

With a strong financial, technological and human resource base, and a comprehensive understanding of the Atlantic business environment, NewTel Enterprises is ideally positioned to nurture, enhance and profit from the selective and unique opportunities which exist in the region.



NewTel Enterprises Limited (NEL) is a Newfoundland-based management holding company engaged through its subsidiaries in telecommunications, office automation and manufacturing.

Wholly-owned subsidiary Newfoundland Telephone Company Limited is the principal supplier of telecommunication services in Newfoundland and Labrador. The Company's 1,362 employees serve a territory that includes St. John's, the Avalon and Burin Peninsulas, the major population centres of Grand Falls and Corner Brook, and all of Labrador. Newfoundland Telephone is subject to regulation by the Board of Commissioners of Public Utilities of Newfoundland and operates nationally as a member of Telecom Canada.

In addition to Newfoundland Telephone, NEL has the following holdings:

– NewTel Computer Systems Limited, a wholly-owned subsidiary based in St. John's and providing a full range of office automation products and services to business and government provincewide.

– NewTech Instruments Limited, a fifty percent owned and controlled subsidiary established in 1986 to manufacture and market specialized marine instrumentation worldwide.

Currently, Bell Canada Enterprises Inc. is the largest common shareholder of NEL with 54 percent of the issued and outstanding shares.

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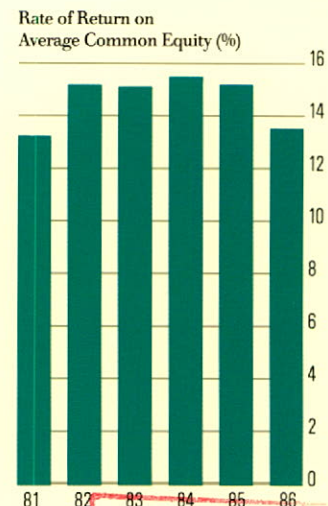
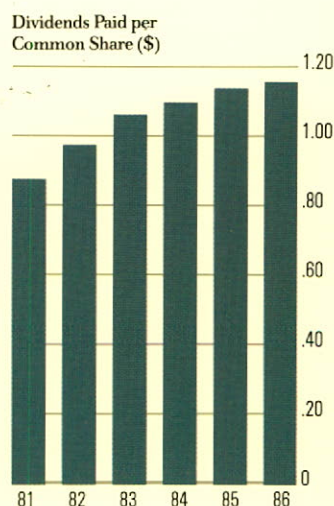
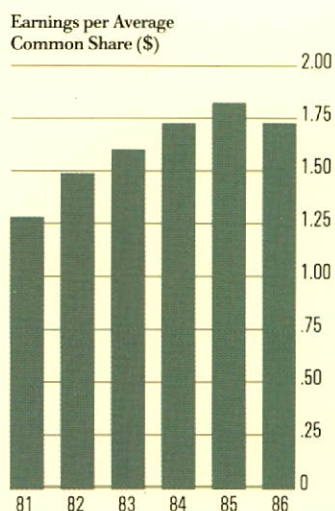
Keith E. Hunt (left), General Manager, Business Information Systems and Robert A. Newell, General Manager, Corporate Planning, both with Newfoundland Telephone, are part of the highly skilled human resource base available to NewTel Enterprises.

Consolidated Financial Highlights

(Dollars in thousands, except per share amounts)

	1986	1985	% Change
Revenues			
Telecommunications	\$ 146,093	\$ 136,301	7.2
Other operations	3,510	303	*
Total operating revenues	149,603	136,604	9.5
Other income	3,512	2,088	68.2
Total revenues	153,115	138,692	10.4
Expenses			
Total operating expenses	96,371	83,984	14.7
Interest charges	16,224	12,965	25.1
Income taxes	19,989	21,265	(6.0)
Total expenses	132,584	118,214	12.2
Net Income	\$ 20,531	\$ 20,478	0.3
Earnings per common share	\$ 1.74	\$ 1.82	(4.4)
Dividends paid per common share	\$ 1.16	\$ 1.145	1.3
Rate of return on average total capital	% 12.43	% 13.16	(5.5)
Rate of return on average common equity	% 13.60	% 15.20	(10.5)
Average common shares outstanding	10,194,173	9,665,697	5.5

*Not a meaningful statistic



HOWARD ROSS LIBRARY
OF MANAGEMENT
NOV 16 1987
MCGILL UNIVERSITY

NewTel Enterprises, the first year – a strong foundation.

Financial results – fundamentally strong.

Telecommunications have been and will continue to be fundamental to Newfoundland's growth.

Creating a new venture which serves a worldwide market.



In its first full year of operation, NewTel Enterprises Limited has become firmly positioned to make significant progress towards the achievement of its mandate. The accomplishments in 1986 demonstrate the inherent strengths of your Company and are a tribute to the enthusiasm and commitment to excellence of all our employees.

The economy – vital natural resource areas are returning to full strength.

The economy of the Province of Newfoundland has been slow in recovering from the severe recession that occurred in the early 80s. In 1986, conditions were more favourable generally and your Company achieved healthy growth in all service categories. The fishing industry experienced one of its most successful years and the forest, mining and construction industries were positive contributors. Declining oil prices caused a significant reduction in offshore exploration activity. However, losses in this sector were offset by improved performance in the other sectors of the economy.



With a strong financial, technological and human resource base and a comprehensive knowledge of the Atlantic business environment, NewTel Enterprises continued expansion in its established areas of operation while making a prudent start on new opportunities during 1986.

Newfoundland Telephone – one of the most extensive applications of sophisticated technology in Canada.

In telecommunications, we strengthened our position in the business and residential marketplace and realized substantial revenue increases by expanding basic services and broadening the range of competitive activities. Growth in new data and digital-based products and services was particularly impressive. The Company accelerated the modernization of its plant and equipment and the ongoing integration of state-of-the-art technology to enhance growth prospects.

Completion of the Cross Island Digital Microwave System in 1986 and the extension and



enhancement of digital switching and fibre optic systems have enabled the Company to capitalize on the continuing high level of demand for telecommunication services.

During the year ahead, Newfoundland Telephone will be an active participant in two hearings scheduled by the Board of Commissioners of Public Utilities: the first to establish the just and reasonable return that will be allowed on Newfoundland Telephone's common equity; and the second to determine if customer-owned terminal attachments are in the public interest in the Newfoundland environment. Those with legislative and regulatory responsibility must ensure that the impact of such changes on all customers is adequately addressed. The Company is confident of its ability to respond effectively to any changes that may result from this process. A favourable decision on rate of return is vitally important and will enable the Company to achieve its essential objective of earnings per share and dividend growth in 1987.

NewTel Computer Systems – a dominant supplier of innovative computer systems, support and consultative services.

As we move into the information age, the rapid expansion of computer-based operations is changing the way business is conducted. Within the telephone company, we are giving particular priority to increasing our capacity to utilize infor-

mation systems to increase efficiency and competitiveness. Our office automation subsidiary, NewTel Computer Systems Limited, has become a major supplier of computer system solutions and information consulting services in Newfoundland. NewTel Computer Systems has completed a period of organization and consolidation and is now positioned in this highly competitive market to become a positive contributor to corporate performance.

In assessing new investment opportunities, our criteria recognize that the overriding objective, to secure long term earnings growth for our shareholders, will determine the nature and extent of risk that can be assumed in any new venture. Our decision to create a venture capital investment subsidiary and enter into the agreement that established NewTech Instruments Limited has been made in this context. This new company will manufacture and market specialized instrumentation for marine applications worldwide. The long term objective is to serve a wide variety of marine related activities with specialized products.

Outlook – regional economic forces indicate prospects for growth.

The economic outlook for 1987 is favourable, highlighted by continued growth in the fishery and increased activity in mining and forestry. While the offshore oil and gas sector is not expected to boost the economy in 1987, there are reasonable prospects that initial steps towards long term development of proven fields will finally materialize.

