

New England Telephone / 1971 Annual Report

Results in Brief

	1971	1970
Operating revenues and other income	\$909,783,000	\$825,984,000
Operating expenses	615,681,000	546,906,000
Taxes	144,136,000	141,483,000
Interest deductions	65,212,000	48,555,000
Net income	\$ 84,754,000	\$ 89,040,000
Earnings per average share	\$2.53	\$2.65
Dividends per share	\$2.36	\$2.36
Average number of shares outstanding	33,564,549	33,564,549
Number of shareowners*	60,294	59,489
Construction expenditures	\$438,088,000	\$374,570,000
Telephones*	5,298,904	5,097,360
Average business day calls	27,300,000	25,700,000
Employees*	47,518	46,043

*End of year

See page 11 for 6-year company statistics

Annual Meeting

The annual shareowners' meeting will be held at the Company's headquarters building, 185 Franklin Street, Boston, at 10:30 a.m. on April 18.

Bell System

New England Telephone is an associated company of the Bell System. The annual report for the System as a whole is issued by the American Telephone and Telegraph Company. We shall be happy to supply copies of that report, or additional copies of the New England Telephone report, upon request to any of our business offices.



New England Telephone and Telegraph Company

185 Franklin Street, Boston, Massachusetts 02107 • Telephone 617 743-9800

Report to Share Owners



Allen G. Barry

The past year was a year of progress in the expansion and betterment of service, in repricing our service under regulation and in the constructive changes in personnel matters. These deserve special note because of their favorable impact on the interests of share owners, customers and employees.

After a slow start, the demand for communications services gathered momentum as the year advanced.

The gain of 204,000 telephones was below the level of each of the last two years. Yet it was the fifth best year in this regard since the start of the business 88 years ago. Long distance usage climbed to a record 495 million calls, 7.5 per cent above 1970. This increase was only a little less than the record gains of the recent past. Nevertheless, our growth was notable since it occurred during the period when the general economy was more sluggish than had been expected at the start of 1971.

Revenues, Expenses, Earnings

Operating revenues and other income increased to \$909.8 million, 10 per cent over the prior year. Operating expenses plus taxes and interest charges increased to \$825 million, 12 per cent over 1970. Operating expenses alone were \$615.7 million or

12.6 per cent over the previous year. Increased labor costs resulted from contract negotiations which took place in the Summer and Fall months. These costs were the major factor in the higher level of operating expenses. They kept our wages and other benefits competitive with the employment opportunities available in other businesses. High interest rates on debentures and short-term borrowings to finance the large construction program increased interest charges to \$65.2 million, a 34 per cent rise. State and local taxes at \$76.6 million reflected a 17 per cent increase. But federal taxes at \$67.5 million were 11 per cent lower. Thus, total operating taxes rose to \$144.1 million, a 1.9 per cent increase.

Healthy growth and stringent control of operating expenses were not enough to improve — or even maintain — the level of earnings of the prior year. Inflationary pressures on the costs incurred in running the business and delays in repricing our services under regulation clearly accounted for lower earnings for 1971.

Net income fell by \$4.3 million or 4.8 per cent, and earnings per share declined from \$2.65 to \$2.53.

Regulation and Repricing

Telephone rates must cover today's cost of providing service. They

must produce earnings that will attract the large amount of new capital on reasonable terms that is required to meet the growing demand for more communications services. So we have been pressing state regulatory agencies for rate increases.

Just after the close of the past year on January 21, 1972, the Massachusetts Department of Public Utilities allowed the Company about \$66 million in added annual revenues, effective February 8. The orders resolved two rate petitions, one filed in July, 1969, and the other in October, 1971. The increase was reviewed by the Federal Price Commission and permitted to become effective.

The Department's action followed a landmark decision in November, 1971 by the Massachusetts Supreme Judicial Court in the Company's appeal of the 1969 rate case. The court set 8.615 per cent as the *minimum* return for the Company's composite cost of capital, marking this as the point of confiscation at that time. The court decision also reinforced some basic management prerogatives and responsibilities and established important regulatory, financial and legal standards. This significant decision is most encouraging for the future of the Company.

