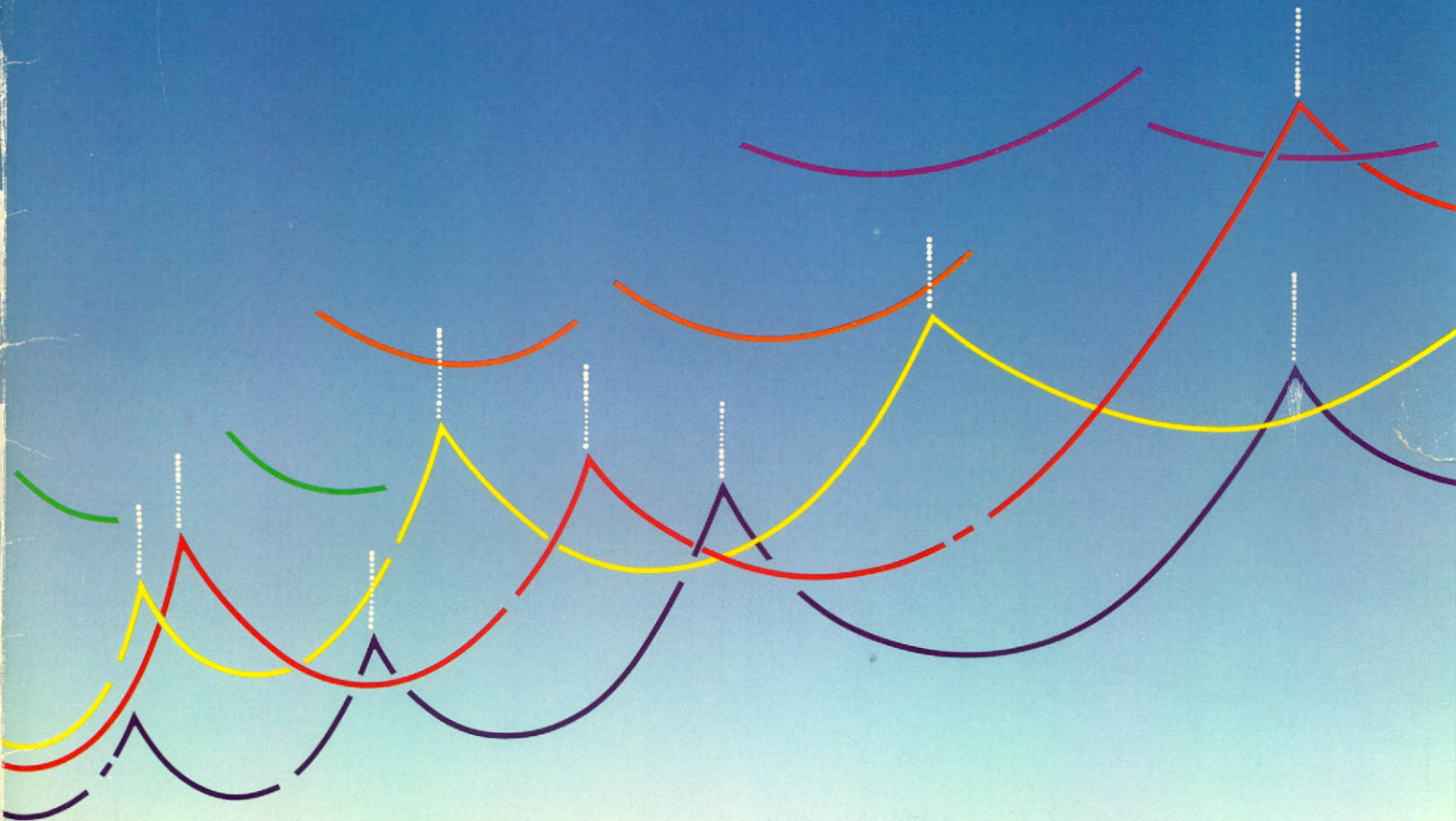


C

# Newfoundland Light & Power Co. Limited



1986 Annual Report

ATLANTIC LIBRARY  
MOUNTED  
APR 14 1987  
ATLANTIC LIBRARY

# Results for the Year

ended December 31, 1986

|   | 1986        | 1985       | % Change   |           |             |            |            |           |
|---|-------------|------------|------------|-----------|-------------|------------|------------|-----------|
| <b>Earnings</b> (in thousands)                        |             |            |            |           |             |            |            |           |
| Operating revenue                                     | \$245,427   | \$244,007  | .6         |           |             |            |            |           |
| Earnings applicable to common shares                  | 17,046      | 17,160     | (.7)       |           |             |            |            |           |
| <b>Balance Sheet</b> (in thousands)                   |             |            |            |           |             |            |            |           |
| Property account                                      | \$326,301   | \$311,976  | 4.6        |           |             |            |            |           |
| Long term debt  | 133,717     | 131,185    | 1.9        |           |             |            |            |           |
| Preference shares                                     | 36,067      | 37,282     | (3.3)      |           |             |            |            |           |
| Common shareholders' equity                           | 125,923     | 118,012    | 6.7        |           |             |            |            |           |
| <b>Cash Flows</b> (in thousands)                      |             |            |            |           |             |            |            |           |
| Cash from operations                                  | \$27,037    | \$21,098   | 28.2       |           |             |            |            |           |
| External financing                                    | 5,036       | 11,878     | (57.6)     |           |             |            |            |           |
| Capital expenditures                                  | 32,109      | 33,117     | (3.0)      |           |             |            |            |           |
| <b>Common Share Data</b>                              |             |            |            |           |             |            |            |           |
| Earnings per common share                             | \$2.01      | \$2.05     | (2.0)      |           |             |            |            |           |
| Dividends declared per share                          | 1.195       | 1.06       | 12.7       |           |             |            |            |           |
| Book value per common share                           | 14.80       | 13.97      | 5.9        |           |             |            |            |           |
| Return on average common equity                       | 13.98%      | 15.20%     | (8.0)      |           |             |            |            |           |
| Average common shares outstanding (in thousands)      | 8,483       | 8,387      | 1.1        |           |             |            |            |           |
| <b>Operating Results</b>                              |             |            |            |           |             |            |            |           |
| Energy sales (in millions of kwh)                     | 3,411       | 3,331      | 2.4        |           |             |            |            |           |
| Number of customers (in thousands)                    | 175.6       | 172.1      | 2.0        |           |             |            |            |           |
| Number of employees                                   | 905         | 938        | (3.5)      |           |             |            |            |           |
| <b>Quarterly Statistics</b>                           |             |            |            |           |             |            |            |           |
|   | 1986        |            |            |           | 1985        |            |            |           |
|   | March<br>31 | June<br>30 | Sept<br>30 | Dec<br>31 | March<br>31 | June<br>30 | Sept<br>30 | Dec<br>31 |
| Operating revenue (in millions)                       | \$74.8      | \$59.3     | \$46.5     | \$64.8    | \$77.5      | \$62.7     | \$45.8     | \$58.0    |
| Earnings applicable to<br>common shares (in millions) | \$ 5.5      | \$ 5.9     | \$ 2.4     | \$ 3.2    | \$ 6.0      | \$ 5.5     | \$ 2.2     | \$ 3.5    |
| Earnings per share                                    | \$0.65      | \$0.70     | \$0.28     | \$0.38    | \$0.72      | \$0.65     | \$0.26     | \$0.42    |
| Dividends declared per share                          | 0.295       | 0.295      | 0.295      | 0.31      | 0.265       | 0.265      | 0.265      | 0.265     |
| Share price   |             |            |            |           |             |            |            |           |
| - high  | 18.50       | 20.25      | 19.25      | 19.00     | 18.00       | 19.375     | 19.125     | 18.375    |
| - low   | 16.25       | 17.75      | 18.50      | 18.00     | 15.75       | 16.50      | 17.75      | 16.125    |
| Book value per share                                  | 14.34       | 14.74      | 14.74      | 14.80     | 13.40       | 13.80      | 13.80      | 13.97     |

## Table of Contents

|                                   |              |                                  |              |
|-----------------------------------|--------------|----------------------------------|--------------|
| <b>Results for the year</b>       | <b>Cover</b> | <b>Supplementary Information</b> | <b>19</b>    |
| <b>Report to the Shareholders</b> | <b>2</b>     | <b>Investor Information</b>      | <b>20</b>    |
| <b>Operations</b>                 | <b>4</b>     | <b>Ten Year Summary</b>          | <b>22</b>    |
| <b>Financial</b>                  | <b>7</b>     | <b>Corporate Directory</b>       | <b>24</b>    |
| <b>Regulation</b>                 | <b>8</b>     | <b>Company Service Area</b>      | <b>Cover</b> |
| <b>Financial Statements</b>       | <b>10</b>    |                                  |              |

# 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 175,000 customers in over 600 communities, and employs 905 people with varied skills and trades. Gross fixed assets (property, plant and equipment) at December 31, 1986, amounted to \$461 million.

