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# NEWFOUNDLAND TELEPHONE COMPANY LIMITED

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Managing effectively through the recession was the primary goal for Newfoundland Telephone during 1982. Record-high interest rates and inflation placed unprecedented pressure on the Company. The manner in which we met this challenge and the piecing together of the many elements required to cope successfully with a slow growth environment are described in this report.

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# NEWFOUNDLAND TELEPHONE COMPANY LIMITED

## Financial Highlights (Dollars in thousands)

	1982	1981	% Change
<b>Revenues</b>			
Local service	\$ 41,850	\$ 36,087	16.0
Long distance service	64,615	60,038	7.6
Miscellaneous income - net	5,592	3,876	44.3
Total revenues	<u>112,057</u>	<u>100,001</u>	12.1
<b>Expenses</b>			
Operating expenses	68,337	63,456	7.7
Interest charges	14,066	13,219	6.4
Income taxes	15,138	11,545	31.1
Total expenses	<u>97,541</u>	<u>88,220</u>	10.6
<b>Net Income</b>	<u>\$ 14,516</u>	<u>\$ 11,781</u>	23.2
Earnings per common share	\$ 1.50	\$ 1.28	17.2
Dividends paid per common share	\$ 0.98	\$ 0.88	11.4
Equity per common share	\$ 10.19	\$ 9.72	4.8
Rate of return on average total capital	% 12.79	% 11.89	7.6
Rate of return on average common equity	% 15.17	% 13.37	13.5
Total debt as percent of total capital	% 50.74	% 56.23	(9.8)
Average number of common shares outstanding	8,052,594	7,846,580	2.6
Construction expenditures	\$ 34,766	\$ 35,311	(1.5)
Investment in plant and equipment	\$ 345,880	\$ 317,883	8.8

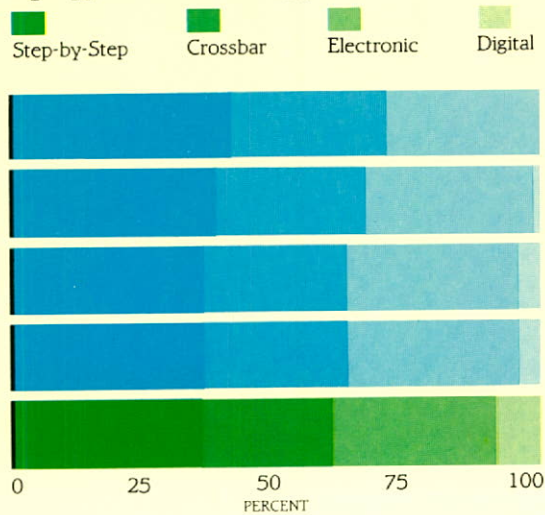
ANNUAL REPORT

1982



A new digital multiplex switching system (DMS-100) was placed into service in St. John's in February. The system, which employs state-of-the-art technology is part of the Company's on-going digital conversion program. This photo shows a superimposition of an enlarged circuit pack. A circuit pack uses micro chips for program storing and forms the basis of digital technology.

### Central Office Switching by Type of Technology.



# PRESIDENT'S LETTER

The Company's results for 1982 tell the story of a year in which, despite some difficulties, we were able to make important gains in service, productivity and financial performance.

Due principally to the depth and persistence of the current economic recession, our revenues grew at a much slower rate than forecast. At the same time, rising prices for most of the materials and services that the Company must buy continued to put upward pressure on operating costs. Even so, impressive cost reductions and modest rate adjustments have enabled us to report a significant improvement in earnings.

These results are particularly encouraging in light of the severity of the economic recession. Nevertheless, our current financial performance falls somewhat short of the returns that will be required in the future to continue to provide quality service to our customers and maintain the confidence of our investors.

With revenues under severe pressure, we have taken tough measures to reduce capital and operating expenditures and to restrain costs in every area of activity. The quality of service has been maintained and we continue to place a high priority on modernization to improve productivity and enhance the value of telecommunication services to all our customers.

The Report of the Directors describes some of the service and efficiency improvements and innovative new services which were introduced or expanded in 1982.

The installation of new digital switching and transmission equipment, the utilization of satellite technology for offshore and marine applications, and the completion of the first half of the trans-Labrador microwave project all serve to underline the Company's continued commitment to the optimum application of new technology and the efficient allocation of capital.

During the year, we continued to expand the range of competitive services and among other innovations, made a highly successful thrust into mobile radio, paging and data services.

Future growth in the telecommunication industry will come increasingly from the application of advanced communication systems that improve business efficiency and productivity. With top-quality expertise and leading-edge technology at our disposal, we intend to pursue these markets vigorously and gain our full share of new growth opportunities in a highly competitive marketplace.

The Company is proud of the contribution it has made in the provision of up-to-date telecommunication services throughout the province and is committed to its broad mandate to serve the Newfoundland community.

As changes in the structure of the Canadian telecommunication industry evolve, the related issues of liberalized terminal attachment and competition will be considered by our regulatory authority in the context of the particular circumstances in this province. The Company stands ready to communicate its perspectives clearly and expose all relevant considerations for careful scrutiny to ensure that the issues are decided in the best long-term interest of the public.

In the past year we have adjusted successfully to a slow growth environment. We have learned, too, that our employees have the capacity and determination required to cope with the changes that are occurring. Reductions in the workforce and strict controls on operating budgets have placed a considerable strain on our human resources. Employees throughout the Company have accepted the challenge and reaffirmed their dedication to quality and service.

The outlook for 1983 suggests a modest improvement in regional economic activity towards year end. We have planned for continued slow growth in sales of traditional telecommunication services, and for a major thrust in the growing market for enhanced business products and services to generate new revenues and increase net returns.

Our budgetary process will continue to be a dynamic one adjusting capital investment and expenditure activities to match the economic realities as they unfold. Productivity improvement and cost control will continue to receive priority attention. At the same time, we must reaffirm our commitment to the long-term health of the Company through the timely introduction of new technology and the training and development of our human resources.

We are confident that the actions taken during 1982 have given the Company renewed vitality and left us well prepared to meet the many new challenges that lie ahead. We will continue to build on our strengths to ensure that our customers, employees and shareholders are well served.



President & Chief Executive Officer  
February 2, 1983

Displayphone is an advanced telecommunication terminal that provides business customers with enhanced voice communication and time management features as well as the ability to efficiently access a wide range of remote data banks.



DEC. 06 AM 11:21:20

**DISPLAYPHONE - a desk-top  
information terminal  
providing simultaneous voice  
and data communications.**

- = ACCESS TO REMOTE/LOCAL DATA**
- = AUTOMATIC DIALING**
- = HANDSFREE/SPEAKERPHONE**
- = ELECTRONIC DIRECTORY**
- = TIME MANAGEMENT FEATURES**

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# REPORT OF THE DIRECTORS

The commanding challenge for the management of Newfoundland Telephone in 1982 was the preservation of financial health in the midst of the most severe economic downturn since the 1930s. Depressed corporate profits, record numbers of business and personal bankruptcies and widespread job losses have weakened the demand for telecommunication services throughout Canada.

Extensive cost reduction measures, combined with the rate adjustments authorized by the Board of Commissioners of Public Utilities, have enabled Newfoundland Telephone to cope positively with the slow growth environment. In this context, the improved earnings attained in 1982 must be regarded as an achievement which reflects the Company's ability to respond effectively to adverse economic conditions.

## Financial Performance

### Earnings

Common share earnings for the year were \$12.1 million or \$1.50 per average common share, compared with \$10.0 million or \$1.28 per share in 1981.

The rate of return on average common equity for 1982 was 15.17 percent, compared with 13.37 percent a year earlier. Return on average total capital for 1982 was 12.79 percent, compared with 11.89 percent in 1981.

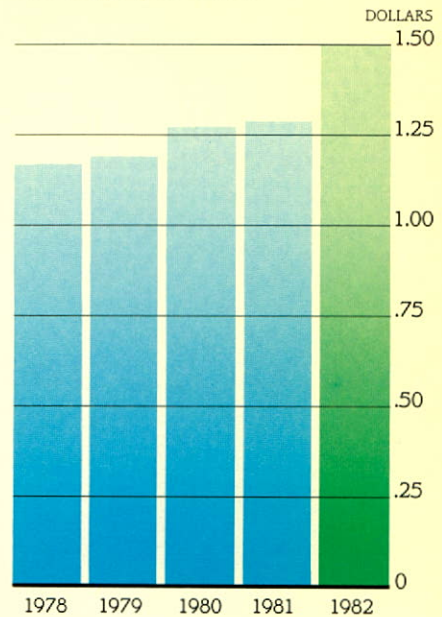
### Revenues and Expenses

Total operating revenues in 1982 increased by 11.5 percent to \$109.6 million, compared with revenues of \$98.3 million in 1981. Rate awards granted in February and August 1982 accounted for approximately \$8 million of the increase. The remainder was provided by a modest growth in demand for telecommunication services. There were 1.9 percent more subscriber lines in service than in 1981 and customer usage of the Company's long distance network increased by 2.1 percent.

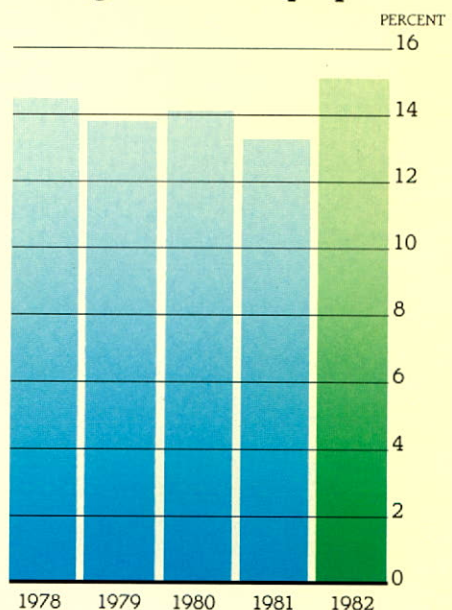
Total operating expenses were \$68.3 million in 1982, an increase of 7.7 percent over the \$63.5 million recorded in 1981. Operating expenses grew by 10.2 percent in 1981 over 1980 and 12.0 percent in 1980 over 1979. An increase of 36.0 percent in municipal and other taxes, and other cost pressures in 1982 were offset by stringent cost controls and significant staff reductions.

