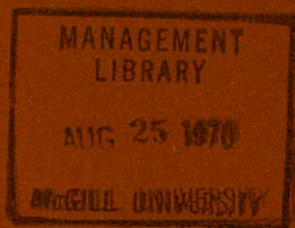


The Avalon Telephone Company, Limited

*49th
Annual
Report*



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> |
| G. R. HANLEY | <i>Secretary</i> |
| D. ADEY | <i>Treasurer</i> |

*Registrar,
and Transfer Agent*

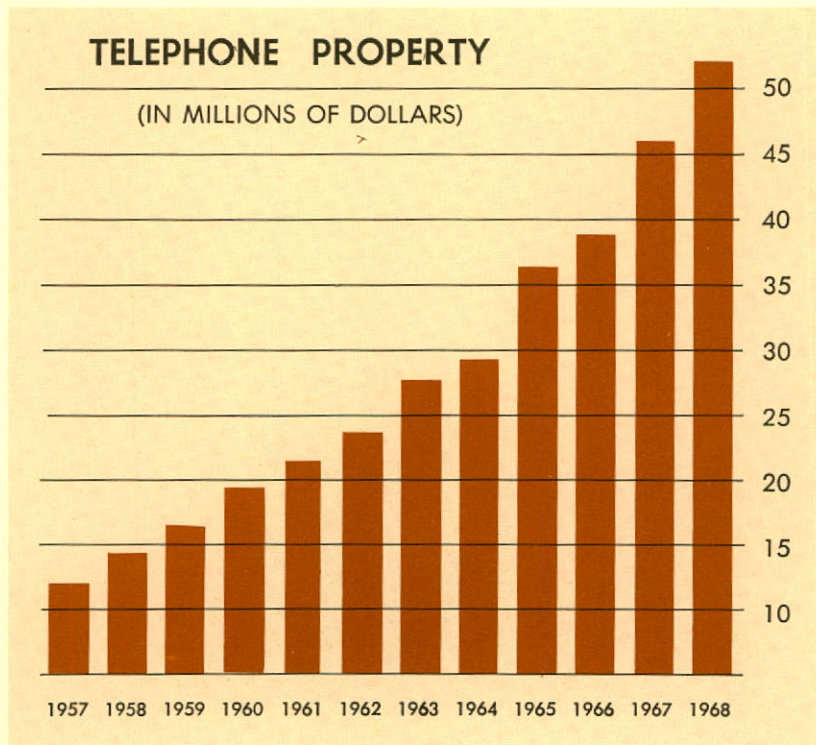
Montreal Trust Co.
At the following offices—
Montreal, P.Q.,
St. John's, Nfld.
Halifax, N.S.

THE 49th ANNUAL REPORT OF THE DIRECTORS
TO THE SHAREHOLDERS OF
THE AVALON TELEPHONE COMPANY, LIMITED

Your Company has recorded another year of substantial growth, although somewhat restricted by the high cost of capital funds.

Total revenues increased by 13.3% while expenses rose 11.2%. Normal dividends to Ordinary Shareholders were resumed, the first full yearly payment since 1961

Retained earnings dropped \$58,666 from the 1967 figure. This is cause for real concern as projections for 1969 indicate some further erosion of the income situation. Expenses will come under continued vigilance but, it is evident, that every means to increase revenues must be pursued.

