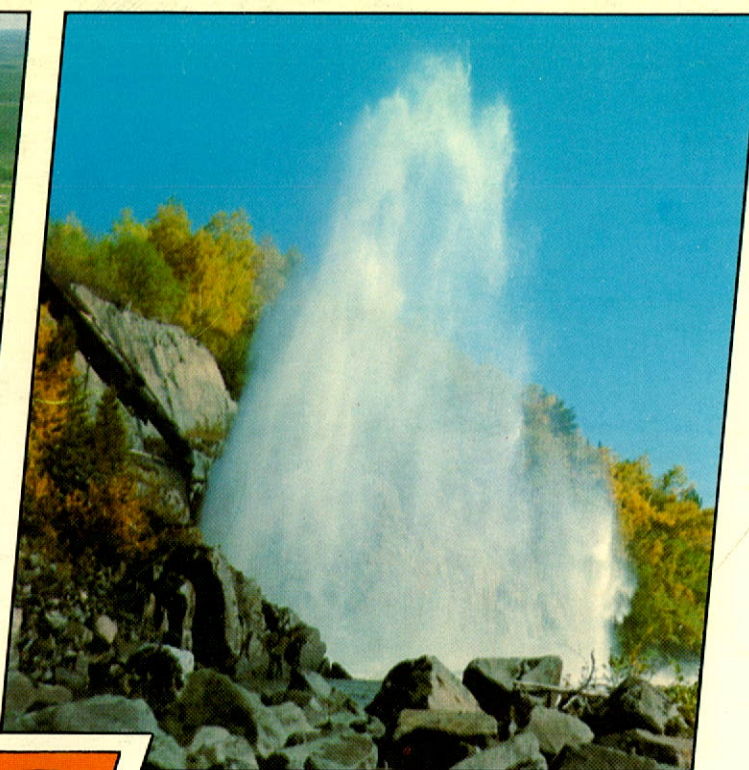
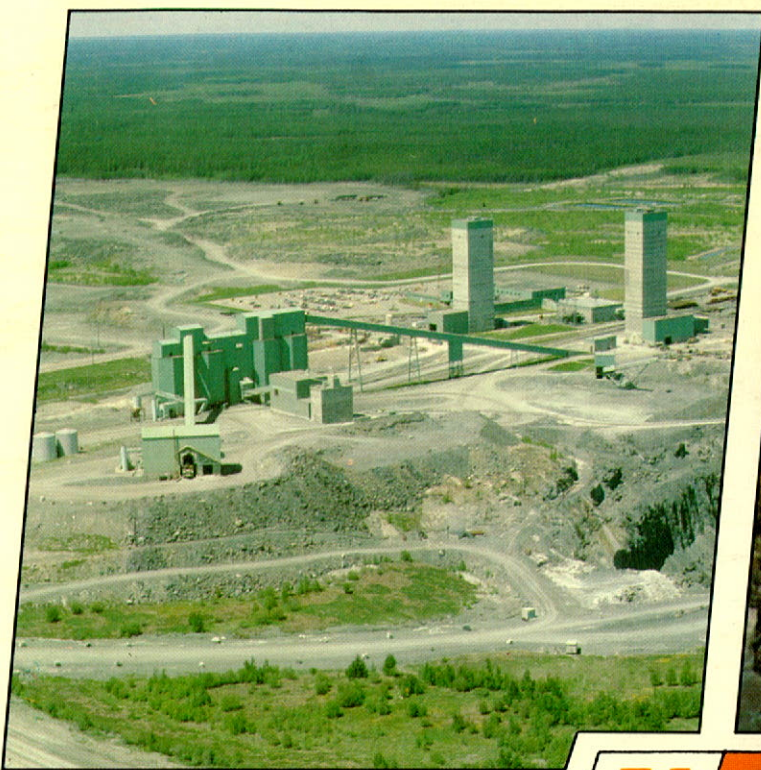
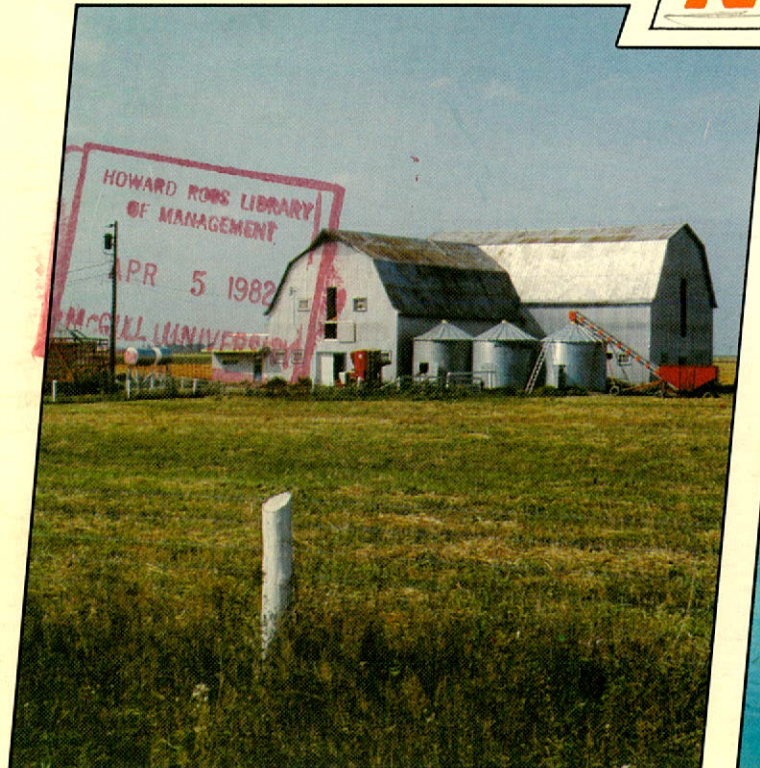


