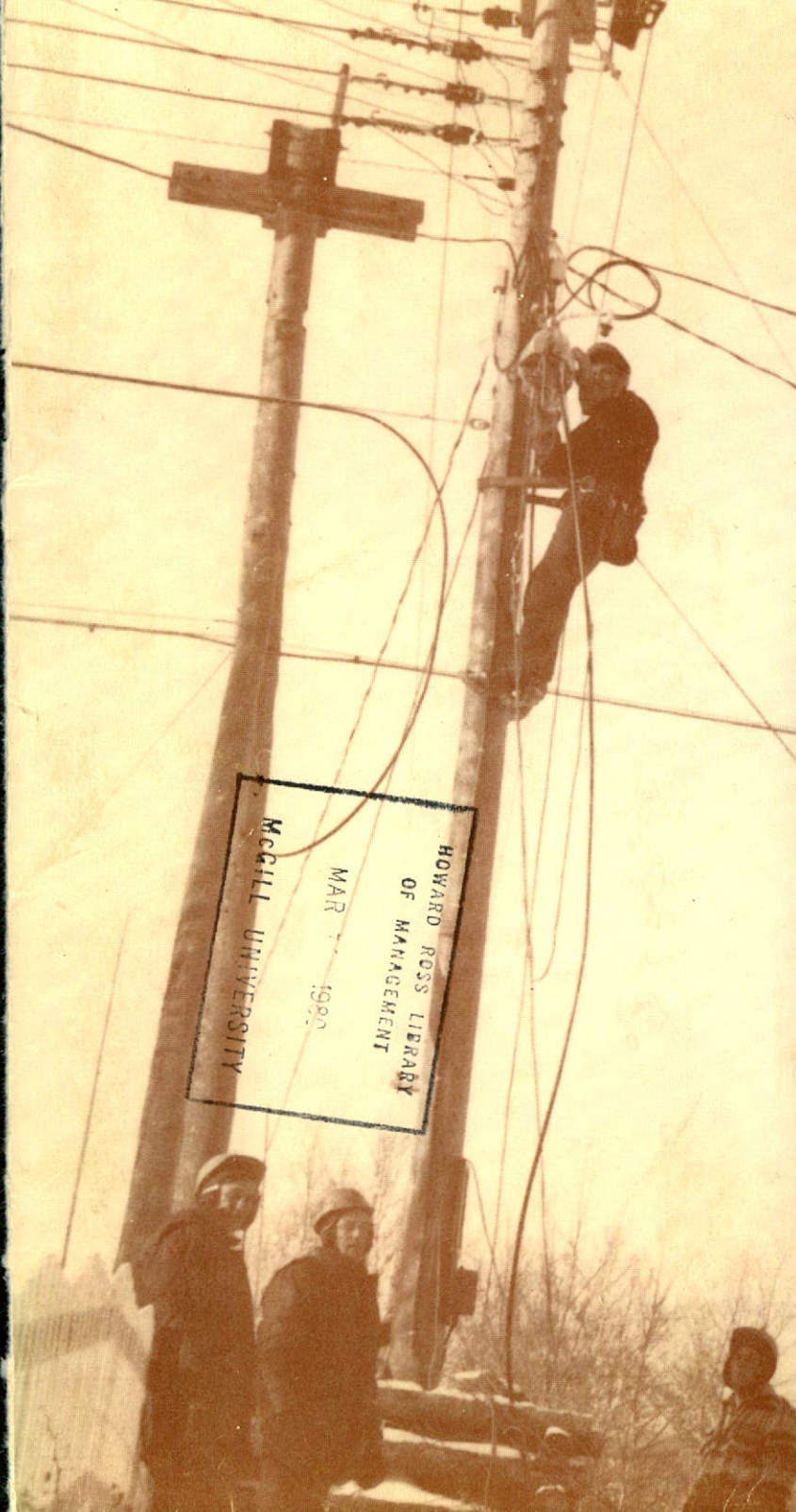


ANNUAL REPORT '79



northern telephone limited

Northern Telephone Limited, (The Company), a subsidiary of Bell Canada, provides local telephone service in North-eastern Ontario. At December 31, 1979, there were 30 exchanges with 71,395 telephones in service. The principal exchanges are located at: Ansonville, Cobalt, Englehart, Haileybury, Hearst, 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 under the name of Temiskaming Telephone Company, Limited.

The first exchange was opened in May 1905, in New Liskeard, Ontario, and 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 as far east as Chibougamau in Northwestern Quebec, south to Latchford in Ontario and the south end of La Verendrye Park in Quebec. In 1960, due to reorganizations and amalgamations, the corporate name changed to Northern Telephone Limited.

Bell Canada acquired control of the Company in 1966 as a result of a share purchase offer. In 1969, the assets in the area served south and west of Hearst were sold to Bell Canada. In 1976, the Company sold its subsidiary, Northern Quebec Telephone Inc. to Telebec Ltee., a subsidiary of Bell Canada in Quebec, but retained a substantial investment in that company. Algoma Central Telephone Company Limited was wound up in 1979.

The Company's objective is to provide the best possible service at the most reasonable cost. Manual switchboards have been gradually replaced by automatic exchanges, resulting in 100% dial service by the end of 1974. Direct Distance Dialing is now available to 97% of its customers. Northern Telephone Limited is a progressive company, operating in Northeastern Ontario, continually upgrading existing services and introducing new services for the benefit of its customers.