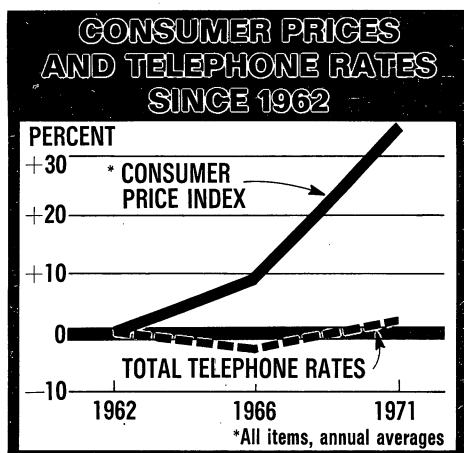
The Department's orders are constructive in that they recognize, in

part, that more realistic earnings are essential to the availability and quality of service. Since the orders are based upon costs incurred in the past, they do not reflect 1972 costs nor further inflationary expectations. The orders still do not produce the full revenues and earnings we believe are justified in this economy.

In Vermont a \$1.9 million increase was approved on November 29, 1971. The Public Service Board said that New England Telephone "... has a duty and responsibility to provide adequate service in its service area and in order to do so must be able to recover its just costs ..." and that "... the increase is consistent with the goals and the purposes of the economic stabilization program."

As this report is written, a regulatory decision is pending on our request for increased rates of \$15 million in Rhode Island. Hearings have been completed and under statutory limitation the Public Utilities Commission must act by February 15, 1972. Rate increases totaling \$20 million have been filed in Maine and New Hampshire. Hearings in these two states should begin soon.

The rate increases that have been granted and those sought do not run counter to government efforts to slow inflation. Charges for communications services have been relatively stable over the last 10 years while



the Consumer Price Index has gone up 35 per cent. Some increases in our rates could no longer be deferred. But even with them, the increases in telephone rates would not match the increases in the Consumer Price Index over the 10-year period. The record proves we have fought inflation successfully over many years — not caused it.

Financing

In May \$200 million in debentures were sold at an interest cost of 8.278 per cent.

In November we announced a stock issue and a debt issue, both for early 1972. The stock was offered to share owners on the basis of one new share for each six held at a price of \$33.45 per share. The rights to buy shares will expire on February 28, 1972. The debt issue of \$100 million is expected to be in the form of 7-year notes to be sold in March, 1972. The proceeds will be applied toward repayment of outstanding short-term obligations of the Company incurred for general corporate purposes.

This is a business that requires large amounts of capital. New money must be committed continually to keep abreast of the seemingly insatiable demand for more communications services. In the last five years, these expenditures totaled

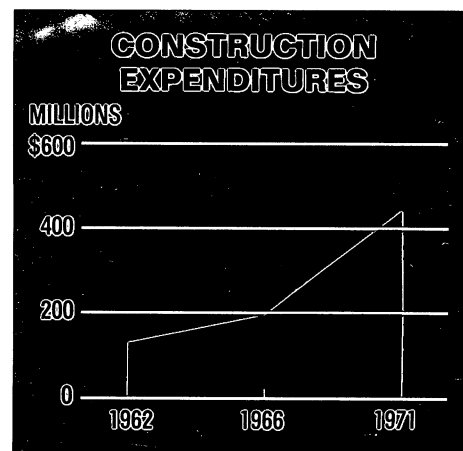
\$1.5 billion — \$438 million in 1971 alone — to expand and modernize communications facilities. In 1972 the capital outlay is expected to pass the one-half billion dollar mark.

Your Company cannot defer construction expenditures for it must always be in a position to meet the public's demand for service. As a consequence, the Company has little freedom of choice in the timing of the acquisition and commitment of capital monies. To finance on reasonable terms at all times, we must have adequate earnings. Neither equity nor debt issues of the Telephone Company hold special attraction for the investor, unless there is promise of a good return and in the case of equity some appreciation in the value of the investment.

So, while we seek investors' capital and build telephone facilities with that capital, we must also strive through the regulatory process for a higher rate of return that reflects today's economic realities and encourages investment. This protects the investment of the present share owners and insures the continued expansion of telephone facilities needed to avoid deterioration of service.

Service

Good communications are basic to



our American way of life. In homes, at work or at leisure, the public's dependence upon communications is far-reaching, often crucial. We understand this; and we understand too, our unique obligation to serve consumers well.

All year long we worked hard on expansion and improvement. And as a result our capacity increased and service improved. Telephone facilities — cable, microwave, buildings, apparatus — have been built to assure high grade service. In the few places where service was not so good as we would want at all times, because of unusual growth and heavy usage, we expedited the purchase and installation of equipment and assigned the required personnel to bring service to acceptable levels.