The Company is planning construction program outlays in excess of \$50 million in 1987 to meet the high level of demand for telecommunication services, continue the modernization of our plant with state-of-the-art technology and support aggressive marketing initiatives. The moderate reduction in earnings per share in 1986, although disappointing, was not unexpected. Management is committed to the achievement of earnings and dividend growth in 1987 and beyond. We are confident that significant investment opportunities will materialize which will enhance shareholder returns in the long term and assure the vitality of NewTel Enterprises.

We appreciate your continued confidence and support.

Anthony A. Brait,
Chairman, President and
Chief Executive Officer
February 6, 1987.

Chairman, President and Chief Executive Officer A.A. Brait: outlook for regional economy indicates reasonable prospects for growth.

Favourable long term financing secured.

Telecommunications – continues as the core enterprise and an area of significant opportunity.



In highly competitive markets – strengthened position and increased revenues.

From whatever perspective we view the year, 1986 was very significant in the evolution of the Company.

NewTel Enterprises Limited recorded a number of achievements. In the telecommunications business, we strengthened our position in competitive markets, realizing increased revenues through the use of enhanced product management techniques. We continued to modernize our plant and equipment while maintaining high service quality.

We expanded our operations in the office automation and information services sector and began the process of diversifying our holdings

by moving into manufacturing of specialized instrumentation for world markets.

TELECOMMUNICATIONS

Commitment to the expansion of revenue growth together with effective control of expenses in the telecommunications sector will assure a continued substantial contribution to the financial performance of the Company. This emphasis on expense control combined with stable financial markets enabled Newfoundland Telephone to meet its objectives without price increases. The major factors contributing to revenue growth in 1986 were:

1) an increase in long distance messages of 8.2 percent representing additional revenue of \$6.6 million;

2) a gain of 3.8 percent in network access services; 3) significant growth in business exchange, mobile communications and data communications.

Favourable long-term financing secured – retires higher cost funding.

Effective financial planning resulted in the successful completion on May 6, 1986 of the largest bond issue in Newfoundland Telephone's history with the sale of \$50 million in First Mortgage Bonds. The 9¾ percent twenty year issue, underwritten jointly by Dominion Securities Inc. and Wood Gundy Inc., was one of the most favourable corporate bond issues in Canadian financial markets in 1986.

The proceeds of the issue were used to retire \$11 million in short term debt and in December, to retire a maturing \$16 million, 17½ percent bond issue. The remaining proceeds were employed in a short term investment portfolio and applied to the Company's construction program.

Regulatory activity and the public interest.

At a pre-hearing conference held on September 17, the Board of Commissioners of Public Utilities (PUB), set the scope and date for formal hearings to determine if customer-owned terminal attachments are in the public interest in Newfoundland Telephone's operating environment. Terminal attachment refers to telephone equipment "used to terminate Primary Exchange Service on a subscriber's premises."

The hearings are in response to a proceeding initiated by several business customers who have requested that the PUB review the matter.

Newfoundland Telephone will seek to ensure that all of the issues pertaining to terminal attachment are fully addressed in terms of their local impact.

The approved rate of return for the Company was established in 1982 and reflected conditions prevalent at that time. As a result of significant changes that have occurred since 1982, the Company considered it advisable to seek a revised allowable rate of return and has filed an application with the PUB requesting that the allowable rate of return be set consistent with current capital market expectations.

It is anticipated that the outcome of these hearings should enable the Company to achieve its financial objectives.

Capital expenditure increase reflects growth in demand for wide range of services.

In view of the steady growth in the customer base as well as increasing demand for a wide range

of data and voice services, Newfoundland Telephone's construction program will increase by 9 percent in 1987 with future levels reflecting similar growth. The construction program for 1986 totalled \$47.9 million compared with \$45.5 million in 1985.

Allocations to major categories of assets were as follows:

CATEGORY	1986	1985
	(Thousands of Dollars)	
Land, buildings & towers	\$ 3,000	\$ 4,500
Toll equipment	9,900	9,800
Switching equipment	8,600	6,400
Purchase & connection of subscriber equipment	12,700	11,600
Underground & aerial cable & related facilities	10,200	8,200
General equipment (including motor vehicles, tools and furniture)	3,500	3,000
	<u>\$47,900</u>	<u>\$45,500</u>

Newfoundland Telephone technology base highly sophisticated.

In June, the Corner Brook/St. John's section of the Cross Island Digital Microwave network was inaugurated. The 670 kilometer route incorporates 15 radio sites along the south coast of the province and fibre optic links at St. John's and Corner Brook.

Construction of the \$21.5 million system began in July, 1984. The final phase of the project is the off-island link to Sydney, Nova Scotia scheduled for 1987. Completion of this link will integrate the system with the national digital network.

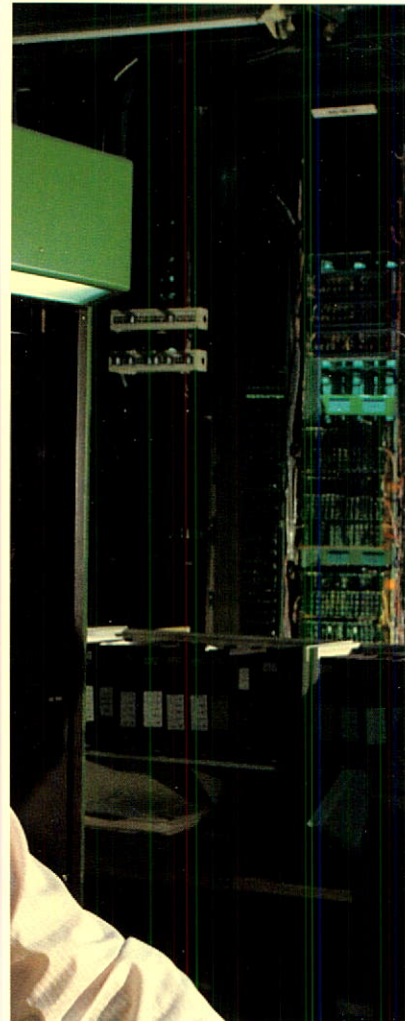
Complementing the introduction of digital networks and fibre optic installations, Newfoundland Telephone continued its program of converting existing central offices to digital technology. The commitment to digital switching and transmission, supported by fibre optics, will reduce costs over the long term, enhance the quality of transmission and allow the introduction of important new services. Expenditures on digital switching installations were \$5.8 million in 1986.

In June, installation was completed on a digital toll switching machine in Mount Pearl. This equipment provides switching diversity and toll revenue protection in the major service region around St. John's.



Sales Consultant, Claudine Evelly: part of a dedicated team of specialists supporting the delivery of data, mobile and broadcast communication services.

Telecommunications technology base, predominantly state-of-the-art, reflecting corporate commitment to superior service delivery.



Existing capital assets and earning power significantly enhanced by new software.

In October, our employees completed the integration of the Business Communications System software package in the digital switching machine in St. John's. This new business package includes state-of-the-art switching features and will enhance future customer service offerings.

In December, the Company completed installation of one of the first Remote Switching Centres in Canada. This installation provides features available through the business communications system package to businesses operating in suburban areas and provides additional capacity for growth.