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Northern Telephone



ANNUAL REPORT 1981

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corporate information

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ADDRESS
25 Paget Street
New Liskeard, Ontario.
P0J 1P0

TRANSFER AGENT
CROWN TRUST COMPANY,
Toronto, Montreal, Winnipeg and Calgary

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

highlights of the report

FINANCIAL RESULTS

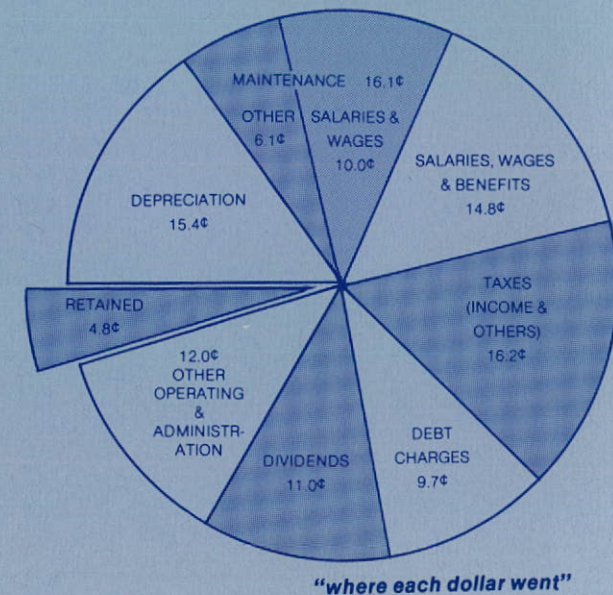
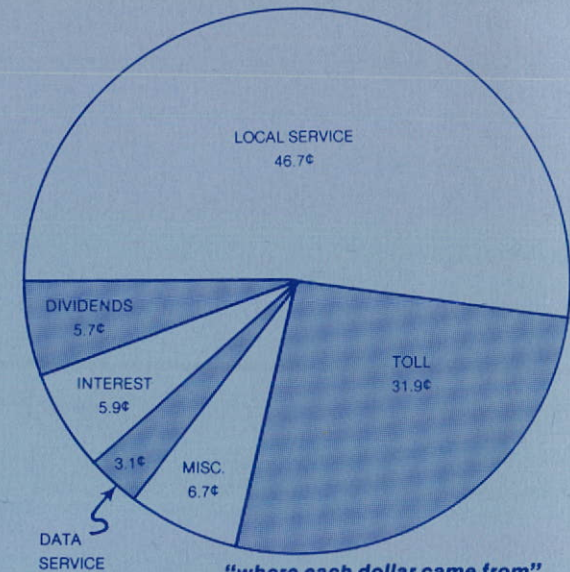
	1981	1980
	\$	\$
Total operating revenues	18,636,360	16,216,373
Operating and general expenses	10,407,014	9,375,278
Debt interest and discount	1,814,081	1,928,389
Depreciation	3,265,211	2,811,070
Income taxes	2,173,221	1,852,326
Net income	3,355,787	3,021,655
Dividends - preferred	566,917	574,517
- common	1,765,393	1,521,829
Earnings per common share	0.92	0.80

BALANCE SHEET

Gross fixed assets	57,701,675	52,015,255
Net fixed assets	38,849,741	34,989,360
Accumulated depreciation	18,851,934	17,025,895
Long-term debt (including due within 1 year)	21,593,500	24,011,500
Shareholders' equity	33,832,405	32,888,928

ADDITIONAL STATISTICS

Telephones in service	76,104	73,905
Percentage dial operated	100	100
Number of long distance calls (thousands)	6,753	6,321
Number of central offices	30	30
Number of employees at December 31	314	314
Number of shareholders	1,718	1,838



J. Dean Archer
Vice-President and General Manager,
Archers Dairy Limited

Rene Brunelle
Consultant - Spruce Falls Pulp & Paper

Robert M. Fensom
Assistant Vice-President, Bell Canada

Rowan T. Hutchinson
Real Estate Broker
(Resigned December 31, 1981)

J. Conrad Lavigne
Chairman of the Board, Northern Telephone Limited

Donald McKelvie
Former Chairman of the Board
Northern Telephone Limited

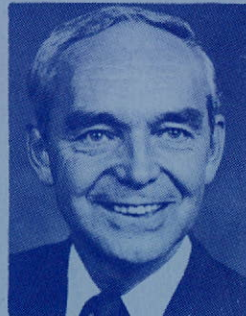
Hubert A. Roth
Vice-Chairman & Chief Executive Officer
Northern Telephone Limited
Vice-President, Bell Canada

C. Wesley M. Scott
Assistant Vice-President
Bell Canada

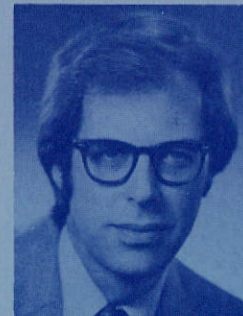
Richard A.H. Taylor
Chairman of the Board
Morissette Diamond Drilling



