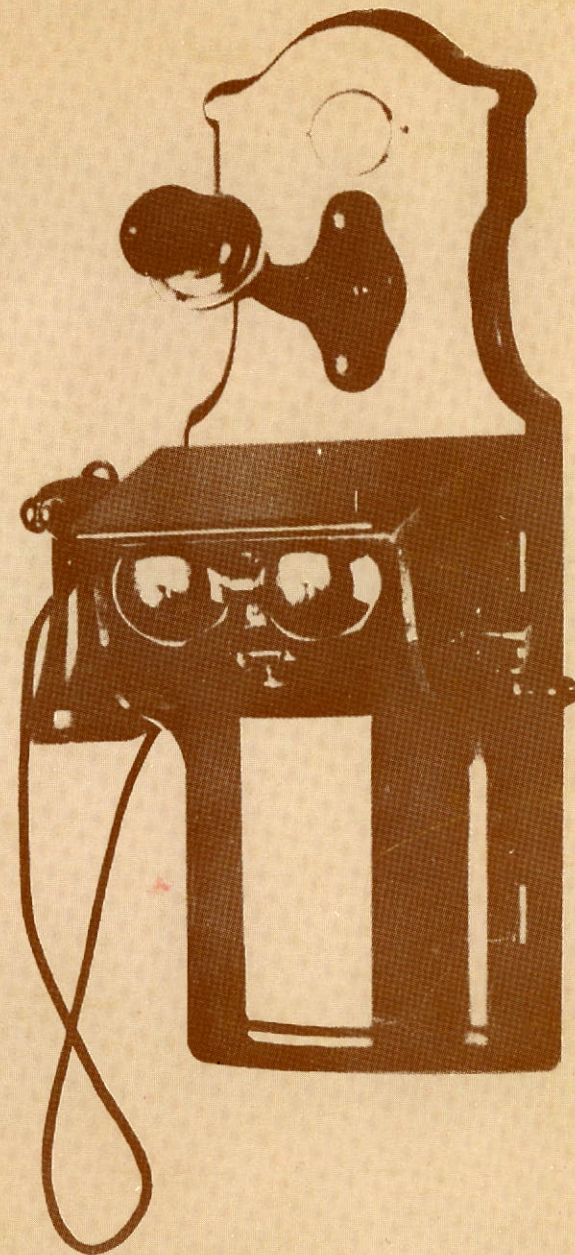


ANNUAL REPORT 1980



Northern Telephone



contents

corporate information

Corporate Information	1
Highlights	2
Directors	3
Officers and Department Heads	3
Directors' Report to Shareholders	4-7
Income Statement	8
Balance Sheet	8-9
Statement of Changes in Financial Position	9
Statement of Retained Earnings	10
Notes to Financial Statements	10-12
Auditors' Report	13
Statistics	14
75 Years of Progress	15-16

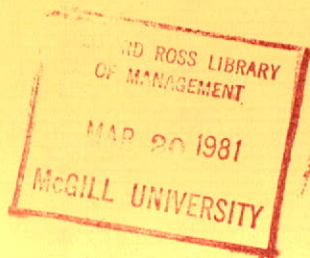
ADDRESS
17 Paget Street
New Liskeard, Ontario.
POJ 1P0

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

TRUSTEE
CANADA PERMANENT TRUST COMPANY
Toronto and Montreal

AUDITOR
ROSS, POPE & COMPANY
Chartered Accountants,
Timmins, Ontario

BANKER
CANADIAN IMPERIAL BANK OF COMMERCE,
New Liskeard, Ontario



highlights of the report

FINANCIAL RESULTS

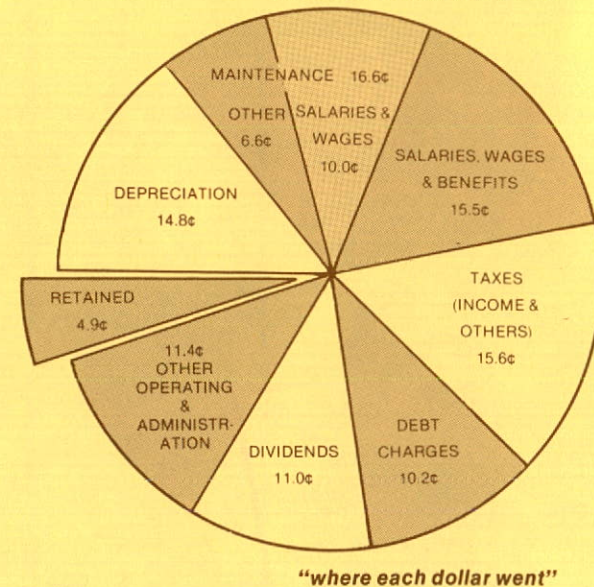
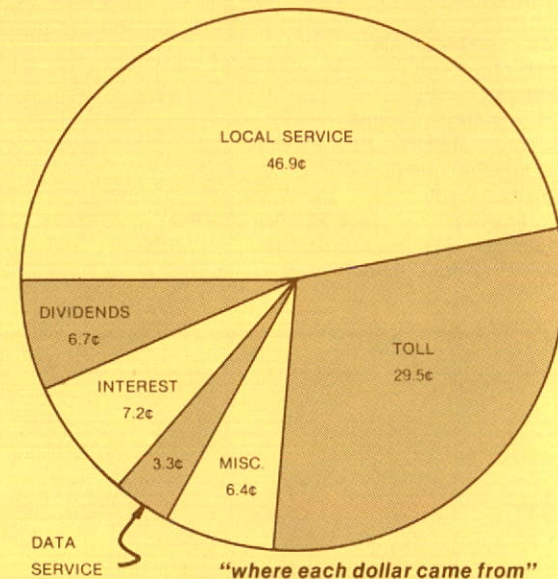
	1980	1979
	\$	\$
Total Operating Revenues	16,216,373	14,472,612
Operating and General Expenses	9,375,278	8,313,651
Debt Interest and Discount	1,928,389	1,936,909
Depreciation	2,811,070	2,482,680
Income Taxes	1,852,326	1,510,288
Net Income	3,021,655	3,138,223
Dividends - Preferred	574,517	582,117
- Common	1,521,829	1,232,681
Earnings Per Common Share	0.80	0.84

