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Newfoundland Telephone Co. Ltd

The Avalon Telephone Company, Limited

48th
Annual
Report

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Directors

L. H. M. AYRE, Chairman of the Board	St. John's, Nfld.
G. OSBERG, President and Managing Director	St. John's, Nfld.
H. COLLINGWOOD	St. John's, Nfld.
H. L. LAKE	St. John's, Nfld.
J. V. LEWORTHY	Montreal, Que.
A. LUNDRIGAN	Corner Brook, Nfld.
A. MARTIN	Corner Brook, Nfld.
F. D. MOORES	Hr. Grace, Nfld.
HON. F. A. O'DEA, Q.C.	St. John's, Nfld.
G. C. WALLACE	Montreal, Que.
L. D. WICKWIRE	Grand Falls, Nfld.

Officers

L. H. M. AYRE	<i>Chairman of the Board</i>
G. OSBERG	<i>President and Managing Director</i>
D. E. HOWLEY, C.A.	<i>Secretary-Treasurer</i>

*Registrar,
and Transfer Agent*

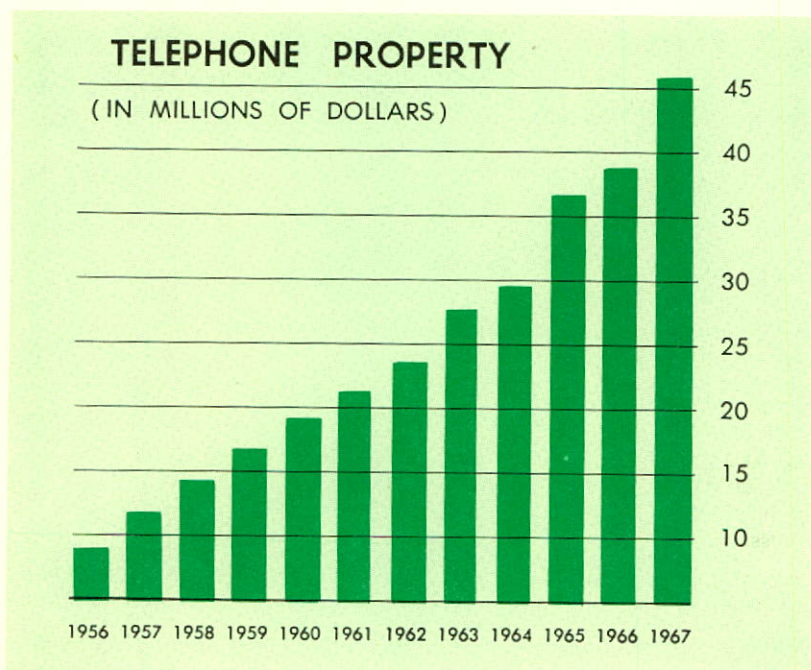
Montreal Trust Co.
At the following offices—
Montreal, P.Q.,
St. John's, Nfld.
Halifax, N.S.

THE 48th ANNUAL REPORT OF THE DIRECTORS
TO THE SHAREHOLDERS OF
THE AVALON TELEPHONE COMPANY, LIMITED

In reviewing the Company's Operations during 1967, noteworthy progress is evident in several fields. Increased earnings, record annual gain in telephones installed and upgrading of service are some of the results of careful planning in preceding years, and attained through the efforts of dedicated employees.

Total revenues of \$10,303,600 were 37.3% more than the previous year, reflecting the first full year's impact of the revised rates granted in 1966, and the growth in services provided. At the same time higher material and labour costs and increased depreciation charges resulted in a 22.8% increase in Operating Expenses over 1966. Net income, after all charges, amounted to \$758,400 which permitted the payment of a dividend of \$635,200 to the Ordinary shareholders.

While the rate of growth has been influenced by the availability of capital funds, the Company has continued its policy of expanding and upgrading service to meet the public's needs. Six new dial exchanges were added to the system in 1967. Located at Torbay, Portugal Cove, Lower Island Cove, New Chelsea, Heart's Content and Point Leamington they brought modern communications to some twenty-five communities. A radio network was established between Bay Roberts, Lower Island Cove and Heart's Content and radio public pay telephones were installed at Ship Harbour, O'Donnells, Admiral's Beach, Petites, St. Shott's, Branch and St. Bride's.



