

Newfoundland Telephone Company Limited
Annual Report
1979

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NEWFOUNDLAND TELEPHONE COMPANY LIMITED ANNUAL REPORT 1979

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Corporate Information

Head Office

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

1980 Annual General Meeting

The Annual General Meeting of Shareholders will take place at 10:00 A.M., Newfoundland Standard Time, Wednesday, March 26, 1980 in the Fort William Room, Hotel Newfoundland, Cavendish Square, St. John's, Newfoundland.

Listing of Common Stock

Newfoundland Telephone Company Limited common stock is listed on The Toronto and Montreal Stock Exchanges.

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

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

Transfer Offices for Common Stock

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

Transfer Offices for Preferred Stock and Bonds

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

Directors

L.H.M. Ayre
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 – Regulatory Matters
Bell Canada
Ottawa, Ontario

G.L. Henthorn
Vice-President and Comptroller
Bell Canada
Montreal, Quebec
H.L. Lake
Executive Vice-President
The Lake Group Limited
St. John's, Newfoundland
A.R. Lundrigan
President, Lundrigans Limited
Corner Brook, Newfoundland
D.D. Munro
Resident General Manager
Price (Nfld.) Pulp & Paper Limited
Grand Falls, Newfoundland
The Hon. F. O'Dea, Q.C.
Senior Partner
O'Dea, Greene & Puddester
St. John's, Newfoundland
F.J. O'Leary
Director of the Company
St. John's, Newfoundland

Officers

L.H.M. Ayre
Chairman of the Board
A.A. Brait
President and Chief Executive Officer
R.H. Benson
Director-Finance
R.H. Montgomery
Director-Planning
E.F. Hunt
Comptroller
G.H. Erl
Secretary-Treasurer

The Company's Board of Directors, standing, left to right:

F.J. O'Leary, H.L. Lake, G.L. Henthorn, J.H. Farrell, The Hon. F. O'Dea, Q.C., A.A. Brait, L.H.M. Ayre, D.W. Clark, H. Collingwood, D.D. Munro, A.R. Lundrigan, G.H. Erl (secretary).



President's Message

On the occasion of our sixtieth anniversary, it is most satisfying to reflect upon Newfoundland Telephone's remarkable growth and modernization over the years and to consider the role that we have played in the development of the province. The achievements of 1979 clearly illustrate the Company's commitment to build a modern telecommunication network enabling us to meet the needs of, and benefit from the opportunities presented by, a changing and expanding provincial economy.

During the year the Company continued its program of installing the most advanced plant and equipment available in the industry. The introduction of the Traffic Operator Position System (TOPS) on the province's west coast, installation of a major electronic switching system in central Newfoundland and the placing of our Company's first digital switching machine in Labrador were all completed in 1979.

Advances in business and residential services were also evident throughout the year. New data and computer communication offerings were introduced, long distance services were enhanced and Direct Distance Dialing was extended to virtually all our customers. In addition, the Company opened its second Phonecentre, located in western Labrador, introducing this new service concept to the area.

In 1979 as well, significant steps were taken to consolidate Company operations. With the acquisition of the telecommunication system in Labrador City, our serving territory now includes the entire Labrador area. In addition, construction began this year on our new head office administration building in St. John's.

The accomplishments during the past year, recorded in greater detail in the Report of the Directors, were realized through the demonstrated skill and dedication of our employees.

The financial position of the Company at year end was strong and holds the prospect of improvement in 1980. A significant achievement in

1979 was the introduction of the tax allocation method of accounting for income taxes, a method used by all major investor-owned telephone companies in Canada. This change improves the overall quality of earnings and makes the attainment of our financial goals more secure. The Company continues to hold the view that a debt ratio in a range around 50% is appropriate and provides adequate financing flexibility. In addition, we are confident that, in the longer term, a major portion of our capital requirements will be generated by internal cash flow.

Your Company has had an interesting history and looks forward to an exciting and challenging future. We remain dedicated to the task of responding to the changing attitudes and expectations of our customers and shareholders by utilizing new and emerging technologies to increase efficiency, maintain a high level of service, and take advantage of new business opportunities. The large investments in modern plant and facilities which were made in the seventies will continue in the eighties with increasing emphasis on digital and fibre optic technology.

As we enter the eighties the prospects for a vital and expanding provincial economy have never been more encouraging and we can look forward to the marketing of a wider range of services and to enhanced revenue opportunities. The challenges of high inflation and uncertain financial markets remain. In this environment, the major thrust will be directed towards the well-planned introduction of new technology and the effective management of all the Company's resources. This effort should optimize the revenue-expense relationship and achieve the kind of returns which will be attractive to investors.



President and Chief Executive Officer

Report of the Directors

Sixty years ago the Company began providing telephone service to the people of Newfoundland. At that time there were less than a thousand telephones in service and operations were limited to the St. John's area. During the past six decades the province has experienced significant growth and there have been major changes to the communication needs of its people. Newfoundland Telephone has responded to this challenge by expanding its sphere of operations to all regions of the province and by developing a modern and efficient telecommunication system.

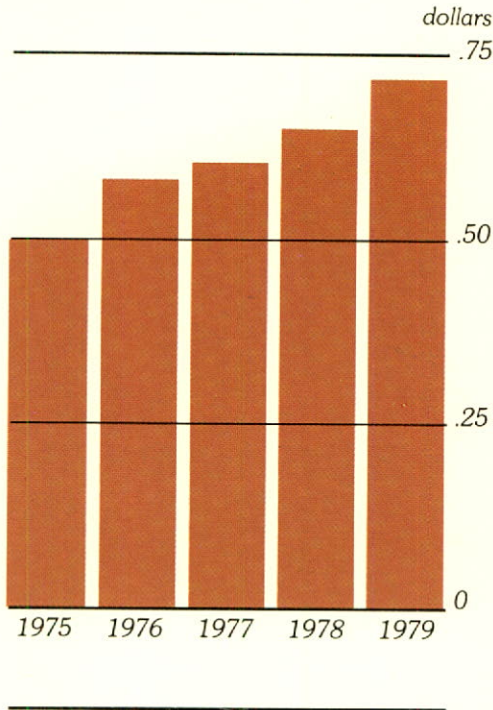
The achievements of our sixtieth year demonstrate how far we have progressed and indicate that we have in place the elements which will ensure future growth and improvement.

Financial Performance

The Company's financial results for 1979 reflect the adoption of the tax allocation method of accounting for income taxes.

By its Order dated October 12, 1979 the Board of Commissioners of Public Utilities of Newfoundland approved the Company's application for the use of the tax allocation method effective January 1, 1979. Prior to this ruling the Company was not permitted to use the tax allocation method with respect to timing differences between capital cost allowances and depreciation.

Dividends Paid per Common Share



Tax allocation is generally employed throughout the telecommunication industry. This change, which permits a proper matching of revenues and costs, enhances the quality of earnings and also improves the internal cash flow and interest coverage. The adoption of the tax allocation method will assist the Company to maintain its ability to raise capital at competitive rates and will make the Company more comparable to other companies with which it competes for funds.

The effect of this change in 1979 has been to increase booked income tax expense and deferred income taxes by \$1.5 million and to decrease net income by an equal amount. Consequently, the results for 1979 are not directly comparable to those of previous years. With the transition to the new method, earnings per average common share in 1979 were \$1.19, while in 1978 they were \$1.17. Total operating revenues increased to \$79.1 million (\$70.5 million in 1978), operating expenses were \$51.4 million (\$44.4 million in 1978) and net income applicable to common shares was \$9.1 million (\$7.9 million in 1978).

The rate of return on average common equity was 13.85 percent, compared to 14.50 percent in 1978. The rate of return on average total capital was 11.26 percent, compared to 11.16 percent in the previous year.

The Company extended its Phonecentre program to residents of western Labrador.



During the year the Company generated 50.2 percent of its capital requirements from internal sources and projects an improving trend into the future.

