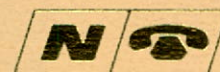


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NORTHERN TELEPHONE LIMITED

ANNUAL REPORT 1984



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# Contents

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Corporate Information _____	1
Corporate Profile _____	2
Directors _____	3
President and Department Heads _____	3
Message from President and Chief Executive Officer _____	4-5
Improving Services _____	6
Staying First in Communications _____	7
Meeting the Financial Challenge _____	8
Management Report _____	9
Auditors' Report _____	9
Balance Sheet _____	10-11
Statement of Income _____	12
Statement of Changes in Financial Position _____	13
Statement of Retained Earnings _____	14
Notes to Financial Statements _____	14-19
Statistics _____	20

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## Corporate Information

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### ADDRESS

25 Paget Street  
New Liskeard, Ontario  
P0J 1P0

### TRANSFER AGENT

CENTRAL TRUST  
COMPANY  
Toronto

### TRUSTEE

CANADA PERMANENT  
TRUST COMPANY  
Toronto and Montreal

### AUDITORS

ROSS, POPE & COMPANY  
Chartered Accountants,  
Timmins, Ontario

### BANKER

CANADIAN IMPERIAL  
BANK OF COMMERCE  
New Liskeard, Ontario

## Corporate Profile

Northern Telephone Limited, a subsidiary of Bell Canada Enterprises Inc., provides local telephone service in North-eastern Ontario. At December 31, 1984, there were 31 exchanges with 76,505 telephones in service. The principal exchanges are located at: Cobalt, Englehart, Haileybury, Hearst, Iroquois Falls, Kapuskasing, Kirkland Lake, New Liskeard, South Porcupine and Timmins. The Head Office is in New Liskeard.

The Company was originally incorporated on April 5, 1905, in New Liskeard, Ontario and opened its first exchange there the same year. By the end of that year, a second exchange had been opened in Cobalt, Ontario.

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

In the 1960's the Company was serving the Kenora, Red Lake and Atikokan areas in Western 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 assets were sold to Bell Canada and, in 1976, the Company sold its subsidiary, Northern Quebec Telephone Inc., to Telebec Ltée in Quebec, now a subsidiary of Bell Canada Enterprises Inc.

The Company's service area now covers approximately 83,000 square kilometres of Northeastern Ontario. The Ontario Northland Transportation Commission owns and operates the long distance facilities. Northern Telephone shares revenues through commission on long distance tolls.

As Northern Telephone looks to its 80th Anniversary in 1985, it reaffirms its long-standing theme of "Bringing the North Together" by continuing to provide quality telephone service at reasonable cost.

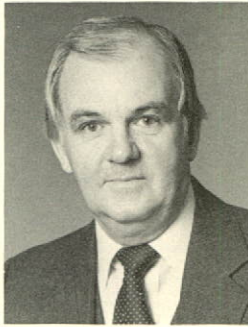


*Northern Telephone Limited marks the 80th anniversary of its incorporation in 1985 and reaffirms its long-standing motto of "Bringing the North Together". As part of the year's activities, an 80th anniversary logo was designed and it will be displayed prominently throughout 1985. Here, Bruce O'Shaughnessy, Kirkland Lake installer, cleans up a vehicle decal featuring the new logo.*

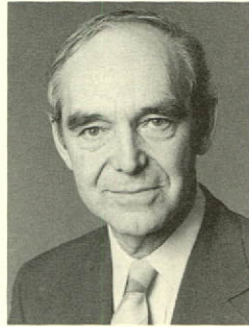
# Directors



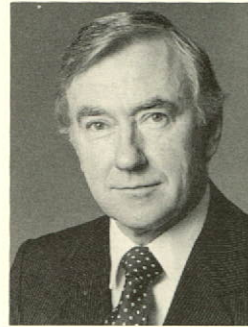
**J.D. Archer**  
Vice-Chairman  
Northern Telephone  
Limited  
Vice-President and  
General Manager  
Archers Dairy Limited



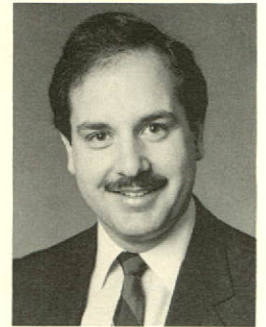
**V.E. Brown\***  
President  
Mike's Supermarket



**R. Brunelle\***  
Director and Consultant  
Spruce Falls Pulp & Paper



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



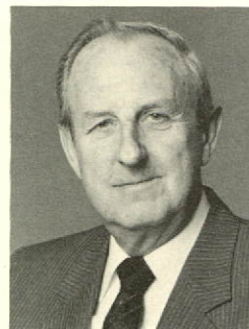
**D.O. Jarvis**  
Treasurer  
Bell Canada  
Enterprises Inc.