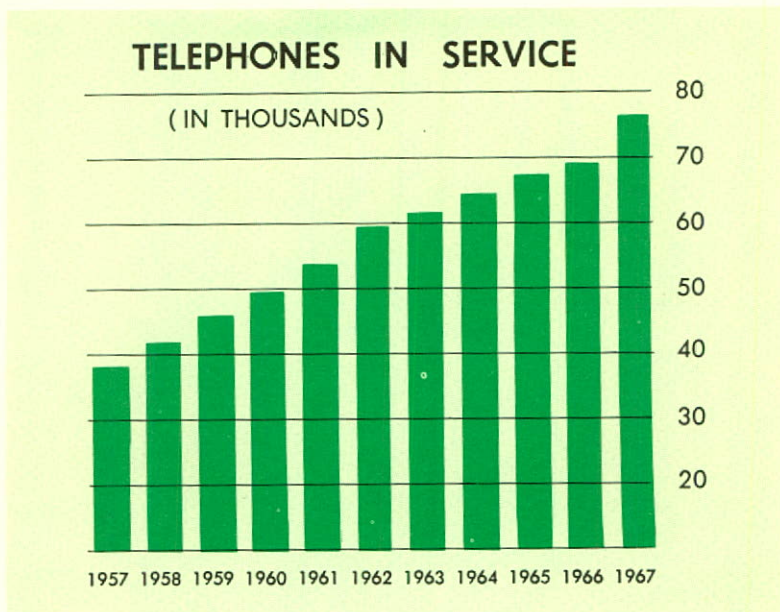
Outside plant extensions were completed in the following exchanges: St. John's, Mount Pearl, Carbonear, Marystown, Burin, Grand Falls, Corner Brook, Stephenville Crossing and Port aux Basques. Besides providing for new customers, these jobs helped to completely

eliminate 8 digit numbers in St. John's, and Magneto service in Burin, and permitted upgrading in other areas, with multi-party and two-party services being reduced by 1,300 and 1,495, respectively. Seven digit numbering was introduced at Bay Roberts, Carbonear, and Bell Island, as part of the Company's planning for Direct Distance Dialing.

Equipment installations and extensions at twenty-three exchanges and the addition of forty switchboards tied in with the Local and Long Distance growth. To meet continent-wide plans, Corner Brook was raised to the status of a sectional switching centre. The exchange building in Grand Falls was renovated and expanded, and in St. John's the former Duckworth Exchange Building was converted to office space.

By the end of the year, considerable work had been completed at Pouch Cove, Summerside and Isle-aux-Morts where dial exchanges are due for cut-over early in 1968. At Marystown and Grand Bank, where dial service is due to be introduced in the fall of 1968, new buildings were under construction.

In all, net construction cost \$6,918,000 for the year and brought the investment in plant at December 31 to \$45,931,00. This construction was partially financed through internal resources and temporary bank borrowings. Additional capital, amounting to slightly in excess of \$3.3 million, was raised through the issue of 634,461 Ordinary shares.



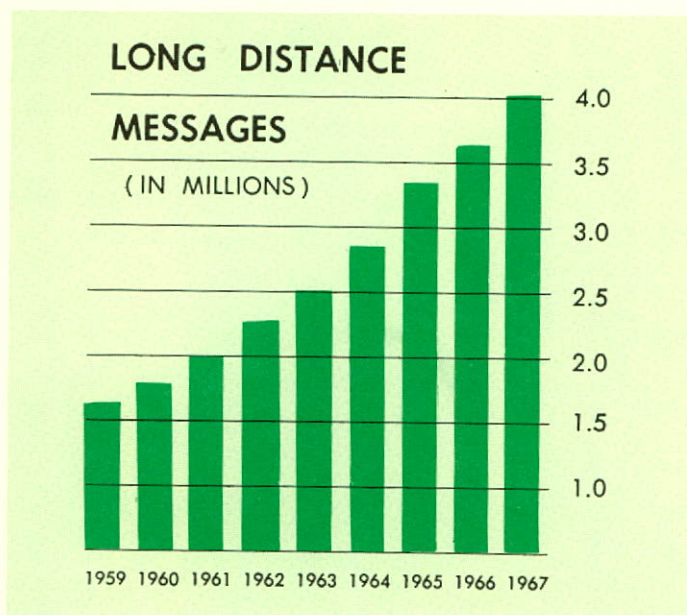
The number of telephones increased by 6,933, the biggest annual gain ever shown by the Company. At December 31, 1967, there were 76,218 telephones connected to Avalon's system of which 23,747 were business and 52,471 residence services. The accelerated growth is emphasized when it is realized that the 50,000th mark was reached in 1961, after 42 years of business.