In July the Board of Directors declared a third-quarter dividend of \$0.19 per common share, indicating an annual rate of \$0.76, an increase of \$0.06 per share. This decision is consistent with the Company's policy of paying dividends that will provide reasonable returns to our shareholders, taking into consideration current inflationary trends.

Advances in Technology and Service

Technology

In the Company's first year of operations, investment in plant and equipment totalled \$437,000. Over the years the technological advances within the telecommunication industry have been remarkable, particularly during the past twenty years. The Company has kept pace with these advances through the installation of modern facilities and equipment which are required to support the ever-expanding range of customer services. In addition, this new technology is efficient and cost effective and will diminish the effect of future inflation on the Company. At the end of 1979 the Company's investment in telecommunication plant and equipment reached \$264.5 million.

During 1979 the Company invested \$31.0 million for the construction and improvement of facilities.

\$2.5 million was spent on long distance technology with the introduction of the Traffic Operator Position System (TOPS) in Corner Brook, on the province's west coast. This system is computer-based and utilizes visual terminals and keyboards rather than the traditional operator switchboards. TOPS increases the efficiency of processing long distance messages. The Company plans to introduce TOPS in the St. John's area in 1980.

We continued the transition to the more advanced electronic switching systems in 1979 with the opening of a new central office building in Grand Falls. Built at a cost of \$3.7 million, this centre houses a large electronic switching installation and provides the necessary local service and long distance capacity to support future growth in the central Newfoundland area. In addition, a \$1.7 million program was completed in the Grand Falls/Windsor area for the upgrading of underground cable as well as replacing a major portion of overhead wires with underground facilities.

Improvement in Labrador continued in 1979 with the installation of an electronic switching system in Red Bay on the south coast and the introduction of our first digital switching machine (DMS-10) in Nain, the most northerly community served by the Company.

This installation is the forerunner of a planned conversion to digital switching and is indicative of the Company's commitment to provide high-quality service to rural and remote areas.

Service

These technological improvements to our facilities during the year have enabled the Company to introduce new services and to maintain the quality of existing offerings. The TOPS installation permitted a new long distance feature in the central and western areas of the province which enables customers to dial direct many calls which traditionally required the assistance of operators. The new equipment in Red Bay and Nain provided Direct Distance Dialing (DDD) and improved local calling services to these communities.

Significant advances were also experienced this year in the business and data service market. With the completion of our provincial microwave system in 1978, the Company has been able to compete effectively in this ever-expanding and profitable market and efforts in 1979 produced a number of encouraging results.

For example, during the year the Company added two new data terminals to its product line. In March we introduced Datacom 1200, a high-speed printout terminal which offers increased service options to data customers and reduces costs on

The new electronic switching centre in Grand Falls opened in October.



shared computer systems. In December we introduced Vutran, a multi-use terminal designed to meet the needs of the financial community and retail trades. Vutran increases computer access for the small business customer, providing a variety of applications from credit authorization to inventory control. Both of these services were developed in conjunction with the TransCanada Telephone System's Computer Communications Group.

Omnidata was made available to data customers in 1979. The system, Newfoundland's first provincial data transmission network, provides a service that is fully compatible with the national data communication services of the TransCanada Telephone System. Omnidata uses digital techniques to connect customers' computer communication operations in all parts of the province.

The offering of these data services was in response to the more specialized needs of our customers as a result of an expanding provincial economy. For example, a major fish processing company has used Omnidata to build an effective communication network linking its plants located throughout the province.

Newfoundland Telephone personnel assisted in the design and installation of a new teleconferencing system linking Memorial University campuses in St. John's and Corner Brook with a number of hospitals and health organizations throughout the province. Known as Telehealth, the system provides for continuing education of health professionals and permits medical consultations between participating groups. Telehealth is regarded in the industry as a unique application of telecommunication technology.

In the area of residential services, the Company's St. John's Phonecentre has become well established since its opening in late 1978. The Phonecentre served over 15,000 customers during its first full year of operations. More than 30,000 homes in St. John's have been equipped with the special outlets which facilitate service installations. The success of the program has encouraged the Company to extend the service to other communities in the St. John's area in 1980.

During the year 17,764 telephones were added to the Company's telecom-

munication system bringing telephones in service to 193,076. Completed long distance messages increased by 14.9 percent to approximately 17.0 million.

Labrador City Acquisition

On June 9 Newfoundland Telephone acquired the Labrador City telecommunication system from Iron Ore Company of Canada, adding approximately 6,500 telephones to the Company's system. The \$5.7 million purchase almost doubled our telephone base in Labrador and means that all of Labrador is now served by the Company. Coincident with this acquisition, all long distance calls originating in Labrador City are routed on the Company's long distance network, resulting in increased revenues. In November the Company opened a new Phonecentre in Labrador City offering the full range of related services to customers in the Labrador City/Wabush area.

New Headquarters

Newfoundland Telephone's identification with downtown St. John's extends back to its founding in 1919. In April of this year construction began on the Company's new head office

administration building located in the downtown area. This location will help to maintain the Company's relationship with the historical core of the city.

By year end construction of the steel frame had been completed and work was proceeding on the other phases of the project. Present plans call for the structure to be enclosed by the spring of 1980 with occupancy scheduled for mid-1981. The six-storey complex will accommodate approximately 700 employees and will consolidate Company operations now spread throughout St. John's.

Customer Contact

Despite our growth over the past sixty years, the Company has never lost sight of the importance of establishing and developing effective communication with its customers.

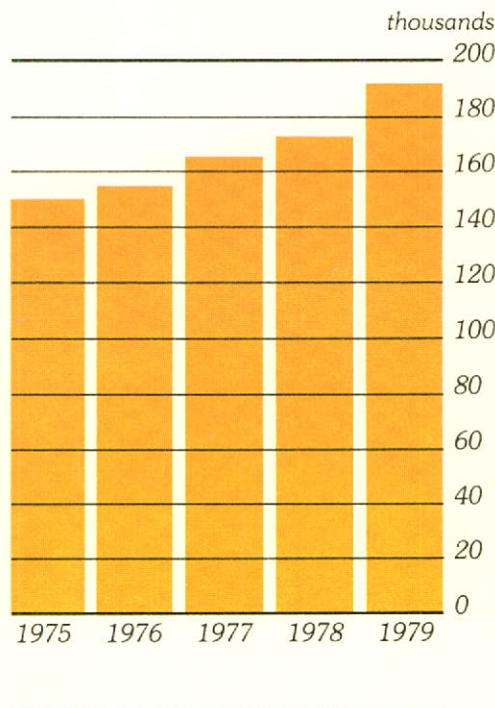
Newfoundland Telephone achieves this accessibility to customers in a variety of ways. The Company's public offices and Phonecentres throughout the province provide easy access for the public to obtain service and repairs and to discuss other matters. In all major areas of its operating territory, the Company has established a local identity through our Resident Managers. And, periodically, Company personnel visit other communities to discuss telephone service and needs with local governments, businesses and residents.

Employee Relations

The most important asset of any enterprise does not appear on its balance sheet. It is the dedication and resourcefulness of its employees. This is certainly the case with Newfoundland Telephone. Our achievements during the past year record the efforts of our employees whose pride in performance is essential to the ongoing success of the Company.

It was with great satisfaction that we were able to introduce a new Employees' Savings Plan this year. The Plan enables employees to purchase, from Treasury, common shares of the Company. Purchases are made at market price and are based on a percentage of salary. Employee response to the Plan has been encouraging with participation exceeding expectations, indicating a high level of employee confidence and support

Telephones in Service



of the Company.

Two collective agreements covering almost 600 employees were signed with the International Brotherhood of Electrical Workers, Local 1615. The first agreement was signed on June 1 and covers nearly 200 telephone operators. The second was signed on August 16 covering about 400 craft employees including installers, linemen, splicers and maintenance personnel. Both agreements are effective for two years and provide for wage increases in each year.