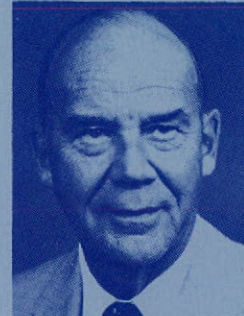
J. D. Archer



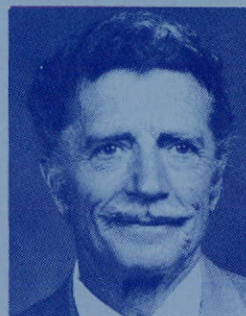
R. Brunelle



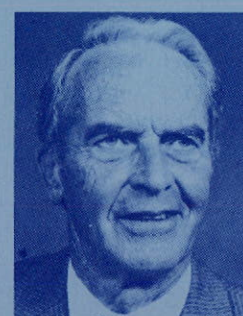
R. M. Fensom



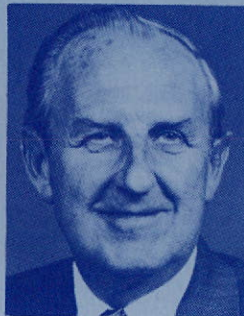
R. T. Hutchinson



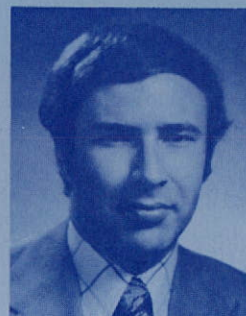
J. C. Lavigne



D. McKelvie



H. A. Roth



C. W. M. Scott



R. A. H. Taylor

J. Conrad Lavigne
Chairman of the Board

Hubert A. Roth
Vice Chairman &
Chief Executive Officer

Murray W. Cooper
President and General Manager

Clair F. Shepherdson
Secretary-Treasurer

Dennis D. McCarty
Director - Administration &
Business Information Systems

Pierre A. Paquette
Director - Engineering & Planning

John A. Parker
Director - Customer Services

Financial and Statistical

Net income in 1981 increased 11.1% to \$3,356,000, compared to \$3,022,000 in 1980, with earnings per common share of 92¢ compared to 80¢ in 1980. The dividend declared on common shares for the fourth quarter 1981 was increased to 16¢ per share from 14¢ the previous quarter, resulting in total dividends declared for 1981 of 58¢ per share. The rate of return on average common equity was 11.5% for 1981 compared to 10.6% for 1980 and the rate of return on average total capital was 9.5% and 8.8% for 1981 and 1980 respectively. The rate of return of average common equity for regulatory purposes on telephone operations was 14.7%.

Total operating revenues for 1981 increased by \$2,420,000 from \$16,216,000 to \$18,636,000, an increase of 14.9%. Operating expenses increased by 12.2% to \$13,672,000 from \$12,186,000 in 1980.

Local Service

On December 31, 1981, the Company had 76,104 telephones in service, a gain of 2,199 or 3.0% over 1980. The Company connected 14,450 telephones and disconnected 12,251 telephones during 1981 to achieve this gain.

Local service revenues were \$9,929,000, a gain of \$1,018,000 or 11.4% over 1980. This increase is a combination of higher rates, effective July 1, 1980 and growth in services.

Long Distance Services

The number of long distance messages increased to 6,753,000 in 1981, an increase of 6.8% over 1980.

As a result of the growth in messages, the effects of rate increases in August 1980 and in October 1981, and an increase in commissions on Wide Area Telephone Service (WATS), long distance revenues rose by \$1,188,000 to \$6,791,000 in 1981, an increase of 21.2% over 1980.

Data Processing Services

Data processing service revenues increased by \$44,000 to \$665,000, an increase of 7.1% over 1980. The Company offers to the public the advantage of a reliable computer facility. Services performed in 1981 included toll processing for another telephone company, a remote terminal in Northeastern Ontario for various government services, municipal tax billings, accounts receivable and telephone billings for other independent telephone companies and a public utility commission.

Rapport Financier et Statistique

Le revenu net en 1981 a augmenté 11.1% à \$3,356,000, en comparaison de \$3,022,000 en 1980, avec un gain par action ordinaire de 92¢ en comparaison de 80¢ en 1980. Le dividende déclaré pour les actions ordinaires du quatrième trimestre 1981 a augmenté à 16¢ par action de 14¢ le trimestre précédent, résultant en dividendes totaux annoncés en 1981 de 58¢ par action. Le taux de profit d'équité ordinaire-moyenne était 11.5% en 1981 en comparaison de 10.6% en 1980 et le taux de profit de capital total-moyen était 9.5% et 8.8% en 1981 et 1980 respectivement. Le taux de profit d'équité ordinaire - moyenne dans le but du règlement des opérations téléphoniques était 14.7%.

Les revenus totaux de fonctionnement en 1981 ont augmenté par \$2,420,000 de \$16,216,000 à \$18,636,000, une augmentation de 14.9%. Les dépenses de fonctionnement ont augmenté par 12.2% à \$13,672,000 de \$12,186,000 en 1980.

Service Local

Le 31 décembre 1981, la Compagnie comptait 76,104 téléphones en service, un accroissement de 2,199 ou 3.0% en comparaison de 1980. La Compagnie a branché 14,450 téléphones et a débranché 12,251 téléphones pendant 1981 pour atteindre à cet accroissement.

Les revenus de service local étaient \$9,929,000, un profit de \$1,018,000 ou 11.4% en comparaison de 1980. Cette augmentation est une combinaison de tarifs élevés, effectifs le 1er juillet 1980 et un accroissement de services.

Services Interurbains

En 1981, les communications interurbaines ont atteint 6,753,000, un accroissement de 6.8% sur 1980.

A cause de l'accroissement d'appels, des effets des augmentations de tarifs en août 1980 et en octobre 1981, et d'une augmentation de commissions de Wide Area Telephone Service (WATS), les revenus interurbains sont montés par \$1,188,000 à \$6,791,000 en 1981, une augmentation de 21.2% sur 1980.

Services de Traitement de Données

Les revenus du service de traitement de données ont augmenté par \$44,000 à \$665,000, une augmentation de 7.1% en comparaison de 1980. La Compagnie offre au public l'avantage d'une facilité d'un ordinateur sûr. Les services effectués en 1981 ont compris le traitement des appels interurbains d'une autre compagnie téléphonique, une boîte d'extrémité télécommandée en Ontario du Nord-Est pour répondre aux demandes gouvernementales, des comptes d'impôts municipaux, des comptes recevables et des comptes téléphoniques pour d'autres compagnies téléphoniques indépendantes et une commission de services publiques.

Capital Expenditures

Capital expenditures for 1981 were \$7,004,000 compared to \$5,760,000 in 1980.