The volume of Long Distance messages was up 12% to 4,065,000, indicating a recovery from the slow-down in the last half of 1966.

Your Company continued its program of training and development of management and staff. At year end the employee body totalled 842 persons, and this level of employ-

ment with a wage cost in excess of \$3,400,000, and the increased technical and general efficiency reached through training, are significant contributions to the economic condition of the Province.

In August, the Company announced that an I.B.M. system 360, Model 20 Computer and associated unit record equipment had been ordered and that mechanization of accounting procedures would start late in 1968. Plans have been well advanced to assure the successful introduction of the new methods in progressive steps.



In July we applied to the Board of Commissioners of Public Utilities for an Order recognizing the professionally approved method of accounting for Income Tax, permitting the amortization of the full amount of depreciation deficiency identified in the 1963 plant studies, revising the approved rate base to a current basis, and granting a just and reasonable rate of return on rate base. Public hearings were held commencing in September and continuing into 1968. The results of the hearings may be made known during the early months of the New Year.

We were proud to have been associated with seven other Telephone Companies in sponsoring the Telephone Pavilion at Expo 67. The Pavilion was one of the most popular on the site with a total attendance of well over 6 million. It was judged a real contribution to Canadian unity and a fitting tribute to Canada's Centennial.

Mr. Harold L. Lake of St. John's was elected to the Board in January, 1967, bringing the Board of Directors up to its full complement.

Your Company anticipates another year of progress in meeting the continued demand for its services.

On Behalf of the Board of Directors
G. OSBERG,
President and Managing Director.

St. John's,
February 20th, 1968.

THE AVALON TELEPHONE

(Incorporated under the laws of the State of New Jersey)

BALANCE SHEET

A S S E T S

	December 31 1967	December 31 1966
TELEPHONE PROPERTY	\$45,931,159	\$39,013,617
Land, Buildings, Plant and Equipment valued, as at December 31, 1963 by The Bell Telephone Company of Canada after a complete physical inventory, substantially on the basis of actual cost but where necessary on developed unit costs for each year of placing, with subsequent additions at cost		
Less: Accumulated depreciation (Note 4)	3,091,317	1,844,587
	42,839,842	37,169,030
 SPECIAL REFUNDABLE TAX		 30,840
 CURRENT ASSETS		
Cash	25,961	22,536
Marketable Securities, at cost		23,500
Accounts Receivable, less provision for uncollectibles	1,772,811	1,632,164
Materials and Supplies, at cost	1,278,722	1,397,877
Prepayments	113,535	114,168
	3,191,029	3,190,245
 DEFERRED CHARGES		
Unamortized Discount and Expense on Long Term Debt	224,874	226,606
Unamortized Expenses (Note 6)	819,690	880,677
Other	165,107	80,893
	1,209,671	1,188,176
	\$47,240,542	\$41,578,291

The notes to financial statements are

On behalf of The Board of Directors:

Lewis H. M. Ayre, Director

G. Osberg, Director

NE COMPANY, LIMITED*laws of Newfoundland)*

SHEET

LIABILITIES

	December 31 1967	December 31 1966
SHAREHOLDERS' EQUITY		
Ordinary Shares (Note 1)	\$15,882,065	\$12,709,760
Premium on Ordinary Shares (Note 2)	299,526	140,911
Retained Earnings	618,769	404,950
	<hr/>	<hr/>
	16,800,360	13,255,621
	<hr/>	<hr/>
LONG TERM DEBT (Note 3)	12,237,000	12,413,089
 CURRENT LIABILITIES		
Bank Loan	11,950,000	10,810,000
Accounts Payable	866,605	771,222
Due to Parent Company	139,693	82,942
Due to Affiliated Company	2,423,738	2,321,400
Advanced Billing and Payments for Service	164,740	
Interest Accrued	122,989	143,397
Taxes Accrued	91,937	89,104
	<hr/>	<hr/>
	15,759,702	14,218,065
	<hr/>	<hr/>
 DEFERRED CREDITS		
Income Tax (Note 5)	2,443,480	1,691,516
	<hr/>	<hr/>
	<u>\$47,240,542</u>	<u>\$41,578,291</u>

an integral part of this statement.