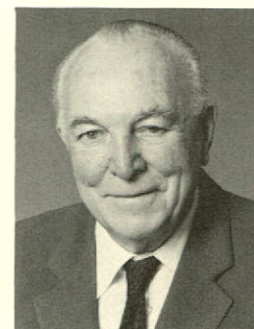
**J.C. Lavigne**  
Former Chairman  
of the Board  
Northern Telephone  
Limited



**D.R. Newman\***  
Comptroller  
Bell Canada  
Enterprises Inc.



**H.A. Roth**  
Chairman of the Board  
Northern Telephone  
Limited  
Vice President,  
Bell Canada



**R.A.H. Taylor**  
Chairman of the Board  
Morissette Diamond  
Drilling Limited

\*Member of Audit Committee

## President and Department Heads

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

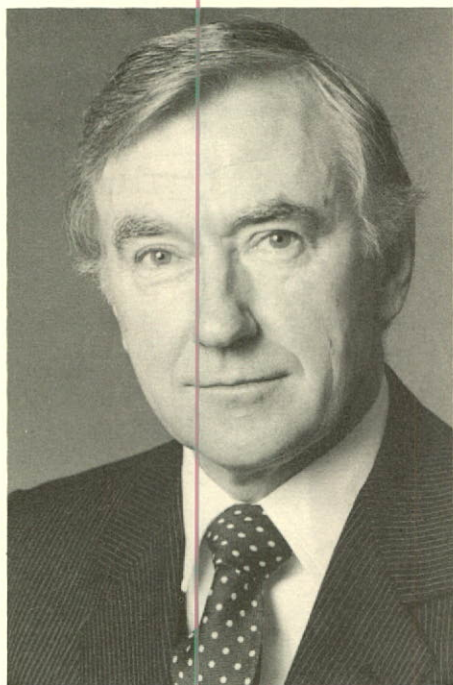
**Dennis D. McCarty**  
Director - Administration &  
Business Information Systems

**John A. Parker**  
Director -  
Customer Services

**Thomas J. McKenney**  
Secretary-Treasurer &  
Director - Marketing

**D. Brien Sirola**  
Director -  
Engineering & Planning

## Message from the President and Chief Executive Officer



1984 will go down as one of the better years for Northern Telephone Limited. Certainly it did not rival our growth years of the 1960's and early 1970's but, given the economic climate of the 1980's, it will stand out as a year that saw continuing modernization of the telephone network and improvements in the services we provide to our customers.

In financial terms, expenses were up in 1984, but so were revenues. Increased costs to maintain improvements to telephone plant and to enhance the Company pension plan accounted for the majority of the increased expenses while there were revenue increases in local services, long distance service, and equipment sales. The rate of return on average common equity for regulatory purposes on telephone operations was 15.0 per cent, compared to 14.9 per cent in 1983.

As of the end of December, 1984, Northern Telephone had 50,691 telephone numbers in service, an increase of 1,025 or 2.1 per cent over 1983.

Local service revenues were \$13,022,000, a gain of \$520,600 or 4.2 per cent over 1983. Higher rates effective January 3, 1984 account for approximately \$381,000 of the increase.

Long distance revenues increased by \$826,600 or 9.1 per cent to \$9,891,000 in 1984. This increase is primarily due to a toll rate increase implemented in September, 1983 and an increased growth in messages. During 1984, the number of long distance messages increased by 251,800 or 3.7 per cent over 1983, for a total of 7,141,700 messages.

With the Ontario Telephone Service Commission's final decision allowing the connection of customer provided equipment to the Company's facilities came a new era of competition. The impact of this competition resulted in a decrease in total telephones during 1984. However, Northern Telephone is performing well in this environment and recorded an outstanding success rate on competitive encounters in 1984.

There were changes on our Board of Directors during 1984, with the resignation of Robert M. Fensom and the retirement of Donald McKelvie. These positions were filled by Donald R. Newman, Comptroller, Bell Canada Enterprises Inc. and Vern E. Brown, President of Mike's Supermarket Limited, Timmins.

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Hubert A. Roth, Vice-Chairman of the Board, was elected Chairman of the Board in 1984, replacing J. Conrad Lavigne, who held the position for four years. J. Dean Archer was elected Vice-Chairman of the Board.

I would like to offer my personal appreciation to Donald McKelvie, former President of the Company and past Chairman of the Board, who served Northern Telephone for some 47 years and to Robert M. Fensom, who served as a Director for eight years.

