

Annual Report
1980

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Newfoundland
Telephone
Company
Limited

Annual
Report
1980

Financial Highlights

	1980	1979	% Change
Revenues			
Local service	\$ 31,961,457	\$ 28,751,869	11.2
Long distance service	56,527,651	49,436,982	14.3
Miscellaneous income - net	3,150,622	1,984,644	58.7
Total revenues	<u>91,639,730</u>	<u>80,173,495</u>	14.3
Expenses			
Operating expenses	57,604,523	51,412,641	12.0
Interest charges	11,131,338	8,877,646	25.4
Income taxes	11,241,472	9,756,497	15.2
Total expenses	<u>79,977,333</u>	<u>70,046,784</u>	14.2
Net Income Before Transfer	11,662,397	10,126,711	15.2
Transfer	-	943,175	-
Net Income	<u>\$ 11,662,397</u>	<u>\$ 11,069,886</u>	5.4
Earnings per common share	\$ 1.27	\$ 1.19	6.7
Dividends paid per common share	\$ 0.78	\$ 0.73	6.8
Equity per common share	\$ 9.33	\$ 8.82	5.8
Rate of return on average total capital	% 11.62	% 11.26	3.2
Rate of return on average common equity	% 14.09	% 13.85	1.7
Total debt as percent of total capital	% 54.27	% 52.60	3.2
Average number of common shares outstanding	7,707,404	7,682,259	-
Construction expenditures	\$ 33,900,981	\$ 30,997,931	9.4
Investment in plant and equipment	\$289,328,687	\$264,462,228	9.4



Newfoundland Telephone

A.A. Brait
President and Chief Executive Officer
347 Duckworth St.
St. John's, Newfoundland
Canada A1C 5H6

February 4, 1981

To the Shareholders:

The results and accomplishments recorded by your Company in 1980 in the pages that follow add up to a successful and rewarding year.

As I reflect on our successes, however, I am reminded that the 1980s are off to a turbulent start. Inflation continues unabated, and high and volatile interest rates have raised the cost of money. By the end of the first quarter of 1980, it was apparent that a general increase in rates would be needed for the first time since April, 1977. Approval was granted by our regulator to implement a new rate schedule, effective September 15, 1980, which provided approximately 83 percent of the additional revenues requested. We are satisfied that this decision recognizes the need for a significant growth in earnings in order to continue to provide quality service to our customers and adequate returns to our investors. As a result, your Company should be in a position to improve internally generated cash flows and to achieve the external financing flexibility that is essential in today's economic climate.

Many factors contributed to the progress of the Company during the year, but none was more important than the skills, dedication and energy of the 1,500 employees who responded to every challenge. I am especially pleased to welcome 70 percent of our employees as shareholders through their participation in the Employees' Savings Plan.

The Company's construction program in 1980 included the introduction of new technology as part of the planned transition to digital and software-based systems. The effective application of modern equipment and methods continues to be of critical importance in achieving our objective to minimize operating costs in a high inflation environment.

In the decade ahead, the telecommunication industry will experience exceptional growth and the prospects for Newfoundland and Labrador are most encouraging. We are particularly aware of the growing importance of telecommunication services to the business community and our objectives for 1981 include initiatives to introduce new technology and services in voice and computer communications to respond to this need.

The 80s will likely see significant changes in the structure of the industry in Canada. It is our responsibility to speak out frankly and clearly to insure that the real issues are adequately exposed and to welcome those changes that make sense and will strengthen the industry as a whole. We remain committed to those principles and policies which operate in the interest of the Newfoundland community and which assure high quality, reliable service to our customers.

We can look forward to the 80s confident that the Company is positioned firmly to respond successfully to the challenges and opportunities that lie ahead.

A.A. Brait



Top: Members of Newfoundland Telephone's Executive.
 Left to Right: D.R. Nickerson, Director - Network Services; K.A.A. Marshall, Director - Planning; R.H. Benson, Director - Finance; A.A. Brait, President and Chief Executive Officer
 R.H. Montgomery, former Director - Planning, who returned to Bell Canada December 29, 1980; F.F. Fagan, Director - Administrative Services; V.G. Withers, Director - Customer Services.

Developments in network switching and transmission have enhanced the Company's technological capability. Far left: intelligent terminals help to meet the demands of today's market. Right: The DMS-100 - the most modern digital switching system in the nation - was installed in Corner Brook. Centre: A test set measures the performance of a switching machine in one of our central offices.

Report of the Directors

1980 was a successful year for the Company and began what promises to be a decade of unparalleled change and growth in the provincial economy and in telecommunications. It is our aim to participate fully in this development, both as a contributor and a beneficiary. A sound financial position, a commitment to technological improvement and swift response to changing customer needs will ensure that shareholders, customers and employees will share the rewards of an exciting future.

The following is a summary of the highlights of the year under review and an outlook for the new decade.

Financial Performance

In 1980, operating revenues increased by 13.5 percent to \$89.7 million while operating expenses rose 12.0 percent to \$57.6 million.

Net earnings for the year amounted to \$9.8 million, or \$1.27 per average common share compared with \$9.1 million or \$1.19 per share in 1979. The rate of return on average common equity for 1980 increased to 14.09 percent from 13.85 percent in 1979. The Company's return on average invested capital for 1980 was 11.62 percent compared with 11.26 percent for 1979.

The improved earnings performance resulted mainly from renewed growth in long distance revenues during the second half of the year together with the impact of increased telephone rates implemented in September.

Regulatory Activity

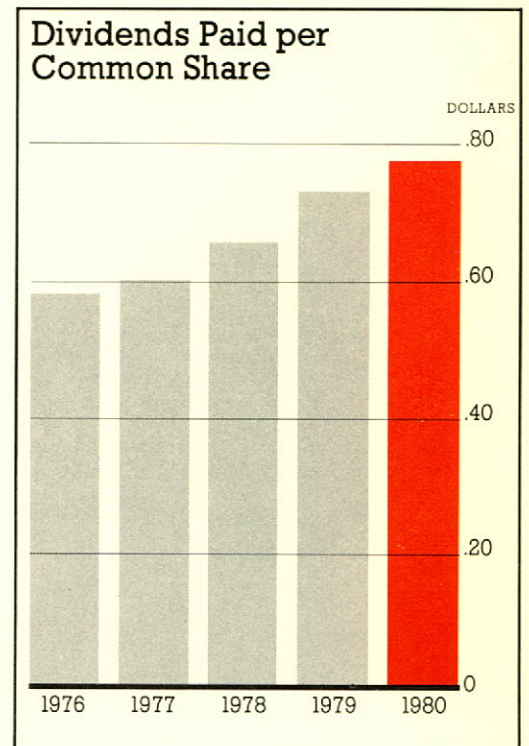
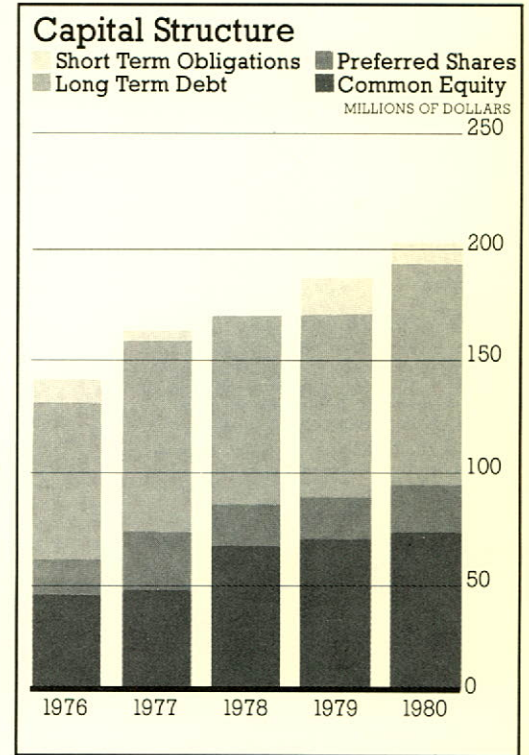
On May 27, 1980 the Company applied to the Board of Commissioners of Public Utilities of Newfoundland for a revised schedule of rates for service and a revised rate of return. The application pointed out that in order to continue to provide quality service to our customers, substantial capital expenditures will be required in the future. If this capital is to be obtained on reasonable terms, investors must be satisfied that the Company will achieve adequate earnings and maintain appropriate financial ratios.