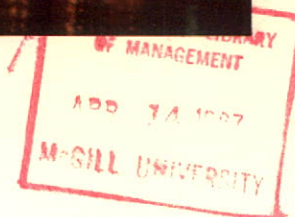
The Company serves 85% of the electrical consumers in the province and three-quarters of all sales are to domestic and small general service customers. The Company owns and operates 30 small generating plants but the bulk of its energy requirements is purchased for distribution and resale. It maintains 9,045 kilometres of transmission and distribution lines.

The number of common shares outstanding exceeds 8,504,000 and these are widely distributed mostly among shareholders in Canada. Common shares are traded on the Montreal and Toronto exchanges and public issues of First Preference shares are traded on The Montreal Exchange.

Customers have diverse uses for electrical energy ranging from clean and efficient space heating and enjoyment of modern conveniences to power for operations which in turn produce products or perform services. Photographs throughout this annual report illustrate this diversity in the customer base.



The facilities of this modern seaport are illuminated against the backdrop of old St. John's.



# Report to the Shareholders

**W**ith the retirement of several senior officials during the past year, an opportunity to review the management functions of the Company was created. Attention was focused on an organization which would best serve the interests of both the customers and the shareholders now and in the future. The process, which began in 1986, resulted in a restructuring of the administration in 1987 and new appointments to several senior managerial positions.

## Energy Sales

Actual energy sales during the year increased by 2.4% to 3,411.4 million kilowatt-hours. When adjustments are made to reflect normal weather conditions, the 1986 growth amounts to 4.4%.

Approximately 89.2% of the energy required was purchased from Newfoundland and Labrador Hydro and the remaining 10.8% was produced by the Company's own plants.

## Earnings and Dividends

Income available to the Common shareholders was \$17.0 million compared to \$17.2 million in 1985. This amounted to \$2.01 per share on average shares outstanding throughout the year, down 2% from \$2.05 per share in the previous year.

Left to right - Clyde K. Wells, Chairman of the Board, Angus A. Bruneau, President and Chief Executive Officer.



Dividends totalling \$1.195 per share were declared in 1986, an increase of 12.7% over 1985. A quarterly dividend of \$0.31 per share was declared for payment March 1, 1987. Of the income available for common shares, \$10.1 million was paid in dividends and \$6.9 million was retained and reinvested in the Company.

## Economic Environment

Because the Company supplies electrical energy mainly to the residential and general service markets, growth in kilowatt-hour sales is largely dependent upon the general performance of the provincial economy. In 1986 performance of the different sectors of the Newfoundland economy was mixed, with the overall increase in Gross Domestic Product estimated to be 2%. The outlook is for a 2% growth again in 1987, somewhat lower than for Canada as a whole.

Falling oil prices in 1986 added to the uncertainty over prospects for offshore exploration and development, resulting in a slowdown in activity. While as many as five drilling rigs were in operation during peak periods of 1986, fewer are confirmed for 1987 and annual investment in this sector is expected to decrease accordingly.

In contrast, significant increases were realized in the volume and the value of fish production, largely in the offshore sector. A greater demand in the United States, caused by an apparent change in food preference, has contributed to this improvement as have low inventories, and a favourable exchange rate. If good catches continue and the inshore sector improves, 1987 is expected to be another successful year for the fishing industry.

Production of pulp and paper was down in 1986, primarily because of modernization programmes underway at two of the three paper mills. World demand for newsprint is strengthening and improved product quality should ensure the three provincial mills an opportunity to regain their position in the market.

Production of iron ore, the largest component of the mining industry, dropped in 1986. The strength of the Canadian dollar relative to the currencies of competing countries is a major factor. There is optimism, however, for other minerals (e.g. gold, asbestos, and fluorspar) where new or increased production is expected to commence in 1987, in or near the Company's service area.

## Capital Expenditures

Approximately \$32.1 million was spent on capital works during 1986, the bulk of which went towards extending and improving the distribution system. Expenditures in 1987 are expected to be approximately \$40.7 million.



**DIRECTORS** - left to right - Standing - J.B. Foote, G.R. Parsons, J.E. Rorke, M.M. Williams, A.A. Bruneau, A.F. Ryan. Seated - A.D. Cameron, A. Bailey, E.A. Pratt, H. Collingwood, C.K. Wells, H.R. Steele, D.S. Templeton.

### Financial

On March 1, 1986, the Dividend Reinvestment Plan was suspended in order to restrict growth in the common equity portion of total capitalization, resulting from the issue of Treasury shares through the Plan. On January 1, 1987, a new Corporations Act for the province came into force, under which companies may purchase their own common shares. The Company is now considering reactivating the Plan using market shares, or Treasury shares, as appears appropriate in maintaining a suitable debt equity ratio.

In August the Company filed an Annual Information Form with the various provincial securities commissions to enable future public offerings to be made on the basis of a Short Form Prospectus. On October 1 it redeemed all of the outstanding 14.25% Series I First Preference Shares under provisions attached at the time of issue and, on December 15, issued \$10,000,000 of 7.4% Series J First Preference Shares. A new issue of First Mortgage Bonds is contemplated for early 1987.

### Rates

In March the Board of Commissioners of Public Utilities heard an application from the Company for an increase of 3.4% in rates charged to consumers. In a split decision, the regulatory authority ordered that the rates remain unchanged and lowered the rate of return permitted to be earned. The Company appealed the decision to the Supreme Court of Newfoundland, Court of Appeal on the grounds that, among other things, the Public Utilities Board had erred in law in determining the rate of return. In February, 1987, the Court denied the appeal. A further avenue of

appeal is now being evaluated by legal counsel.

### Advisory Council

During the year, an Advisory Council was appointed to facilitate better communications between the Company and its customers and the general public. The Council is comprised of respected individuals from each major operating area of the Company. It is expected that the Council will provide candid evaluation of the Company's policies and programmes and practical recommendations for management consideration.

### Employees

The Company conducted an Employee Attitude Survey to identify the perception of employees on many issues of interest to the Company. The results have been of great assistance to the Company as it addresses concerns and builds upon strengths.

Recent senior appointments and retirements are detailed in the Corporate Directory Section of this report.

During the year many challenges were presented to employees. We take this opportunity to thank them for their dedication and hard work.

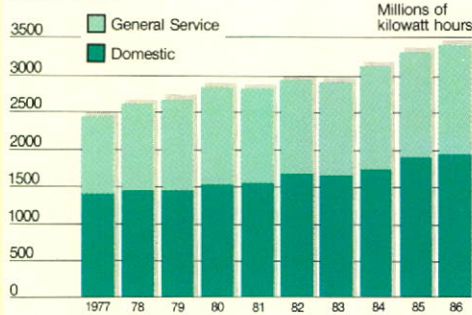
On behalf of the Board.

Clyde K. Wells  
Chairman of the Board

Angus A. Bruneau,  
President and Chief  
Executive Officer

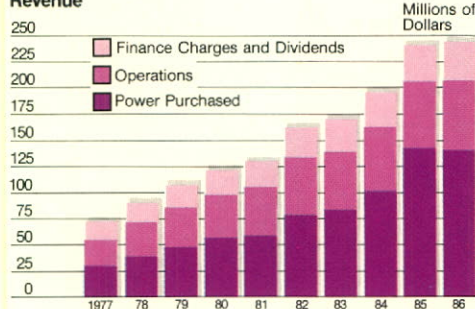
# Operations

**Energy Sales**



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

**Distribution of Revenue**



Power purchased grew from 39% of revenue in 1977 to 57% in 1986.

**Average Cost to Customers**



The proportion of revenue required to recover the Company's controllable operating expenses has declined over time due to improved productivity and efficiency.

## Customer Service

During 1986 energy sales increased by 2.4% to 3,411.4 million kilowatt hours. Since approximately 56% of the total sales are to customers whose prime heating source is electricity, variations in weather conditions affect the actual growth. In 1986, when adjustments are made to reflect normal weather conditions the growth indicated is 4.4%.

In 1986, 3,512 customers were added, bringing the system total to 175,631. Domestic customers increased by 3,116 and 73% of these have electric heating installed. At year end 45% of all householders in the area served by the Company had electricity as their prime source of space heating.

In recent years conservation efforts by customers resulted in a reduction of average annual use. The average kilowatt hours consumed by domestic all-electric customers was 19,757 in 1983, 19,506 in 1984, and 19,064 in 1985. In 1986 it increased slightly to 19,089.

In January 1986 a new rate structure was introduced which eliminated the Fuel Adjustment Charge. This charge had been included in previous tariffs to cover fluctuations in fuel prices and in the quantities of fuel consumed in thermal generating plants. A rate stabilization account was set up to accept variances in these factors and provision was made to amortize, over three years, any balance in the account at June 30, 1987, and annually thereafter. At December 31, 1986, a balance of \$366,000, owing to the customers, existed.

## Power Supply

Kilowatt hours produced and purchased for re-sale in 1986 amounted to 3,618 million compared with 3,531 million in the previous year. Of this, 391 million kilowatt hours were produced by the Company, mainly in the twenty-two small hydro plants which it owns and operates. The remaining 3,227 million kilowatt hours were purchased from Newfoundland and Labrador Hydro Corporation at various supply points across the Island.