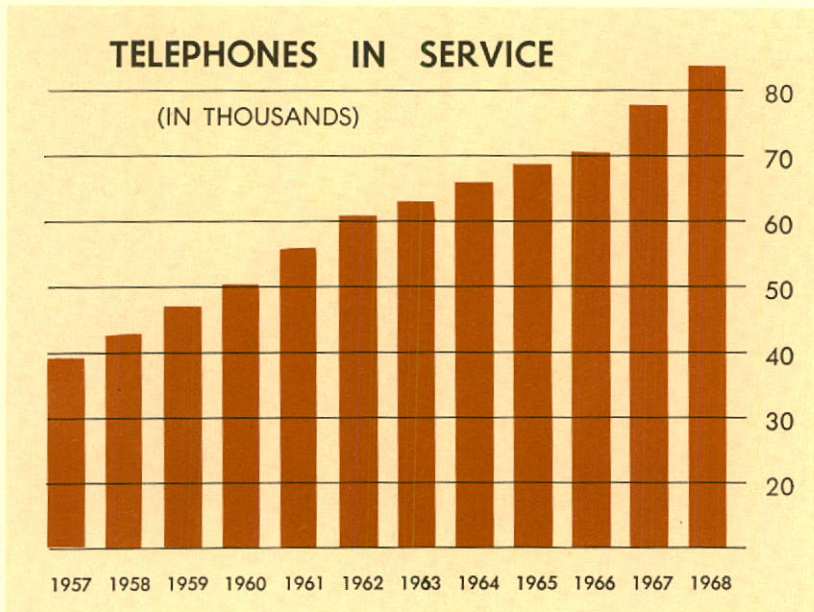


In the 48th Annual Report, reference was made to the Company's application to the Board of Commissioners of Public Utilities in the matters of (1) Accounting for Income Tax (2) Amortization of depreciation deficiency (3) Updating Rate Base (4) Revision of rate of return. The Board's findings were issued in March, 1968 under Order No. 6. The Board confirmed its earlier decision that "the reasonable and prudent annual income tax expense which Avalon shall be allowed to charge to Operating Account shall be the amount of income tax that would be payable if Avalon, in calculating their taxable income, claim the maximum capital cost allowance permitted by the Federal Income Tax Act". The Board thus allowed only the amount of taxes payable and, in addition, indicated its confidence that there is reasonable expectation that all taxes payable in future years will be included in approved rates and be recoverable from customers at that time. The accounts for 1968 were compiled in line with the Board's Order and those for 1967 recast on a flow-through basis.

The Board also reaffirmed that certain accumulative deferred tax credits as at 30th June, 1966 be transferred to depreciation reserve. In recognition of the difference in income as between that calculated using flow-through accounting and that calculated using reserve accounting as employed by all other Canadian Telephone Companies, the Board approved a rate of return up to a maximum of 8% of the updated rate base. Attainment of such a rate of return should better enable the Company to attract additional capital to meet the Construction Programme.

To assure improved operating efficiency and cost control, new Plant Operating Budget procedures and measurements of performances on Cost, Service, Performance Indicators, Safety and Personnel were introduced. There was a marked improvement in productivity while the total number of employees was reduced by thirty-two.

Capital expenditures for the year amounted to 6.71 million. Total investment in Plant passed the \$50 million mark following major dial conversions at Marystown, Grand Bank and Pouch Cove. New dial exchanges were opened at Summerside and Isle-aux-Morts. Dial switching extensions were made at Curling, Corner Brook, Grand Falls, Mount Pearl, Port aux Basques and St. John's and four toll switchboards were added to both the Corner Brook and St. John's offices. Information and Intercept positions were also added to St. John's and Corner Brook. Six positions and multiple extensions were installed in manual exchanges. Outside Plant Construction involved ten exchange and two trunk cable relief jobs, and four cable installations to serve new areas.



Construction and new installations were delayed by a seven week strike initiated by the Operator's Unit; service was satisfactorily maintained over the period of work stoppage.

