoundland, St. John's, Newfoundland, on Thursday, May 1st, 1986 at 11:00 o'clock in the forenoon for the following purposes:

1. Receiving and considering the Report of the Directors, the Financial Statements, and the Auditors' Report for the year ended December 31, 1985.
2. Electing Directors and fixing their remuneration.
3. Appointing Auditors and authorizing Directors to fix their remuneration.
4. Transacting such other business as may properly come before the meeting.

R. F. GOSINE,
Secretary

St. John's, Newfoundland
March 25, 1986

PLEASE COMPLETE, DATE AND SIGN AND RETURN YOUR PROXY CARD PROMPTLY in the enclosed postage paid envelope if you do not expect to attend the meeting in person.

Information Circular

(Dated as of March 25, 1986)

THIS INFORMATION CIRCULAR IS FURNISHED IN CONNECTION WITH THE SOLICITATION OF PROXIES BY AND ON BEHALF OF THE MANAGEMENT OF NEWFOUNDLAND LIGHT & POWER CO. LIMITED FOR USE AT THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF THE COMPANY TO BE HELD IN ST. JOHN'S, NEWFOUNDLAND ON THURSDAY, THE 1ST DAY OF MAY, 1986 AND AT ANY ADJOURNMENT THEREOF FOR THE PURPOSES SET OUT IN THE PRECEDING NOTICE.

SOLICITATION OF PROXIES

PROXIES ARE BEING SOLICITED BY THE MANAGEMENT OF THE COMPANY. The management of the Company has obtained the consent of the directors named in the enclosed proxy card and an indication of their willingness to represent as proxy the shareholders who so appoint them. The management will, at the cost of the Company, make its solicitation primarily by mail; however, the directors, officers and regular employees of the Company may also solicit proxies by telephone, telegram or in person.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are directors of the Company. A SHAREHOLDER DESIRING TO APPOINT SOME OTHER PERSON WHO IS A SHAREHOLDER OF THE COMPANY TO REPRESENT HIM AT THE MEETING MAY DO SO either by inserting such person's name in the blank space provided in the form of proxy or by completing another proper form of proxy and, in either case, depositing the completed proxy at the principal office of the Company or the principal office of Montreal Trust Company in St. John's, Newfoundland or Montreal, Quebec, as agent of the Company not later than forty-eight (48) hours (excluding Saturdays and holidays) before the time of holding the meeting.

A proxy given pursuant to this soliciation may be revoked. A proxy or form of revocation shall be by instrument in writing executed by the shareholder or by his attorney authorized in writing, or, if the shareholder is a corporation under its corporate seal or by an officer or attorney thereof duly authorized. In the case of joint or common ownership of any kind, the signature of each of the owners is required on the proxy or form of revocation. A proxy or form of revocation shall be deposited either at the principal office of the Company or the principal office of Montreal Trust Company in St. John's, Newfoundland or Montreal, Quebec, as agent of the Company not later than forty-eight (48) hours (excluding Saturdays and holidays) before the time of holding the meeting.

VOTING OF PROXIES

Shares represented by properly executed proxies in favour of persons designated in the printed portion of the enclosed form of proxy WILL BE VOTED ON THE ELECTION OF DIRECTORS AND THE APPOINTMENT OF AUDITORS AS STATED UNDER THOSE HEADINGS IN THIS CIRCULAR OR WILL BE WITHELD FROM VOTING IF SO INDICATED ON THE FORM OF PROXY. The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting, or other matters which may properly come before the meeting. At the time of printing this circular the management of the Company knows of no such amendments, variations or other matters to come before the meeting.

VOTING SHARES

The Company's issued and fully paid outstanding and non-assesible capital stock as of December 31, 1985 consists of an aggregate of 8,447,897 Class A and Class B common shares without nominal or par value and 3,728,187 Cumulative Redeemable First Preference shares of a par value of $10 each, issued in series as follows: 192,300 5½% Series A, 339,000 5¼% Series B, 18,467 6% Series C, 318,470 7¼% Series D, 369,000 9% Series E, 589,850 9.84% Series F, 501,000 7.60% Series G, 400,000 9 1/8% Series H and 1,000,000 14¼ Series I. Each shareholder of the Company of record at the time of each meeting, or any adjournment thereof, shall be entitled to one vote for each share held.

Of the 12,176,084 preference and common shares issued and outstanding, except such of the common shares issued pursuant to the Company's Customer Share Purchase Plan which may be held by Montreal Trust Company in its name for the account of participating shareholders, none are pooled, escrowed, non-transferable, bound by an agreement or restricted from sale or transfer in any manner whatsoever. No one shareholder is the registered owner of more than 10% of the issued and outstanding shares to the knowledge of the Company.

ELECTION OF DIRECTORS

The Articles of Association of the Company provide that the number of directors shall be not less than nine nor more than fifteen to be elected annually and the directors so elected shall hold office until the election of their successors. The directors have the power at any time to appoint any person as a director to fill a casual vacancy and any director so appointed shall hold office until the next meeting of shareholders at which time an election of directors is held, and shall then be eligible for re-election.

The management of the Company does not contemplate that any of the nominees as set out herein will be unable to serve as a director but, if that should occur, the directors named in the enclosed instrument of proxy reserve the right to vote for another nominee in their discretion.

The following persons are proposed to be nominated for election as Directors of the Company:

Name	Principal Occupation	Director since	Number of Common Shares of the Company Beneficially Owned Directly or Indirectly	First Preference Shares of the Company Beneficially Owned Directly or Indirectly
			(As at December 31, 1985)	
Aaron Bailey	President Port Union Shipping Co. (1948) Ltd.	1966	6732	10
Angus A Bruneau	Appointed President of Newfoundland Light & Power Co. Limited, effective May 1, 1986	—	—	—
Alastair Duncan Cameron	Senior Consultant, Monenco Consultants Limited, Engineering & Management Consultants	1969	4458	2500
Henry Collingwood	Chairman and Chief Executive Officer, Baine, Johnston & Co. Ltd., Real Estate Development Company	1966	3082	1000
John Benjamin Foote	Senior Executive Officer, J.B. Foote & Sons Ltd. General Merchants	1978	1000	—
Geoffrey Robert Parsons	President, Lakeview Limited Investment Consultants	1978	314	—
Ewart Arthur Pratt	Chairman, Steers Limited General Merchants	1966	4950	1500

Name	Principal Occupation	Director since	Number of Common Shares of the Company Beneficially Owned Directly or Indirectly	First Preference Shares of the Company Beneficially Owned Directly or Indirectly
			(As at December 31, 1985)	
James Ernest Rorke	Senior Officer, The Rorke Fish & Coal Co., Limited, Wholesale and Retail Merchants	1966	4100	—
Aidan Francis Ryan	Vice-President and General Manager, Newfoundland Light & Power Co. Limited	1983	3975	—
Harold Raymond Steele	President and Chief Executive Officer, Newfoundland Capital Corporation, Limited, Transportation Company	1980	2000	—
David Smith Templeton	Corporate Consultant	1976	22,458	50
Clyde Kirby Wells, Q.C.	Barrister and Solicitor Wells and Company	1978	1102	—
Marshall MacKenzie Williams	Chairman of the Board, and Chief Executive Officer, TransAlta Utilities Corporation, Electric Utility	1977	288	—

NOTE:

The information as to shares beneficially owned or over which they exercise control or direction not being within the knowledge of the Company has been furnished by the respective directors individually.

All of the above-named nominees have held their present positions or other executive positions with the same or associated firms or organizations during the past five years.

IF ANY OF THE ABOVE NOMINEES IS FOR ANY REASON UNAVAILABLE TO SERVE AS A DIRECTOR, PROXIES IN FAVOUR OF MANAGEMENT WILL BE VOTED FOR ANOTHER NOMINEE IN THEIR DISCRETION UNLESS THE SHAREHOLDER HAS SPECIFIED IN THE PROXY THAT HIS SHARES ARE TO BE WITHHELD FROM VOTING IN THE ELECTION OF DIRECTORS.

DIRECTOR'S LIABILITY INSURANCE

The Company has insurance covering the Company, its directors and officers against the costs of any legal liability incurred by the directors or officers when acting in those capacities. This policy has a maximum coverage of $5,000,000 for each incident subject to $25,000 deductible. The premium attributable to such coverage is $6,810.

REMUNERATION OF MANAGEMENT

Nature of remuneration earned

	Directors' fees	Salaries	Bonuses	Non-accountable expense allowance	Other	Total
Remuneration of Directors (a) Number of Directors: (15) (b) Body Corporate incurring the expense: The Company	$134,965	—	—	—	—	$134,965
Remuneration of Officers (a) Number of Officers: (12) (b) Body Corporate incurring the expense: The Company	35,426	$594,700	—	—	—	630,126
Totals	$170,391	$594,700	—	—	—	$765,091

NOTE: 1) 2 Officers received no remuneration directly from the Company.
2) 5 Officers of the Company were also Directors of the Company.
3) Of the total Directors' fees of $170,391, the amount of $30,391 remains to be paid.