Total precipitation was 98.3% of normal in the St. John's area and 96.7% of normal in the central portions of the Island. Supply from the Company's plants exceeded the 327 million kilowatt hours produced in 1985, but was short of the long term average of 406 million kilowatt hours.

Newfoundland and Labrador Hydro

obtained 78% of its total production from hydro sources.

### ***Distribution Systems***

Sleet storms caused service interruptions in early Spring and late Fall in the Trepassey area on the southeast corner of the Island. Customers in Bonavista North were also affected when the transmission circuit to the area was likewise damaged.

In May a fault occurred on an underwater cable supplying Bell Island, Conception Bay. The fault, some 700 meters from shore, was located electrically and was physically checked by a small unmanned submarine. The cable then was raised and repaired with the assistance of an offshore supply vessel.

### ***Capital Expenditures***

Capital expenditures in 1986 amounted to \$32.1 million. Distribution extensions, and upgrading to improve reliability, accounted for \$22.4 million, or 69% of the total capital budget. An extension to underground plant and facilities to serve the convention centre being constructed in downtown St. John's amounted to \$900,000. Expenditures on transmission lines and substations throughout the system totalled \$2.7 million.

A programme to improve the Company's hydro facilities was continued. Projects undertaken included the rehabilitation of storage dams, turbines, and runners to achieve higher efficiency. Studies were continued on alternate energy sources such as wind, biomass, and undeveloped small hydro sites.

The computerized control system which has been in service in St. John's and the Avalon Peninsula was extended to include the power system serving the Burin Peninsula. A similar control system is planned for the Western Region.

Computer terminals were installed in all regional offices to permit on-line access to customer files at the head office central computer. Other applications, such as materials management, human resources, power facilities maintenance, and financial systems, will be substantially improved in the near future. Steps have also been taken to increase the capacity of the central computer system. A programme to assist employees to acquire personal computers was well received with 139 employees participating.

### ***Staff***

At year-end the number of regular full time employees was 905, down from 938 in 1985. The continuation of the staff reduction programme announced in 1985, coupled with normal retirements, accounted for the retirement of 54 employees in 1986.

A new collective agreement was negotiated



**Modern construction materials give energy efficiency in an "all electric building".**

with Local 1620 of the International Brotherhood of Electrical Workers, covering a three year period ending September 30, 1989. This bargaining unit represents approximately 400 employees in the trades classifications.

Safe working practices were demonstrated again with several operating regions recording one or more years without lost time injuries at various times throughout the year. The Safety Department carried out a variety of meetings and activities aimed at heightening safety awareness in our work force and amongst the general public.

Members of the Department participated in seminars throughout the Province and conducted electrical safety sessions for fire departments and other groups.

In a move to emphasize the importance of employees and their contributions to the success of the organization, the Human Resources Division was created. W. Wallace Pinhorn, formerly Manager, Human Resources, was appointed Vice President, Human Resources and Communications.

High quality and efficiency are essential to success in national and international markets for fish products.





# Financial

Operating revenues increased by less than 1%, in 1986 to \$245.4 million. This levelling results mainly from the high fuel charge component in the 1985 revenue caused by high fuel prices and above normal fuel consumption in that year. Operating expenses were \$177.7 million, down 0.5% from 1985. This decrease reflected in part a reduction in purchased power costs of \$2.8 million to \$140.0 million. Other operating expenses, including labour and material costs, and general and administration expenses, were \$37.6 million compared to \$35.8 million in 1985. Increased municipal taxation and general inflation contributed to this increase.

Net financial charges for the year were \$16.2 million, an increase of 6.2% over the previous year. Depreciation expense increased 8.1% to \$16.6 million, while provision for income taxes was \$14.6 million, or 41.7% of income before taxes and transfers.

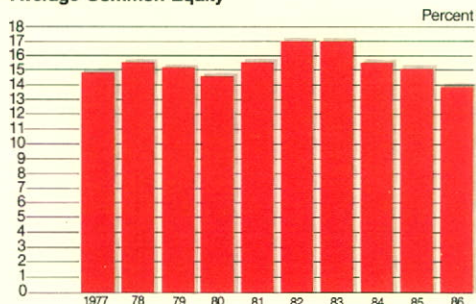
Net income for the year was \$20.3 million, down by 2.6% from 1985. Preferred share dividends amounted to \$3.3 million and the remaining \$17.0 million was available for common shares. This was equivalent to \$2.01 per share on the average common shares outstanding throughout 1986. In the previous year, earnings per share were \$2.05. Dividends amounting to \$10.1 million, or \$1.195 per common share outstanding, were declared and the remaining \$6.9 million, or \$0.815 per share, was retained and reinvested in the business. This resulted in a payout ratio of 59.5%.

A total of \$32.1 million was spent on capital extensions and improvements to existing plant. Internal sources, mainly depreciation and retained earnings, provided 84% of these capital needs. External sources included funds raised through common share purchase plans and contributions in aid of construction from customers. On October 1, 1986 all outstanding 14.25% Series I First Preference Shares were redeemed in accordance with terms attached at the time of issue. On December 15, 1986, a new series of \$10,000,000, 7.4% Series J First Preference Shares was issued.

At year end the capital structure of the Company was 45.2% debt, 12.2% preference shares, and 42.6% common equity.

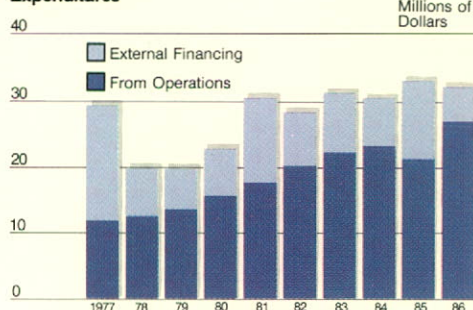
On March 1, the Dividend Reinvestment Plan and Stock Dividend Programme were suspended in order to limit the amount of average common equity in the total capitalization of the Company. The Customer Share

**Rate of Return on Average Common Equity**



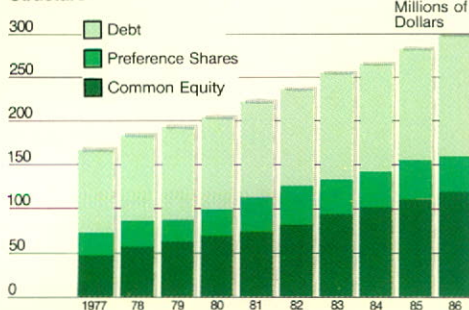
Return on equity measures return on shareholders' investment. Variations from year to year reflect a changing investment climate.

**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. Reacting to financial market changes must be balanced with achieving the lowest overall cost of capital.



The St. John's dockyard is equipped with an electrically driven syncrolift capable of raising ocean-going vessels to the repair area.

Purchase Plan and the Employees' Share Purchase Plan, however, were continued. Because of this, new investment in common equity was slightly more than \$1.0 million compared to \$2.0 million in 1985. The Company is now considering reactivating the Dividend Reinvestment Plan using market shares, or treasury shares, as is now permitted under the new provincial Corporations Act.

Interest coverage on total debt was 3.1 times while coverage on debt interest and preferred share dividends was 2.3 times.

#### **Regulation**

Under the provisions of The Public Utilities Act, the Board of Commissioners of Public Utilities of Newfoundland ("the Board") has regulatory jurisdiction over the Company in respect of rates, capital expenditures, issuance of securities, terms of service and related matters. 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 approximately 90% of the Company's power requirements.

On January 23, 1986, the Company filed an application with the Board requesting an overall increase in rates of 3.4% to permit the Company to earn a return on average common equity within the range of 15.3% to 15.8%. A public hearing was held in March and the Board delivered its decision on April 24. In a three to two majority decision, the Board determined a range of return on average rate base of 12.1% to 12.3% (13.7% to 14.2% on average common equity) and ordered that the rates charged by the Company remain unchanged. The Company appealed the decision to the Supreme Court of Newfoundland, Court of Appeal and the case was heard on January 29, 1987. The Company argued that the Board erred in law or exceeded its jurisdiction in the determination of the rate of return and also that the Board was not properly constituted and failed to grant a fair hearing. On February 26, 1987 the Court denied the appeal. Legal counsel is presently evaluating a further avenue of appeal.

In July the Board granted interim approval for a change in the rates charged by Deer Lake Power Company Limited for secondary energy sold to Hydro and subsequently resold to the Company. Variances in the

Residential construction specifically designed for downtown redevelopment is a modern solution to the urban housing problem.



price and quantity of such secondary energy are absorbed by Hydro's Rate Stabilization Plan and the Company's Rate Stabilization Account which became effective on January 1, 1986. Secondary energy will be one of the factors reflected in an automatic rate adjustment to the Company's customers on July 1, 1987.

The pole attachment rates charged by the Company to cable television operators were reduced by the Board in April 1986. This was the result of a directive issued by the provincial government in late 1985 which incorporated the recommendation of a commission of inquiry into pole attachment rates.