In May, the Company regrettably had to proceed with the lay-off of 41 full-time employees which, combined with normal attrition, resulted in 92 fewer employees at the end of 1982 than at the end of the previous year.

### Earnings per Share

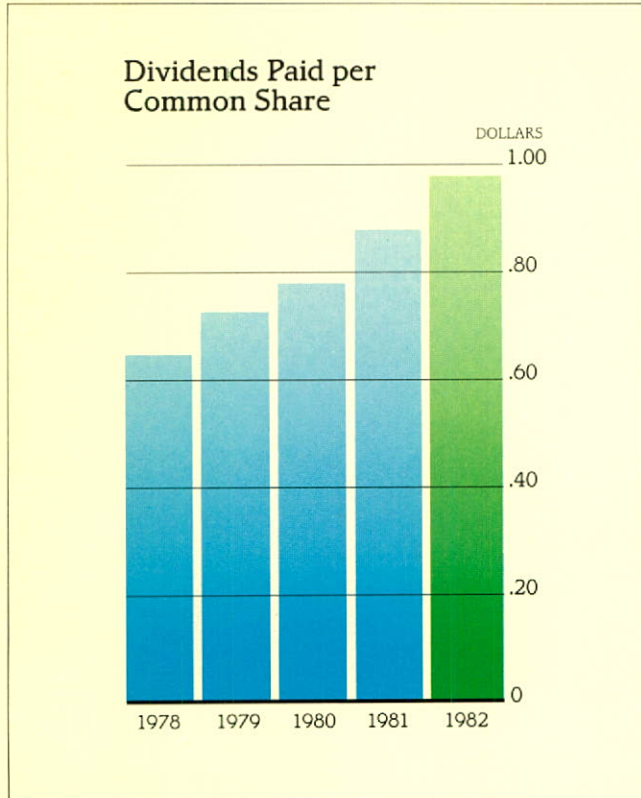


### Rate of Return on Average Common Equity



**Common Share Dividends**

On July 30, 1982, the Board of Directors increased the quarterly dividend per common share from \$0.23 to \$0.26, thereby setting the indicated annual dividend rate at \$1.04 per share. The dividend rate has been increased each year since the Company's first public issue of common shares in October 1976. Common share dividends paid in 1982 totalled \$0.98 per share, compared with \$0.88 per share in 1981.



**Financing**

On June 15, 1982, the Company completed a \$10 million public issue of 13.50% cumulative redeemable preferred shares, Series D. Net proceeds from the issuance of the shares, which were sold at the par value of \$20 each, were used to repay short term loans incurred to finance the construction program.

An important continuing source of new equity is the Employees' Savings Plan. During 1982, an additional 207,402 common shares were issued at market value to some 1,000 participating employees under the terms of the Plan. These new shares provided funds to the Company totalling \$1.9 million.

On January 1, 1983, Newfoundland Telephone introduced the Shareholder Dividend and Share Purchase Plan. The Plan offers holders of Newfoundland Telephone common shares the opportunity to reinvest cash dividends in new common shares or to receive dividends in the form of new common shares at a five percent discount from the average market price (as defined in the Plan). In addition, optional cash payments can be made to a maximum of \$3,000 per quarter at 100 percent of average market price.

**Rate Increases**

On January 22, 1982, the Board of Commissioners of Public Utilities of Newfoundland granted an 11 percent increase in local and intra-provincial long distance rates which produced some \$6.4 million in additional revenues in 1982. The Board's decision, which came into effect on February 1, 1982, established that an appropriate rate of return on common equity should be 17 percent with a permissible range between 16.30 percent and 17.68 percent.

At the end of the first quarter, the Company reported to shareholders that a sharp reduction in the demand for telecommunication services caused by the recession had seriously eroded our revenues.

In response to these circumstances, Newfoundland Telephone implemented extraordinary cost reduction measures and, on June 6, 1982, applied for a further increase in rates of approximately seven percent. The request was granted in full on August 10, 1982 and contributed approximately \$1.6 million additional revenues this year.

Also in August, the Company was given final approval for increases averaging six percent on inter-provincial long distance services. These new rates had been approved on an interim basis with effect from July 1, 1982.

**Capital Expenditures**

Newfoundland Telephone's capital expenditures in 1982 totalled \$34.8 million, compared with \$35.3 million in 1981. The decrease is principally a reflection of the reduced demand for telecommunication services which resulted in lower expenditures for growth.

During 1982 the Company continued to place high priority on modernization to improve operating efficiencies and reduce costs while expanding and upgrading the range of available services.

Allocations to major categories of assets in 1982 were as follows:

**CATEGORY**

	1982 (Dollars in thousands)	1981
Land, buildings & towers	\$ 6,100	\$ 9,100
Toll equipment	10,400	4,600
Switching equipment	2,700	4,100
Purchase and connection of subscriber equipment	7,000	7,900
Underground and aerial cable and related facilities	6,700	6,900
General equipment	1,900	2,700
<b>Total</b>	<b>\$34,800</b>	<b>\$35,300</b>

Newfoundland Telephone anticipates capital expenditures of \$36 million in 1983.





Donovans Work Centre near St. John's went into operation in September and enabled the Company to realize a number of operational efficiencies including the consolidation of warehousing for the Avalon Peninsula.

## Operating Improvements

The Company places considerable emphasis on the need to achieve and maintain high levels of productivity and efficiency. New ways are constantly being sought to improve output and make more efficient use of human resources, materials and equipment. Results measured by standard productivity indicators have been encouraging. For instance, "Total Plant Productivity," a measure of construction, installation and maintenance productivity, shows that gains averaging four percent annually have been realized during the past two years and further improvements are forecast for 1983. These improvements are being achieved through the introduction of new technology and equipment, the initiation of improved operating methods and preventive maintenance programs, and by a better matching of the Company's workforce to its workload.

In terms of the number of employees per thousand telephones, the Company has achieved a productivity gain of some 23.7 percent in the 1978-82 interval. The ratio of employees to telephones in service was 8.41 per thousand telephones in 1978, compared with 6.42 at the end of 1982.

The completion of the Company's new work centre at Donovans Industrial Park near St. John's enabled the Company to realize further operational efficiencies this year. Built at a cost of \$2 million, the new centre has displaced four leased premises and has consolidated much of the Company's warehousing, vehicle maintenance, construction and installation facilities for the Avalon Peninsula.

Prior to 1982, the Company's mainframe computer, an IBM 370/148, was satisfying a broad range of daily production needs and systems development work. In 1981 this unit was nearing its capacity and in February 1982 the Company installed an additional central processor - an IBM 4341. The computer centre is now operating in a dual processing environment which provides diversity and protection in event of equipment malfunction. In addition, the new environment will permit the expansion of capacity to meet our growth needs and will provide the opportunity to introduce on-line applications.

## Modernization

During 1982, the Company continued its modernization program and gave priority to capital investments for technological improvements which delivered the highest cost saving in the shortest time. Customers throughout our serving area benefited from improved switching equipment, long distance service and network maintenance and repair systems.

The Company's digital conversion program represents a major part of the effort to modernize service and meet future requirements. Digital technology combines software and microelectronics to provide compact, less costly, better quality and more powerful switching and transmission equipment, and expands the capability to add new and more sophisticated services. The end result is increased value to the customer, and more flexible and cost effective use of the network.

On February 27 in St. John's, Newfoundland Telephone placed into service a new digital multiplex system (DMS-100) with a remote line module (RLM) extension to the Torbay area. The remote module permits extension of digital technology into suburban and outlying areas at a much faster pace and at lower cost. Construction of a second RLM unit at Octagon Pond in the St. John's area was also started in 1982.

At year-end, 7.2 percent of the Company's subscriber lines were served by digital systems. This proportion is expected to reach some 13 percent by the end of 1983.

Newfoundland Telephone spent about \$1.5 million this year upgrading service in a number of Labrador communities. New switching equipment was installed in Hopedale, Davis Inlet, Fox Harbour and Paradise River. Additional long distance circuits were provided for several areas, including Williams Harbour and the northern communities of Hopedale and Davis Inlet.

The most significant service development in Labrador during 1982 was the completion of phase one of the trans-Labrador microwave system. Phase one consists of a microwave link between Wabush and Churchill Falls while the second phase,

which will be completed in 1983, will extend the system to Happy Valley-Goose Bay and connect with the Company's microwave system along the Labrador coast.

The microwave route replaces the existing troposcatter radio system that has been serving telephone users in Labrador since 1950. The troposcatter system, which has reached the end of its useful life, is subject to atmospheric interference which can cause signal distortion and service interruptions. Once completed, the new microwave system will provide improved performance and additional capacity for growth of voice and data services, and will result in significant energy savings for the Company. The total investment will be about \$14 million.

Other microwave development took place on the Burin Peninsula. Additional circuit capacity was added between the Peninsula and the remainder of the province, and the existing facility serving St. Lawrence was replaced with more modern equipment.