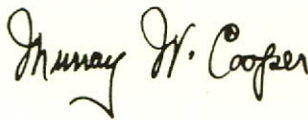
At this time, I would like to extend my thanks to all Company employees for their fine efforts in 1984. The year saw improvements in services we provide to our customers and a growing awareness on everyone's part that we all contribute to the Company's success.

The challenging combination of fast-paced technological change and increased competition in the business equipment market has been effectively met through increased efficiencies.

In terms of safety achievements, our employees received the President's Award in 1984 from the Electrical Utilities Safety Association for recording 291,544 hours without a compensable injury.

Looking to 1985, I see a year of more service improvements and enhancements. 1985 is also the 80th Anniversary of the incorporation of the Temiskaming Telephone Company, the forerunner of Northern Telephone Limited.

Not only will this special year remind us of how the Company has progressed since those pioneer days, it will also serve to reinforce our long-standing motto of "Bringing the North Together".



Murray W. Cooper - President and  
Chief Executive Officer.

## Improving Services

In the telephone industry, communications is the product and service is the key. Ensuring our customers receive good quality telephone service at reasonable cost is an objective Northern Telephone people take seriously.

To achieve this objective, it is necessary to inject capital into ongoing programs which will improve and enhance the various services we offer and modernize the different types of equipment we use to provide these services.

The Company's 11-year Rural Upgrade Program, which involves an upgrading of telephone lines of up to 10 customers per line to lines of four or less customers per line, is nearing completion. In 1984, expenditures in this program amounted to \$1,866,000, which represents 56 per cent of total outside plant expenditures for the year. As of December 31, 1984, 89 per cent of rural customers were on lines of four or less customers per line.

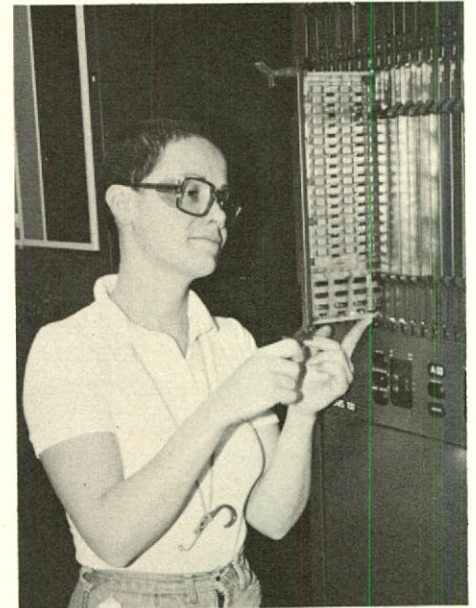
In 1984, capital expenditures increased to \$6,901,000 from \$5,944,000 in 1983. Increased spending in Outside Plant and Central Office equipment, and a decrease in subscriber equipment, accounted for this 16.1 per cent net increase in expenditures.

Northern Telephone continued its switching equipment modernization program in 1984, installing 1,160 lines of digital equipment. Of that total, 560 lines were placed in South Porcupine to modernize switching equipment and to allow for growth in 1985. The balance of the lines were placed in the north end of Timmins, where a new Central Office with digital switching equipment was established. Nine per cent of installed switching equipment is now digital.

Touch Tone service was introduced to Timmins and South Porcupine exchanges as part of the Christmas Sales Campaign. Some 1,800 customers have availed themselves of this new offering and 2,800 Harmony Touch Tone telephones went into service. This released many Digipulse sets for re-use in other exchanges.

In other service improvements, the Company embarked on a project to implement toll-free calling within the City of Timmins by December of 1985. A customer survey conducted in late 1984 among telephone customers in the Connaught and Kamiskotia sections of Timmins resulted in majority approval for the new service.

Working within the Company, efforts are continuing to seek out new and faster methods of maintaining records and tracking various projects and other services. 1984 saw the continuance of an internal program to place micro computers in various locations throughout the Company. In addition to records retention and other capabilities, the micro computers have enabled the Company to save time and manpower. By the end of 1984, micro computers were located in a number of Timmins and New Liskeard offices and most have the capability of connection to the Company's main computer.



*In an ongoing modernization program, mechanical switching equipment is gradually being replaced by digital switching equipment throughout Northern Telephone exchanges. Here, Claire Duthie, Central Office frameperson in Timmins, takes a look at the new digital switching technology.*



## Staying First in Communications

Northern Telephone has continued to perform well in this competitive environment, recording an excellent success rate.