BALANCE SHEET

Gross Fixed Assets	52,015,255	48,167,160
Net Fixed Assets	34,989,360	32,597,765
Accumulated Depreciation	17,025,895	15,569,395
Long Term Debt (Including due within 1 year)	24,011,500	24,128,000
Shareholders' Equity	32,888,928	32,043,619

ADDITIONAL STATISTICS

Telephones in Service	73,905	71,395
Percentage Dial Operated	100	100
Number of Long Distance Calls (Thousands)	6,321	5,816
Number of Central Offices	30	30
Number of Employees at December 31	314	312
Number of Shareholders	1,838	1,929



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



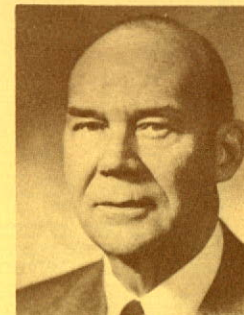
J. D. Archer

Robert M. Fensom
Assistant Vice-President, Bell Canada



R.M. Fensom

Rowan T. Hutchinson
Real Estate Broker



R.T. Hutchinson

George E. Knowles
President, Geo. E. Knowles Limited



G.E. Knowles

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



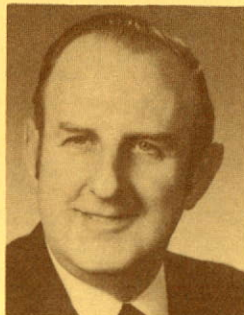
J.C. Lavigne

Donald McKelvie
Former Chairman of the Board
Northern Telephone Limited



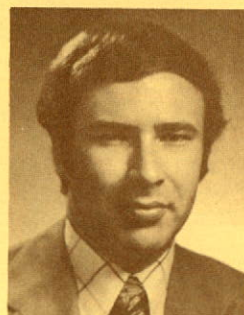
D. McKelvie

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



H.A. Roth

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



C. W. M. Scott

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



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

directors' report to shareholders

rapport des administrateurs aux actionnaires

4

Financial and Statistical

Net income in 1980 decreased 3.7% to \$3,022,000, from \$3,138,000 in 1979, and the earnings per common share were 80¢ compared to 84¢ in 1979. The dividend declared on common shares for the fourth quarter 1980 was increased to 14¢ per share from 12¢ the previous quarter, resulting in total dividends declared for 1980 of 50¢ per share. The rate of return on average common equity was 10.6% for 1980, compared to 11.7% for 1979 and the rate of return on average total capital was 8.8% in 1980 compared to 9.2% in 1979.

Total operating revenues for 1980 increased by \$1,743,000 to \$16,216,000 or 12.0% over total revenue of \$14,473,000 in 1979. Operating expenses increased by 12.9% to \$12,186,000 in 1980, compared to \$10,796,000 for the previous year.

Local Service

There were 73,905 telephones in service at the end of 1980, a gain of 2,510 or 3.5% over the 71,395 telephones in service at the end of 1979. The Company connected 14,377 telephones and disconnected 11,867 telephones during 1980 to achieve this gain.

Local service revenues were \$8,911,000, an increase of \$836,000 or 10.4% over the 1979 total of \$8,075,000. This increase includes the rate increase effective July 1, 1980 which accounts for approximately \$390,000. The balance is from growth in demand.

Long Distance Services

The number of long distance messages increased to 6,322,000 in 1980, an increase of 8.7% from 5,816,000 in 1979.

As a result of the increase in messages and the effect of a rate increase on August 19th, 1980, the commissions on long distance revenues rose by \$648,000 to \$5,603,000 in 1980, an increase of 13.1% over 1979.

Data Processing Services

Data Processing Service revenues increased by \$55,000 to \$621,000, an increase of 9.7% over 1979.

The Company offers to the public the advantage of a reliable computer facility. Services performed in 1980 included toll processing for another telephone company, terminal operation in Northeastern

Finances et Statistique

Le revenu net en 1980 diminua 3.7% à \$3,022,000 de \$3,138,000 en 1979, et le gain par une action ordinaire fut 80¢ en comparaison de 84¢ en 1979. Le dividende déclaré sur les actions ordinaires pour le quatrième trimestre 1980 augmenta de 12¢ par action du trimestre antérieur jusqu'à 14¢. Il en résulte que les dividendes totaux déclarés de 1980 furent 50¢ par action. Le taux de profit sur la moyenne équité commune fut 10.6% en 1980 comparé à 11.7% en 1979. Également le taux de profit sur le moyen capital total fut 8.8% en 1980 en comparaison de 9.2% en 1979.