## Business Services

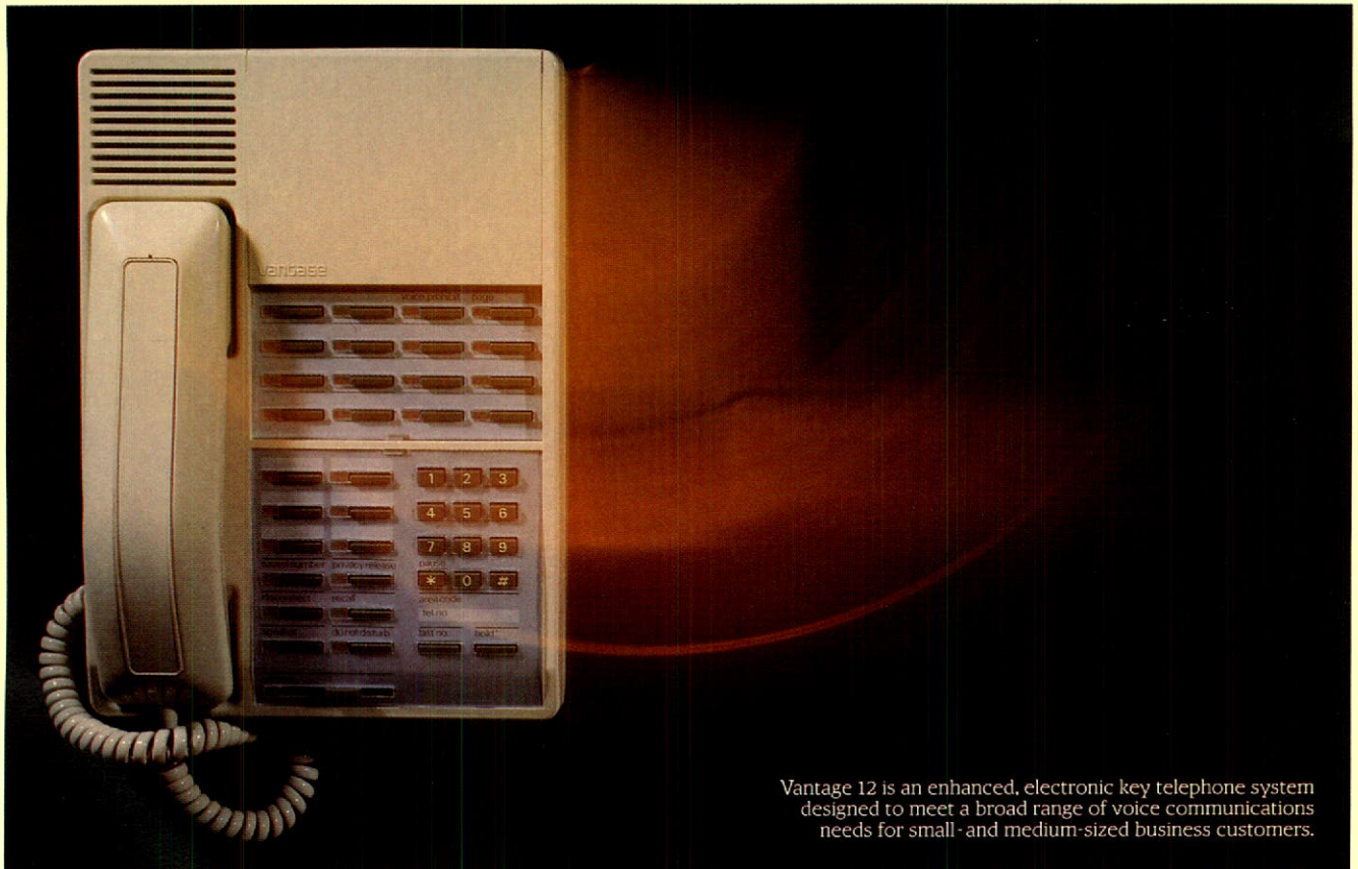
**W**hile traditional telephone services contributed little or no growth during 1982, the growth in sales of business services was gratifying. We are continuing to stress to our business customers the application of telecommunication services as solutions to their concerns about revenue generation and expense control.

One of Newfoundland Telephone's largest service contracts this year was signed with the Atlantic Lottery Corporation for the installation of 150 data terminals across Newfoundland and Labrador. This contract is part of a combined effort with Maritime Tel and Tel and NB Tel to install and maintain the system throughout the Atlantic provinces.

In September, the Company introduced Provincial 800 as an additional offering to its range of long distance voice services. The new service allows a business customer to receive client calls on a toll free basis from any location in the province. It is an efficient and cost-effective service for businesses wishing to expand their markets, and is a new revenue source for the Company in the traditional telephone service market.

Displayphone and Vantage 12 are two new products that were introduced to business customers during 1982. Displayphone is an advanced telecommunication terminal that integrates both data and voice communications in one desk-top unit. Utilizing the latest technology, this unique product offers business customers enhanced voice communications and time management features, and the capability to efficiently access a wide range of remote data banks.

Vantage 12 is an enhanced electronic key telephone system designed to meet the emerging voice communications needs of small- and medium-sized business customers. Through push-button activation, features such as four-channel intercom, privacy and automatic dialing are available on this advanced business system.



Vantage 12 is an enhanced, electronic key telephone system designed to meet a broad range of voice communications needs for small- and medium-sized business customers.



The provincial Telemedicine system designed and installed by Newfoundland Telephone for Memorial University was significantly extended during 1982. The system uses dedicated telephone lines for two-way transmission of voice and visual information, the latter through the use of slow scan television.

During the year, the provincial Telemedicine system was significantly extended. The system uses dedicated telephone lines for two-way transmission of voice and visual information. Telemedicine was designed and installed for the Memorial University Health Sciences Centre in St. John's to permit the linking of hospitals, health organizations and educational institutions throughout the province for the purposes of general consultation and health education. This year, 19 communities on the island were added to the system for a total of 65 locations by year-end. In 1983, the system will be extended to include 18 communities in Labrador.

The field trial of Telidon, the Canadian-developed interactive video communication system referred to as videotex, continued this year in cooperation with the provincial Department of Tourism. During the trial, participants in 17 locations across the province, including hotels, tourist chalets and parks, were able to access a wide variety of information delivered by means of Newfoundland Telephone's network.

### Competitive Markets

Newfoundland Telephone continued to expand its range of competitive services during 1982. In July, the Company introduced a two-way community mobile radio service to complement its existing dedicated mobile radio offering. This new shared system is designed to meet the mobile communication needs of medium-sized business customers.

In September, Direct Dial Paging was offered which permits instant signalling of pocket paging units by dialing the telephone number assigned to each unit. This operator-free service transmits either a tone signal or the caller's voice.

Through its NewTel Systems division, the Company markets small business computers, word processors and related equipment. In addition, the division has begun to develop its own software systems for use with its small business computers. It has developed inventory and job management packages especially suited to the needs of cooperatives, credit unions and small businesses.



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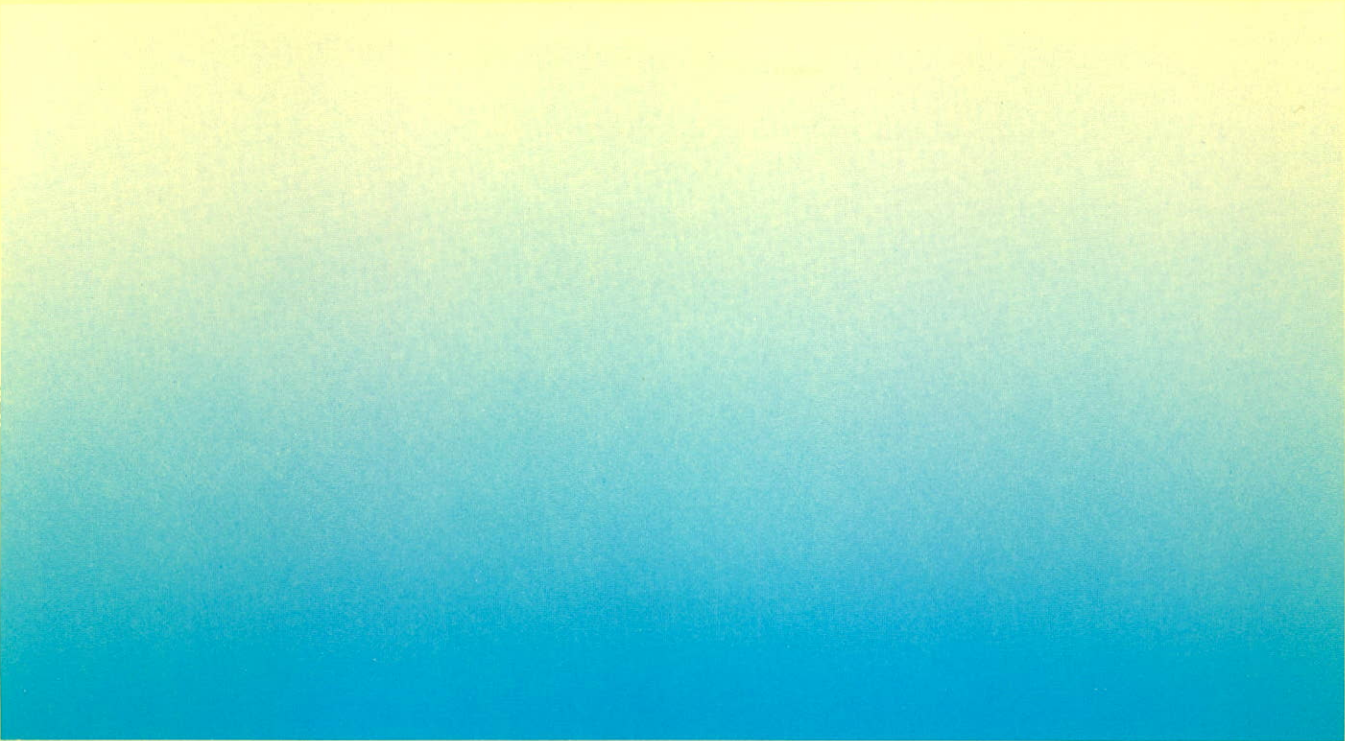
### **Offshore**

Newfoundland Telephone made significant progress this year in the provision of telecommunication services for the offshore oil and gas industry, and other marine applications.

