



*Newfoundland
Telephone
Company
Limited*

*Annual
Report
1981*

"Nineteen eighty-one was a year in which the economic difficulties of the nation and the province came sharply into focus. It was a year in which we concentrated our attention on cost control and productivity to combat record high inflation and interest rates. It was a time for reaffirmation of our commitment to provide the best possible telecommunication services at the lowest possible cost while preserving our financial health and assuring a reasonable return to our shareholders. We face the future with a better understanding of the challenges that lie ahead and an employee body dedicated and ready to meet them."

a. a. O'Neil

President and Chief Executive Officer

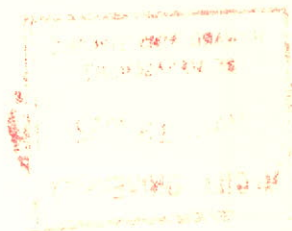


Cover and above:

Newfoundland Telephone's administrative headquarters, Fort William Building, has been praised as establishing a new standard in architecture for the province and a new landmark for St. John's. The building was completed this spring.

Photographs by:

Donald R. Lane, St. John's



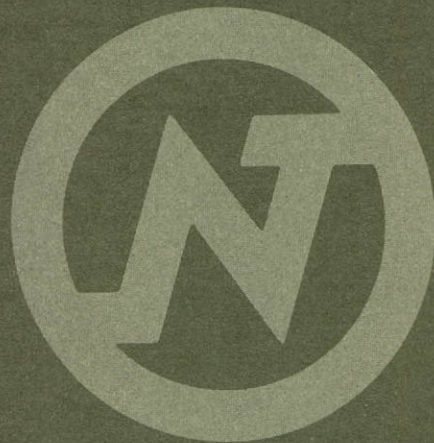
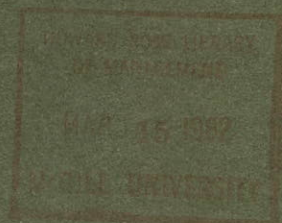


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Financial Highlights

	1981	1980	% Change
Revenues			
Local service	\$ 36,087,443	\$ 31,961,457	12.9
Long distance service	60,038,056	56,527,651	6.2
Miscellaneous income – net	3,876,141	3,150,622	23.0
Total revenues	100,001,640	91,639,730	9.1
Expenses			
Operating expenses	63,456,538	57,604,523	10.2
Interest charges	13,218,490	11,131,338	18.8
Income taxes	11,545,295	11,241,472	2.7
Total expenses	88,220,323	79,977,333	10.3
Net Income	\$ 11,781,317	\$ 11,662,397	1.0
Earnings per common share	\$ 1.28	\$ 1.27	0.8
Dividends paid per common share	\$ 0.88	\$ 0.78	12.8
Equity per common share	\$ 9.72	\$ 9.33	4.2
Rate of return on average total capital	% 11.89	% 11.62	2.2
Rate of return on average common equity	% 13.37	% 14.09	(5.1)
Total debt as percent of total capital	% 56.23	% 54.27	3.6
Average number of common shares outstanding	7,846,580	7,707,404	1.8
Construction expenditures	\$ 35,311,058	\$ 33,900,981	4.2
Investment in plant and equipment	\$317,882,740	\$289,328,687	9.9

President's Message

To the Shareholders:

Like all enterprises, Newfoundland Telephone is faced with the challenge of managing in a rapidly changing environment. Slow growth, high costs and changing social perspectives are the realities which will shape our business strategy in the years ahead. As we move further into the information age, advancing technology will unquestionably bring great opportunities and will foster the growth of competition.

In this type of environment, we must reaffirm our dedication to quality and service. Together with the other telephone companies in Canada, we have built a sophisticated, reliable, high quality telecommunication system that reaches into virtually every home and business in the country and upon which the effective utilization of the growing number of telecommunication innovations depends. It is increasingly important that we pursue, as a high priority, the introduction of new technologies and services to enhance the value of the system to all our customers. Our responsibility for service and our opportunities must be viewed in this broader perspective.

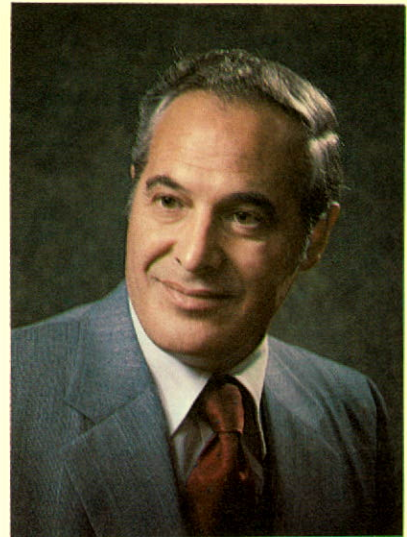
While emerging technology and growing competition are changing the nature of the telecommunication industry, we remain aware that as a public utility, our mandate is to provide regulated monopoly services at the lowest possible cost with a fair return to our shareholders. This mandate imposes an obligation upon us as a telecommunication carrier to provide high quality service on demand in all parts of the territory we serve. Over the next five years, to meet the demand for telecommunication services and to modernize the network facilities, your Company plans to invest more than \$220 million, and more than \$80 million must be raised in the capital markets. In order to

do so on reasonable terms, we must achieve earnings levels which are competitive with investment returns available elsewhere in the market.

This was a year in which the economy continued to perform below expectations. The mounting effects of slow growth, inflation and high interest rates imposed a severe strain upon the country and the Company. By mid-year, it became evident that under the weight of these factors, some of the Company's key financial ratios would deteriorate to unacceptable levels. Therefore, in order to produce the earnings levels needed to maintain healthy financial ratios and to satisfy the service demands of our customers, we applied for higher rates to take effect in January 1982. Details on the application and the increase granted by the Board of Commissioners are contained in the Report of the Directors.

The serious decline in long distance revenues in the last quarter was more pronounced than anticipated, reflecting the severity of the economic recession, particularly in Newfoundland.

In an economic climate characterized by growing uncertainty, we will redouble our efforts to respond effectively and quickly to changes in the marketplace in order to assure satisfactory financial performance in 1982.



We recognize the increasing use of telecommunications as a cost-saving tool throughout the business community, and we are developing a broad range of products and services to meet customers' needs. We propose to market them aggressively and profitably, making the most of the opportunities presented by this changing scenario. At the same time, we must emphasize the importance to the public interest of our presence in the market for competitive services and urge those charged with legislative and regulatory responsibility to ensure that rules and regulations are fair and allow for our full participation.

As the pace of technological change gathers momentum, the growth in telecommunications will far outstrip growth in the economy as a whole. Your Company has developed a first-class base of human resources and up-to-date physical assets and will continue to enhance these resources to enable us to achieve our full share of future growth opportunities for the benefit of our customers, our shareholders and our employees.

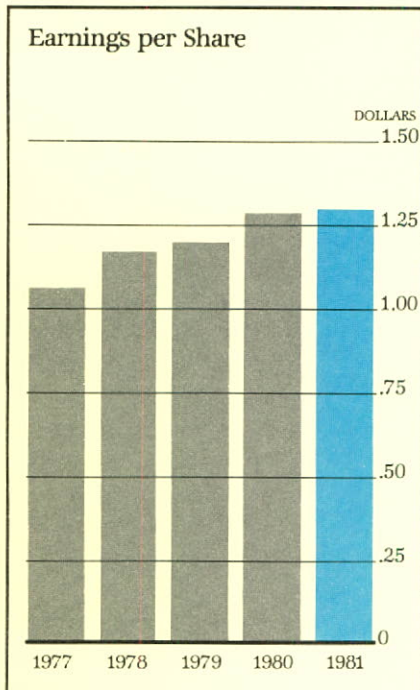
A handwritten signature in dark ink, appearing to read "A. A. Drait".