The estimated aggregate cost to the Company in the last completed financial year of all benefits proposed to be paid under any pension or retirement plan upon retirement and at normal retirement age to Directors and Officers of the Company as a group. $73,436

Aggregate of all remuneration payments other than those referred to above made during the Company's last completed financial year and proposed to be made in the future by the Company pursuant to an existing plan to the Directors and Officers of the Company. NIL

MANAGEMENT INTEREST

The sum of $175,617 was paid during the fiscal year 1985 to Monenco Consultants Limited, 2045 Stanley Street, Montreal, for the services of Messrs. A.D. Cameron, A.E. O'Reilly, G.N.C. Rivington, M.A. Pavey and H.B. Curtis all of whom are or were during such year directors, officers or employees of Monenco Consultants Limited.

The sum of $34,140 was paid during the fiscal year 1985 to Wells and Company, 139 Water Street, St. John's, for the consultant services of Mr. C.K. Wells, Q.C. who was during such year a partner of Wells and Company.

APPOINTMENT OF AUDITORS

Since the last annual meeting, the Board requested Touche Ross and Partners, the management consulting firm associated with the company's auditors, Touche

Ross & Co., to provide special services in the performance of a diagnostic audit and in the conduct of an executive search, for which services that firm was paid a total of $135,000. The Board also determined, in February, 1986, that the U.S. arm of Touche Ross & Co. performed certain advisory services for the city of St. John's relating to the advisability of the city seeking to take over the street lighting system operated by the Company in the city. Though undertaken in the name of the St. John's office of Touche Ross & Co., the Board is satisfied that this was performed entirely by personnel of the U.S. arm of the firm and satisfied that immediately upon the Board raising the issue with Touche Ross & Co. they forthwith instructed their U.S. firm to withdraw from any further work for the city in connection with the matter. The Board is satisfied that the ability of Touche Ross & Co. to fully and effectually perform the shareholders audit has not been impaired and recommends their reappointment as auditors. The persons named in the enclosed instrument of proxy propose to vote for their re-appointment as auditors of the Company at the Annual General Meeting, except to the extent that the proxies otherwise require.

GENERAL

The management knows of no matters to come before the proposed meeting other than the business referred to in the notice of the meeting. However, if any other matters should be properly brought before the meeting, the accompanying proxy will be voted on such matters in accordance with the best judgement of the persons voting the proxies.

The contents and the sending of this Circular have been approved by the Directors of the Company.

DATED as of 25th day of March, 1986.

R. F. GOSINE,
Secretary

Printed by
Vic Andrews Ltd.

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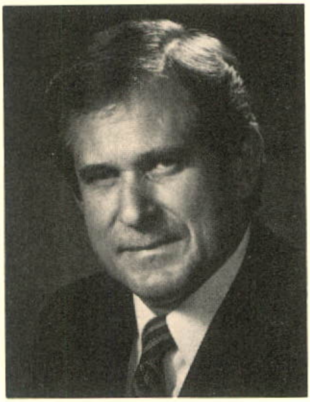
Appointment of President and Chief Executive Officer



Angus A. Bruneau

Mr. Clyde K. Wells, Chairman of the Board of Newfoundland Light & Power Co. Limited, is pleased to announce the appointment of Angus A. Bruneau as President and Chief Executive Officer of the Company, with effect from May 1, 1986.

Dr. Bruneau has had a distinguished career in engineering education and development. He holds a Bachelor's Degree in Engineering Physics from the University of Toronto, a D.I.C. from the Imperial College, London, England and a Ph.D. from the University of London, England. Before coming to Newfoundland he was on the faculty of the University of Waterloo and held the position of Director of General Engineering.

Dr. Bruneau became Dean of Engineering and Applied Science at Memorial University of Newfoundland in 1968 and Vice President for Professional Schools and Community Services in 1974. While at Memorial, he was closely associated with the establishment of Newfoundland and Labrador Computer Services Limited, the Centre for Cold Ocean Resources (C-CORE) and the Newfoundland Oceans Research and Developments Corporation (NORDCO). Since 1979 he has operated a consulting firm, Bruneau Resources Management Ltd., which provides strategic planning and technical advice to a number of major industrial clients.

Dr. Bruneau is a Director of a number of companies and has served on a large number of national councils and advisory bodies, primarily in areas concerned with research, science, technology and industrial policy.

Dr. Bruneau is a member of the Association of Professional Engineers in both Newfoundland and Ontario, a member of the Engineering Institute of Canada, and an Officer of the Order of Canada.

Newfoundland Light & Power
Co. Limited

Highlights 1985

	1985	1984	% Change
FINANCIAL RESULTS			
Operating Revenue*	$244,007	$197,217	23.7
Net Income*	20,857	19,831	5.2
Earnings per common share	2.05	1.95	5.1
Dividends declared per common share	1.06	1.01	5.0
Gross fixed assets*	432,075	404,600	6.8
Capital expenditures*	33,117	30,642	8.1
OPERATING RESULTS			
Energy Sales (millions of kilowatt-hours)	3,331	3,148	5.8
Number of customers	172,119	169,071	1.8
Number of employees	938	935	0.3

(*in thousands)

QUARTERLY SHARE STATISTICS

	First	Second	Third	Fourth
Earnings per share	$ 0.73	$ 0.64	$ 0.26	$ 0.42
Dividends paid	0.265	0.265	0.265	0.265
Share price - High	18.00	19.375	19.125	18.375
Share price - Low	15.75	16.50	17.75	16.125

Computerized control of the Company's system is essential to maintaining a highly efficient and reliable service.

Report to the Shareholders

The year 1985 marked one hundred years of electrical service by Newfoundland Light & Power Co. Limited, and its predecessors, to the public of Newfoundland. In celebrating this anniversary the Company undertook several community related projects, underscoring its continued commitment to the public it serves.

Earnings applicable to common shares increased by 6.8% to $17.2 million, while the average number of shares outstanding increased by 1.7%. Earnings per common share were $2.05 compared with $1.95 in 1984, and dividends declared in 1985 were $1.06 compared with $1.01 in 1984.

While actual kilowatt-hour sales in 1985 were up by 5.8%, much of the increase was attributable to weather conditions which were both colder than normal and colder than the previous year. The weather adjusted load growth of 2.6% was in line with the real growth in the provincial economy.

The Company serves a diversified market with the greater part of total sales being made to a large number of residential and small general service customers. Consequently, the general tenor of the Province's economy has a greater impact on the Company's load growth than variations in activity in any one industry.

In 1985 the provincial economy grew by approximately 2%. Early optimism over the signing of the Atlantic Accord, moderating inflation, and lower interest rates was dampened somewhat by difficulties in major resource industries.

Economic growth is forecast to increase slightly in 1986 with expectations of increased activity in most sectors. After a decline in the fishery for most of 1985, the recent return to normal catches, coupled with a stronger market and higher prices, have led to a more positive outlook for 1986. In the mining sector, while activity overall may be stable, reactivation of a fluorspar mine within the Company's service area is a positive development. In the pulp and paper industry, upgrading of the mills at Corner Brook and Grand Falls may constrain output again in 1986 but the longer term effect on productivity and efficiency will be beneficial. Optimism for the construction industry is buoyed by anticipation of offshore oil related construction contracts, and continuation of construction on a number of large commercial projects in St. John's, which began in 1985.

While overall growth in the provincial economy in 1986 may be only marginally higher than in 1985, the groundwork being laid in most sectors bodes well for the future.

The proportion of Common equity in the Company's total capitalization has increased significantly over the past ten years. Measures were taken in March to restrain equity growth by modifying the share purchase plans available to common shareholders. The 5% discount on reinvested dividends was removed from the Dividend Reinvestment Plan, Stock Dividend Programme, and Customer Share Purchase Plan, and cash purchases through these plans were limited to $4,000 yearly.

At year end it became apparent that further measures were necessary and a decision has been made to suspend the Dividend Reinvestment Plan and Stock Dividend Programme for an indeterminate period, commencing after payment of the common dividend on March 1, 1986.

Clyde K. Wells
Chairman of the Board

At a meeting of the shareholders on May 1, 1985, approval was given to subdivide each of the common shares into two shares. The subdivision took place following the close of business on June 28, 1985. Your directors believe that this action will result in broader distribution and increased marketability of the Company's common shares.

In December the Company issued $15 million of First Mortgage Bonds at a rate of 11.5%. These bonds will mature in 2005 and mark a return to longer term financing that had not been available in recent years.

Capital expenditures of $33.0 million were financed through the bond issue, the share purchase plans, and internally generated funds. Most of the expenditures related to improvement and expansion of the electrical distribution system but efforts continued on upgrading existing generating facilities and investigating new sources of renewable energy. Capital expenditures in 1986 are forecast to be $35 million.