A service trial was carried out this summer for two Petro-Canada drill ships operating off the northern coast of Labrador. Newfoundland Telephone, in cooperation with Telesat Canada, installed an AniKom 1 portable earth station in Saglek, just south of the Arctic Circle in Labrador. Two circuits were routed from St. John's via Telesat's Anik B satellite to Saglek and extended to the two ships

through the use of very high frequency (VHF) radio. Telephone equipment installed at the Saglek base camp provided the ships with local and DDD service.

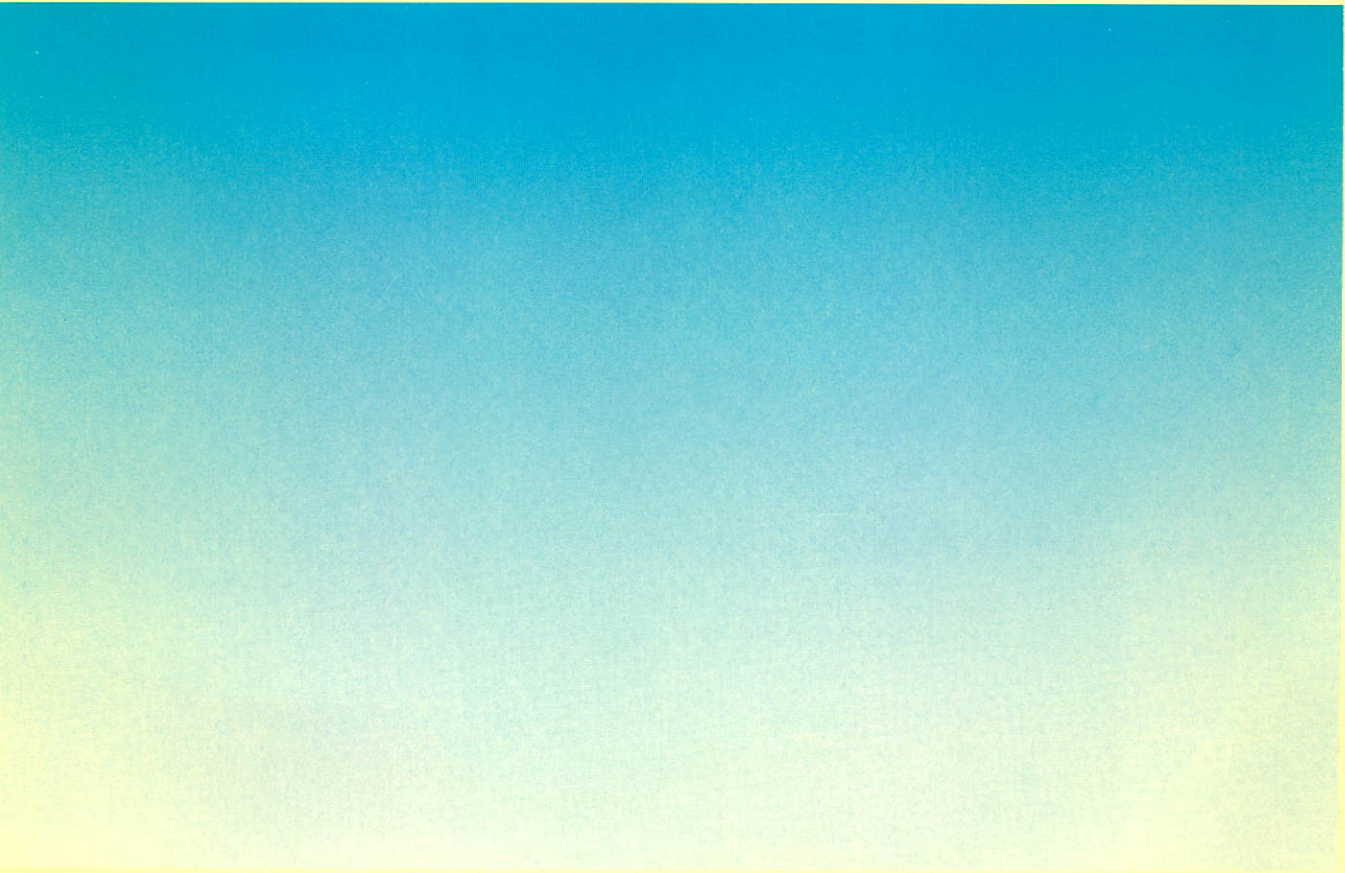
During the spring, our Company undertook a trial for the Federal Department of Fisheries and Oceans. It was part of a larger project being carried out by the Department on both coasts of Canada. The Labrador portion provided fisheries officers with a total VHF, HF communication package for communications on land, sea and in the air. The trial, which coincided with the seal hunt, demonstrated the effectiveness of telecommunication services in an offshore environment.



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# FINANCIAL INFORMATION

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NEWFOUNDLAND TELEPHONE COMPANY LIMITED

## Balance Sheet

As at December 31 (Dollars in thousands)

### Assets

	1982	1981
<b>Telecommunication Property</b> - at cost		
Buildings, plant and equipment	\$335,943	\$306,519
Less: Accumulated depreciation	105,107	92,322
	<u>230,836</u>	<u>214,197</u>
Land and plant under construction	9,937	11,364
Materials and supplies	2,736	5,064
	<u>243,509</u>	<u>230,625</u>
<b>Investments</b> - at cost	300	300
<b>Current Assets</b>		
Temporary investments - at cost	993	-
Accounts receivable	13,968	13,557
Prepayments	1,509	1,239
	<u>16,470</u>	<u>14,796</u>
<b>Deferred Charges</b> (Note 1)		
Unamortized deficiency in accumulated depreciation	375	449
Unamortized long term debt expenses	1,597	1,754
Other	2,272	4,033
	<u>4,244</u>	<u>6,236</u>
	<u>\$264,523</u>	<u>\$251,957</u>

### Liabilities and Shareholders' Equity

#### Shareholders' Equity

Common shares (Note 2)	\$ 51,010	\$ 49,148
Premium on common shares	776	776
Capital redemption reserve fund (Note 2)	5,263	4,306
Retained earnings	25,932	22,907
Total common equity	<u>82,981</u>	<u>77,137</u>
Preferred shares (Note 2)	28,737	19,694

111,718                      96,831

#### Long Term Debt (Note 3)

112,529                      113,980

#### Unsecured Subordinated Notes - Due to Parent Company (Note 4)

1,740 ✓                      2,870 ✓

#### Notes Payable (Note 5)

-                                      6,200

#### Current Liabilities

Bank advance	1,821	1,553
Accounts payable	4,361	4,164
Due to affiliated companies	492	415
Advance billing for service	1,563	1,285
Taxes accrued	6,139	1,413
Interest accrued	1,602	1,666
Dividends payable	124	72
Long term debt due within one year	814	1,355

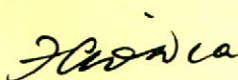
16,916                      11,923

#### Deferred Income Taxes (Note 6)


21,620                      20,153

\$264,523                      \$251,957

On behalf of the Board of Directors

 F.O'Dea, Director

  
W.G. Hudson, Comptroller

  
H. Collingwood, Director

## Income Statement

For the years ended December 31 (Dollars in thousands)

	<u>1982</u>	<u>1981</u>
<b>Operating Revenues</b>		
Local service	\$41,850	\$36,087
Long distance service	64,615	60,038
Miscellaneous - net	3,158	2,170
<b>Total Operating Revenues</b>	<u>109,623</u>	<u>98,295</u>
<b>Operating Expenses</b>		
Depreciation	18,718	17,447
Maintenance	16,766	15,822
Operating rents	4,243	4,090
Other operating expenses	28,610	26,097
<b>Total Operating Expenses</b>	<u>68,337</u>	<u>63,456</u>
<b>Net Operating Revenues</b>	<u>41,286</u>	<u>34,839</u>
<b>Other Income</b>		
Allowance for funds used during construction	777	791
Miscellaneous	1,657	915
<b>Total Other Income</b>	<u>2,434</u>	<u>1,706</u>
<b>Income Before Underlisted Items</b>	<u>43,720</u>	<u>36,545</u>
<b>Interest Charges</b>		
Interest on long term debt	13,329	11,015
Other interest	737	2,204
<b>Total Interest Charges</b>	<u>14,066</u>	<u>13,219</u>
<b>Income Before Income Taxes</b>	<u>29,654</u>	<u>23,326</u>
<b>Income Taxes</b>	<u>15,138</u>	<u>11,545</u>
<b>Net Income</b>	<u>14,516</u>	<u>11,781</u>
<b>Dividends on Preferred Shares</b>	<u>2,417</u>	<u>1,765</u>
<b>Net Income Applicable to Common Shares</b>	<u>\$12,099</u>	<u>\$10,016</u>
<b>Earnings Per Common Share</b> (based on average number of shares outstanding)	<u>\$ 1.50</u>	<u>\$ 1.28</u>

## Statement of Retained Earnings

For the years ended December 31 (Dollars in thousands)

	<u>1982</u>	<u>1981</u>
<b>Balance at Beginning of Year</b>	\$22,907	\$20,652
<b>Net Income</b>	<u>14,516</u>	<u>11,781</u>
	<u>37,423</u>	<u>32,433</u>
<b>Deduct:</b>		
Dividends		
Preferred shares	2,417	1,765
Common shares	7,911	6,920
	<u>10,328</u>	<u>8,685</u>
Expenses on issue of Preferred Shares (Net of income taxes of \$241,000)	206	-
Transfers to capital redemption reserve fund	957	841
	<u>11,491</u>	<u>9,526</u>
<b>Balance at End of Year</b>	<u>\$25,932</u>	<u>\$22,907</u>