President and Chief Executive Officer

Report of the Directors

There is little doubt that 1981 will be a year long remembered for the serious impact of inflation and high interest rates on all sectors of the economy. Newfoundland Telephone's resources have been tested severely and the past 12 months have demanded the best of our skills and determination to meet the challenges presented by the current economic uncertainties. We can derive considerable satisfaction and confidence, therefore, from the results of our operations and our accomplishments this year. The policies implemented by the Company over the past several years to counteract inflation have helped diminish the more serious effects of this problem. Modernization programs to expand the range and diversity of customer services are continuing to receive priority attention.

The following report summarizes the highlights of this eventful and challenging year with an outlook on an exciting and equally challenging future.



Financial Performance

Although the level of revenues has maintained some growth, the softening of long distance revenues and significantly increased cost pressures have adversely affected our earnings and financial position.

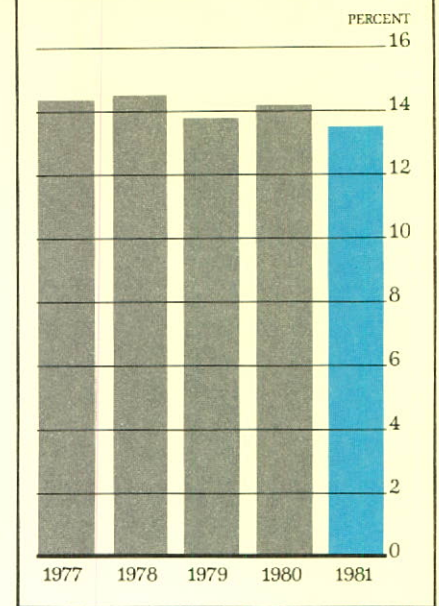
In 1981, operating revenues were \$98.3 million, a 9.5 percent increase largely attributable to the impact of increased rates commencing in September 1980, along with a modest growth in demand for telecommunication services.

Operating expenses increased by 10.2 percent to \$63.5 million (\$57.6 million in 1980). Interest rates have increased dramatically with the bank prime rate reaching a record high of 22.75 percent in August of this year. In addition, tax burdens have increased substantially. For example, changes in municipal tax regulations have increased such taxes payable by the Company from \$298,000 in 1977 to approximately \$1 million in 1982.

By implementing cost-efficient programs and technological improvements, the Company has been able to offset a portion of these increases in expenses. However, high inflation has made it impossible to offset cost increases in total.

Net earnings for 1981 were \$11.8 million compared with \$11.7 million for 1980. The earnings per average common share of \$1.28 were up from \$1.27 in 1980. The rate of return on average common equity was 13.4 percent compared with 14.1 percent last year.

Rate of Return on Average Common Equity



Rate Application

Over the next five years, Newfoundland Telephone plans to spend some \$220 million to meet the demand for telecommunication services and to continue its modernization program. Forecasted external capital requirements over this period are approximately \$80 million. If this capital is to be obtained at a reasonable cost, investors must be satisfied that the Company will achieve adequate earnings and healthy financial ratios.

Our financing plan for 1981 originally included a common share issue. However, high interest rates and the uncertainty of a sustained high rate of inflation have increased substantially the return on equity demanded by the market place. The Company's earnings during 1981 were not sufficient to support the market price of our common shares above book value. This clearly indicated the need for improved earnings to achieve returns comparable with alternate investments currently available.

Opposite: Commercial Manager Jack O'Keefe insures the proper response to customer needs through an extensive program of visits to communities throughout the province.





Accordingly, on October 1, 1981, the Company applied to the Board of Commissioners of Public Utilities of Newfoundland for approval of a general rate increase to be effective January 1, 1982. If granted, the new rates would have provided additional revenues of \$9.2 million in 1982. The Company had estimated that the increase would enable it to earn a rate of return on common equity of not less than 18 percent.

The application further stated that the additional revenues are required by the Company to cover higher costs in providing good quality service to its customers and to permit shareholders to earn a satisfactory return on their investment.

On January 22, 1982, the Board of Commissioners awarded the Company rates which will produce some \$6.7 million in additional revenues in 1982. The award represents 72 percent of the amount requested and is based on a 17 percent return on common equity.

It is now clear, however, that the revenue forecasts for 1982 submitted by the Company in support of its application for higher rates were too optimistic. Accordingly, it is equally clear that unless a dramatic economic recovery brings sharply improved revenues, Newfoundland Telephone will have to request further rate relief in 1982.



Top: Librarian Jennifer Pinsent-Barnes operates a full-service Information Resource Centre, a valuable research facility for employees.

Bottom: Service Representative Joanne Bartlett and Phonocentre Manager Paul Newman check out the Romantic, one of the many service offerings at the Company's Phonocentres.

Financing

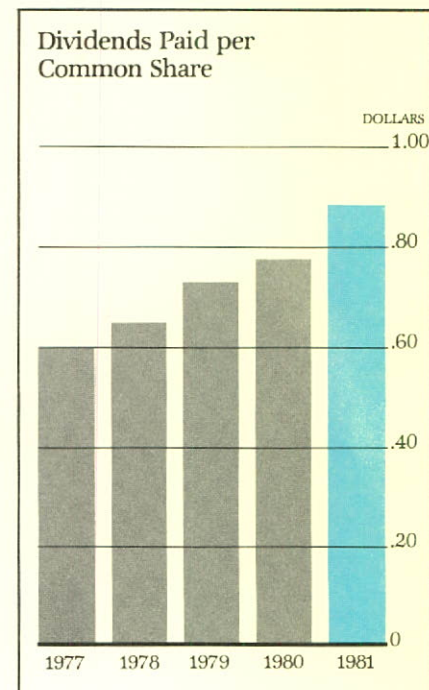
On December 1, 1981, the Company issued, at par, \$16,000,000, 17.50% First Mortgage Bonds, Series R to mature on December 2, 1986. The bonds were sold privately to a number of institutional investors in Canada and the United States.

Net proceeds from the issuance of first mortgage bonds were used to repay short term loans incurred to finance the construction program.

During 1981, approximately \$1.7 million was raised through new equity resulting from the Employees' Savings Plan. A total of 184,793 common shares were issued at market value from Treasury to approximately 1,000 participating employees under the terms of the Plan.

Common Share Dividends

On July 31, 1981, the Board of Directors declared a third quarter dividend of \$0.23 per common share. The previous quarterly payment was \$0.21 per share and the indicated annual dividend rate was thereby increased by \$0.08 per share to \$0.92. Common share dividends paid in 1981 totalled \$0.88 per share (\$0.78 - 1980).



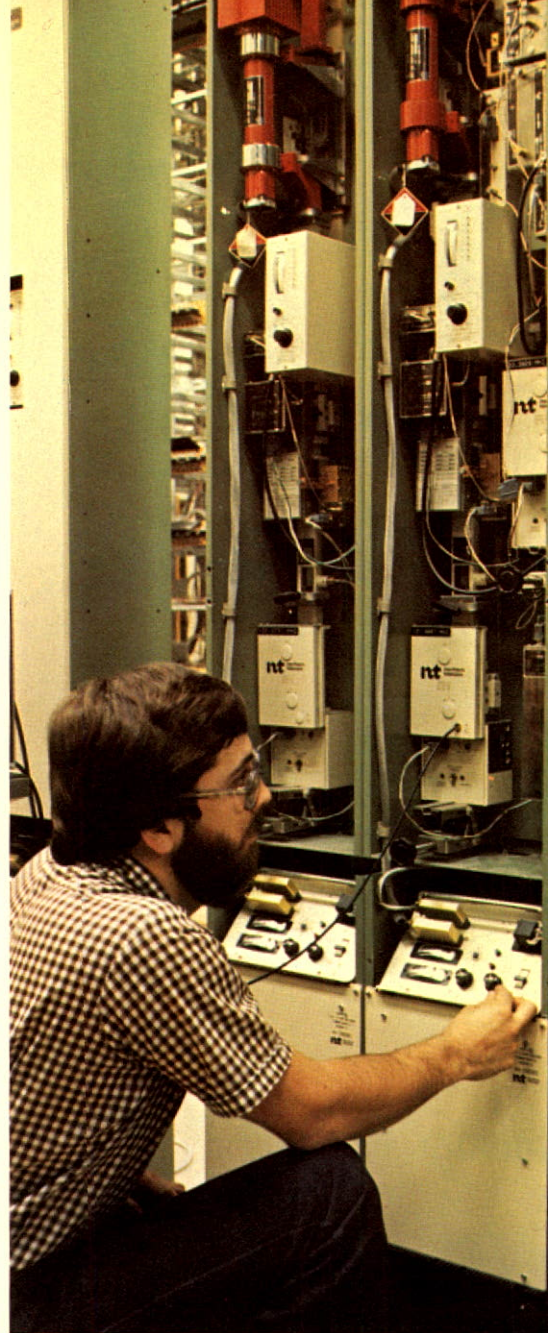
Capital Expenditures

Newfoundland Telephone's construction program is based upon the need to extend facilities to meet the demands of the public for a reliable telecommunication system and a broad range of new services. In addition, the program also emphasizes the need to introduce new technology to increase the efficiency of the network and achieve productivity gains through lower unit costs.