Le total des revenus opératifs en 1980 s'accrut \$1,743,000 jusqu'à \$16,216,000 ou 12.0% sur le revenu total de \$14,473,000 en 1979. Les frais opératifs augmentèrent 12.9% jusqu'à \$12,186,000 en 1980, comparés à \$10,796,000 l'année antérieure.

Service Local

Il y avait 73,905 téléphones en service à la fin de 1980, un gain de 2,510 ou 3.5% comparé aux 71,395 téléphones en service à la fin de 1979. La Compagnie brancha 14,377 téléphones et débrancha 11,867 téléphones en 1980 pour atteindre à ce gain.

Les revenus de service local furent \$8,911,000, une augmentation de \$836,000 ou 10.4% sur le total de \$8,075,000 en 1979. Cette augmentation comprend l'augmentation de taux en vigueur le 1er juillet 1980, qui explique la somme d'à peu près \$390,000. La balance résulte de l'accroissement demandé.

Services Interurbaines

Le chiffre de communications interurbaines augmenta 6,322,000 en 1980, un accroissement de 8.7% en comparaison de 5,816,000 en 1979.

À cause de l'accroissement de communications et l'effet d'une augmentation de taux le 19 août 1980, les commissions sur les revenus interurbains se levèrent \$648,000 jusqu'à \$5,603,000 en 1980, une augmentation de 13.1% sur 1979.

Service de Traitement des Données

Les revenus du Service de Traitement des Données augmentèrent \$55,000 à \$621,000, un accroissement de 9.7% plus qu'en 1979.

La Compagnie offre au publique l'avantage d'un bon centre d'ordinateurs. Les services exécutés en 1980 comprirent le traitement de communications interurbaines pour une autre compagnie

Ontario for various government services, municipal tax billings and accounts receivable, telephone billing for other independent telephone companies and a Public Utility Commission, and compilation of general ledger and mortgage schedules.

Capital Expenditures

Capital expenditures for 1980 were \$5,760,000 compared to \$5,708,000 in 1979.

Expenditures on land and buildings amounted to \$438,000 in 1980. This was highlighted by the start of construction of a new Head Office building in New Liskeard, which required \$290,000. It is estimated that the new building and contents will approximate \$1.1 million when completed.

The rural upgrade programme cost \$1,051,000 in 1980 compared to \$1,156,000 in 1979. This represented 46% of the total outside plant expenditures of \$2,666,000. The programme provided for a net reduction of 612 customers on lines over four per line in 1980. During the period January 1, 1976 to December 31, 1980, customers on lines with four or less customers per line have increased from 53% to 76%. Completion of the programme is planned for 1985 at an estimated total cost of \$8.7 million over the ten year period.

The first of a new class of switching equipment (DMS-10) went into service in Hearst in December at a cost of \$383,000. This is the most modern switching machine available and is a continuation of the Company's modernization programme. Total central office equipment expenditures in the Company amounted to \$957,000.

Telephone equipment expenditures of \$1,756,000 were made in 1980. The main cost was in Private Automatic Branch Exchanges (PABX's), where \$283,000 was required compared to \$216,000 in 1979 primarily to meet the increased demands in the resource industries.

Other highlights of 1980 included the completion of the installation of a remote testing system for customer lines and the replacement of obsolete wire and carrier systems from New Liskeard to Earleton and Belle Vallee. In conjunction with the City of Timmins, 911 emergency service was placed in service for that city.

téléphonique, l'opération terminale dans l'Ontario du Nord-est pour différents services gouvernementaux, des comptes de taxe municipale et des comptes à recevoir, des comptes téléphoniques pour autres compagnies téléphoniques indépendantes, également une Commission de Travaux Publics, et une compilation d'un registre général et de bilans hypothécaires.

Dépenses Capitaux

Les dépenses capitaux en 1980 furent \$5,760,000 comparées à \$5,708,000 en 1979.

Les dépenses de terrain et de bâtiments furent \$438,000 en 1980. Un événement important fut le commencement de la construction d'un nouveau Bureau Central à New Liskeard coûtant \$290,000. On estime que le nouveau bâtiment et son contenu coûteront \$1.1 million à la fin.

Le programme d'amélioration rurale coûta \$1,051,000 en 1980 auprès de \$1,156,000 en 1979. Ceci représenta 46% des dépenses totaux en dehors de la fabrique de \$2,666,000. Le programme pourvit une réduction nette de 612 clients utilisant un service pour quatre personnes en 1980. À partir du 1ier janvier, 1976 au 31 décembre, 1980, les clients utilisant un service pour quatre personnes ou moins s'augmentèrent de 53% à 76%. On projette l'achèvement de ce programme en 1985 au prix total estimé de \$8.7 millions pendant la période de dix ans.

Le premier nouveau genre de commutateur (DMS-10) entra en service à Hearst au mois de décembre au prix de \$383,000. Ce commutateur est une des plus modernes disponibles et continue le programme de modernisation de la part de la Compagnie. Les dépenses totaux de la part du bureau central pour l'équipement se monta à \$957,000.