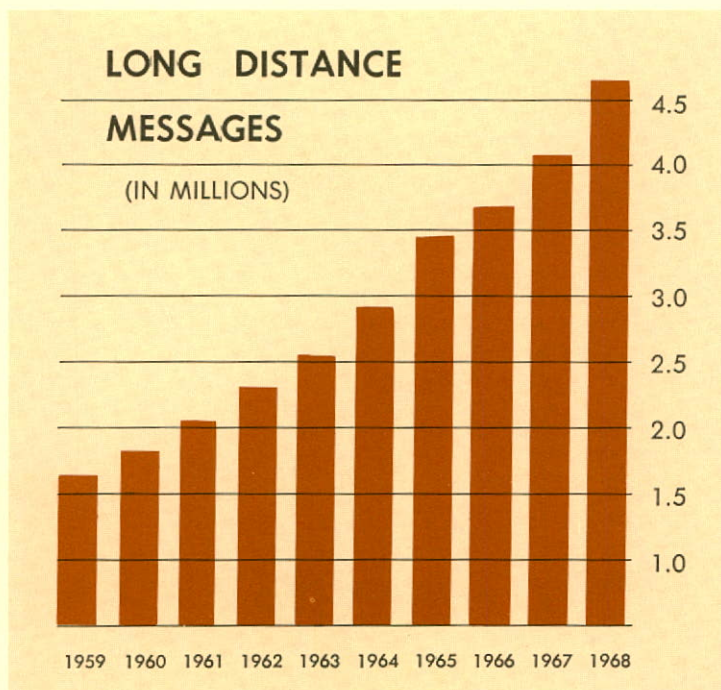
There was a net gain of 6,427 telephones for the year bringing the total to 82,645 of which 25,657 were business and 56,988 residence installations.

Long Distance Messages increased 13.3% but, with a lower average rate per message, did not produce a corresponding increase in revenues.

With the opening of the new No. 5 Crossbar Office and Long Distance Centre at Marystown, on October 20th, the I.B.M. System 360, Model 20 Computer was programmed

to handle mark sense ticketing. This change was successfully introduced and over a period of months the whole operation will be converted.

Financing for the year included a common stock rights issue of 635,282 shares at \$5.25 to realize \$3.3 Million and an issue of \$3,000,000 principal amount of First Mortgage Bonds at a 7-7/8% coupon rate, proceeds of which were used to reduce bank loans and finance the Construction Programme.



On September 30th the Company applied to the Board of Commissioners of Public Utilities for modification of Order No. 73 (1966) relative to dial conversions at Burin, St. Lawrence, Lawn, Lamaline and Garnish. Hearings were held on January 16, 1969 and the Board issued Order No. 4 (1969) on February 26th denying the Application.

The Company was granted an extension of time for the completion of a depreciation study under Order No. 66 (1966) by the Board of Commissioners of Public Utilities.

All of which, to sum up, accounted for an eventful and challenging year which was not without definite progress. Extension, upgrading and modernization of service continued and will continue as quickly as the resources of the Company will allow.

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

St. John's,
March 10th, 1969.

THE AVALON TELEPHO

(Incorporated under the

BALANCE

A S S E T S

| | December 31 1968 | December 31 1967* |
|---|---------------------|----------------------|
| TELEPHONE PROPERTY | \$50,393,805 | \$45,931,159 |
| 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 1)..... | 7,112,322 | 6,311,317 |
| | 43,281,483 | 39,619,842 |
| CURRENT ASSETS | | |
| Cash | | 25,961 |
| Accounts receivable | 1,851,384 | 1,772,811 |
| Material and supplies, at lower of cost and net realizable value | 741,713 | 1,278,722 |
| Prepayments | 141,950 | 113,535 |
| | 2,735,047 | 3,191,029 |
| DEFERRED CHARGES | | |
| Unamortized deficiency in accumulated depreciation (Note 1) | 1,423,575 | 1,498,500 |
| Unamortized expenses (Note 2) | 730,844 | 819,690 |
| Unamortized discount and expense on long term debt | 245,794 | 224,874 |
| Other | 132,859 | 165,107 |
| | 2,533,072 | 2,708,171 |
| | \$48,549,602 | \$45,519,042 |

*Restated for comparison (Notes 1 and 6)

On behalf of the Board of Directors:

Harold L. Lake, Director

Henry Collingwood, Director

The notes to financial statements are

NE COMPANY, LIMITED*(laws of Newfoundland)*

SHEET

LIABILITIES

| | December 31 1968 | December 31 1967 |
|---|-----------------------------|-----------------------------|
| SHAREHOLDERS' EQUITY | | |
| Ordinary shares (Note 3) | \$19,058,475 | \$15,882,065 |
| Premium on ordinary shares (Note 4) | 458,346 | 299,526 |
| Retained earnings | 1,032,465 | 1,091,131 |
| | <hr/> | <hr/> |
| | 20,549,286 | 17,272,722 |
| | <hr/> | <hr/> |
| LONG TERM DEBT (Note 5) | 14,607,000 | 12,237,000 |
| | | |
| CURRENT LIABILITIES | | |
| Bank overdraft | 49,301 | |
| Bank loan | 9,750,000 | 11,950,000 |
| Accounts payable | 616,437 | 866,605 |
| Due to parent company | 102,594 | 139,693 |
| Due to affiliated company | 2,249,863 | 2,423,738 |
| Advanced billing and payments for service | 174,439 | 164,740 |
| Interest accrued | 128,256 | 122,989 |
| Taxes accrued | 98,449 | 91,937 |
| | <hr/> | <hr/> |
| | 13,169,339 | 15,759,702 |
| | <hr/> | <hr/> |
| DEFERRED CREDITS | | |
| Income tax (Note 6) | 223,977 | 249,618 |
| | <hr/> | <hr/> |
| | <hr/> | <hr/> |
| | \$48,549,602 | \$45,519,042 |
| | <hr/> <hr/> | <hr/> <hr/> |

an integral part of this statement.

THE AVALON TELEPHONE COMPANY, LIMITED

INCOME STATEMENT

For the year ended December 31, 1968

| | 1968 | 1967* |
|--|--------------|--------------|
| OPERATING REVENUES | | |
| Local service | \$ 6,135,505 | \$ 5,352,126 |
| Long distance service | 5,414,898 | 4,889,271 |
| Miscellaneous | 248,536 | 215,073 |
| Less: Provision for uncollectibles | 123,146 | 152,861 |
| | 11,675,793 | 10,303,609 |
| OPERATING EXPENSES | | |
| Maintenance | 1,676,030 | 1,608,856 |
| Depreciation (Note 1) | 2,356,267 | 1,874,172 |
| Traffic | 1,294,606 | 1,000,577 |
| Commercial | 537,933 | 547,087 |
| Other | 2,168,689 | 2,036,720 |
| | 8,033,525 | 7,067,412 |
| NET OPERATING REVENUES | 3,642,268 | 3,236,197 |
| OPERATING TAXES | | |
| Income taxes (Note 6) | 445,898 | 263,686 |
| Other taxes | 182,148 | 149,420 |
| | 628,046 | 413,106 |
| OPERATING INCOME | 3,014,222 | 2,823,091 |
| OTHER INCOME | 70,856 | 53,252 |
| TOTAL INCOME BEFORE INTEREST CHARGES | 3,085,078 | 2,876,343 |
| INTEREST CHARGES | | |
| Interest on long term debt | 768,790 | 742,204 |
| Other interest | 933,485 | 701,381 |
| Amortization of discount and expense on long term debt | 17,120 | 16,726 |
| | 1,719,395 | 1,460,311 |
| NET INCOME FOR THE YEAR | \$ 1,365,683 | \$ 1,416,032 |

*Restated for comparison (Notes 1 and 6)

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, 1968

| | 1968 | 1967* |
|---|--------------------|--------------------|
| BALANCE AT JANUARY 1 (as previously reported) | \$ 618,769 | \$ 404,950 |
| Adjustments to comply with Order No. 6 (1968) of the Board of Commissioners of Public Utilities of Newfoundland | | |
| Transfer from deferred credits—income tax (Note 6) | 520,862 | 18,516 |
| Reversal of 1967 amortization of depreciation deficiency (Note 1) | 170,000 | |
| Transfer to accumulated depreciation (Note 1) | (218,500) | (218,500) |
| BALANCE AT BEGINNING OF PERIOD (as restated) | 1,091,131 | 204,966 |
| Add: Net income for the year | 1,365,683 | 1,416,032 |
| Income tax reduction arising from tax loss carry forward | 471,538 | 14,068 |
| Adjustment to 1963 valuation of telephone property | | 88,835 |
| Miscellaneous additions—net | 3,431 | 3,593 |
| | 2,931,783 | 1,727,494 |
| Deduct: Capital stock expense | | 1,080 |
| Write-off of amounts included in telephone property not allowed in establishing rate base | 438,168 | |
| Dividends | 1,461,150 | 635,283 |
| | 1,899,318 | 636,363 |
| BALANCE AT DECEMBER 31 | \$1,032,465 | \$1,091,131 |

