

NORTHERN TELEPHONE LIMITED



ANNUAL REPORT



k. hoffman

**QUALITY  SERVICE**  
**OUR COMMITMENT**



**QUALITY  SERVICE**  
**OUR COMMITMENT**

HOWARD ROSS LIBRARY  
OF MANAGEMENT  
MAR 19 1990  
MCGILL UNIVERSITY

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# Corporate Information

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## ADDRESS

25 Paget Street  
New Liskeard, Ontario  
P0J 1P0

## TRANSFER AGENT

CENTRAL GUARANTY  
TRUST COMPANY  
Toronto

## TRUSTEE

MONTREAL TRUST  
Toronto and Montreal

## AUDITORS

ROSS, POPE & COMPANY  
Chartered Accountants,  
Timmins, Ontario

## BANKER

CANADIAN IMPERIAL  
BANK OF COMMERCE  
New Liskeard, Ontario

## ANNUAL MEETING

The annual meeting of shareholders will take place at 11:30 a.m. on Friday, April 20, 1990 at the Company's Head Office, 25 Paget Street, New Liskeard, Ontario.

# Corporate Profile

Northern Telephone Limited provides local telephone service and leases, sells and maintains a broad range of telecommunications and related equipment and services throughout Northeastern Ontario. The Company provides billing services to a number of municipalities and telephone systems throughout Ontario and also offers expertise in the design of computerized services. Interconnection for long distance services is through facilities owned and operated by the Ontario Northland Transportation Commission and Northern Telephone receives commissions on long distance services.

The Company's telephone service area, stretching along the Highway 11 corridor from Latchford in the southeast to Calstock near Hearst in the northwest and branching to Kirkland Lake and Timmins, covers approximately 83,000 square kilometres of Northeastern Ontario. The Head Office is in New Liskeard. At December 31, 1989, the Company operated 32 exchanges with 57,256 telephone numbers in service.

Originally, the Company was incorporated as the Temiskaming Telephone Company Limited on April 5, 1905, in New Liskeard and opened its first exchange there the same year. By the end of that year, a second exchange had been opened in Cobalt.

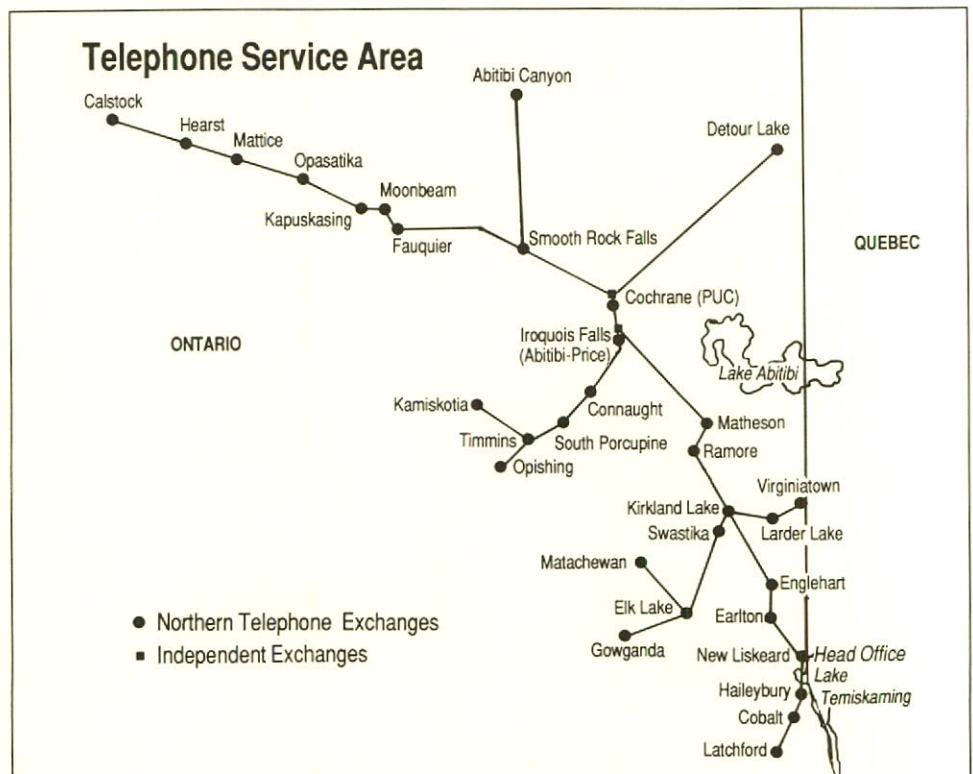
The Company steadily extended service and, by the end of 1928, was serving Cobalt, Haileybury, New Liskeard, Englehart, Kirkland Lake, Rouyn-Noranda, Timmins, Schumacher, South Porcupine and Kapuskasing. In that same year, the name of the Company changed to Northern Telephone Company, Limited.

In the 1960's, the Company served the Kenora, Red Lake and Atikokan areas in Northwestern Ontario, the area north of Sault Ste. Marie along the Algoma Central Railway to Hearst and most of the area from Hearst in the west, to Chibougamau, in Northeastern Quebec, and south to Latchford in Ontario. In 1960, due to reorganizations and amalgamations, the corporate name changed to Northern Telephone Limited.

Bell Canada acquired control of Northern Telephone in 1966 as a result of a share purchase offer.

In 1969, the Company's Northwestern Ontario assets were sold to Bell Canada and, in 1976, the Company sold its Quebec subsidiary, Northern Quebec Telephone Inc., to Telebec Ltee in Quebec. Since April, 1983, Northern Telephone Limited has been a subsidiary, directly or indirectly, of BCE Inc.