Les dépenses d'équipement téléphonique de \$1,756,000 s'effectuèrent en 1980. Les Centraux Particuliers et Automatiques pour les succursales (les PABX) coûtèrent le plus. Il fallut \$238,000 auprès de \$216,000 en 1979 principalement afin de répondre aux demandes des industries de ressources.

Autres événements importants de 1980 comprirent la complétion de l'installation d'un système d'épreuve à distance pour le service public et le remplacement des systèmes porteurs et des fils désuets de New Liskeard jusqu'à Earleton et Belle Vallée. Conjointement avec la ville de Timmins le service l'urgence - 911 entra en service pour cette ville.

Regulation

The Ontario Telephone Service Commission granted the Company an increase in local service rates on July 1, 1980. In addition, the Ontario Northland Telecommunications increased their long distance rates in August, 1980. These rate increases provided additional revenues during 1980 of about \$390,000 on local revenues and \$214,000 on long distance revenues. For regulatory purposes, the telephone operations earned 12.9% on average common equity.

The increase in local rates and the consideration of the long distance rates was calculated by the Commission to enable the telephone operations to earn within the range of 12.3% to 13.7% on average common equity in 1981.

Labour Relations

Negotiations between the Company and the Communication Workers of Canada resulted in the ratification of a 28 month contract effective February 1st, 1980, expiring May 31st, 1982.

Head Office - Replacement

On September 19th, 1980, Mr. D. McKelvie, former Chairman of the Board, officially turned the sod at the building site for the "McKelvie Building" in New Liskeard. This new building will replace the Head Office building which was destroyed by fire on December 14th, 1979. Construction of the building has started, with expected completion in June 1981.

Energy Conservation

The Company continued its comprehensive energy conservation programme and, as a result, has received recognition and a special award from Ontario Hydro for its efforts in energy conservation. It is estimated that the Company has saved over \$100,000 through this programme since 1975.

Régulation

La Commission du Service Téléphonique en Ontario octroya à la Compagnie une augmentation des taux du service régional le 1er juillet 1980. Par surcroît, les Télécommunications de l'Ontario du Nord augmentèrent les taux interurbains au mois d'août 1980. Ces augmentations de taux fournirent des revenus supplémentaires pendant 1980 d'à peu près \$390,000 sur les revenus régionaux et \$214,000 sur les revenus interurbains. Pour des buts régulatoires, les opérations téléphoniques gagnèrent 13.0% sur l'équité commune-moyenne.

La Commission calcula l'augmentation des taux régionaux et la considération des taux interurbains pour permettre aux opérations de gagner entre 12.3% et 13.7% sur l'équité commune-moyenne.

Relations Ouvrières

Les négociations entre la Compagnie et Les Ouvriers de Communications du Canada aboutirent à la ratification d'un contrat de 28 mois en vigueur le 1er février 1980, prenant fin le 31 mai 1982.

Bureau Central - Remplacement

Le 19 septembre 1980 M.D. McKelvie, l'ancien président du conseil, creusa la terre officiellement à l'emplacement de "l'Édifice - McKelvie" à New Liskeard. Le nouvel édifice remplacera le bureau central brûlé de fond en comble le 14 décembre 1979. On commença la construction de l'édifice et en projette la complétion au mois de juin 1981.

Conversation d'Énergie

La Compagnie continua son programme compréhensif de conservation d'énergie et il en résulta qu'elle reçut une récompense spéciale de la part de Hydro-Ontario à cause de ses efforts de conserver l'énergie. On estime que la Compagnie économisa plus que \$100,000 au moyen de ce programme depuis 1975.

75th Anniversary

During 1980, the Company celebrated its 75th Anniversary by participating in various activities, including the sponsoring of special learning disability seminars in Kapuskasing, New Liskeard and Timmins. There were also mementos given to pensioners, a banquet for the Quarter Century Club and a special tabloid published covering the history of the Company and some of its people.

Officer Change

Mr. J.C. Lavigne was elected Chairman of the Board of Directors on March 27th, 1980 upon the resignation of Mr. D. McKelvie. Mr. McKelvie has been serving the Company for 43 years and will continue as a Director. The Board of Directors paid tribute to Mr. McKelvie for his valued years of service to the Company, and in recognition, the new head office building will be named the "McKelvie Building".

Employees

The Directors wish to express their sincere appreciation to all the employees for their continued significant contributions and loyalties throughout another challenging year.

J.C. Lavigne - Chairman

H.A. Roth - Vice-Chairman and
Chief Executive Officer

75ième Anniversaire

En 1980 la Compagnie célébra son 75ième anniversaire en participant à différentes activités. Elle prit en charge des présentations de séminaires sur les troubles d'apprentissage à Kapuskasing, New Liskeard et Timmins. Également, la Compagnie donna des souvenirs à des retraités, un banquet au "Quarter Century Club" et une revue spécialement publiée regardant l'histoire de la Compagnie et de ses membres.

Changements d'Officiers

On nomma M.J.C. Lavigne Président du Conseil de Directeurs le 27 mars 1980 lors de la démission de M.D. McKelvie. M. McKelvie sert à la Compagnie depuis 43 ans et il continuera à servir en Directeur. Le Conseil de Directeurs honora M. McKelvie à cause de ses années appréciées à la Compagnie. En reconnaissance de ses efforts le nouvel édifice s'appellera "McKelvie Building".

Employés

Les Directeurs veulent exprimer leur appréciation sincère à tous les employés pour leurs contributions importantes et loyauté continue dans tout le cours d'encore une année demandante.