The Company employed 1,485 people at year end. Wages and salaries paid in 1979 amounted to \$24.1 million and benefits and pension fund contributions totalled \$2.6 million.

Executive Changes

The following executive changes became effective on July 1:

Mr. R.H. Benson, C.A., the Company's Comptroller, was appointed Director-Finance replacing Mr. D.G. Wright who returned to Bell Canada. The Board of Directors expresses its appreciation for Mr. Wright's contribution during his four years with the Company.

Mr. E.F. Hunt, who was the Company's Finance Manager-Staff, was appointed Comptroller replacing Mr. Benson.

Mr. K.A.A. Marshall, Secretary-Treasurer, was appointed Director-Special Assignment, and loaned to Bell Canada.

Mr. G.H. Erl was named Secretary-Treasurer. Mr. Erl had served as the Company's Commercial Manager since 1976.

Outlook

The Industry

As we move into the 1980s the telecommunication industry will continue the remarkable advances of recent years. The movement toward the "information society" has begun, with customer demands for increased capabilities to receive, assimilate and transmit vast amounts of data. The industry is responding to these demands with a number of new developments.

Electronic telephones are being developed which will permit a range of service offerings designed to meet future needs. New developments in data and computer communications will provide many new applications which can be tailored to individual customer needs. Digital switching and transmission systems will be further developed. Digital technology offers lower operating and maintenance costs, improved transmission quality and greater flexibility in accommodating

new voice and data services. Optical fibre systems, which permit the transmission of a large number and variety of signals, are now in operation and their use will be expanded greatly in the future. Satellite communication technology represents another major growth area as the development of portable earth stations provides for a number of new applications.

The Provincial Economy

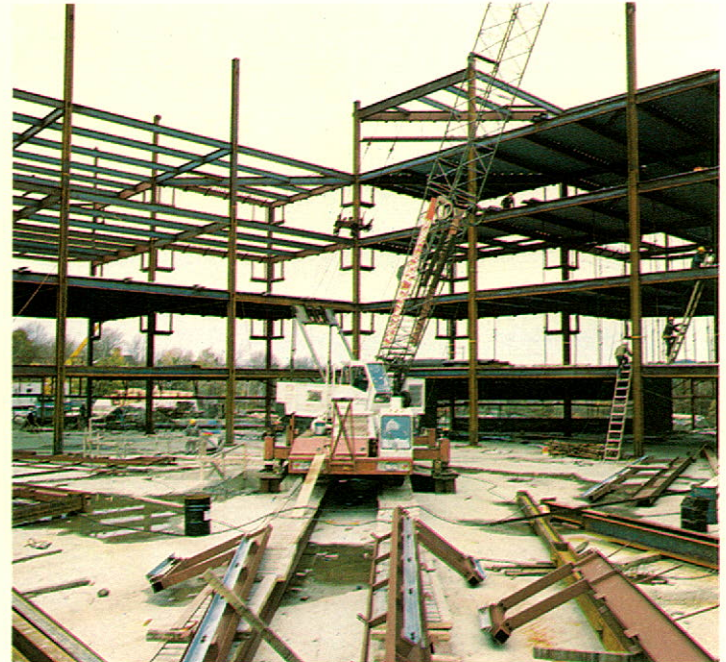
There are positive indicators of the province's economic prospects, in both the near and long term.

The fishery, Newfoundland's major employment sector, is expected to grow significantly in catch volume, processing output and market value through the next few years. Mineral exploration activity has increased markedly and several mining projects in Labrador and the southwest area of the Island are expected to commence in several years. A new pulp and paper operation on the province's west coast will begin operations in 1980. Year-round offshore oil exploration is underway and there is growing confidence that a significant commercial find is imminent. In addition, with the recent interest in all forms of energy, there is a renewed emphasis on the development of the major hydro-electric resources of southern Labrador.

Company President A.A. Brait (left) and M.B. Mulrone, President of Iron Ore Company of Canada, sign the Labrador City purchase agreement.



During the year construction began on the Company's new head office administration building in St. John's.



Growth in all sectors of the provincial economy and the associated change in the needs of our customers will have a beneficial impact on the demand for the Company's wide range of telecommunication services.

The Company

It is with these exciting industry and economic prospects in mind that Newfoundland Telephone is planning its activities. Over the next several years the Company will continue to utilize the latest industry developments. Digital technology, which was introduced this year, will be extended to other areas of our operations and our first fibre optic link is planned for St. John's in the near future. A \$9.5 million microwave route, now in the engineering phase, will be completed in 1982 connecting our new Labrador City operations with the provincial network and permitting new service offerings to the area.

During 1980 a number of programs will be completed. A major digital switching machine (DMS-100) will be installed in Corner Brook, and TOPS, with its related customer services, will be introduced to serve St. John's and the surrounding areas. Upon completion, about 80 percent of our operator-assisted calls will be on TOPS facilities. Installation of a surveillance and control system will allow the monitor-

ing of our microwave network and improve our ongoing maintenance. Information gathering features of the system, such as weather monitoring and remote sensing, have revenue potential as energy exploration expands. Phonecentre conversion activities will continue in St. John's and Labrador West.

The expanding economy will create new customer demand for a wide range of business services. The enhancements to our facilities over the past several years have enabled us to offer a full range of services to the business and data communications markets. Our thrust into these profitable markets will be increased in 1980. A mobile communication program will be introduced offering mobile telephone, public mobile radio and voice paging services. In addition, the Company will continue its concerted efforts to conserve energy, particularly at our remote microwave sites.

Telephone gain is expected to reach about 7,900 in 1980 and long distance messages are projected to increase by 13 percent. The Company has set an objective for growth in earnings per share to at least match the inflation rate and a rate of return on average common equity at the top of the range currently allowed by the Public Utilities Board.

As the Company enters its seventh decade we are confident of our ability to continue the advances of previous years. Modern facilities, new and innovative services and clear objectives for the future provide a sound basis for optimism.

The Directors and employees of Newfoundland Telephone were deeply saddened at the passing, on January 22, 1980, of Norman W. Guest, Director-Administrative Services. Mr. Guest's intimate understanding of human relations and of its importance to the success of any enterprise, made his counsel invaluable. The benefit of his wisdom will be greatly missed. Our sincere condolences are extended to his family.

On behalf of the Board of Directors,



President and Chief Executive Officer
February 7, 1980

The Company's executive group from left to right: G.H. Erl, Secretary-Treasurer, E.F. Hunt, Comptroller, D.R. Nickerson, Director-Network Services, N.W. Guest, Director-Administrative Services, A.A. Brait, President and Chief Executive Officer, R.H. Benson, Director-Finance, R.H. Montgomery, Director-Planning, V.G. Withers, Director-Customer Services.



Financial Information

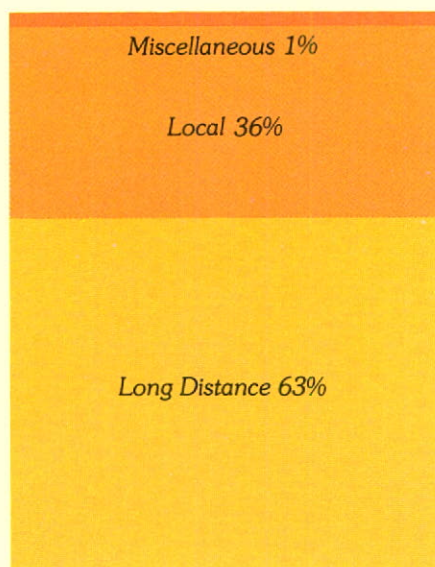
1979 Financial Highlights

	Year 1979	Year 1978	Changes
Revenues			
Local service	\$28,751,869	\$26,245,928	\$2,505,941
Long distance service	49,436,982	43,556,959	5,880,023
Miscellaneous income – net	1,984,644	1,371,993	612,651
Total revenues	80,173,495	71,174,880	8,998,615
Expenses			
Operating expenses	51,412,641	44,360,255	7,052,386
Income taxes	9,756,497	7,536,014	2,220,483
Interest charges	8,877,646	8,488,798	388,848
Total expenses	70,046,784	60,385,067	9,661,717
Net Income Before Transfer	10,126,711	10,789,813	(663,102)
Transfer	943,175	(943,175)	1,886,350
Net Income	\$11,069,886	\$ 9,846,638	\$1,223,248