## Statement of Changes in Financial Position

For the years ended December 31 (Dollars in thousands)

### Sources of Cash

	1982	1981
<b>Cash from operations</b>		
Net income	\$14,516	\$11,781
Add expenses not requiring cash		
Depreciation	18,718	17,447
Deferred income taxes	1,467	4,153
Other-net	1,992	(557)
Deduct income not providing cash		
Allowance for funds used during construction	(777)	(791)
<b>Cash from operations</b>	<u>35,916</u>	<u>32,033</u>
<b>Decrease (increase) in working capital provided by change in</b>		
Accounts receivable	(411)	(783)
Prepayments	(270)	(329)
Bank advance	268	(649)
Accounts payable	274	74
Advance billing for services	278	12
Taxes accrued	4,726	(2,588)
Interest accrued	(64)	233
Dividends payable	52	(8)
<b>Cash provided (used) by change in working capital</b>	<u>4,853</u>	<u>(4,038)</u>
<b>Cash from external financing</b>		
Proceeds from common shares	1,862	1,707
Net proceeds from preferred shares	9,794	-
Net proceeds from long term debt	-	15,894
Sale of intelTerm Systems shares	-	325
<b>Cash from external financing</b>	<u>11,656</u>	<u>17,926</u>
<b>Total cash provided</b>	<u>52,425</u>	<u>45,921</u>

### Application of Cash

Capital expenditures	34,766	35,311
Deduct charges not requiring an outlay of funds	1,613	2,097
Net capital expenditures	<u>33,153</u>	<u>33,214</u>
(Decrease) increase in materials and supplies	(2,328)	1,258
Purchase of intelTerm Systems Shares	-	130
Preferred dividends	2,417	1,765
Common dividends	7,911	6,920
Redemption of preferred shares	957	841
Reduction of long term debt	1,992	463
Repayment of subordinated notes payable	1,130	1,130
Net repayment of notes payable	6,200	200
<b>Total cash used</b>	<u>51,432</u>	<u>45,921</u>
<b>Increase in cash and temporary cash investments</b>	<u>\$ 993</u>	<u>\$ -</u>



## Notes to Financial Statements

<b>1. Accounting Policies</b>	The Company is subject to regulation, including examination of accounting practices, by the Board of Commissioners of Public Utilities of Newfoundland (Board of Commissioners). The system of accounts and accounting practices are similar to those used in the telecommunication industry.
<b>Depreciation</b>	Depreciation is computed on the straight line method using rates based upon the estimated useful lives of depreciable assets, determined by a continuing program of engineering studies. The composite depreciation rate for 1982 is 6.04% (1981-6.22%). When depreciable property is retired the amount at which such property has been carried in telecommunication property is charged to accumulated depreciation.
<b>Allowance for Funds Used During Construction</b>	The Company provides 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.
<b>Deferred Charges</b>	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 deficiency in accumulated depreciation and certain of the other deferred charges are being amortized as ordered by the Board of Commissioners.

<b>2. Capital Stock</b>	<b>Authorized</b>	<b>Outstanding</b>	December 31	
			<b>1982</b>	<b>1981</b>
			(Dollars in thousands)	
Preferred Shares (cumulative and redeemable)	250,000 7.25% shares of the par value of \$20 each.	193,300 shares (1981-199,170 shares)	<b>\$ 3,866</b>	\$ 3,984
	450,000 9.75% shares of the par value of \$20 each.	304,013 shares (1981-322,010 shares)	<b>\$ 6,080</b>	6,440
	500,000 8.85% shares, Series C, of the par value of \$20 each.	439,550 shares (1981-463,500 shares)	<b>\$ 8,791</b>	9,270
	500,000 13.50% shares, Series D, of the par value of \$20 each.	500,000 shares (1981-Nil)	<b>10,000</b>	-
	500,000 shares of the par value of \$20 each.		-	-
			<u><b>\$28,737</b></u>	<u><b>\$19,694</b></u>
Common Shares	10,000,000 shares without par value.	8,146,777 shares (1981-7,939,375 shares)	<u><b>\$51,010</b></u>	<u><b>\$49,148</b></u>

During the year 207,402 (1981-184,793) common shares were issued at market value (1982-\$1,862,291; 1981-\$1,707,207) from treasury under the terms of the Employees' Savings Plan. The Company has reserved an additional 250,000 common shares for issue through the Plan in 1983.

The Company has introduced a Shareholder Dividend and Share Purchase Plan which offers holders of Newfoundland Telephone common shares the opportunity to reinvest cash dividends in new common shares or to receive dividends in the form of new common shares at a five percent discount from the average market price (as defined in the Plan). In addition, optional cash payments can be made at 100% of average market price. 50,000 common shares have been initially reserved for issuance under the terms of the Plan.

The 7.25% cumulative redeemable preferred shares may be redeemed at the Company's option, in whole or in part, at a price of \$20.80 to September 15, 1984 diminishing by \$0.20 for each three-year period to September 15, 1990 and at \$20.20 thereafter.

The 9.75% cumulative redeemable preferred shares may be redeemed at the Company's option, in whole or in part, at a price of \$21.40 to May 15, 1983, diminishing by \$0.20 for each three-year period to May 15, 1998 and at \$20.20 thereafter.

The 8.85% cumulative redeemable preferred shares, Series C may be redeemed at the Company's option, in whole or in part, at a price of \$21.20 to April 15, 1985, diminishing by \$0.20 for each three-year period to April 15, 1997 and at \$20.20 thereafter.

NEWFOUNDLAND TELEPHONE COMPANY LIMITED

The 13.50% cumulative redeemable preferred shares, Series D are not redeemable prior to June 15, 1988, but may be redeemed thereafter, at the Company's option, in whole or in part, at a price of \$21.00 to June 14, 1989, diminishing by \$0.20 each year to June 14, 1993 and at \$20.00 thereafter.

During the year ended December 31, 1982, 5,870 of the 7.25% preferred shares of the aggregate par value of \$117,400 and 17,997 of the 9.75% preferred shares of the aggregate par value of \$359,940 and 23,950 of the 8.85% preferred shares of the aggregate par value of \$479,000 were purchased for cancellation or redemption pursuant to the provisions attaching to these shares. As required by the Companies Act (Newfoundland), equal amounts have been transferred from retained earnings to the "Capital Redemption Reserve Fund".

**3. Long Term Debt**

	Series	Maturity	Issued	Outstanding December 31	
				1982	1981
(Dollars in thousands)					
First Mortgage Sinking Fund Bonds					
	9¼ %	1990	\$ 7,500	\$ 1,122	\$ 1,122
	8½ %	1992	7,500	5,750	6,000
	9 %	1994	15,000	12,194	12,599
	11½%	1996	10,000	9,430	10,000
	11 %	1996	17,500	15,347	16,114
				<b>43,843</b>	<b>45,835</b>
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	16,000
				<b>113,343</b>	<b>115,335</b>
				<b>814</b>	<b>1,355</b>
				<b>\$112,529</b>	<b>\$113,980</b>

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 the Company and by a first floating charge on all other assets of the Company.

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

1. Series 8½% 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 the Company presently outstanding is as follows:

\$814,000 in 1983, \$1,289,000 in 1984, \$1,390,700 in 1985, \$17,390,700 in 1986 and \$1,390,700 in 1987.

**4. Unsecured Subordinated Notes-Due to Parent Company**

Series A Unsecured Subordinated Note - This note of \$1,130,000 (1981-\$2,260,000), payable to Bell Canada, bears interest at ¼ of 1% above a Canadian chartered bank's prime rate subject to a minimum annual rate of 7% and a maximum annual rate of 9%. This note matures on December 31, 1983.

Series B Unsecured Subordinated Note - This note of \$609,941 (1981-\$609,941) payable to Bell Canada under the same interest conditions set forth for subordinated note Series A, matures on December 31, 1983.

These notes are redeemable at par without penalty at the option of the Company.

**5. Notes Payable**

Demand bank loans (unsecured) represent interim financing incurred in the expansion of the Company's operations and bear interest not exceeding a Canadian chartered bank's prime lending rate.

<b>6. Deferred Income Taxes</b>	Prior to the adoption on January 1, 1979 of the full tax allocation basis of accounting for income taxes, the Company had not recorded approximately \$14,200,000 of deferred income taxes related to the cumulative differences between capital cost allowances and depreciation. By Order of the Board of Commissioners, as timing differences reverse and deferred taxes become payable, all amounts coming due shall be drawn firstly from the recorded deferred tax balance and any excess be charged to income tax expense in the year in which it occurs.
<b>7. Pensions</b>	The Company has a non-contributory plan which provides for service pensions based on length of service and rates of pay. The latest actuarial review as of December 31, 1980 indicated that all vested benefits were fully funded.
<b>8. Commitments</b>	Material contractual obligations in respect of long term leases covering circuits, equipment and building space, amounted to \$10,846,700 at December 31, 1982 (1981 - \$8,503,800). The estimated minimum amounts payable under such leases for the next five years are as follows: \$1,982,300 in 1983, \$2,068,800 in 1984, \$2,214,900 in 1985, \$2,091,900 in 1986 and \$1,096,800 in 1987.
<b>9. Related Party Transactions</b>	Bell Canada owned 62% of the outstanding common shares of the Company at December 31, 1982. During the year the Company made purchases of telecommunication equipment in the amount of \$13,684,000 from Northern Telecom Limited which is a subsidiary of Bell Canada.

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## Management Report


To the Shareholders:


The data contained in the Annual Report of Newfoundland Telephone Company Limited is the responsibility of management and has 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.