J.C. Lavigne - Président

H.A. Roth - Vice-Président et
Premier Directeur

NORTHERN TELEPHONE LIMITED
statement of income

For the year ended December 31

	1980 \$	1979 \$
OPERATING REVENUES		
Local service	8,911,233	8,075,240
Long distance service	5,602,851	4,954,922
Data processing services	620,992	565,616
Miscellaneous - net	<u>1,081,297</u>	<u>876,834</u>
TOTAL OPERATING REVENUES	<u>16,216,373</u>	<u>14,472,612</u>
OPERATING EXPENSES		
Maintenance and repairs	3,150,468	2,761,674
Depreciation	2,811,070	2,482,680
Marketing and commercial	1,033,448	878,188
Accounting	837,913	728,855
Business information systems	914,801	842,141
Pensions and other employee benefits	425,286	434,228
Taxes other than income taxes	1,117,796	981,086
Other	<u>1,895,566</u>	<u>1,687,479</u>
TOTAL OPERATING EXPENSES	<u>12,186,348</u>	<u>10,796,331</u>
Net operating revenues	<u>4,030,025</u>	<u>3,676,281</u>
OTHER INCOME		
Dividends	1,267,980	1,466,855
Debenture interest and other income	1,451,350	1,361,051
Interest charged to construction	<u>68,721</u>	<u>115,517</u>
TOTAL OTHER INCOME	<u>2,788,051</u>	<u>2,943,423</u>
Income before underlisted items	<u>6,818,076</u>	<u>6,619,704</u>
INTEREST CHARGES		
Interest on long term debt	1,916,869	1,925,389
Other	<u>27,226</u>	<u>45,804</u>
TOTAL INTEREST CHARGES	<u>1,944,095</u>	<u>1,971,193</u>
Income before income taxes	4,873,981	4,648,511
Income taxes	<u>1,852,326</u>	<u>1,510,288</u>
NET INCOME	<u>3,021,655</u>	<u>3,138,223</u>
Dividends on preference shares	<u>574,517</u>	<u>582,117</u>
NET INCOME APPLICABLE TO COMMON SHARES	<u>2,447,138</u>	<u>2,556,106</u>
EARNINGS PER COMMON SHARE*	<u>0.80</u>	<u>0.84</u>
Dividends declared per common share	<u>0.50</u>	<u>0.405</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, 1980

	1980 \$	1979 \$
ASSETS		
TELECOMMUNICATIONS PROPERTY, AT COST		
Buildings, plant and equipment	50,487,012	46,904,782
Less: Accumulated depreciation	<u>17,025,895</u>	<u>15,569,395</u>
	33,461,117	31,335,387
Land	400,300	410,794
Plant under construction	1,127,943	851,584
Material and supplies	<u>337,789</u>	<u>320,881</u>
	<u>35,327,149</u>	<u>32,918,646</u>
INVESTMENTS, AT COST		
Affiliated company (note 4)	25,946,190	29,100,740
Mortgage Receivable	<u>34,816</u>	<u>—</u>
	<u>25,981,006</u>	<u>29,100,740</u>
CURRENT ASSETS		
Accounts receivable (note 3)	3,423,030	3,261,027
Portion of investment redeemable within one year	1,260,500	77,500
Other	<u>243,819</u>	<u>189,701</u>
	<u>4,927,349</u>	<u>3,528,228</u>
DEFERRED CHARGES		
Unamortized financing expenses	<u>204,124</u>	<u>231,135</u>
TOTAL ASSETS	<u>66,439,628</u>	<u>65,778,749</u>

On behalf of the Board of Directors
J.C. Lavigne, Director
G.E. Knowles, Director

LIABILITIES AND SHAREHOLDERS' EQUITY

	1980 \$	1979 \$
SHAREHOLDERS' EQUITY		
Capital Stock (note 5)		
Preference shares	9,244,000	9,324,000
Common shares	14,934,772	14,934,772
Retained earnings	8,710,156	7,784,847
	<u>32,888,928</u>	<u>32,043,619</u>
LONG TERM DEBT (note 6)	<u>21,731,500</u>	<u>24,074,500</u>
CURRENT LIABILITIES		
Bank overdraft	122,821	775,006
Accounts payable (note 3)	2,297,412	2,291,838
Advance billing for service	360,953	310,478
Dividends payable	603,945	545,235
Taxes accrued	238,439	494,556
Interest accrued	458,147	459,492
Debt due within one year (note 6)	2,280,000	53,500
	<u>6,361,717</u>	<u>4,930,105</u>
DEFERRED CREDITS		
Income taxes	5,391,825	4,659,635
Unamortized investment tax credit	65,658	70,890
	<u>5,457,483</u>	<u>4,730,525</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>66,439,628</u>	<u>65,778,749</u>