Expenditures on land and buildings amounted to \$975,000 in 1981. This was highlighted by the completion of the McKelvie (Head Office) Building in New Liskeard which required \$650,000. The total cost of this building and contents amounted to about \$950,000.

The rural upgrade programme cost \$997,000 in 1981, bringing the total expenditures to date to \$4,439,000. This represents 53.2% of the total outside plant expenditures of \$2,058,000. The programme provided for a net reduction of 154 customers on lines over 4 per line in 1981. During the period January 1, 1976 to December 31, 1981, customers on lines with 4 or less per line have increased from 53% to 79%. Completion of the programme is planned for 1985 at an estimated total cost of \$9,624,000 over the 10 year period.

To meet the needs for growth, the second of a new type of switching equipment, Digital Multiplex System (DMS-10), went into service in Kapuskasing in September at a cost of \$495,000. A major renovation to the Kapuskasing central office building was made to house this new equipment. The Company spent a total of \$1,144,000 in 1981 on central office equipment, utilizing the latest technology in upgrading and expanding its services.

Expenditures of \$2,294,000 were made in 1981 for customer equipment, including \$394,000 in Private Automatic Branch Exchanges (PABX's). These expenditures were primarily to meet the increased demands in the resource industries.

Regulation

The Company is subject to regulation by the Ontario Telephone Service Commission. On September 25, 1981, the Company filed an application with the Commission seeking increased rates to be effective on February 1, 1982 to provide an additional \$1,491,000 of local service revenue in 1982. This application seeks a rate of return on average common equity of 17.5% for the telephone operations.

In late 1981, the Commission stated its plan to undertake a general review and to hold a hearing in the spring of 1982 on the issues related to customer provided telecommunications equipment. On December 30, 1981, the Company filed a submission, on issues, with the Commission.

Dépenses Capitaux

Les dépenses capitaux en 1981 étaient \$7,004,000 en comparaison de \$5,760,000 en 1980.

Les dépenses de terrain et de construction se sont montées à \$975,000 en 1981. Un évènement important a été l'achèvement de l'édifice McKelvie (Bureau Central) à New Liskeard qui a coûté \$650,000. Le coût total de cet édifice et le contenu ont été environ \$950,000.

Le programme de valorisation rurale a coûté \$997,000 en 1981, qui rend les dépenses totales jusqu'ici à \$4,439,000. Ceci représente 53.2% des dépenses totales hors de l'installation de \$2,058,000. Le programme a permis une réduction nette de 154 abonnés utilisant les lignes au-dessus de 4 par ligne en 1981. Pendant la période du 1er janvier 1976, au 31 décembre 1981, les abonnés utilisant les lignes de 4 ou moins par ligne ont augmenté de 53% à 79%. L'achèvement de ce programme est projeté en 1985 avec un coût total estimé à \$9,624,000 pendant une période de 10 ans.

Pour répondre aux besoins d'accroissement, le deuxième autocommutateur numérique DMS-10, est entré en service à Kapuskasing en septembre coûtant \$495,000. Une rénovation majeure de l'édifice du bureau central à Kapuskasing s'est effectuée pour abriter ce nouveau équipement. La Compagnie a dépensé un montant de \$1,144,000 en 1981 pour de l'équipement du bureau central, employant la technologie la plus avancée pour améliorer et étendre ses services.

Des dépenses de \$2,294,000 se sont faites en 1981 pour l'équipement d'abonnés, comprenant \$394,000 en Centraux-Branches Privés Automatiques (PABX). Ces dépenses ont été faite principalement pour répondre à la demande croissante des industries de ressource.

Regulation

La Compagnie est assujettie à la régulation de la Commission des Services Téléphoniques de l'Ontario. Le 25 septembre, la Commission demandant des taux élevés effectifs le 1er février 1982, afin de pourvoir \$1,491,000 de plus de revenu de service régional en 1982. Cette application cherche un taux de gain sur l'équité ordinaire-moyenne de 17.5% pour les opérations téléphoniques.

Vers la fin de 1981, la Commission a déclaré son projet d'entreprendre une révision générale et de tenir audience au printemps 1982 au sujet des questions regardant l'équipement-télécommunications pourvu aux abonnés. Le 30 décembre 1981, la Compagnie a déposé une soumission, concernant certaines questions, auprès de la Commission.

Labour Relations

The current collective labour agreement with the Communications Workers of Canada expires May 31, 1982. Negotiations will commence with the Union in March 1982 toward a new agreement.

Head Office - Opening

The new head office building in New Liskeard, called "The McKelvie Building", in honour of Mr. D. McKelvie, former chairman of the board, was officially opened on September 24, 1981. This building is occupied by the executive, personnel, business office and accounting staffs.

Safety Accomplishments

In November, the Electrical Utilities Safety Association presented a safety award to the Company representing 556,000 accident free hours to August 31, 1981. At December 31, the Company employees had achieved more than 850,000 hours without a lost time injury.

Employees

The directors wish to express their appreciation to all employees for their continued contributions and loyalties throughout another challenging year.

Director Changes

Mr. R. Brunelle of Moonbeam was elected a director in March, 1981, replacing Mr. G.E. Knowles of Kapuskasing, who had reached the mandatory retirement age. Mr. Knowles had been a director of the Company for eight years and the directors express their appreciation and thank Mr. Knowles for his valuable service.

Mr. R.T. Hutchinson resigned as a director, December 31, 1981 for health reasons. He was elected a director in 1958, succeeding his father, the late F.L. Hutchinson. Together the Hutchinson family served the Company for 75 consecutive years. The directors express their appreciation and thank Mr. Hutchinson for twenty-three years of loyal and valuable contribution to the board. Mr. M.W. Cooper was appointed a director of the Company to fill the vacancy created by the resignation of R.T. Hutchinson. Mr. Cooper will continue to serve as President and General Manager.