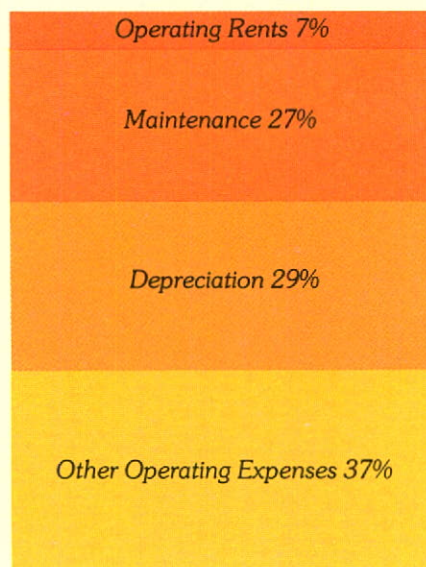
Financial Results:

Total revenues increased by 12.6%
 Total expenses increased by 16.0%
 Construction expenditures amounted to \$30,997,931
 Investment in plant and equipment reached \$264,462,228
 Rate of return on average total capital was 11.26%
 Rate of return on average common equity was 13.85%
 Dividends paid per common share were \$0.73

Breakdown of Operating Revenues 1979



Breakdown of Operating Expenses 1979



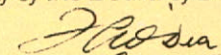
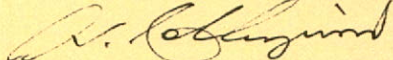
Income Statement

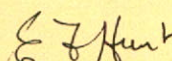
	Year 1979	Year 1978
Operating Revenues		
Local service	\$ 28,751,869	\$ 26,245,928
Long distance service	49,436,982	43,556,959
Miscellaneous – net	868,090	703,890
Total Operating Revenues	<u>79,056,941</u>	<u>70,506,777</u>
Operating Expenses		
Depreciation (Note 1)	14,799,417	13,138,268
Maintenance	13,978,810	12,044,521
Operating rents	3,536,091	2,985,806
Other operating expenses	19,098,323	16,191,660
Total Operating Expenses	<u>51,412,641</u>	<u>44,360,255</u>
Net Operating Revenues	27,644,300	26,146,522
Other Income (Note 7)	<u>1,116,554</u>	<u>668,103</u>
Income Before Underlisted Items	<u>28,760,854</u>	<u>26,814,625</u>
Interest Charges		
Interest on long term debt	7,561,200	7,728,944
Other interest	1,316,446	759,854
Total Interest Charges	<u>8,877,646</u>	<u>8,488,798</u>
Income Before Income Taxes	19,883,208	18,325,827
Income Taxes (Notes 1 and 6)	<u>9,756,497</u>	<u>7,536,014</u>
Net Income Before Transfer	10,126,711	10,789,813
Transfer From (To) Deferred Income (Note 10)	<u>943,175</u>	<u>(943,175)</u>
Net Income	11,069,886	9,846,638
Dividends On Preferred Shares	<u>1,942,346</u>	<u>1,984,268</u>
Net Income Applicable To Common Shares	<u>\$ 9,127,540</u>	<u>\$ 7,862,370</u>
Earnings Per Common Share (based on average number of shares outstanding)	<u>\$ 1.19</u>	<u>\$ 1.17</u>

Balance Sheet

ASSETS	December 31 1979	December 31 1978
Telecommunication Property		
Buildings, plant and equipment – at cost	\$252,101,121	\$224,517,416
Less: Accumulated depreciation (Note 1)	<u>72,611,278</u>	<u>63,347,632</u>
	179,489,843	161,169,784
Land and plant under construction – at cost	12,361,107	9,827,707
Materials and supplies (Note 1)	<u>3,964,315</u>	<u>3,686,931</u>
	<u>195,815,265</u>	<u>174,684,422</u>
Investment – Shares in Telesat Canada – at cost	<u>300,000</u>	<u>300,000</u>
Current Assets		
Short term investment – at cost	–	5,862,405
Accounts receivable	11,720,448	11,063,294
Prepayments	<u>778,148</u>	<u>602,116</u>
	<u>12,498,596</u>	<u>17,527,815</u>
Deferred Charges (Note 1)		
Unamortized deficiency in accumulated depreciation	599,400	674,325
Unamortized long term debt expenses	1,296,711	1,347,715
Other	<u>2,569,931</u>	<u>1,875,918</u>
	<u>4,466,042</u>	<u>3,897,958</u>
	<u>\$213,079,903</u>	<u>\$196,410,195</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' Equity		
Capital stock (Note 2)		
Preferred shares	\$ 21,755,600	\$ 22,223,000
Common shares	46,661,295	46,661,295
Premium on common shares	775,987	775,987
Capital redemption reserve fund (Note 2)	2,244,400	1,777,000
Retained earnings	<u>18,099,897</u>	<u>15,047,806</u>
	<u>89,537,179</u>	<u>86,485,088</u>
Unsecured Subordinated Notes – Due To Parent Company (Note 3)	<u>5,129,941</u>	<u>6,259,941</u>
Long Term Debt (Note 4)	<u>77,233,000</u>	<u>79,512,000</u>
Notes Payable (Note 5)	<u>17,000,000</u>	<u>–</u>
Current Liabilities		
Bank advance	1,627,665	3,707,853
Accounts payable	2,081,315	3,735,656
Due to parent company	52,103	168,207
Due to affiliated companies	1,228,339	785,561
Advance billing for service	1,300,957	971,218
Taxes accrued	3,020,399	2,771,571
Interest accrued	1,450,588	1,422,344
Dividends payable	79,578	83,444
Deferred income (Note 10)	–	943,175
	<u>10,840,944</u>	<u>14,589,029</u>
Deferred Income Taxes (Notes 1 and 6)	<u>13,338,839</u>	<u>9,564,137</u>
	<u>\$213,079,903</u>	<u>\$196,410,195</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 1979	Year 1978
Balance at Beginning of Year	\$15,047,806	\$ 12,659,883
Net Income	11,069,886	9,846,638
	<u>26,117,692</u>	<u>22,506,521</u>
Deduct:		
Dividends		
Preferred shares	1,942,346	1,984,268
Common shares	5,608,049	4,423,468
	<u>7,550,395</u>	<u>6,407,736</u>
Transfers to capital redemption reserve fund	467,400	473,800
Expenses on issue of capital stock (net of income tax of \$180,641)	—	577,179
	<u>8,017,795</u>	<u>7,458,715</u>
Balance at End of Year	<u>\$18,099,897</u>	<u>\$ 15,047,806</u>

Statement of Changes in Financial Position

	Year 1979	Year 1978
Source of Funds		
Operations		
Net Income	\$11,069,886	\$ 9,846,638
Items not requiring current funds		
Depreciation and miscellaneous	14,744,857	13,134,369
Deferred income taxes	3,774,702	1,931,391
	<u>29,589,445</u>	<u>24,912,398</u>
Proceeds from issue of common shares	—	11,392,180
Net proceeds from notes payable	17,000,000	—
Decrease in working capital	1,281,134	2,183,200
	<u>\$47,870,579</u>	<u>\$38,487,778</u>
Disposition of Funds		
Capital expenditures		
Gross capital expenditures	\$30,997,931	\$27,334,446
Deduct: Charges not requiring an outlay of funds	(1,221,070)	(1,530,417)
Increase in materials and supplies	277,384	281,052
	<u>30,054,245</u>	<u>26,085,081</u>
Acquisition of Labrador City Telecommunication System	5,778,568	—
Dividends – Preferred	1,942,346	1,984,268
– Common	5,608,049	4,423,468
Redemption of preferred shares	467,400	473,800
Repayment of subordinated notes	1,130,000	1,130,000
Repayment of long term debt	2,279,000	1,966,000
Net repayment of notes payable	—	2,900,000
Miscellaneous	610,971	(474,839)
	<u>\$47,870,579</u>	<u>\$38,487,778</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 6.36% for 1979 (1978 - 6.29%). When depreciable property is retired, the amount at which such property has been carried in telecommunication

property is charged to accumulated depreciation.