The acquisition of Steel Electronics Limited and Sudbury Wide Communications in 1987 diversified Northern Telephone's interests in the communications sector in an expanded territory and continues to provide a vehicle for office automation equipment sales and service outside of the Company's telephone service area.



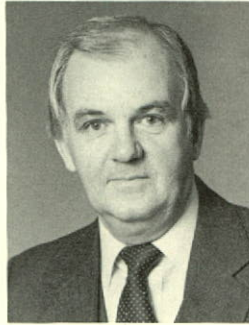
# Directors



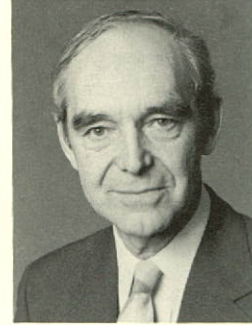
**J. Dean Archer**  
Chairman of the Board  
Northern Telephone Limited  
President and  
General Manager  
Archers Dairy Limited



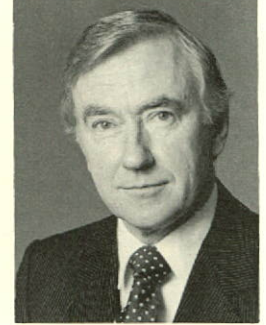
**Graydon T. Bowman\***  
Owner  
Bowmanlea Farms



**Vern E. Brown\***  
President  
Mike's Supermarket  
(1962) Limited



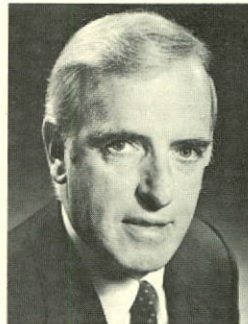
**Rene Brunelle\***  
Chairperson  
Task Force on Tax Benefits  
for Northern and Isolated Areas  
Government of Canada



**Murray W. Cooper**  
President and  
Chief Executive Officer  
Northern Telephone Limited



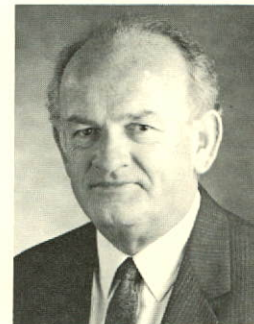
**Gaston Malette**  
Chairman of the Board,  
Chief Executive Officer  
and President  
Malette Inc.



**Owen W. McAleer**  
Vice-Chairman of the Board  
Northern Telephone Limited  
Vice-President  
Network Services  
Bell Canada



**Donald R. Newman\***  
Vice-President  
and Comptroller  
BCE Inc.



**Jack E. Sinclair**  
Executive Vice-President,  
Ontario Region  
Bell Canada

\*Member of Audit and Resource Committee

## Corporate Officers

**J. Dean Archer**  
Chairman of the Board

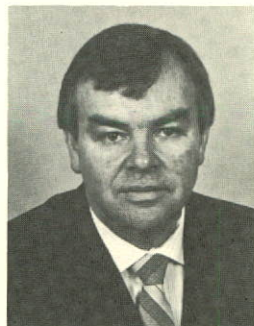
**Owen W. McAleer**  
Vice-Chairman of the Board

**Murray W. Cooper**  
President and  
Chief Executive Officer

**Thomas J. McKenney**  
Secretary-Treasurer

**Michael B. Baker**  
Assistant Secretary

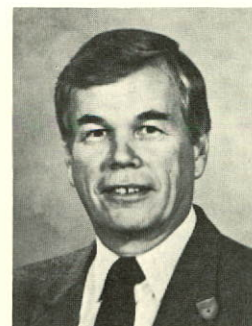
## Departmental Executive



**Dennis D. McCarty**  
Director - Customer  
Services and Business  
Information Systems



**Thomas J. McKenney**  
Secretary-Treasurer and  
Director - Administration



**John A. Parker**  
Director - Operations  
and Engineering

# Message from the President and Chief Executive Officer



The Northern Telephone Team performed well during 1989, continuing to provide quality service to customers through the implementation of more efficient internal procedures and through a number of equipment modernization projects.

We adopted, as our corporate mission statement, "Quality Service - Our Commitment." In order to meet our mission statement and achieve quality service, three core values were developed - Customer Satisfaction, Teamwork and Profitability.

**Customer Satisfaction:** We will achieve this through the quality of the service and products we provide.

**Teamwork:** Teamwork and commitment of each employee is essential. This will be achieved through participation, communications and recognition of accomplishments.

We will know employees feel part of the team when they participate and work together to meet the customer satisfaction and profitability goals.

**Profitability:** We recognize the responsibility to our shareholders to maintain profitability, and encourage employee initiative to efficiently provide goods and services to meet the financial goals.

Management personnel participated in quality service training seminars and, through meetings with their own groups, addressed a number of quality service items.

An independent customer survey completed in 1989 provided an insight into how well we are meeting customer needs and how customers perceive Northern Telephone service. Our employees received high marks for meeting customer needs. Other areas identified by the survey are being addressed.

There was continued strong growth in telephone numbers, mainly due to a healthy economy. By the end of the year, there were 57,256 telephone numbers in service, an increase of 1,619 or 2.9 percent over 1988.

Northern Telephone's local service revenues for 1989 were \$16,377,400, an increase of 3.9 percent over 1988. Long distance revenues were \$11,731,300, an increase of 3.3 percent over 1988. This increase was achieved in spite of a 4.6 percent reduction in the average long distance rate in October of 1989.