*Restated for comparison (Notes 1 and 6)

The notes to financial statement 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, 1968 and the statements of income, retained earnings and source and disposition of funds 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 these financial statements present fairly the financial position of the company as at December 31, 1968 and the results of its operations and the source and disposition of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with the adjusted presentation for the preceding year as indicated in Notes 1 and 6 to the financial statements.

Touche, Ross, Bailey & Smart,
Chartered Accountants.

Montreal, Que.
January 20, 1969.

THE AVALON TELEPHONE COMPANY, LIMITED

NOTES TO FINANCIAL STATEMENTS

as at December 31, 1968

Note 1

Depreciation

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 its Order No. 66 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 which resulted in an accumulated depreciation deficiency at June 30, 1966 estimated at \$3,390,000.

Effective January 1, 1967 the Company began to amortize the accumulated depreciation deficiency at the rate of \$170,000 per annum. This amortization was subsequently cancelled by the Board of Commissioners by its Order No. 6 dated March 27, 1968, ordering the Company to account for the accumulated depreciation deficiency in the following manner:

| | |
|---|--------------------|
| 1) a charge against retained earnings | \$ 218,500 |
| 2) the elimination of the deferred credits—income tax at June 30, 1966 | 1,673,000 |
| 3) the setting up of the remaining amount in a special account, which is to be amortized over a period of 20 years commencing on January 1, 1968 | 1,498,500 |
| | <u>\$3,390,000</u> |

The depreciation expense for the year ended December 31, 1968 includes \$74,925 representing the amortization of the remaining amount set up under deferred charges.

Note 2

Unamortized Expenses

These expenses represent costs of rate base hearings, of station conversions and of taking the inventory of the telephone property. By Order No. 66 of the Board of Commissioners, dated October 4, 1966, these expenses are being amortized over periods not exceeding ten years, commencing January 1, 1967.

| | |
|---|-------------------|
| Balance at January 1, 1968 | \$ 819,690 |
| Additional expenses incurred to December 31, 1968 | 29,376 |
| | <u>849,066</u> |
| Amortization for year ended December 31, 1968 | 118,222 |
| Balance at December 31, 1968 | <u>\$ 730,844</u> |

Note 3**Capital Stock**

Ordinary shares—par value \$5 each

| | | |
|--|------------------|--------------|
| Authorized | 6,000,000 shares | |
| Outstanding—at January 1, 1968 | 3,176,413 shares | \$15,882,065 |
| —issued for cash in 1968 | 635,282 shares | 3,176,410 |
| —at December 31, 1968 | 3,811,695 shares | \$19,058,475 |
| Preference shares—par value \$25 per share | | |
| Authorized | 500,000 shares | |
| Issued | 230,000 shares | |
| Redeemed or converted to December 31, 1968 | 230,000 shares | |
| Outstanding December 31, 1968 | — | |

Note 4**Premium on Ordinary Shares**

| | |
|------------------------------------|------------|
| Balance at January 1, 1968 | \$ 299,526 |
| Premium on shares issued | 158,820 |
| Balance at December 31, 1968 | \$ 458,346 |

Note 5**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 | \$166,000 | \$ 734,000 |
| 5½% | May 1, 1973 | 500,000 | 83,000 | 417,000 |
| 5½% | May 15, 1977 | 1,500,000 | 172,000 | 1,328,000 |
| 5½% | June 1, 1978 | 1,000,000 | 100,000 | 900,000 |
| 6% | June 1, 1979 | 1,000,000 | 82,000 | 918,000 |
| 7% | May 1, 1980 | 2,000,000 | 140,000 | 1,860,000 |
| | | | | 6,157,000 |
| First mortgage bonds | | | | |
| 5½% | June 1, 1988 | 3,000,000 | | 3,000,000 |
| 7% | December 15, 1991 | 3,000,000 | | 3,000,000 |
| 7⅞% | November 1, 1978 | 500,000 | | 500,000 |
| 7⅞% | November 1, 1993 | 1,950,000 (Note 7) | | 1,950,000 |
| | | | | \$14,607,000 |