By Order of the Board of Commissioners, \$74,925, representing the annual amortization of an accumulated depreciation deficiency, was charged to depreciation expense during the year. The remaining unamortized depreciation deficiency balance of \$599,400 is to be amortized in equal yearly amounts to 1987.

Income Taxes

Effective January 1, 1979, the tax allocation basis of accounting for income taxes has been followed with respect to all timing differences. Prior to January 1, 1979, tax allocation had not applied with respect to

timing differences between capital cost allowances and depreciation. (See Note 6).

Materials & Supplies

Materials and supplies consist of items which will be used in the construction program and are valued principally at average cost.

Deferred Charges

Expenses incurred for other than long term debt are being amortized as ordered by the Board of Commissioners. Expenses incurred in connection with the issue of long term debt are amortized on a straight line basis over the life of the debt.

2. CAPITAL STOCK

Authorized		Outstanding		December 31	
				1979	1978
250,000	7.25% cumulative redeemable preferred shares of the par value of \$20 each.	211,630	7.25% preferred shares (1978 - 215,150 shares)	\$4,232,600	\$ 4,303,000
450,000	9.75% cumulative redeemable preferred shares of the par value of \$20 each.	378,000	9.75% preferred shares (1978 - 396,000 shares)	7,560,000	7,920,000
500,000	8.85% cumulative redeemable preferred shares, Series C of the par value of \$20 each.	498,150	8.85% preferred shares, Series C (1978 - 500,000 shares)	9,963,000	10,000,000
				<u>\$21,755,600</u>	<u>\$22,223,000</u>
1,000,000	Cumulative redeemable preferred shares of the par value of \$20 each.				
10,000,000	Common shares without par value.	7,682,259	Common shares (1978 - 7,682,259 shares)	<u>\$46,661,295</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.

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 at \$20.20 thereafter.

The 9.75% cumulative redeemable preferred shares are not redeemable prior to May 15, 1980, other than for sinking fund purposes but may be

redeemed thereafter, 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, 1979, 3,520 of the 7.25% preferred shares of the aggregate par value of \$70,400; 1,850 of the 8.85% preferred shares of the aggregate par value of

\$37,000 and 18,000 of the 9.75% 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".

The Board of Commissioners by Order No. P.U. 29 (1979) approved the terms of the Company's Employees' Savings Plan. The plan, which became effective January 1, 1980, enables employees to purchase common shares from Treasury at market value. For this purpose the Company has reserved 100,000 common shares for issue thereunder.

3. UNSECURED SUBORDINATED NOTES – DUE TO PARENT COMPANY

Series A Unsecured Subordinated Notes – These notes of \$4,520,000 (1978 – \$5,650,000) payable to Bell Canada, bear interest at 1/4 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, 1980 to 1983 inclusive.

Series B Unsecured Subordinated Note – This note of \$609,941 (1978 – \$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.

4. LONG TERM DEBT

Series	Maturity	Issued	Outstanding December 31	
			1979	1978
First Mortgage Sinking Fund Bonds				
6%	1979	\$ 1,000,000	\$ —	\$ 820,000
7%	1980	2,000,000	1,640,000	1,660,000
9¼%	1990	7,500,000	1,153,000	1,182,000
8⅝%	1992	7,500,000	6,200,000	6,350,000
9%	1994	15,000,000	13,050,000	13,500,000
11½%	1996	10,000,000	10,000,000	10,000,000
11%	1996	17,500,000	16,690,000	17,500,000
			<u>48,733,000</u>	<u>51,012,000</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
			<u>\$77,233,000</u>	<u>\$79,512,000</u>

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

1. Series 7% requires payment in each year of an amount equal to 1% of the issued aggregate principal amount.
2. Series 8⅝% and 9% require payment in each year of an amount equal to 2% of the issued aggregate principal amount of each such series.
3. 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 such series.

4. 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: \$2,066,000 in 1980, \$793,000 in 1981, \$1,363,000 in 1982, \$1,380,300 in 1983 and \$1,390,700 in 1984.

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 operation.

6. INCOME TAXES

The Board of Commissioners, by Orders No. P.U. 28 (1979) and P.U. 31 (1979), approved the use of the full tax allocation basis of accounting for income taxes for the Company effective as of January 1, 1979. Prior to this, the Company had not been using the tax allocation basis of accounting for income taxes for timing differences related to capital cost allowances and depreciation. As a result of this change, which came into effect on January 1, 1979, income tax expense recorded for 1979 is increased by approximately \$1,500,000 and reported net income lowered by the same amount. As of December 31, 1979, the amount of deferred income taxes not provided for in the accounts is estimated at \$14,200,000 due primarily to cumulative differences to December 31, 1978 between capital cost allowances and depreciation. In accordance with the Board Orders, 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. OTHER INCOME

Other income includes an allowance for funds used during construction of \$384,600 (1978 – \$327,600) less miscellaneous income charges. The allowance is also included in the item "Charges not requiring an outlay of funds" in the Statement of Changes in Financial Position.

8. 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.

9. COMMITMENTS

Material contractual obligations in respect of long term leases covering circuits, equipment and building space, amounted to \$4,171,700 at December 31, 1979 (1978 - \$4,085,400). The estimated minimum amounts payable under such leases for the next five years are as follows:

\$1,022,400 in 1980, \$751,600 in 1981, \$496,000 in 1982, \$355,300 in 1983 and \$359,400 in 1984.

10. DEFERRED INCOME

Under guidelines set by the Board of Commissioners, the Company in 1978 accumulated excess income of \$943,175, net of income tax. In accordance with Board Order No 33 (1978) this amount was set aside in an account designated "Deferred Income Account" and deducted from net income in that year. Under a plan approved by the Board of Commissioners, the 1978 deferred income has been included as earned income in 1979.

Auditors' Report

To the Shareholders,
Newfoundland Telephone Company
Limited

We have examined the balance sheet of Newfoundland Telephone Company Limited as at December 31, 1979 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, 1979 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 except for the change in the method of providing for income taxes referred to in Note 6.

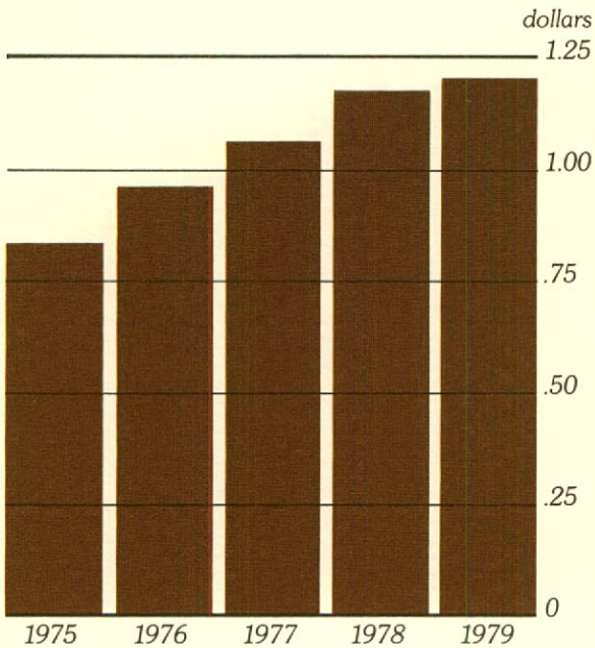
Touche Ross & Co.
Chartered Accountants

St. John's, Newfoundland
February 1, 1980.