The number of long distance messages grew by 11.3 percent. Long distance rates have continually decreased since December of 1986, and now are an average 30.3 percent lower, while Northern Telephone basic exchange rates have not increased since January 1, 1986.

In 1989, the Company's largest debenture issue was completed, providing sufficient funds to continue its capital program.

The Company filed three major applications with the Ontario Telephone Service Commission in 1989. The Provisioning Line Charge Application was filed in May and, if approved, will permit the Company to obtain a contribution towards its capital costs of providing service to the unserved, non urban areas.

In June, a Depreciation Application was filed requesting approval for provisional accrual rates for 1989, and adjustments to the depreciation reserve. A General Rate Application was filed in July, requesting revisions to rates which would generate additional revenues of \$1,384,000 in 1990.

In early February, 1990, the Commission approved these Applications. However, due to the timing of the General Rate Application Order, the full amount of the rate award may not be realized in 1990.

Equipment modernization projects took place in seven communities in our service area during 1989 — Timmins, Hearst, Abitibi Canyon, Opishig Lake, Larder Lake, Virginiatown and Matachewan.



In Timmins, some 1,400 telephone lines were converted to digital switching equipment, enabling those customers to rent Custom Calling Features. The Hearst exchange was replaced with new digital switching equipment in July of 1989, offering all single-line customers the option of subscribing to Touch Tone service and Custom Calling Features.

The Company completed its program to modernize four-digit switching equipment throughout its system when it installed new equipment in Abitibi Canyon in 1989.

One hundred percent of Northern Telephone customers now have Direct Distance Dialing service, as a result of equipment modernization in Abitibi Canyon and Opishong Lake.

Customers in Larder Lake and Virginiatown are now able to place their own person to person, third number billing and credit card long distance calls, as a result of equipment modernization in those communities. In Matachewan, the Company introduced Automatic Number Identification, which expedites the placing of long distance calls.

Northern Telephone continued to retain the major share of customers in the supply of business telephone systems during 1989. This was achieved by offering a line of quality products, flexible payment options and reliable customer service support.

The Company's line of communications-related products was expanded in 1989, through a distributorship system involving more than 40 established retail dealerships across Northern Ontario.

In order to improve the Company's safety record, new procedures were developed and emphasis was placed on safety awareness. Northern Telephone continued to offer safety-related courses to employees during 1989. In all, 70 days were spent providing employees with First Aid and Defensive Driving courses.

In an effort to provide a healthier work environment, a policy was implemented on May 1, 1989 to eliminate smoking in Company buildings and to assist employees and spouses to quit smoking. The co-operation of all employees is appreciated.

Employees in four main centres held Family Days during the summer months of 1989. These social outings provided fun for participants and their families. The efforts of employees who organized and participated in Family Days are certainly appreciated.

Northern Telephone continued to support a host of community-based organizations with financial donations and other contributions throughout 1989. The Company was also well-represented at Trade Shows in Timmins, New Liskeard, Kirkland Lake and Kapuskasing and at Christmas Parades in New Liskeard and Timmins.

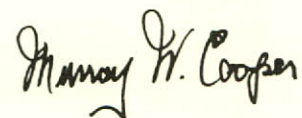
Members of the local chapter of the Telephone Pioneers of America and other employees continued to assist community organizations and needy individuals with donations of specialized telephone equipment, food and funds throughout the year.

Northern Telephone's third annual Directory Art Contest was held in the Temiskaming District in 1989, attracting 65 entries. The Temiskaming Art Gallery helped co-ordinate the contest and the winner was Rob Moir of the Charlton area, for his oil painting, "Back To School." His artwork will appear on all 1990 Northern Telephone directories.

In June of 1989, Graham E. Bagnall, Vice-President and Treasurer of BCE Inc., resigned from the Board of Directors. His contribution to the Board during his three-year-tenure is appreciated.

Jack E. Sinclair, Executive Vice-President, Ontario Region, Bell Canada, was named to Northern Telephone's Board of Directors in 1989, filling the vacancy left by Mr. Bagnall.

1989 was a year in which special emphasis was placed on the core values of Customer Satisfaction, Teamwork and Profitability. Keeping these values as a top priority in the future will ensure that we meet our corporate mission statement, "Quality Service - Our Commitment."



Murray W. Cooper  
President and Chief Executive Officer



(1)

## Serving the North

The Northern Telephone Team continued to serve customers and community organizations throughout 1989, as evidenced by the photographs on this page.

Clockwise from top left are: 1) Margaret Villeneuve, Jean Grant and Gabrielle Coulombe, Timmins Service Representatives, volunteering their time to staff telephones at the 1989 Easter Seal Society Superthon in Timmins; 2) Marcelle Cote, summer student; her father Joe Cote, Central Office Man, Hearst and, standing on ladder, Manfred Lurz, Manager—Central Office and Maintenance, work on the cutover of the Hearst exchange to digital switching equipment; 3) Janet Davidson, Buildings, Vehicles and Supplies and Gord Champagne, Cable Splicer, both of New Liskeard, were two of many employees who received first aid safety training from Gerry McGarry, left, a St. John Ambulance Society instructor; 4) Danny Terry, New Liskeard Cable Splicer, practices fibre optic cable splicing during a 1989 course; 5) Winners in the 1989 Drivers' Road-éo included, from left, Michel Robert, Kapuskasing Construction, heavy truck category winner; President and Chief Executive Officer Murray W. Cooper; Claude Pelletier, Kapuskasing Installation and Repair, Grand Champion and van category winner; Dave Taylor, Safety and Labour Relations and Dennis Parrish, New Liskeard Buildings, Vehicles and Supplies, sedan category winner; 6) Henry DeGeit, left, Timmins Business Services and Gerrit DeGeit, centre, Timmins Installation and Repair, discuss telephone systems with a customer at the Timmins Home Show; 7) Rudy Soucie, Timmins Central Office, marked 38 years of safe working during 1989.