# Balance Sheet

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

**December 31**

*(in thousands)*

**1986** **1985**

**ASSETS**

**Property Account**

|                               |                |                |
|-------------------------------|----------------|----------------|
| Property, plant and equipment | \$461,189      | \$432,075      |
| Accumulated depreciation      | 134,888        | 120,099        |
|                               | <b>326,301</b> | <b>311,976</b> |

**Deferred Charges**

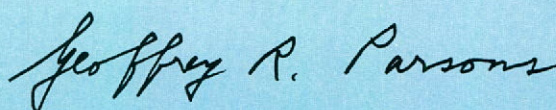
|   |              |              |
|---|--------------|--------------|
| Unamortized debt discount and expense   | 1,204        | 1,370        |
| Unamortized capital stock issue expense | 1,902        | 1,321        |
|   | <b>3,106</b> | <b>2,691</b> |

**Current Assets**

|   |               |               |
|---|---------------|---------------|
| Cash  | 47            | 83            |
| Accounts receivable                                   | 28,113        | 25,364        |
| Inventories of materials and supplies at average cost | 5,675         | 6,192         |
| Prepaid expenses                                      | 1,870         | 1,885         |
| Deferred fuel account                                 |               | 5,213         |
| Rate stabilization account                            | 1,594         |               |
|   | <b>37,299</b> | <b>38,737</b> |

**Approved on Behalf of the Board**

 Director

 Director

**\$366,706** **\$353,404**

## December 31

*(in thousands)*

1986 1985

**SHAREHOLDERS' EQUITY AND LIABILITIES****Shareholders' Equity**

|  |          |          |
|--|----------|----------|
| Common shares (Note 1)                         | \$34,657 | \$33,642 |
| Contributed surplus                            | 2,147    | 2,147    |
| The Capital Redemption Reserve Fund (Note 1)   | 19,933   | 8,718    |
| Earnings retained and invested in the business | 69,186   | 73,505   |
| Common shareholders' equity                    | 125,923  | 118,012  |
| Preference shares (Note 1)                     | 36,067   | 37,282   |
|  | 161,990  | 155,294  |

|                                |         |         |
|--------------------------------|---------|---------|
| <b>Long Term Debt</b> (Note 2) | 112,342 | 120,510 |
|--------------------------------|---------|---------|

**Deferred Credits**

|                                      |        |        |
|--------------------------------------|--------|--------|
| Contributions in aid of construction | 8,475  | 7,975  |
| Contributions - government           | 7,767  | 8,484  |
| Deferred income taxes                | 9,155  | 9,300  |
| Weather normalization account        | 1,009  | 941    |
|                                      | 26,406 | 26,700 |

**Current Liabilities**

|  |           |           |
|--|-----------|-----------|
| Bank loans                             | 21,375    | 10,675    |
| Accounts payable and accrued charges   | 28,340    | 27,568    |
| Interest accrued on long term debt     | 2,782     | 2,843     |
| Current installments of long term debt | 8,275     | 6,323     |
| Income taxes payable                   | 2,008     | 350       |
| Dividends payable                      | 3,188     | 3,141     |
|  | 65,968    | 50,900    |
|  | \$366,706 | \$353,404 |

See accompanying notes to financial statements.

# Statement of Income

NEWFOUNDLAND LIGHT & POWER CO. LIMITED

Year Ended  
December 31

(in thousands)

|   | 1986      | 1985      |
|---|-----------|-----------|
| <b>Operating Revenues</b>                       | \$245,427 | \$244,007 |
| <b>Operating Expenses</b>                       |           |           |
| Purchased Power                                 | 140,004   | 142,839   |
| Other expenses                                  | 37,669    | 35,772    |
| Depreciation                                    | 16,555    | 15,312    |
|   | 194,228   | 193,923   |
| <b>Operating Income</b>                         | 51,199    | 50,084    |
| <b>Finance Charges (Note 3)</b>                 | 16,242    | 15,298    |
| <b>Income Before Income Taxes and Transfers</b> | 34,957    | 34,786    |
| <b>Income Taxes</b>                             | 14,564    | 14,382    |
|   | 20,393    | 20,404    |
| <b>Weather Normalization Account Transfers</b>  | (69)      | 453       |
| <b>Net Income</b>                               | 20,324    | 20,857    |
| <b>Dividends on Preference Shares</b>           | 3,278     | 3,697     |
| <b>Earnings Applicable to Common Shares</b>     | \$ 17,046 | \$ 17,160 |
| <b>Average Common Shares Outstanding</b>        | 8,483,389 | 8,386,634 |
| <b>Earnings per Common Share</b>                | \$2.01    | \$2.05    |

# Statement of Retained Earnings

December 31

(in thousands)

|  | 1986     | 1985     |
|--|----------|----------|
| <b>Balance at Beginning of Year</b>                    | \$73,505 | \$66,466 |
| <b>Net income for the year</b>                         | 20,324   | 20,857   |
|  | 93,829   | 87,323   |
| <b>Dividends</b>                                       |          |          |
| Preference shares                                      | 3,278    | 3,697    |
| Common shares  | 10,150   | 8,912    |
|  | 13,428   | 12,609   |
| <b>Transfer to The Capital Redemption Reserve Fund</b> | 11,215   | 1,209    |
|  | 24,643   | 13,818   |
| <b>Balance at End of Year</b>                          | \$69,186 | \$73,505 |

See accompanying notes to financial statements.

# Statement of Changes in Financial Position

NEWFOUNDLAND LIGHT & POWER CO. LIMITED

Year Ended  
December 31

(in thousands)

|  | 1986     | 1985     |
|--|----------|----------|
| <b>Cash from operations</b>                                  |          |          |
| Net Income   | \$20,324 | \$20,857 |
| <b>Add expenses not requiring cash</b>                       |          |          |
| Depreciation   | 16,555   | 15,312   |
| Deferred income taxes  | (145)    | 612      |
| Weather normalization account transfers                      | 69       | (453)    |
| Other deferred charges                                       | (156)    | 224      |
|  | 36,647   | 36,552   |
| <b>Cash provided by a change in non-cash working capital</b> | 3,818    | (2,845)  |
|  | 40,465   | 33,707   |
| <b>Cash from external financing</b>                          |          |          |
| Contributions in aid of construction                         | 1,009    | 1,051    |
| Net proceeds from common shares                              | 1,015    | 2,032    |
| Net proceeds from preference share issue                     | 9,742    |          |
| Net proceeds from long term debt                             |          | 14,712   |
| Reduction of long term debt                                  | (6,215)  | (2,733)  |
| Redemption of preference shares                              | (11,215) | (1,209)  |
| Increase (decrease) in bank loans                            | 10,700   | (1,975)  |
|  | 5,036    | 11,878   |
| <b>Cash used in investing</b>                                |          |          |
| Capital expenditure  | 32,184   | 32,990   |
| Salvage - net of costs                                       | (75)     | 127      |
|  | 32,109   | 33,117   |
| <b>Dividends</b>   |          |          |
| Preference shares  | 3,278    | 3,697    |
| Common shares  | 10,150   | 8,912    |
|  | 13,428   | 12,609   |
| <b>Decrease in cash</b>                                      | 36       | 141      |
| <b>Cash, beginning of the year</b>                           | 83       | 224      |
| <b>Cash, end of the year</b>                                 | \$ 47    | \$ 83    |

See accompanying notes to financial statements

# Summary of Accounting Policies

NEWFOUNDLAND LIGHT & POWER CO. LIMITED

|  |   |
|--|---|
| <b>General</b>                               | 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").   |
| <b>Revenue</b>                               | <p>The Company's revenue is derived from the sale of electricity in the Province of Newfoundland.</p> <p>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.</p>   |
| <b>Property, Plant and Equipment</b>         | 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.  |
| <b>Depreciation</b>                          | Depreciation is provided in the accounts at classified rates varying from 1.8% to 13.9% 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% (1985-3.9%) before reduction for the amortization of contribution in aid of construction and contributions - government.   |
| <b>Interest Charged to Construction</b>      | 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.  |
| <b>Deferred Charges</b>                      | Deferred charges are amortized as follows:<br>Debt discount and expenses - over the life of each issue.<br>Capital stock issue expense - over a 20 year period from date of issue except Series J preference shares which is amortized over 7 years ending October 1, 1993.   |
| <b>Rate Stabilization Account</b>            | Commencing January 1, 1986 the Company's rate schedule includes a rate stabilization clause which permits the Company to recover charges in the Rate Stabilization Account from customers. The balance in the Deferred Fuel Account as at December 31, 1985 was transferred to this account. The rate is to be recalculated on July 1 of each year, commencing in 1987, to reflect changes in the Account from year to year and any changes in the rates charged to the Company by Newfoundland and Labrador Hydro as the result of the operation of its Rate Stabilization Plan. |
| <b>Foreign Currency Translation</b>          | 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.  |
| <b>Customer and Government Contributions</b> | 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.  |
| <b>Deferred Income Taxes</b>                 | 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 \$41.5 million to December 31, 1986 (1985 - \$37.2 million).   |
| <b>Weather Normalization Account</b>         | 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, 1986, and the underlying calculations have been approved by the Board.  |
| <b>Changes in Financial Position</b>         | The Company's unsecured demand bank loans are considered as non-current liabilities in the statement of changes in financial position.  |