In September, the Board of Commissioners approved a revised schedule of rates and a revised rate of return on common equity. The rate increase generated additional revenues of approximately \$1.4 million in 1980 and is estimated to provide \$5 million in 1981. The allowable rate of return on common equity has

been set in the range of 14 to 15 percent, up from 13½ to 14½ percent previously allowed.

Financing

On June 23, the Company completed the largest bond issue in its history. A total of \$25 million of First Mortgage Bonds, Series Q, maturing in the year 2000 and bearing an interest rate of 12¾ percent, were sold at par.



During the year, 72,323 common shares were issued at market value from Treasury under the terms of the Employees' Savings Plan. Proceeds from the Plan added new shareholders' equity of \$779,596 for the year and are expected to exceed an additional \$1.7 million for 1981.

Of the Company's total capital requirements for construction in 1980, more than 56.3 percent came from internal sources.

In November, the Board of Directors declared a fourth quarter dividend of \$0.21 per common share. This increased the annual dividend rate from \$0.76 to \$0.84 and is in keeping with the Company's policy of maintaining satisfactory returns for our investors.

Technology and Service

Total capital expenditures for 1980 amounted to \$33.9 million to bring the Company's investment in telecommunication plant and equipment to \$289.3 million. This level of investment is a demonstration of the Company's commitment to extend and expand its services, utilizing the best of current technologies and practices to ensure the highest level of telephone service to its customers at the lowest possible cost.

In 1980, \$9.9 million was invested in central office switching facilities; \$6.1 million in underground and aerial cable and related facilities; \$6.1 million for the purchase and connection of subscriber equipment for residential and business customers and \$10.7 million in land and buildings.

The provision of switching equipment continues to be a priority in our capital program. As conventional equipment reaches capacity, a new generation of switching equipment employing digital technology is being introduced into the Company's network. The relatively new digital technology, which transmits information by means of a high-speed stream of "bits" or digits, has capacity and signal quality advantages over the analog technology now in common use.

In November, the largest digital switching system in Canada, a Digital Multiplex System (DMS-100), was installed in Corner Brook. A small system (DMS-10) was installed in Nain during 1979.

The Traffic Operator Position System (TOPS) was placed in service in St. John's this year to serve customers on the Avalon Peninsula. The Company's first TOPS facility was introduced to Corner Brook and customers on the province's west coast in 1979.

TOPS performs automatically many of the technical and administrative functions involved in processing long distance calls requiring the assistance of an operator. It also permits customer dialing of person-to-person, credit card, third-number and other calls.

During 1980, Newfoundland Telephone's provincial microwave system was extended to include Port aux Basques, with Gander to be added early in 1981. This expansion enables the Company to offer a broad range of new services to these communities on its own facilities and provides customers with high quality, direct access to the Company's network.

Preliminary site preparation was started in 1980 on the trans-Labrador microwave route which is scheduled for completion in 1983. This system will replace the existing Troposcatter radio system presently linking western Labrador with Goose Bay and the provincial microwave network.

In the area of residential services, the Phonecentre program continues to be effective and efficient in meeting customers' desires for convenience in shopping for telephone service. Success of the program in St. John's led to expansion of the service to surrounding areas and by year end more than 41,000 homes in the metropolitan area had been equipped with the special wall plugs which facilitate service installations. The Company's Phonecentre in Labrador City received more than 25,000 customer visits in its first full year of operation and the special wall plugs were installed in 3,600 homes.

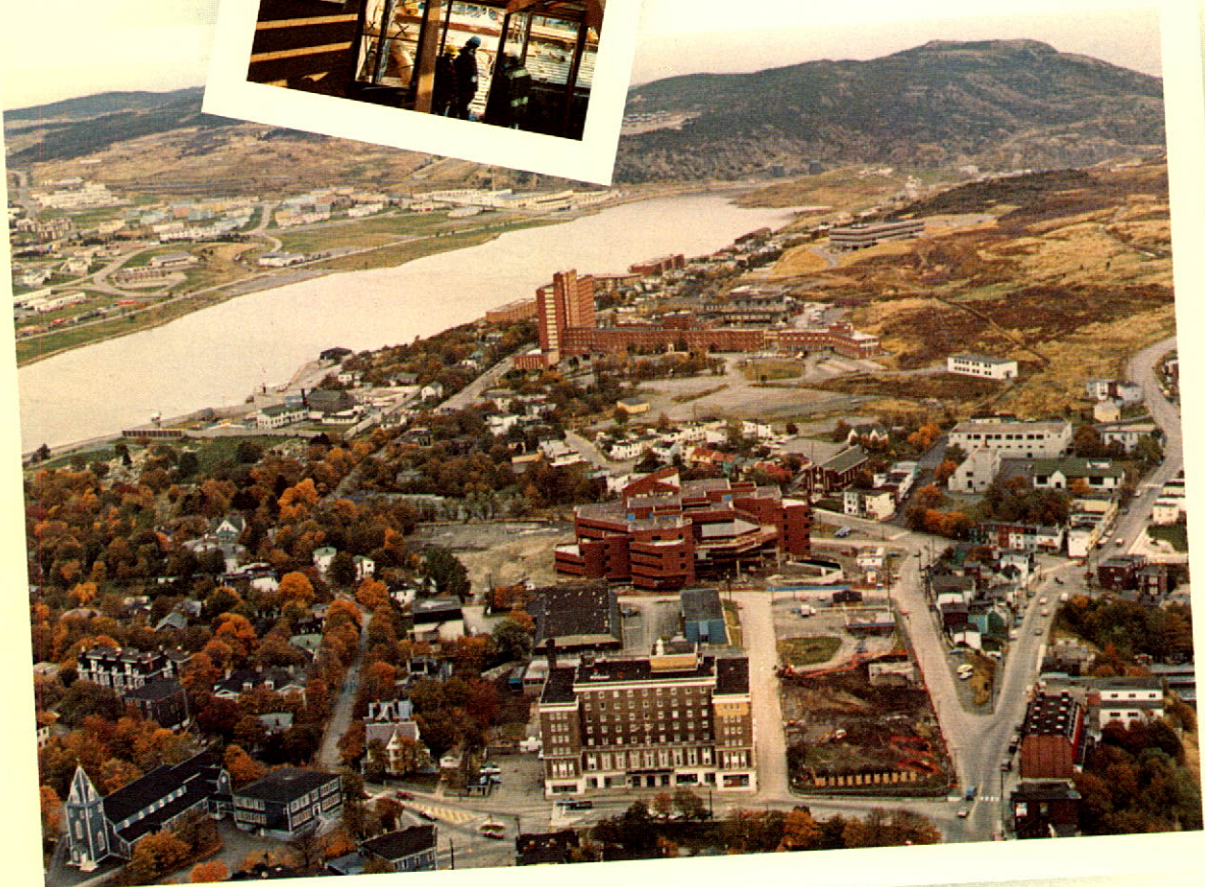
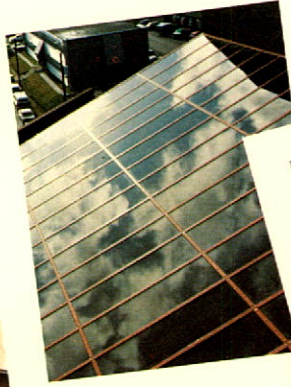
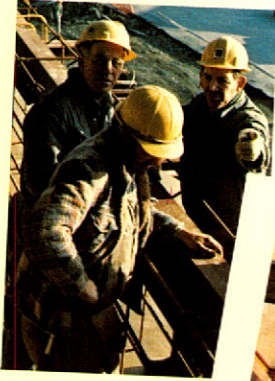
In 1980, 8,759 telephones were added to the system, bringing the total number of telephones in service to 201,835. Long distance messages increased by 11.8 percent to 19.0 million.

Located near the centre of downtown St. John's, Newfoundland Telephone's new headquarters administration building has been praised for its innovative, and energy-efficient design (opposite - page seven). Inset photos show building in stages of construction, and focus on the extensive use of glass.

New Headquarters

Work is continuing on schedule on the new corporate headquarters in St. John's. At year end, 80 percent of the construction had been completed and interior finishing was in progress.

The building will provide a modern, attractive workplace for our employees and will contain many innovative design features. For example, energy costs will be reduced through the use of coffered ceilings, which reflect 30 percent more light than conventional flat ceilings.



Heat generated in the work areas will be recycled to preheat incoming fresh air. Other lighting and heating innovations will significantly reduce energy consumption compared to that of a conventional office building.