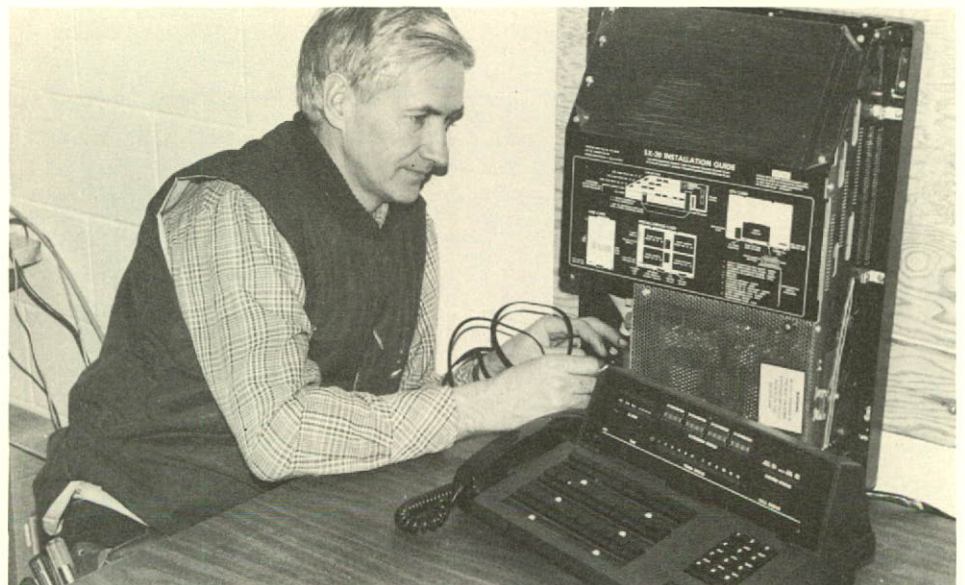
This high success rate is attributable to a number of factors, including more flexible payment options, a variety of state-of-the-arts products and a fully-trained staff of marketing and service people to assist in the design, installation and ongoing maintenance of telephone systems.

Deregulation of the Rate Stability Plan occurred in 1984. This, combined with enhancements to the Plan, allowed the Company to offer competitive rates, plus an opportunity for the customer to tailor payment options to suit specific business requirements.

The Company now offers an expanded line of residential and business equipment from such manufacturers as Northern Telecom, TIE Communications and Mitel.

1984 also marked the return of the residential Christmas Sales Campaign. Results of this campaign indicate there is a high customer demand for this type of marketing strategy. In addition, successful sales recorded by the retail outlet, Phonefair, did much to strengthen the results.

In all, 1984 proved that the Company's theme, "First in Communications in the North", is obviously more than just a nice sounding theme.



*Offering state-of-the-art telecommunications equipment and reliable installation and maintenance services all helps to keep Northern Telephone "First in Communications in the North". In this photograph, Gord Wilson, Special Equipment, Kapuskasing, checks out a Mitel SX-20 switchboard system prior to installation.*

## Meeting the Financial Challenge

Meeting the financial challenge is no small undertaking. It requires the provision of good quality telephone service to customers at a reasonable cost, a fair rate of return to shareholders and fair treatment of employees.

As with all Canadian telephone systems, regulation plays a major role in the ongoing financial and service operations. Northern Telephone, as an independent telephone company in Ontario, is regulated by the Ontario Telephone Service Commission.

In December 1983, the Ontario Telephone Service Commission granted the Company a 3.0 per cent overall increase in local rates, providing additional local revenues of approximately \$381,000 in 1984. These additional revenues aid the Company in continuing with its Rural Upgrade Program as top priority. This program is proceeding on schedule to ensure that all rural customers are on lines of four party or less by December 31, 1986.

The Commission, in its final Order approving the interconnection of customer provided equipment, ordered that the cost of network access and the cost of telephone equipment be separated and shown on the customer's bill.

The Commission further stated that the monthly rate for the basic telephone set would be 95 cents and customers choosing to provide their own telephone set would have this amount removed from their basic monthly rate. These changes were effective with the issuance of customer bills in June, 1984.

As a result of the concepts outlined in the Commission's order regarding the interconnection of customer provided equipment, in May, 1984, the Company applied to change its existing rate structures. The application included the establishment of competitive rates for telephone sets and premium offerings and a restructuring of service connection charges to relate them more to actual costs of providing the services. The realignment of service charges was approved by the Commission and subsequently implemented in July, 1984, while the telephone set rate aspects of the application were approved in January, and implemented in March of 1985.

The Commission concluded that telephone systems need not compete in the terminal attachment market through a separate subsidiary. However, the Company was required to file for approval, a plan to segregate in the Books of Account and the costing methodology for the sale of

terminal equipment. This application was filed in June, 1984 and a ruling is expected early in 1985.

The Ontario Telephone Service Commission granted the Company additional local revenues of \$910,000 annually, effective January 7, 1985. This local revenue increase, coupled with the 2.0 per cent Ontario Northland Telecommunications long distance rate increase, effective January 1, 1985 represents a 4.0 per cent increase in total local and long distance billed revenues.