(7)



(2)



(6)



(3)



(5)



(4)

## Operating Highlights

Modernization of telephone switching equipment was a major priority during 1989, with 4,606 telephone lines being converted to computerized digital switching systems.

These digital conversions enable the Company to meet service and growth demands and result in reduced maintenance costs, improved customer services through better quality transmission and new services such as Touch Tone and Custom Calling Features.

Capital expenditures during the year amounted to \$7,766,000, with the Switching Modernization Program accounting for \$1,235,000. By December 31, 1989, there were 26,274 digital lines in service, accounting for 44.5 percent of total telephone lines.

Switching modernization projects in 1989 included the complete conversion of the Hearst exchange to digital equipment in July. As well, some 1,400 telephone lines in Timmins were converted to digital switching equipment. Custom Calling Features were also introduced to single-line customers in the Timmins area.

The Company completed its program to modernize four-digit switching equipment throughout its system when it installed new equipment in Abitibi Canyon during 1989.

One hundred percent of Northern Telephone customers now have access to Direct Distance Dialing service, as a result of equipment modernization in Abitibi Canyon and Opishong Lake.

Customers in Larder Lake and Virginiatown are now able to place their own person to person, third number billing and credit card long distance calls, as a result of equipment modernization in those communities. In Matachewan, the Company introduced Automatic Number Identification, which expedites the placing of long distance calls.

Direct Dial Overseas service was implemented in 1989, enabling 99.1 percent of our customers to place their own station-to-station overseas calls.

In the residential sector, promotional campaigns throughout the year served to increase the number of Touch Tone telephone lines and electronic telephones, as well as strengthen the Company's rental market. Separate promotions, utilizing telemarketing and traditional campaigns, increased the Company's penetration of Custom Calling Features. Long distance gift certificates were promoted in a special Christmas advertising campaign.

In the competitive business marketplace, the Company has retained the major share of customers who require PABX and Key Telephone Systems. As well, the Company continued to provide a quality line of telephone products designed to meet the needs of customers who prefer to own their telephone equipment.

A number of residential customers are interested in purchasing feature telephones and related equipment and Northern Telephone offers these products through its Phone Fair outlets.

Office automation products, which include facsimile machines, personal computers, printers, modems and a variety of other voice data communications products, are offered by Northern Telephone and by a wide network of established retail outlets throughout Northern Ontario. In 1989, the Company continued to develop and expand the office automation product line.

The Company's Business Information Systems department continued to offer data processing services outside the Company. Seven telephone systems and 120 municipalities across Ontario are among the Company's regular customers.

Modernization of procedures continued at Northern Telephone during 1989, making operations more efficient and providing customers with improved service. This was accomplished with micro-computers and by allowing on-line access.

# Financial Highlights

Northern Telephone is an independent telephone company which operates solely in Ontario. The Company's financial and service matters, in regards to the provisioning of local telephone service, are regulated by the Ontario Telephone Service Commission (OTSC).

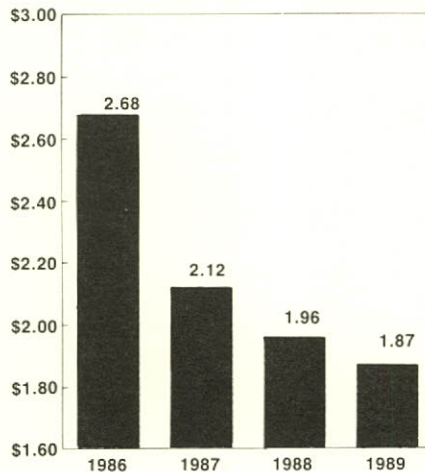
Local service revenues for 1989 increased by 3.9 percent over 1988, to \$16,377,400. This increase was the result of growth in Network Access Service lines and in premium rental features, as well as rate increases due to rate group changes in certain areas.

Long distance service revenues increased by \$375,300 in 1989, or 3.3 percent, to \$11,731,300. A strong economy and customer response to long distance rate reductions implemented in 1988 and 1989 continued to spur growth in the number of long distance messages.

Customers benefited from long distance rate decreases of 4.0 percent in Ontario/Quebec rates and approximately 17.6 percent in TransCanada rates, both effective October 2, 1989.

The average price per long distance message has decreased by 81 cents, from \$2.68 in 1986 to \$1.87 in 1989. This represents a decrease of 30.3 percent over this three-year period.

**AVERAGE PRICE PER  
LONG DISTANCE MESSAGE**



The Ministry of Northern Development and Mines (MNDM) commissioned a study of the toll settlement procedures between Northern Telephone and the Ontario Northland Transportation Commission (ONTC), as outlined in the Traffic Agreement, to determine the appropriateness of the Agreement in the current telecommunications environment.

The consultants' report has been issued and the report is expected to be used in future settlement negotiations.

Northern Telephone completed its largest debenture issue on October 16, 1989, which provides the Company with sufficient funds to continue its capital program. The \$8-million Series N debenture issue was a private placement with two insurance companies. It will mature in 20 years, at an interest rate of 11.0 percent and has an average life of approximately 16 years.

The rate of return on average common equity on telephone operations was 13.8 percent. The Company's consolidated earnings per share for the year ended December 31, 1989 was \$1.04 per share.