Based on an "open space" concept, the building contains few separate offices. The centre of the building is open from the main floor to a roof skylight six storeys above. Outdoor terraces and a glass-roofed cafeteria add to its singular appearance and aesthetic appeal. It has been designed to complement the City's distinctive skyline.

Three of the leased premises currently occupied by the Company will no longer be required. By June 1981, the 750 employees from these and several other buildings will be relocated in the 22,300 square metre headquarters. Thirty-seven hundred square metres have been provided for growth and for use as commercial rental space in the interim.

Executive Changes

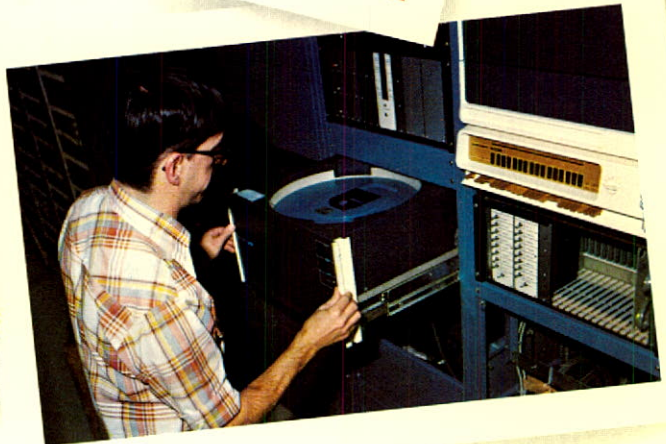
A number of changes and appointments affecting senior executives of Newfoundland Telephone took place during the year.

Frank F. Fagan, formerly Personnel Manager, was appointed Director-Administrative Services, effective April 7, 1980.

Kelvin A.A. Marshall, formerly Director-Special Assignment on loan to Bell Canada, was appointed Director-Planning, effective January 5, 1981.

Robert H. Montgomery, formerly Director-Planning, resigned from the Company to return to Bell Canada, effective December 29, 1980. The Board of Directors expresses its appreciation for Mr. Montgomery's contribution during his years with the Company.

Another landmark in the Company's history was reached this year in October with the installation of the Company's 200,000th telephone in the St. John's home of Mr. and Mrs. Edward Mackey.



Whether it's installing up-to-date switching machines, (left), or maintaining the computerized systems on which our customers' accounts are recorded, our employees continue to demonstrate the skill and efficiency so necessary for the smooth operation of our business.

Financial Information

Income Statement

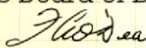

	Year 1980	Year 1979
Operating Revenues		
Local service	\$ 31,961,457	\$ 28,751,869
Long distance service	56,527,651	49,436,982
Miscellaneous - net	1,250,089	868,090
Total Operating Revenues	<u>89,739,197</u>	<u>79,056,941</u>
Operating Expenses		
Depreciation	16,518,144	14,799,417
Maintenance	14,188,080	13,978,810
Operating rents	4,105,350	3,536,091
Other operating expenses	22,792,949	19,098,323
Total Operating Expenses	<u>57,604,523</u>	<u>51,412,641</u>
Net Operating Revenues	<u>32,134,674</u>	<u>27,644,300</u>
Other Income		
Allowance for funds used during construction	1,261,438	384,639
Miscellaneous	639,095	731,915
Total Other Income	<u>1,900,533</u>	<u>1,116,554</u>
Income Before Underlisted Items	<u>34,035,207</u>	<u>28,760,854</u>
Interest Charges		
Interest on long term debt	9,586,541	8,210,059
Other interest	1,544,797	667,587
Total Interest Charges	<u>11,131,338</u>	<u>8,877,646</u>
Income Before Income Taxes	22,903,869	19,883,208
Income Taxes	<u>11,241,472</u>	<u>9,756,497</u>
Net Income Before Transfer	11,662,397	10,126,711
Transfer From Deferred Income (Note 9)	<u>-</u>	<u>943,175</u>
Net Income	11,662,397	11,069,886
Dividends On Preferred Shares	1,871,671	1,942,346
Net Income Applicable To Common Shares	<u>\$ 9,790,726</u>	<u>\$ 9,127,540</u>
Earnings Per Common Share (based on average number of shares outstanding)	<u>\$ 1.27</u>	<u>\$ 1.19</u>

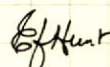
Balance Sheet

Assets

	December 31 1980	December 31 1979
Telecommunication Property - at cost		
Buildings, plant and equipment	\$267,929,064	\$252,101,121
Less: Accumulated depreciation	<u>80,343,492</u>	<u>72,611,278</u>
	187,585,572	179,489,843
Land and plant under construction	21,399,623	12,361,107
Materials and supplies	<u>3,806,278</u>	<u>3,964,315</u>
	<u>212,791,473</u>	<u>195,815,265</u>
Investments - at cost	<u>495,000</u>	<u>300,000</u>
Current Assets		
Accounts receivable	12,774,425	11,720,448
Prepayments	<u>909,993</u>	<u>778,148</u>
	<u>13,684,418</u>	<u>12,498,596</u>
Deferred Charges		
Unamortized deficiency in accumulated depreciation	524,475	599,400
Unamortized long term debt expenses	1,701,765	1,296,711
Other	<u>3,364,501</u>	<u>2,569,931</u>
	<u>5,590,741</u>	<u>4,466,042</u>
	<u>\$232,561,632</u>	<u>\$213,079,903</u>
Liabilities and Shareholders' Equity		
Shareholders' Equity		
Common shares (Note 2)	\$47,440,891	\$46,661,295
Premium on common shares	775,987	775,987
Capital redemption reserve fund (Note 2)	3,464,740	2,244,400
Retained earnings	<u>20,652,501</u>	<u>18,099,897</u>
Total common equity	72,334,119	67,781,579
Preferred shares (Note 2)	<u>20,535,260</u>	<u>21,755,600</u>
	<u>92,869,379</u>	<u>89,537,179</u>
Long Term Debt (Note 3)	<u>99,348,000</u>	<u>75,167,000</u>
Unsecured Subordinated Notes - Due To Parent Company (Note 4)	<u>3,999,941</u>	<u>5,129,941</u>
Notes Payable (Note 5)	<u>6,400,000</u>	<u>17,000,000</u>
Current Liabilities		
Bank advance	2,202,271	1,627,665
Accounts payable	3,775,565	2,081,315
Due to affiliated companies	729,068	1,280,442
Advance billing for service	1,273,131	1,300,957
Taxes accrued	4,001,147	3,020,399
Interest accrued	1,433,267	1,450,588
Dividends payable	79,612	79,578
Long term debt due within one year	<u>450,000</u>	<u>2,066,000</u>
	<u>13,944,061</u>	<u>12,906,944</u>
Deferred Income Taxes (Note 6)	<u>16,000,251</u>	<u>13,338,839</u>
	<u>\$232,561,632</u>	<u>\$213,079,903</u>

On behalf of the Board of Directors:

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

 E. F. Hunt, Comptroller

Statement of Retained Earnings

	Year 1980	Year 1979
Balance at Beginning of Year	\$18,099,897	\$15,047,806
Net Income	11,662,397	11,069,886
	<u>29,762,294</u>	<u>26,117,692</u>
Deduct:		
Dividends		
Preferred shares	1,871,671	1,942,346
Common shares	6,017,782	5,608,049
	<u>7,889,453</u>	<u>7,550,395</u>
Transfers to capital redemption reserve fund	1,220,340	467,400
	<u>9,109,793</u>	<u>8,017,795</u>
Balance at End of Year	<u>\$20,652,501</u>	<u>\$18,099,897</u>

Statement of Changes in Financial Position

	Year 1980	Year 1979
Source of Funds		
Operations		
Net income	\$11,662,397	\$11,069,886
Items not affecting current funds		
Depreciation	16,518,144	14,799,417
Allowance for funds used during construction	(1,261,438)	(384,639)
Deferred income taxes	2,661,412	3,774,702
	<u>29,580,515</u>	<u>29,259,366</u>
Proceeds from issues of common shares		
through employees' savings plan	779,596	—
Proceeds from issue of long term debt	24,587,500	—
Net proceeds from notes payable	—	17,000,000
Miscellaneous	(619,805)	(280,892)
	<u>\$54,327,806</u>	<u>\$45,978,474</u>
Disposition of Funds		
Capital expenditures		
Gross capital expenditures	\$33,900,981	\$30,997,931
Deduct: Charges not requiring an outlay of funds	1,417,636	1,221,070
Decrease (increase) in materials		
and supplies	158,037	(277,384)
	<u>32,325,308</u>	<u>30,054,245</u>
Acquisition of Labrador City telecommunication system	—	5,778,568
Purchase of shares in intelTerm Systems Limited	195,000	—
Dividends - Preferred	1,871,671	1,942,346
- Common	6,017,782	5,608,049
Redemption of preferred shares	1,220,340	467,400
Reduction of long term debt	819,000	3,071,200
Repayment of subordinated notes	1,130,000	1,130,000
Net repayment of notes payable	10,600,000	—
Increase (decrease) in working capital	148,705	(2,073,334)
	<u>\$54,327,806</u>	<u>\$45,978,474</u>

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 6.37% for 1980 (1979-6.36%). 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. \$1,500,000 included in other deferred charges represents disputed retail sales tax assessments for the years 1973 to 1977, including interest to December 31, 1980.