Relations Syndicales

Le présent accord collectif avec le Syndicat des Travailleurs en Communications du Canada expirera le 31 mai 1982. Les négociations commenceront avec le Syndicat en mars 1982 pour un nouvel accord.

Bureau Central - Ouverture

Le nouveau bureau central à New Liskeard, nommé "The McKelvie Building", en l'honneur du M.D. McKelvie, ancien président du conseil, a été ouvert officiellement le 24 septembre 1981. Cet édifice est occupé par les bureaux de la direction, des services au personnel et de la comptabilité ainsi que le bureau d'affaires.

Accomplissements de Sûreté

En novembre, la "Electrical Utilities Safety Association" a présenté une récompense de sûreté à la Compagnie représentant 556,000 heures sans accident, jusqu'au 31 août 1981. Le 31 décembre, les employés de la Compagnie avaient accompli plus de 850,000 heures sans accident résultant en temps perdu.

Employés/Employées

Les Directeurs veulent exprimer leur appréciation à tous les employés/employées pour leurs contributions continues et loyautés pendant une autre année stimulante.

Changements des Directeurs

M.R. Brunelle de Moonbeam a été élu un directeur en mars 1981, remplaçant M. G.E. Knowles de Kapuskasing, qui a atteint l'âge mandataire de retraite. M. Knowles avait été un directeur de la Compagnie depuis huit ans et les directeurs expriment leur appréciation et remercient M. Knowles de son service apprécié.

M. R.T. Hutchinson a donné sa démission en directeur, le 31 décembre 1981, en raison de santé. Il a été élu un directeur en 1958, suivant son père, le feu F.L. Hutchinson. Ensemble la famille Hutchinson a servi la Compagnie pendant 75 ans de suite. Les directeurs expriment leur appréciation et remercient M. Hutchinson pour ses vingt-trois années de contribution loyale et appréciée au conseil. M. M.W. Cooper a été nommé un directeur de la Compagnie pour remplir la place vacante créée à cause de la démission de R.T. Hutchinson. M. Cooper continuera à servir comme Président et Directeur Général.

Proposed Merger with Ontario Northland Telecommunications

On February 3, 1982, the Board of Directors of Northern Telephone Limited submitted a proposal to the Government of Ontario and the Ontario Northland Transportation Commission (ONTC) to merge the telecommunications assets of the ONTC with Northern Telephone Limited.

The telecommunications division of ONTC provides long distance and other services in Northeastern Ontario.

Northern Telephone Limited believes that economies of scale and improved efficiencies would result from such a merger. This merger would substantially increase the assets, revenues and personnel of Northern Telephone Limited and would benefit all subscribers in the serving territory.

J.C. Lavigne - Chairman of the Board
M.W. Cooper - President and
General Manager

Amalgamation Proposée Avec Les Télécommunications de l'Ontario Northland

Le 3 février 1982, le Conseil d'Administration du Téléphone du Nord Limitée a déposé une proposition auprès du Gouvernement de l'Ontario et la Commission de Transport de l'Ontario Northland (ONTC) d'amalgamer l'actif des télécommunications de l'ONTC avec le Téléphone du Nord Limitée.

La division-télécommunications de l'ONTC pourvoit des services interurbains et autres dans l'Ontario du Nord-est.

Le Téléphone du Nord Limitée croit que des économies d'échelle et une amélioration de l'efficacité résulteront d'une telle amalgamation. Cette amalgamation augmentera considérablement l'actif, les revenus et le personnel du Téléphone du Nord Limitée et fera du bien à tous les abonnés dans la région desservie.

J.C. Lavigne - Président du Conseil
M.W. Cooper - Président et
Directeur Général

NORTHERN TELEPHONE LIMITED
statement of income

for the year ended December 31

	1981 \$	1980 \$
OPERATING REVENUES		
Local service	9,929,176	8,911,233
Long distance service	6,791,445	5,602,851
Data processing services	664,584	620,992
Miscellaneous	<u>1,251,155</u>	<u>1,081,297</u>
TOTAL OPERATING REVENUES	<u>18,636,360</u>	<u>16,216,373</u>
OPERATING EXPENSES		
Maintenance and repairs	3,441,152	3,150,468
Depreciation	3,265,211	2,811,070
Marketing and commercial	1,307,513	1,033,448
Accounting	843,595	837,913
Business information systems	963,366	914,801
Pensions and other employee benefits	543,922	425,286
Taxes other than income taxes	1,264,711	1,117,796
Other	<u>2,042,755</u>	<u>1,895,566</u>
TOTAL OPERATING EXPENSES	<u>13,672,225</u>	<u>12,186,348</u>
Net operating revenues	<u>4,964,135</u>	<u>4,030,025</u>
OTHER INCOME		
Dividends	1,218,735	1,267,980
Debt interest and other income	1,312,711	1,451,350
Allowance for funds used during construction	<u>96,334</u>	<u>68,721</u>
TOTAL OTHER INCOME	<u>2,627,780</u>	<u>2,788,051</u>
Income before underlisted items	<u>7,591,915</u>	<u>6,818,076</u>
INTEREST CHARGES		
Interest on long-term debt	1,803,990	1,916,869
Other	<u>258,917</u>	<u>27,226</u>
TOTAL INTEREST CHARGES	<u>2,062,907</u>	<u>1,944,095</u>
Income before income taxes	5,529,008	4,873,981
Income taxes (note 2)	<u>2,173,221</u>	<u>1,852,326</u>
NET INCOME	<u>3,355,787</u>	<u>3,021,655</u>
Dividends on preference shares	566,917	574,517
NET INCOME APPLICABLE TO COMMON SHARES	<u>2,788,870</u>	<u>2,447,138</u>
EARNINGS PER COMMON SHARE*	<u>0.92</u>	<u>0.80</u>
Dividends declared per common share	<u>0.58</u>	<u>0.50</u>
*Based on average common shares outstanding	<u>3,043,657</u>	<u>3,043,657</u>