The modernization to digital technology will continue into the mid-1990s and will become increasingly characterized by complex computer software. The Company will continue to ensure proper management of technological

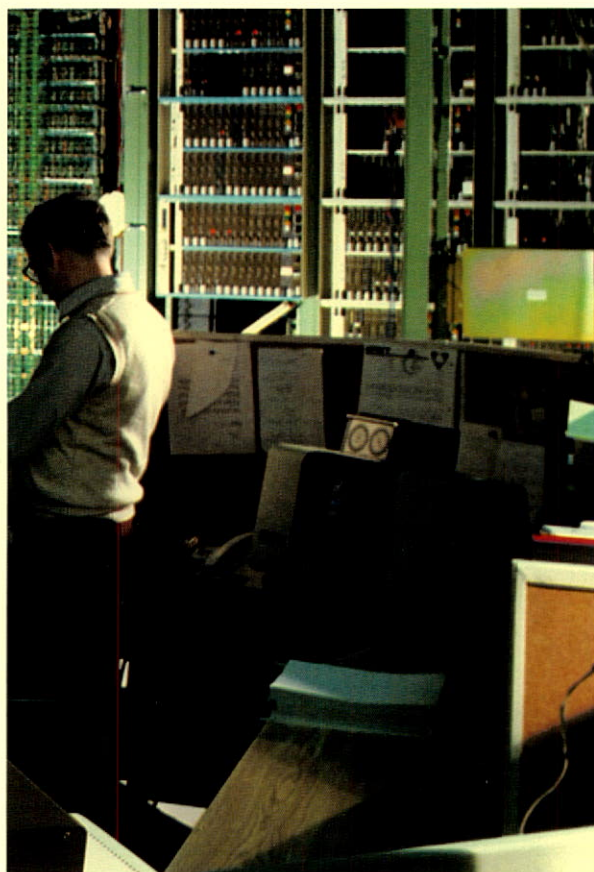
change through training and comprehensive planning utilizing multi-discipline project teams.

Network links local customers with national and international data flow.

The installation of digital technology, as well as providing improved system management, permits the introduction of new services for our business customers, assisting them to remain productive and competitive.

In July, Newfoundland Telephone extended Canada's two principal data networks—Dataroute and Datapac—to Grand Falls and Corner Brook, providing customers direct access to the national data networks of Telecom Canada.

Dataroute, a dedicated digital network serving high volume customers, required the installation of special multiplexing equipment in the central offices of the two new serving areas.



Ashton Short, Central Office Supervisor headed up the successful installation of a digital toll switching machine in Mount Pearl.

Datapac, a cost-effective, shared, packet-switched network for lower volume data customers makes use of the same equipment.

In January, Newfoundland Telephone completed the installation of three Datapac 3000 circuits for the Federal Government as part of an eighty location network being provided by Telecom Canada through its member companies. The circuits were installed at Goose Bay, Gander and St. John's to enable data transmission between each location and Ottawa.

Data services and business communications systems revenue growth 30% annually.

Growth in revenues from data services and business communication systems has continued at about 30 percent annually, and underlines the significant business development opportunities in the telecommunications sector. In this marketplace, which has become increasingly competitive, Newfoundland Telephone maintains a prominent position through emphasis on enhanced product management concepts and techniques. Attention to fundamental planning ensures that its business strategies respond to market needs and deliver superior service.

In April, the telecommunication services for all provincial and federal government offices in St. John's were moved onto the DMS 100 digital switching equipment at the Allandale switching centre. Approximately 5000 customer lines were transferred without service interruption.

The Company has introduced a variety of new business exchange products to support the product management concept and to ensure that customer hardware support is modernized in tandem with developments in digital network and switching.

In 1986 the Vantage 8 was added to the line of electronic key systems offered by the Company. This addition broadens the availability of the Vantage series to include the small user. Vantage 12 and Vantage 48—introduced in 1985 and 1985—satisfy the medium and larger business customers' key system requirements.

The Company also introduced Digital Centrex, a service targeted to large, multi-location business. This offering provides Direct-In-Dial capability and enables the customer to integrate his telecommunication services without requiring separate switchboards or PBX equipment at each location.

Customer-based focus – enhanced by new products, services and customer relations techniques.

Office information systems – a solid base for future growth.



Data and Business System Group – a dedicated team of specialists in a competitive environment.

During 1986 the Data and Business System Group addressed customer requirements through a dedicated team of specialists in data, integrated office systems, mobile communications and broadcast services. This team, established in December 1985, concentrates on services that can be provided, to some degree, outside the Company's public switched network and are therefore considered to be competitive. Efforts of the Data and Business System Group have resulted in revenue additions from competitive services of \$1.4 million in 1986.



In February, the Company sold its first Customer Network Management Service, providing the business customer greater control over data management. The service was part of a contract with Fishery Products International that included a data network upgrade using four multi-point circuits connecting fifteen plants to a host computer located at that customer's head office in St. John's. A contract signed with Newfoundland Light and Power Company Limited in May provided that company with a similar data communications network connecting the customer's regional offices to its main computer located in St. John's.

During the year, Newfoundland Telephone participated in an international sale of consulting services and teleconferencing equipment with the Telemedicine Centre of Memorial University of Newfoundland. A three way voice network connects the Health Sciences Center in St. John's, the University of Nairobi in Kenya and Makerere University in Kampala, Uganda, through the satellite facilities of INTELSAT. This was the first such network established between Canada and a Third World country for the purpose of health education and patient care.



Herb Clarke Manager – Transmission: Digital technology will help reduce costs, enhance transmission and provide new services. Table Mountain (background) is one of the 15 sites in the digital microwave system.

Effective business development programs, aggressive marketing efforts and the latest technologies are focused on the delivery of service to our customers. To ensure the quality of that delivery approximately one third of Newfoundland Telephone's employees took part in a wide ranging customer relations training effort during the year. Personnel from groups with customer contact including operator services, installation and repair, business office and sales completed the course making it the largest in the Company's history. The program emphasized positive customer contact, increased professionalism and customer satisfaction.

Delivery of service to residence customers was further enhanced in February when Newfoundland Telephone opened a new PhoneCentre in the Valley Mall in Corner Brook, bringing "one stop shopping" to the western region of the province.

In April, Newfoundland Telephone introduced Signature, a new telephone set designed to provide customers with easy access to a range of value-added custom calling services such as call waiting, three-party calling, last number redial, speed calling and call forwarding. The set has proven to be a popular addition to the residence services product line.

During the year, the final step to provide Direct Dialing Overseas service to major service centres in the province was completed with the provision of the service to Happy Valley-Goose Bay and parts of the St. John's region previously without this service. The service has been well received, especially in the Happy Valley-Goose Bay area where there is increasing use of the Goose Bay air base by the North Atlantic Treaty Organization (NATO) forces from Europe and the United States.

OFFICE INFORMATION SYSTEMS

Office information systems – an acquisition adds significantly to NewTel's position as major supplier in the Newfoundland market.

NewTel Computer Systems Limited has become a major supplier of computer system solutions to the small and medium business market with the acquisition and amalgamation of Information Systems Group Limited. This acquisition has increased the products and services available from the Company and has enabled the Company to broaden its services to offer programming, consulting and data centre capability.

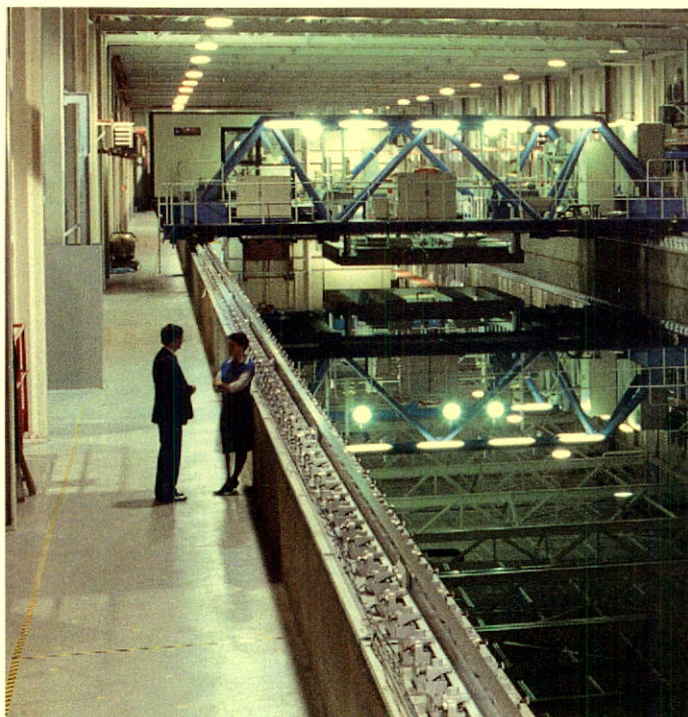
Recent contracts for large mini-computer systems have provided a solid base for future growth. The contracts included system and software support and maintenance by NewTel Computer Systems and the manufacturer. The Company has established a strong presence with sales, consulting and contract services to the federal and provincial governments and to the technical and scientific communities.