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# Management Report

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*To the Shareholders of  
Northern Telephone Limited*

The data contained in this Annual Report of Northern Telephone Limited is the responsibility of management and has been approved by the Board of Directors. The consolidated financial statements are based upon management's best estimates and judgements and have been prepared within the guidelines of generally accepted accounting principles.

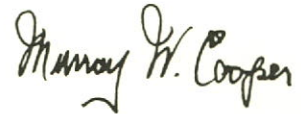
To ensure the integrity and objectivity of the data, management maintains a system of internal controls, comprised of written policies, procedures, and a comprehensive internal audit program.

The internal audit program provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the consolidated financial statements in this Annual Report principally through its Audit Committee. The Audit Committee meets with management and the internal and external auditors to review accounting principles, practices and internal controls.

The shareholders' external auditors meet with the Audit Committee both with and without management present.

These consolidated financial statements have been examined by the shareholders' auditors Ross, Pope and Company, chartered accountants and their report is presented below.



Murray W. Cooper  
*President and Chief Executive Officer*



Thomas J. McKenney  
*Secretary-Treasurer*

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# Auditors' Report

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*To the Shareholders of  
Northern Telephone Limited*

We have examined the consolidated balance sheet of Northern Telephone Limited and subsidiary as at December 31, 1989 and the consolidated 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 consolidated financial statements present fairly the financial position of the Company as at December 31, 1989 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.

ROSS, POPE & COMPANY,  
CHARTERED ACCOUNTANTS.

Timmins, Ontario,  
January 22, 1990.

# Consolidated Balance Sheet

As At December 31

	1989	1988
<b>Assets</b>		
<b>Current Assets</b>		
Accounts receivable (Note 10) _____	\$ 7,903,243	\$ 7,121,352
Investment redeemable within one year _____	756,000	756,000
Other _____	1,322,289	814,502
Inventory _____	1,065,892	990,131
	<u>11,047,424</u>	<u>9,681,985</u>
<b>Telecommunication Property, At Cost</b>		
Buildings, plant and equipment _____	85,843,215	82,207,700
Less accumulated depreciation _____	31,510,175	29,208,905
	<u>54,333,040</u>	<u>52,998,795</u>
Land _____	508,197	467,878
Station connections _____	1,293,386	1,724,515
Plant under construction _____	3,413,190	1,523,953
Materials and supplies _____	572,085	554,106
	<u>60,119,898</u>	<u>57,269,247</u>
<b>Investments, At Cost (Note 3) _____</b>	<u>2,867,001</u>	<u>3,616,501</u>
<b>Other Assets</b>		
Long-term receivables (Note 4) _____	1,283,573	1,356,417
Deferred charges _____	221,640	153,098
	<u>1,505,213</u>	<u>1,509,515</u>
<b>Total Assets _____</b>	<u>\$75,539,536</u>	<u>\$72,077,248</u>

On behalf of the Board of Directors:

V.E. Brown, Director

R. Brunelle, Director

	1989	1988
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Bank indebtedness _____	\$ 612,521	\$ 268,391
Accounts payable (Note 10) _____	5,857,528	6,077,807
Advance billing for service _____	773,624	762,055
Dividends payable _____	784,542	780,133
Income taxes payable _____	—	423,687
Interest accrued _____	518,530	416,017
Debt due within one year (Note 7) _____	3,018,755	6,235,423
	<u>11,565,500</u>	<u>14,963,513</u>
<b>Long-term Debt</b> (Note 6) _____	20,183,474	14,049,328
<b>Deferred Credits</b>		
Income taxes _____	11,115,101	10,922,779
Other _____	55,832	63,816
	<u>11,170,933</u>	<u>10,986,595</u>
 <b>Shareholders' Equity</b>		
<b>Stated Capital</b> (Note 5)		
Preference shares _____	8,524,000	8,604,000
Common shares _____	14,934,772	14,934,772
<b>Retained earnings</b> _____	9,160,857	8,539,040
	<u>32,619,629</u>	<u>32,077,812</u>
 <b>Total Liabilities and Shareholders' Equity</b> _____	<u>\$75,539,536</u>	<u>\$72,077,248</u>

T.J. McKenney, Secretary-Treasurer

# Consolidated Statement of Income

For The Years Ended December 31

	1989	1988
<b>Operating revenues</b>		
Local service _____	<b>\$16,377,350</b>	\$15,765,583
Long distance service _____	<b>11,731,263</b>	11,355,982
Other _____	<b>6,649,365</b>	5,802,060
<b>Total Operating Revenues</b> _____	<b>34,757,978</b>	32,923,625
<b>Operating Expenses</b>		
Maintenance and repairs _____	<b>6,748,056</b>	7,171,672
Depreciation _____	<b>5,129,960</b>	4,942,694
Taxes other than income taxes _____	<b>2,122,504</b>	2,063,463
Other _____	<b>11,833,809</b>	10,267,979
<b>Total Operating Expenses</b> _____	<b>25,834,329</b>	24,445,808
Net operating revenues _____	<b>8,923,649</b>	8,477,817
<b>Other Income</b>		
Debenture interest and other income _____	<b>426,891</b>	480,120
Income before underlisted items _____	<b>9,350,540</b>	8,957,937
<b>Interest Charges</b>		
Interest on long-term debt _____	<b>2,023,218</b>	1,994,812
Other _____	<b>619,478</b>	415,368
<b>Total Interest Charges</b> _____	<b>2,642,696</b>	2,410,180
Income before income taxes _____	<b>6,707,844</b>	6,547,757
Income taxes (Note 2) _____	<b>3,024,351</b>	3,144,089
<b>Net Income</b> _____	<b>3,683,493</b>	3,403,668
Dividends on preference shares _____	<b>505,286</b>	512,216
<b>Net Income Applicable to Common Shares</b> _____	<b>\$ 3,178,207</b>	\$ 2,891,452
<b>Earnings per Common Share</b> _____	<b>\$ 1.04</b>	\$ 0.95
Dividends declared per common share _____	<b>\$ 0.84</b>	\$ 0.84
Average common shares outstanding _____	<b>3,043,657</b>	3,043,657