In 1981, total capital expenditures amounted to \$35.3 million compared with \$33.9 million in 1980, with allocations to major categories of assets as follows:

CATEGORY	1981	1980
Land, buildings and towers.	\$ 9,100,000	\$10,700,000
Switching and toll equipment (local and long distance).	8,700,000	9,900,000
Purchase and connection of subscriber equipment for residential and business customers.	7,900,000	6,100,000
Underground and aerial cable and related facilities.	6,900,000	6,100,000
Miscellaneous	2,700,000	1,100,000
Total Capital Expenditures	\$35,300,000	\$33,900,000

The Company anticipates capital investment of \$38.5 million in 1982, with inflation responsible for virtually all of the increase from 1981.



*Top: At the Allandale Exchange in St. John's, Network Service Technician John Duff checks the cross-island microwave radio system.
Bottom: Katie Haws, Supervisor-Operator Services, assists a customer placing a "zero-plus" long distance call.*



Technology and Service

In this period of high inflation, the Company must continue to introduce new technologies which provide growth on a cost-effective basis and achieve savings. We are particularly aware of the growing importance of telecommunication services to the business community, and our objectives for 1982 and beyond include initiatives to introduce new equipment and services to respond to this need.

The move to the use of digital systems is an example of a major development in new technology. Since the introduction in 1979 of its first Digital Multiplex System (DMS-10) in Nain, Labrador, the Company has continued to progress in this area. Digital technology is the latest development in the field of electronic switching and provides more reliable and improved communication services. Compared with conventional equipment, the digital systems achieve a lower cost per subscriber line and result in lower maintenance cost and longer operating life.

Top: Vic Simmons, Installation and Repair Foreman, Corner Brook, inspects the installation of an SL-1 electronic switching machine. The SL-1 is a flexible and efficient system for private business use.

Centre: Completion of the trans-Labrador microwave system in 1983 will be a major objective for people like Bob Hopkins, Central Office Foreman - Labrador West.

Bottom: Technician Terry Brown is a member of the Network Services team maintaining service on the new microwave spur route into Gander.

Last year, the Company installed a high capacity digital local switching machine in Corner Brook. A similar switching unit will be placed in service in St. John's during 1982. This represents a major step in the Company's digital conversion plan. By 1985, 20 percent of our customers will be served by digital systems.

Construction has begun on the trans-Labrador microwave route replacing the existing troposcatter radio system which is nearing capacity. The new system will meet long term growth and provide a modern and efficient link between the inland communities of Labrador and the provincial microwave network along the coast. In addition to providing improved reliability, the system has been engineered to achieve significant energy savings.

The western half of the system between Wabush and Churchill Falls is scheduled for completion in 1982 and the eastern half to Happy Valley-Goose Bay in 1983.

During 1981, a microwave link was also completed from the provincial route to Gander, enabling the Company to offer a broad range of new services on its own facilities. The elimination of leased circuits to Gander has resulted in annual savings of approximately \$300,000 in related costs.

In co-operation with Telesat Canada, the Company has constructed a satellite earth station in St. John's as part of the nationwide satellite system. This installation will provide national video-teleconferencing capability when the Anik C satellite is launched in 1982. A fibre optic link will transmit signals between the earth station and the Allandale exchange in St. John's. Developments such as these will not only reduce long term increases in operating expenses, but will generate new sources of revenue while improving the quality of existing customer service.

The Company responds to changes in conditions which generate new opportunities and new customer demands. Each opportunity is carefully evaluated to assess the benefit to the Company and the customer. For example, a new VHF radio service was established on the Labrador coast during the past summer to provide an emergency communication service to seasonal fishing communities. Depending on the success of this service, the system may be extended in 1982 to other locations.

Among the service improvements carried out in 1981 was the extension of Automatic Number Identification (ANI). This feature enables customers to place long distance calls without operator assistance, resulting in better service and lower operational costs. By 1984, more than 99 percent of Newfoundland Telephone's customers will have ANI.

Operating Improvements

Capital expenditures for operational efficiencies continue to be a priority in our construction program.

In 1978, the Company announced plans to consolidate its administrative functions in a new headquarters building. On July 31 of this year, the Fort William Building was officially opened in St. John's. The move eliminated the need for five leased premises throughout the city and provided room for growth.

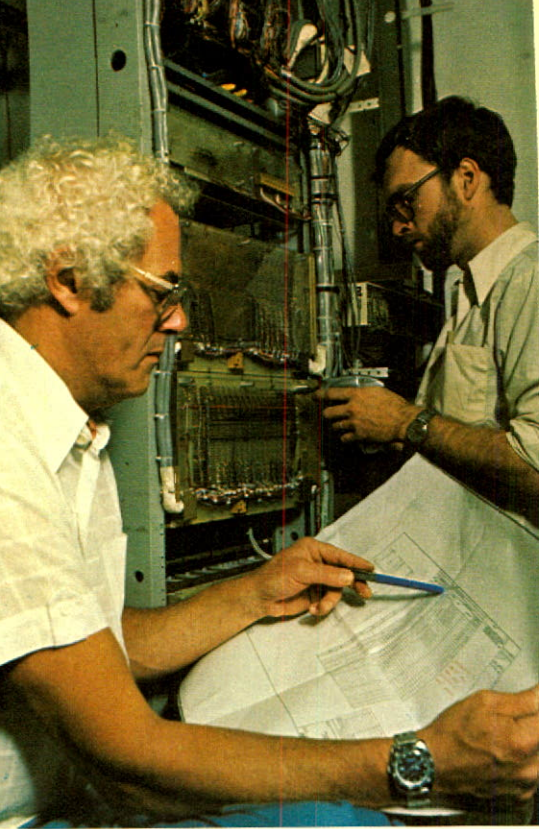
Construction was started on a new work centre in St. John's this year which will enable the Company to terminate leases in four premises. The new centre will provide warehousing, vehicle repair services and construction and installation facilities for our operations in the eastern part of the Avalon Peninsula.

In November, an automatic repair service bureau was set up in St. John's to improve the processing, analysis and correction of service problems reported by subscribers. The new system provides remote testing capability to locate and identify "troubles" from the repair service bureau. Initially, this system will serve the St. John's area. By 1985, however, the system will be expanded to provide testing capability for the entire province.

Top: Network Planning Engineer Norm Cook: "Satellite earth stations will provide new services and business opportunities in the years ahead."

Bottom: Dave Buckle, Maintenance Foreman, checks the cable pressurization system in Corner Brook. This system has provided improvements in cable repair and maintenance in a number of locations around the province.





The Network Surveillance System is another example of an operating system which was installed in our network to improve efficiency and insure continued good service to the public. The system provides continuous monitoring of many vital alarm points at remote, unmanned radio and switching sites from a central computer in St. John's. As a result, service failures are reported immediately and potential problems can be identified and corrected before failures occur. This permits scheduled visits for maintenance instead of costly call-outs for emergencies.