In October the Company moved into its new headquarters at One Anderson Avenue in St. John's consolidating the Company's operations and greatly improving day to day operating efficiency.

Mr. G.H. Erl, Vice-President, Finance, of Newfoundland Telephone Company Limited was appointed a director of NewTel Computer Systems Limited in September 1986.

Marine technology – exploiting selective opportunities in Atlantic Canada to serve world markets.

Outlook – healthy growth in revenues and earnings.

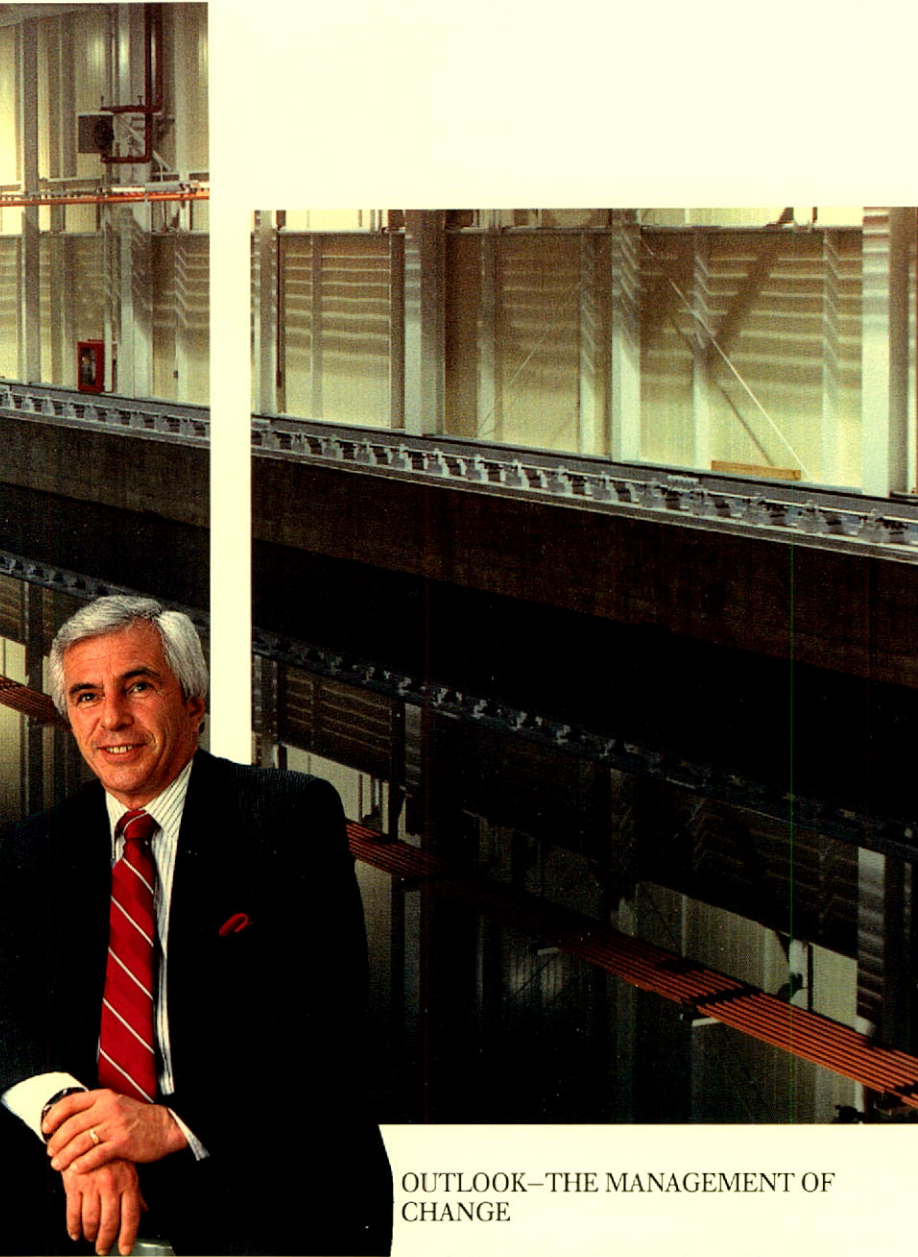


NEW VENTURES IN MARINE TECHNOLOGY

In October 1986, a wholly-owned subsidiary, Offshore Venture Capital Corporation Limited (OVCC), was formed as a venture capital investment company. Through this company an agreement was signed with National Petroleum and Marine Consultants Limited of St. John's to establish a company to manufacture specialized marine instrumentation. The company, NewTech Instruments Limited, will be a Newfoundland based manufacturing and marketing facility for high technology instruments serving a wide variety of marine related activities throughout the world. OVCC owns 50 percent of the common equity of NewTech Instruments Limited.

Early in 1987 NewTech Instruments will begin manufacturing its first product, a system designed to measure the direction and speed of ocean currents, which will have applications in marine industries such as construction and pipe laying, fishing, offshore oil and gas, defence and ocean research.

Directors of this new company are Mr. F.F. Fagan, Mr. V.G. Withers and Dr. W.E. Russell. Mr. R.H. Benson is Chairman of the Board and Mr. D.R. Nickerson, formerly Vice-President, Network Services of Newfoundland Telephone has been appointed President and Chief Executive Officer.



OUTLOOK—THE MANAGEMENT OF CHANGE

Applying major financial and human resources to the region we know best.

From a solid business foundation characterized by the core telecommunications enterprise, NewTel Enterprises Limited has firmly positioned itself to take advantage of attractive investment opportunities and partnership prospects in Atlantic Canada. Our strengths include a strong financial, technological and human resource base, and a comprehensive knowledge of Atlantic business concerns and requirements. While remaining committed to ensuring a long term record of investment earnings and dividend growth, NewTel Enterprises will continue to pursue opportunities

through a carefully considered and well managed investment strategy.

In the telecommunications field, we have developed a communications infrastructure which is comparable to any in Canada. Our commitment is to deliver high quality services and assist business to operate efficiently and productively. This system supports the social and economic health of all areas of the province.

In the economic perspective, delays in off-shore oil and gas development appear to have slowed the economy, however, other sectors have prospects for significant advancement.

An important gold mining operation at Hope Brook, in the southwest region of the province, will near development in the year ahead. The mining sector in the province is attracting wide interest, and developmental activities are expected to increase in the near term.

Sale of the oil refinery at Come By Chance was completed at year end and start up activities will get underway in the coming year.

The fishing industry continues to show improvement in market demand and prices. The expected privatization of the province's major fish processor will add strength and vitality to the industry and to the economy.

The forestry sector is expected to continue to demonstrate greater stability in both production and markets in the year ahead.

In Happy Valley-Goose Bay, Labrador, forces of the North Atlantic Treaty Organization (NATO) are committing greater numbers of personnel and resources to training in that region. This is resulting in a significant growth in demand for technical support and telecommunication services.

In all, these developments are contributing to a generally positive economic outlook. The Company is planning construction program expenditures in excess of \$50 million annually for the next few years and expects to achieve a healthy growth in revenues and earnings in 1987 and beyond. We are confident that our objectives will be realized to assure the long term health of the NewTel Enterprises group of companies.

D. R. Nickerson, President and CEO, NewTech Instruments Limited: facilities such as the National Research Council's wave dynamics facility contribute to the local development and manufacturing of sophisticated marine technology.

Financial Report

FINANCIAL REVIEW

Consolidated net income in 1986 was \$20.5 million or \$1.74 per common share, compared with \$20.5 million or \$1.82 per common share in 1985.

The rate of return on common equity for the year was 15.6 percent, compared with 15.2 percent in 1985.