# Consolidated Statement of Changes in Financial Position

For The Years Ended December 31

	1989	1988
<b>Cash Provided From (Used For)</b>		
<b>Operating Activities</b>		
Net income _____	\$ 3,683,493	\$ 3,403,668
Items not affecting cash		
Depreciation _____	5,129,960	4,942,694
Deferred income taxes _____	192,322	365,894
Other _____	52,016	(9,474)
Increase in operating working capital (Note 9) _____	<u>(1,890,914)</u>	<u>(810,862)</u>
	<u>7,166,877</u>	<u>7,891,920</u>
<b>Financing Activities</b>		
Proceeds from issue of long-term debt _____	7,940,000	—
Increase (Decrease) in note payable _____	(4,000,000)	1,500,000
Net receipts (repayments) of bank demand notes _____	722,332	286,423
Repayment of long-term debt _____	(1,804,854)	(1,094,117)
Redemption of preference shares _____	<u>(80,000)</u>	<u>(80,000)</u>
	<u>2,777,478</u>	<u>612,306</u>
<b>Investing Activities</b>		
Capital expenditures (net) _____	(7,980,611)	(6,192,570)
Reduction in investments _____	749,500	756,000
Decrease in other assets _____	<u>4,302</u>	<u>116,743</u>
	<u>(7,226,809)</u>	<u>(5,319,827)</u>
<b>Dividends Declared</b> _____	<u>(3,061,676)</u>	<u>(3,068,592)</u>
<b>Bank Indebtedness</b>		
Decrease (Increase) during the year _____	(344,130)	115,807
At beginning of year _____	<u>(268,391)</u>	<u>(384,198)</u>
At end of year _____	<u>\$ (612,521)</u>	<u>\$ (268,391)</u>

# Consolidated Statement of Retained Earnings

For The Years Ended December 31

	1989	1988
<b>Balance at Beginning of Year</b> _____	<b>\$ 8,539,040</b>	\$ 8,203,964
Add:		
Net income _____	<u>3,683,493</u>	<u>3,403,668</u>
	<b><u>12,222,533</u></b>	<u>11,607,632</u>
Deduct:		
Dividends on preference shares _____	<b>505,286</b>	512,216
Dividends on common shares _____	<u>2,556,390</u>	<u>2,556,376</u>
	<b><u>3,061,676</u></b>	<u>3,068,592</u>
<b>Balance at end of Year</b> _____	<b><u>\$ 9,160,857</u></b>	<u>\$ 8,539,040</u>

# Notes to Consolidated Financial Statements

## 1. Accounting Policies

The Company is subject to regulation, including examination of accounting practices, by the Ontario Telephone Service Commission for the Province of Ontario. The system of accounts and accounting practices are similar to those being used by other companies in the telecommunications industry.

### Consolidation

The consolidated financial statements include the accounts of the wholly owned subsidiary, Steel Electronics Limited.

### Depreciation

Depreciation, for telephone operations, is charged on a straight line basis using rates, which are approved by the Ontario Telephone Service Commission, by classes of property, determined by a continuing program of engineering studies. When depreciable telecommunication property is retired, the amount at which such property has been carried in telecommunication property is charged to accumulated depreciation.

These rates provide for depreciation of assets over their estimated service life and resulted in the composite depreciation rate of 5.20% for the year ended December 31, 1989 (5.69% in 1988).

### Income Taxes

The Company uses the tax allocation basis of accounting for income taxes. Deferred income taxes result principally from deductions for tax purposes, in respect of telecommunication property, being in excess of amounts currently charged to operations.

### Leases

For leases which qualify as sales-type leases, the revenue is recognized at the inception of the lease.

### Inventories

Inventory for resale is recorded at the lower cost and net realizable value.

## 2. Income Taxes

Effective tax rates for 1989 and 1988 are not significantly different from the statutory rate since the reported income before taxes is approximately the same as income for tax purposes.

Details of the Company's income taxes are as follows:

	1989	1988
Current	\$2,832,029	\$2,778,195
Deferred	<u>192,322</u>	<u>365,894</u>
Total	<u>\$3,024,351</u>	<u>\$3,144,089</u>

### 3. Investments

	1989	1988
Debentures, at cost, of Telebec Ltée, an affiliated company*	\$3,584,000	\$4,340,000
Other	<u>39,001</u>	<u>32,501</u>
	3,623,001	4,372,501
Less: Portion of debentures redeemable within one year	<u>756,000</u>	<u>756,000</u>
Total	<u>\$2,867,001</u>	<u>\$3,616,501</u>

\* The weighted average interest rate on these debentures at December 31, 1989 was 9.54% (9.49% in 1988).

The amount of debenture redemptions receivable in the following years are: \$756,000 in 1990; \$756,000 in 1991; \$756,000 in 1992; \$756,000 in 1993; \$280,000 in 1994; and \$280,000 in 1995.