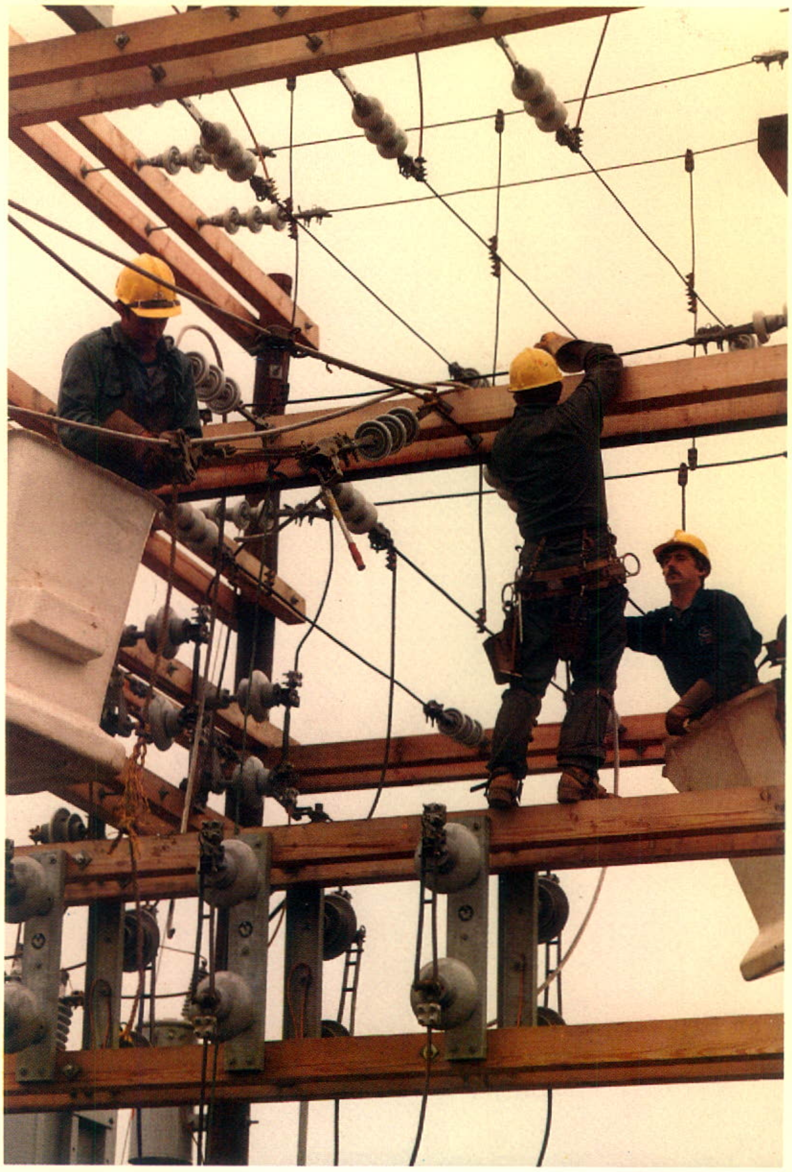
The Company generated approximately 9% of its power requirements in 1985 and purchased the balance from Newfoundland and Labrador Hydro Corporation. Precipitation was below normal throughout the Province and increased thermal production was necessary to compensate for low water conditions.

Following public hearings by the Board of Commissioners of Public Utilities, Newfoundland and Labrador Hydro was permitted to change the rates charged for power purchased by the Company. Among other things, the changes eliminate the fuel adjustment charge which had been part of Hydro's tariff and which was passed on as a separate charge to consumers by the Company. New rates were subsequently approved for the Company incorporating the revised treatment of fuel charges. The new rates were effective on January 1, 1986.

The Company determined that it would require an increase in retail rates in 1986 to cover increases in expenses other than purchased power. Accordingly, on January 23, 1986, it applied for a 3.4% increase to take effect later in the year.

Mr. Aaron Bailey retired as Chairman of the Board on March 22, 1985. Mr. Bailey had served as Chairman from 1978 and as President from 1967 to 1978. He continues to serve as a Director. Mr. Clyde K. Wells has been elected as Chairman of the Board.

Mr. David S. Templeton retired as President of the Company on December 31, 1985. He had held the position from 1982, prior to which he was Vice President and General Manager. Mr. Templeton continues as a Director and as a consultant to the Company.



Investment in new facilities today ensures that the demands of tomorrow's customers will be met.

Mr. George J. Adams, Vice President, Finance of the Company retired on December 31, 1985. Mr. Adams served in that capacity since 1982 and as Treasurer from 1967 to 1982.

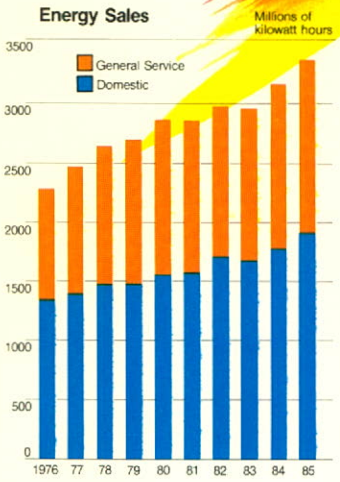
The Board of Directors takes this opportunity to thank Messrs. Bailey, Templeton, and Adams for the contributions which they made to the growth and development of the Company.

In October, 1985, Mr. Donald C. McLeod, retired from the Board after serving as a Director since 1981. The Directors express their gratitude to Mr. McLeod for the sound advice he brought to the Board.

The Directors acknowledge the excellent work done by management and staff throughout the year. Their dedication and cooperation is very much appreciated.

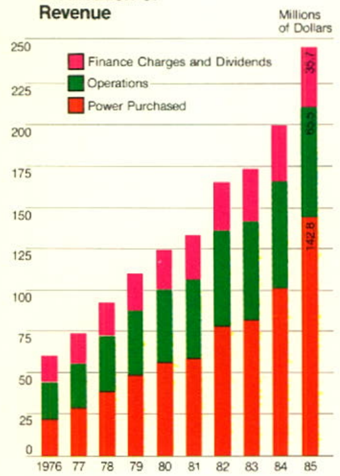
Clyde K. Wells
Chairman of the Board

Energy Sales



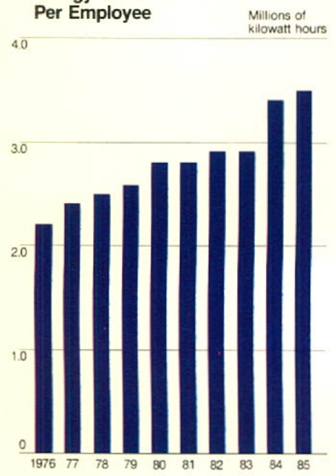
Domestic consumption has represented the major portion of sales over the past ten years.

Distribution of Revenue



Power purchased grew from 37% of revenue in 1976 to 58% in 1985.

Energy Sales Per Employee



Electrical output per employee has increased—indicating increased corporate productivity.

CUSTOMER SERVICES

Total energy sold in 1985 increased by 5.8% to 3,331 million kilowatt-hours. When adjustments are made to reflect normal weather conditions, however, the adjusted growth amounts to 2.6%. The all-electric domestic and all-electric general service sectors accounted for most of the growth, with little being recorded in the industrial sector due to lack of expansion in the mining and fishing industries.

The number of customers increased by 3,048 to 172,119, an overall gain of 1.8%. The growth was 2.1% for the domestic class and 0.4% for the other classes.

Average annual use by domestic all-electric customers continued its downward trend in response to conservation efforts and was 19,064 kilowatt-hours compared to 19,506 kilowatt-hours in 1984. The modest increasing trend for other domestic customers continued with average use in 1985 being 7,664 kilowatt-hours compared to 7,605 kilowatt-hours in 1984.

Lower than normal precipitation in the fall of 1984 and the early months of 1985, following several years of above average precipitation, reduced the available output from hydro sources and substantially increased dependency on oil-fired generation. This caused the Fuel Adjustment Charge on customers' bills to reach record high levels during the early months of 1985 and resulted in much public criticism of the Company's rates and in particular the Fuel Adjustment Charge. Following hearings before the Public Utilities Board, the Fuel Adjustment Charge was dropped, effective January 1, 1986, in favour of an allowance for fuel costs built into the basic rates and the establishment of a Rate Stabilization Account.

Electricity continues to be the predominant energy source used for new space heating installations. Of the residential units constructed in 1985, 69% had electric heat, compared to 67% in 1984 and 1,419 existing customers converted to electric heat compared to 1,361 in 1984. At year end approximately 44% of householders in our service area were using electricity as the principal means of space heating compared to 42% in 1984. Most non-residential buildings connected in 1985 were also electrically heated. It is estimated that electric heating now accounts for about 46% of the Company's total load.

An advanced customer relations training programme was completed for 250 employees whose duties involve direct contact with customers. Such training assists the Company's staff in responding effectively to the day to day requirements of its customers.

POWER SUPPLY

Energy produced and purchased in 1985 was 3,531 million kilowatt-hours compared to 3,352 in 1984.

Of this, 90.7% was purchased from Newfoundland and Labrador Hydro. Hydro-electric sources provided 69% of all energy generated with the balance from thermal generation.

The Company produced 17.8% less energy than normal from its hydro plants as a result of below average precipitation for the year. Total precipitation in 1985 was 79% of normal at St. John's and 89% of normal in the central portion of the province.

Remote control of plants and other equipment leads to reduced operating costs and increased productivity.

CAPITAL

In 1985 expenditures on capital projects amounted to $33.0 million. The greater portion of this, $19.7 million, was used to extend the distribution system to supply new customers and, as well, to improve the performance and reliability of our supply to existing customers.

Expenditures on transmission and substation plant amounted to $3.7 million, the same level as in 1984.

Total expenditures during 1985 in the area of energy supply amounted to $5.1 million. The penstock at Tors Cove hydro plant was replaced with a larger one which increased plant capacity. As recommended in a recent study, several storage dams were rehabiliated to ensure their integrity.