In addition to the savings realized from the consolidation of its operations, the Company is working to reduce energy costs in specific areas. For example, experiments with battery and wind-power to supplement diesel fuel generation of electricity at remote microwave sites have been encouraging. The new power system developed at Four Mile Pond near St. John's, will mean fuel savings of 40 percent compared with conventional designs. Another test is being conducted at a remote site in Labrador which has been equipped with similar energy-saving equipment. This test is being monitored and controlled using the Network Surveillance System.



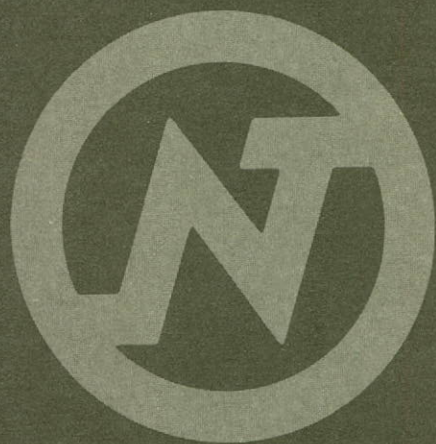
Top: Bob Schamper, Engineering Assistant, and John Thompson, Central Office Equipment Installer, review results from an energy conservation project at a remote microwave site near Happy Valley—Goose Bay in Labrador.

Centre: Charles Vardy, Vehicles Foreman, maintains the Company's fleet of compact, energy-efficient vehicles.

Bottom: General Services Manager Wayne Bussey: "The consolidation of our administrative operation in an attractive, energy-efficient facility was a major achievement."

In its day-to-day operations, the Company is reducing both the size and fuel consumption of its fleet of 350 vehicles by replacing many of its older mid-size vehicles with sub-compacts. It is expected that the conversion to small cars and vans will be completed within two years. The introduction of "walking installers" in commercial and institutional zones, where the concentration of telephone equipment is high, has reduced the need for vehicles in these areas.

A study was undertaken to assess the energy efficiency of our buildings, resulting in the implementation of energy cost reduction programs. Also, energy conservation is now a major factor in the design of our buildings and communication systems. With such programs in place we reduced expected energy costs for 1981 by 7.5 percent.



*Financial
Information*

Income Statement

For the years ended December 31

	1981	1980
Operating Revenues		
Local service	\$ 36,087,443	\$ 31,961,457
Long distance service	60,038,056	56,527,651
Miscellaneous — net	2,169,917	1,250,089
Total Operating Revenues	98,295,416	89,739,197
Operating Expenses		
Depreciation	17,447,392	16,518,144
Maintenance	15,821,795	14,188,080
Operating rents	4,089,961	4,105,350
Other operating expenses	26,097,390	22,792,949
Total Operating Expenses	63,456,538	57,604,523
Net Operating Revenues	34,838,878	32,134,674
Other Income		
Allowance for funds used during construction	790,891	1,261,438
Miscellaneous	915,333	639,095
Total Other Income	1,706,224	1,900,533
Income Before Underlisted Items	36,545,102	34,035,207
Interest Charges		
Interest on long term debt	11,015,160	9,586,541
Other interest	2,203,330	1,544,797
Total Interest Charges	13,218,490	11,131,338
Income Before Income Taxes	23,326,612	22,903,869
Income Taxes	11,545,295	11,241,472
Net Income	11,781,317	11,662,397
Dividends On Preferred Shares	1,764,548	1,871,671
Net Income Applicable to Common Shares	\$ 10,016,769	\$ 9,790,726
Earnings Per Common Share (based on average number of shares outstanding)	\$ 1.28	\$ 1.27

Balance Sheet

As at December 31

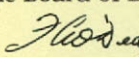

Assets

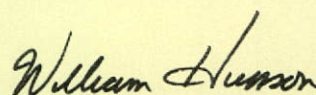
	1981	1980
Telecommunication Property— at cost		
Buildings, plant and equipment	\$306,518,605	\$267,929,064
Less: Accumulated depreciation	92,321,503	80,343,492
	214,197,102	187,585,572
Land and plant under construction	11,364,135	21,399,623
Materials and supplies	5,063,926	3,806,278
	230,625,163	212,791,473
Investments— at cost	300,000	495,000
Current Assets		
Accounts receivable	13,557,031	12,774,425
Prepayments	1,239,116	909,993
	14,796,147	13,684,418
Deferred Charges (Note 1)		
Unamortized deficiency in accumulated depreciation	449,550	524,475
Unamortized long term debt expenses	1,753,590	1,701,765
Other	4,032,757	3,364,501
	6,235,897	5,590,741
	\$251,957,207	\$232,561,632

Liabilities and Shareholders' Equity

Shareholders' Equity		
Common shares (Note 2)	\$ 49,148,098	\$ 47,440,891
Premium on common shares	775,987	775,987
Capital redemption reserve fund (Note 2)	4,306,400	3,464,740
Retained earnings	22,907,167	20,652,501
Total common equity	77,137,652	72,334,119
Preferred shares (Note 2)	19,693,600	20,535,260
	96,831,252	92,869,379
Long Term Debt (Note 3)	113,980,000	99,348,000
Unsecured Subordinated Notes— Due to Parent Company (Note 4)	2,869,941	3,999,941
Notes Payable (Note 5)	6,200,000	6,400,000
Current Liabilities		
Bank advance	1,552,855	2,202,271
Accounts payable	4,163,669	3,775,565
Due to affiliated companies	414,669	729,068
Advance billing for service	1,284,543	1,273,131
Taxes accrued	1,413,407	4,001,147
Interest accrued	1,666,223	1,433,267
Dividends payable	72,154	79,612
Long term debt due within one year	1,355,000	450,000
	11,922,520	13,944,061
Deferred Income Taxes (Note 6)	20,153,494	16,000,251
	\$251,957,207	\$232,561,632

On behalf of the Board of Directors

 F.O'Dea, Director
 H. Collingwood, Director

 W.G. Hudson, Comptroller

Statement of Retained Earnings

For the years ended December 31

	1981	1980
Balance at Beginning of Year	\$20,652,501	\$18,099,897
Net Income	11,781,317	11,662,397
	32,433,818	29,762,294
Deduct:		
Dividends		
Preferred shares	1,764,548	1,871,671
Common shares	6,920,443	6,017,782
	8,684,991	7,889,453
Transfers to capital redemption reserve fund	841,660	1,220,340
	9,526,651	9,109,793
Balance at End of Year	\$22,907,167	\$20,652,501

Statement of Changes in Financial Position

For the years ended December 31

	1981	1980
Source of Funds		
Operations		
Net Income	\$11,781,317	\$11,662,397
Items not affecting current funds		
Depreciation	17,447,392	16,518,144
Allowance for funds used during construction	(790,891)	(1,261,438)
Deferred income taxes	4,153,243	2,661,412
	32,591,061	29,580,515
Sale of shares in intelTerm Systems Limited	325,000	—
Proceeds from issues of common shares through employees' savings plan	1,707,207	779,596
Net proceeds from issue of long term debt	15,894,000	24,587,500
	\$50,517,268	\$54,947,611
Disposition of Funds		
Capital Expenditures		
Gross capital expenditures	\$35,311,058	\$33,900,981
Increase (decrease) in materials and supplies	1,257,648	(158,037)
Deduct: Charges not requiring an outlay of funds	2,037,304	1,417,636
	34,531,402	32,325,308
Purchase of shares in intelTerm Systems Limited	130,000	195,000
Dividends — Preferred	1,764,548	1,871,671
— Common	6,920,443	6,017,782
Redemption of preferred shares	841,660	1,220,340
Reduction of long term debt	1,368,000	819,000
Repayment of subordinated notes	1,130,000	1,130,000
Net repayment of notes payable	200,000	10,600,000
Increase in working capital	3,133,270	148,705
Miscellaneous	497,945	619,805
	\$50,517,268	\$54,947,611

Notes to Financial Statements

1. Accounting Policies	The Company, including its accounting policies which are similar to those being used in the telecommunication industry, is subject to regulation by the Board of Commissioners of Public Utilities of Newfoundland (Board of Commissioners).
Depreciation	Depreciation is computed on the straight line method, using rates based on the estimated useful lives of the assets which resulted in a composite rate of 6.22% for 1981 (1980-6.37%). When depreciable property is retired the amount at which such property has been carried in telecommunication property is charged to accumulated depreciation.
Allowance for Funds Used During Construction	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.
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 deficiency in accumulated depreciation and certain of the other deferred charges are being amortized as ordered by the Board of Commissioners. Other deferred charges include an amount of \$1,709,896 which represents disputed retail sales tax payments.