C.F. Shepherdson, Secretary-Treasurer

statement of changes in financial position

For the year ended December 31

	1980 \$	1979 \$
SOURCE OF FUNDS		
Operations		
Net income	3,021,655	3,138,223
Items not affecting current funds		
Depreciation	2,811,070	2,482,680
Deferred income taxes	732,190	711,809
Allowance for funds used during construction	(68,721)	(115,517)
Other	21,779	21,852
	<u>6,517,973</u>	<u>6,239,047</u>
Total funds from operations	6,517,973	6,239,047
Reduction in long term investments in affiliated company	3,154,550	1,971,550
Decrease in working capital	32,491	—
	<u>9,705,014</u>	<u>8,210,597</u>
DISPOSITION OF FUNDS		
Capital Expenditures		
Gross capital expenditure	5,759,665	5,708,246
Other charges (credit) - net	(625,721)	(52,517)
Increase (decrease) in material and supplies	16,908	(4,920)
	<u>5,150,852</u>	<u>5,650,809</u>
Net capital expenditures	5,150,852	5,650,809
Dividends	2,096,346	1,814,798
Redemption of preference shares	80,000	80,000
Reduction in long term debt	2,343,000	100,500
Increase in mortgage receivable	34,816	—
Increase in working capital	—	564,490
	<u>9,705,014</u>	<u>8,210,597</u>
Working capital changes		
Increase (decrease) in current assets:		
Accounts receivable	162,003	33,743
Other	54,118	2,156
Portion of investment redeemable within one year	1,183,000	—
(Increase) decrease in current liabilities:		
Bank overdraft	652,185	42,702
Accounts payable	(5,574)	(329,068)
Advance billing for service	(50,475)	(21,412)
Dividends payable	(58,710)	(82,135)
Taxes accrued	256,117	(187,092)
Interest accrued	1,345	63,596
Debt due within one year	(2,226,500)	1,042,000
	<u>(32,491)</u>	<u>564,490</u>
Increase (decrease) in working capital as above	(32,491)	564,490

NORTHERN TELEPHONE LIMITED
statement of retained earnings

For the year ended December 31

	1980	1979
	\$	\$
BALANCE AT BEGINNING OF YEAR	7,784,847	6,461,422
Add:		
Net Income	<u>3,021,655</u>	<u>3,138,223</u>
	<u>10,806,502</u>	<u>9,599,645</u>
Deduct:		
Dividends - Preference shares	574,517	582,117
- Common shares	<u>1,521,829</u>	<u>1,232,681</u>
	<u>2,096,346</u>	<u>1,814,798</u>
BALANCE AT END OF YEAR	<u>8,710,156</u>	<u>7,784,847</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 such property has been carried in Telecommunications Plant is charged to Accumulated Depreciation.

The composite depreciation rate for the year ended December 31, 1980 was 5.84% (5.73% in 1979).

INCOME TAXES

The company uses the tax allocation basis of accounting for income taxes. Deferred income taxes result 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:

	1980	1979
Statutory income tax rate	51.8%	49.7%
i) Allowance for funds used during construction	(0.7)	(1.2)
ii) Non taxable dividend income	(13.7)	(15.6)
iii) Other	0.6	(0.4)
Effective income tax rate	<u>38.0%</u>	<u>32.5%</u>

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

	\$	\$
Current	1,120,136	798,479
Deferred	<u>732,190</u>	<u>711,809</u>
	<u>1,852,326</u>	<u>1,510,288</u>

3. Related Party Transactions

GOOD AND SERVICES

For the year ended December 31, 1980, the Company purchased goods and services, mainly material, amounting to \$975,430 (\$1,091,970 in 1979) from Bell Canada, the parent company, and \$1,368,116 (\$1,472,728 in 1979) from other affiliated companies. The company earned \$375,977 for data services supplied to an affiliated company (\$349,416 in 1979).

INVESTMENT TRANSACTIONS

For the year ended December 31, 1980, the company declared \$1,640,091 (\$1,351,626 in 1979) in dividends payable to Bell Canada, the parent company and earned \$1,266,980 (\$1,466,855 in 1979) in preference share dividends and \$1,267,743 (\$1,273,355 in 1979) in debenture interest from Telebec Ltee., an affiliated company.

ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

As at December 31, 1980, the accounts receivable from affiliated companies were \$754,880 (\$808,181 in 1979). The net accounts payable to Bell Canada, the parent company, were \$572,971 (\$596,025 in 1979) and accounts payable to other affiliated companies were \$67,075 (\$76,295 in 1979).

4. Investments in Affiliated Company, at cost:

INVESTMENTS IN TELEBEC LTEE.

	1980	1979
	\$	\$
Debentures*	15,417,700	15,495,200
Non-voting Preferred Shares		
Class A 10.5% Par Value \$25**	11,364,350	13,258,400
Class B 6.0% Par Value \$10	<u>424,640</u>	<u>424,640</u>
Total	27,206,690	29,178,240
Less: Portion of investment redeemable within one year	<u>1,260,500</u>	<u>77,500</u>
Total	<u>25,946,190</u>	<u>29,100,740</u>

*The weighted average interest rate on these debentures at December 31, 1980 was 8.20% (8.19% in 1979).

At December 31, 1980 the amounts of debenture redemptions receivable in the following calendar years are \$1,260,500 in 1981; \$77,500 in 1982; \$1,496,500 in 1983; \$1,499,500 in 1984; \$522,500 in 1985; \$6,263,200 in 1986-90, and \$4,298,000 in 1991-95.

**Telebec Ltee. has the option to redeem 75,762 Class A shares (par value \$1,894,050) on April 1 of each year.

5. Capital Stock

	1980 \$	1979 \$
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
84,000 9.5% Series E (88,000 in 1979)	<u>1,680,000</u>	<u>1,760,000</u>
	<u>6,680,000</u>	<u>6,760,000</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>9,244,000</u>	<u>9,324,000</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, 1980, 4,000 shares were redeemed (4,000 in 1979).