# Notes to Financial Statements

## 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.

|   | December 31   |          |
|---|---|----------|
|   | 1986  | 1985     |
| <i>(in thousands)</i>                       |   |          |
| <b>Issued and outstanding Common Shares</b> |   |          |
| Class A shares                              | 8,339,413   |          |
| Class B shares                              | 164,744   |          |
|   | 8,504,157 (8,447,897 common shares December 31, 1985) | \$33,642 |
|   |   | \$34,657 |

| First preference shares |   |          | 1986     | 1985     |
|-------------------------|---|----------|----------|----------|
| 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      | 185      |
| 310,270                 | 7 1/4%  | Series D | 3,103    | 3,185    |
| 360,800                 | 9%  | Series E | 3,608    | 3,691    |
| 519,850                 | 9.84%   | Series F | 5,198    | 5,898    |
| 501,000                 | 7.60%   | Series G | 5,010    | 5,010    |
| 365,000                 | 9 1/8%  | Series H | 3,650    | 4,000    |
| -                       | 14 1/2%   | Series I | -        | 10,000   |
| 1,000,000               | 7.40%   | Series J | 10,000   | -        |
| 3,606,687               | (3,728,187 preference shares December 31, 1985) |          | \$36,067 | \$37,282 |

| Common shares were issued during the year as follows: | Shares | (in thousands) |
|---|--------|----------------|
| Dividend reinvestment plan                            | 21,909 | \$389          |
| Stock dividends on Class B                            | 3,689  | 69             |
| Employee share purchase plan                          | 8,326  | 145            |
| Customer share purchase plan                          | 22,336 | 412            |
|   | 56,260 | \$1,015        |

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 December 15, 1993 or subsequently, on December 15 of each third year following 1993, any Series J First Preference Shares tendered at a price of \$10 per share plus all accrued and unpaid dividends to the date of payment. 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 and H 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  | 1,121,500 | \$11,215       |
| Issued  | 1,000,000 | \$10,000       |

The par value of preference shares purchased to date in the amount of \$19,933,000 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

|   |           |                             | (in thousands) |           |
|---|-----------|-----------------------------|----------------|-----------|
|   |           |                             | 1986           | 1985      |
| <b>First mortgage sinking fund bonds:</b>   |           |                             |                |           |
| 6 1/2%                                      | Series L  | due 1986                    | \$             | \$ 736    |
| 7%  | Series R  | due 1986                    |                | 4,255     |
| 7 3/4%                                      | Series S  | due 1988                    | 1,861          | 2,211     |
| 8%  | Series T  | due 1991                    | 4,197          | 4,587     |
| 11 1/4%                                     | Series V  | due 1996                    | 17,487         | 17,487    |
| 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                    | 9,600          | 9,700     |
| 17 3/4%                                     | Series Z  | due 1990                    | 7,200          | 7,275     |
| 13 7/8%                                     | Series AA | due 1995                    | 7,500          | 7,500     |
| 11 1/2%                                     | Series AB | due 2005                    | 15,000         | 15,000    |
|   |           |                             | 74,845         | 80,551    |
| 5 3/8%                                      | Series M  | due 1990 (U.S. \$2,000,000) | 2,160          | 2,187     |
| 8 1/4%                                      | Series U  | due 1992 (U.S. \$8,000,000) | 7,974          | 7,974     |
|   |           |                             | 84,979         | 90,712    |
| <b>General mortgage sinking fund bonds:</b> |           |                             |                |           |
| 9 1/2%                                      | Series D  | due 1990                    | 2,415          | 2,872     |
| 11 1/4%                                     | Series F  | due 1994                    | 14,669         | 14,669    |
| 10 1/2%                                     | Series G  | due 1997                    | 18,490         | 18,490    |
|   |           |                             | 35,574         | 36,031    |
| 11%, first mortgage on real property        |           |                             | 64             | 90        |
|   |           |                             | 120,617        | 126,833   |
| Less: Current installments                  |           |                             | 8,275          | 6,323     |
|   |           |                             | \$112,342      | \$120,510 |

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, 1986 \$13.8 million Canadian was required to translate foreign currency carried at \$10.1 million. As at December 31, 1985 \$14.0 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, 1987 for each of the years to 1991 are as follows:

|  | <i>(in thousands)</i> |                 |                 |                 |                 |
|--|-----------------------|-----------------|-----------------|-----------------|-----------------|
|  | 1987                  | 1988            | 1989            | 1990            | 1991            |
| Sinking fund payments and installments | \$ 1,275              | \$ 1,249        | \$ 1,122        | \$ 1,015        | \$ 965          |
| Maturing issues                        | 7,000                 | 11,231          |                 | 11,269          | 3,897           |
|  | <u>\$ 8,275</u>       | <u>\$12,480</u> | <u>\$ 1,122</u> | <u>\$12,284</u> | <u>\$ 4,862</u> |

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, 1986 these conditions had been met.

| <b>3. Finance Charges</b>                    | <i>(in thousands)</i> |                 |
|--|-----------------------|-----------------|
|  | 1986                  | 1985            |
| <b>Interest</b>                              |                       |                 |
| Long-term debt                               | \$ 15,028             | \$13,658        |
| Other  | 1,215                 | 1,691           |
|  | <u>16,243</u>         | <u>15,349</u>   |
| <b>Amortization</b>                          |                       |                 |
| Debt discount and expense                    | 166                   | 158             |
| Capital stock issue expense                  | 178                   | 155             |
|  | <u>344</u>            | <u>313</u>      |
|  | <u>16,587</u>         | <u>15,662</u>   |
| <b>Less</b>                                  |                       |                 |
| Interest charged to construction             | 305                   | 294             |
| Discount on bonds purchased for sinking fund | 13                    | 51              |
| Interest earned                              | 27                    | 19              |
|  | <u>345</u>            | <u>364</u>      |
|  | <u>\$16,242</u>       | <u>\$15,298</u> |

#### 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.

|                           | 1986        | 1985        |
|---------------------------|-------------|-------------|
|                           | %           | %           |
| Statutory income tax rate | 53.8        | 52.9        |
| General expenses capital  | (11.6)      | (11.0)      |
| Plant dismantling costs   | (1.6)       | (1.9)       |
| Other                     | 1.1         | 1.3         |
|                           | <u>41.7</u> | <u>41.3</u> |

#### 5. Pensions

The Company has a contributory defined benefit pension plan covering all regular employees. Based on a best estimate actuarial valuation as at December 31, 1986 the Company has an unfunded past service obligation of \$45.3 million which will be amortized to income over the next 22 years.

---

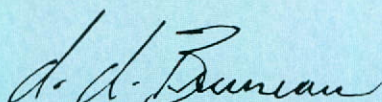
# Management Report

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.

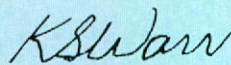
The Company's system of internal accounting controls is designed to provide reasonable assurance of the reliability of the financial information in this report. These controls are monitored and checked by an internal audit programme.

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.



President and  
Chief Executive Officer



Vice-President, Finance  
& Treasury

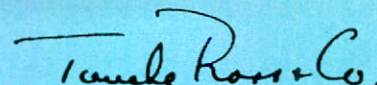
# Auditors' Report

## The Shareholders, Newfoundland Light & Power Co. Limited

We have examined the balance sheet of Newfoundland Light & Power Co. Limited as at December 31, 1986 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, 1986 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 26, 1987



Chartered Accountants

---

### Supplementary Information Concerning the Effects of Changing Prices

The Canadian Institute of Chartered Accountants (CICA) 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."

#### Earnings Applicable to Common Shares on a Current Cost Basis, Under the Operating Capability Concept of Capital (Unaudited)

| Historic Cost Basis<br>(in thousands) |  | Current Cost Basis<br>(in thousands) |            |
|---------------------------------------|--|--------------------------------------|------------|
| 1986                                  |  | 1986                                 | 1985 (1)   |
| \$20,324                              | Net Income                                     | \$20,324                             | \$21,477   |
| -                                     | Less: Current Cost Adjustment for Depreciation | 14,861                               | 14,888 (2) |
| 3,278                                 | Preference Share Dividends                     | 3,278                                | 3,807      |
| -                                     | Add: Financing Adjustment                      | 4,986                                | 4,888 (3)  |
| 17,046                                | Earnings Applicable to Common Shares           | \$7,171                              | \$7,670    |

#### Schedule of Assets as at December 31, 1986

|           |  |           |               |
|-----------|--|-----------|---------------|
| \$310,059 | Property, Plant and Equipment (Net of accumulated depreciation and contributions in aid of construction) | \$544,330 | \$546,449 (4) |
| \$125,923 | Net Assets (Common Shareholders' Equity)   | \$360,195 | \$363,857     |

- (1) Restated to 1986 dollars.
- (2) Depreciation adjustment 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 \$4,504 in 1986 and \$4,518 in 1985.
- (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<br>(in thousands) |              |
|---|--------------------------------|--------------|
|   | 1986                           | 1985 (1)     |
| Increase in the Cost of Property, Plant & Equipment and Inventory due to: |                                |              |
| - General Inflation   | \$14,906                       | \$18,599     |
| - Specific Price Changes  | 13,424                         | 13,761       |
| Excess of General Inflation over Specific Price Changes                   | \$ 1,482                       | \$ (4,838)   |
| Gain in Purchasing Power from Net Monetary Items                          | \$ 5,077                       | \$ 6,617 (2) |

- (1) Restated to 1986 dollars.
- (2) The purchasing power gain of \$5,077 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 was used in the constant dollar calculations.