Ontario Northland Communications owns and operates the long distance facilities. The Company shares revenues through commissions on long distance tolls.

contents

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
Service	15
Our Cover	16

corporate information

ADDRESS

17 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

AUDITOR

ROSS, POPE & COMPANY
Chartered Accountants,
Timmins, Ontario

BANKER

CANADIAN IMPERIAL BANK OF COMMERCE,
New Liskeard, Ontario

highlights of the report

FINANCIAL RESULTS

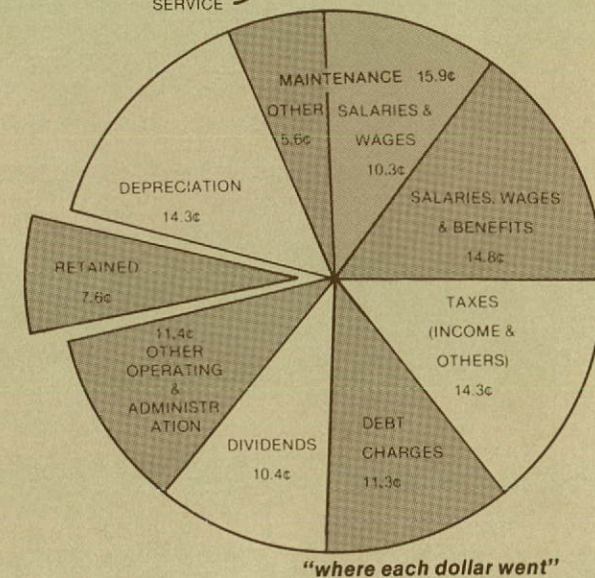
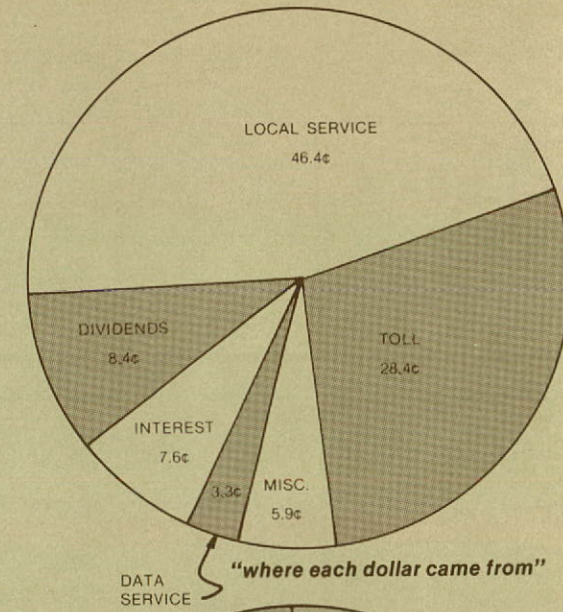
	1979	1978
	\$	\$
Total Operating Revenues	14,472,612	12,927,774
Operating and General Expenses	8,313,651	7,489,051
Debt Interest and Discount	1,936,909	1,970,357
Depreciation	2,482,680	2,192,455
Income Taxes	1,510,288	1,187,684
Net Income	3,138,223	2,966,130
Dividends - Preferred	582,117	589,717
- Common	1,232,681	973,970
Earnings Per Common Share	0.84	0.78

BALANCE SHEET

Gross Fixed Assets	48,167,160	43,116,691
Net Fixed Assets	32,597,765	29,309,199
Accumulated Depreciation	15,569,395	13,807,492
Long Term Debt (Including due within 1 year)	24,128,000	24,204,500
Shareholders' Equity	32,043,619	30,800,194

ADDITIONAL STATISTICS

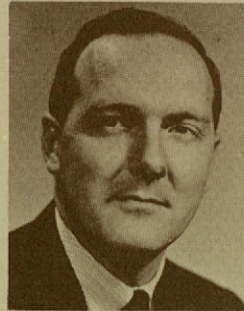
Telephones in Service	71,395	68,951
Percentage Dial Operated	100	100
Number of Long Distance Calls (Thousands)	5,816	5,266
Number of Central Offices	30	31
Number of Employees at December 31	312	316
Number of Shareholders	1,929	2,007