6. Long Term Debt

Maturity Date	Rate of Interest	Series	1980 \$	1979 \$
20 year Sinking Fund Debentures				
January 2, 1981	6.0 %	D	1,624,500	1,639,500
December 1, 1981	5.5 %	E	584,500	584,500
May 1, 1983	5.75 %	F	2,450,500	2,502,000
December 15, 1984	5.625%	G	1,656,000	1,686,000
May 1, 1987	6.5 %	H	4,346,000	4,366,000
December 15, 1994	10.625%	J*	2,350,000	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			24,011,500	24,128,000
Less: Debt due within one year			<u>2,280,000</u>	<u>53,500</u>
Total			<u>21,731,500</u>	<u>24,074,500</u>

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

Sinking fund and maturity payments required in the next five calendar years, with respect to the above debt are; \$2,280,000 in 1981; \$111,500 in 1982; \$2,525,000 in 1983; \$2,395,000 in 1984 and \$775,000 in 1985; \$9,725,000 in 1986-90; \$6,200,000 in 1991-95.

7. Remuneration of Directors and Senior Officers

For the year ended December 31, 1980 the aggregate direct remuneration paid or payable by the Company to the Directors and Senior Officers of the Company was \$235,273 (\$208,256 in 1979).

8. Pensions

The company has contributory pension plans which provide service pensions based on the contributions of the Company and the employees. The latest actuarial study as of January 1, 1979 established an unfunded liability of \$425,728. Based on this valuation, less remittances made, the unfunded liability was \$318,466 at December 31, 1980. The total provisions for the cost of the pension plans including the amortization of unfunded liability, were \$140,524 for the year ended December 31, 1980 (\$172,749 in 1979).

To the Shareholders of Northern Telephone Limited

We have examined the balance sheet of Northern Telephone Limited as at December 31, 1980 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, 1980 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 22, 1981

ROSS, POPE & COMPANY,
CHARTERED ACCOUNTANTS.

statistics

	1980	1979	1978	1977	1976
FINANCIAL RESULTS					
Operating Revenues	16,216,373	14,472,612	12,927,774	11,137,888	9,341,666
Operating Expenses	12,186,348	10,796,331	9,681,506	9,105,069	7,505,474
Total Payroll	6,484,796	5,668,218	4,871,262	4,763,436	4,297,819
Construction Expenditures (Thousands)	5,760	5,708	4,232	5,155	5,305
BALANCE SHEET					
Total Investment Plant & Equipment	52,015,255	48,167,160	43,116,691	39,487,876	35,148,775
Plant & Equipment Less Depreciation	34,989,360	32,597,765	29,309,199	27,268,392	24,107,859
Preferred Equity	9,244,000	9,324,000	9,404,000	9,484,000	9,564,000
Long Term Debt	24,011,500	24,128,000	24,204,500	25,769,000	25,972,000
(Including due within 1 year)					
FINANCIAL RATIOS					
Earnings per common share (Before Extraordinary Item)	.80	.84	.78	.65	.64
Dividends declared per common share.	.50	.405	.32	.30	.30
ADDITIONAL STATISTICS					
Number of employees	314	312	316	334	332
Number of telephones	73,905	71,395	68,951	66,815	64,641
Business	20,804	19,918	19,164	18,648	18,215
Residence	53,101	51,477	49,787	48,167	46,426
Percentage Residence of Total	71.9	72.1	72.2	72.1	71.8
Percentage Dial of Total	100.0	100.0	100.0	100.0	100.0
Long Distance Calls (Thousands)	6,321	5,816	5,266	4,832	4,493
Local Calls (Thousands)	172,171	166,271	160,991	155,830	149,135
Number of Shareholders					
In Canada	1,805	1,894	1,966	2,040	2,097
Elsewhere	33	35	41	41	48
Total Shareholders	1,838	1,929	2,007	2,081	2,145

75 years of progress in “bringing the north together”

The history and progress of Northern Telephone Limited over the last 75 years has been closely linked with the history and progress of Northern Ontario itself. Mining, Forestry and Agriculture have provided the initial impetus and continuing basis for development and growth in the north. These same industries played major roles in the formation and expansion of a small telephone company founded in 1905, first named the Temiskaming Telephone Company.

As the north's wealth and potential over a wide-spread area was developed around these resources, this small communications company evolved into the role of the connecting link, truly bringing the north together. It evolved into Northern Telephone Limited, operating a sophisticated communications network of telephone and computer services over a 32,000 square mile area of Northeastern Ontario. In 1980, the year of its 75th Anniversary, Northern Telephone Limited began a new decade which will bring new challenges in an era of electronic, technological and communications changes which have become so apparent.

Historically, within the Company it is said, with some basis in fact, that as soon as the first mining drill hole was completed in a new area, another large hole was started to hold a telephone pole.

The Company's roots as the Temiskaming Telephone Company were first nurtured in the sawmill business when two partners desired to save time, and wear and tear on their lungs, by installing one of those "new-fangled telephones. In farming, whenever a new territory was settled, communication by telephone was established often before the first planting in the fields.