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 historic cost and that subjective assumptions underlie the current cost restatements. This supplementary information should, therefore, be interpreted and used with caution.

# Investor Information

| COMMON SHARE DIVIDENDS               | 1986    | 1985   | 1984    | 1983    | 1982    |
|--------------------------------------|---------|--------|---------|---------|---------|
| <b>Class A &amp; B Common Shares</b> |         |        |         |         |         |
| Dividends Declared                   | \$1.195 | \$1.06 | \$1.01  | \$0.93  | \$0.85  |
| Dividends Paid                       | \$1.15  | \$1.06 | \$0.985 | \$0.915 | \$0.825 |

Common share dividends are payable on the first days of March, June, September and December. A dividend of \$0.31, payable March 1, 1987, has been declared on Class A and Class B common shares for an annual indicated dividend of \$1.24.

## Valuation Day

The value of a common share of the Company on Valuation Day, December 22, 1971, recognized by the Department of National Revenue for capital gains taxation purposes, was \$6.125 after adjustment for the June, 1985 two-for-one share split.

## Annual Meeting - 1987

Garrison Room, Hotel Newfoundland, St. John's, Newfoundland, on Wednesday, April 29 at 11:00 a.m.

## Customer Share Purchase Plan

The company offers the Customer Share Purchase Plan to customers resident in Newfoundland. Shares are sold quarterly on March 1, June 1, September 1 and December 1 at the average market price then prevailing on the Toronto Stock Exchange. Participants may invest up to \$4,000 per year and opt to have dividends automatically deposited in the plan for the purchase of additional shares.

## Duplicate Annual Reports

While every effort is made to avoid duplications, some shareholders may receive extra reports as a result of multiple share registrations. Shareholders wishing to consolidate these accounts should contact Montreal Trust Company, P.O. Box 1900, Station B, Montreal, Quebec, H3B 3L6.

## Publications Available to Investors

Ten Year Financial Statistical Summary - Complete financial statements and other data for the period 1977-1986.

One Hundredth Anniversary Booklet - a history of the company from 1885-1985.

Quarterly Reports - issued each March 31, June 30, September 30 and December 31.

| SHARE TRADING SUMMARY (TSE) |                | Book Value Per Share | High Market Price | Low Market Price | Closing Price | Volume    |
|-----------------------------|----------------|----------------------|-------------------|------------------|---------------|-----------|
| 1978                        |                | \$ 8.00              | \$ 9.31           | \$ 7.63          | \$ 9.13       | 577,200   |
| 1979                        |                | 8.60                 | 10.75             | 8.38             | 10.75         | 399,200   |
| 1980                        |                | 9.22                 | 13.25             | 8.63             | 11.25         | 653,800   |
| 1981                        |                | 9.97                 | 11.75             | 8.25             | 10.00         | 575,400   |
| 1982                        |                | 10.91                | 12.00             | 8.50             | 12.00         | 895,500   |
| 1983                        |                | 11.97                | 15.38             | 12.00            | 14.50         | 892,800   |
| 1984                        |                | 12.93                | 16.69             | 12.75            | 15.81         | 1,195,200 |
| 1985                        | First quarter  | 13.40                | 18.00             | 15.75            | 17.56         | 336,200   |
|                             | Second quarter | 13.80                | 19.38             | 16.50            | 19.13         | 415,700   |
|                             | Third quarter  | 13.80                | 19.13             | 17.75            | 17.38         | 157,900   |
|                             | Fourth quarter | 13.97                | 18.38             | 16.13            | 17.38         | 200,900   |
|                             |                |                      |                   |                  |               | 1,110,700 |
| 1986                        | First quarter  | 14.34                | 18.50             | 16.25            | 18.13         | 184,700   |
|                             | Second quarter | 14.74                | 20.25             | 17.75            | 18.75         | 569,300   |
|                             | Third quarter  | 14.74                | 19.25             | 18.50            | 18.88         | 883,000   |
|                             | Fourth quarter | 14.80                | 19.00             | 18.00            | 18.25         | 614,700   |
|                             |                |                      |                   |                  |               | 2,251,700 |

## Investor Information

### Head Office

55 Kenmount Rd., P.O. Box 8910, St. John's, Newfoundland, A1B 3P6

### Share Transfer Agent and Registrar

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

### Trustee for Bonds

Montreal Trust Company

### Market Trading

The company's common shares are traded on The Montreal Exchange and The Toronto Stock Exchange and its preference shares are traded on The Montreal Exchange.

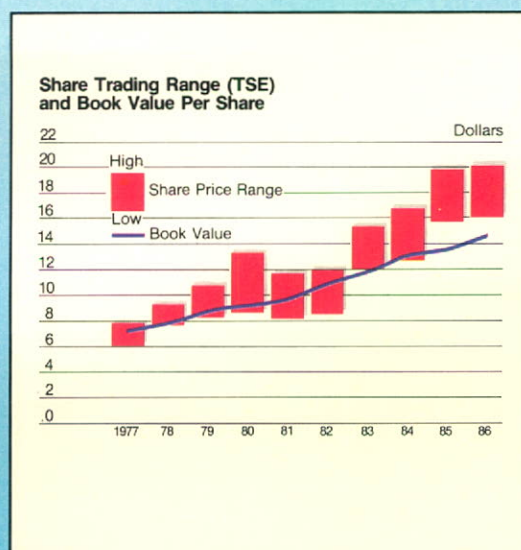
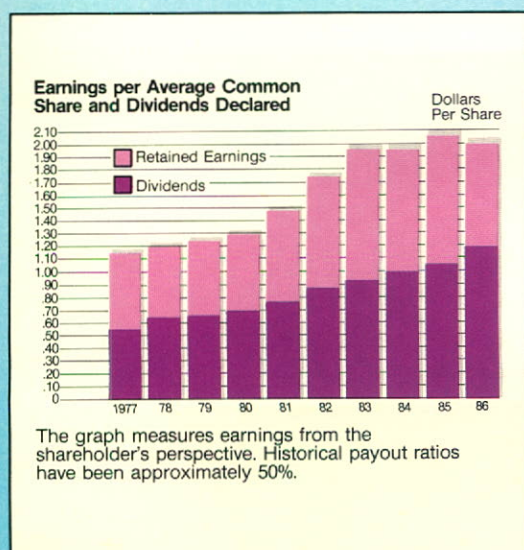
### Investor Relations

Shareholders, institutional investors, brokers, security analysts and others interested in receiving copies of annual reports, quarterly reports, ten year financial statistical summaries, etc. should contact Mr. G. I. Janes, Manager Investor Relations, at the company's head office:

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

(709) 737-5600  
Telex 016-4726  
Telefax 737-5832

Those shareholders requiring changes to their share registrations, should contact Montreal Trust Company, P.O. Box 1900, Station "B", Montreal, Quebec, H3B 3L6.