directors

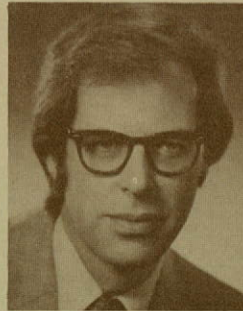
officers and department heads

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



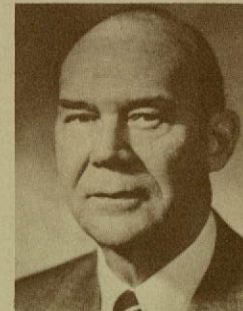
J. D. Archer

Robert M. Fensom
Assistant Vice-President, Bell Canada



R.M. Fensom

Rowan T. Hutchinson
Real Estate Broker



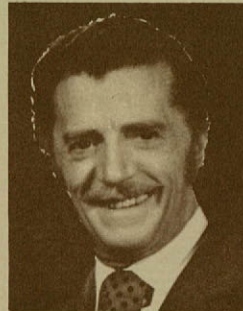
R.T. Hutchinson

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



G.E. Knowles

J. Conrad Lavigne
President, Mid-Canada Television System



J.C. Lavigne

Donald McKelvie
Chairman of the Board
Northern Telephone Limited



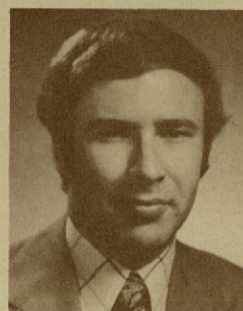
D. McKelvie

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

Donald McKelvie
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 1979 was \$3,138,000, compared to \$2,966,000 in 1978, an increase of 5.8% and earnings per common share were 84 cents compared to 78 cents in 1978. The dividend declared on common shares was raised from 9 1/2 cents to 12 cents per share for the last quarter of 1979, resulting in a total payment for 1979 of 40 1/2 cents per share. The rate of return on average common equity was 11.7% for 1979, compared to 11.6% in 1978. The rate of return on average total capital was 9.2% compared to 9.0%.

Total operating revenues for 1979 were \$14,473,000, an increase of \$1,545,000 or 12.0% over total revenue of \$12,928,000 in 1978. Operating expenses increased 11.5% to \$10,796,000 in 1979, compared to \$9,682,000 in 1978.

Local Service

There were 71,395 telephones in service at the end of 1979, a gain of 2,444 or 3.5% over the 68,951 telephones in service at the end of 1978. The company connected 14,881 telephones and disconnected 12,437 during 1979 to get the gain.

Local service revenues were \$8,075,000, an increase of \$641,000 or 8.6% over the 1978 total of \$7,434,000. These increases reflect the full year impact of rate increases effective July 1, 1978 and the gain in the number of telephones in service.

Long Distance Service

The number of long distance messages rose from 5,266,000 in 1978 to 5,816,000 in 1979, an increase of 550,000 or 10.4%.

As a result of the increase in messages and the effect of the rate increase in August 1978, the long distance revenues rose to \$4,955,000 in 1979, an increase of \$774,000 or 18.5% over 1978.

Data Processing Services

Revenues derived from Data Processing Services were \$566,000 in 1979, an increase of \$53,000 or 10.3% over 1978.

The Company offers the public the advantage of a reliable computer facility. Services performed in 1979 included toll processing for another telephone company, terminal operation in Northeastern Ontario for various government services, municipal tax billings and accounts receivable, telephone billing for other independent telephone companies and a Public Utility Commission, compilation of general ledger and mortgage schedules.

Année Financière et Statistique

Le revenu net en 1979 fut de \$3,138,000 comparativement à \$2,966,000 en 1978, soit une augmentation de 5.8% et le gain par action ordinaire s'éleva à 84 cents comparativement à 78 cents en 1978. Les dividendes d'une action ordinaire déclarés pour le dernier trimestre de 1979 furent haussés de 9 1/2 cents à 12 cents l'action, ce qui représente un paiement total pour 1979 de 40 1/2 cents par action pour 1979. Le taux de rendement de l'avoir ordinaire moyen fut de 11.7% pour l'année 1979, comparativement à 11.6% pour l'année 1978. Le taux de rendement du capital moyen total fut de 9.2% comparativement à 9.0%.

Le revenu total d'exploitation pour 1979 atteignit le montant de \$14,473,000, soit une augmentation de \$1,545,000 ou 12.0% sur le revenu total de \$12,928,000 en 1978. Les frais d'exploitation sont passés de \$9,682,000 en 1978 comparativement à \$10,796,000 en 1979, soit une augmentation de 11.5%.

Service local

A la fin de 1979, la compagnie avait 71,395 téléphones en service, soit un accroissement net en appareils de 2,444 ou de 3.5% sur les 68,951 téléphones en service à la fin de 1978. Cet accroissement fut obtenu après que la compagnie eut installé 14,881 téléphones et en eut déconnecté 12,437 au cours de l'année 1979.

Les revenus du service local étaient de \$8,075,000, soit une augmentation de \$641,000 ou 8.6% sur le total de \$7,434,000 de l'année 1978. Ces augmentations reflètent toute une année d'augmentations tarifaires mises en vigueur le 1er juillet 1978 et le gain dans le nombre d'appareils téléphoniques en service.

Service interurbain

En 1979, le nombre de communications interurbaines s'éleva à 5,816,000, soit une augmentation de 10.4% ou de 550,000 sur les 5,266,000 communications faites en 1978.

Suite à l'accroissement dans le nombre de communications et l'effet de l'augmentation tarifaire en août 1978, les revenus du service interurbain s'élevèrent à \$4,955,000 en 1979, soit une augmentation de \$774,000 ou de 18.5% sur ceux de 1978.

Service d'Informatique

Les revenus issus du service d'informatique furent de \$566,000 en 1979, soit une augmentation de \$53,000 ou de 10.3% sur ceux de 1978.

La compagnie offre au public les avantages d'un service d'informatique digne de confiance. Les services effectués en 1979 comprenaient le traitement des données d'une autre compagnie de téléphone, l'opération

Capital Expenditures

Capital expenditures totalled \$5,708,000 in 1979, compared to \$4,232,000 in 1978.