Statistical Information

Five Year Statistical Record

Earnings per Share



Income Statement Items

- Total operating revenues
- Other income
- Operating expenses, transfer and taxes*
- Interest charges
- Net income*

Balance Sheet Items

- Investment in plant and equipment
- Shareholders' equity*
- Deferred income taxes*
- Total long term debt

Financial Ratios

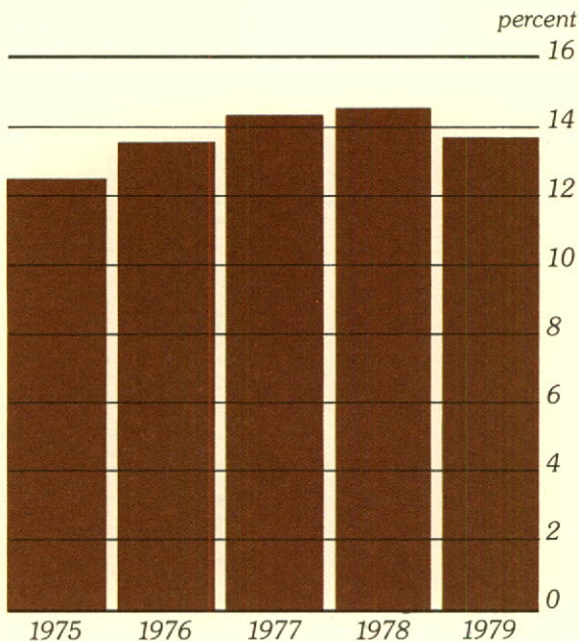
- Earnings per average common share*
- Dividends paid per common share
- Equity per common share*
- Rate of return on average common equity*
- Rate of return on average total capital*
- Times interest earned before taxes
- Interest in percent of average debt
- Percent long term debt to total capitalization
- Available cash flow as a percent of construction

Other Statistics

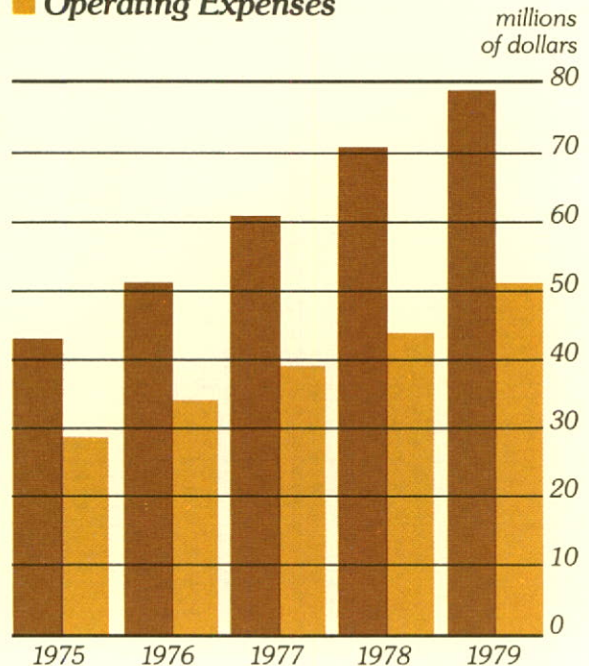
- Construction expenditures
- Plant investment per telephone
- Number of telephones
- Local calls - daily average
- Long distance calls - daily average
- Number of employees
- Salaries and wages paid

*Results reflect (1) Partial tax allocation basis for 1975 to 1978
(2) Full tax allocation basis for 1979

Rate of Return on Average Common Equity

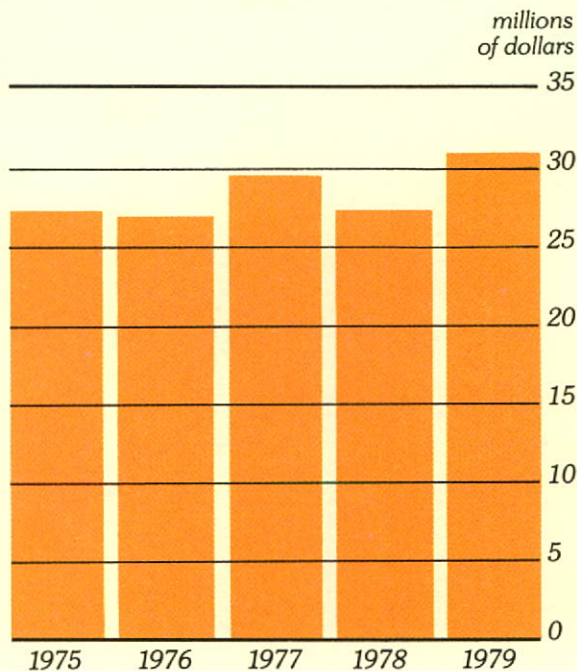


Operating Revenues and Operating Expenses

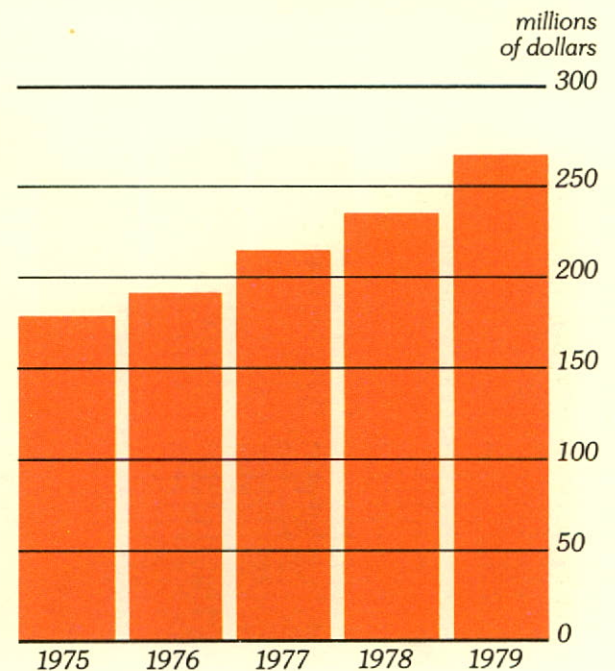


	1979	1978	1977	1976	1975
\$	79,056,941	70,506,777	60,171,003	51,670,959	42,884,148
\$	1,116,554	668,103	291,269	675,030	630,611
\$	60,225,963	52,839,444	44,289,646	37,846,054	31,258,307
\$	8,877,646	8,488,798	7,591,806	7,721,220	7,106,774
\$	11,069,886	9,846,638	8,580,820	6,778,715	5,149,678
\$264,462,228	234,345,123	212,817,180	192,159,215	169,422,806	
\$ 89,537,179	86,485,088	71,947,165	59,579,985	49,211,108	
\$ 13,338,839	9,564,137	7,611,556	5,713,211	4,407,000	
\$ 99,362,941	85,771,941	91,767,941	83,113,941	81,600,941	
\$	1.19	1.17	1.06	0.96	0.83
\$	0.73	0.65	0.60	0.58	0.50
\$	8.82	8.36	7.60	7.19	7.02
%	13.85	14.50	14.27	13.63	12.50
%	11.26	11.16	10.92	10.74	10.15
	3.85	3.10	3.23	2.78	2.38
%	9.56	9.56	8.68	9.38	9.06
%	52.60	49.79	56.10	58.20	62.40
%	50.21	59.07	47.71	43.39	12.00
\$	30,997,931	27,334,446	29,758,135	27,076,108	27,323,473
\$	1,370	1,337	1,296	1,211	1,127
	193,076	175,312	164,193	158,614	150,389
	3,157,685	2,993,425	2,869,614	2,643,948	2,145,158
	46,620	40,438	35,711	32,633	30,395
	1,485	1,475	1,349	1,347	1,278
\$	24,121,314	20,193,089	17,712,335	15,936,727	13,583,388