# Ten Year Summary

1986

## Income Statement Items (in thousands)

|                                   |           |
|-----------------------------------|-----------|
| Operating revenue                 | \$245,427 |
| Operating expenses                | 177,673   |
| Finance charges                   | 16,242    |
| Depreciation                      | 16,555    |
| Income taxes                      | 14,564    |
| Balance after preferred dividends | 17,046    |
| Dividend on common shares         | 10,150    |
| Retained in the business          | 6,896     |

## Balance Sheet Items (in thousands)

|                               |         |
|-------------------------------|---------|
| Property, plant and equipment | 461,189 |
| Accumulated depreciation      | 134,888 |
| Net fixed assets              | 326,301 |
| Total Assets                  | 366,706 |
| Long term debt                | 133,717 |
| Preference shares             | 36,067  |
| Common equity                 | 125,923 |
| Total capital                 | 295,707 |

## Financial Statistics

|   |        |
|---|--------|
| Return on average common equity                               | 13.98% |
| Capitalization ratios (year-end)                              |        |
| Long term debt  | 45.2%  |
| Preferred shareholders' equity                                | 12.2%  |
| Common shareholders' equity                                   | 42.6%  |
| Interest coverage (times earned before income tax) Total debt | 3.1    |
| Interest and preferred dividends                              | 2.3    |

## Common Share Data

|  |        |
|--|--------|
| Book value per share-year-end (\$)               | 14.80  |
| Average common shares outstanding (in thousands) | 8,483  |
| Earnings per common share (\$)                   | 2.01   |
| Dividends declared per common share (\$)         | 1.195  |
| Dividend payout ratio                            | 59.5%  |
| Price earnings ratio                             | 9.1    |
| Capital Expenditures                             | 32,109 |

## Operating Statistics

|  |         |
|--|---------|
| Sources of Energy (in millions of kwh) |         |
| Purchased                              | 3,227   |
| Generated                              | 391     |
| Total                                  | 3,618   |
| Sales (in millions of kwh)             |         |
| Domestic                               | 649     |
| Domestic all-electric                  | 1,288   |
| General service all-electric           | 639     |
| General service and street lighting    | 835     |
| Total                                  | 3,411   |
| Customers (year-end)                   |         |
| Domestic                               | 81,738  |
| Domestic all-electric                  | 68,033  |
| General service all-electric           | 5,731   |
| General service and street lighting    | 20,129  |
| Total                                  | 175,631 |
| Annual degree days - % normal          | 104     |
| Number of Employees                    | 905     |

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



| 1985      | 1984      | 1983      | 1982      | 1981      | 1980      | 1979      | 1978     | 1977     |
|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------|----------|
| \$244,007 | \$197,217 | \$171,349 | \$163,477 | \$131,281 | \$122,826 | \$108,204 | \$92,233 | \$73,469 |
| 178,611   | 134,988   | 109,512   | 106,524   | 84,252    | 78,739    | 69,760    | 57,960   | 46,037   |
| 15,298    | 14,053    | 12,727    | 11,419    | 10,973    | 9,923     | 9,690     | 9,210    | 8,668    |
| 15,311    | 14,269    | 13,519    | 11,760    | 10,408    | 9,393     | 8,574     | 7,845    | 6,702    |
| 14,382    | 14,049    | 16,302    | 15,602    | 11,052    | 11,188    | 8,320     | 5,803    | 3,076    |
| 17,160    | 16,068    | 15,699    | 14,056    | 11,566    | 10,075    | 9,644     | 9,098    | 7,338    |
| 8,912     | 8,360     | 7,532     | 6,746     | 5,973     | 5,428     | 5,105     | 4,788    | 3,819    |
| 8,248     | 7,708     | 8,167     | 7,310     | 5,593     | 4,647     | 4,539     | 4,310    | 3,519    |
| 432,075   | 404,600   | 378,152   | 349,875   | 324,690   | 294,950   | 272,585   | 254,760  | 238,008  |
| 120,099   | 109,306   | 98,155    | 86,468    | 77,132    | 68,943    | 61,513    | 53,921   | 48,608   |
| 311,976   | 295,294   | 279,997   | 263,407   | 247,558   | 226,007   | 211,072   | 200,839  | 189,400  |
| 353,404   | 335,512   | 311,113   | 290,905   | 272,200   | 246,945   | 232,506   | 220,402  | 206,838  |
| 131,184   | 124,648   | 117,306   | 112,777   | 109,118   | 102,456   | 102,947   | 101,525  | 95,457   |
| 37,282    | 38,491    | 39,571    | 40,693    | 41,873    | 33,041    | 28,844    | 23,601   | 24,371   |
| 118,012   | 107,732   | 97,743    | 86,964    | 78,335    | 71,679    | 66,369    | 61,359   | 56,714   |
| 286,478   | 270,871   | 254,620   | 240,434   | 229,326   | 207,176   | 198,160   | 186,485  | 176,542  |
| 15.20%    | 15.64%    | 17.0%     | 17.01%    | 15.42%    | 14.60%    | 15.10%    | 15.41%   | 14.95%   |
| 45.8%     | 46.0%     | 46.0%     | 46.9%     | 47.6%     | 49.5%     | 52.0%     | 54.4%    | 54.1%    |
| 13.0%     | 14.2%     | 15.5%     | 16.9%     | 18.3%     | 16.0%     | 14.6%     | 12.7%    | 13.8%    |
| 41.2%     | 39.8%     | 38.5%     | 36.2%     | 34.1%     | 34.5%     | 33.4%     | 32.9%    | 32.1%    |
| 3.2       | 3.4       | 3.7       | 3.8       | 3.2       | 3.4       | 3.0       | 2.8      | 2.3      |
| 2.3       | 2.3       | 2.4       | 2.4       | 2.2       | 2.3       | 2.2       | 2.1      | 1.8      |
| 13.97     | 12.93     | 11.97     | 10.91     | 9.97      | 9.22      | 8.60      | 8.00     | 7.43     |
| 8,387     | 8,240     | 8,064     | 7,914     | 7,816     | 7,746     | 7,684     | 7,652    | 6,248    |
| 2.05      | 1.95      | 1.95      | 1.78      | 1.48      | 1.30      | 1.26      | 1.19     | 1.16     |
| 1.06      | 1.01      | 0.93      | 0.85      | 0.763     | 0.70      | 0.663     | 0.625    | 0.55     |
| 51.7%     | 51.8%     | 47.7%     | 47.8%     | 51.6%     | 53.9%     | 52.6%     | 52.5%    | 47.4%    |
| 8.6       | 7.5       | 7.0       | 5.8       | 6.8       | 8.4       | 7.6       | 7.1      | 6.1      |
| 33,117    | 30,642    | 31,146    | 28,521    | 30,419    | 22,935    | 19,446    | 19,937   | 28,894   |
| 3,204     | 2,933     | 2,756     | 2,778     | 2,574     | 2,597     | 2,503     | 2,446    | 2,286    |
| 327       | 419       | 397       | 383       | 427       | 462       | 359       | 378      | 332      |
| 3,531     | 3,352     | 3,153     | 3,161     | 3,001     | 3,059     | 2,862     | 2,824    | 2,618    |
| 646       | 636       | 626       | 626       | 607       | 608       | 589       | 591      | 598      |
| 1,248     | 1,139     | 1,035     | 1,050     | 941       | 966       | 881       | 878      | 801      |
| 637       | 593       | 542       | 554       | 465       | 464       | 463       | 430      | 386      |
| 800       | 780       | 754       | 741       | 819       | 810       | 757       | 723      | 684      |
| 3,331     | 3,148     | 2,957     | 2,971     | 2,832     | 2,848     | 2,690     | 2,622    | 2,469    |
| 82,358    | 83,279    | 84,393    | 85,050    | 86,120    | 86,655    | 86,468    | 86,506   | 87,493   |
| 64,297    | 60,428    | 56,275    | 52,226    | 49,012    | 45,365    | 42,312    | 39,215   | 35,377   |
| 5,480     | 5,227     | 4,910     | 4,634     | 4,416     | 4,090     | 3,813     | 3,484    | 3,096    |
| 19,984    | 20,137    | 19,880    | 19,752    | 19,828    | 19,631    | 19,443    | 19,344   | 19,036   |
| 172,119   | 169,071   | 165,458   | 161,662   | 159,376   | 155,741   | 152,036   | 148,549  | 145,002  |
| 108       | 100       | 95        | 105       | 92        | 106       | 97        | 106      | 100      |
| 938       | 935       | 1008      | 1019      | 1014      | 1003      | 1,030     | 1,031    | 1,030    |

# Corporate Directory

**Aaron Bailey, P.Eng.** has been a Director since 1966 and is the former Chairman of the Board of Newfoundland Light & Power Co. Limited. He was President and General Manager of the Union Electric Light and Power Company before it became a part of the present Company in 1966. Mr. Bailey is President of Port Union Shipping Co. (1948) Ltd. and President of the Fishermen's Union Trading Company Limited.

**Angus A. Bruneau, O.C. Ph.D.** resides in St. John's, Newfoundland and was appointed President and Chief Executive Officer of the Company and a Director on May 1, 1986. Dr. Bruneau is a former Director of General Engineering at the University of Waterloo and a former Dean of Engineering and Applied Science and Vice President for Professional Schools and Community Services at Memorial University of Newfoundland. He operated a consulting firm, Bruneau Resources Management Ltd., which provided strategic planning and technical advice to a number of major industrial clients, principally in energy related areas, from 1979 to 1986.

**Alastair D. Cameron, M.B.E., Eng.** has been a Director since 1969 and was responsible for the construction of several of the Company's hydro plants over the period 1949 to 1953. From 1957 to 1963 he was General Manager of Maritime Electric Company, Limited. He is Senior Consultant with Monenco Consultants Limited of Montreal and resides in St. Lambert, Quebec.

**Henry Collingwood, K.C. St. O.** is Chairman and Chief Executive Officer of Baine, Johnston & Company Limited, a real estate development company, (est. 1780) and resides in St. John's, Newfoundland. Mr. Collingwood was awarded a Doctor of Laws degree in May 1986 by Memorial University of Newfoundland. He was appointed to the Board of Newfoundland Light & Power Co. Limited in 1966.