THE AVALON TELEPHONE COMPANY, LIMITED

INCOME STATEMENT

for the year ended December 31, 1967

	1967	1966
OPERATING REVENUES		
Local Service	\$ 5,352,126	\$ 3,590,880
Long Distance Service	4,889,271	3,998,047
Miscellaneous	215,073	182,811
Less: Provision for Uncollectibles	152,861	267,082
	10,303,609	7,504,656
OPERATING EXPENSES		
Maintenance	1,608,856	1,397,704
Depreciation (Note 4)	2,044,172	1,410,175
Traffic	1,000,577	829,252
Commercial	547,087	475,643
Other	2,036,720	1,778,669
	7,237,412	5,891,443
NET OPERATING REVENUES	3,066,197	1,613,213
OPERATING TAXES		
Income Taxes—deferred (Note 5)	751,362	50,644
Other Taxes	149,420	152,736
	900,782	203,380
OPERATING INCOME	2,165,415	1,409,833
OTHER INCOME	53,252	62,280
TOTAL INCOME BEFORE INTEREST CHARGES ...	2,218,667	1,472,113
INTEREST CHARGES		
Interest on Long Term Debt	742,204	559,084
Other Interest	701,381	801,161
Amortization of Discount and Expenses on Long Term Debt	16,726	15,003
	1,460,311	1,375,248
NET INCOME FOR THE YEAR	\$ 758,356	\$ 96,865

The notes to financial statements are an integral part of this statement.

THE AVALON TELEPHONE COMPANY, LIMITED

STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1967

	1967	1966
BALANCE AT BEGINNING OF YEAR	\$ 404,950	\$275,739
Add: Net income for the year	758,356	96,865
Adjustment to 1963 valuation of telephone property	88,835	31,293
Miscellaneous additions—net	2,440	1,053
	1,254,581	404,950
Deduct: Dividends	635,283	
Capital stock issue expense, less income taxes of \$551....	529	
	635,812	
BALANCE AT END OF YEAR	\$ 618,769	\$404,950

The notes to financial statements are an integral part of this statement.

AUDITORS' REPORT

The Shareholders,
The Avalon Telephone Company, Limited.

We have examined the balance sheet of The Avalon Telephone Company, Limited as at December 31, 1967 and the statements of income and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the inadequacy of the amount of accumulated depreciation and the change in depreciation rates referred to in note 4, these financial statements present fairly the financial position of the company as at December 31, 1967 and the results of its operations 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, BAILEY & SMART,
Chartered Accountants.

Montreal, Que.
January 21, 1968.

THE AVALON TELEPHONE COMPANY, LIMITED

NOTES TO FINANCIAL STATEMENTS

as at December 31, 1967

Note 1

Capital Stock

Ordinary shares — par value \$5 per share

Authorized	4,000,000 shares	
Outstanding at January 1, 1967	2,541,952 shares	\$12,709,760
Issued for cash in 1967	634,461 shares	3,172,305
Outstanding at December 31, 1967	3,176,413 shares	\$15,882,065

Preference shares — par value \$25 per share

Authorized	500,000 shares	
Issued	230,000 shares	
Redeemed or converted to December 31, 1967	230,000 shares	
Outstanding at December 31, 1967	—	

Note 2

Premium on ordinary shares

Balance at January 1, 1967	\$140,911
Premium on shares issued	158,615
Balance at December 31, 1967	\$299,526

Note 3

Long Term Debt

First mortgage twenty year sinking fund bonds

Series	Maturity	Issued	Redeemed or held for Redemption	Outstanding
4%	August 1, 1969	\$ 900,000	\$157,000	\$ 743,000
5½%	May 1, 1973	500,000	70,500	429,500
5½%	May 15, 1977	1,500,000	163,500	1,336,500
5½%	June 1, 1978	1,000,000	80,000	920,000
6%	June 1, 1979	1,000,000	72,000	928,000
7%	May 1, 1980	2,000,000	120,000	1,880,000
				6,237,000
First mortgage bonds				
5½%	June 1, 1988	3,000,000		3,000,000
7%	December 15, 1991	3,000,000		3,000,000
				\$12,237,000

Note 4

Commencing July 1, 1966 the provision for depreciation has been calculated at rates for each class of plant determined by the Company's engineers and approved by the Board of Commissioners of Public Utilities of the Province of Newfoundland in their order dated October 4, 1966. Prior to July 1, 1966 depreciation was provided in varying amounts not exceeding the rate of 3.3% approved by the Board of Commissioners on January 14, 1952. The accumulated deficiency at June 30, 1966 was estimated to be \$3,390,000, and commencing January 1, 1967 this deficiency is being amortized over a period of twenty years. The depreciation of \$2,044,172 shown on the income statement for the year ended December 31, 1967 is made up as follows:

Normal depreciation	\$1,874,172
Amortization of depreciaton deficiency	170,000
	\$2,044,172

Note 5**INCOME TAX**

The income taxes shown on the income statement are not currently payable and have been credited to Deferred Credits — Income Tax. In addition to the deferred income taxes of \$2,443,480 shown on the balance sheet there is a tax loss carried forward from 1966 of approximately \$3,190,000; this tax loss resulted from claiming capital cost allowances in excess of depreciation recorded in the accounts, and from claiming, for income tax purposes, certain expenses, amounting to \$889,677, which are being amortized in the accounts over periods not exceeding ten years by order of the Board of Commissioners of Public Utilities of the Province of Newfoundland.

The changes in the Deferred Credits — Income Tax for the year ended December 31, 1967 are as follows:

Balance January 1, 1967	\$1,691,516
Add: Adjustment to prior year	1,153
Current income tax provision deferred	<u>750,811</u>
Balance December 31, 1967	<u>\$2,443,480</u>

Note 6

Expenses to be amortized by the order of the Board of Commissioners of Public Utilities of the Province of Newfoundland.

Balance January 1, 1967	\$ 880,677
Additional expenses incurred in 1967	<u>37,327</u>
	918,004
Deduct: Amortization for the current year	<u>98,314</u>
Balance December 31, 1967	<u>\$ 819,690</u>

THE AVALON TELEPHO

	1967	1966	1965	1964
No. of Telephones	76,218	69,285	66,898	64,023
Business	23,747	21,288	20,708	19,009
Residence	52,471	47,997	46,190	45,014
Per Cent Dial	91.8	91.9	92.3	92.6
Telephones added	6,933	2,387	2,875	3,659
No. of Exchanges	54	49	48	47
Dial	30	24	24	23
Magneto	8	9	9	12
Common Battery	16	16	15	12
Total Plant and Equipment	\$45,931,159	\$39,013,617	\$37,370,145	\$30,093,012
Per telephone	\$ 603	\$ 563	\$ 559	\$ 470
No. of Employees	\$ 842	819	731	686
Wages and Salaries paid	\$ 3,405,006	\$ 2,810,461	\$ 2,517,687	\$ 2,148,271
Total Operating Revenues	\$10,303,609	\$ 7,504,656	\$ 5,913,361	\$ 4,900,058
Total Operating Expenses and Taxes....	\$ 8,138,194	\$ 6,094,823	\$ 4,771,600	\$ 4,094,597
Net Income	\$ 758,356	\$ 96,865	\$ 250,397	\$ 60,784
Available for Ordinary Shares	\$ 758,356	\$ 96,865	\$ 250,397	\$ Nil
Per Average Share	\$ 0.243	\$ 0.04	\$ 0.10	\$ (0.08)

NE COMPANY, LIMITED

1963	1962	1961	1960	1959	1958
60,364	58,708	53,505	49,818	45,754	42,423
17,647	17,164	16,134	14,870	14,671	14,354
42,717	41,544	37,371	34,948	31,083	28,069
93.9	96.3	97.5	95.5	91.2	89.0
3,890	5,203	3,687	4,064	3,331	4,207
42	35	31	32	30	30
21	21	20	18	14	11
14	14	11	12	14	14
7	—	—	1	2	5
\$27,894,344	\$24,362,935	\$21,766,871	\$19,711,928	\$17,007,481	\$14,714,810
\$ 462	\$ 415	\$ 407	\$ 396	\$ 372	\$ 347
595	558	521	545	541	514
\$ 1,793,678	\$ 1,606,163	\$ 1,455,012	\$ 1,365,000	\$ 1,218,790	\$ 1,148,301
\$ 4,680,957	\$ 3,632,665	\$ 3,263,824	\$ 2,919,455	\$ 2,534,462	\$ 2,107,821
\$ 3,730,370	\$ 2,657,286	\$ 2,247,546	\$ 2,037,229	\$ 1,832,979	\$ 1,518,014
\$ 398,804	\$ 482,873	\$ 570,345	\$ 498,590	\$ 441,284	\$ 392,095
\$ 72,975	\$ 157,028	\$ 255,749	\$ 217,706	\$ 183,270	\$ 179,992
\$ 0.09	\$ 0.31	\$ 0.61	\$ 0.62	\$ 0.58	\$ 0.68



Avalon Telephone, part of
Trans-Canada Telephone System