FINANCING ACTIVITIES

With total proceeds of \$9.4 million (\$5.3 million in 1985), the Employees' Savings Plan and the Shareholder Dividend and Share Purchase Plan were the primary sources of new equity in 1986.

Under the terms of both share purchase plans, 581,553 new common shares of the Company were issued during 1986. At year-end 1986 the Company had 10,430,928 common shares outstanding compared with 9,849,375 at the end of 1985.

DIVIDENDS

The quarterly dividend is 29 cents per common share. In 1986, NewTel Enterprises paid total dividends of \$11.8 million or \$1.16 per share to its common shareholders.

Quarterly Financial Data

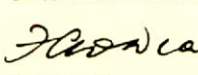
	Net Revenues	Net Income	Net Income	Dividends Paid	Stock Price Range Low	Stock Price Range High
	(Millions of Dollars)		(Per Common Share)		(Per Common Share)	
1986						
First Quarter	\$12.8	\$ 5.0	\$0.42	\$0.29	\$16¼	\$17¾
Second Quarter	13.2	5.1	0.43	0.29	16¾	18¼
Third Quarter	14.0	5.5	0.47	0.29	16¼	18
Fourth Quarter	13.2	4.9	0.42	0.29	16¼	17¾
	<u>\$53.2</u>	<u>\$20.5</u>	<u>\$1.74</u>	<u>\$1.16</u>		
1985						
First Quarter	\$12.9	\$ 5.1	\$0.46	\$0.275	\$14½	\$16¾
Second Quarter	13.3	5.3	0.48	0.29	15	18
Third Quarter	13.7	5.3	0.47	0.29	15½	18
Fourth Quarter	12.7	4.8	0.41	0.29	15¾	18½
	<u>\$52.6</u>	<u>\$20.5</u>	<u>\$1.82</u>	<u>\$1.145</u>		

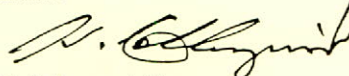
**Consolidated
Balance Sheet**

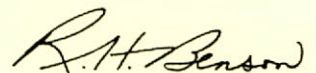
As at December 31

	1986	1985
	(Thousands of Dollars)	
ASSETS		
Current Assets		
Temporary investments—at cost	\$ 25,405	\$ —
Accounts receivable	19,481	17,735
Prepayments	2,529	2,284
Inventory for resale	580	292
	<u>45,995</u>	<u>20,309</u>
Property, Plant and Equipment—at cost		
Buildings, plant and equipment	449,987	405,247
Less: Accumulated depreciation	159,047	140,177
	<u>290,940</u>	<u>265,070</u>
Land and plant under construction	13,584	18,898
Materials and supplies	2,677	3,103
	<u>307,201</u>	<u>287,071</u>
Investment—at cost	<u>300</u>	<u>300</u>
Deferred Charges (Note 2)		
Unamortized long term debt expenses	1,694	1,207
Other	7,378	3,959
	<u>9,072</u>	<u>5,166</u>
TOTAL ASSETS	<u><u>\$362,566</u></u>	<u><u>\$312,846</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Bank advance	\$ 3,190	\$ 3,795
Accounts payable	7,498	5,811
Due to affiliated companies	1,059	929
Advance billing for service	1,854	1,808
Taxes accrued	1,153	2,499
Interest accrued	2,014	1,475
Dividends payable	117	119
Long term debt due within one year	1,356	858
	<u>18,201</u>	<u>17,272</u>
Notes Payable (Note 3)	<u>4,050</u>	<u>8,100</u>
Long Term Debt (Note 4)	<u>141,019</u>	<u>108,185</u>
Deferred Income Taxes (Note 5)	<u>34,354</u>	<u>30,188</u>
Minority Interest (Note 6)	<u>27,578</u>	<u>27,032</u>
Shareholders' Equity		
Common shares (Note 7)	82,941	73,516
Capital redemption reserve fund (Note 6)	7,396	6,968
Retained earnings	47,027	41,585
	<u>137,364</u>	<u>122,069</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$362,566</u></u>	<u><u>\$312,846</u></u>

On behalf of the Board of Directors


F. O'Dea, Director


H. Collingwood, Director


R.H. Benson, Vice-President
Finance and Planning

**Consolidated
Income Statement**
For the years ended December 31

	1986	1985
	(Thousands of Dollars)	
Operating Revenues		
Telecommunications	\$146,093	\$136,301
Other operations	3,510	303
Total Operating Revenues	<u>149,603</u>	<u>136,604</u>
Operating Expenses	96,371	85,984
Total Net Operating Revenues	<u>53,232</u>	<u>52,620</u>
Other Income		
Allowance for funds used during construction	1,126	1,176
Miscellaneous	2,386	912
Total Other Income	<u>3,512</u>	<u>2,088</u>
Income Before Underlisted Items	<u>56,744</u>	<u>54,708</u>
Interest Charges		
Interest on long term debt	15,494	12,598
Other interest	750	367
Total Interest Charges	<u>16,224</u>	<u>12,965</u>
Income Before Income Taxes	40,520	41,743
Income Taxes (Note 8)	19,989	21,265
Net Income	<u>20,531</u>	<u>20,478</u>
Dividends on Preferred Shares of Subsidiary	2,824	2,865
Net Income Applicable to Common Shares	<u>\$ 17,707</u>	<u>\$ 17,613</u>
Earnings per Common Share (based on average number of shares outstanding)	<u>\$1.74</u>	<u>\$1.82</u>

**Consolidated Statement of
Retained Earnings**
For the years ended December 31

	1986	1985
	(Thousands of Dollars)	
Balance at Beginning of Year	\$ 41,585	\$ 34,786
Add:		
Net income	20,531	20,478
Transfer of premium on common shares	—	776
	<u>62,116</u>	<u>56,040</u>
Deduct:		
Dividends		
Preferred shares of subsidiary	2,824	2,865
Common shares	11,837	11,073
	<u>14,661</u>	<u>13,938</u>
Transfers to capital redemption reserve fund	428	517
	<u>15,089</u>	<u>14,455</u>
Balance at End of Year	<u>\$ 47,027</u>	<u>\$ 41,585</u>

Consolidated Statement of Changes in Financial Position

For the years ended December 31

	1986	1985
	(Thousands of Dollars)	
Cash from (Used in) Operations		
Net income	\$ 20,531	\$ 20,478
Add expenses not requiring cash		
Depreciation and amortization	29,278	24,744
Deferred income taxes	4,165	3,662
Deduct income not providing cash		
Allowance for funds used during construction	(1,126)	(1,176)
	<u>52,848</u>	<u>47,708</u>
Increase in working capital	(1,246)	(5,098)
	<u>51,602</u>	<u>42,610</u>
Cash from (Used in) Financing		
Net proceeds from common shares	9,424	5,336
Net proceeds from long term debt	49,343	—
Net proceeds from notes payable	—	7,200
Redemption of preferred shares of subsidiary	(428)	(517)
Redemption of long term debt	(16,668)	(1,271)
Net repayment of notes payable	(4,050)	—
Net proceeds from issues of preferred and common shares by subsidiary to minority shareholder	975	—
	<u>38,596</u>	<u>10,748</u>
Cash Used in Investing		
Capital expenditures	48,257	43,558
Deduct charges not requiring an outlay of funds	(999)	(1,824)
Net capital expenditures	47,238	41,734
Increase in deferred charges—other	4,719	1,845
Increase (decrease) in materials and supplies	(426)	835
	<u>51,531</u>	<u>44,414</u>
Dividends Declared		
Common dividends	11,857	11,073
Preferred share dividends of subsidiary	2,824	2,865
	<u>14,661</u>	<u>13,938</u>
Increase (Decrease) in Cash and Cash Equivalents	24,006	(4,994)
Cash and Cash Equivalents, Beginning of Year	(3,795)	1,201
Cash and Cash Equivalents, End of Year	<u>\$ 20,215</u>	<u>\$ (3,795)</u>
Comprised of		
Temporary investments	\$ 23,403	\$ —
Less bank advance	3,190	3,793
	<u>\$ 20,215</u>	<u>\$ (3,795)</u>

Notes to Consolidated Financial Statements

1. REORGANIZATION

In October, 1985 a major reorganization was carried out by means of a statutory procedure known as an arrangement (the "Arrangement"). This established NewTel Enterprises Limited (the Company) as the parent corporation of Newfoundland Telephone Company Limited (Newfoundland Telephone). Under the Arrangement, Newfoundland Telephone common shareholders exchanged their shares for shares of NewTel Enterprises Limited on a one-for-one basis giving NewTel Enterprises Limited 100% ownership of Newfoundland Telephone.