2. Capital Stock

Authorized	Outstanding	December 31	
		1980	1979
250,000 7.25% cumulative redeemable preferred shares of the par value of \$20 each.	205,290 7.25% preferred shares (1979 - 211,630 shares)	\$ 4,105,800	\$ 4,232,600
450,000 9.75% cumulative redeemable preferred shares of the par value of \$20 each.	339,973 9.75% preferred shares (1979 - 378,000 shares)	6,799,460	7,560,000
500,000 8.85% cumulative redeemable preferred shares, Series C of the par value of \$20 each.	481,500 8.85% preferred shares Series C (1979 - 498,150 shares)	9,630,000	9,963,000
1,000,000 Cumulative redeemable preferred shares of the par value of \$20 each.		—	—
		<u>\$20,535,260</u>	<u>\$21,755,600</u>
10,000,000 Common shares without par value.	7,754,582 Common shares (1979 - 7,682,259 shares)	<u>\$47,440,891</u>	<u>\$46,661,295</u>

By special resolution of the common shareholders passed on March 28, 1979 the authorized capital of the Company was increased by the creation of an additional 1,000,000 cumulative redeemable preferred shares of the par value of \$20 each and by an additional 1,000,000 common shares without par value.

During the year, 72,323 of the 100,000 common shares initially reserved were issued at market value (\$779,596) from Treasury under the terms of the Employees' Savings Plan. The Company has reserved an additional 150,000 common shares for issue through the Plan in 1981.

The 7.25% cumulative redeemable preferred shares may be redeemed at the

Company's option, in whole or in part, at a price of \$21.00 to September 15, 1981, diminishing by \$0.20 for each three-year period to September 15, 1990 and \$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, 1980, 6,340 of the 7.25% preferred shares of the aggregate par value of \$126,800 and 38,027 of the 9.75% preferred shares of the aggregate par value of \$760,540 and 16,650 of the 8.85% preferred shares of the aggregate par value of \$333,000 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	
			1980	1979
First Mortgage Sinking Fund Bonds				
7%	1980	\$ 2,000,000	\$ -	\$ 1,640,000
9¼%	1990	7,500,000	1,134,000	1,153,000
8⅝%	1992	7,500,000	6,150,000	6,200,000
9%	1994	15,000,000	12,900,000	13,050,000
11½%	1996	10,000,000	10,000,000	10,000,000
11%	1996	17,500,000	16,114,000	16,690,000
			<u>46,298,000</u>	<u>48,733,000</u>
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	-
			<u>99,798,000</u>	<u>77,233,000</u>
			450,000	2,066,000
Less portion due within one year			<u>\$99,348,000</u>	<u>\$75,167,000</u>

These bonds are secured by a first, fixed and specific mortgage on all properties and plant now owned or to be acquired in the future by 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:

\$450,000 in 1981, \$1,356,000 in 1982, \$1,363,000 in 1983, \$1,389,000 in 1984 and \$1,390,700 in 1985.

4. Unsecured Subordinated Notes - Due to Parent Company

Series A Unsecured Subordinated Notes - These notes of \$3,390,000 (1979-\$4,520,000), 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, 1981 to 1983 inclusive.

Series B Unsecured Subordinated Note - This note of \$609,941 (1979-\$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) outstanding bear interest at a Canadian chartered bank's prime rate and represent interim financing incurred in the expansion of the Company's operations.

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 accumulated deferred taxes of approximately \$14,200,000 which have not been recorded. These deferred taxes were due primarily to 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, 1978 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 \$6,414,800 at December 31, 1980, (1979-\$6,416,600). The estimated minimum amounts payable under such leases for the next five years are as follows: \$1,678,000 in 1981, \$1,270,500 in 1982, \$1,327,000 in 1983, \$994,700 in 1984 and \$631,300 in 1985.

9. Deferred Income

The amount of \$943,175, net of tax, shown as Transfer From Deferred Income in 1979 was excess income accumulated in 1978 under guidelines set by the Board of Commissioners.

10. Related Party Transactions

Bell Canada owned 65% of the outstanding common shares of the Company at December 31, 1980. During the year the Company made purchases of telecommunication equipment in the amount of \$8,943,000 from Northern Telecom Limited which is a subsidiary of Bell Canada.

Auditors' Report

To the Shareholders,
Newfoundland Telephone
Company Limited

We have examined the balance sheet of Newfoundland Telephone Company Limited as at December 31, 1980 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, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

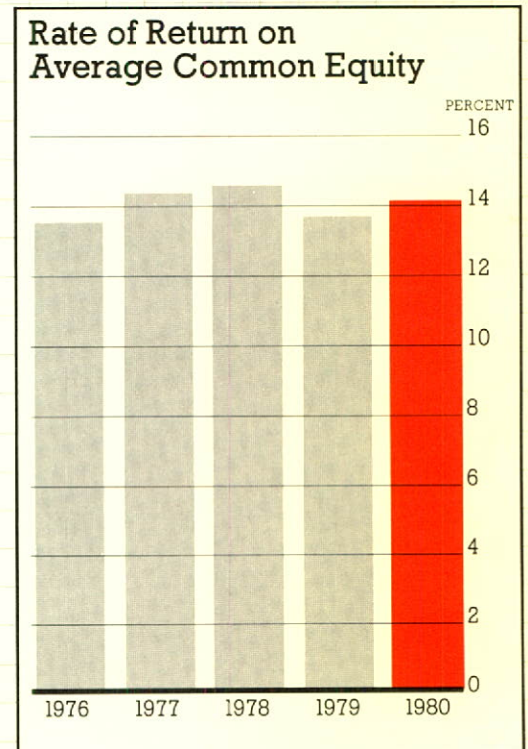
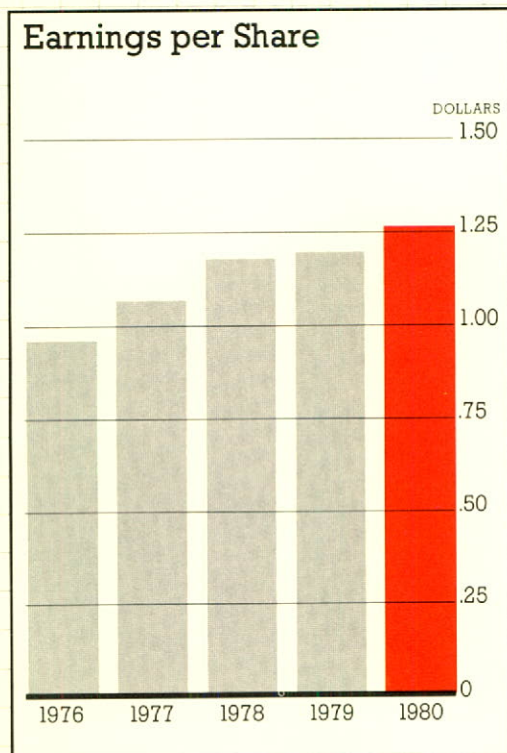
Touche Ross & Co.
Chartered Accountants

St. John's, Newfoundland
January 30, 1981.