**John B. Foote** is Senior Executive Officer of J.B. Foote & Sons, Ltd., General Merchants, (est. 1929), and resides in Grand Bank, Newfoundland. Mr. Foote has been a Director of Newfoundland Light & Power Co. Limited since 1978.

**Geoffrey R. Parsons, C.A.** has been a Director since 1978. He was the partner-in-charge of the Newfoundland office of Touche Ross & Co. and its predecessor firm in Newfoundland. In 1977 he became President of Lakeview Limited, a business and investment consulting company. Mr. Parsons resides in Regina, Saskatchewan.

**Ewart A. Pratt** has been a Director since 1966 and resides in St. John's, Newfoundland. He is Chairman and President of Steers Limited, general merchants, (est. 1924), President of Pratt Representatives (Nfld.) Limited and Colonial Business Properties Limited.

**James E. Rorke** resides in Carbonear, Newfoundland. He is Senior Officer of The Rorke Fish & Coal Co. Limited, managers for North Atlantic Bulkcarries Limited and M/S Elizabeth. Formerly Mr. Rorke was on the staff of The Bank of Nova Scotia in Newfoundland and Jamaica. He has been a Director of Newfoundland Light & Power Co. Limited since 1966.

**Aidan F. Ryan, P.Eng.** is Executive Vice President, Operations and Chief Operating Officer of Newfoundland & Light Power Co. Limited. He joined the predecessor United Towns Electric Company in 1957 and has held several senior management positions in the new Company. He was appointed Vice President and General Manager in 1982, a Director in 1983 and to his present position on March 1, 1987.

**Harold R. Steele** is President and Chief Executive Officer of Newfoundland Capital Corporation Limited, Atlantic Inns Limited and Clarke Transport Inc. He resides in Gander, Newfoundland. He was appointed to the Board of Newfoundland Light & Power Co. Limited in 1980.

**David S. Templeton, P.Eng.** was President and Chief Executive Officer of Newfoundland Light & Power Co. Limited until his retirement on December 31, 1985. Formerly he held the positions of Production Superintendent, Operating Superintendent, Assistant General Manager and was appointed General Manager in 1968, Director in 1976, Vice-President in 1978 and President in 1982. He is presently a Corporate Consultant and resides in St. John's, Newfoundland.

**Clyde K. Wells, Q.C.** has been a Director since 1978 and is Chairman of the Board of Newfoundland Light & Power Co. Limited. He presently lives in St. John's where he is a partner in the law firm of Wells and Company. He is a former member of the House of Assembly of Newfoundland and was Minister of Labour.

**Marshall M. Williams, P.Eng.** is Chairman of the Board and Chief Executive Officer of Trans-Alta Utilities Corporation. He joined the Board of Newfoundland Light & Power Co. Limited in 1977. He was awarded a Doctor of Engineering degree by the Technical university of Nova Scotia in May 1978. He resides in Calgary, Alberta.

## OFFICERS

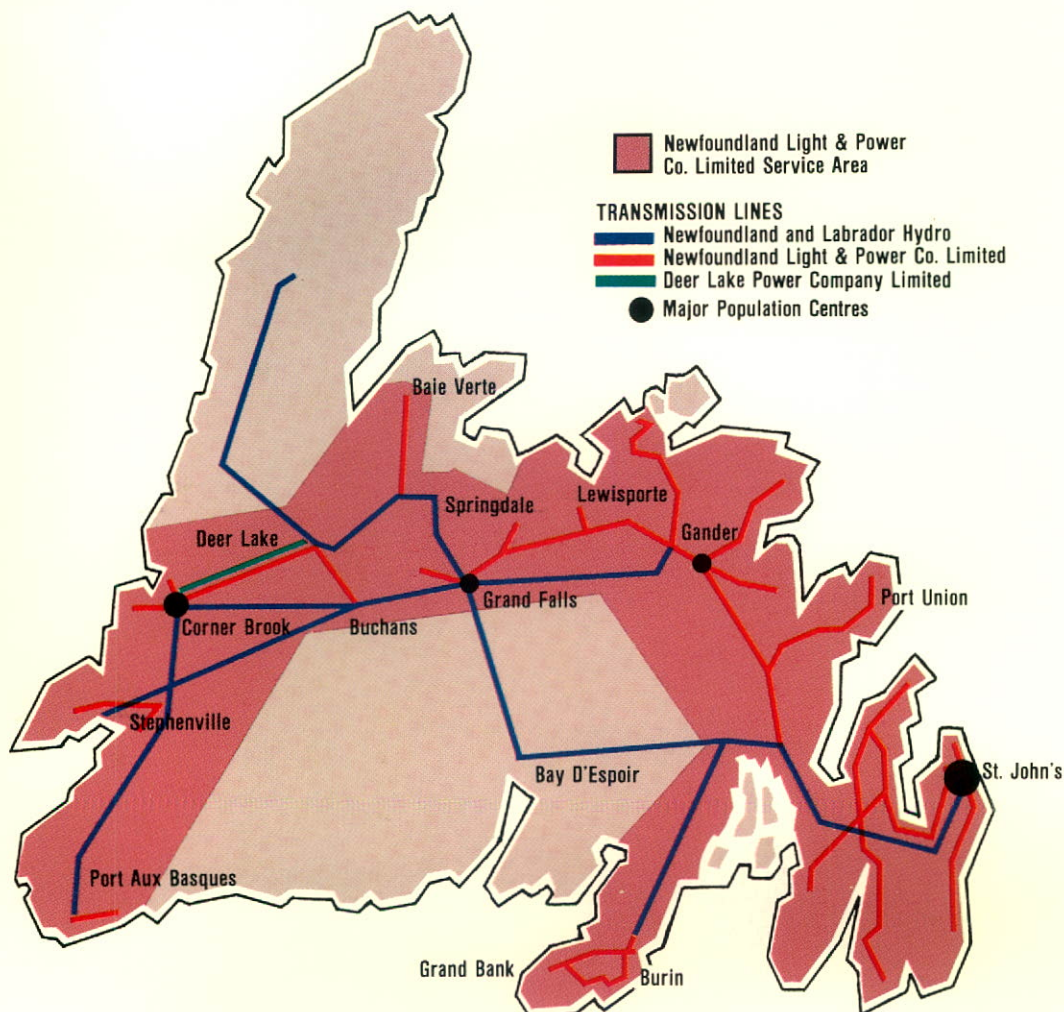
|                   |   |                     |   |
|-------------------|---|---------------------|---|
| Clyde K. Wells    | Chairman of the Board   | Raymond F. Gosine   | Vice President & Corporate Secretary*                 |
| Angus A. Bruneau  | President and Chief Executive Officer                             | Charles W. Henry    | Vice President, Operations**                          |
| Aidan F. Ryan     | Executive Vice President, Operations and Chief Operating Officer* | H. Stanley Marshall | Vice President, Regulatory Affairs & General Counsel* |
| Eric W. Cumby     | Vice President, Customer Service*                                 | W. Wallace Pinhorn  | Vice President, Human Resources & Communications*     |
| Mardon J. Erbland | Vice President, Corporate Development*                            | Kevin S. Warr       | Vice President, Finance & Treasury*                   |
| John G. Evans     | Vice President, Technical Services*                               |                     |   |

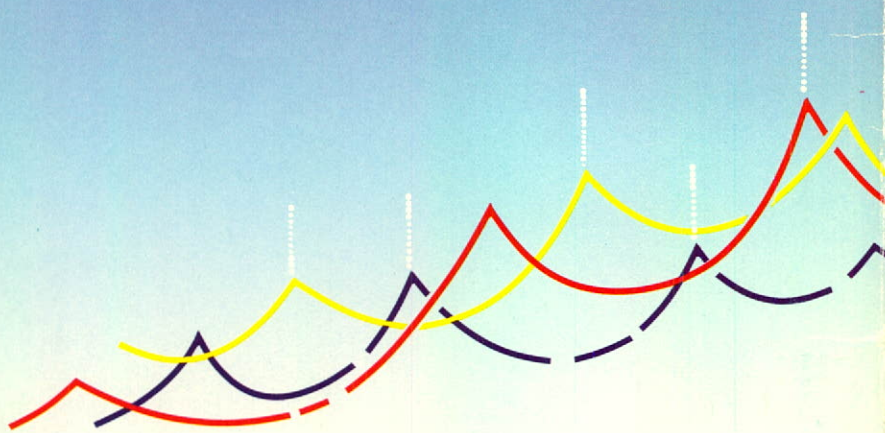
\*Effective March 1, 1987 \*\*Retiring April 30, 1987

## RETIREMENTS

Cecil R. Vivian, Vice President, Rates and Customer Services, retired on July 31, 1986, after thirty-six years with the Company. Michael A. Pavey, Vice President, Corporate Planning since 1982, resigned his position on October 23, 1986. In January, 1987, Charles W. Henry, Vice President, Operations, announced his intention to retire on April 30; Mr. Henry has been with the Company thirty-seven years.

# Company Service Area





Newfoundland Light & Power Co. Limited