New communications equipment was installed in the Central Region in 1985 to provide greater coverage and efficiency. During 1986 it is planned to commence work on upgrading the Company's communication system in the Western Region to remotely control substations and plants.

The Company's study to construct a 5 MW energy-from-waste facility in St. John's has been deferred as a result of the curtailment of a Federal programme which would have made this project economically attractive. The Company has, however, continued its study of small potential hydro sites near its distribution system. Hydro plants under 15 MW are eligible for favourable income tax treatment under a Federal energy programme.

Additional equipment installed at head office during the year substantially increased the capacity of the central computer system. As well, a number of micro computers were acquired. These will enable in-house analysis of statistical, financial and engineering data and enhance productivity and decision support systems.

On-going maintenance of the Company's plant is required to achieve high levels of reliability.

STAFF

The number of employees at year end was 938, an increase of three from 1984.

To assist in matching individual qualifications with changing work requirements, the Company announced a special enhanced early retirement plan to become effective in 1986.

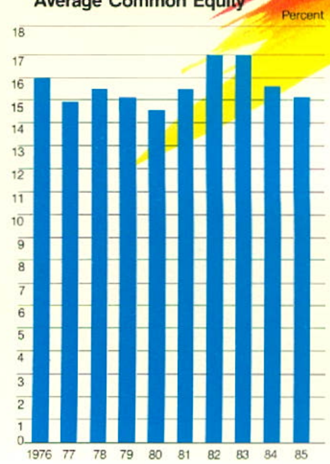
Early in the year the Company undertook a comprehensive job evaluation programme to ensure that the salaries paid to its technical, clerical and managerial employees are consistent with the local market and equitable internally. Implementation of the programme will be completed early in 1986.

The reduced construction programme continues to affect the level of employment of the tradesmen over the winter months. Fortunately, early in 1985 the Company was able to offer alternate employment to everyone affected.

Negotiations with the Technical and Clerical Association culminated in the signing of a three year agreement which will expire May 31, 1988. The current agreement with the International Brotherhoood of Electrical Workers expires on September 30, 1986.

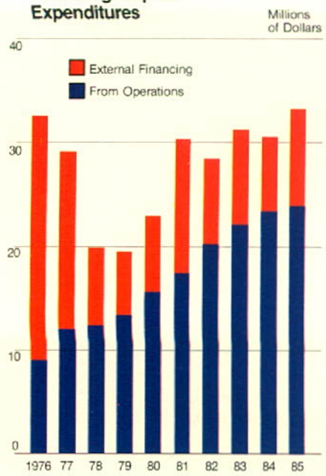
Employees continue to maintain a high standard of safety. During the year the Stephenville area, with 64 employees, achieved the enviable record of seven years without a lost time accident, while the Company as a whole surpassed the 1,000,000 man hours mark. Also, the Company received an award from the Canadian Electrical Association for attaining the lowest accident frequency rate of all major Canadian electrical utilities in 1984.

Rate of Return on Average Common Equity



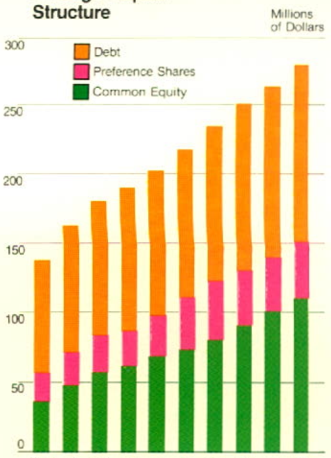
Return on equity measures return on shareholders' investment. Variations from year to year reflect a changing investment climate.

Financing Capital Expenditures



Capital expenditures are financed from internal and external sources. A higher ratio of internal funding is consistent with restrained capital expenditures of recent years.

Average Capital Structure



The graph shows the proportion of debt and equity capital. Suspension of share purchase plans will help maintain an appropriate balance.

Operating revenues increased to $244.0 million from $197.2 million in 1984, due mainly to an increase of $33.9 million in fuel adjustment charges. Revenue from fuel adjustment charges, however, does not affect net income since it is offset directly by an equal charge to operating expenses. Revenue, excluding fuel adjustment charges, increased by 5.2% because of increase energy sales.

Operating expenses totalled $178.5 million, an increase of 32.2%. The largest component, purchased power which includes fuel adjustment charges of $52.1 million, increased 41.0% to $142.8 million. Other operating expenses, which include labour and material costs, and administrative and general expenses were $35.8 million compared to $33.7 million in 1984. Apart from general inflation, the major causes of the increase were the cost for twelve months for the new pension plan which was introduced in April 1984 and the growth of municipal taxes.

A continued high level of internally generated funds kept net financial charges to $15.3 million in 1985, an increase of only 8.9%. Depreciation expenses increased by 7.3% to $15.3 million while provision for income taxes increased 2.8% to $14.4 million, representing 41.3% of income before taxes and transfers compared to 41.4% in 1984.

Net income for the year was $20.9 million, 5.1% higher than 1984. A total of $3.7 million was required for preference share dividends and the remaining $17.1 million was applicable to common shares. This amounted to $2.05 per share on the average common shares outstanding throughout the year compared to $1.95 per share in 1984. During the year $8.9 million in dividends or $1.06 per common share were declared resulting in a payout ratio of 52%. The remaining amount of $8.2 million, representing $0.99 per common share, was retained and reinvested in the business. In June of this year, common shares were subdivided on a two for one basis. All information related to common shares is shown on a post split basis and 1984 results have been restated to preserve comparability.

Capital expenditure for 1985 was $33.0 million. Internally generated funds, mainly from retained earnings, depreciation and deferred income tax, provided 72% of the funds required for capital expenditures. External sources included the private placement of $15 million 11 1/2% First Mortgage Bonds, the sale of common equity through share issue programmes and customer contributions in aid of construction.

The Company raised equity capital through the Dividend Reinvestment Plan, the Stock Dividend Programme, the Customer Share Purchase Plan and the Employee Share Purchase Plan. Together they resulted in the issue of 116,655 shares for a total investment of $2.0 million. This is a reduction from the $2.3 million investment in 1984 and reflects modifications of the Plans in 1985 whereby the 5% discount from market price was eliminated and the annual limits for optional cash investments were reduced. The Dividend Reinvestment Plan and Stock Dividend Programme were subsequently suspended.

At year-end the Company's capital structure was 46.9%

debt, 13.4% preference shares and 39.7% common equity. Interest coverage on total debt was 3.2 times while coverage on total debt interest and preference dividends was 2.3 times.

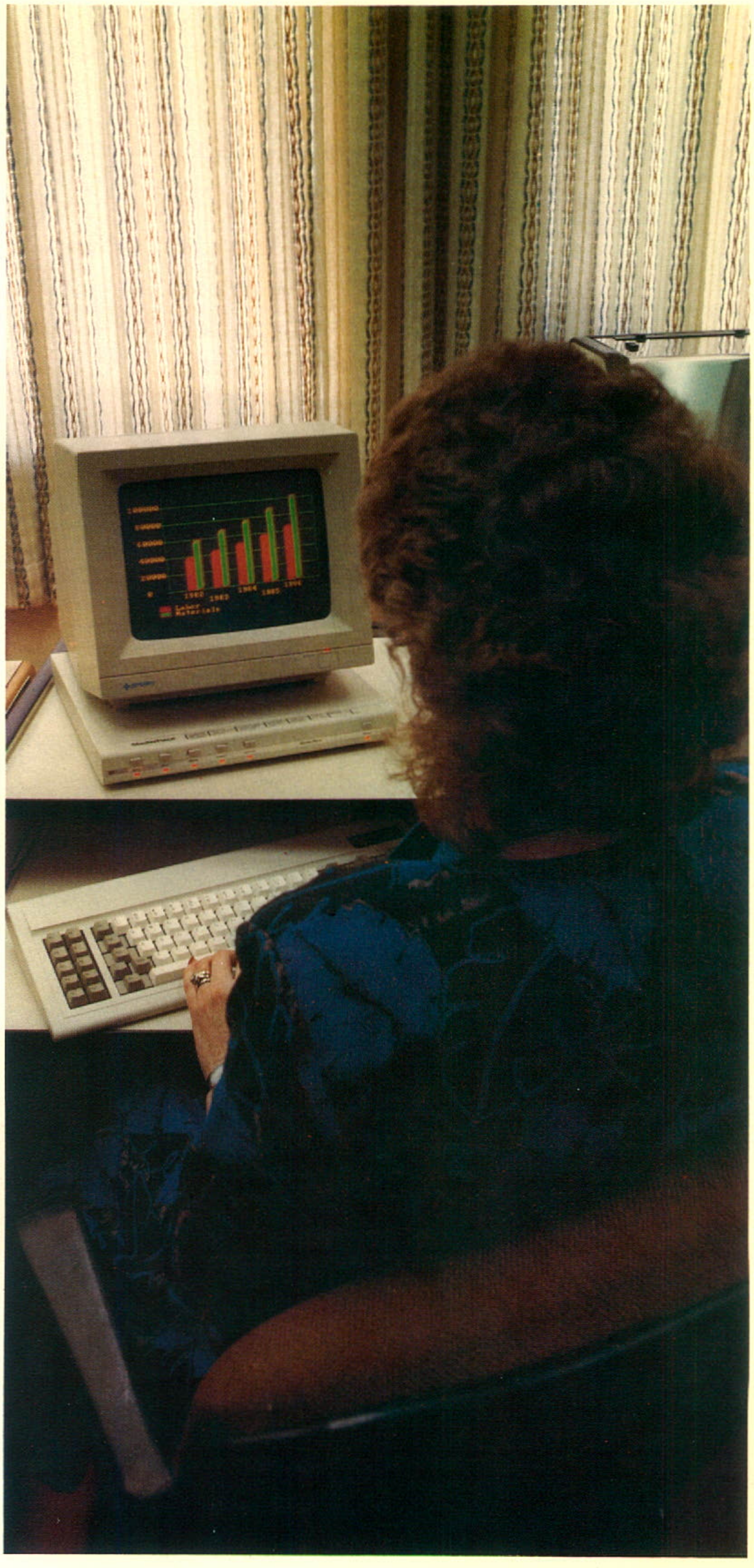
In addition to complying with the disclosure guidelines established by the Canadian Institute of Chartered Accountants on the presentation of current cost accounting, the Company has included a table of selected financial data for the years 1981 to 1985 on page 20 of this report. The values shown are in 1985 dollars arrived at through the use of the December 31, 1985 Consumer Price Index of Canada.