NORTHERN TELEPHONE LIMITED
(Incorporated Under the Laws of the State of New York)
balance sheet
as at December 31

ASSETS

	1981 \$	1980 \$
TELECOMMUNICATION PROPERTY, AT COST		
Buildings, plant and equipment	56,035,589	50,487,012
Less: Accumulated depreciation	<u>18,851,934</u>	<u>17,025,895</u>
	37,183,655	33,461,117
Land	400,300	400,300
Plant under construction	1,265,786	1,127,943
Materials and supplies	<u>429,237</u>	<u>337,789</u>
	<u>39,278,978</u>	<u>35,327,149</u>
INVESTMENTS, AT COST		
Affiliated company (note 4)	25,868,690	25,946,190
Mortgage receivable	<u>34,086</u>	<u>34,816</u>
	<u>25,902,776</u>	<u>25,981,006</u>
CURRENT ASSETS		
Accounts receivable (note 3)	3,748,454	3,423,030
Investment redeemable within one year	77,500	1,260,500
Other	<u>290,017</u>	<u>243,819</u>
	<u>4,115,971</u>	<u>4,927,349</u>
DEFERRED CHARGES		
Unamortized financing expenses	<u>180,447</u>	<u>204,124</u>
TOTAL ASSETS	<u>69,478,172</u>	<u>66,439,628</u>

For the Board of Directors
J.C. Lavigne, Director
J.D. Archer, Director

Balance sheet

December 31

LIABILITIES AND SHAREHOLDERS' EQUITY

	1981 \$	1980 \$
SHAREHOLDERS' EQUITY		
Capital stock (note 5)		
Preference shares	9,164,000	9,244,000
Common shares	14,934,772	14,934,772
Retained earnings	9,733,633	8,710,156
	<u>33,832,405</u>	<u>32,888,928</u>
LONG-TERM DEBT (note 6)	<u>21,580,500</u>	<u>21,731,500</u>
CURRENT LIABILITIES		
Bank overdraft	1,146,264	122,821
Accounts payable (note 3)	2,616,806	2,297,412
Advance billing for service	370,735	360,953
Dividends payable	662,496	603,945
Taxes accrued	409,220	238,439
Interest accrued	405,907	458,147
Debt due within one year (note 7)	2,366,000	2,280,000
	<u>7,977,428</u>	<u>6,361,717</u>
DEFERRED CREDITS		
Income taxes	6,027,270	5,391,825
Unamortized investment tax credit	60,569	65,658
	<u>6,087,839</u>	<u>5,457,483</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>69,478,172</u>	<u>66,439,628</u>

C.F. Shepherdson, Secretary-Treasurer

statement of changes in financial position

for the year ended December 31

	1981 \$	1980 \$
SOURCE OF FUNDS		
Operations		
Net income	3,355,787	3,021,655
Items not affecting current funds		
Depreciation	3,265,211	2,811,070
Deferred income taxes	635,445	732,190
Allowance for funds used during construction	(96,334)	(68,721)
Other	18,588	21,779
	<u>7,178,697</u>	<u>6,517,973</u>
Total funds from operations	7,178,697	6,517,973
Reduction in investments in affiliated company	77,500	3,154,550
Reduction in mortgage receivable	730	—
	<u>7,256,927</u>	<u>9,672,523</u>
DISPOSITION OF FUNDS		
Capital expenditures		
Gross capital expenditures	7,003,592	5,759,665
Other charges (credits) - net	25,666	(625,721)
Increase in material and supplies	91,448	16,908
	<u>7,120,706</u>	<u>5,150,852</u>
Net capital expenditures	7,120,706	5,150,852
Dividends	2,332,310	2,096,346
Redemption of preference shares	80,000	80,000
Reduction in long-term debt	151,000	2,343,000
Increase in mortgage receivable	—	34,816
	<u>9,684,016</u>	<u>9,705,014</u>
Decrease in working capital	<u>(2,427,089)</u>	<u>(32,491)</u>
WORKING CAPITAL CHANGES		
Increase (decrease) in current assets:		
Accounts receivable	325,424	162,003
Other	46,198	54,118
Portion of investment redeemable within one year	(1,183,000)	1,183,000
(Increase) decrease in current liabilities:		
Bank overdraft	(1,023,443)	652,185
Accounts payable	(319,394)	(5,574)
Advance billing for service	(9,782)	(50,475)
Dividends payable	(58,551)	(58,710)
Taxes accrued	(170,781)	256,117
Interest accrued	52,240	1,345
Debt due within one year	(86,000)	(2,226,500)
	<u>(2,427,089)</u>	<u>(32,491)</u>

NORTHERN TELEPHONE LIMITED
statement of retained earnings
 for the year ended December 31

	1981	1980
	\$	\$
BALANCE AT BEGINNING OF YEAR	8,710,156	7,784,847
Add:		
Net income	<u>3,355,787</u>	<u>3,021,655</u>
	<u>12,065,943</u>	<u>10,806,502</u>
Deduct:		
Dividends - Preference shares	566,917	574,517
- Common shares	<u>1,765,393</u>	<u>1,521,829</u>
	<u>2,332,310</u>	<u>2,096,346</u>
BALANCE AT END OF YEAR	<u><u>9,733,633</u></u>	<u><u>8,710,156</u></u>

NORTHERN TELEPHONE LIMITED
notes to financial statements

1. Accounting Policies

DEPRECIATION

Depreciation is computed on the straight line method using rates based on the estimated useful lives of the assets. When depreciable telecommunication property is retired, the amount at which property has been carried in Telecommunications Plant is charged to Accumulated Depreciation.

The composite depreciation rate for the year ended December 31, 1981 was 5.91% (5.84% in 1980).

INCOME TAXES

The company uses the tax allocation basis of accounting for income taxes. Deferred income taxes result mainly from deductions for tax purposes, in respect to plant being in excess of amounts currently charged to operations.