The consolidated financial statements of NewTel Enterprises Limited immediately after the reorganization are virtually identical to the corresponding statements of Newfoundland Telephone prior to the reorganization. Newfoundland Telephone's financial statements for the period prior to the reorganization constitute, for comparative financial reporting purposes, the consolidated financial statements of NewTel Enterprises Limited.

2. ACCOUNTING POLICIES

Consolidated Financial Statements

Consolidated financial statements include the accounts of all subsidiaries of the Company.

At December 31, 1986 the following were wholly-owned direct subsidiaries: Newfoundland Telephone Company Limited, NewTel Computer Systems Limited and Offshore Venture Capital Corporation Limited.

The Company's major subsidiary, Newfoundland Telephone, is subject to regulation, including examination of accounting practices, by the Board of Commissioners of Public Utilities of Newfoundland (Board of Commissioners). Its system of accounts and accounting practices are similar to those being used by other companies in the Canadian telecommunications industry.

Depreciation

Depreciation is generally computed on the straight line method using rates based upon the estimated useful lives of depreciable assets. When depreciable telecommunications assets are retired, the amount at which such assets have been

carried in property, plant and equipment is charged to accumulated depreciation. The composite depreciation rate for 1986 is 6.52% (1985-6.25%) and the annual expense in 1986 was \$27,771,000 (1985-\$23,802,000).

Allowance For Funds Used During Construction

The Board of Commissioners requires Newfoundland Telephone to provide for a return on capital invested in plant under construction. This allowance is included in current income and is added to the cost of the plant constructed. Such income is not realized in cash currently, but will be realized over the service life of the constructed plant.

Deferred Charges

Expenses incurred in connection with the issue of long term debt are amortized on a straight line basis over the life of the debt.

The majority of the other deferred charges arising from the telecommunications operations are being amortized as ordered by the Board of Commissioners.

3. NOTES PAYABLE

Demand bank loans (unsecured) represent interim financing incurred in the expansion of operations and bear interest at a Canadian chartered bank's prime lending rate.

4. LONG TERM DEBT

Newfoundland Telephone

	Series	Maturity	Issued	Outstanding December 31	
				1986	1985
(Thousands of Dollars)					
First Mortgage Sinking Fund Bonds	9¼%	1990	\$ 7,500	\$ 976	\$ 1,021
	8⅝%	1992	7,500	5,101	5,154
	9 %	1994	15,000	10,954	10,954
	11½%	1996	10,000	7,150	7,720
	11 %	1996	17,500	14,674	14,674
				<u>38,855</u>	<u>39,523</u>
First Mortgage Bonds	5½%	1988	3,000	3,000	3,000
	7 %	1991	3,000	3,000	3,000
	7⅞%	1993	2,500	2,500	2,500
	9.85%	1997	20,000	20,000	20,000
	12¾%	2000	25,000	25,000	25,000
	17½%	1986	16,000	—	16,000
	9¾%	2006	50,000	50,000	—
				<u>142,355</u>	<u>109,023</u>
Less portion due within one year				<u>1,356</u>	<u>858</u>
				<u>\$141,019</u>	<u>\$108,185</u>

These bonds are secured by a first, fixed and specific mortgage on all properties and plant now owned or to be acquired in the future by Newfoundland Telephone and by a first floating charge on all other assets of Newfoundland Telephone.

Each series of First Mortgage Sinking Fund Bonds has a sinking fund requiring payment by Newfoundland Telephone as follows:

1. Series 8⅝% and 9% require payment in each year of an amount equal to 2% of the issued aggregate principal amount of each series.
2. Series 9¼% and 11% require payment in each year of an amount equal to 2% of the issued aggregate principal amount, net of prepayments, of each series.
3. Series 11½% requires payment in each year,

commencing 1982, of an amount equal to 5.7% of the issued aggregate principal amount.

The aggregate amount of payments required in each of the next five years to meet maturities and sinking fund requirements of those series of First Mortgage Bonds of Newfoundland Telephone presently outstanding is as follows:

	Redemptions	Maturities	Total
(Thousands of Dollars)			
1987	\$1,356	\$ —	\$1,356
1988	1,363	3,000	4,363
1989	1,370	—	1,370
1990	2,333	—	2,333
1991	1,363	3,000	4,363

5. DEFERRED INCOME TAX

The Company and its subsidiaries use the tax allocation basis of accounting for income taxes. Substantially all of the deferred taxes recorded

result from deductions of property, plant and equipment for tax purposes in excess of amounts currently charged to income.

6. MINORITY INTEREST

The minority interest consists of preferred shares and common shares of subsidiary companies held by third parties. During the year 21,400 preferred shares were purchased for cancellation or redemption at a par value of \$428,000.

As required by the Companies Act (Newfoundland) an amount equal to the aggregate par value of preferred shares purchased for cancellation or redemption has been transferred from Retained Earnings to the "Capital Redemption Reserve Fund".

7. CAPITAL STOCK

The details of the Company's common shares are as follows:

	Number of Shares 1986	Amount (\$000)	Number of Shares 1985	Amount (\$000)
Authorized—common shares without par value—15,000,000				
Issued				
Balance beginning of year	9,849,375	\$73,516	9,511,186	\$68,180
Issued during year for cash	<u>581,553</u>	<u>9,425</u>	<u>338,189</u>	<u>5,336</u>
	<u>10,430,928</u>	<u>\$82,941</u>	<u>9,849,375</u>	<u>\$73,516</u>

Effective with the date of reorganization, the Employees' Savings Plan and the Shareholder Dividend and Share Purchase Plan of Newfoundland Telephone were cancelled and replaced by similar plans of the Company.

Throughout the year 129,376 common shares were issued under the terms and conditions of the Employees' Savings Plan and 452,177 com-

mon shares under the Shareholder Dividend and Share Purchase Plan. At December 31, 1986 the following shares remained reserved:

—52,528 shares under the terms of the Employees' Savings Plan.

—547,825 shares under the terms of the Shareholder Dividend and Share Purchase Plan.

8. INCOME TAXES

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	1986	1985
Statutory income tax rate (including surtax)	53.8%	52.9%
Allowance for funds used during construction	(1.5)	(1.5)
Dividend income	(2.4)	(0.2)
Other	(0.6)	(0.3)
Effective income tax rate	49.3%	50.9%

9. PENSIONS

The Company and its subsidiaries have a non-contributory plan which provides for service pensions based on length of service and rates of pay. The latest actuarial review as of June 30, 1986

indicated that all vested benefits were fully funded. The provision for pension cost was \$3.2 million for the year ended December 31, 1986 (1985—\$2.8 million).

10. COMMITMENTS

Material contractual obligations in respect of long term leases covering circuits, equipment and building space, amounted to \$3,900,000 at December 31, 1986 (1985—\$4,300,000). The

estimated minimum amounts payable under such leases for the next five years are as follows: \$760,000 in 1987, \$680,000 in 1988, \$580,000 in 1989, \$550,000 in 1990 and \$510,000 in 1991.

11. RELATED PARTY TRANSACTIONS

Bell Canada Enterprises Inc. owned 54% of the outstanding common shares of the Company at December 31, 1986. During the year the Company, through its subsidiaries, purchased from Northern

Telecom Limited, a subsidiary of Bell Canada Enterprises Inc., telecommunications equipment in the amount of \$20,298,000.