4400 installers put in more than 1,132,000 telephones and took out 928,000 to bring about a net increase of 204,000 phones. In addition they moved or changed 718,000 phones on customers' premises.

2800 outside plant workmen placed and spliced 3 million conductor miles of wire in cable, an 8 per cent increase over 1970.

5100 central office craftsmen expanded the call handling capacity by 6 per cent with added lines and switching gear in more than half our 678 exchange buildings.

Nearly 11,000 operators handled more than 1.5 million local, long distance and directory assistance calls on an average day.

1700 service representatives were available to handle the questions and needs of our 3 million customers.

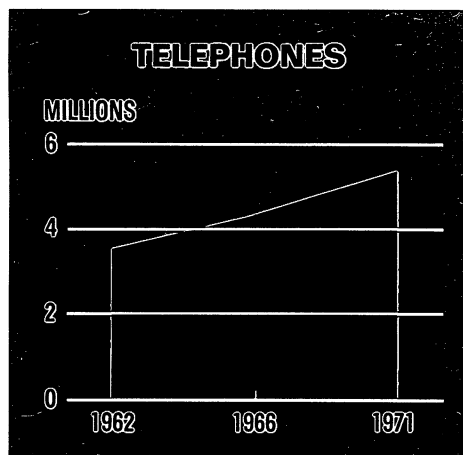
At the same time, thousands of other telephone people provided important support in the operation of our \$3.1 billion communications plant.

Responding to the public's need for modern communications becomes dramatic and newsworthy at times. But mainly the response comes unobtrusively, round the clock, day after day, by telephone people who are doing their jobs. There was clear evidence of improvement in this regard as our people carried out their responsibilities through the year.

People

Telephone men and women have been and always will be a special resource. And since they are a cross-section of our society, they reflect the changing times. Our telephone team is larger numerically, younger in age, better educated and better trained. Today it reflects the changing motivations, expectations and diversity of life styles.

In personnel relations the Company follows some basic principles



that have proven sound over the years. Simply stated, here are a few of them:

Hire good people — without any barriers of religion, race or sex.

Train them thoroughly and provide the necessary tools, practices and directions.

Encourage them to advance in the business to the limits of their capabilities and ambitions — without any barriers of religion, race or sex.

Make sure that telephone jobs are challenging and satisfying since the doing of the work itself is an important satisfaction for every individual.

Pay fair wages that meet the material needs of today and provide for some of the contingencies of tomorrow.

Keep open the channels of communications — upward and downward — so that there is complete understanding and clarity of purpose among all telephone people.

Make work performance the primary criterion for career advancement.

These principles have been productive in the past and their implementation will be just as important in the years ahead.

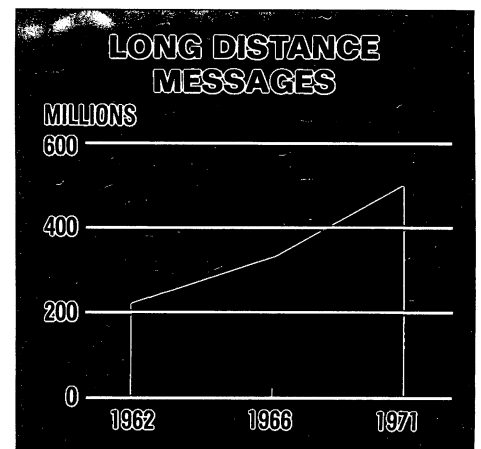
Three-year settlements of union contracts were reached in the Summer and Fall of 1971 improving wages, fringe benefits and working

conditions. Comparable changes were extended to all other employees. These improvements are in line with settlements in other industries and where necessary have the approval of federal wage authorities.

The Future

This is a business whose services are vital to the ongoing interests of every sector of our society. Communications will continue to grow as the general economy expands. Historically, our year-to-year gains in revenue have been higher than the corresponding annual increases in the Gross National Product. All the signs indicate this will continue. By 1980 we expect to be serving about 2.6 million more telephones than our present 5.3 million.

There will be more growth in technology and in the capability to handle new forms of information with new communication systems. Electronic offices that switch calls many times faster than any previous equipment, and are more trouble free, will number 76 by 1980. Cables with voice channel capacities almost in the hundred thousands, and later on, wave guides with hundreds of thousands of channels will help us cope with the surging mass of information that customers will want moved over our facilities.