REGULATION

The Board of Commissioners of Public Utilities of Newfoundland regulates the Company under the provisions of The Public Utilities Act. The Board has jurisdiction over, among other things, rates, capital expenditures and the issue of securities. In exercising its jurisdiction over rates the Board is required to observe the policy declared by the Province in The Electrical Power Control Act. The primary purpose of this act is to provide for the regulation of the rates of Newfoundland and Labrador Hydro (Hydro) which supplies over 90% of the Company's power requirements.

In August 1985 Hydro referred to the Board a proposal to increase the rate charged to the Company and revise the form of the rate to delete the Fuel Adjustment Clause and replace it with a Rate Stabilization Plan which would also account for variances from normal in hydro plant generation. The Company participated in the public hearing called to consider Hydro's proposal

Testing and reverification ensures accurate customer metering.



Computerization aids in timely corporate financial planning and analysis.

and on November 8, 1985 the Board submitted a report to the Government, which the Government approved. This report recommended an increase in the rate to the Company from 28.33 to 42.37 mills per kilowatt-hour effective January 1, 1986 which, after adjustment for fuel costs, is equivalent to an increase of 18.4% in the basic rate. The Board also recommended the elimination of the Fuel Adjustment Clause and its replacement by a Rate Stabilization Plan similar to that proposed by Hydro. However, the Board further recommended the expansion of the plan to include variances in earnings arising from differences in actual sales from estimated test year sales and a provision to commence amortizing balances in the fund at the end of June 1987 and annually thereafter. The Board indicated that the Company should also establish a rate stabilization account.

Subsequently, following the Company's application and a public hearing, the Board issued an order approving, a rate increase to offset the increased cost of purchased power. The average rate increase was 8.7% excluding the effect of the elimination of the Fuel Adjustment Clause. In the new rate schedule the Fuel Adjustment Clause has been replaced by a Rate Stabilization Clause designed to complement Hydro's Rate Stabilization Plan. With the elimination of the Fuel Adjustment Clause, rates will no longer be subject to monthly fluctuations arising from variations in the amount and price of fuel used to generate electricity.

The Company filed a general application with the Board on January 23, 1986 seeking determination of rate base, a rate of return on rate base of between 12.87% and 13.08% and an average rate increase of 3.4%. The requested rate of return on rate base is based on a rate of return on common equity of 15.3% to 15.8% which is unchanged from that accepted by the Board in 1984. The public hearing on this Application is scheduled to commence on March 18, 1986.

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

	December 31	
	1985	1984
ASSETS	(in thousands)	
PROPERTY ACCOUNT		
Property, plant and equipment	$ 432,075	$ 404,600
Accumulated depreciation	120,099	109,306
	311,976	295,294
DEFERRED CHARGES		
Unamortized debt discount and expense	1,370	1,241
Unamortized capital stock issue expense	1,321	1,388
	2,691	2,629
CURRENT ASSETS		
Cash	83	224
Accounts receivable	25,364	22,839
Income tax receivable		1,823
Inventories of material and supplies at average cost	6,192	5,488
Prepaid expenses	1,885	1,835
Deferred fuel account	5,213	5,380
	38,737	37,589
	$ 353,404	$ 335,512

Approved on Behalf of the Board:

D. S. Templeton Director

Geoffrey R. Parsons Director

SHAREHOLDER'S EQUITY AND LIABILITIES

	December 31 1985	December 31 1984
	(in thousands)	
SHAREHOLDERS' EQUITY		
Common shares (Note 1)	$ 33,642	$ 31,610
Contributed surplus	2,147	2,147
The Capital Redemption Reserve Fund (Note 1)	8,718	7,509
Earnings retained and invested in the business	73,505	66,466
Common shareholders' equity	118,012	107,732
Preference shares (Note 1)	37,282	38,491
	155,294	146,223
LONG TERM DEBT (Note 2)	120,510	111,998
DEFERRED CREDITS		
Contributions in aid of construction	7,975	7,292
Contributions — government	8,484	9,242
Deferred income taxes	9,300	8,688
Weather normalization account	941	1,394
	26,700	26,616
CURRENT LIABILITIES		
Bank loans	10,675	12,650
Accounts payable and accrued charges	27,568	25,665
Interest accrued on long term debt	2,843	2,795
Current installments of long term debt	6,323	2,567
Income taxes payable	350	
Dividends payable	3,141	3,138
Revenue rebate account (Note 5)		3,860
	50,900	50,675
	$ 353,404	$ 335,512

See accompanying notes to financial statements.

Statement of Income

NEWFOUNDLAND LIGHT & POWER CO. LIMITED

	Year ended December 31	
	1985	1984
	(in thousands)	
OPERATING REVENUES (Note 5)	$ 244,007	$ 197,217
OPERATING EXPENSES		
Purchased Power	142,839	101,307
Other expenses	35,772	33,681
Depreciation	15,312	14,269
	193,923	149,257
OPERATING INCOME	50,084	47,960
FINANCE CHARGES (Note 3)	15,298	14,053
INCOME BEFORE INCOME TAXES AND TRANSFERS	34,786	33,907
INCOME TAXES	14,382	14,049
	20,404	19,858
WEATHER NORMALIZATION ACCOUNT TRANSFERS	453	(27)
NET INCOME	20,857	19,831
DIVIDENDS ON PREFERENCE SHARES	3,697	3,763
EARNINGS APPLICABLE TO COMMON SHARES	$ 17,160	$ 16,068
AVERAGE COMMON SHARES OUTSTANDING	8,386,634	8,240,026
EARNINGS PER COMMON SHARE	$2.05	$1.95

Statement of Retained Earnings

	1985	1984
	(in thousands)	
BALANCE AT BEGINNING OF YEAR	$ 66,466	$ 59,838
Net income for the year	20,857	19,831
	87,323	79,669
DIVIDENDS		
Preference shares	3,697	3,763
Common shares	8,912	8,360
	12,609	12,123
Transfer to The Capital Redemption Reserve Fund	1,209	1,080
	13,818	13,203
BALANCE AT END OF YEAR	$ 73,505	$ 66,466

See accompanying notes to financial statements.

Statement of Changes in Financial Position

NEWFOUNDLAND LIGHT & POWER CO. LIMITED

	Year ended December 31	
	1985	1984
	(in thousands)	
SOURCE OF CASH		
Cash From Operations		
Net income	$ 20,857	$ 19,831
Non cash items		
Depreciation	15,312	14,269
Amortization of deferred charges	224	312
Deferred income taxes	612	1,040
Weather normalization account transfers	(453)	27
Working capital	(2,845)	(1,633)
	33,707	33,846
Cash from external financing		
Contributions in aid of construction	1,051	1,892
Net proceeds of bond issues	14,712	7,422
Proceeds from issue of common shares	2,032	2,281
Increase in bank loans		2,375
	17,795	13,970
Total cash provided	51,502	47,816
APPLICATION OF CASH		
Capital expenditures	32,990	30,615
Salvage net of costs	127	27
	33,117	30,642
Dividends		
Preference shares	3,697	3,763
Common shares	8,912	8,360
Reduction of long term debt	2,733	3,832
Redemption of preference shares	1,209	1,081
Decrease in bank loans	1,975	
Total cash used	51,643	47,678
INCREASE (DECREASE) IN CASH	$ (141)	$ 138

See accompanying notes to financial statements.