Management's Report

To the Shareholders:

The accompanying financial statements of NewTel Enterprises Limited and all information in this annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements are based upon management's best estimates and judgments and have been prepared within the guidelines of generally accepted accounting principles appropriate in the circumstances. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

To ensure the integrity and objectivity of the data, management maintains a system of internal controls comprising written policies, procedures and a comprehensive internal audit program which provides reasonable assurance that transactions are recorded and executed in accordance with its authorization, that assets are properly safeguarded and that reliable financial records are maintained.

The responsibility of the Board of Directors is pursued principally through the Audit Com-

mittee, which meets periodically with management and the internal and external auditors to review accounting principles, practices and internal controls.

The Shareholder's external auditors have free access to the Audit Committee both with and without management present. Their report, which provides an independent review of the system of internal controls and the compliance of the financial statements with generally accepted accounting principles, is shown below.



Chairman, President and Chief Executive Officer



Vice-President, Finance and Planning

Auditors' Report

To the Shareholders,
NewTel Enterprises Limited:

We have examined the consolidated balance sheet of NewTel Enterprises Limited as at December 31, 1986 and the consolidated 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 consolidated 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.

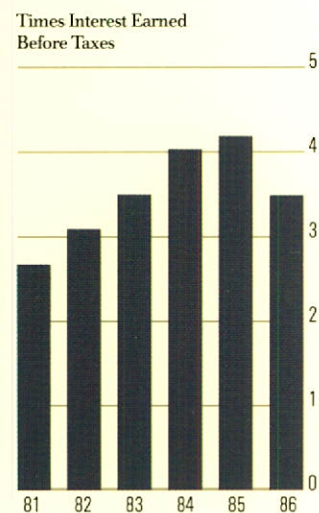
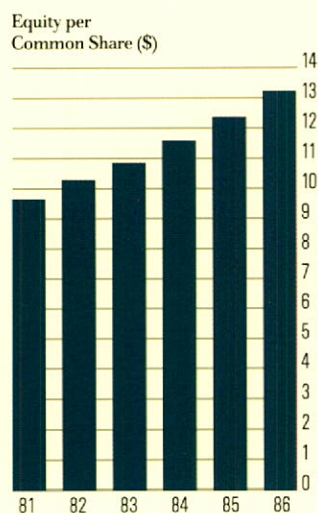
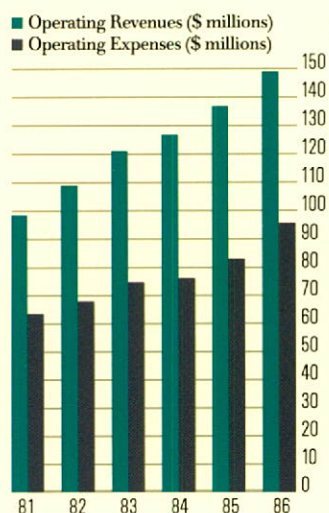


Touche Ross & Co.
Chartered Accountants

St. John's, Newfoundland
January 30, 1987.

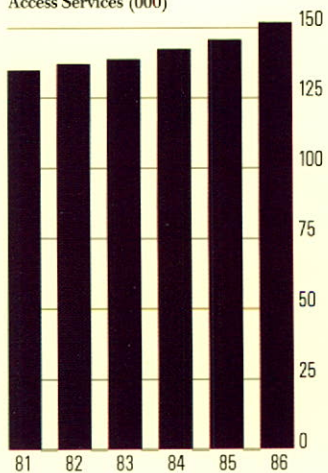
Consolidated
Six Year Review

	1986	1985
Income Statement Items (\$000)		
Telecommunications		
Local service revenues	\$ 52,991	49,740
Long distance revenues	\$ 87,584	81,005
Other operating revenues	\$ 5,518	5,558
Total telecommunications operating revenues	\$ 146,095	156,501
Operating revenues—other operations	\$ 5,510	505
Total operating revenues	\$ 149,605	156,604
Total operating expenses	\$ 96,571	85,984
Other income	\$ 5,512	2,088
Interest charges	\$ 16,224	12,965
Taxes	\$ 19,989	21,265
Net income	\$ 20,551	20,478
Balance Sheet Items (\$000)		
Investment in property & equipment	\$ 465,571	424,145
Shareholders' equity	\$ 157,564	122,069
Minority interest	\$ 27,578	27,052
Long term debt	\$ 142,555	109,025
Deferred income taxes	\$ 34,354	50,188
Financial Ratios		
Earnings per average common share	\$ 1.74	1.82
Dividends paid per common share	\$ 1.16	1.145
Equity per common share	\$ 13.17	12.59
Rate of return on average common equity	% 15.60	15.20
Rate of return on average total capital	% 12.45	13.16
Times interest earned before taxes	3.50	4.22
Interest in percent of average debt	% 11.76	11.51
Percent debt to total capital	% 47.02	45.99
Other Statistics		
Network access services	151,769	146,183
Long distance messages (000)	27,015	24,960
Capital expenditures (\$000)	\$ 48,237	45,558
Salaries and wages paid (\$000)	\$ 41,906	36,333
Number of employees	1,406	1,529
Average common shares outstanding	10,194,175	9,665,697

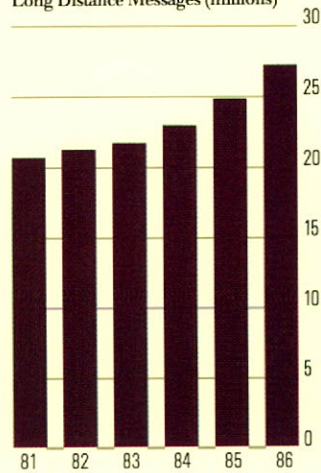


1984	1985	1982	1981
47,705	45,020	41,850	36,087
74,379	71,121	64,615	60,038
4,961	4,255	3,158	2,170
127,043	120,376	109,623	98,295
—	—	—	—
127,043	120,376	109,623	98,295
76,364	74,405	68,337	63,456
1,737	1,808	2,434	1,706
12,999	13,536	14,066	13,219
20,116	17,506	15,138	11,545
19,297	16,737	14,516	11,781
388,156	360,568	345,880	317,885
110,193	101,575	82,981	77,137
27,549	28,018	28,737	19,694
110,294	111,859	115,083	124,405
26,526	24,130	21,620	20,153
1.74	1.60	1.50	1.28
1.10	1.07	0.98	0.88
11.59	10.90	10.19	9.72
15.50	15.14	15.17	13.37
13.22	12.94	12.79	11.89
4.03	3.53	3.11	2.76
11.49	11.62	11.75	11.27
44.67	46.33	50.74	56.23
141,405	138,442	134,971	133,037
22,742	21,457	21,023	20,592
32,588	34,394	34,766	35,311
31,474	32,976	32,087	28,993
1,256	1,260	1,340	1,432
9,428,247	8,631,162	8,052,594	7,846,580

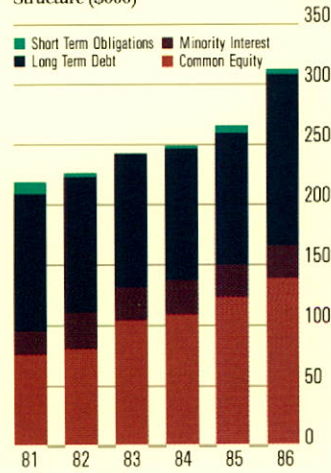
Network Access Services (000)



Long Distance Messages (millions)



Capital Structure (\$000)



Directors and Officers of the
N E L Group of Companies

BOARD OF DIRECTORS

NEWTEL ENTERPRISES LIMITED

A. A. BRAIT Chairman, President and Chief Executive Officer NewTel Enterprises Limited St. John's, Newfoundland	H. COLLINGWOOD* Chairman & Chief Executive Officer Baine, Johnston and Company Limited St. John's, Newfoundland	G. E. INNS* Executive Vice-President Planning Bell Canada Enterprises Inc. Toronto, Ontario
A. R. LUNDRIGAN* Chairman & Chief Executive Officer The Lundrigan Group Limited Corner Brook, Newfoundland	THE HON. F. O'DEA, Q.C.* Senior Partner O'Dea, Greene Barristers & Solicitors St. John's, Newfoundland	*denotes member of Audit Committee