Expenditures required to meet customer demands were \$3,527,000. This amount includes expenditures in customer telephone apparatus, cable and transmission equipment for rural growth and interexchange facilities and extensions to switching equipment in New Liskeard, Englehart, Matheson, Hearst, Earleton and Latchford.

A total of \$1,544,000 was spent for other specific programmes which includes, in part, \$649,000 for the Rural Service Improvement Programme, \$338,000 for equipment to co-ordinate with Ontario Northland Communications for the introduction of Direct Distance Dialing for operator assisted calls, and \$86,000 for remote subscriber loop test equipment. Also \$195,000 provided a Digital Multiplex System (DMS-1) concentrator to replace the Rurax Switching equipment for Monteith/Val Gagne and provide these subscribers with 7-digit dialing, Direct Distance Dialing (DDD) and toll free calling with the Iroquois Falls Exchange.

The balance of the capital expenditures was spent on general equipment, vehicles, tools and on mandatory replacements for worn out plant and for Outside Plant replacement associated with road construction. The Replacement category accounted for \$204,000 while \$433,000 was spent in the General category, including the purchase of vehicles and a vibrator cable layer for burying cable in rural areas.

Rural Service Improvement Programme

The Rural Service Improvement Programme was initiated to improve rural service so that all subscribers could have four-party service or better. At the end of 1979, approximately 67% of the subscribers in non-urban areas had service with four-party or less, compared to 53% at the end of 1975.

To achieve this improvement, the Company had to spend \$2,709,000 during the last four years. This Programme, started in 1976, is scheduled for completion by the end of 1985. The Company made a commitment in August, 1978 to the subscribers and the Ontario Telephone Service Commission to provide four-party service or better in the rural areas around the Town of Cochrane by the end of 1979. This commitment has been met. Other areas benefiting from this Programme in 1979 were Hearst, Nellie Lake, New Liskeard, Shillington and Val Rita.

d'un poste terminal dans le nord-est de l'Ontario pour divers services gouvernementaux, la facturation des taxes municipales et des dettes actives, la facturation du service téléphonique pour d'autres compagnies de téléphone indépendantes ainsi que pour une Commission des services publics, une compilation du grand livre et des tables de paiements hypothécaires.

Dépenses en Immobilisations

En 1979, le total des dépenses en immobilisations s'éleva à \$5,708,000 comparativement à \$4,232,000 en 1978. De ce montant, \$3,527,000 furent dépensés pour répondre aux demandes des abonnés. Cette somme inclut les dépenses pour les appareils téléphoniques pour abonnés, l'équipement pour câbles et de l'équipement de transmission nécessaire à l'amélioration du service rural, le service d'intercirconscription et d'extension à l'équipement commutateur à New Liskeard, à Englehart, à Matheson, à Hearst, à Earleton et à Latchford.

Un total de \$1,544,000 fut dépensé pour d'autres programmes spécifiques dans lesquels sont inclus en partie \$649,000 pour le programme d'amélioration du service rural, \$338,000 d'équipement servant à coordonner avec l'"Ontario Northland Communications" l'introduction de l'interurbain automatique pour les appels avec intervention du téléphoniste et \$86,000 pour l'équipement de la mesure de retour d'abonné à distance. De même la somme nécessaire de \$195,000 fut allouée pour établir un système multiplex numérique concentrateur qui remplace l'équipement de commutation Rurax à Monteith-Val Gagné en fournissant à ces abonnés le cadran de 7 chiffres, l'interurbain automatique et la possibilité de faire des appels interurbains gratuits en direction de la circonscription d'Iroquois Falls.

Le solde des dépenses en immobilisations a été dépensé pour de l'équipement général, pour des véhicules, pour outils et pour les remplacements nécessaires d'équipement usé et pour remplacer le réseau extérieur associé à la construction routière. La catégorie "A remplacer" prit \$204,000 tandis que \$433,000 furent dépensés pour la catégorie "Généralités", ce qui comprend l'achat de véhicules et un poseur vibrateur de câble pour installer les câbles souterrains dans les régions rurales.

Le Programme d'Amélioration du Service Rural

Le Programme d'amélioration du service rural fut initié avec l'intention d'offrir à chaque abonné une ligne partagée à quatre ou moins. A la fin de 1979, approximativement 67% des abonnés dans les régions non-urbaines se servaient de lignes partagées à quatre ou moins, comparativement à 53% à la fin de 1975.

Afin d'obtenir cette amélioration, la compagnie a dû dépenser \$2,709,000 au cours des quatre dernières années. On prévoit l'achèvement de ce programme, débuté en 1976, pour la fin de 1985. En août 1978, la compagnie prit l'engagement envers les abonnés et envers la Commission des services

Regulation

Rates granted to the Company by the Ontario Telephone Service Commission on July 1, 1978 provided a rate of return in 1979 of 13.6% on the telephone operation. Faced with declining projected rates of return, the Company has applied to the Ontario Telephone Service Commission for rate relief to be effective on July 1, 1980. This would be two years since the last rate increase. These increased rates have been structured to provide a rate of return on average common equity of 13.7% in 1980 and 13.5% in 1981.

Employee & Labour Relations

The collective labour agreement expired on January 31st, 1980. Negotiations between the Company and the Communications Workers of Canada began on December 3rd, 1979, and are continuing in an effort to reach a settlement.