INVESTMENT TAX CREDIT

The investment tax credit has been deferred and is being amortized by credits to income, as a reduction of income taxes, over the average estimated service life of telecommunications property.

2. Income Taxes

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

	1981	1980
Statutory income tax rate	51.8%	51.8%
i) Allowance for funds used during construction	(0.9)	(0.7)
ii) Non taxable dividend income	(11.4)	(13.7)
iii) Other	<u>(0.2)</u>	<u>0.6</u>
Effective income tax rate	<u>39.3%</u>	<u>38.0%</u>

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

	\$	\$
Current	1,537,776	1,120,136
Deferred	<u>635,445</u>	<u>732,190</u>
	<u>2,173,221</u>	<u>1,852,326</u>

3. Related Party Transactions

GOODS AND SERVICES

For the year ended December 31, 1981, the Company purchased goods and services, mainly material, amounting to \$1,346,149 (\$975,430 in 1980) from Bell Canada, the parent company, and \$1,789,153 (\$1,368,116 in 1980) from other affiliated companies. The company earned \$433,024 for data services supplied to an affiliated company (\$375,977 in 1980).

INVESTMENT TRANSACTIONS

For the year ended December 31, 1981, the company declared \$1,883,035 (\$1,640,091 in 1980) in dividends payable to Bell Canada, the parent company and earned \$1,218,735 (\$1,266,980 in 1980) in preference share dividends and \$1,230,534 (\$1,267,743 in 1980) in debenture interest from Telebec Ltee., an affiliated company.

ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

As at December 31, 1981, the accounts receivable from affiliated companies were \$735,641 (\$754,880 in 1980). The net accounts payable to Bell Canada, the parent company, were \$713,267 (\$572,971 in 1980) and accounts payable to other affiliated companies were \$53,225 (\$67,075 in 1980).

4. Investment In Affiliated Company, at cost:

INVESTMENT IN TELEBEC LTEE.

	1981	1980
	\$	\$
Debentures*	14,157,200	15,417,700
Non-voting Preferred Shares		
Class A 10.5% Par Value \$25**	11,364,350	11,364,350
Class B 6.0% Par Value \$10	<u>424,640</u>	<u>424,640</u>
Total	25,946,190	27,206,690
Less: Portion of investment redeemable within one year	<u>77,500</u>	<u>1,260,500</u>
Total	<u>25,868,690</u>	<u>25,946,190</u>

*The weighted average interest rate on these debentures at December 31, 1981 was 8.37% (8.20% in 1980).

At December 31, 1981 the amounts of debenture redemptions receivable in the following calendar years are \$77,500 in 1982; \$1,496,500 in 1983; \$1,499,500 in 1984; \$522,500 in 1985; \$802,500 in 1986; \$6,234,200 in 1987-91, and \$3,524,500 in 1992-95.

**Telebec Ltee. has the option to redeem 75,762 Class A shares (par value \$1,894,050) on April 1 of each year. No shares were redeemed on April 1, 1981.

5. Capital Stock

	1981 \$	1980 \$
Preference shares		
Authorized - with par value of \$20 each, issuable in series, voting		
First preference 500,000 shares	10,000,000	10,000,000
Second Preference 128,200 shares	<u>2,564,000</u>	<u>2,564,000</u>
	<u>12,564,000</u>	<u>12,564,000</u>
Issued and outstanding		
First preference - cumulative, redeemable		
75,000 5.5% Series A	1,500,000	1,500,000
50,000 5.5% Series B	1,000,000	1,000,000
100,000 5.5% Series C	2,000,000	2,000,000
25,000 5.5% Series D	500,000	500,000
80,000 9.5% Series E (84,000 in 1980)	<u>1,600,000</u>	<u>1,680,000</u>
	<u>6,600,000</u>	<u>6,680,000</u>
Second preference - cumulative, redeemable		
7,853 5.0% Series A	157,060	157,060
120,347 5.25% Series B	<u>2,406,940</u>	<u>2,406,940</u>
	<u>2,564,000</u>	<u>2,564,000</u>
Total preference shares	<u>9,164,000</u>	<u>9,244,000</u>
Common Shares		
Authorized - 6,500,000 shares without par value to be issued for a consideration not to exceed \$35,000,000		
Issued and outstanding		
3,043,657 common shares	<u>14,934,772</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.

The First Preference Series "E" shares are not redeemable, except for sinking fund purposes, prior to October 1, 1983, but may be redeemed thereafter, at the Company's option, at par plus a premium of 7% diminishing by 1% in each subsequent year to October 1, 1990, and thereafter at par. Pursuant to the conditions attached to the issue of these 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 per share plus any accrued and unpaid dividends to the date of redemption. To meet this requirement, on October 1, 1981, 4,000 shares were redeemed (4,000 in 1980).

6. Long-term Debt

Maturity date	Rate of Interest	Series	1981 \$	1980 \$
20 year Sinking Fund Debentures				
January 2, 1981	6.0 %	D	—	1,624,500
December 1, 1981	5.5 %	E	—	584,500
May 1, 1983	5.75 %	F	2,423,500	2,450,500
December 15, 1984	5.625 %	G	1,653,000	1,656,000
May 1, 1987	6.5 %	H	4,225,000	4,346,000
December 15, 1994	10.625 %	J*	2,292,000	2,350,000
20 year Serialized Debentures				
April 30, 1993	8.25 %	I	7,000,000	7,000,000
January 15, 1995	11.0 %	K	<u>4,000,000</u>	<u>4,000,000</u>
Total			21,593,500	24,011,500
Less: Debt due within one year			<u>13,000</u>	<u>2,280,000</u>
Total			<u>21,580,500</u>	<u>21,731,500</u>

*Subject to repayment at option of holders thereof, on June 15, 1985

Sinking fund and maturity payments required in the following calendar years, with respect to the above debt are: \$13,000 in 1982; \$2,485,500 in 1983; \$2,395,000 in 1984; \$775,000 in 1985; \$1,175,000 in 1986; \$9,675,000 in 1987-91; and \$5,075,000 in 1992-95.