The whole area of data transmission will have a heavy impact on us. It already is the fastest growing part of our business. We will be able to handle the rapidly rising interest in digital data service over our existing microwave systems for the next several years without interfering with capacities for handling conventional voice communications. This gives us a head start in developing a nationwide digital network to serve the country's data market.

Your Company has been among the leaders in corporate involvement in helping to solve broad problems of education, environment, consumer satisfaction and race relations. The future will present additional demands for corporate initiative. We will meet our responsibilities; in fact, we will continue to be a leader.

There are encouraging signs that we will have more management freedom under regulation to build our earnings to a more satisfactory level that compares with earnings of other businesses. This is essential. We look for an improvement in the Company's earnings in 1972; the bulk of it likely to come in the second half of the year.

Before the year is over, I will be retiring as Chairman of the Board in accordance with long-established

Company rules. I will leave with gratitude and respect for the accomplishments of the men and women of New England Telephone over the last nine years. I am particularly appreciative this year of the support and continued loyalty of our share owners through a difficult period. I have great confidence that President William C. Mercer will lead this Company most effectively in the years ahead.

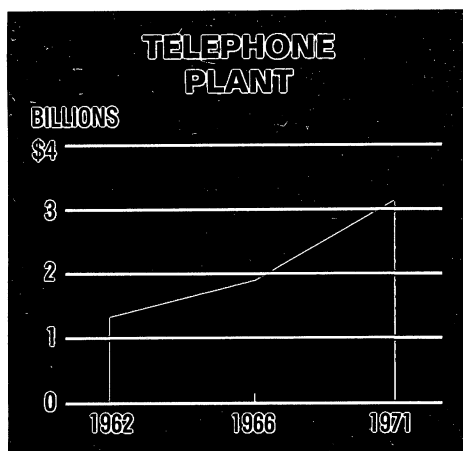
The Company has tremendous resources at hand, both people and facilities. It has the productive capacity to capitalize on the forecasted improvement in business and to take full advantage of the many opportunities which exist in communications services for the benefit of share owners, customers and employees.