During 1979, the Company introduced a special programme for its management and non-management employees, the Addiction Counselling and Treatment Programme (ACT). This programme provides assistance to employees who may encounter alcohol or drug addiction problems. It identifies how alcohol or drug addiction can lead to deteriorating health and job performance, and outlines a means to identify, counsel, treat and rehabilitate employees with this problem. The programme was presented to all employees in 1979 and was well received. Support has also been received from the Union.

Personnel Change

Mr. D.D. McCarty, formerly Manager of Personnel, was appointed Director of Administration and Business Information Systems.

Safety Accomplishments

To March 1979, the Company had achieved over 770,000 man hours without a lost time injury. This achievement was interrupted by an accident in March. The Company was the recipient of another safety award, having achieved 258,000 man hours without a lost time injury for the period from July 1st to October 31st, 1979.

Head Office Fire

On Friday, December 14, 1979, the Head Office Building in New Liskeard was completely destroyed by fire, the cause of which is unknown. Part of the building destroyed was the original office built in 1905. The latest addition was in 1954. The Executive, Personnel and Accounting offices, which were housed in that building, were relocated in other Company premises the following week.

téléphoniques de l'Ontario de fournir le service de lignes partagées à quatre ou moins dans les régions rurales autour de la ville de Cochrane pour la fin de 1979. Cet engagement a été tenu. D'autres régions telles que Hearst, Nellie Lake, New Liskeard, Shillington et Val Rita ont profité de ce programme en 1979.

Réglementation

Les taux autorisés par la Commission des services téléphoniques de l'Ontario, le 1er juillet 1979, en faveur de la compagnie, fournirent un taux de rendement de 13.6% en 1979 pour le service téléphonique. Face à une baisse des taux de rendements projetés, la compagnie a fait application à la Commission des services téléphoniques de l'Ontario pour un dégageant tarifaire qui entrerait en vigueur le 1er juillet 1980. Une période de deux ans se serait ainsi écoulée depuis l'augmentation tarifaire précédente. Cette augmentation tarifaire a été agencée de façon à pouvoir fournir un taux de rendement de l'avoir ordinaire moyen de 13.7% en 1980 et de 13.5% en 1981.

Relations Syndicales

La convention collective du travail expira le 31 janvier 1980. Les négociations entre la compagnie et les Travailleurs en Communications du Canada ont débuté le 3 décembre 1979 et continuent à se dérouler de façon à mener les négociations à terme.

Au cours de l'année 1979, la compagnie a introduit un programme spécial pour ses employés des services de gestion ainsi que pour ses autres employés, le Programme de traitement et de réhabilitation pour ceux qui s'adonnent à l'alcoolisme et aux drogues. Ce programme offre de l'aide aux employés qui seraient aux prises avec des problèmes d'alcoolisme ou de drogues. Ce programme explique comment l'alcoolisme ou l'utilisation de drogues peuvent causer une détérioration de la santé et une baisse du rendement dans l'emploi. Il fournit une méthode pour identifier les problèmes, pour recommander un plan d'action, pour guérir et réhabiliter les employés faisant face à ces problèmes. Le programme fut présenté à tous les employés en 1979 et reçut un bon accueil. L'union des travailleurs y prêta également son appui.

Les Changements dans le Personnel

M. D.D. McCarty, ancien directeur-services fonctionnels, a été nommé directeur de l'administration et du système des renseignements dans les affaires.

Réalisations dans la Sécurité au Travail

Jusqu'au mois de mars 1979, la compagnie avait complété plus de 770,000 heures-hommes sans temps perdu pour cause d'accident. Ce succès n'a été

Fortunately, there were no injuries and most of the information and financial data needed to carry on was on microfilm or in computer files, and as a result, it was "business as usual" within two days of the fire.

In Management's opinion, the proceeds from insurance will be sufficient to substantially replace the assets destroyed. The accounting entries to record this event in the records of the Company will be completed in 1980.

75th Anniversary

In April 1980, the Company will celebrate its 75th Anniversary. Special programmes have been developed which include publications, T.V. advertisements, employee participation, as well as advertising specialties and handouts.

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

Respectfully submitted on behalf of the Board.

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

marqué que par un accident au mois de mars. La compagnie reçut un autre trophée de sécurité ayant complété 258,000 heures-hommes sans temps perdu pour cause d'accident pour la période allant du 1er juillet au 31 octobre 1979.

L'Incendie au Siège Social

Le vendredi 14 décembre 1979, le bâtiment du siège social de New Liskeard fut complètement détruit par un incendie dont la cause reste encore inconnue. Le bureau original, construit en 1905, faisait partie du bâtiment détruit; la plus récente addition ayant été construite en 1954. Les bureaux de la direction, des services fonctionnels et de la comptabilité, établis dans ce bâtiment, furent relocalisés dans d'autres édifices appartenant à la compagnie la semaine suivant l'incendie.

Il n'y eut, heureusement pas d'accident de personne et la plupart des informations et des données de comptabilité, nécessaires à la continuation et au bon fonctionnement de notre opération se trouvaient enregistrés sur des microfilms ou dans les dossiers de l'ordinateur. Donc, "les affaires comme d'habitude" était à l'ordre du jour, deux jours après l'incendie.