Note 6

Income Taxes

Bulletin No. 26 dated September 1967 issued by the Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants relative to Accounting for Corporate Income Taxes recommends the general use of the tax allocation basis of computing the provision for income taxes instead of the taxes payable basis. This Company agreed with and had been using this generally recommended accounting.

While stating that the general principles of income measurement should apply in the case of regulated industries, the Bulletin recognizes that there may be rare cases where the taxes payable basis for regulated industries could be used provided all taxes payable in future years will be included in the approved rate and will be recoverable from the customer at that time.

By its Order No. 6 dated March 27, 1968, the Board of Commissioners of Public Utilities of the Province of Newfoundland will not allow the Company to use the tax allocation basis recommended in the Bulletin, and orders that the Company shall be allowed to charge as income tax expense the amount of income tax that would be payable if in calculating its taxable income it claims the maximum capital cost allowances permitted by the Federal Income Tax Act. In so ordering the Board implicitly guarantees that taxes payable in future years will be included in the approved rate and that these taxes will be recoverable from the customer at that time.

Consequently, the Company has ceased to provide currently, as an operating expense, for income taxes deferred as a result of claiming for tax purposes capital cost allowances in excess of the depreciation recorded in the accounts. Thus, the financial statements of the Company are no longer directly comparable with those of other similar companies.

The effect of this change is to report an income tax expense for the year ended December 31, 1968 lower by \$511,000 and to report a net income for the year higher by the same amount. The accumulated amount to December 31, 1968 by which taxes have been so reduced is \$1,332,000.

At December 31, 1968 there is a tax loss carry-forward of approximately \$1,692,000 resulting from claiming in prior years, for income tax purposes, maximum capital cost allowances in excess of depreciation recorded in the accounts, and certain expenses (Note 2) which are being amortized in the accounts over periods not exceeding ten years.

The Deferred Credit — Income Tax of \$223,977 at December 31, 1968 represents the reduction in income taxes that has been realized to date as a result of claiming for tax purposes certain expenses (Note 2) before their inclusion in operating expenses. Further amounts will be realized when previous years' losses, for tax purposes, are applied against taxable incomes of future years.

Note 7

First Mortgage Bonds

Under the agreement of sale the remaining \$550,000 of the First Mortgage Bonds, 7 $\frac{7}{8}$ % Series due 1993 are to be paid for and issued on April 1, 1969.

THE AVALON TELEPHONE COMPANY, LIMITED

STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

for the year ended December 31, 1968

SOURCE OF FUNDS

| | | |
|---|-------------|---------------------|
| Operations | | |
| Net income | | \$ 1,365,683 |
| Add: Depreciation | \$2,356,267 | |
| Income tax provision | 445,898 | |
| Other transactions not requiring an outlay of funds | 143,072 | 2,945,237 |
| | | |
| | | 4,310,920 |
| Proceeds from stock issue | | 3,335,230 |
| Proceeds from bond issue | | 2,450,000 |
| | | |
| | | <u>\$10,096,150</u> |

DISPOSITION OF FUNDS

| | | |
|---|-------------|---------------------|
| Construction expenditures | | |
| Gross construction expenditures | \$6,708,206 | |
| Deduct: Charges to construction not requiring an outlay of funds | 275,003 | \$ 6,433,203 |
| | | |
| Dividends | | 1,461,150 |
| Increase in working capital | | 2,134,381 |
| Miscellaneous items | | 67,416 |
| | | |
| | | <u>\$10,096,150</u> |