7. Debt due within one year

	1981 \$	1980 \$
Long-term debt due within one year	13,000	2,280,000
Bank demand notes	<u>2,353,000</u>	—
Total	<u>2,366,000</u>	<u>2,280,000</u>

8. Remuneration of Directors and Senior Officers

For the year ended December 31, 1981 the aggregate direct remuneration paid or payable by the Company to the Directors and Senior Officers of the Company was \$267,000 (\$235,273 in 1980).

9. Pensions

The company has contributory pension plans which provide for service pensions based on the contributions of the company and the employees. The latest actuarial study as of January 1, 1981 established an unfunded liability of \$45,599. Based on this valuation, less remittances made during the year there was no unfunded liability as at December 31, 1981. The total provisions for the cost of the pension plans were \$206,759 for the year ended December 31, 1981 (\$140,524 in 1980).

To the Shareholders of Northern Telephone Limited

We have examined the balance sheet of Northern Telephone Limited as at December 31, 1981 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, 1981 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.

Timmins, Ontario,
January 21, 1982

ROSS, POPE & COMPANY,
CHARTERED ACCOUNTANTS.

statistics

	1981	1980	1979	1978	1977
FINANCIAL RESULTS (\$)					
Operating revenues	18,636,360	16,216,373	14,472,612	12,927,774	11,137,888
Operating expenses	13,672,225	12,186,348	10,796,331	9,681,506	9,105,069
Other income	2,627,780	2,788,051	2,943,423	3,035,260	3,330,777
Other charges	2,062,907	1,944,095	1,971,193	2,127,714	2,245,595
Income taxes	2,173,221	1,852,326	1,510,288	1,187,684	547,644
Net income	3,355,787	3,021,655	3,138,223	2,966,130	2,570,357
Total payroll	7,203,314	6,484,796	5,668,218	4,871,262	4,763,436
Construction expenditures	7,004,000	5,760,000	5,708,000	4,232,000	5,155,000
FINANCIAL RATIOS (\$)					
Earnings per common share	.92	.80	.84	.78	.65
Dividends declared per common share	.58	.50	.405	.32	.30
BALANCE SHEET DATA (\$)*					
Total investment in plant & equipment. . .	57,701,675	52,015,255	48,167,160	43,116,691	39,487,876
Plant & equipment less depreciation . . .	38,849,741	34,989,360	32,597,765	29,309,199	27,268,392
Common equity	24,668,405	23,644,928	22,719,619	21,396,194	19,993,751
Preferred equity	9,164,000	9,244,000	9,324,000	9,404,000	9,484,000
Long-term debt	21,593,500	24,011,500	24,128,000	24,204,500	25,769,000
(Including due within 1 year)					
ADDITIONAL STATISTICS					
Number of employees*	314	314	312	316	334
Number of telephones*	76,104	73,905	71,395	68,951	66,815
Business	21,520	20,804	19,918	19,164	18,648
Residence	54,584	53,101	51,477	49,787	48,167
Percentage residence of total	71.7	71.9	72.1	72.2	72.1
Percentage dial of total	100.0	100.0	100.0	100.0	100.0
Long distance calls (thousands)	6,753	6,321	5,816	5,266	4,832
Local calls (thousands)	178,494	172,171	166,271	160,991	155,830
Number of shareholders (preferred and common)*					
In Canada	1,685	1,805	1,894	1,966	2,040
Elsewhere	33	33	35	41	41
Total shareholders	1,718	1,838	1,929	2,007	2,081

*as at December 31

Northern Telephone Limited, as part of its ongoing programme of "Bringing the North Together" through modern telecommunications has entered a new era of development. This new era was brought about by a decision to introduce the Digital Multiplex Systems (DMS), which is basically a computerized switching system.

The year 1981 marked another successful phase of a long-term DMS implementation programme and two such installations during this first year indicate that the new equipment is living up to expectations.

DMS replaces the present step-by-step equipment, which is a mechanical switching system. The step-by-step equipment is difficult and costly to maintain and expand, is restrictive in available features and takes up a considerable amount of building space. Put simply, it is outdated technology.

With DMS, computers take over from mechanical equipment. The result is better transmission, more efficiency, ease of maintenance and the flexibility to add more custom-calling features. Implementation of digital equipment means a long-term saving in building construction costs because it is more compact and fits into a smaller area - a welcome change from the large step-by-step equipment.

With an aim to modernizing present switching equipment and handling growth in various exchange areas, Northern Telephone began planning for DMS in the late 1970's. The Hearst facility was the first DMS installation completed and Kapuskasing was the second. The cost of new digital equipment for these two projects was close to \$1 million, not including building renovations or cable.

Next in line for this modern switching equipment is the large Timmins exchange, slated for completion in 1982. That project is estimated to cost \$2.3 million. Another major DMS project is the New Liskeard exchange, planned for completion in 1984, at an estimated cost of \$2.1 million.

In addition to these major DMS projects, there are plans to install remote line modules and remote equipment modules at a number of locations throughout Northern Telephone's system. These modules connect to the nearest DMS exchange, thereby providing outlying areas with the same modern features as their host exchange.

At Northern Telephone, we have been meeting the telecommunications needs of northerners for more than 75 years. The detailed and expensive programme of changeover to this modern Digital Multiplex System reaffirms our dedication to the North and its people by "Bringing the North Together".

our cover

The Annual Report Cover depicts a cross-section of the varied geography and industrial concerns of the Northeastern Ontario area where Northern Telephone Limited provides communication services.

Clockwise, starting with the top lefthand photograph, is the Kidd Creek Mine in Timmins; the Ragged Chutes compressed air plant near Cobalt; farming area in the Temiskaming District and the Spruce Falls Power and Paper Company Limited in Kapuskasing.