To ensure the integrity and objectivity of the data, management maintains a system of internal controls comprised of 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 Committee, which meets periodically with management and the internal and external auditors, to review accounting principles, practices and internal controls.

The shareholders' 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.

 President and  
Chief Executive Officer

 Vice-President-Finance

## Auditors' Report

To the Shareholders, Newfoundland Telephone Company Limited:

We have examined the balance sheet of Newfoundland Telephone Company Limited as at December 31, 1982 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, 1982 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.

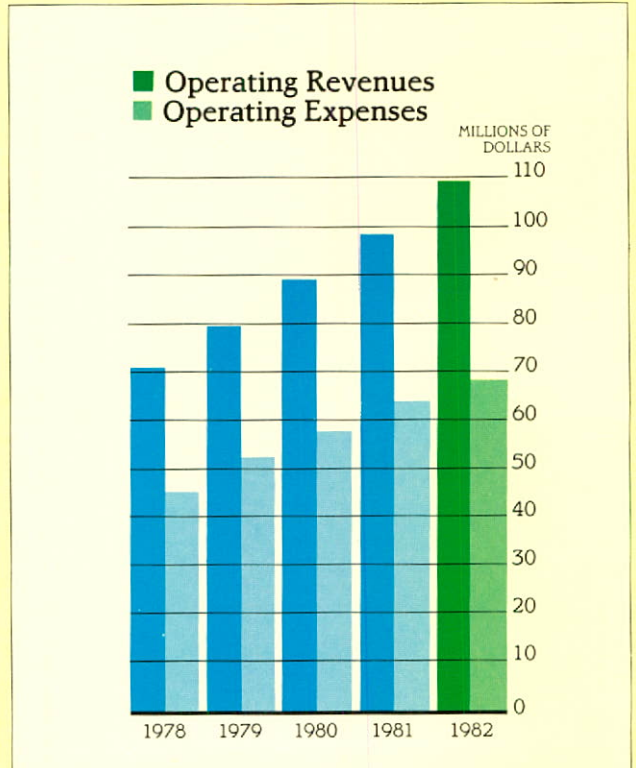
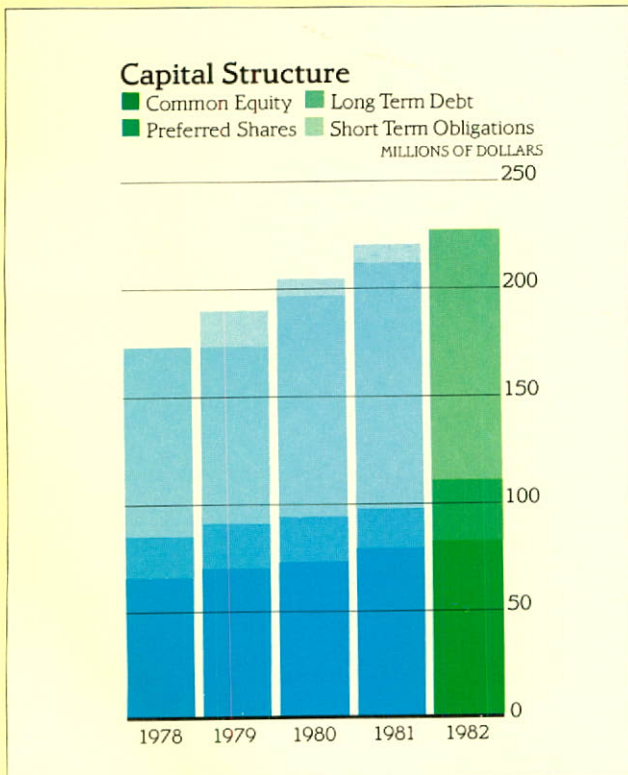
Touche Ross & Co.  
St. John's, Newfoundland

Chartered Accountants  
January 28, 1983

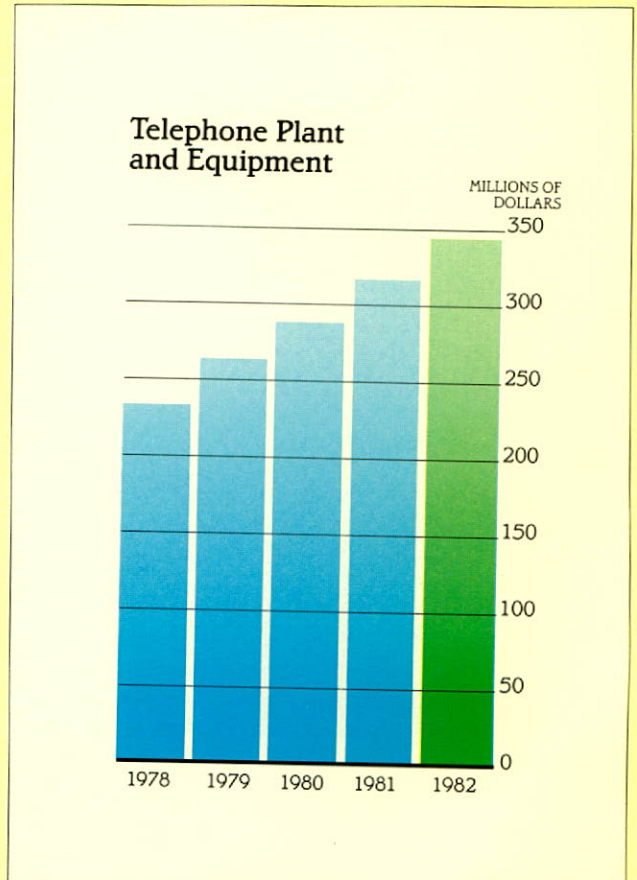
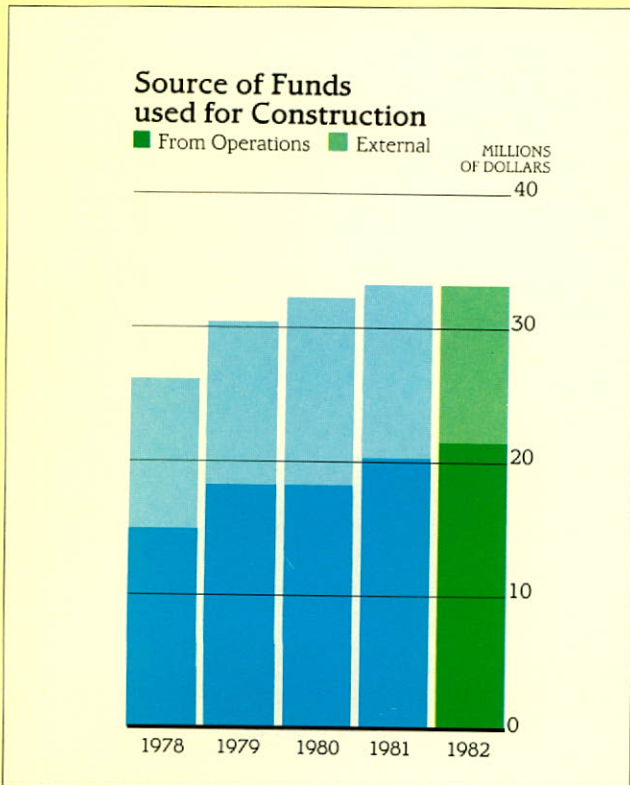
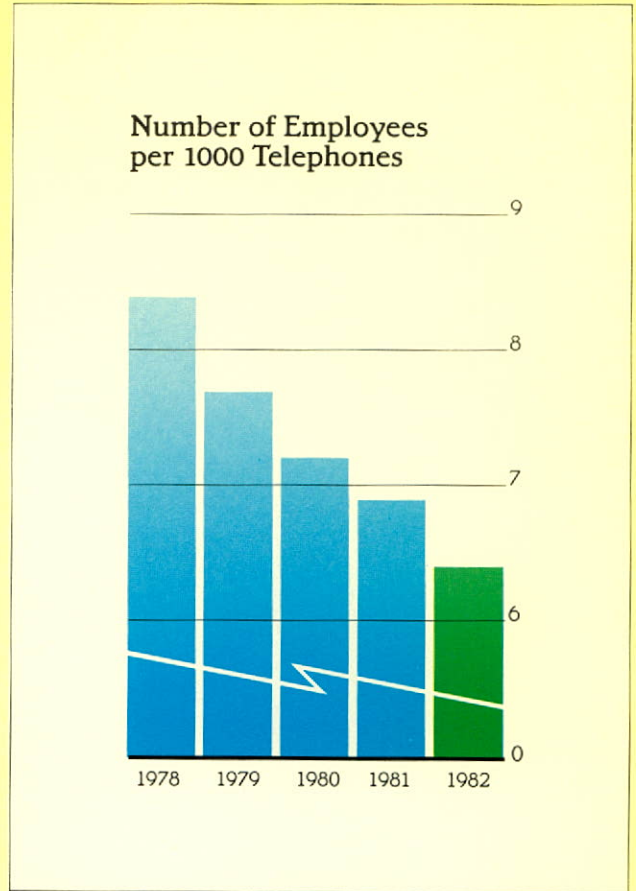
## Five Year Statistical Record