2. Capital Stock	Authorized	Outstanding	December 31	
			1981	1980
Preferred Shares (cumulative and redeemable)	250,000 7.25% shares of the par value of \$20 each.	199,170 shares (1980 - 205,290 shares)	\$ 3,983,400	\$ 4,105,800
	450,000 9.75% shares of the par value of \$20 each.	322,010 shares (1980 - 339,973 shares)	6,440,200	6,799,460
	500,000 8.85% shares, Series C, of the par value of \$20 each.	463,500 shares (1980 - 481,500 shares)	9,270,000	9,630,000
	1,000,000 shares of the par value of \$20 each.		—	—
			<u>\$19,693,600</u>	<u>\$20,535,260</u>
Common Shares	10,000,000 shares without par value.	7,939,375 shares (1980 - 7,754,582 shares)	\$49,148,098	\$47,440,891

During the year 184,793 (1980-72,323) common shares were issued at market value (1981-\$1,707,207; 1980-\$779,596) 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 1982.

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 are not redeemable prior to April 15, 1982, but may be redeemed thereafter, 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.

During the year ended December 31, 1981, 6,120 of the 7.25% preferred shares of the aggregate par value of \$122,400 and 17,963 of the 9.75% preferred shares of the aggregate par value of \$359,260 and 18,000 of the 8.85% preferred shares of the aggregate par value of \$360,000 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	
				1981	1980
First Mortgage Sinking Fund Bonds					
	9¼ %	1990	7,500,000	\$ 1,122,000	\$ 1,134,000
	8⅝ %	1992	7,500,000	6,000,000	6,150,000
	9 %	1994	15,000,000	12,599,000	12,900,000
	11½%	1996	10,000,000	10,000,000	10,000,000
	11 %	1996	17,500,000	16,114,000	16,114,000
				45,835,000	46,298,000
First Mortgage Bonds					
	5½ %	1988	3,000,000	3,000,000	3,000,000
	7 %	1991	3,000,000	3,000,000	3,000,000
	7⅞ %	1993	2,500,000	2,500,000	2,500,000
	9.85%	1997	20,000,000	20,000,000	20,000,000
	12¾%	2000	25,000,000	25,000,000	25,000,000
	17½%	1986	16,000,000	16,000,000	—
				115,335,000	99,798,000
				1,355,000	450,000
				\$113,980,000	\$ 99,348,000

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 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 amounts, 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:

\$1,355,000 in 1982, \$1,363,000 in 1983, \$1,377,000 in 1984, \$1,390,700 in 1985, and \$17,390,700 in 1986.

4. Unsecured Subordinated Notes — Due to Parent Company

Series A Unsecured Subordinated Notes — These notes of \$2,260,000 (1980 - \$3,390,000), payable to Bell Canada, bear 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%. These notes mature in equal amounts serially in each of the years ending December 31, 1982 and 1983 inclusive.

Series B Unsecured Subordinated Note — This note of \$609,941 (1980-\$609,941) payable to Bell Canada under the same interest conditions set forth for subordinated notes 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.

6. Deferred Income Taxes

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 shall be charged to income tax expense in the year in which it occurs.

7. Pensions 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.
8. Commitments Material contractual obligations in respect of long term leases covering circuits, equipment and building space, amounted to \$8,503,800 at December 31, 1981 (1980-\$6,414,800). The estimated minimum amounts payable under such leases for the next five years are as follows:
\$2,004,900 in 1982, \$1,855,500 in 1983, \$1,389,300 in 1984, \$1,207,400 in 1985 and \$402,000 in 1986.
9. Related Party Transactions Bell Canada owned 64% of the outstanding common shares of the Company at December 31, 1981. During the year the Company made purchases of telecommunication equipment in the amount of \$10,555,000 from Northern Telecom Limited which is a subsidiary of Bell Canada.
10. Subsequent Event On October 1, 1981 the Company filed an application with the Board of Commissioners for authority to increase rates and charges for its services, equipment and facilities. On January 22, 1982, an Order was issued granting an increase in rates that will provide approximately \$6,674,000 of additional gross operating revenues in 1982.

Management Report


To the Shareholders:

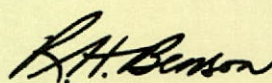
The integrity and objectivity of the data contained in the financial statements of Newfoundland Telephone Company Limited is the responsibility of management. Accordingly, the statements are based upon management's best estimates and judgments and have been prepared within the guidelines of generally accepted accounting principles, appropriate in the circumstances.

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 for the statements is pursued principally through its Audit Committee, which meets periodically with management, and the internal and external auditors, to review accounting controls, results of audits, and accounting principles and practices.

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

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

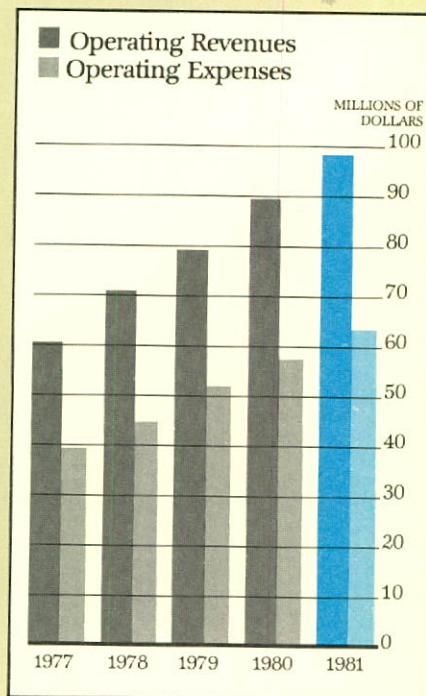
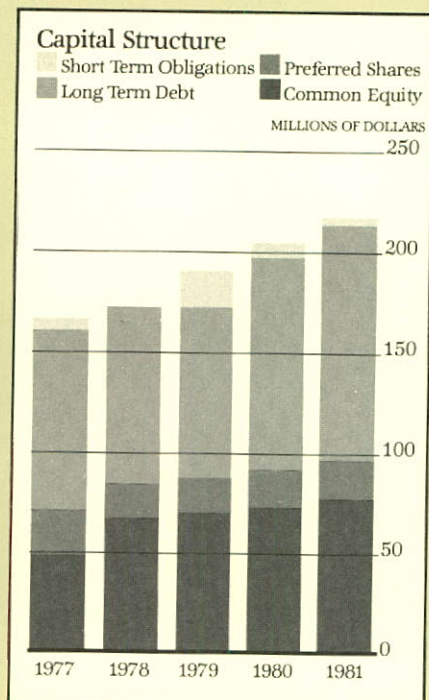
Touche Ross & Co.
Chartered Accountants