THE AVALON TELEPHO

| | 1968 | 1967* | 1966 | 1965 |
|--|--------------|--------------|--------------|--------------|
| No. of Telephones | 82,645 | 76,218 | 69,285 | 66,898 |
| Business | 25,657 | 23,747 | 21,288 | 20,708 |
| Residence | 56,988 | 52,471 | 47,997 | 46,190 |
| Per Cent Dial | 94.2 | 91.8 | 91.9 | 92.3 |
| Telephones added | 6,427 | 6,933 | 2,387 | 2,875 |
| No. of Exchanges | 56 | 54 | 49 | 48 |
| Dial | 35 | 30 | 24 | 24 |
| Magneto | 6 | 8 | 9 | 9 |
| Common Battery | 15 | 16 | 16 | 15 |
| Total Plant and Equipment | \$50,393,805 | \$45,931,159 | \$39,013,617 | \$37,370,145 |
| Per telephone | \$ 610 | \$ 603 | \$ 563 | \$ 559 |
| No. of Employees | 835 | 867 | 819 | 731 |
| Wages and Salaries paid | \$ 3,385,373 | \$ 3,405,006 | \$ 2,810,461 | \$ 2,517,687 |
| Total Operating Revenues | \$11,675,793 | \$10,303,609 | \$ 7,504,656 | \$ 5,913,361 |
| Total Operating Expenses and Taxes.... | \$ 8,661,571 | \$ 7,480,518 | \$ 6,094,823 | \$ 4,771,600 |
| Net Income | \$ 1,365,683 | \$ 1,416,032 | \$ 96,865 | \$ 250,397 |
| Available for Ordinary Shares | \$ 1,365,683 | \$ 1,416,032 | \$ 96,865 | \$ 250,397 |
| Per Average Share | \$ 0.388 | \$ 0.460 | \$ 0.04 | \$ 0.10 |

* Restated on a "Flow Through Basis".

NE COMPANY, LIMITED

| 1964 | 1963 | 1962 | 1961 | 1960 | 1959 |
|--------------|--------------|--------------|--------------|--------------|--------------|
| 64,023 | 60,364 | 58,708 | 53,505 | 49,818 | 45,754 |
| 19,009 | 17,647 | 17,164 | 16,134 | 14,870 | 14,671 |
| 45,014 | 42,717 | 41,544 | 37,371 | 34,948 | 31,083 |
| 92.6 | 93.9 | 96.3 | 97.5 | 95.5 | 91.2 |
| 3,659 | 3,890 | 5,203 | 3,687 | 4,064 | 3,331 |
| 47 | 42 | 35 | 31 | 32 | 30 |
| 23 | 21 | 21 | 20 | 18 | 14 |
| 12 | 14 | 14 | 11 | 12 | 14 |
| 12 | 7 | — | — | 1 | 2 |
| \$30,093,012 | \$27,894,344 | \$24,362,935 | \$21,766,871 | \$19,711,928 | \$17,007,481 |
| \$ 470 | \$ 462 | \$ 415 | \$ 407 | \$ 396 | \$ 372 |
| 686 | 595 | 558 | 521 | 545 | 541 |
| \$ 2,148,271 | \$ 1,793,678 | \$ 1,606,163 | \$ 1,455,012 | \$ 1,365,000 | \$ 1,218,790 |
| \$ 4,900,058 | \$ 4,680,957 | \$ 3,632,665 | \$ 3,263,824 | \$ 2,919,455 | \$ 2,534,462 |
| \$ 4,094,597 | \$ 3,730,370 | \$ 2,657,286 | \$ 2,247,546 | \$ 2,037,229 | \$ 1,832,979 |
| \$ 60,784 | \$ 398,804 | \$ 482,873 | \$ 570,345 | \$ 498,590 | \$ 441,284 |
| \$ Nil | \$ 72,975 | \$ 157,028 | \$ 255,749 | \$ 217,706 | \$ 183,270 |
| \$ (0.08) | \$ 0.09 | \$ 0.31 | \$ 0.61 | \$ 0.62 | \$ 0.58 |



Avalon Telephone, part of
Trans-Canada Telephone System