### 4. Long-term Receivables

Long-term receivables consists of:	1989	1988
Total lease payments receivable	\$2,278,912	\$2,459,005
Less: Unearned interest income	<u>410,100</u>	<u>447,356</u>
Net investment in leases	1,868,812	2,011,649
Less: Current portion of lease payments included in accounts receivable	<u>585,239</u>	<u>655,232</u>
	<u>\$1,283,573</u>	<u>\$1,356,417</u>

Finance income related to these leases is recognized over the term of the lease payments.

Future minimum lease payments receivable under sales-type leases are: \$819,579 in 1990; \$644,159 in 1991; \$481,630 in 1992; \$247,627 in 1993; \$83,791 in 1994 and \$2,126 in subsequent years.

## 5. Stated Capital

	No. of Shares	Series	Dividend Per Share	Stated Capital	
				1989	1988
Authorized			\$		
Preference shares - voting					
First preference	500,000	—	—	<b>\$10,000,000</b>	\$10,000,000
Second preference	<u>128,200</u>	—	—	<u><b>2,564,000</b></u>	<u>2,564,000</u>
Total preference	<u>628,200</u>	—	—	<u><b>\$12,564,000</b></u>	<u>\$12,564,000</u>
Common shares	<u>6,500,000</u>	—	—	<u><b>\$35,000,000</b></u>	<u>\$35,000,000</u>
Issued and Outstanding					
Preference shares					
First preference - cumulative, redeemable					
75,000	A	1.10	<b>\$ 1,500,000</b>	\$ 1,500,000	
50,000	B	1.10	<b>1,000,000</b>	1,000,000	
100,000	C	1.10	<b>2,000,000</b>	2,000,000	
25,000	D	1.10	<b>500,000</b>	500,000	
<u>48,000*</u>	E	1.90	<u><b>960,000</b></u>	<u>1,040,000</u>	
			<u><b>5,960,000</b></u>	<u>6,040,000</u>	
*52,000 in 1988					
Second preference - cumulative, redeemable					
7,853	A	1.00	<b>157,060</b>	157,060	
<u>120,347</u>	B	1.05	<u><b>2,406,940</b></u>	<u>2,406,940</u>	
			<u><b>2,564,000</b></u>	<u>2,564,000</u>	
Total preference	<u>426,200</u>		<u><b>\$ 8,524,000</b></u>	<u>\$ 8,604,000</u>	
Common shares	<u>3,043,657</u>		<u><b>\$14,934,772</b></u>	<u>\$14,934,772</u>	

All the preference shares, with the exception of the First Preference Series "E" shares, are redeemable at the Company's option at \$20.40 per share.

Pursuant to the conditions attached to the issue of the First Preference Series "E" shares, the Company shall call for redemption, for sinking fund purposes, on the first day of October of each year, 4,000 of these shares at a price of \$20.00 per share plus any accrued and unpaid dividends to the date of redemption. To meet this requirement, on October 1, 1989, 4,000 shares were redeemed (4,000 in 1988). The Company may redeem, at its option, additional First Preference Series "E" shares at a price of \$20.00 per share plus a premium of 1% prior to October 1, 1990, and thereafter at \$20.00 per share.

## 6. Long-term Debt

	Maturity Date	Rate of Interest	Series	1989	1988
20 year Serialized Debentures					
	April 30, 1993	8.25%	I	\$ 2,800,000	\$ 3,500,000
	January 15, 1995	11.00%	K	2,400,000	2,800,000
15 year Serialized Debentures					
	May 31, 1997	17.50%	L	2,775,000	3,050,000
	November 1, 1999	13.75%	M	5,700,000	6,000,000
20 year Serialized Debentures					
	October 15, 2009	11.00%	N	8,000,000	—
Other debt				<u>244,474</u>	<u>374,328</u>
Total				<u>21,919,474</u>	<u>15,724,328</u>
Less: Long-term debt due within one year (note 7)				<u>1,736,000</u>	<u>1,675,000</u>
Total				<u><u>\$20,183,474</u></u>	<u><u>\$14,049,328</u></u>

Maturity payments required in the following years with respect to the above debt are: \$1,736,000 in 1990; \$1,753,000 in 1991; \$1,760,000 in 1992; \$1,737,000 in 1993; \$1,001,000 in 1994; \$7,132,474 in 1995-1999; \$2,000,000 in 2000-2004; and \$4,800,000 in 2005-2009.

## 7. Debt Due Within One Year

	1989	1988
Long-term debt due within one year	\$ 1,736,000	\$ 1,675,000
Bank demand notes	1,282,755	560,423
Note payable	—	4,000,000
Total	<u><u>\$ 3,018,755</u></u>	<u><u>\$ 6,235,423</u></u>

## 8. Pensions

Northern Telephone Limited has contributory defined benefit plans which provide for service pensions based on length of contributory service and rates of pay for substantially all their employees.

The policy is to fund pension costs through Company contributions based on various actuarial cost methods as permitted by pension regulatory bodies. Such contributions reflect actuarial assumptions regarding salary projections and future service benefits. Plan assets are represented primarily by bonds, debentures and common stocks.

The present value of the accrued pension benefits is estimated to be \$16,263,440 (\$14,583,523 in 1988) and the net assets available to discharge the benefits at market value are \$17,335,637 (\$14,351,000 in 1988).

The provision for pension costs was arrived as follows:

	1989	1988
Service cost component	\$ 296,362	\$ 244,561
Interest on accrued plan benefits	1,228,295	1,122,531
Return on plan assets	(1,216,170)	(1,098,515)
Amortization of net assets existing at January 1, 1987	(26,613)	(26,613)
Amortization of plan amendments arising subsequent to January 1, 1987	174,019	141,752
	<u>\$ 455,893</u>	<u>\$ 383,716</u>

The Company contributed \$800,300 (\$655,643 in 1988) to these plans during the year ended December 31, 1989 resulting in a deferred charge of \$344,407 (\$281,927 in 1988).