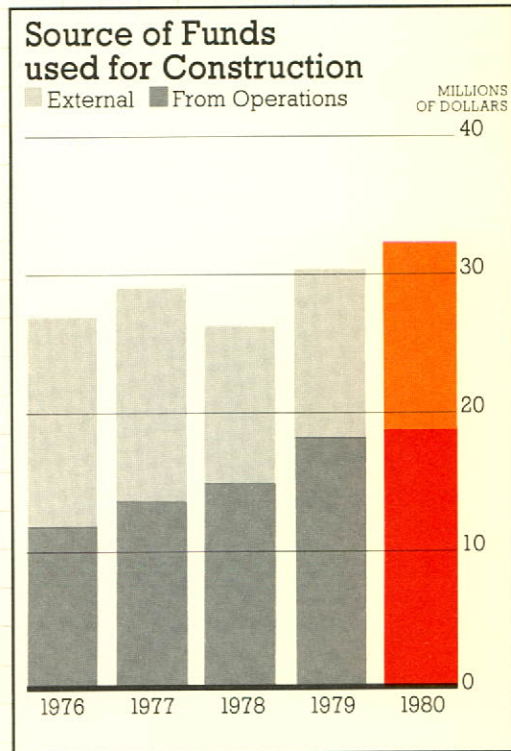
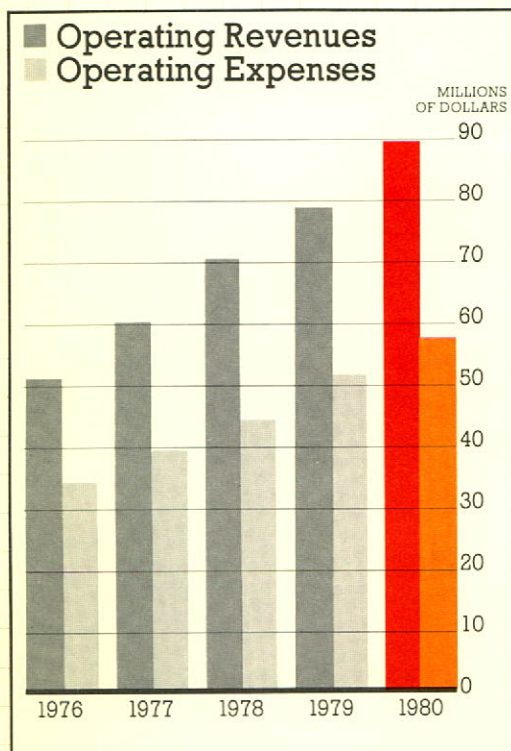
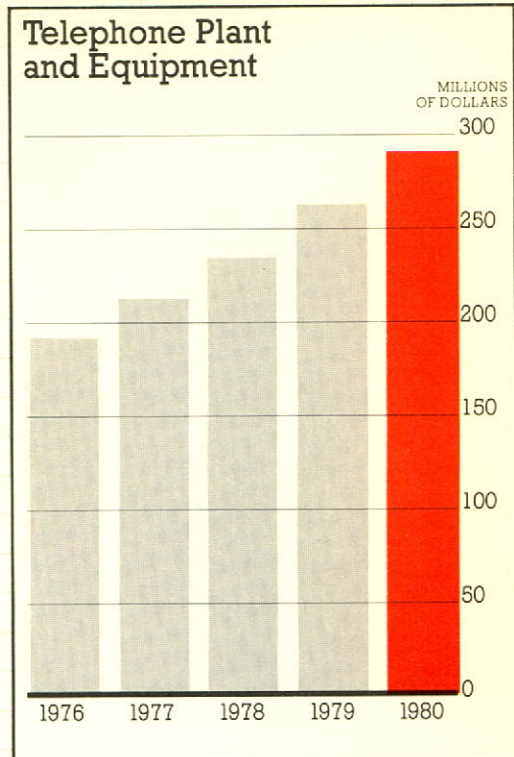
Five Year Statistical Record

	1980	1979
Income Statement Items		
Total operating revenues	\$ 89,739,197	79,056,941
Other income	\$ 1,900,533	1,116,554
Operating expenses, transfer and taxes*	\$ 68,738,527	60,225,963
Interest charges	\$ 11,131,338	8,877,646
Net income*	\$ 11,662,397	11,069,886
Balance Sheet Items		
Investment in plant and equipment	\$289,328,687	264,462,228
Shareholders' equity*	\$ 92,869,379	89,537,179
Deferred income taxes*	\$ 16,000,251	13,338,839
Total long term debt	\$110,197,941	99,362,941
Financial Ratios		
Earnings per average common share*	\$ 1.27	1.19
Dividends paid per common share	\$ 0.78	0.73
Equity per common share*	\$ 9.33	8.82
Rate of return on average common equity*	% 14.09	13.85
Rate of return on average total capital*	% 11.62	11.26
Times interest earned before taxes	3.06	3.85
Interest in percent of average debt	% 10.62	9.56
Percent debt to total capitalization	% 54.27	52.60
Available cash flow as a percent of construction	% 54.54	50.21
Other Statistics		
Construction expenditures	\$ 33,900,981	30,997,931
Plant investment per telephone	\$ 1,433	1,370
Number of telephones	201,835	193,076
Local calls - daily average	3,297,732	3,152,685
Long distance calls - daily average	58,684	46,620
Number of employees	1,459	1,485
Salaries and wages paid	\$ 26,146,436	24,267,600
Average common shares outstanding	7,707,404	7,682,259

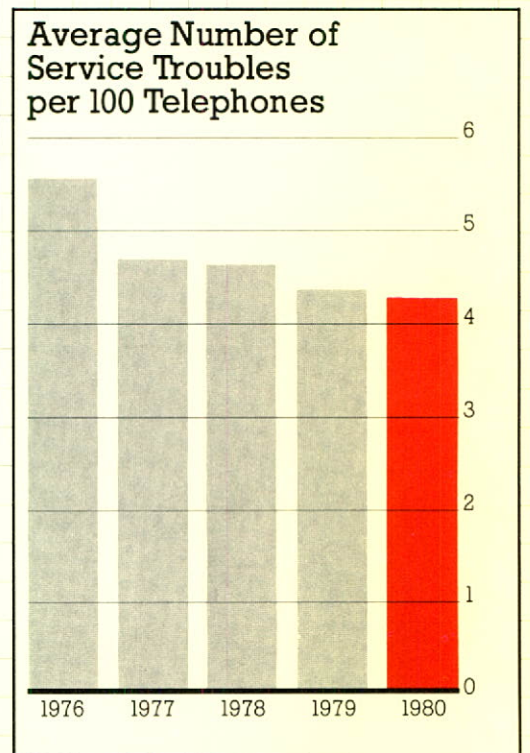
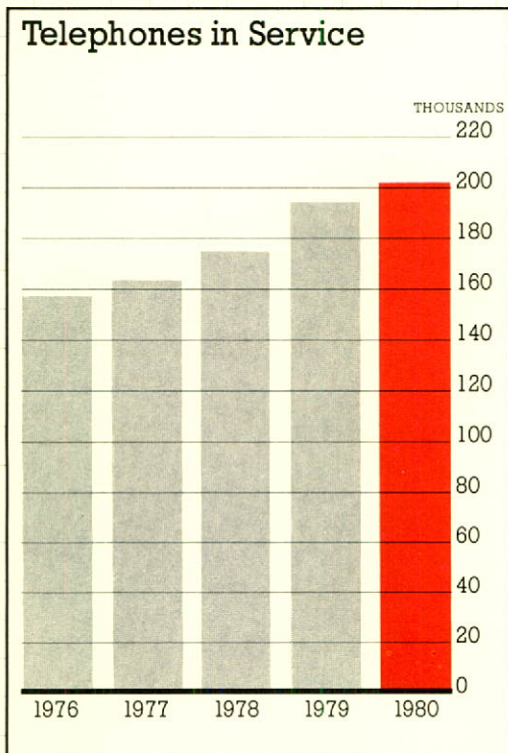
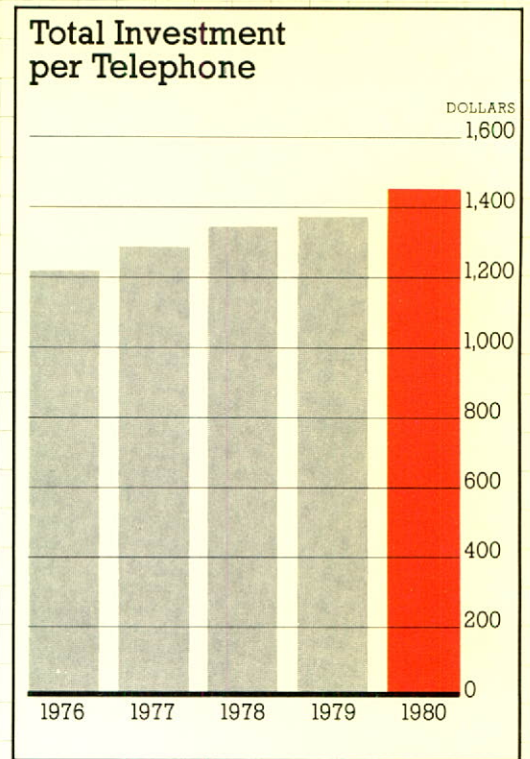
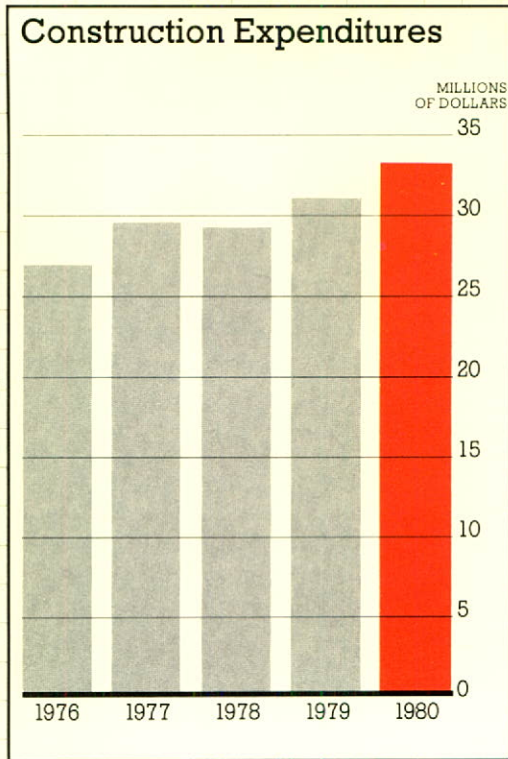
*Results reflect (1) Partial tax allocation basis for 1976 to 1978
(2) Full tax allocation basis for 1979 and 1980