As a result of a customer survey conducted in late 1984, the customers of Connaught and Kamiskotia areas of Timmins have approved a toll-free calling project which will eliminate long distance charges within the City of Timmins by December of 1985. Final Commission approval was obtained early in 1985.

### Debt Issue

Series M, Serial Debentures, with a principal amount of \$6,000,000 were issued on November 6, 1984 at a price of \$99 1/2 to yield 13.88 per cent, with an interest rate of 13.75 per cent. The proceeds of this issue were used in the continuance of the Company's construction program, redemption of debentures and sinking fund obligations.

# Management Report

## *To The Shareholders of Northern Telephone Limited*

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

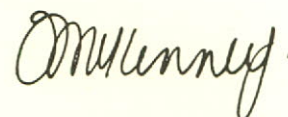
To ensure the integrity and objectivity of the data, management maintains a system of internal controls, comprised of written policies, procedures, and a

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.

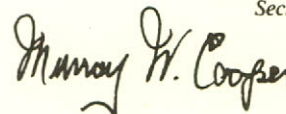
The Board of Directors carries out its responsibility for the financial statements in this Annual Report principally through its Audit Committee. The Audit Committee meets with management and the internal and external auditors to review accounting principles, practices and internal controls.

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

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



Thomas J. McKenney  
Secretary-Treasurer



Murray W. Cooper  
President and  
Chief Executive Officer

## Auditors' Report

### *To the Shareholders of Northern Telephone Limited*

We have examined the balance sheet of Northern Telephone Limited as at December 31, 1984 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, 1984 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 21, 1985

# Balance Sheet

As At December 31

<b>Assets</b>	<b>1984</b>	<b>1983</b>
<b>Telecommunication Property, At Cost</b>		
Buildings, plant and equipment _____	\$69,215,353	\$66,186,208
Less: Accumulated depreciation _____	<u>24,420,004</u>	<u>22,570,383</u>
	44,795,349	43,615,825
Land _____	464,213	448,443
Plant under construction _____	2,763,517	1,419,591
Materials and supplies _____	<u>836,796</u>	<u>576,254</u>
	<u>48,859,875</u>	<u>46,060,113</u>
<b>Investments, At Cost (Note 3) _____</b>	<u>20,792,690</u>	<u>22,872,690</u>
<b>Current Assets</b>		
Accounts receivable (Note 10) _____	4,884,670	4,336,302
Investment redeemable within one year _____	2,080,000	1,499,500
Other _____	<u>434,149</u>	<u>342,075</u>
	<u>7,398,819</u>	<u>6,177,877</u>
<b>Other Assets</b>		
Long-term receivables (Note 4) _____	806,095	32,356
Deferred charges _____	<u>288,377</u>	<u>200,977</u>
	<u>1,094,472</u>	<u>233,333</u>
<b>Total Assets _____</b>	<u>\$78,145,856</u>	<u>\$75,344,013</u>

On behalf of the Board of Directors:

J.D. Archer, Director  
R. Brunelle, Director

		1984	1983
<b>Liabilities and Shareholders' Equity</b>	<b>Shareholders' Equity</b>		
	Capital Stock (Note 5)		
	Preference shares _____	\$ 8,924,000	\$ 9,004,000
	Common shares _____	14,934,772	14,934,772
	Retained earnings _____	<u>10,325,251</u>	<u>11,864,756</u>
		<u>34,184,023</u>	<u>35,803,528</u>
	<b>Long-term Debt (Note 6)</b> _____	<u>23,475,000</u>	<u>20,700,000</u>
	<b>Current Liabilities</b>		
Bank indebtedness _____	662,336	396,649	
Accounts payable (Note 10) _____	4,312,351	3,942,709	
Advance billing for service _____	508,625	481,020	
Dividends payable _____	713,043	688,157	
Income taxes payable _____	96,750	375,897	
Interest accrued _____	542,615	434,625	
Debt due within one year (Note 7) _____	<u>4,254,000</u>	<u>4,103,000</u>	
	<u>11,089,720</u>	<u>10,422,057</u>	
<b>Deferred Credits</b>			
Income taxes _____	9,299,292	8,262,532	
Other deferred credits _____	<u>97,821</u>	<u>155,896</u>	
	<u>9,397,113</u>	<u>8,418,428</u>	
<b>Total Liabilities and Shareholders' Equity</b> _____	<u>\$78,145,856</u>	<u>\$75,344,013</u>	