St. John's, Newfoundland
January 29, 1982

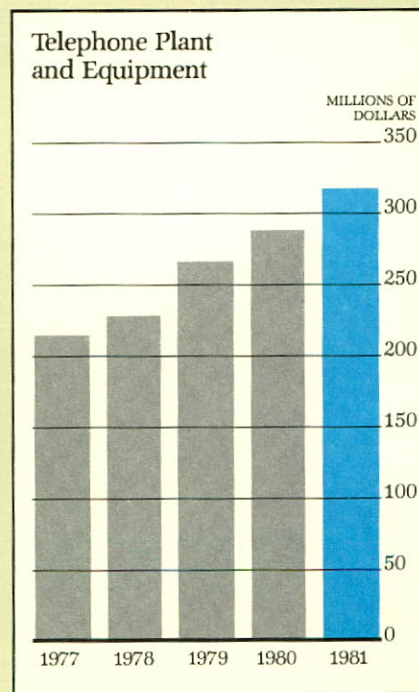
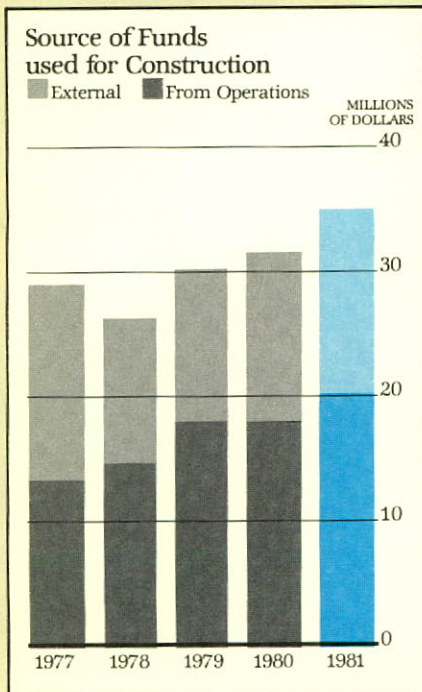
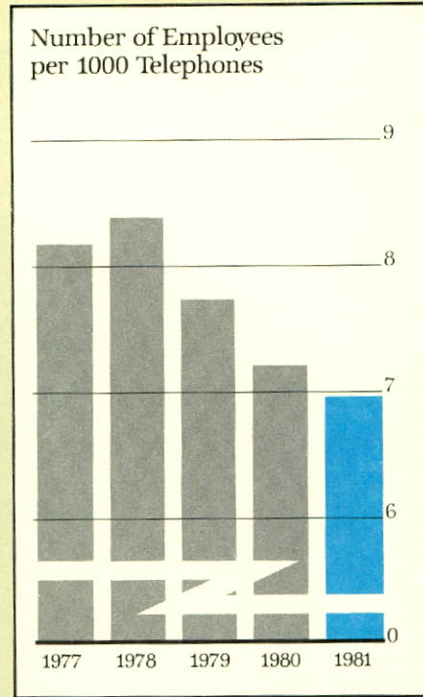
Five Year Statistical Record

	1981	1980	1979
Income Statement Items			
Total operating revenues	\$ 98,295,416	89,739,197	79,056,941
Other income	\$ 1,706,224	1,900,533	1,116,554
Operating expenses, transfers and taxes*	\$ 75,001,833	68,738,527	60,225,963
Interest charges	\$ 13,218,490	11,131,338	8,877,646
Net income*	\$ 11,781,317	11,662,397	11,069,886
Balance Sheet Items			
Investment in plant and equipment	\$317,882,740	289,328,687	264,462,228
Shareholders' equity*	\$ 96,831,252	92,869,379	89,537,179
Deferred income taxes*	\$ 20,153,494	16,000,251	13,338,839
Total debt	\$124,404,941	110,197,941	99,362,941
Financial Ratios			
Earnings per average common share*	\$ 1.28	1.27	1.19
Dividends paid per common share	\$ 0.88	0.78	0.73
Equity per common share*	\$ 9.72	9.33	8.82
Rate of return on average common equity*	% 13.37	14.09	13.85
Rate of return on average total capital*	% 11.89	11.62	11.26
Times interest earned before taxes	2.76	3.06	3.85
Interest in percent of average debt	% 11.27	10.62	9.56
Percent debt to total capitalization	% 56.23	54.27	52.60
Available cash flow as a percent of construction	% 58.12	54.54	50.21
Other Statistics			
Construction expenditures	\$ 35,311,058	33,900,981	30,997,931
Plant investment per telephone	\$ 1,535	1,433	1,370
Number of telephones	207,078	201,835	193,076
Local calls—daily average	3,563,715	3,297,732	3,152,685
Long distance calls—daily average	56,416	51,946	46,620
Number of employees	1,432	1,459	1,485
Salaries and wages paid	\$ 28,992,624	26,146,436	24,267,600
Average common shares outstanding	7,846,580	7,707,404	7,682,259

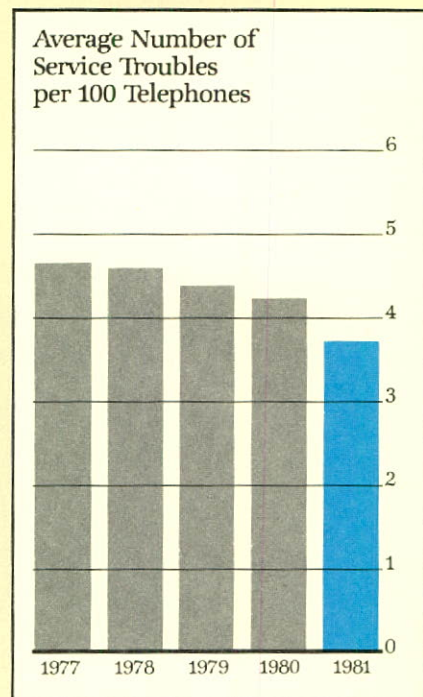
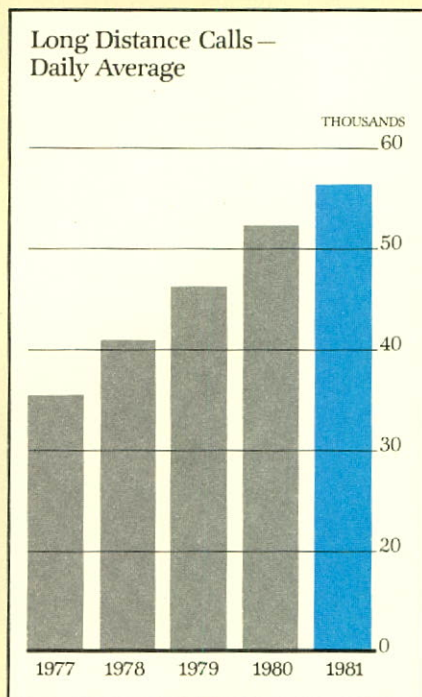
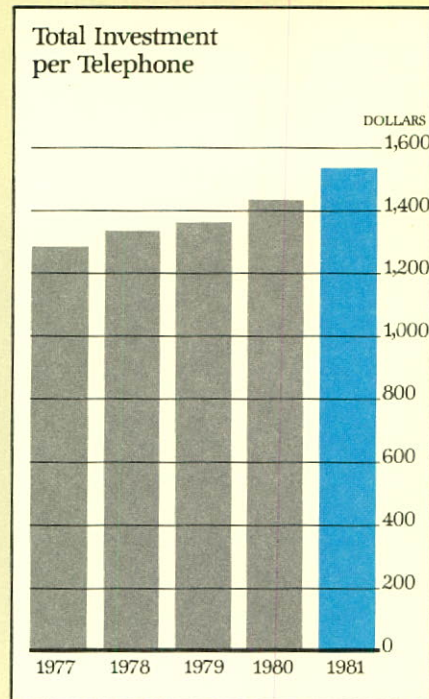
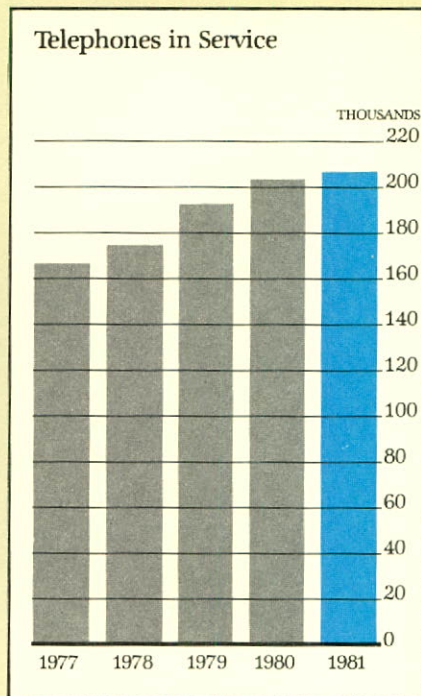
*Results reflect (1) Partial tax allocation basis for 1977 and 1978
(2) Full tax allocation basis for 1979 to 1981