For the Board of Directors,

Allen G. Barry

Chairman of the Board

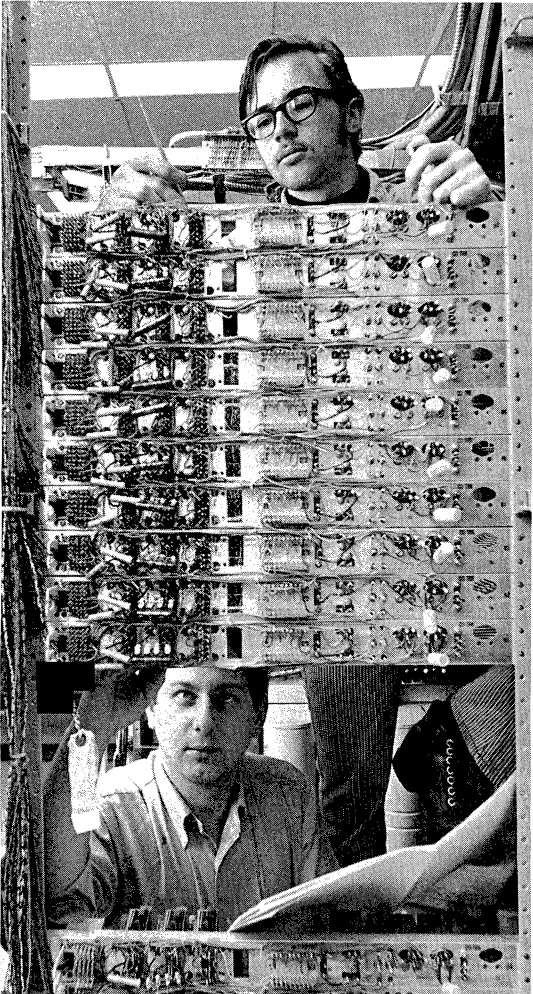
February 10, 1972



Focus on 1971



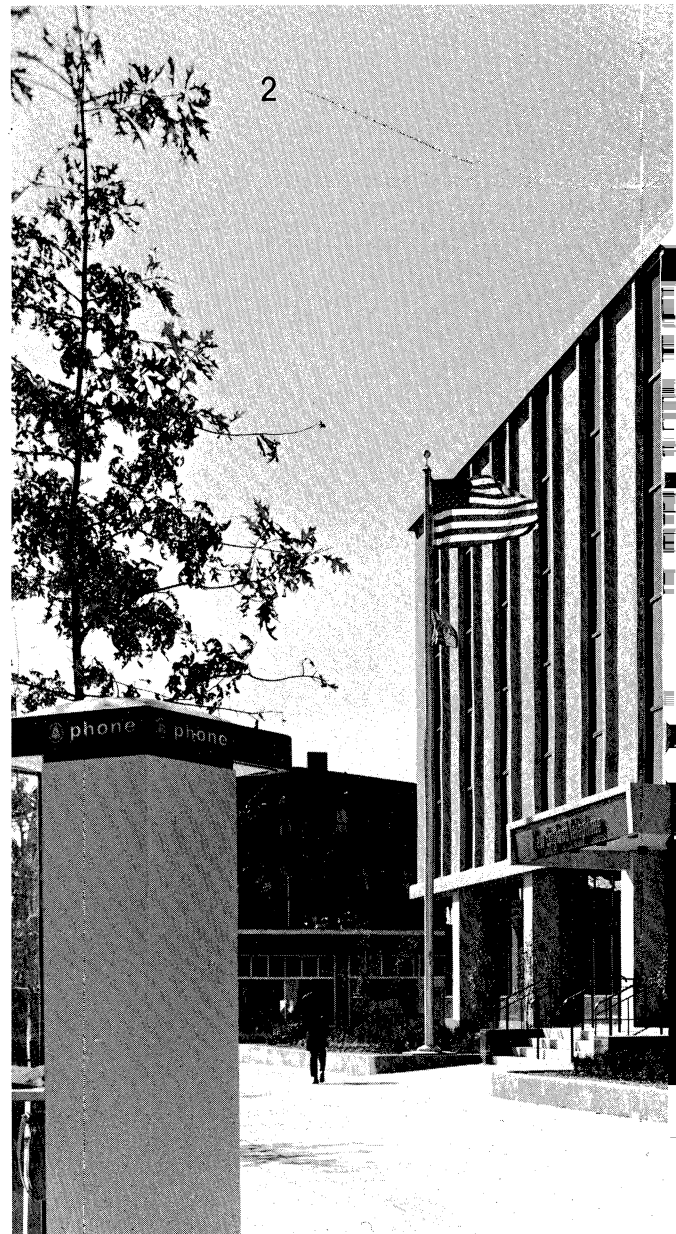
The telephone operator has the opportunity hundreds of times every day to be the "spirit of service." And her response demonstrates that the magic of the communications business lies not only in machines but also in people.



Adding to central office equipment: Custom built by skilled craftsmen.