1978	1977	1976
70,506,777	60,171,003	51,670,959
668,103	291,269	675,030
52,839,444	44,289,646	37,846,054
8,488,798	7,591,806	7,721,220
9,846,638	8,580,820	6,778,715
234,345,123	212,817,180	192,159,215
86,485,088	71,947,165	59,579,985
9,564,137	7,611,556	5,713,211
85,771,941	91,767,941	83,113,941
1.17	1.06	0.96
0.65	0.60	0.58
8.36	7.60	7.19
14.50	14.27	13.63
11.16	10.92	10.74
3.10	3.23	2.78
9.56	8.68	9.38
49.79	56.05	58.25
59.07	47.71	43.39
27,334,446	29,758,135	27,076,108
1,337	1,296	1,211
175,312	164,193	158,614
2,993,425	2,869,614	2,643,948
40,438	35,711	32,633
1,475	1,349	1,347
20,193,089	17,712,335	15,936,727
6,745,273	6,482,259	5,840,592



Service and Technology



Selected Information for Common Shareholders

Market Trading

Shares are listed on the Toronto and Montreal stock exchanges.

Share Trading Volume

	1980	1979
Toronto	454,600	382,800
Montreal	99,100	69,500
	<u>553,700</u>	<u>452,300</u>

Common Share Statistics

	1980	1979
Average number of common shares outstanding	7,707,404	7,682,259
Number of common shareholders	3,041	2,717

Geographic Distribution

	Shareholders		Shares	
	1980	1979	1980	1979
	%	%	%	%
Newfoundland	33.3	20.3	4.1	4.1
Maritimes	22.8	27.8	4.6	5.4
Quebec	9.5	11.4	71.4	70.7
Ontario	27.0	31.3	16.8	16.3
Western	2.4	3.0	2.2	2.5
British Columbia	4.3	5.4	0.8	0.9
Canada	<u>99.3</u>	<u>99.2</u>	<u>99.9</u>	<u>99.9</u>
U.S. & other	0.7	0.8	0.1	0.1
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Principal Ownership

As at December 31, 1980, Bell Canada owned 5,071,476 or approximately 65 percent of the outstanding common shares both of record and beneficially. Bell Canada's Head Office address is 1050 Beaver Hall Hill, Montreal, Quebec.

Dividends

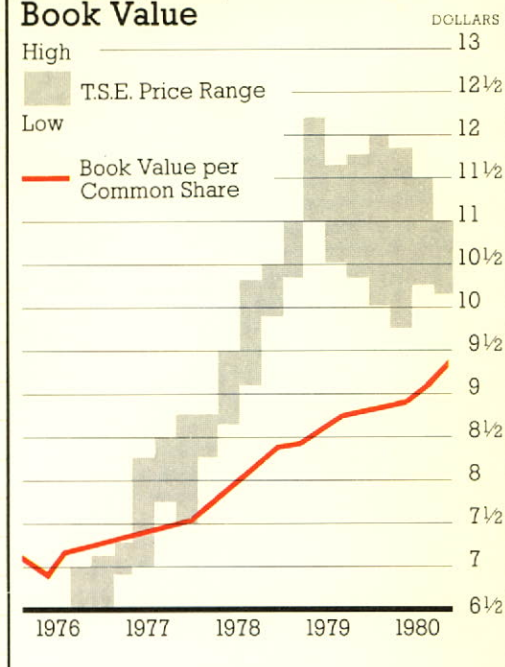
Dividends are payable quarterly on the last days of March, June, September and December. In the fourth quarter of 1980 the dividend paid was \$0.21 per share, an increase of \$0.02 over the previous payment. This brought the dividends paid in 1980 to \$0.78 per share and the indicated annual dividend rate to \$0.84.

Investor Reports

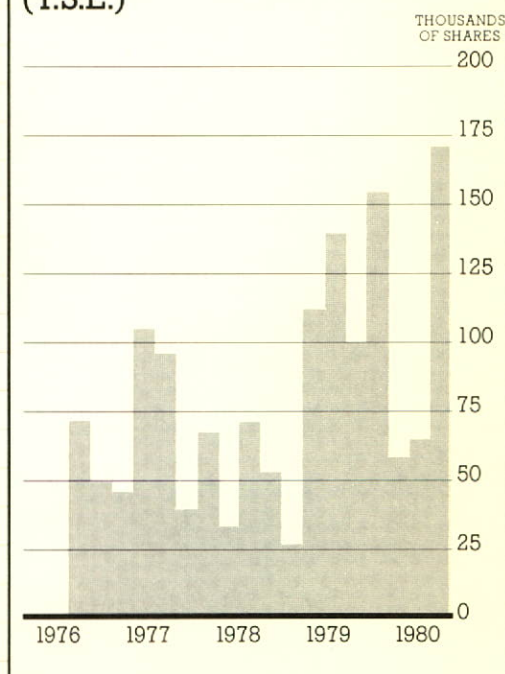
Additional copies of annual and interim reports may be obtained by writing to:

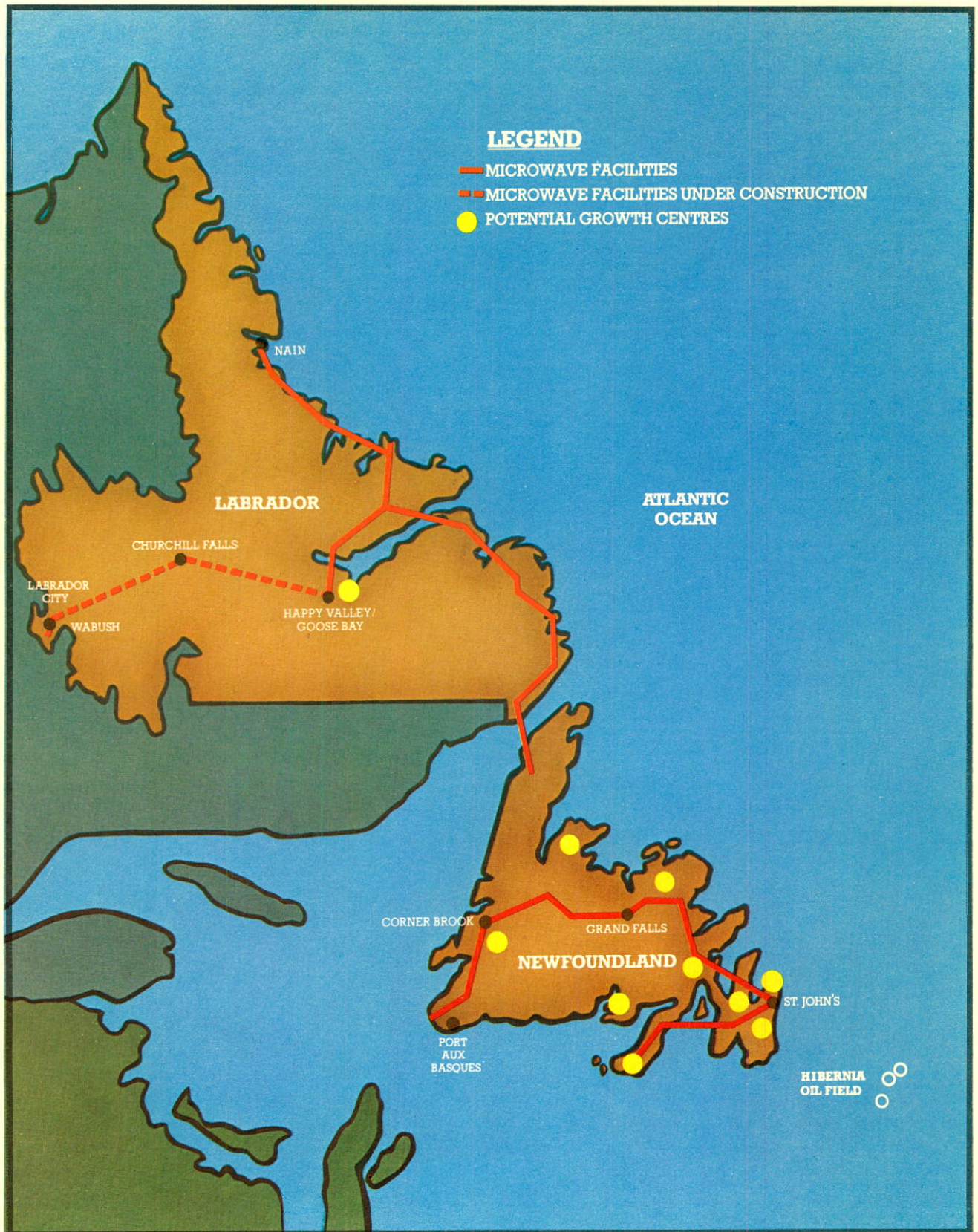
The Secretary-Treasurer
Newfoundland Telephone
Company Limited
P.O. Box 2110
St. John's, Newfoundland
A1C 5H6

Comparison of Market Price Range (T.S.E.) with Share Book Value



Quarterly Trading Volume (T.S.E.)





The Company's provincial microwave network, now being extended to Labrador West, has established a high-quality telecommunication capability to serve present and future needs. Discovery of the Hibernia oil field, and the designation of on-shore growth centres by the provincial government, are expected to have a beneficial impact on the demands for services on the network.

An Agenda For The Eighties

Planning is a vital function in any enterprise. In planning for the 1980s, the Company must examine current trends in its operating environment and anticipate change with a comprehensive but flexible action plan. The following is a look at some of the key factors which affect the Company's assessment of its environment and its view of developments in the decade ahead.

Provincial Economic Trends

In 1980, the provincial economy experienced some setbacks compared to 1979 due largely to prolonged work stoppages. Despite the setbacks, however, it is generally recognized that long-term prospects for growth are encouraging. Newfoundland's fishing industry will continue to have increased quotas, growth, employment and capital investment as would be expected in an industry based on an expanding renewable resource.

The discovery of the Hibernia oil field in Newfoundland waters brings promise of significant improvement for



With the commercial development of offshore resources expected by the mid-1980s, Newfoundland Telephone will be marketing new services, such as satellite communications with the offshore oil rigs

the provincial economic climate in this decade. There has already been a modest impact on the economy from the exploration phase of activity, but the main effect will result from the development and production phases which are expected to be in full swing by 1985.

The development of Newfoundland's hydro-electric resources is a renewed priority. The increasing cost and unstable supply of world energy sources mean that the abundant hydro potential in the province represents a comparatively cheap source of future energy as well as a source of export income.

These industries along with mining, mineral exploration, forestry and others are expected to rebound from the difficulties experienced in 1980 and the provincial economy as a whole should see sustained growth through the 1980s.

Changing Markets

As the economic future of the province brightens, the demand for diverse, sophisticated telecommunication services will grow significantly. An increasing number of these demands are attracting competitors' bids, particularly in the area of computer communications and other non-voice services. We are confident that our planned transition to digital and software-based systems, combined with an aggressive marketing effort for new and existing services, will bring to Newfoundland Telephone the most promising opportunities.

The Resources Available

The Company has the human and technological resources capable of meeting the current needs of its customers and, through careful planning, will develop those resources to respond successfully to the changes in the telecommunication market in the years ahead.

The rapid advances in telecommunication technology and the increasing complexity of our business have increased the need for employee training. In 1980, several hundred employees took part in technical training as well as management skills courses to prepare for the future with awareness and confidence. The development of our human resources will continue to be an important part of the Company's activities.

The Company's technological resources include the most modern equipment and systems available in the industry. Through membership in the TransCanada Telephone System, the Company's customers have direct access to a highly reliable, top-quality, efficient and integrated Canadian network which is the heart of the telecommunication system. Nationwide data transmission capabilities are provided through the Datapac and Dataroute services. On the provincial level, Omnidata has gained wide acceptance since its introduction just over a year ago and has provided regional communication services for a number of Newfoundland companies.

The increased demand for data transmission services across Canada during 1980 was accompanied by a strengthening market for diverse and specialized business systems. In order to provide for telephone company participation in this growing market, Bell Canada created a subsidiary called intelTerm Systems Limited to market and sell small business computers, word processors and related software-based systems. In August 1979, the Board of Directors of intelTerm authorized its activation on a national basis through ownership and distributorship options to be made available to TransCanada Telephone System member companies.

On October 1, 1980, the Company purchased five percent of the common shares of intelTerm and became the distributor for its product lines in Newfoundland and Labrador.

As part of the developing strategy for the marketing of competitive services, our sales forces are being reorganized to reflect the segmentation which exists in the market. On January 1, 1981, the Company formed a new division called NewTel Systems to market intelTerm and other products and to participate in the expanding business office systems market.

Outlook

In 1980, the accomplishments of Newfoundland Telephone reflect the quality of the human and technological resources at work. The Company will strive to maintain a high standard of service in the coming years through effective planning and successful implementation of various modernization programs.

New network developments will add quality and diversity to our services in the 1980s so that the Company will keep pace with customer requirements. The provincial microwave network will be extended with the expected completion of the trans-Labrador route



Newfoundland Telephone formed a new division named NewTel Systems to market such diverse products as the Cado small business computer terminal (lower right), the Vydec word-processing unit (lower left), and various video and data terminals such as the Vucom 4 and Datacom 1200.

in 1983. By late 1985, a computer-based automatic surveillance system will be in place to provide continuous monitoring of signal strength. It will also monitor fuel levels, weather conditions and provide other site and equipment observations.

A new earth station under construction in St. John's will be linked via Anik C satellite (scheduled for launch in 1982) to earth stations across Canada. An important feature of this system will be its national teleconferencing capability which will allow face-to-face communication among customers across the country. The first fibre optic link in the province will transmit signals between the earth station and the Allandale switching centre in St. John's. The increased information flow by satellite and microwave will require the development of additional toll switching centres in St. John's by the middle of the decade.

These technological advances will have a positive impact on the quality and number of services the Company can offer its customers. Of particular

interest are some of the specialized services currently being developed in the province which will be expanded in the future.

For example, the Telemedicine service initiated last year has been extended. The system, which allows teleconferencing among a number of hospitals and health organizations throughout the province, was designed and installed in co-operation with the Memorial University Health Sciences Centre.

This past summer, the system was linked experimentally with the drill ship, Nedrell II, off the coast of Labrador. The experiment successfully demonstrated that the service can be offered on a commercial basis.

In 1980, the Atmospheric Environment Service of Environment Canada began 24-hour transmission of inland, marine, farm and forestry weather forecasts. Known as Weatheradio Canada, the service is provided through Newfoundland Telephone facilities. At present, three transmitters cover most of central and eastern Newfoundland and portions of the adjacent marine districts. Fourteen additional transmitters are planned, both on the Island and along the coast of Labrador, over the next two years.



During 1980, Newfoundland Telephone launched a new service for Environment Canada known as Weatheradio Canada, which provides information on such things as inland, marine, farm and forestry weather forecasts, on a 24-hour basis. With growing activity in the offshore and inshore environments, Weatheradio will provide a valuable service.