1978	1977
70,506,777	60,171,003
668,103	291,269
52,839,444	44,289,646
8,488,798	7,591,806
9,846,638	8,580,820
234,345,123	212,817,180
86,485,088	71,947,165
9,564,137	7,611,556
85,771,941	91,767,941
1.17	1.06
0.65	0.60
8.36	7.60
14.50	14.27
11.16	10.92
3.10	3.23
9.56	8.68
49.79	56.05
59.07	47.71
27,334,446	29,758,135
1,337	1,296
175,312	164,193
2,993,425	2,869,614
40,438	35,711
1,475	1,349
20,193,089	17,712,335
6,745,273	6,482,259



Service and Technology



Opposite: The Telidon videotex system is being introduced in Tourist Information Centres across the province. Don Heale, Supervisor — Corporate Planning, and Cynthia Holden, Assistant — Telidon Trials, review the information package.



**TOURISM
NEWFOUNDLAND**

- 1 GENERAL INTEREST GUIDE
NEWFOUNDLAND & LABRADOR
AT A GLANCE; HISTORIC
SITES, LIGHTHOUSES &
MUSEUMS; ATTRACTIONS AND
EVENTS
- 2 PARKS
- 3 A TASTE OF NFLD & LABRADOR
- 4 ACCOMMODATIONS
- 5 HANDCRAFTS
- 6 LEISURE ACTIVITIES

LD TEL



Report of the Directors (continued)

Business Services

One of the fastest growing sectors of the Company's operations has been in the area of telecommunication services demanded by business customers. We have introduced new technology and services in voice and computer communications in response to this need and our programs for 1982 include initiatives to continue our progress in this area.

A field trial of Telidon, a Canadian developed two-way video communication system referred to as videotex, was conducted by Newfoundland Telephone and the provincial Department of Tourism in 1981. By connecting telephone lines to television sets, videotex offers an interactive visual service with a choice of computer-based information in graphics and text. The system was introduced in tourist chalets in four locations across the province. An initial data base of 700 pages of information was created on topics of interest such as historic sites, parks, attractions and events in the province. During 1982, the trial will be expanded to 18 additional locations, including parks, hotels and tourist information centres.

Future applications of this system include multiple computer data bases offering shop-at-home transactions, home study courses, consumer information, entertainment services and electronic Yellow Pages.

Wide Area Telephone Service (WATS) was extended to Newfoundland in May through the TransCanada Telephone System. WATS is comprised of two service components. INWATS, sometimes called "800 Service," enables business customers to accept automatically billing for incoming direct dialed telephone calls. OUTWATS enables customers to buy a package of long distance calling time to designated areas for a flat rate. WATS is now available to Newfoundland Telephone customers on an inter-provincial basis. In 1982, it is planned to develop a similar type of service for packaged calling within the province.

In 1981, Newfoundland Telephone expanded its role in providing private mobile radio services. Next year, this program will be continued and radio paging services will be expanded.



Top: Sales Manager Ian Noel: "Mobile radio and radio paging services are important components of our service offerings to major organizations, such as the Royal Newfoundland Constabulary."

Centre: Business Services Supervisor Bob Wheeler: "The successful expansion of new services, such as TeleHealth, is a major factor in our growth."

Bottom: Sterling Guy, Special Services Technician: "Newfoundland Telephone provided the vital communication link for the automated control centre at Gander International Airport."



On January 1, 1981, the Company formed a new division called NewTel Systems to market small business computers, word processors and related software-based systems. While NewTel fell short of its sales and financial objectives in its first year of operation, it has acquired valuable experience in the competitive arena.

In the coming year, NewTel will streamline its operations and consolidate its product line. We are confident that NewTel will become firmly established and will compete successfully in the growing market for specialized telecommunication systems.

Human Resources

Newfoundland Telephone is fortunate to have a staff of able and productive men and women dedicated to the provision of top-notch service to its customers. This commitment is demonstrated by the many employees enrolled in self-development programs and training courses in order to sharpen the technical and managerial skills required in the operation of a telecommunication enterprise.

The continued health of the Company is dependent upon its ability to match advancements in technology with upgraded skills of employees to meet the new challenges. To this end, the Company has prepared a five-year human resource plan to identify the additional skills that will be required to operate and maintain its communication system in the future and has implemented recruiting and training programs to fulfill these needs.

On August 6, the Company signed two collective agreements with the International Brotherhood of Electrical Workers, Local 1615, covering about 550 employees. One agreement, with 125 operators, is a two-year contract effective February 28, 1981. The second agreement, with 425 craft employees, is for 27 months and will expire on June 30, 1983. The Board of Directors wishes to commend our employees who carried out their duties in a responsible manner throughout the contract negotiation period.



Top: NewTel Systems' General Manager Brian Parsons and Product Manager Winnifred O'Grady demonstrate a mini-computer word processor, one of the Division's many products designed for business applications.

Centre: Training Supervisor Dorothy Westaway (left) and Personnel Assistant Doreen Whelan participate in a subordinate development training program designed to assist the development of the Company's human resources.

Bottom: Elizabeth Moores, Manager - Human Resources Planning: "The appropriate development and management of human skills is the key to insuring that we can meet new challenges."

Financial

There is a broad consensus that high interest rates and double-digit inflation will persist well into the future and that the best that can be expected in 1982 is a moderate improvement over current conditions.

One of our financial objectives is to maintain financing flexibility, a key component of which is the ability to issue common equity. It is therefore important that the regulatory environment be responsive to changing conditions and that the Company be given the opportunity to achieve returns comparable with alternate investments currently available.

Operations

The future assurance of high quality service to customers and adequate returns to shareholders depends on the Company's ability to replace old technology with new, to improve productivity and to minimize cost increases.

We have planned a number of major capital projects over the next several years. The construction program for 1982 will total more than \$38 million to maintain, improve and expand our telecommunication system. The trans-Labrador microwave route will be completed in 1983, bringing improved service to western Labrador. We will continue to introduce digital switching facilities and to adopt practices which will enable us to realize all the advantages inherent in this equipment. In 1982, Anik C will be launched and the satellite earth station in St. John's will be in place with a fibre optic link to the Company's main exchange. These digital, satellite and fibre optic facilities represent the state-of-the-art in telecommunications and are the backbone of future technological development and service improvement.