	1982	1981	1980
<b>Income Statement Items</b> (Dollars in thousands)			
Total operating revenues	\$ 109,623	98,295	89,739
Other income	\$ 2,434	1,706	1,901
Operating expenses, transfers and taxes*	\$ 83,475	75,001	68,847
Interest charges	\$ 14,066	13,219	11,131
Net income*	\$ 14,516	11,781	11,662
<b>Balance Sheet Items</b> (Dollars in thousands)			
Investment in plant and equipment	\$ 345,880	317,883	289,329
Shareholders' equity*	\$ 111,718	96,831	92,869
Deferred income taxes*	\$ 21,620	20,153	16,000
Total debt	\$ 115,083	124,405	110,198
<b>Financial Ratios</b>			
Earnings per average common share*	\$ 1.50	1.28	1.27
Dividends paid per common share	\$ 0.98	0.88	0.78
Equity per common share*	\$ 10.19	9.72	9.33
Rate of return on average common equity*	% 15.17	13.37	14.09
Rate of return on average total capital*	% 12.79	11.89	11.62
Times interest earned before taxes	% 3.11	2.76	3.06
Interest in percent of average debt	% 11.75	11.27	10.62
Percent debt to total capitalization	% 50.74	56.23	54.27
Available cash flow as a percent of construction	% 65.70	58.12	54.54
<b>Other Statistics</b>			
Construction expenditures (Dollars in thousands)	\$ 34,766	35,311	33,901
Plant investment per telephone	\$ 1,658	1,535	1,433
Number of telephones	208,554	207,078	201,835
Subscriber lines in service	137,262	134,746	131,083
Local calls - daily average	3,460,808	3,563,715	3,297,732
Long distance calls - daily average	57,597	56,416	51,946
Number of employees	1,340	1,432	1,459
Salaries and wages paid (Dollars in thousands)	\$ 32,087	28,993	26,146
Average common shares outstanding	8,052,594	7,846,580	7,707,404

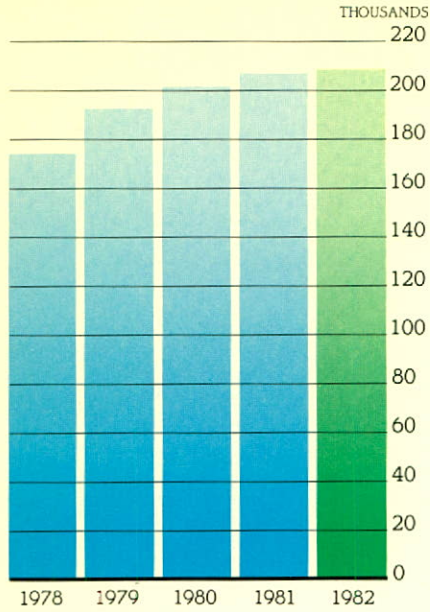
\*Results reflect (1) Partial tax allocation basis for 1978  
(2) Full tax allocation basis for 1979 to 1982



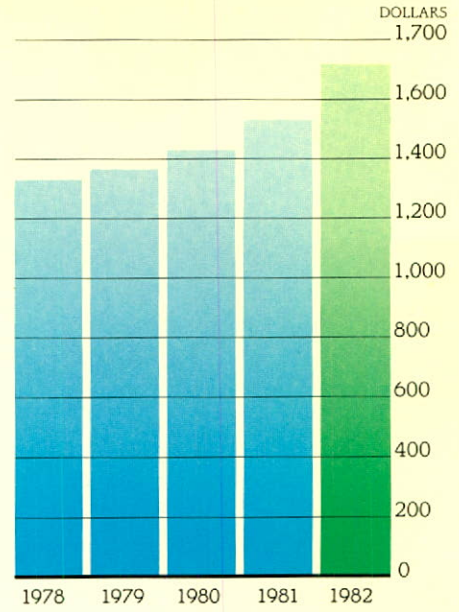
1979	1978
79,057	70,507
1,117	668
60,226	52,839
8,878	8,489
11,070	9,847
264,462	234,345
89,537	86,485
13,339	9,564
99,363	85,772
1.19	1.17
0.73	0.65
8.82	8.36
13.85	14.50
11.26	11.16
3.85	3.10
9.56	9.56
52.60	49.79
50.21	59.07
30,998	27,334
1,370	1,337
193,076	175,312
125,419	117,070
3,152,685	2,993,425
46,620	40,438
1,485	1,475
24,268	20,193
7,682,259	6,745,273



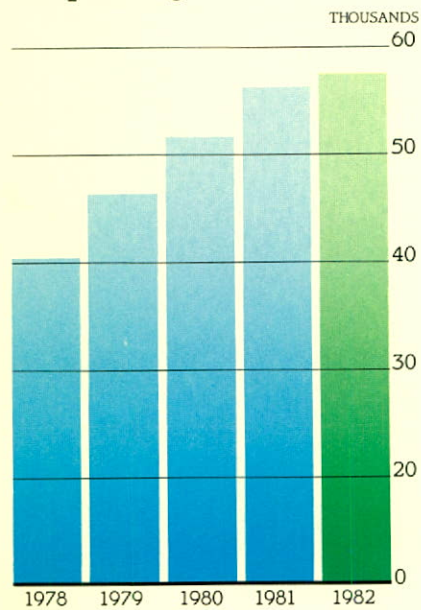
Telephones in Service



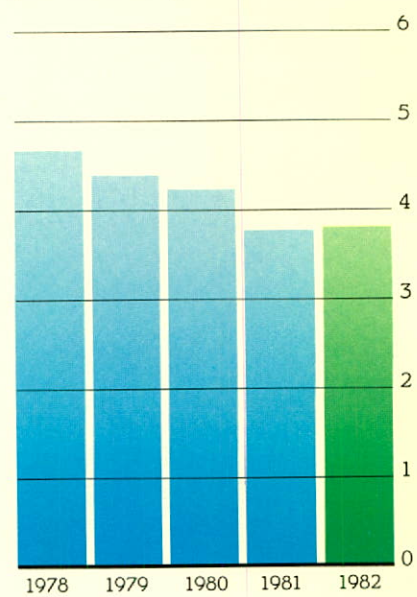
Total Investment per Telephone



Long Distance Calls-Daily Average



Average Number of Service Troubles per 100 Telephones



# A LOOK FORWARD

**A**s we enter 1983, it is apparent that the changes that have occurred in the telecommunication industry over the past several years will accelerate. Major adjustments in the way we do business will be required to ensure that the opportunities created by these changes are fully exploited.

The growth in revenues from traditional telephone services will be much lower than has been experienced in the past decade in keeping with the forecast of a slow economic recovery from a severely depressed base. However, significant growth opportunities will continue to emerge through the implementation of imaginative pricing approaches and the introduction of increasingly sophisticated telecommunication products and services.

The competitive element of telecommunications will continue to expand and become an increasingly important part of the business.

Expense controls will have to be increased to give the customer even greater value for his dollar. The Company will become a more aggressive, market driven, competitive organization.

Newfoundland Telephone has taken positive steps in the adjustment process. A continuing emphasis on modernization and cost control has resulted in a stronger, more efficient organization firmly positioned to meet the challenges of the 80s.

A.A. Brait  
President and  
Chief Executive Officer



## The Economy

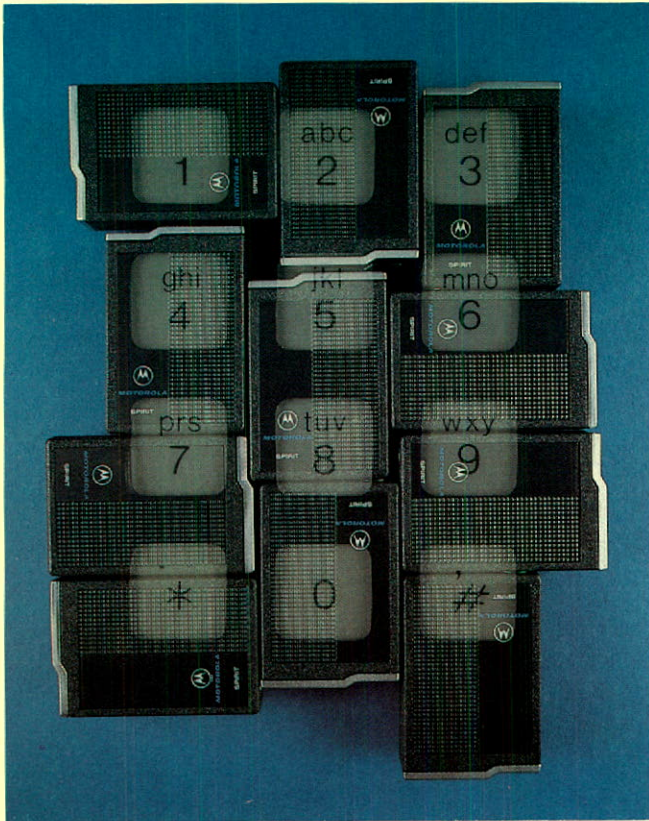
For Newfoundland and the rest of North America, the outlook is for a slow, uneven recovery beginning in mid-1983.

The effects of the major decline in the province's economic output during 1982 will take several years to overcome. Prospects for the fishing, manufacturing and construction sectors point to modest recovery next year, although no such improvement is predicted for the mining sector.

While the current outlook for a number of Newfoundland industries is clouded, the long-term

Newfoundland Telephone offers both business and residence customers a wide range of sophisticated telecommunication products.





Newfoundland Telephone expanded its range of competitive services during 1982 including Direct Dial Paging and two-way Community Mobile Radio. These new services have provided benefits for customers and new market opportunities for the Company.

prospects remain bright. One of the important components of Newfoundland's growth potential is hydro electricity. Enormous amounts of electricity can be generated in Labrador by the existing Upper Churchill River facility and by future development of the Lower Churchill. At present, legal disputes involving the transmission of power across provincial borders and other matters have imposed delays on further development. A resolution of these differences should speed development, bringing significant and sustained economic activity.

The newest and perhaps most promising industrial potential is, of course, related to oil and gas exploration and development. It adds a new dimension to the province's economic base with prospects for significant additional employment and investment. We continue to be optimistic that federal-provincial differences will be resolved and agreements reached opening the door to a rapid increase in offshore activity.

**New Market Opportunities**

Newfoundland Telephone closely monitors the development of new technologies to ensure that the potential new services and benefits they bring are made available to our customers.