T.J. McKenney, Secretary-Treasurer

# Statement of Income

For The Years Ended December 31

	1984	1983
<b>Operating Revenues</b>		
Local service _____	\$13,021,975	\$12,501,359
Long distance service _____	9,891,148	9,064,544
Other _____	2,998,882	2,043,135
<b>Total Operating Revenues</b> _____	<b>25,912,005</b>	<b>23,609,038</b>
<b>Operating Expenses</b>		
Maintenance and repairs _____	4,376,671	4,042,416
Depreciation _____	3,911,637	3,763,983
Marketing and commercial _____	2,122,425	1,993,576
Accounting _____	1,001,404	807,284
Business information systems _____	1,053,930	973,095
Pensions and other employee benefits _____	1,429,525	1,152,419
Taxes other than income taxes _____	1,910,699	1,743,090
Other _____	2,474,204	2,512,943
<b>Total Operating Expenses</b> _____	<b>18,280,495</b>	<b>16,988,806</b>
Net operating revenues _____	<b>7,631,510</b>	<b>6,620,232</b>
<b>Other Income</b>		
Dividends _____	1,218,735	1,218,735
Debenture interest and other income _____	1,061,579	1,223,045
<b>Total Other Income</b> _____	<b>2,280,314</b>	<b>2,441,780</b>
Income before underlisted items _____	<b>9,911,824</b>	<b>9,062,012</b>
<b>Interest Charges</b>		
Interest on long-term debt _____	2,402,783	2,370,867
Other _____	200,644	209,318
<b>Total Interest Charges</b> _____	<b>2,603,427</b>	<b>2,580,185</b>
Income before income taxes _____	<b>7,308,397</b>	<b>6,481,827</b>
Income taxes (Note 2) _____	<b>3,105,112</b>	<b>2,682,495</b>
<b>NET INCOME</b> _____	<b>4,203,285</b>	<b>3,799,332</b>
Dividends on preference shares _____	<b>544,117</b>	<b>551,717</b>
<b>Net Income Applicable to Common Shares</b> _____	<b>\$ 3,659,168</b>	<b>\$ 3,247,615</b>
<b>Earnings per Common Share</b> _____	<b>\$ 1.20</b>	<b>\$ 1.07</b>
Dividends declared per common share _____	<b>\$ 0.7125 *</b>	<b>\$ 0.68</b>
Average common shares outstanding _____	<b>3,043,657</b>	<b>3,043,657</b>

# Statement of Changes in Financial Position

For the Years Ended December 31

	1984	1983
<b>Sources of Cash</b>		
Cash from operations		
Net income _____	\$ 4,203,285	\$ 3,799,332
Items not affecting current funds		
Depreciation _____	3,911,637	3,763,983
Deferred income taxes _____	1,036,760	1,089,822
Other _____	(112,588)	(39,512)
	<u>9,039,094</u>	<u>8,613,625</u>
Cash provided (used) by changes in working capital (Note 9) _____	<u>(818,966)</u>	<u>613,535</u>
Cash from external sources		
Reduction in investments in affiliated company _____	2,080,000	1,499,500
Net proceeds from issue of long-term debt _____	5,970,000	—
Increase in deferred revenues _____	85,564	151,430
	<u>8,135,564</u>	<u>1,650,930</u>
Total sources of cash _____	<u>16,355,692</u>	<u>10,878,090</u>
<b>Applications of Cash</b>		
Capital expenditures		
Gross capital expenditures _____	6,900,857	5,943,206
Other charges (credits) - net _____	(450,000)	146,000
Increase in material and supplies _____	260,542	38,694
Net capital expenditures _____	6,711,399	6,127,900
Dividends _____	5,742,790	2,621,404
Redemption of preference shares _____	80,000	80,000
Increase (decrease) in other assets _____	773,739	(842)
Reduction in long-term debt _____	3,225,000	2,395,000
Long-term debt issue costs _____	88,451	—
Total applications of cash _____	<u>16,621,379</u>	<u>11,223,462</u>
Increase in bank indebtedness _____	265,687	345,372
Bank indebtedness at beginning of year _____	396,649	51,277
Bank indebtedness at end of year _____	<u>\$ 662,336</u>	<u>\$ 396,649</u>

# Statement of Retained Earnings

For the Years Ended December 31

	1984	1983
<b>Balance at Beginning of Year</b> _____	<b>\$11,864,756</b>	\$10,686,828
Add:		
Net Income _____	<u>4,203,285</u>	<u>3,799,332</u>
	<u>16,068,041</u>	<u>14,486,160</u>
Deduct:		
Dividends on preference shares _____	544,117	551,717
Dividends on common shares		
Regular _____	2,155,016	2,069,687
Special (\$1.00 per share) _____	<u>3,043,657</u>	<u>—</u>
	<u>5,742,790</u>	<u>2,621,404</u>
<b>Balance At End of Year</b> _____	<u><u>\$10,325,251</u></u>	<u><u>\$11,864,756</u></u>

## Notes to 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.

#### Leases

The sales revenue, for leases which qualify as sales-type leases, is recorded at the inception of the lease.