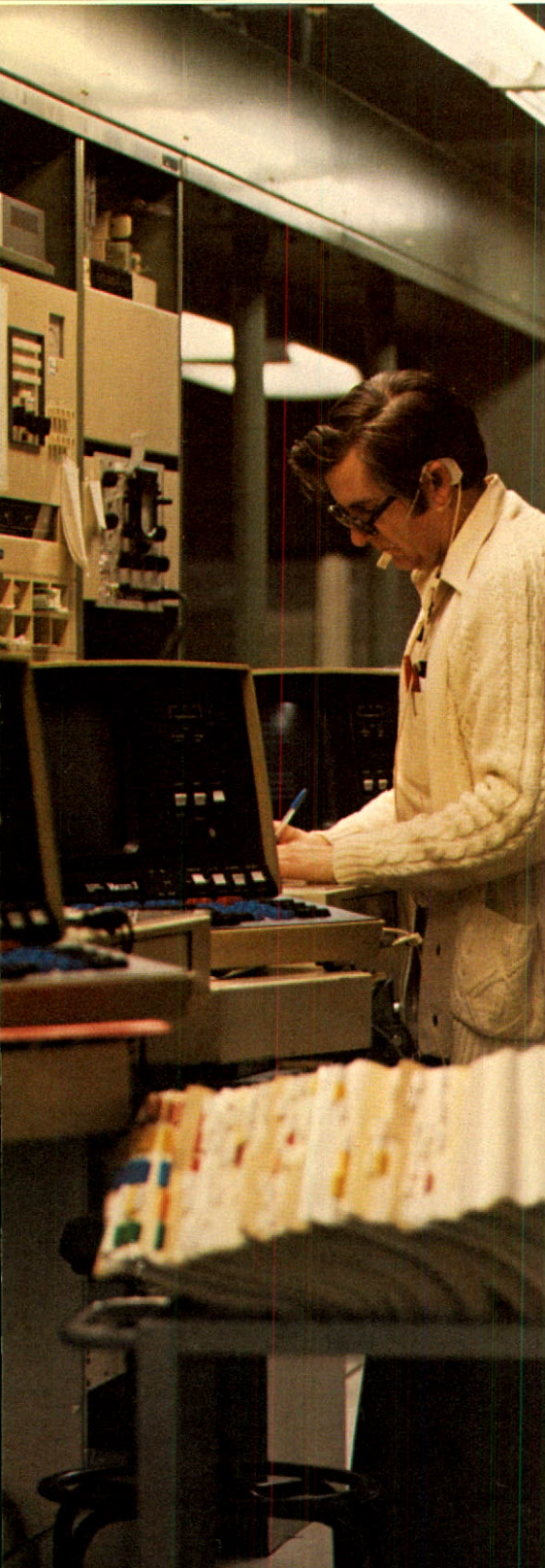
The Economy

The economic outlook for 1982 includes continuing high inflation and slow growth. Newfoundland's economy is powered largely by the export demand for its natural resources, most notably fish, forest products and minerals. The difficulties experienced by the mining industry in 1981 are expected to continue in 1982. However, increased quotas for the northern cod stock will improve the performance of the fishery.

While the short term outlook remains uncertain, the long term picture is brightening. If the federal and provincial governments can reach an agreement on offshore resources, exploration activity will almost certainly increase, and development plans will proceed. In addition, the development of Newfoundland's hydro-electric potential in this decade will represent a continuing source of export income. As economic prospects improve, the demand for diverse, sophisticated telecommunication services will grow significantly. We are confident that the Company is firmly positioned to meet these demands.

Opposite: With drill ships operating off the coast of Newfoundland, the service territory holds new challenges for Special Services Engineering Assistant Vic Bonnah.





Competition

In all likelihood, the 1980s will present more changes, challenges and opportunities than Newfoundland Telephone has encountered in its entire history. One of the most important issues to confront the Company will be the growth of competition in the market for telecommunication products and services.

Over the next year or two, in the legal and regulatory arenas, the regulations and conditions under which the Company can provide regulated monopoly services and competitive services will be debated and resolved. We are confident that the outcome will enable the Company to participate fully in the competitive sector of the telecommunication market on a fair basis.

In summary, 1981 was a year in which the economic difficulties of the nation and the province came sharply into focus. It was a year in which we concentrated our attention on cost control and productivity to combat record high inflation and interest rates. It was a time for reaffirmation of our commitment to provide the best possible telecommunication service at the lowest possible cost while preserving our financial health and assuring a reasonable return to our shareholders. We face the future with a better understanding of the challenges that lie ahead and an employee body dedicated and ready to meet them.

On behalf of the Board of Directors,

President and Chief Executive Officer

February 3, 1982

***Top:** The key to quality service is maintenance. At the Provincial Service Coordination Centre, Network Service Technician Al Andrews monitors the network for service disruptions.*

***Bottom:** Don Hart, also a Network Service Technician, tests on-Island and off-Island circuits to insure efficiency of our system.*

Officers



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

F.F. Fagan*
Vice-President
Administrative Services

V.G. Withers*
Vice-President
Customer Services

A.A. Brait
President and
Chief Executive Officer

K.A.A. Marshall
Vice-President
Planning

G.H. Erl
Secretary-Treasurer

R.H. Benson
Vice-President
Finance

D.R. Nickerson*
Vice-President
Network Services

W.G. Hudson
Comptroller

Executive Appointment

On October 1, Mr. W.G. Hudson was appointed Comptroller replacing Mr. E.F. Hunt who became Manager – Network Services Staff. Prior to his appointment, Mr. Hudson was Supervisor – Financial Studies.

Executive Title Change

A title change for the Company's five department heads came into effect on May 25 of this year. The new title, "Vice-President," replaces the previous designation of "Director." Coincident with this change, three of the Vice-Presidents were appointed officers of the Company.

*Appointed officer May 25, 1981.

Corporate Information

Head Office

Newfoundland Telephone
Company Limited
Fort William Building
St. John's, Newfoundland
A1C 5H6

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

Committees of the Board of Directors

Audit Committee

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

1982 Annual General Meeting

The Annual General Meeting of
Shareholders will take place at
10:00 a.m., Newfoundland Standard
Time, Wednesday, March 31, 1982,
in the Fort William Room, Hotel
Newfoundland, Cavendish Square,
St. John's, Newfoundland.

H.L. Lake
Vice-Chairman
The Lake Group Limited
St. John's, Newfoundland

A.R. Lundrigan
President, Lundrigans 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

Resource Committee

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

Selected Investor Information

	1981	1980
Average number of common shares outstanding	7,846,580	7,707,404
Number of common shareholders	3,024	3,041
Volume of shares traded:		
Toronto	669,200	454,600
Montreal	48,900	99,100
	<u>718,100</u>	<u>553,700</u>

Geographic Distribution

	Shareholders		Shares	
	1981	1980	1981	1980
	%	%	%	%
Newfoundland	32.1	33.3	5.1	4.1
Maritimes	21.9	22.8	4.0	4.6
Quebec	8.7	9.5	68.8	71.4
Ontario	29.8	27.0	19.0	16.8
Western	2.3	2.4	2.3	2.2
British Columbia	4.3	4.3	0.7	0.8
Canada	99.1	99.3	99.9	99.9
U.S. & Other	0.9	0.7	0.1	0.1
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

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.

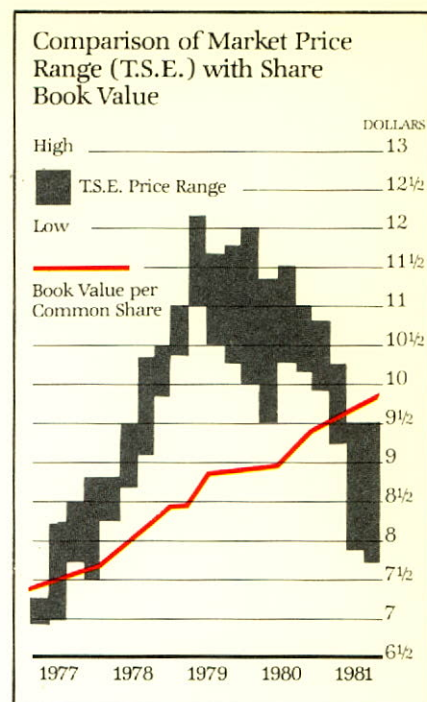
Listing of Shares

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

Dividends

Dividends on common shares are payable quarterly on the last days of March, June, September and December. In the third quarter of 1981, the dividend paid was \$0.23 per share, an increase of \$0.02 over the previous payment. This brought the dividends paid in 1981 to \$0.88 per share and the indicated annual dividend rate to \$0.92. Dividends on preferred shares are payable quarterly on the 15th days of March, June, September and December. In 1981, the following preferred share dividends were paid:

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



Principal Ownership

As at December 31, 1981, Bell Canada owned 5,071,476 or approximately 64 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 annual and interim reports may be obtained by writing to:

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



Newfoundland
Telephone