New technology will also foster growth in the residence and business telephone market. Telephone gain is expected to increase in 1981 by 4.2 percent and long distance revenues are expected to reach \$63.0 million. Operating expenses will continue to increase, reflecting the inflationary effects of increases in costs for materials, wages and particularly, energy. For this reason, the Company is continuing its energy conservation program. In addition to the energy-savings expected in the new Headquarters Administration Building, the Company is also participating in an experimental wind-power generation system for its microwave sites. This system is designed to reduce usage of expensive, non-renewable energy at remote sites.

In summary, the significant strides taken by the Company in 1980 and the encouraging outlook for an expanded regional economy justify our optimism about the years ahead.

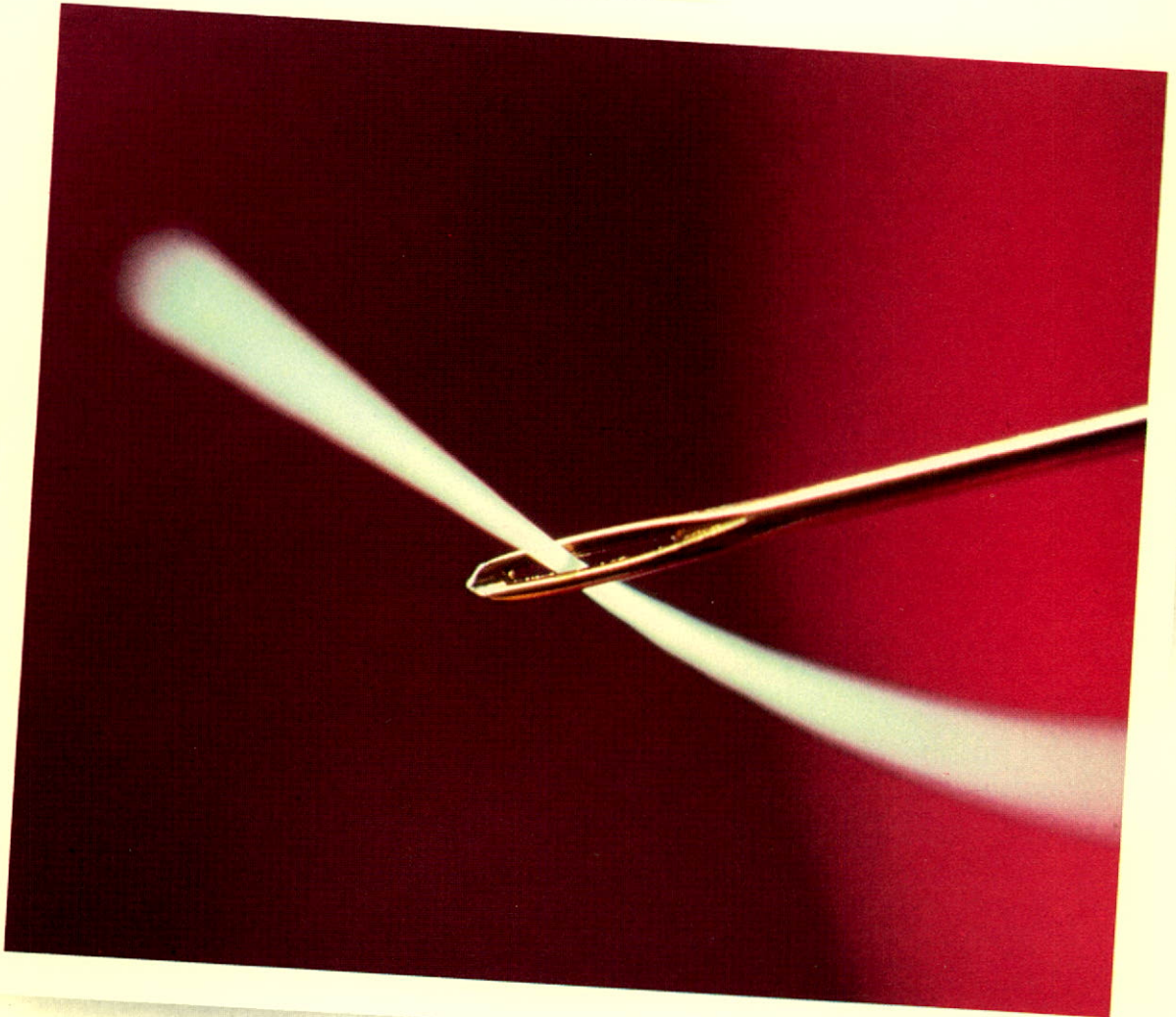
Your Company is confident that the elements are in place for continued progress which will assure good returns to its investors, rewarding work for its employees and high-quality service to its customers.

On behalf of the Board of Directors,



President and Chief Executive Officer
February 4, 1981

A fibre optic link between the new earth station on Kenmount Road and the Allandale switching centre in St. John's, will broaden the provision of audio and video teleconferencing, data communications and voice services.



Corporate Information

Head Office

Newfoundland Telephone
Company Limited
343 Duckworth Street
St. John's, Newfoundland
A1C 5H6

1981 Annual General Meeting

The Annual General Meeting of Shareholders will take place at 10:00 A.M., Newfoundland Standard Time, Wednesday, March 25, 1981 in the Fort William Room, Hotel Newfoundland, Cavendish Square, St. John's, Newfoundland.

Listing of Common Shares

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

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

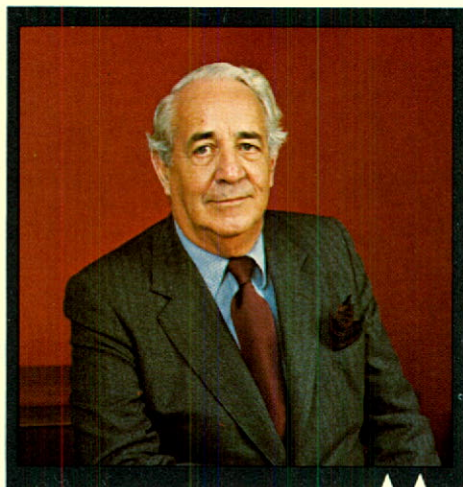
Montreal Trust Company
331 Water Street
St. John's, Newfoundland
A1C 6E6

Transfer Offices for Common Shares

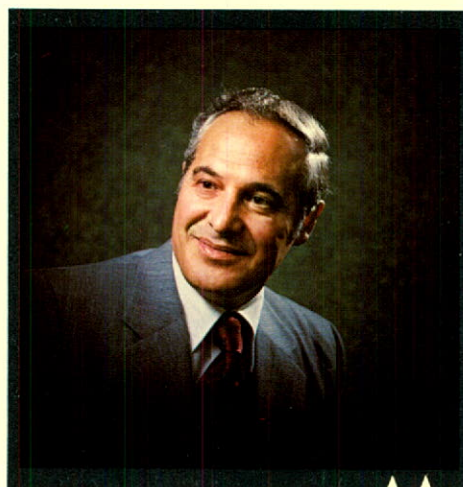
Montreal Trust Company -
St. John's, Halifax, Montreal, Toronto,
Winnipeg, Regina, Calgary and
Vancouver.

Transfer Offices for Preferred Shares and Bonds

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



L.H.M. Ayre
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

Officers

L.H.M. Ayre
Chairman of the Board

E.F. Hunt
Comptroller

A.A. Brait
President and
Chief Executive Officer

G.H. Erl
Secretary-Treasurer

R.H. Benson
Director-Finance

Directors



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

D.W. Clark
President and General Manager
Bowater Newfoundland Limited
Corner Brook, Newfoundland

A.R. Lundrigan
President, Lundrigans Limited
Corner Brook, Newfoundland

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

D.D. Munro
Resident General Manager
Price (Nfld.) Pulp & Paper Limited
Grand Falls, Newfoundland

J.H. Farrell
Vice-President -
Computer Communications
Bell Canada
Ottawa, Ontario

The Hon. F. O'Dea, Q.C.
Senior Partner
O'Dea, Greene
St. John's, Newfoundland

G.L. Henthorn
Vice-President and Comptroller
Bell Canada
Montreal, Quebec

F.J. O'Leary
Executive Vice-President
Anchorbank Limited
St. John's, Newfoundland



Notes

Newfoundland Telephone Company Limited



Newfoundland
Telephone