#### Depreciation

Depreciation 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 Telecommunications Plant is charged to Accumulated Depreciation.

These rates provide for depreciation of assets over their estimated service lives and resulted in the composite depreciation rate of 5.72% for the year ended December 31, 1984 (5.77% in 1983).

#### 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 plant, being in excess of amounts currently charged to operations.



## 2. Income Taxes

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	1984	1983
Statutory income tax rate	51.0%	51.5%
i) Non taxable dividend income	(8.5)	(9.7)
ii) Other	—	(0.4)
Effective income tax rate	<u>42.5%</u>	<u>41.4%</u>

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

Current	\$2,068,352	\$1,592,673
Deferred	<u>1,036,760</u>	<u>1,089,822</u>
	<u>\$3,105,112</u>	<u>\$2,682,495</u>

## 3. Investments

Investments, at cost, in Telebec Ltée, an affiliated company:

	1984	1983
Debentures *	\$11,083,700	\$12,583,200
Non-voting Class A Preferred Shares 454,574 Series 1, cumulative, dividend of \$2.625, redeemable at \$25.00 each**	11,364,350	11,364,350
42,464 Series 2, non-cumulative, dividend of \$0.60, redeemable at \$10.00 each	<u>424,640</u>	<u>424,640</u>
Total	22,872,690	24,372,190
Less: Portion of investment redeemable within one year	<u>2,080,000</u>	<u>1,499,500</u>
Total	<u>\$20,792,690</u>	<u>\$22,872,690</u>

\*The weighted average interest rate on these debentures at December 31, 1984 was 8.84% (8.62% in 1983).

At December 31, 1984, the amount of debenture redemptions receivable in the following years are: \$2,080,000 in 1985; \$785,000 in 1986; \$3,122,700 in 1987; \$756,000 in 1988; \$756,000 in 1989; \$3,304,000 in 1990-94 and \$280,000 in 1995.

\*\*Telebec Ltée has the option to redeem 75,762 Class A shares (stated value \$1,894,050) on April 1 of each year. No shares were redeemed on April 1, 1984.

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**4. Long-term  
Receivables**

Long-term receivables consists of:

	1984	1983
Total lease payments receivable	\$1,395,754	\$ —
Less: Unearned interest income	<u>496,900</u>	<u>—</u>
Net investment in leases	898,854	—
Less: Current portion of lease payments included in accounts receivable	<u>123,822</u>	<u>—</u>
	775,032	—
Mortgage receivable	<u>31,063</u>	<u>32,356</u>
	<u>\$ 806,095</u>	<u>\$32,356</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 as follows:

1985	\$ 271,295
1986	266,525
1987	253,560
1988	239,619
1989	207,426
thereafter to 1991	<u>157,329</u>
	<u>\$1,395,754</u>



## 6. Long-term Debt

	Maturity Date	Rate of Interest	Series	1984	1983
20 year Sinking Fund Debentures					
	December 15, 1984	5.625%	G	\$ —	\$ 1,615,000
	May 1, 1987	6.5 %	H	4,112,000	4,162,000
	December 15, 1994	10.625%	J*	2,219,000	2,267,000
20 year Serialized Debentures					
	April 30, 1993	8.25 %	I	6,300,000	7,000,000
	January 15, 1995	11.0 %	K	4,000,000	4,000,000
15 year Serialized Debentures					
	May 31, 1997	17.5 %	L	4,000,000	4,000,000
	November 1, 1999	13.75 %	M	6,000,000	—
Total				26,631,000	23,044,000
Less: Debt due within one year				3,156,000	2,344,000
Total				<u>\$23,475,000</u>	<u>\$20,700,000</u>

\*Prior to December 15, 1984, the holders of Series J Debentures exercised their option to have these debentures redeemed on June 15, 1985. Accordingly \$2,219,000 has been included in debt due within one year.

Sinking fund and maturity payments required in the following years with respect to the above debt are: \$3,156,000 in 1985; \$1,375,000 in 1986; \$5,400,000 in 1987; \$1,350,000 in 1988; \$1,675,000 in 1989; \$7,775,000 in 1990-94 and \$5,900,000 in 1995-99.

## 7. Debt Due Within One Year

	1984	1983
Long-term debt due within one year	\$ 3,156,000	\$ 2,344,000
Bank demand notes	1,098,000	1,759,000
Total	<u>\$ 4,254,000</u>	<u>\$ 4,103,000</u>

## 8. Pensions

The Company has contributory plans which provide for service pensions for its employees. During 1984, the triennial actuarial valuations as of December 31, 1983 and other actuarial valuations were completed.