D'après la Direction, le montant de l'assurance suffirait pour effectivement remplacer notre propriété détruite. Les entrées de comptabilité en vue d'enregistrer cet événement dans les dossiers de la compagnie, seront complétées au courant de l'année 1980.

Notre 75e Anniversaire

En avril 1980, la compagnie fêtera son 75e anniversaire. On prévoit de présenter des programmes spéciaux à cette occasion et ceux-ci comprendront des publications, des annonces à la télévision, la participation du personnel, ainsi que des réclames spécialisées et des communiqués.

Les administrateurs désirent exprimer leur appréciation sincère à tout le personnel pour son importante et continuelle contribution ainsi que pour sa loyauté au cours d'une autre année pleine de défi.

Respectueusement présenté par le conseil d'administration.

D. McKelvie, Président
H.A. Roth, Vice-président et
chef de direction

NORTHERN TELEPHONE LIMITED
statement of income

for the year ended December 31

	1979	1978
	\$	\$
OPERATING REVENUES		
Local service	8,075,240	7,434,487
Long distance service	4,954,922	4,181,232
Data processing services	565,616	513,185
Miscellaneous - net	876,834	798,870
TOTAL OPERATING REVENUES	<u>14,472,612</u>	<u>12,927,774</u>
OPERATING EXPENSES		
Maintenance and repairs	2,761,674	2,592,142
Depreciation	2,482,680	2,192,455
Marketing and commercial	878,188	861,108
Accounting	728,855	540,942
Business information systems	842,141	945,039
Pensions and other employee benefits	434,228	372,713
Taxes other than income taxes	981,086	850,803
Other	1,687,479	1,326,304
TOTAL OPERATING EXPENSES	<u>10,796,331</u>	<u>9,681,506</u>
Net operating revenues	<u>3,676,281</u>	<u>3,246,268</u>
OTHER INCOME		
Dividends	1,466,855	1,665,731
Debenture interest and other income	1,361,051	1,322,141
Interest charged to construction	115,517	47,388
TOTAL OTHER INCOME	<u>2,943,423</u>	<u>3,035,260</u>
Income before underlisted items	<u>6,619,704</u>	<u>6,281,528</u>
INTEREST CHARGES		
Interest on long term debt	1,925,389	1,958,532
Other	45,804	169,182
TOTAL INTEREST CHARGES	<u>1,971,193</u>	<u>2,127,714</u>
Income before income taxes	4,648,511	4,153,814
Income taxes	1,510,288	1,187,684
NET INCOME	<u>3,138,223</u>	<u>2,966,130</u>
Dividends on preference shares	582,117	589,717
NET INCOME APPLICABLE TO COMMON SHARES	<u>2,556,106</u>	<u>2,376,413</u>
EARNINGS PER COMMON SHARE*	<u>0.84</u>	<u>0.78</u>
Dividends declared per common share	<u>0.405</u>	<u>0.320</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 Ontario)
balance sheet
As at December 31, 1979

	1979	1978
	\$	\$
ASSETS		
TELECOMMUNICATIONS PROPERTY, AT COST		
Buildings, plant and equipment	46,904,782	41,557,541
Less: Accumulated depreciation	15,569,395	13,807,492
	<u>31,335,387</u>	<u>27,750,049</u>
Land	410,794	406,105
Plant under construction	851,584	1,153,045
Material and supplies	320,881	325,801
	<u>32,918,646</u>	<u>29,635,000</u>
INVESTMENTS, AT COST		
Affiliated company (note 2)	29,100,740	31,072,290
CURRENT ASSETS		
Accounts receivable (note 3)	3,261,027	3,227,284
Portion of investment redeemable within one year (note 2)	77,500	77,500
Other	189,701	187,545
	<u>3,528,228</u>	<u>3,492,329</u>
DEFERRED CHARGES		
Unamortized financing expenses	231,135	258,146
TOTAL ASSETS	<u>65,778,749</u>	<u>64,457,765</u>

On behalf of the Board of Directors
D. McKelvie, Director
H.A. Roth, Director

LIABILITIES AND SHAREHOLDERS' EQUITY

	1979 \$	1978 \$
SHAREHOLDERS' EQUITY		
Capital Stock (note 4)		
Preference shares	9,324,000	9,404,000
Common shares	14,934,772	14,934,772
Retained earnings	7,784,847	6,461,422
	<u>32,043,619</u>	<u>30,800,194</u>
LONG TERM DEBT (note 5)	24,074,500	24,175,000
CURRENT LIABILITIES		
Bank overdraft	775,006	817,708
Accounts payable (note 3)	2,291,838	1,962,770
Advance billing for service	310,478	289,066
Dividends payable	545,235	463,100
Taxes accrued	494,556	307,464
Interest accrued	459,492	523,088
Debt due within one year (note 6)	53,500	1,095,500
	<u>4,930,105</u>	<u>5,458,696</u>
DEFERRED CREDITS		
Income taxes	4,659,635	3,947,826
Unamortized investment tax credit	70,890	76,049
	<u>4,730,525</u>	<u>4,023,875</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>65,778,749</u>	<u>64,457,765</u>