NEWFOUNDLAND TELEPHONE COMPANY LIMITED

A. A. BRAIT Chairman, President and Chief Executive Officer Newfoundland Telephone Company Limited St. John's, Newfoundland	J. L. CARSON** Resident General Manager Abitibi-Price Inc. Grand Falls Division Grand Falls, Newfoundland	H. COLLINGWOOD* Chairman & Chief Executive Officer Baine, Johnston and Company Limited St. John's, Newfoundland
A. E. HICKMAN** President Hickman Motors Limited St. John's, Newfoundland	G. E. INNS** Executive Vice-President Planning Bell Canada Enterprises Inc. Toronto, Ontario	H. L. LAKE President Newfoundland Fisheries Limited St. John's, Newfoundland
A. R. LUNDRIGAN** Chairman & Chief Executive Officer The Lundrigan Group Limited Corner Brook, Newfoundland	THE HON. F. O'DEA, Q.C.* Senior Partner O'Dea, Greene Barristers & Solicitors St. John's, Newfoundland	F. J. O'LEARY Company Director St. John's, Newfoundland
P. N. OUTERBRIDGE* Chairman Harvey & Company Limited St. John's, Newfoundland	C. W. M. SCOTT* Executive Vice-President Finance and Administration Bell Canada Montreal, Quebec	*denotes member of Audit Committee **denotes member of Resource Committee

OFFICERS

NEWTEL ENTERPRISES LIMITED

A. A. BRAIT
Chairman, President and
Chief Executive Officer

R. H. BENSON
Vice-President
Finance and
Planning

W. H. HOLDEN
Treasurer
J. M. OKEEFE
Corporate Secretary

NEWFOUNDLAND TELEPHONE COMPANY LIMITED

A. A. BRAIT
Chairman, President and
Chief Executive Officer

K.A.A. MARSHALL
Vice-President
Marketing and Planning

W. H. HOLDEN
Treasurer

G. H. ERL
Vice-President
Finance

V. G. WITHERS
Vice-President
Operations and Engineering

W. G. HUDSON
Comptroller
J. M. OKEEFE
Corporate Secretary

F. F. FAGAN
Vice-President
Administration

NEWTEL COMPUTER SYSTEMS LIMITED

R. H. BENSON
Chairman and Chief
Executive Officer

E. F. HUNT
President

W. H. HOLDEN
Treasurer
J. M. OKEEFE
Corporate Secretary

OFFSHORE VENTURE CAPITAL CORPORATION LIMITED

A. A. BRAIT
President

R. H. BENSON
Vice-President

J. M. OKEEFE
Corporate Secretary

NEWTECH INSTRUMENTS LIMITED

R. H. BENSON
Chairman

D. R. NICKERSON
President and Chief
Executive Officer

J. M. OKEEFE
Corporate Secretary

SHAREHOLDER DIVIDEND & SHARE PURCHASE PLAN

The Shareholder Dividend and Share Purchase Plan offers holders of the Company's common shares the opportunity to reinvest cash dividends in new common shares.

Under the Plan, a five percent discount from the average market price as defined in the Plan is applied in determining the cost of new shares to the shareholder. In addition, optional cash payments of up to \$5,000 per quarter may be made toward the purchase of common shares at the average market price without the deduction of brokerage or administrative fees. For an Offering Circular explaining the Plan please write to the Company or our Trustee at the addresses indicated on this page.

DIVIDENDS

Common share dividends are normally payable quarterly on the last days of March, June, September and December.

In 1986 the quarterly dividend paid was \$0.29. The total annual dividend paid was \$1.16.

PRINCIPAL OWNERSHIP

As at December 31, 1986 Bell Canada Enterprises Inc. (BCE) owned 5,653,363 or approximately 54 percent of the outstanding common shares both of record and beneficially. The Head Office address of BCE is 2000 McGill College Avenue, Suite 2100, Montreal, Quebec H3A 3H7.

LISTING OF SHARES

NewTel Enterprises Limited common shares are listed on the Toronto Stock Exchange and The Montreal Exchange.

	1986	1985
Average number of common shares outstanding	10,194,175	9,665,697
Number of common shareholders	3,991	3,867
Volume of common shares traded	1,192,602	1,951,668
The Toronto Stock Exchange price range: high	\$18¼	\$18½
low	\$16¼	\$14½

Geographic Distribution	Shareholders		Shares	
	1986	1985	1986	1985
Newfoundland	21.8	19.8	2.8	5.4
Other Canadian	77.3	79.3	97.1	96.0
Foreign	0.9	0.9	0.1	0.6
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

DUPLICATION—ANNUAL REPORTS

Every effort has been made to eliminate duplications in our shareholders mailing list. However, if you have more than one holding, you will receive a separate report for each registration unless your share certificates are registered under exactly the same name.

HOW TO CONTACT US

Copies of the following may be obtained by writing to the addresses indicated below, or by calling one of the following numbers:
1-709-739-2108 or toll free
1-800-565-2473 (Canada Only)

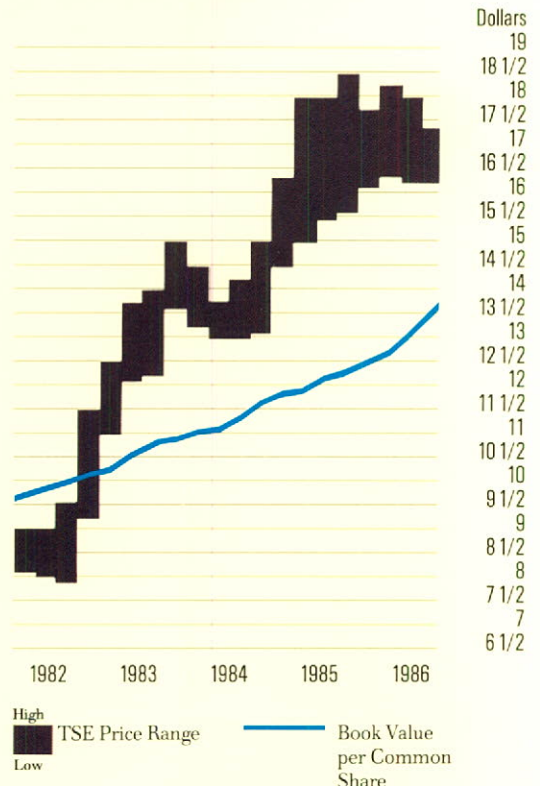
ANNUAL & INTERIM REPORTS

Investor Relations Officer
NewTel Enterprises Limited
P.O. Box 12110
St. John's, Newfoundland A1C 6J7

SHAREHOLDER DIVIDEND AND SHARE PURCHASE PLAN INFORMATION BROCHURE & ENROLLMENT FORM

Investor Relations Officer
NewTel Enterprises Limited
at the address above, or;
Montreal Trust Company
Dividend Reinvestment Services
P.O. Box 1900, Station "B"
Montreal, Quebec H3B 3L6

Comparison of Market Price Range (TSE) with Share Book Value



Corporate Information

HEAD OFFICE

NewTel Enterprises
Limited
Fort William Building,
St. John's, Newfoundland
A1C 6J7

1987 ANNUAL GENERAL MEETING

The Annual General
Meeting of Shareholders
will take place at 10:00 a.m.,
Newfoundland Standard
Time, Wednesday, April 8
1987 in Hotel
Newfoundland,
Cavendish Square,
St. John's, Newfoundland.

REGISTRAR FOR COMMON SHARES

Montreal Trust Company
331 Water Street
St. John's, Newfoundland
A1C 6E6

TRANSFER OFFICES FOR COMMON SHARES

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

NewTel Enterprises Limited
is listed on The Toronto Stock Exchange
and The Montreal Exchange
Symbol— N E L