As a result of improvements in benefits and early retirements, the unfunded liability for these plans as at December 31, 1984 is \$1,142,412.

The total contributions to these plans by the Company during the year ended December 31, 1984 were \$832,000 (\$590,618 in 1983).

**9. Statement of Changes in Financial Position** The statement of changes in financial position which previously reflected the source and application of working capital was changed in 1984 to reflect the source and application of cash. The 1983 comparative figures have been restated to conform with the current year's presentation.

Cash provided (used) by changes in working capital is computed as follows:

	1984	1983
Decrease (increase) in working capital provided by change in		
Accounts receivable	\$(548,368)	\$(426,472)
Investment redeemable within one year	(580,500)	(3,000)
Other current assets	(92,074)	28,604
Accounts payable	369,642	442,577
Advance billing for service	27,605	29,807
Dividend payable	24,886	3,252
Income taxes payable	(279,147)	310,144
Interest accrued	107,990	(24,377)
Debt due within one year	<u>151,000</u>	<u>253,000</u>
 Cash provided (used) by change in working capital	 <u><u>\$(818,966)</u></u>	 <u><u>\$613,535</u></u>

**10. Related Party Transactions**

**Goods and Services**

For the year ended December 31, 1984, the Company purchased goods and services amounting to \$40,023 (\$21,600 in 1983) from Bell Canada Enterprises Inc. (BCE), the parent company, \$1,097,608 (\$1,220,761 in 1983) from Bell Canada, also a subsidiary of BCE, and \$1,376,223 (\$1,253,923 in 1983) from other affiliated companies.

**Investment Transactions**

For the year ended December 31, 1984, the Company declared dividends payable to BCE, the parent company, of \$5,321,923 (\$1,647,612 in 1983). The Company earned \$1,218,735 (\$1,218,735 in 1983) in preferred share dividends and \$1,031,219 (\$1,139,067 in 1983) in debenture interest from Telebec Ltée, an affiliated company.

**Accounts Receivable and Accounts Payable**

As at December 31, 1984, the accounts receivable from affiliated companies were \$577,096 (\$609,421 in 1983). The net amount payable to BCE, the parent company, was \$599,926 (\$575,868 in 1983) and to Bell Canada and other affiliated companies was \$415,813 (\$384,009 in 1983).

## Statistics

	1984	1983	1982	1981	1980
<b>Financial Results (\$)</b>					
Operating revenues	25,912,005	23,609,038	21,052,296	18,636,360	16,216,373
Operating expenses	18,280,495	16,988,806	15,353,732	13,672,225	12,186,348
Other income	2,280,314	2,441,780	2,564,694	2,627,780	2,788,051
Other charges	2,603,427	2,580,185	2,471,602	2,062,907	1,944,095
Income taxes	3,105,112	2,682,495	2,308,376	2,173,221	1,852,326
Net income	4,203,285	3,799,332	3,483,280	3,355,787	3,021,655
Total payroll	9,677,460	9,064,900	8,171,997	7,203,314	6,484,796
Construction expenditures	6,901,000	5,944,000	7,742,000	7,004,000	5,760,000
<b>Financial Ratios (\$)</b>					
Earnings per common share	1.20	1.07	.96	.92	.80
Dividends declared per common share	.7125	.68	.6475	.58	.50
<b>Balance Sheet Data (\$)*</b>					
Total investment in plant & equipment	72,443,083	68,054,242	64,019,306	57,701,675	52,015,255
Plant & equipment less depreciation	48,023,079	45,483,859	43,158,636	38,849,741	34,989,360
Common equity	25,260,023	26,799,528	25,621,600	24,668,405	23,644,928
Preferred equity	8,924,000	9,004,000	9,084,000	9,164,000	9,244,000
Long-term debt (Including due within 1 year)	26,631,000	23,044,000	25,547,000	21,593,500	24,011,500
<b>Additional Statistics</b>					
Number of employees*	302	313	311	314	314
Number of telephones*	76,505	76,793	77,310	76,104	73,905
Business	20,626	21,367	21,642	21,520	20,804
Residence	55,879	55,426	55,668	54,584	53,101
Percentage residence of total	73.0	72.2	72.0	71.7	71.9
Number of central offices*	31	31	31	30	30
Long distance calls (thousands)	7,142	6,890	6,756	6,753	6,321
<b>Number of shareholders (preferred and common)*</b>					
In Canada	1,410	1,559	1,625	1,685	1,805
Elsewhere	35	36	34	33	33
Total shareholders	1,445	1,595	1,659	1,718	1,838