Summary of Accounting Policies

NEWFOUNDLAND LIGHT & POWER CO. LIMITED

GENERAL	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").
REVENUE	The Company's revenue is derived from the sale of electricity in the Province of Newfoundland. Revenue recognition follows an accepted practice in the utility industry whereby monthly sales are recorded on the basis of meter readings made throughout the month. Although each fiscal year includes twelve months electricity sales and costs, at the end of each accounting period there are sales, the cost of which was charged to expense, while the related revenue is not recorded until the following period.
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.
DEPRECIATION	Depreciation is provided in the accounts at classified rates varying from 1.8% to 13.6% on the straight line method based on estimated service life of plant and equipment, as approved by The Board. The composite rate is approximately 3.9% (1984-3.9%) before reduction for the amortization of contribution in aid of construction and contributions—government.
INTEREST CHARGED TO CONSTRUCTION	On certain construction projects interest at varying rates as set out 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 expenses—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	Until December 31, 1985 the Company's rate schedule included a fuel adjustment clause permitting 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 recorded. Realized gains and losses will be accounted for as directed by The Board.
CUSTOMER AND GOVERNMENT CONTRIBUTIONS	Contributions 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	The Board by regulation specifies the method of accounting for income taxes. Commencing January 1, 1981, The Board allowed the tax allocation method with respect to the timing difference between depreciation and capital cost allowances for all depreciable assets. If the full tax allocation method of accounting had always been followed the cumulative amount of the deferred income tax credit would have been increased by approximately \$37.2 million to December 31, 1985 (1984—\$33.1 million).
WEATHER NORMALIZATION ACCOUNT	The Board has ordered provision of a weather normalization account to adjust for the effect of variations in temperature and streamflow when measured against long term averages. The balance in the weather normalization account as at December 31, 1985 and the underlying calculations have been approved by the Board.
CHANGES IN FINANCIAL POSITION	The Company's unsecured demand bank loans are considered as non-current liabilities in the statement of changes in financial position.

1. CAPITAL STOCK

Authorized	
Common shares without nominal or par value	
Class A convertible	15,000,000
Class B convertible	15,000,000
Cumulative redeemable voting first preference shares of a par value of $10 each, issuable in series	4,600,000
Cumulative redeemable first preference shares with a par value and voting rights as may be attached to each series at time of issue, issuable in series	5,400,000
Cumulative redeemable second preference shares with par value and voting rights as may be attached to each series at time of issue, issuable in series	1,000,000

The Company's common shares are designated as 15,000,000 Class A convertible common shares without nominal or par value and 15,000,000 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 15,000,000 shares. The shares of each class are inter-convertible on a share for share basis and rank equally in all respects including dividends.

In June 1985 the Class A and Class B common shares were split on a two for one basis.

Issued and outstanding	(in thousands) December 31, 1985	December 31, 1984
Common Shares		
8,194,353 Class A shares		
253,544 Class B shares		
8,447,897 common shares (8,331,242 common shares December 31, 1984)	$ 33,642	$ 31,610

First preference shares

			December 31, 1985	December 31, 1984
192,300	5 1/2%	Series A	$ 1,923	$ 1,923
339,000	5 1/4%	Series B	3,390	3,390
18,467	6%	Series C	185	187
318,470	7 1/4%	Series D	3,185	3,285
369,100	9%	Series E	3,691	3,808
589,850	9.84%	Series F	5,898	6,598
501,000	7.60%	Series G	5,010	5,100
400,000	9 1/8%	Series H	4,000	4,200
1,000,000	14 1/4%	Series I	10,000	10,000
3,728,187	(3,849,087 preference shares December 31, 1984)		$ 37,282	$ 38,491

Common shares were issued during the year as follows:

	Shares	(in thousands)
Dividend reinvestment plan	59,084	$ 1,033
Stock dividends on Class B	23,306	402
Employee share purchase plan	8,175	131
Customer share purchase plan	26,090	466
	116,655	$ 2,032

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, 1989 any Series I First Preference Shares tendered on or before August 31, 1989 at a price of $10 per share plus all accrued and unpaid dividends to October 1, 1989. 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)
Redeemed	120,900	$ 1,209

The par value of preference shares purchased to date in the amount of $8,718,000 has been set aside from Retained Earnings to The Capital Redemption Reserve Fund in accordance with Section 49 of the Newfoundland Companies Act.

2. LONG TERM DEBT

			1985	1984
			(in thousands)	
First mortgage sinking fund bonds:				
7%	Series K,	due 1985	$	$ 1,318
6 1/2%	Series L,	due 1986	736	736
7%	Series R,	due 1986	4,255	4,274
7 3/4%	Series S,	due 1988	2,211	2,215
8%	Series T,	due 1991	4,387	4,752
11 1/4%	Series V,	due 1996	17,487	17,889
11 1/2%	Series W,	due 1999	5,000	5,000
14 1/4%	Series X,	due 1987	7,000	7,000
18 1/4%	Series Y,	due 1988	9,700	9,800
17 3/4%	Series Z,	due 1990	7,275	7,350
13 7/8%	Series AA,	due 1995	7,500	7,500
11 1/2%	Series AB,	due 2005	15,000	
			80,551	67,834
5 3/8%	Series M, (U.S. $2,025,000)	due 1990	2,187	2,214
8 1/4%	Series U, (U.S. $8,000,000)	due 1992	7,974	7,974
			90,712	78,022
General mortgage sinking fund bonds:				
9 1/2%	Series D,	due 1990	2,872	3,272
11 1/4%	Series F,	due 1994	14,669	14,669
10 1/2%	Series G,	due 1997	18,490	18,490
			36,031	36,431
11%	First mortgage on real property		90	112
			126,833	114,565
	Less: Current installments		6,323	2,567
			$ 120,510	$ 111,998

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 on all other assets.

As at December 31, 1985 $14.0 million Canadian was required to translate foreign currency carried at $10.2 million. As at December 31, 1984 $13.3 million was required to translate foreign currency obligations carried at $10.2 million.

The annual requirements to meet sinking fund payments, installments and maturing issues of long term debt outstanding as at December 31, 1985 for each of the years to 1990 are as follows:

	1986	1987	1988	1989	1990
			(in thousands)		
Sinking fund payments and installments	$ 1,392	$ 1,275	$ 1,249	$ 1,122	$ 1,015
Maturing issues	4,931	6,930	11,551		11,676
	$ 6,323	$ 8,205	$12,800	$ 1,122	$12,691

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, 1985 these conditions had been met.

3. FINANCE CHARGES

	1985	1984
	(in thousands)	
Interest — long-term debt	$ 13,658	$ 13,442
— other	1,691	714
	15,349	14,156
Amortization — debt discount and expense	158	158
— capital stock issue expense	155	153
	313	311
	15,662	14,467
Less: Interest charged to construction	294	233
Discount on bonds purchased for sinking fund	51	117
Interest earned	19	64
	364	414
	$ 15,298	$ 14,053

4. INCOME TAX RATE

Taxes on income vary from the amount that would be determined by applying the combined statutory Canadian federal and Newfoundland provincial income tax rates to earnings. The following is a reconciliation of the combined statutory rates to the effective income tax rate.

	1985	1984
	%	%
Statutory income tax rate	52.9	52.0
General expenses capital	(11.0)	(10.3)
Plant dismantling costs	(1.9)	(1.7)
Other	1.3	1.4
	41.3	41.4

5. REVENUE REBATE ACCOUNT

For 1984 The Board determined there was excess revenue. A portion was credited to customers in January, 1985 and the balance was used as part of the Company's 1985 revenue requirement.

6. PENSIONS

The Company has a contributory defined benefit pension plan covering all regular employees. Based on an acturial valuation as at December 31, 1985, the Company has an unfunded past service obligation of $46.3 million which will be amortized to income over the next 23 years.

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 programme.

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 controls.

Aidan F. Ryan
Vice-President and
General Manager

K Stewart
Vice-President-Treasurer

Auditor's Report

The Shareholders,
Newfoundland Light & Power Co. Limited

We have examined the balance sheet of Newfoundland Light & Power Co. Limited as at December 31, 1985 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, 1985 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.

Touche Ross & Co.
Chartered Accountants

St. John's, Newfoundland
February 24, 1986.

SUPPLEMENTARY INFORMATION CONCERNING THE EFFECTS OF CHANGING PRICES

The Canadian Institute of Chartered Accountants (CICA) recently issued guidelines on disclosure of the effects changing prices have on corporate earnings and financial condition. The guidelines and accompanying recommendations allow considerable flexibility in content and format and encourage a degree of experimentation.

The unaudited supplementary information which follows has been prepared in accordance with the CICA guidelines and sets forth income applicable to common shares using the operating capability of capital concept. Under this concept the Company must be able to replace property, plant and equipment and inventory as required in the future and still maintain the level of service without impairing the interests of its shareholders. The information includes, by way of annotated footnotes, descriptions of the bases used in arriving at the current cost of the various captions within the statements. The current cost restatement of property, plant and equipment leads to a larger depreciation expense to allow for eventual replacement. The portion of increase in the current cost of assets that is provided by debt holders is not a charge against the shareholder and hence is added back to Net Income as "Financing Adjustment."

The Company considers the information presented to be a reasonable estimate of the effects of inflation on financial performance. It should, however, be pointed out that finance charges and income taxes have been left at their historic costs and that some of the assumptions that underlie the current cost restatements could be considered judgmental. This supplementary information should, therefore be interpreted and used with caution.