## 9. Consolidated Statement of Changes in Financial Position

	1989	1988
Increase in operating working capital provided by change in:		
Accounts receivable	\$ (781,891)	\$(1,307,492)
Other current assets	(507,787)	(314,948)
Inventory	(75,761)	(362,491)
Accounts payable	(220,279)	1,213,820
Advance billing for service	11,569	109,097
Dividends payable	4,409	121,450
Income taxes payable	(423,687)	(255,321)
Interest accrued	102,513	(14,977)
Increase in operating working capital	<u>\$ (1,890,914)</u>	<u>\$ (810,862)</u>

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**10. Related  
Party  
Transactions**

**Accounts Receivable and Accounts Payable**

As at December 31, 1989, the accounts receivable from affiliated companies were \$110,880 (\$131,542 in 1988). The net amount payable to BCE Inc., the parent company, was \$672,694 (\$711,510 in 1988) and to other affiliated companies was \$855,398 (\$1,247,599 in 1988).

**Goods and Services**

For the year ended December 31, 1989, the Company purchased goods and services amounting to \$22,965 (\$29,542 in 1988) from BCE Inc., the parent company, and \$6,983,199 (\$5,306,939 in 1988) from other affiliated companies.

**Investment Transactions**

For the year ended December 31, 1989, the Company declared dividends of \$2,674,585 (\$2,673,757 in 1988) and paid net short-term interest of \$517,987 (\$352,439 in 1988) to BCE Inc., the parent company. The Company earned \$356,253 (\$426,323 in 1988) of debenture interest from Telebec Ltée, an affiliated company.

**11. Comparative  
Figures**

Certain comparative figures have been reclassified to conform with current presentation.



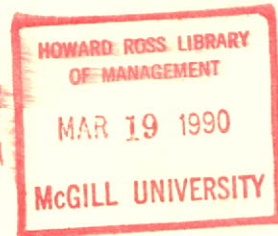
## Statistics

<b>NTL (Consolidated)</b>	<b>1989</b>	1988	1987	1986	1985
<b>Financial Results (\$)</b>					
Operating revenues	<b>34,757,978</b>	32,923,625	31,225,732	29,477,938	28,123,627
Operating expenses	<b>25,834,329</b>	24,445,808	21,922,410	20,810,422	19,590,627
Other income	<b>426,891</b>	480,120	599,699	1,278,316	1,929,610
Other charges	<b>2,642,696</b>	2,410,180	2,458,091	2,722,940	2,944,614
Income taxes	<b>3,024,351</b>	3,144,089	3,840,854	3,527,431	3,367,406
Net income	<b>3,683,493</b>	3,403,668	3,604,076	3,695,461	4,150,590
Total payroll	<b>13,332,620</b>	12,160,680	10,967,751	10,294,758	9,885,634
Construction expenditures	<b>8,002,636</b>	6,212,696	6,940,037	7,310,000	7,701,000
<b>Financial Ratios (\$)</b>					
Earnings per common share	<b>1.04</b>	0.95	1.01	1.04	1.19
Dividends declared per common share	<b>0.84</b>	0.84	0.61	1.71	1.61
<b>Balance Sheet Data (\$)*</b>					
Total investment in plant & equipment	<b>89,764,602</b>	84,199,531	83,429,344	80,567,320	76,735,333
Plant & Equipment less depreciation	<b>58,254,427</b>	54,990,626	55,604,156	53,543,475	50,927,778
Common equity	<b>24,095,629</b>	23,473,812	23,164,456	21,935,700	23,973,809
Preferred equity	<b>8,524,000</b>	8,604,000	8,684,000	8,764,000	8,844,000
Long-term debt (Including due within 1 year)	<b>21,919,474</b>	15,724,328	16,818,445	22,100,000	23,437,000
<b>NTL (Unconsolidated)</b>					
<b>Additional Statistics</b>					
Number of employees*	<b>293</b>	280	271	289	290
Total telephone numbers*	<b>57,256</b>	55,637	53,771	52,110	51,496
Business	<b>12,380</b>	11,413	10,525	9,806	9,457
Residence	<b>44,876</b>	44,224	43,246	42,304	42,039
Percentage business of total	<b>21.6</b>	20.5	19.6	18.8	18.4
Number of central offices*	<b>31</b>	31	31	31	31
Long distance messages (thousands)	<b>11,263</b>	10,119	8,863	7,775	7,499
Number of shareholders (preferred and common)*					
In Canada	<b>1,014</b>	1,100	1,163	1,227	1,324
Elsewhere	<b>24</b>	25	28	29	32
Total shareholders	<b>1,038</b>	1,125	1,191	1,256	1,356

\*As At December 31







## **QUALITY SERVICE** **OUR COMMITMENT**

### **CUSTOMER SATISFACTION**

We will achieve this through the quality of the service and products we provide. We will know customers are satisfied from monthly service indicators and survey results. The ability of our employees to respond to customer service needs is essential to maintaining market leadership.

### **TEAMWORK**

Teamwork and commitment of each employee is essential. This will be achieved through participation, communications and recognition of accomplishments. We will know employees feel part of the team when they participate and work together to meet the customer satisfaction and profitability goals.

### **PROFITABILITY**

We recognize the responsibility to our shareholders to maintain profitability, and encourage employee initiative to efficiently provide goods and services to meet the financial goals.