In early 1983, a world-first satellite trial designed to deliver telecommunication services to drilling rigs in the Hibernia area will be conducted by Newfoundland Telephone in cooperation with Memorial University of Newfoundland and the Federal Department of Communications. A stabilized, portable earth station will be installed on board the Sedco 706 semi-submersible rig and will be linked to the Newfoundland Telephone network via

Telesat Canada's Anik B satellite to provide direct distance dialing, data transmission services and video receive capability to the rig.

In 1983 as well, the Company will test a new high frequency (HF) radio system called Radio-telephone with Automatic Channel Evaluation (RACE). This system will allow us to provide telephone service to remote locations and marine vessels in an economical manner.

Newfoundland Telephone will install its first fibre optic transmission system in 1983. The system will link the earth station in St. John's to the City's main switching centre and will initially be capable of carrying four video channels via Telesat Canada's Anik C satellite. An important feature of this system will be its national video conferencing capability which will allow face-to-face communication among customers across the country.

These are a few of the technological advances which will enable the Company to respond effectively to the changing environment and give assurance that we will continue to provide our customers with high quality, state-of-the-art telecommunication services in the years ahead.

In summary, the improved financial performance recorded by Newfoundland Telephone in 1982 is encouraging in view of prevailing economic conditions. However, our financial results have fallen short of our objectives and have not yet reached the level expected in today's financial market.

We believe that returns on common equity in a range around 17 percent, as approved by the Board of Commissioners, are necessary to retain the confidence of investors.



For the coming year, we have forecasted a gradual improvement in the growth of operating revenues based on a moderate increase in long distance calling and a further strengthening in the demand for business and other specialized services. Operating expenses will continue to be the focus of intense control in order to realize satisfactory financial performance.

The accomplishments described in this report represent the collective effort and contribution of the Company's 1,340 employees. The emphasis on cost reduction and organizational adjustment has placed a considerable strain on our human resources and has demanded the best from each

individual. Our employees have once more exhibited the capacity and commitment to meet the challenges presented by a changing environment.

On behalf of the Board of Directors,



A.A. Brait  
President & Chief Executive Officer  
February 2, 1983



## OFFICERS

From left to right:

G.H. Erl  
Secretary-Treasurer

V.G. Withers  
Vice-President, Customer Services

K.A.A. Marshall  
Vice-President, Planning

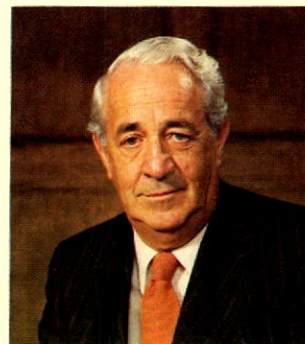
A.A. Brait  
President and Chief Executive Officer

R.H. Benson  
Vice-President, Finance

W.G. Hudson  
Comptroller

F.F. Fagan  
Vice-President, Administrative Services

D.R. Nickerson  
Vice-President, Network Services



L.H.M. Ayre, C.M.  
Chairman of the Board

# CORPORATE INFORMATION

## Head Office

Newfoundland Telephone Company Limited  
Fort William Building  
St. John's, Newfoundland

## 1983 Annual General Meeting

The Annual General Meeting of Shareholders will take place at 10:00 a.m., Newfoundland Standard Time, Wednesday, March 30, 1983, in Hotel Newfoundland, Cavendish Square, St. John's, Newfoundland.

## Directors

### L.H.M. Ayre, C.M.

Chairman of the Board  
Chairman, Ayre & Sons Limited  
St. John's, Newfoundland

### A.A. Brait

President and Chief Executive Officer  
Newfoundland Telephone Company Limited  
St. John's, Newfoundland

### D.W. Clark

President and General Manager  
Bowater Newfoundland Limited  
Corner Brook, Newfoundland

### H. Collingwood

Chairman and President  
Baine Johnston & Co. Ltd.  
St. John's, Newfoundland

### J.H. Farrell

Vice-President-Computer Communications  
Bell Canada  
Ottawa, Ontario

### G.L. Henthorn

Vice-President and Comptroller  
Bell Canada  
Montreal, Quebec

### H.L. Lake

President  
Newfoundland Fisheries Limited  
St. John's, Newfoundland

### A.R. Lundrigan

President  
The Lundrigan Group Limited  
Corner Brook, Newfoundland

### D.D. Munro

Resident General Manager  
Abitibi-Price Inc.  
Grand Falls Division  
Grand Falls, Newfoundland

### The Hon. F. O'Dea, Q.C.

Senior Partner  
O'Dea, Greene  
St. John's, Newfoundland

### F.J. O'Leary

Company Director  
St. John's, Newfoundland

## Committees of the Board of Directors

### Audit Committee

D.W. Clark  
H. Collingwood  
G.L. Henthorn  
The Hon. F.O'Dea, Q.C.

### Resource Committee

L.H.M. Ayre, C.M.  
A.A. Brait  
J.H. Farrell  
A.R. Lundrigan  
D.D. Munro

## Registrar for Common Shares, Preferred Shares and Bonds, and Trustee for Bonds

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.

## Transfer Offices for Preferred Shares and Bonds

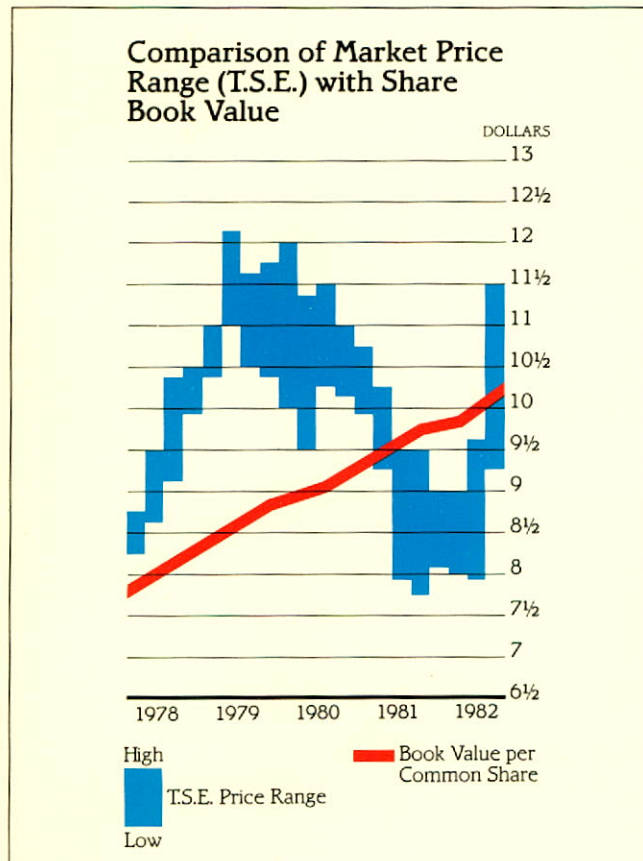
Montreal Trust Company  
St. John's, Halifax, Montreal, Toronto, Winnipeg, Calgary  
and Vancouver.

# SELECTED INVESTOR INFORMATION

	1982	1981
Average number of common shares outstanding	8,052,594	7,846,580
Number of common shareholders	2,845	3,024
Volume of common shares traded	747,600	718,100
The Toronto Stock Exchange price range:		
high	\$11½	\$10¾
low	\$ 8	\$ 7¾

## Geographic Distribution

	Shareholders		Shares	
	1982	1981	1982	1981
	%	%	%	%
Newfoundland	26.6	32.1	6.1	5.1
Maritimes	23.2	21.9	4.0	4.0
Quebec	8.3	8.7	66.4	68.8
Ontario	33.5	29.8	21.1	19.0
Western	7.2	6.6	2.3	3.0
U.S. & Other	1.2	0.9	0.1	0.1
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>



## Shareholder Dividend & Share Purchase Plan

The Shareholder Dividend & Share Purchase Plan was introduced by the Company on January 1, 1983. Common shareholders are given the opportunity to reinvest cash dividends in common shares, receive dividends in the form of common shares or invest optional cash payments within the limits defined in the Plan. A brochure explaining this Plan is available by contacting the Company or our Trustee at the addresses indicated on this page.

## Dividends

Common share dividends are payable quarterly on the last days of March, June, September and December. In the third quarter of 1982, the dividend paid was \$0.26 per share, an increase of \$0.03 over the previous payment. This brought the dividends paid in 1982 to \$0.98 per share and the indicated annual dividend rate to \$1.04. Dividends on preferred shares are payable quarterly on the 15th days of March, June, September and December. In 1982 the following preferred share dividends were paid:

Issue	Dividends
7.25% Pref.	\$1.45
8.85% Pref.	\$1.77
9.75% Pref.	\$1.95
13.50% Pref.	\$1.35

## Principal Ownership

As at December 31, 1982, Bell Canada owned 5,071,476 or approximately 62 percent of the outstanding common shares both of record and beneficially. Bell Canada's Head Office address is 1050 Beaver Hall Hill, Montreal, Quebec.

## Investor Information

Additional copies of the following may be obtained by writing to the addresses indicated below:

### Annual & Interim Reports

The Secretary-Treasurer  
Newfoundland Telephone Company Limited  
P.O. Box 2110  
St. John's, Newfoundland  
A1C 5H6

### Shareholder Dividend and Share Purchase Plan Brochure

The Secretary-Treasurer  
Newfoundland Telephone Company Limited  
at the above address  
or  
Montreal Trust Company  
Dividend Reinvestment Division  
P.O. Box 1900, Station "B"  
Montreal, Quebec  
H3B 3L6

### Listing of Shares

Newfoundland Telephone Company Limited common and preferred shares are listed on The Toronto Stock Exchange and The Montreal Exchange.



Newfoundland  
Telephone