C.F. Shepherdson, Secretary-Treasurer

NORTHERN TELEPHONE LIMITED
 statement of changes in financial position

For the year ended December 31

	1979 \$	1978 \$
SOURCE OF FUNDS		
Operations		
Net income	3,138,223	2,966,130
Items not affecting funds		
Depreciation	2,482,680	2,192,455
Deferred income taxes	711,809	895,818
Interest charged to construction	(115,517)	(47,388)
Other	21,852	22,691
	<u>6,239,047</u>	<u>6,029,706</u>
Total funds from operations	6,239,047	6,029,706
Reduction in long term investments	1,971,550	1,971,550
	<u>8,210,597</u>	<u>8,001,256</u>
DISPOSITION OF FUNDS		
Capital Expenditures		
Gross capital expenditure	5,708,246	4,232,262
Other charges (credit) - net	(52,517)	(46,388)
Increase (decrease) in material and supplies	(4,920)	27,321
	<u>5,650,809</u>	<u>4,213,195</u>
Net capital expenditures	5,650,809	4,213,195
Dividends	1,814,798	1,563,687
Redemption of preference shares	80,000	80,000
Reduction in long term debt	100,500	153,000
Increase in working capital	564,490	1,991,374
	<u>8,210,597</u>	<u>8,001,256</u>
The increase in working capital is accounted for by -		
Increase (decrease) in current assets:		
Accounts receivable	33,743	465,728
Other	2,156	(6,791)
Portion of investment redeemable within one year	—	(887,000)
(Increase) decrease in current liabilities:		
Bank overdraft	42,702	(780,617)
Accounts payable	(329,068)	200,664
Advance billing for service	(21,412)	(21,127)
Dividends payable	(82,135)	(58,512)
Taxes accrued	(187,092)	(284,618)
Interest accrued	63,596	(31,853)
Debt due within one year	1,042,000	3,395,500
	<u>564,490</u>	<u>1,991,374</u>
Increase in working capital as above	564,490	1,991,374

NORTHERN TELEPHONE LIMITED
statement of retained earnings

For the year ended December 31

	1979	1978
	\$	\$
BALANCE AT BEGINNING OF YEAR	6,461,422	5,058,979
Add:		
Net Income	<u>3,138,223</u>	<u>2,966,130</u>
	<u>9,599,645</u>	<u>8,025,109</u>
Deduct:		
Dividends - Preference shares	582,117	589,717
- Common shares	<u>1,232,681</u>	<u>973,970</u>
	<u>1,814,798</u>	<u>1,563,687</u>
BALANCE AT END OF YEAR	<u>7,784,847</u>	<u>6,461,422</u>

NORTHERN TELEPHONE LIMITED
notes to financial statements

1. ACCOUNTING POLICIES

DISSOLUTION OF SUBSIDIARY

In 1979 Northern Telephone Limited (the Company) wound up Algoma Central Telephone Company Limited, an inactive wholly owned subsidiary. This dissolution had no effect on the financial statements of the Company.

DEPRECIATION

Depreciation is computed on the straight line method using rates based on the estimated useful lives of the assets. When depreciable telecommunications 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, 1979 was 5.73% (5.53% in 1978).

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.

The statutory tax rate for the Company for the year ended December 31, 1979 was 49.7% (48.8% in 1978). The effective tax rate was 32.5% (28.6% in 1978) on income before taxes primarily because dividend income is not taxable income of the Company.

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. INVESTMENTS, AT COST

INVESTMENTS IN TELEBEC LTEE.	December 31 1979	December 31 1978
	\$	\$
Debentures*	15,495,200	15,572,700
Non-voting Preferred shares		
Class A 10.5% Par Value \$25**	13,258,400	15,152,450
Class B 6.0% Par Value \$10	<u>424,640</u>	<u>424,640</u>
	29,178,240	31,149,790
Less: Current portion of investment redeemable within one year	<u>77,500</u>	<u>77,500</u>
Total	<u>29,100,740</u>	<u>31,072,290</u>

* The weighted average interest rate on these debentures at December 31, 1979 was 8.19% (8.19% in 1978).

At December 31, 1979 the amounts of debenture redemptions receivable in the following years are \$77,500 in 1980; \$1,260,500 in 1981; \$77,500 in 1982; \$1,496,500 in 1983; \$1,499,500 in 1984; \$6,012,200 in 1985-89; \$4,791,500 in 1990-94; and \$280,000 thereafter.

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

3. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

As at December 31, 1979, the accounts receivable from affiliated companies were \$808,181 (\$847,640 in 1978). The net accounts payable to Bell Canada, the parent Company, were \$596,025 (\$350,328 in 1978) and the accounts payable to other affiliated companies were \$76,295 (\$24,799 in 1978).

4 CAPITAL STOCK

	December 31 1979	December 31 1978
	\$	\$
Preference Shares		
Authorized - with a 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
88,000 9.5% Series E (92,000 1978)	<u>1,760,000</u>	<u>1,840,000</u>
	<u>6,760,000</u>	<u>6,840,000</u>
Second preference - Cumulative, Redeemable (convertibility expired)		
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>9,324,000</u>	<u>9,404,000</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, 1979, 4,000 shares were redeemed (4,000 in 1978).