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1985

(Unaudited)

Historic Cost Basis		Current Cost Basis (in thousands) Operating Capability Concept 1985	1984	(1)
$ 244,007	Operating Revenues	$ 244,007	$ 205,414	
	Operating Expenses			
142,839	Purchased Power	142,839	105,518	
35,772	Other expenses	35,772	35,081	
15,312	Depreciation	29,770	29,894	(2)
193,923		208,381	170,493	
50,084	Operating Income	35,626	34,922	
15,298	Finance Charges	15,298	14,637	
34,786	Income Before Income Taxes and Transfer	20,328	20,284	
14,382	Income Taxes	14,382	14,633	
20,404		5,946	5,652	
453	Transfer for Weather Normalization	453	(28)	
20,857	Net Income	6,399	5,623	
—	Financing Adjustment	4,747	4,937	(3)
3,697	Preference Share Dividends	3,697	3,919	
$ 17,160	Earnings Applicable to Common Shares	$ 7,448	$ 6,641	

Schedule of assets as at December 31, 1985

$ 6,192	Fuel, material and supplies	$ 6,192	$ 6,362	(4)
295,517	Property, Plant and Equipment (Net of accumulated depreciation and contributions in aid of construction)	$ 531,224	$ 534,952	(4)
$ 118,012	Net Assets (Common Shareholder's Equity)	$ 353,719	$ 357,982	

(1) Restated to 1985 dollars.

(2) Depreciation expense was based on the current cost value of the property, plant and equipment and the methodology normally used in preparation of historical cost financial statements.

(3) The financing adjustment was calculated by applying the Company's current cost debt ratio to current cost adjustments made to income during the year. The financing adjustment based on current cost increases in property, plant and equipment and inventory for the year would be $4,387 in 1985 and $6,059 in 1984.

(4) The current replacement cost for major plant categories was based on restating historical costs with appropriate indices.

Other Supplementary Information

The following illustrates general price level changes and reflects the allowances required to maintain the invested capital of the business, i.e. the financial concept of capital maintenance.

	Current Cost 1985		Current Cost (1) 1984	
Increased in the Cost of Property, Plant & Equipment and Inventory due to - General Inflation	$ 18,062	(in thousands)	$ 13,583	
- Specific Price Changes	13,364		18,449	
Excess of the effect of General Inflation over Specific Price Changes	$ 4,698		$ (4,886)	(2)
Gain in Purchasing Power from Net Monetary Items	$ 6,426		$ 6,387	(3)

(1) Restated to 1985 dollars.

(2) Increases in current costs due to general inflation tended to be less than increases due to specific price changes in 1984.

(3) The purchasing power gain of $6,426 represents the benefit to the Company of being in a net monetary liability position during a period of general inflation.

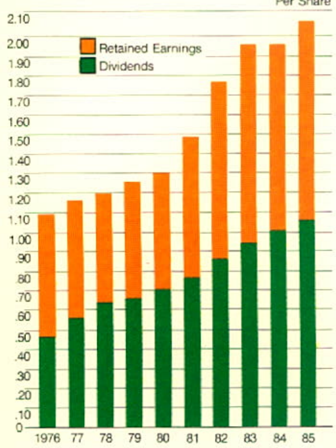
Statistics Canada's Consumer Price Index and GNE Implicit Price Deflator were used in the constant dollar calculations.

SELECTED FINANCIAL DATA
CPI ADJUSTED

Since 1981 the Company has presented selected financial data, adjusted to a current cost base by the use of the year-end Consumer Price Index for Canada. This material is in addition to CICA guidelines and gives a historical perspective to the effects of inflation on the Company's performance.

	1985	1984	1983	1982	1981
* Operating Revenue	$244,007	$205,799	$185,533	$185,055	$162,377
* Operating Expenses	193,923	155,752	133,215	133,897	117,082
* Net Income	20,857	20,694	21,164	20,404	17,931
* Common Shareholders Equity	118,012	112,420	105,834	98,443	96,890
Earnings per Share	2.05	2.03	2.11	2.01	1.83
Dividends per Share	1.06	1.05	1.01	0.96	0.94
Share Price-Close December 31	17.38	16.50	15.70	13.58	12.37
Book Value per Share	13.97	13.49	12.96	12.35	12.33
*(thousands of dollars)					
Consumer Price Index Canada December 31	129.5	124.1	119.6	114.4	104.7

Earnings per Average Common Share and Dividends Declared



The graph measures earnings from the shareholder's perspective. Historical payout ratios have been approximately 50%.

Share Trading Range (TSE) and Book Value Per Share

COMMON SHARE GEOGRAPHIC DISTRIBUTION

	1985				1984			
	Shares	%	Shareholders	%	Shares	%	Shareholders	%
Newfoundland	792,368	9.4	2,132	33.5	947,034	11.4	2,085	33.7
Maritimes	2,081,362	24.7	2,137	33.5	2,185,060	26.2	2,142	34.6
Quebec	930,265	11.0	525	8.2	1,107,100	13.3	574	9.3
Ontario	3,905,932	46.2	1088	17.1	3,335,902	40.0	908	14.7
Western	683,464	8.1	416	6.6	708,626	8.5	411	6.6
Total Canada	8,393,391	99.4	6298	98.9	8,283,722	99.4	6,120	98.9
Non-Resident	54,506	0.6	70	1.1	47,520	0.6	66	1.1
Total	8,447,897	100.0	6,368	100.0	8,331,242	100.0	6,186	100.0

COMMON SHARE DIVIDENDS

	1985	1984	1983	1982	1981
Class A & B Common Shares					
Dividends Declared	$1.06	$1.01	$0.93	$0.85	$0.763
Dividends Paid	$1.06	$0.985	$0.915	$0.825	$0.74

Common share dividends are payable on the first days of March, June, September and December. A dividend of $.295, payable June 1, 1986, has been declared on Class A and Class B common shares for an indicated dividend of $1.18.

SHARE TRADING SUMMARY (TSE)

		Book Value Per Share	High Market Price	Low Market Price	Volume
1978		$ 8.00	$ 9.31	$ 7.63	577,200
1979		8.60	10.75	8.38	399,200
1980		9.22	13.25	8.63	653,800
1981		9.97	11.75	8.25	575,400
1982		10.91	12.00	8.50	895,500
1983		11.97	15.38	12.00	892,800
1984		12.93	16.69	12.75	1,195,200
1985	First quarter	13.40	18.00	15.75	336,200
	Second quarter	13.80	19.38	16.50	415,700
	Third quarter	13.80	19.13	17.75	157,900
	Fourth quarter	13.97	18.38	16.13	200,900
					1,110,700

NOTE: In June 1985 common shares were split on a two for one basis. Prior year data has been restated to recognize this change.

HEAD OFFICE
Kenmount Road, P.O. Box 8910, St. John's, Newfoundland, A1B 3P6.

TRANSFER AGENT AND REGISTRAR
Montreal Trust Company, St. John's, Halifax, Montreal, Toronto, Calgary and Vancouver.

1986 ANNUAL MEETING
Garrison Room, Hotel Newfoundland, St. John's, Newfoundland on Thursday, May 1, 1986 at 11:00 a.m.

	1985	1984	1983
INCOME STATEMENT ITEMS			
(thousands of dollars)			
Operating revenue	$244,007	$197,217	$171,349
Operating expenses	178,611	134,988	109,512
Finance charges	15,298	14,053	12,727
Depreciation	15,312	14,269	13,519
Income taxes	14,382	14,049	16,302
Balance after preference dividends	17,160	16,068	15,699
Dividend on common shares	8,912	8,360	7,532
Retained in the business	8,248	7,708	8,167
Average common shares outstanding (thousands)	8,387	8,240	8,064
Earnings per common share ($)	2.05	1.95	1.95
Dividends declared per common share ($)	1.06	1.01	0.93
BALANCE SHEET ITEMS			
(thousands of dollars)			
Property, plant and equipment	432,075	404,600	378,152
Accumulated depreciation	120,099	109,306	98,155
Net fixed assets	311,976	295,294	279,997
Long term debt	131,185	124,648	117,306
Preference shares	37,282	38,491	39,571
Common equity	118,012	107,732	97,743
Total capital	286,479	270,871	254,620
FINANCIAL STATISTICS			
Return on Common Equity	15.20%	15.64%	17.0%
Capitalization Ratios			
Long term debt	46.8%	46.5%	46.9%
Preferred shareholders' equity	13.4%	14.1%	15.3%
Common shareholders' equity	39.8%	39.4%	37.8%
Interest Coverage (times earned before income tax)			
Total debt	3.2	3.4	3.7
Interest and Preferred Dividends	2.3	2.3	2.4
Book value per share-year-end ($)	13.97	12.93	11.97
OPERATING STATISTICS			
Sources of Energy (millions of kWh)			
Purchased	3,203	2,933	2,756
Generated	328	419	397
Total	3,531	3,352	3,153
Sales (millions of kWh)			
Domestic	646	636	626
Domestic all-electric	1,248	1,139	1,035
General service all-electric	637	593	542
General service and street lighting	800	780	754
Total	3,331	3,148	2,957
Customers (year-end)			
Domestic	82,358	83,279	84,393
Domestic all-electric	64,297	60,248	56,275
General service all-electric	5,480	5,227	4,910
General service and street lighting	19,984	20,137	19,880
Total	172,119	169,071	165,458
Annual degree days — % normal	109	99	96