Construction Expenditures

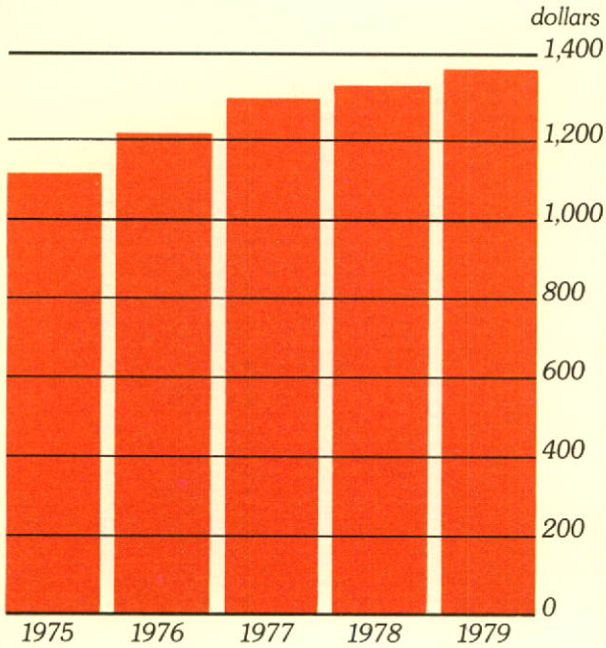


Telephone Plant and Equipment

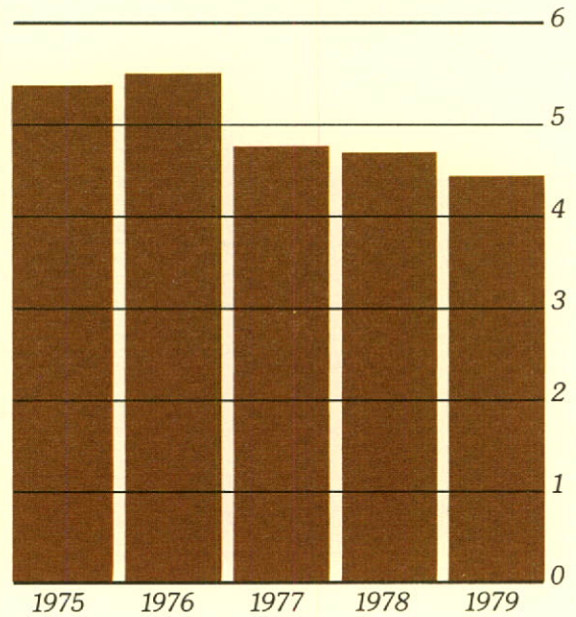


Service and Technology

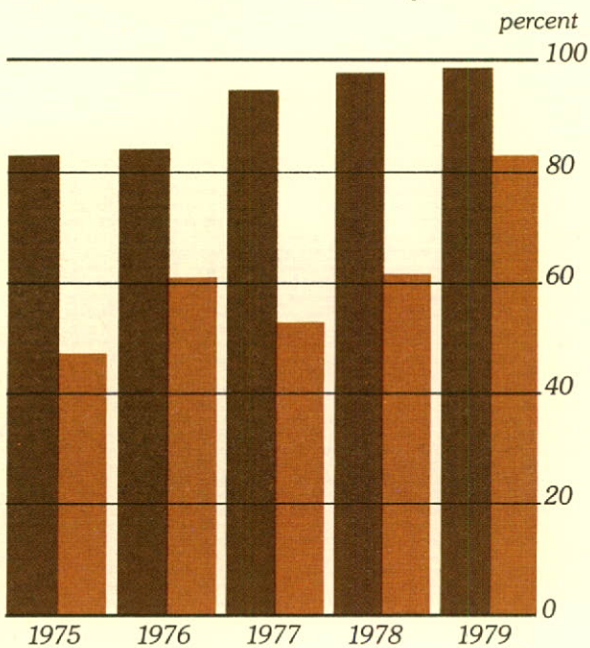
Total Investment per Telephone



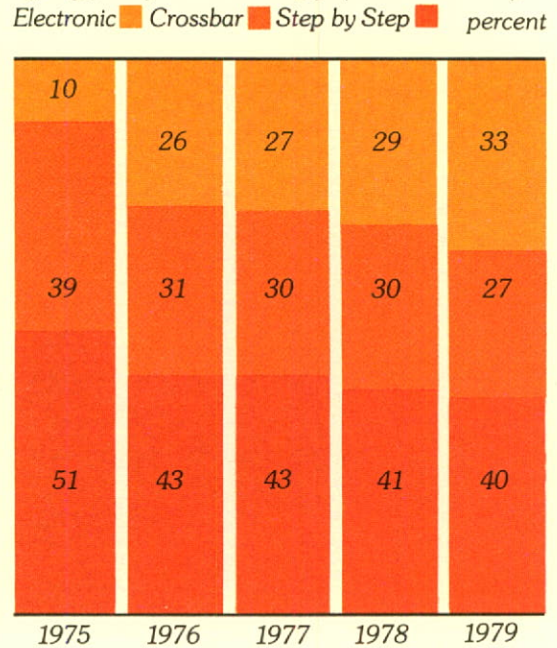
Average Number of Service Troubles per 100 Telephones



Direct Distance Dialing Automatic Number Identification



Central Office Switching by Type of Technology (Investment)





Today, more than ever, people are relying on telecommunications.

This is especially true in Newfoundland and Labrador. The vast changes in the province occurred in parallel with the development of a reliable and efficient telecommunication network.

Newfoundland Telephone is dedicated to developing that network for the social and economic well-being of the province and its people.

In the following pages, by comparing the old and the new, we present a brief summary of the achievements by which the Company has realized that development. These are the ways in which we have developed in the past, and the means by which we will move forward into the future.

We're
Celebrating
Sixty!
1919-1979



Operator services have always played a central role in the Company. One of the most significant changes in that role was undertaken during the past year with the introduction of TOPS – Traffic Operator Position System. TOPS improves the operators' working environment and the new technology improves the efficiency and accuracy of all operator-assisted calls.



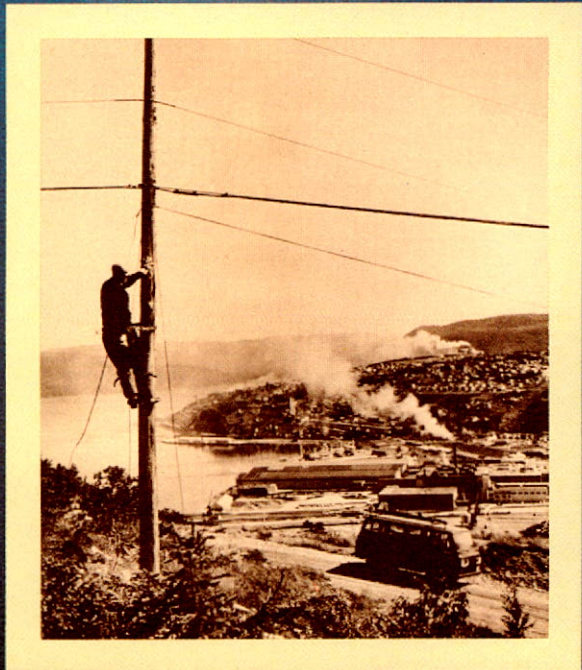
The development of the Company from its telephone service base to a supplier of telecommunication services is dynamically portrayed in its data services. Increasingly sophisticated data terminals provide our customers with the ability to effectively analyse their operations, and create a smoother and more efficient interface between national and provincial markets.





Newfoundland Telephone's identification with downtown St. John's goes back to the founding of the Company after the take-over of Anglo-American Telegraph's operations in 1919. The new headquarters administration building will maintain that identification, anchoring the Heritage Area and the downtown area. Work is progressing and completion of the building is planned for mid-1981.