5. LONG TERM DEBT

Maturity Date	Rate of Interest	Series	December 31 1979 \$	December 31 1978 \$
20 year Sinking Fund Debentures				
January 2, 1981	6.0 %	D	1,639,500	1,644,500
December 1, 1981	5.5 %	E	584,500	584,500
May 1, 1983	5.75 %	F	2,502,000	2,505,000
December 15, 1984	5.625%	G	1,686,000	1,697,500
May 1, 1987	6.5 %	H	4,366,000	4,373,000
December 15, 1994	10.625%	J*	2,350,000	2,400,000
20 year Serialized Debentures				
April 30, 1993	8.25 %	I	7,000,000	7,000,000
January 15, 1995	11.0 %	K	4,000,000	4,000,000
Total before amount due within one year			24,128,000	24,204,500
Less Debt due within one year			53,500	29,500
Total			<u>24,074,500</u>	<u>24,175,000</u>

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

Sinking fund and maturity payments, required in the next five years, with respect to the above debt are \$53,500 in 1980; \$2,329,500 in 1981; \$125,000 in 1982; \$2,525,000 in 1983 and \$2,395,000 in 1984.

6. DEBT DUE WITHIN ONE YEAR

	December 31 1979 \$	December 31 1978 \$
Long term debt due within one year	53,500	29,500
Bank demand notes	—	1,066,000
Total	<u>53,500</u>	<u>1,095,500</u>

7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

For the year ended December 31, 1979, the aggregate direct remuneration paid or payable by the Company to the directors and senior officers of the Company was \$208,256 (\$212,922 in 1978).

8. 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, 1979 established an unfunded liability of \$425,728. Based on this valuation, less remittances made, the unfunded liability was \$370,078 at December 31, 1979. The total provisions for the cost of the pension plans, including the amortization of unfunded liability, were \$172,749 the year ended December 31, 1979 (\$133,096 in 1978).

To the Shareholders of Northern Telephone Limited

We have examined the balance sheet of Northern Telephone Limited as at December 31, 1979 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, 1979 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 25, 1980

ROSS, POPE & COMPANY,
CHARTERED ACCOUNTANTS.

statistics

(Including Subsidiary)

14

FINANCIAL RESULTS	1979	1978	1977	1976	1975
Operating Revenues	14,472,612	12,927,774	11,137,888	9,341,666	7,569,636
Operating Expenses	10,796,331	9,681,506	9,105,069	7,505,474	5,888,045
Total Payroll	5,668,218	4,871,262	4,763,436	4,297,819	3,853,796
Construction Expenditures (Thousands)	5,708	4,232	5,155	5,305	3,922
BALANCE SHEET					
Total Investment Plant & Equipment	48,167,160	43,116,691	39,487,876	35,148,775	30,255,148
Plant & Equipment Less Depreciation	32,597,765	29,309,199	27,268,392	24,107,859	20,557,991
Preferred Equity	9,324,000	9,404,000	9,484,000	9,564,000	7,564,000
Long Term Debt (Including due within 1 year)	24,128,000	24,204,500	25,769,000	25,972,000	26,225,500
FINANCIAL RATIOS					
Earnings per common share (Before Extraordinary Item)	.84	.78	.65	.64	.32
Dividends declared per common share . .	.405	.32	.30	.30	.30
ADDITIONAL STATISTICS					
Number of employees	312	316	334	332	352
Number of telephones	71,395	68,951	66,815	64,641	61,318
Business	19,918	19,164	18,648	18,215	17,117
Residence	51,477	49,787	48,167	46,426	44,201
Percentage Residence of Total	72.1	72.2	72.1	71.8	72.1
Percentage Dial of Total	100.0	100.0	100.0	100.0	100.0
Long Distance Calls (Thousands)	5,816	5,266	4,832	4,493	4,127
Local Calls (Thousands)	166,271	160,991	155,830	149,135	141,107
Number of Shareholders					
In Canada	1,894	1,966	2,040	2,097	2,154
Elsewhere	35	41	41	48	49
Total Shareholders	1,929	2,007	2,081	2,145	2,203

rural service improvement programme

A total of \$1,156,000 was spent in outside plant projects for the rural service improvement programme in 1979. This was the biggest year ever and represented 20% of the Company's capital expenditures for the year. 1979 was the fourth year of a ten year programme begun in 1976. In December 1975, before the programme was started, 53% of rural subscribers enjoyed 4-party service or better. A total of 533 multi-party subscribers were upgraded in 1979 and as a result, the number of subscribers with 4-party service or better increased from 62% to 67%.

The objective of the programme is to provide all rural subscribers with 4-party service or better by the end of 1985. Rural subscribers are also experiencing service improvement as a result of plant betterments; thus noise levels and service outages will decrease significantly.

Capital dollars in the programme are also providing for an average annual growth rate of about 3.8% in the rural territory. In addition to buried and aerial cable, subscriber radio and cable carrier technology is being implemented to minimize costs. In 1980, the Company will commit about \$920,000 in rural projects thus improving service to another 500 subscribers. By the time this programme is completed in 1985 our investment will be about \$8 million.

our cover

Modern equipment such as the cable plow shown on our cover is making it possible for us to progress rapidly with our Rural Service Improvement Programme. This is an ambitious programme designed to provide four party service or better per line as the standard to all rural customers in our serving territory by 1985.

Cable is now placed underground in considerably less time than it takes to build pole lines and the operation is more economical. Buried cable also provides a more reliable service as it is protected from the harsh northern climate.

The programme has progressed to the point where approximately 67% of our rural customers now enjoy four-party service as compared to 53% when the programme started in 1976.