The founding of the Temiskaming Telephone Company in April 1905 marked the beginning of Northern's history but the second page was quickly written with the formation of a rival company. The Haileybury/Cobalt Telephone Company had a race with Northern to see which Company would win the telephone subscribers in the Silver Town of Cobalt. In fact, both Companies, to the confusion of the towns' residents, tried to serve the single community until several months later in 1907 when the two Companies were amalgamated. The New Liskeard and Haileybury home towns of the two rivals were not unique in their desire to have telephone service and in the early years of settlement a number of townsites and villages established their own telephone companies. Some of them connected into the Temiskaming (later Northern Telephone) System in order to provide more complete service and in the end all were purchased by either Temiskaming or Northern.

In 1922, the Temiskaming Telephone Company suffered a disastrous loss of 25% of its system in a forest fire. In 1926, the Company expanded into the infant mining camp of Rouyn/Noranda. Later this system reached throughout Northwestern Quebec.

In 1928, the Company was recapitalized and the name changed to Northern Telephone Company Limited. That same year, the assets of the Porcupine Telephone Company were purchased, adding over 1,000 telephones to the 3,500 telephones then in service.

Expansion throughout the North continued for the next 20 years and in 1952 the beginning of a programme of technological updating was initiated with the first conversion of the Cobalt exchange to dial telephones.

In the next 15 years, expansion, acquisitions, and modernization brought the Company to a point in 1966 where Northern Telephone Limited was the largest independent company operating in Ontario.

Exchanges in Northwestern Ontario were established as early as 1949 with the mining community of Atikokan being served. In 1956 Northern Telephone purchased the Red Lake Telephone Company as well as control of Norwesto Communications Company Limited. By 1961, as a result of further acquisitions in Northwestern Ontario and Northeastern Quebec, the total number of telephones in service in Northern Telephone System was over 83,000.

In 1966, Bell Canada, through a share purchase offer, acquired control of Northern Telephone from the Company's 5,514 shareholders. While control of the Company is held by Bell Canada, 1,837 other individual shareholders still hold stock in Northern Telephone Limited, 98% of whom live in Canada and many of them in the north. With this relationship, Northern has continued to provide its subscribers with access to expensive, sophisticated equipment that is the best available in the communications world.

At the same time, the northern and individual identity of Northern Telephone Limited has been preserved in that many of its directors, senior officers and employees are native to Northern Ontario. They are a hardy and resourceful pioneer breed continuing the pioneering spirit and growing with the Company as it evolves into the electronic and space age.

75 years of progress in “bringing the north together”

By 1967, Northern Telephone Limited was operating over a 300,000 square mile area from the Manitoba-Ontario Border to just north of Lac St. Jean, 150 miles from Quebec City in the Province of Quebec. However, in 1969 the Company's Northwestern assets, which were too far afield to manage effectively, were sold to Bell Canada and integrated into their established system.

Technological changes continued, bringing improved service to Northern's customers. In 1971, the first direct distance dialling project was completed in Val d'Or. The installation of the 100,000th telephone was made in Timmins in 1971 as well. In 1974, the Company was among the first in Canada to have a 100% dial operated telephone system.

In 1976, changing regulation in the Province of Quebec made it desirable for Northern Telephone Limited to sell its Quebec interests to Telebec Ltée. The Company then consolidated its operation over a 32,000 square mile area in Northeastern Ontario.

Northern Telephone has grown during its 75 year history, from a total of 125 phones in service in 1905 to almost 74,000 in 1980. Total investment in the first year was slightly over \$10,000. Today's investment in land, buildings, equipment and plant stands at over \$50,000,000. The Company ended its first year with exchanges in New Liskeard and Cobalt. Northern now has 33 central offices spread over its service area. The original New Liskeard offices were rented for \$10 a month. Today Northern Telephone Limited owns buildings and land valued in the millions.

The founding fathers in 1905 could not possibly have foreseen the changes that would take place in the telephone company they initiated. Today the Company offers dial service to 100% of its subscribers; direct distance dialling on long distance calls has been available to 97% of its subscribers for a number of years, and person-to-person dialling was recently made available to 88% of its subscribers.

1980 marked the beginning of a new decade, bringing new challenges and opportunities to Northern Telephone Limited. Programmes implementing electronic switching machines (digital multiplex systems) have begun and will continue. The rural service improvement programme continues to make progress towards its 1985 goal of having 100% of the rural customers being on party lines where there are no more than four customers per line. In 1980 the three-quarter bench mark was achieved. Innovation and service were provided by the computer services branch, the Business Information Systems Group of Northern Telephone Limited. Growth in this aspect of the communications business will be part of the excitement and challenge in the decade ahead.

At Northern Telephone Limited the 75 year history clearly documents the fact, "People have been our greatest resource". Employees forged their way north by digging holes for telephone poles by hand and stringing wire to service the mining and lumbering communities as they sprung up. These pioneers were key participants and their efforts helped to develop the present day life style enjoyed by people in Northern Ontario.

Today, the employees of Northern Telephone Limited enjoy much improved working conditions. They are a well trained work force of over 300 men and women providing an excellent quality telecommunications service. Northern Telephone Limited is proud of its employees and proud of the service they provide their northern neighbours.

As Northern Telephone Limited looks beyond its 75th Anniversary and towards its 100th year of operation (2005), it will continue to provide the best possible service to its customers, through its employees and the use of the most modern equipment available. Facing the decade of the 80's and beyond, the goal will still be "Bringing The North Together".