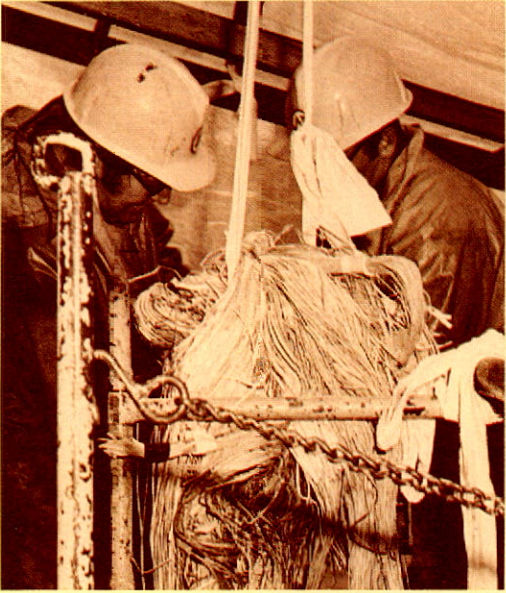




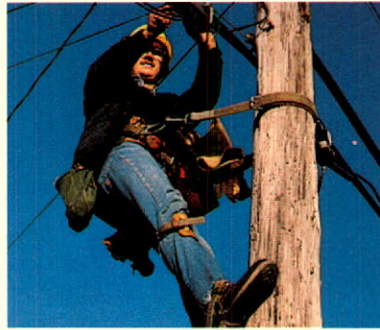
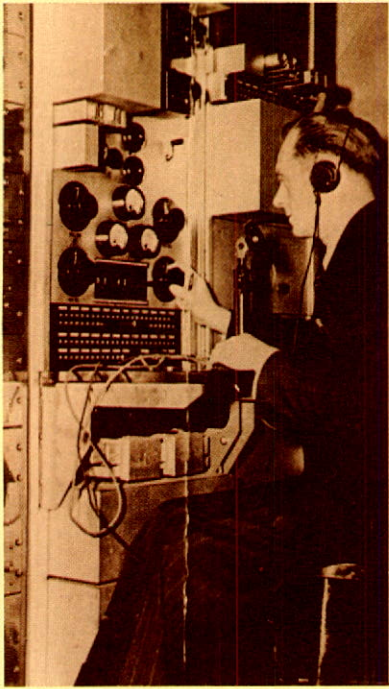
The first major expansion of the Company's operations came in 1948 with the extension of service to Corner Brook and the south west section of the Island. Now, the Company provides services to over 70 percent of the people of the province. The most recent extension of our operating territory was in June when the Company acquired the telecommunication system serving Labrador City. The extension means that Newfoundland Telephone provides service to all of Labrador.



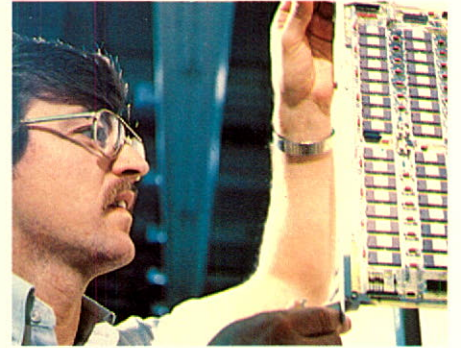
In the early days, telephone poles carried heavy aerial cable to link customers in various parts of the province. Since the advent of microwave transmission technology, Newfoundland Telephone has developed a dependable and sophisticated telecommunication network.



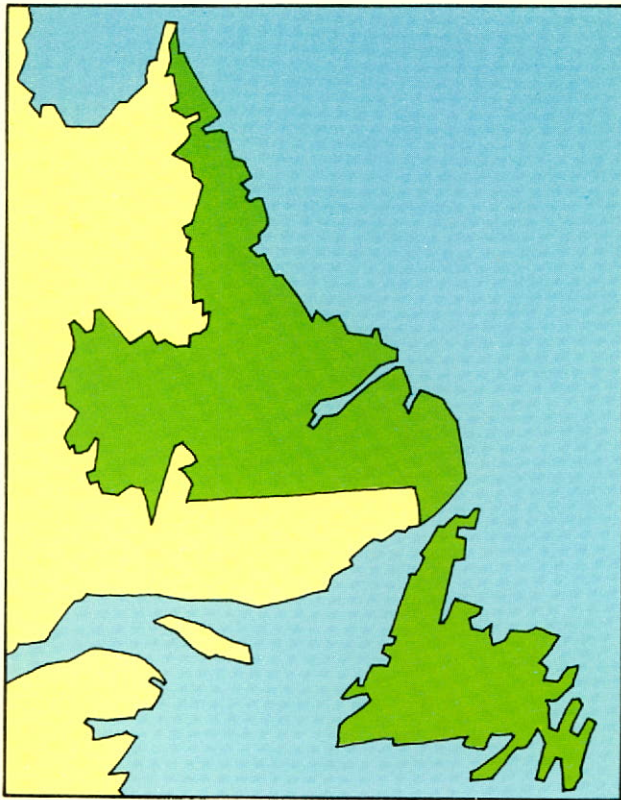
Hair-thin optical fibres will eventually replace the masses of cable now used for voice transmission. Newfoundland Telephone plans to introduce fibre optic in 1982.



The key to any successful enterprise is the skill and resourcefulness of its employees. The determined efforts of Newfoundland Telephone's employees have provided a proud record of success and achievement.



Historical Highlights



Comparative Statistics

Below are listed some comparative statistics for 1979 and for 1920, the first full year of operation.

	<u>1979</u>	<u>1920</u>
Telephones in service	193,076	1,000
Total calls (estimate)	1.2 billion	2.1 million
Plant investment	\$ 264,462,228	437,443
Revenues	\$ 79,056,941	34,972
Expenses	\$ 51,412,641	20,027

- 1919** Avalon Telephone Company is incorporated by the Honourable J.J. Murphy; facilities consisted of 900 telephones served by open-wire lines.
- 1921** First long distance line is established between St. John's and Carbonear; Company opens new building in downtown St. John's.
- 1937** Radio-telephone link connects all parts of the Island.
- 1939** First off-island long distance service established via a radio-telephone link between St. John's and Montreal.
- 1948** Avalon takes over franchise to operate telephone service in Corner Brook.
- 1949** First voice communication across the Island is made possible with installation of common battery system at Port aux Basques.
- 1952** Dial service is introduced in Central Newfoundland.
- 1954** Controlling interest in Avalon is sold to a group of Newfoundland and Montreal businessmen.
- 1955** Three new exchanges established in central and western Newfoundland; 10,000 line exchange opened in St. John's as number of calls doubles national average on per-telephone basis.
- 1957** Avalon becomes full member of the TransCanada Telephone System.
- 1962** Bell Canada buys controlling interest in Avalon and launches expansion program.
- 1966** 20,000-line crossbar exchange and long-distance centre established in St. John's; Company completes massive rebuild of St. John's facilities, cable and wiring systems – at that time the largest project of its kind in North America; long distance circuits almost doubled.
- 1970** Avalon's name is changed to Newfoundland Telephone Company Limited.
- 1974** Newfoundland Telephone purchases Bell Canada's telecommunication assets in Labrador and begins three-year Labrador Improvement Program.
- 1975** Completion of Dial Conversion Program; first leg of Trans-Island microwave system is completed from Corner Brook to Sydney, Nova Scotia.
- 1976** Company completes first public issue of common shares, listed on The Toronto and Montreal Stock Exchanges.
- 1977** Direct Distance Dialing (DDD) coverage reaches 100 percent of Island customers; Trans-Labrador heavy-route microwave system completed.
- 1978** Trans-Island microwave system is placed into service; DDD extended to Labrador; first Phonecentre opened in St. John's; calling levels reach 1 billion calls per year; Company completes second public issue of common shares.
- 1979** Construction begins on new headquarters; Newfoundland Telephone purchases Labrador City telecommunication system; second Phonecentre established at Labrador City; Company's first digital switcher installed in Nain; new long distance technology inaugurated in Corner Brook with TOPS installation.



**Newfoundland
Telephone**