1982	1981	1980	1979	1978	1977	1976
$163,477	$131,281	$122,826	$108,204	$92,233	$73,469	$60,259
106,524	84,252	78,739	69,760	57,960	46,037	37,541
11,419	10,973	9,923	8,574	7,845	8,668	6,945
11,760	10,408	9,393	8,574	7,845	6,702	5,582
15,602	11,052	11,188	8,230	5,803	3,076	2,434
14,056	11,566	10,075	9,644	9,098	7,338	6,093
6,746	5,973	5,428	5,105	4,788	3,819	2,777
7,310	5,593	4,647	4,539	3,540	3,402	3,055
7,914	7,816	7,746	7,696	7,652	6,248	5,606
1.78	1.48	1.30	1.26	1.19	1.18	1.09
0.85	0.76	0.70	0.66	0.63	0.55	0.48
349,875	324,690	294,950	272,585	254,760	238,008	210,611
86,468	77,132	68,943	61,513	53,921	48,608	42,251
263,407	247,558	226,007	211,072	200,839	189,400	167,360
112,777	109,118	102,456	104,151	102,552	96,685	87,144
40,693	41,873	33,041	28,844	23,601	24,371	24,488
86,964	78,335	73,058	66,754	61,852	57,382	42,298
240,434	229,326	208,555	199,749	188,005	178,438	153,930
17.01%	15.42%	14.6%	15.10%	15.41%	14.95%	15.92%
47.4%	48.1%	49.9%	52.2%	54.7%	54.4%	56.9%
16.8%	18.1%	15.8%	14.5%	12.6%	13.7%	16.0%
35.8%	33.8%	34.3%	33.3%	32.7%	31.9%	27.1%
3.8	3.2	3.4	3.0	2.8	2.3	2.4
2.4	2.2	2.3	2.2	2.1	1.8	1.9
10.91	9.97	9.22	8.60	8.00	7.43	6.78
2,778	2,574	2,597	2,503	2,446	2,286	2,077
383	427	462	359	378	332	380
3,161	3,001	3,059	2,862	2,824	2,618	2,457
626	607	608	589	591	598	611
1,050	941	966	881	878	801	715
554	465	464	463	430	386	385
741	819	810	757	723	684	587
2,971	2,832	2,848	2,690	2,622	2,469	2,278
85,050	86,120	86,655	86,468	86,506	87,493	87,722
52,226	49,012	45,365	42,312	39,215	35,377	30,571
4,634	4,416	4,090	3,813	3,484	3,096	2,674
19,752	19,828	19,631	19,443	19,344	19,036	18,694
161,662	159,376	155,741	152,036	148,549	145,002	139,661
105	92	106	97	106	100	100

A Ten Year Financial Statistical Summary containing additional information is available upon request from:
The Secretary
Newfoundland Light & Power Co. Limited
P.O. Box 8910,
St. John's, Newfoundland
A1B 3P6

Corporate Directory

Directors—left to right: J.E. Rorke, G.N.C. Rivington, H.R. Steele, A.E. O'Reilly, J.B. Foote, C.K. Wells, D.S. Templeton, M.M. Williams, A. Bailey, A.F. Ryan, A.D. Cameron, G.R. Parsons, E.A. Pratt, H. Collingwood, *inset:* D.C. McLeod

DIRECTORS

AARON BAILEY
President, Port Union Shipping Co. (1948) Ltd.

ALASTAIR D. CAMERON, M.B.E.
Senior Consultant, Monenco Consultants Limited

HENRY COLLINGWOOD †•
Chairman and Chief Executive Officer, Baine, Johnston & Co. Ltd.

JOHN B. FOOTE *
Senior Executive Officer, J.B. Foote & Sons, Ltd.

DONALD C. McLEOD ‡
Corporate Consultant

ALBERT E. O'REILLY
Assistant Manager, Management Consulting Division, Monenco Consultants Limited

GEOFFREY R. PARSONS *
President, Lakeview Limited

EWART A. PRATT †
Chairman and President Steers Limited

G. NEVILLE C. RIVINGTON
Senior Vice-President, Monenco Limited

JAMES E. RORKE *
Senior Officer, The Rorke Fish & Coal Co. Limited

AIDAN F. RYAN
Vice-President and General Manager, Newfoundland Light & Power Co. Limited

HAROLD R. STEELE
President and Chief Executive Officer, Newfoundland Capital Corporation Limited

DAVID S. TEMPLETON •
President, Newfoundland Light & Power Co. Limited

CLYDE K. WELLS, Q.C. †
Barrister and Solicitor, Wells and Company

MARSHALL M. WILLIAMS
Chairman of the Board, and Chief Executive Officer, TransAlta Utilities Corporation

‡ Retired October, 1985
† Executive Committee
* Audit Committee
• Pension Committee

OFFICERS

CLYDE K. WELLS
Chairman of the Board

DAVID S. TEMPLETON °
President

AIDAN F. RYAN
Vice-President and General Manager

GEORGE J. ADAMS °
Vice President, Finance

JOHN G. EVANS
Vice-President, Planning & Construction

CHARLES W. HENRY
Vice President, Operations

MICHAEL A. PAVEY
Vice President, Corporate Planning

CECIL R. VIVIAN
Vice President, Rates & Customer Services

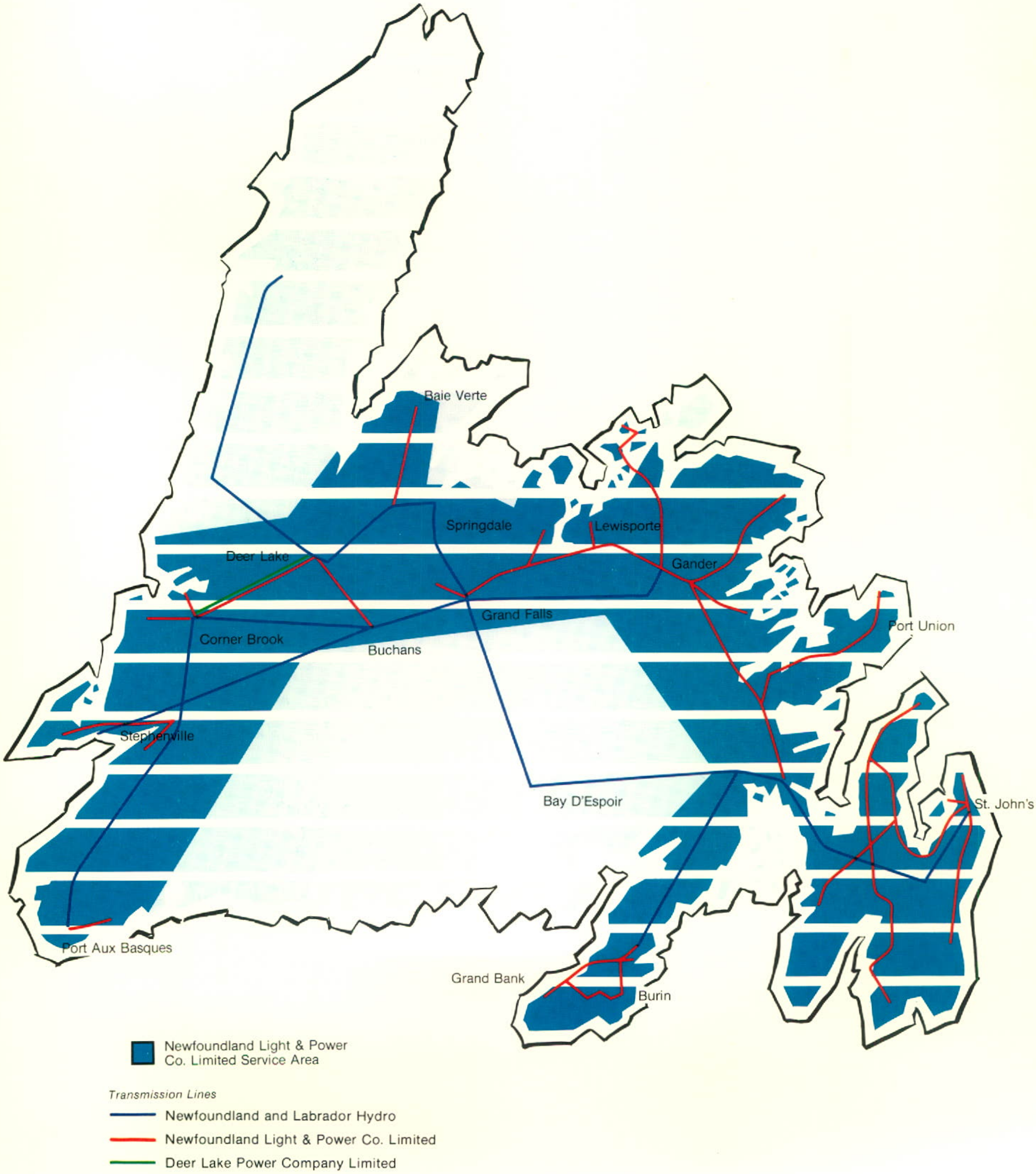
KEVIN S. WARR
Vice President - Treasurer

RAYMOND F. GOSINE
Secretary

H. BARRIE CURTIS
Assistant Secretary - Treasurer

° Retired December 31, 1985

Company Service Area



Design and Production: C.C. Keats Advertising Limited
Photography: Lane Photographics Limited; Studio 2 Limited
Typesetting: Typecraft & Design
Color Separations: Maritime Photoengravers Limited
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NEWFOUNDLAND
LIGHT & POWER
CO. LIMITED