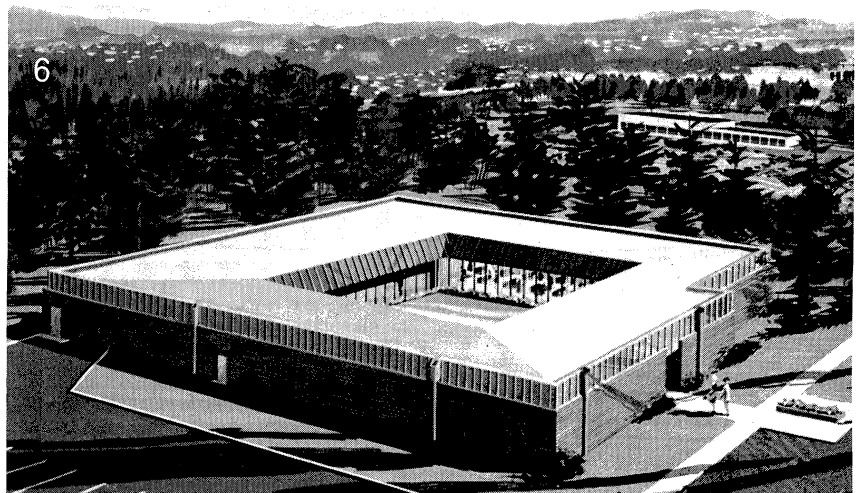
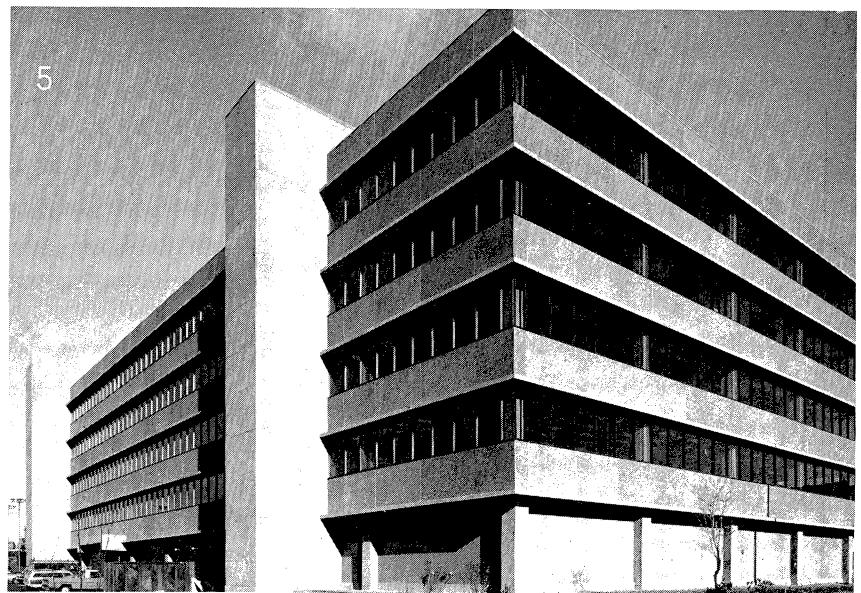
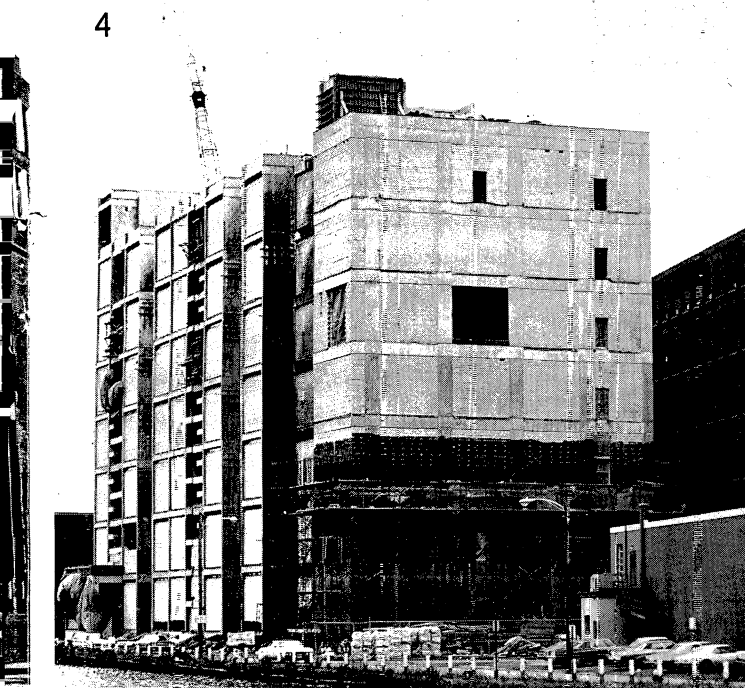
Putting cable into the underground network: Every day and often at night as well to keep ahead of telephone growth. This year 68 per cent of the wire in cable added went underground. Now 59 per cent of all wire in cable is out of sight.

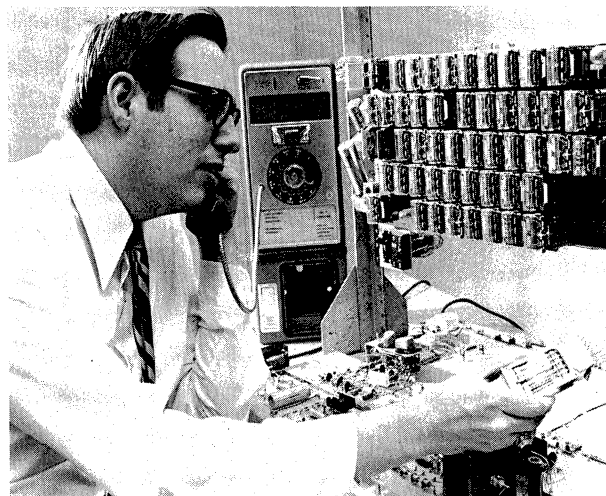
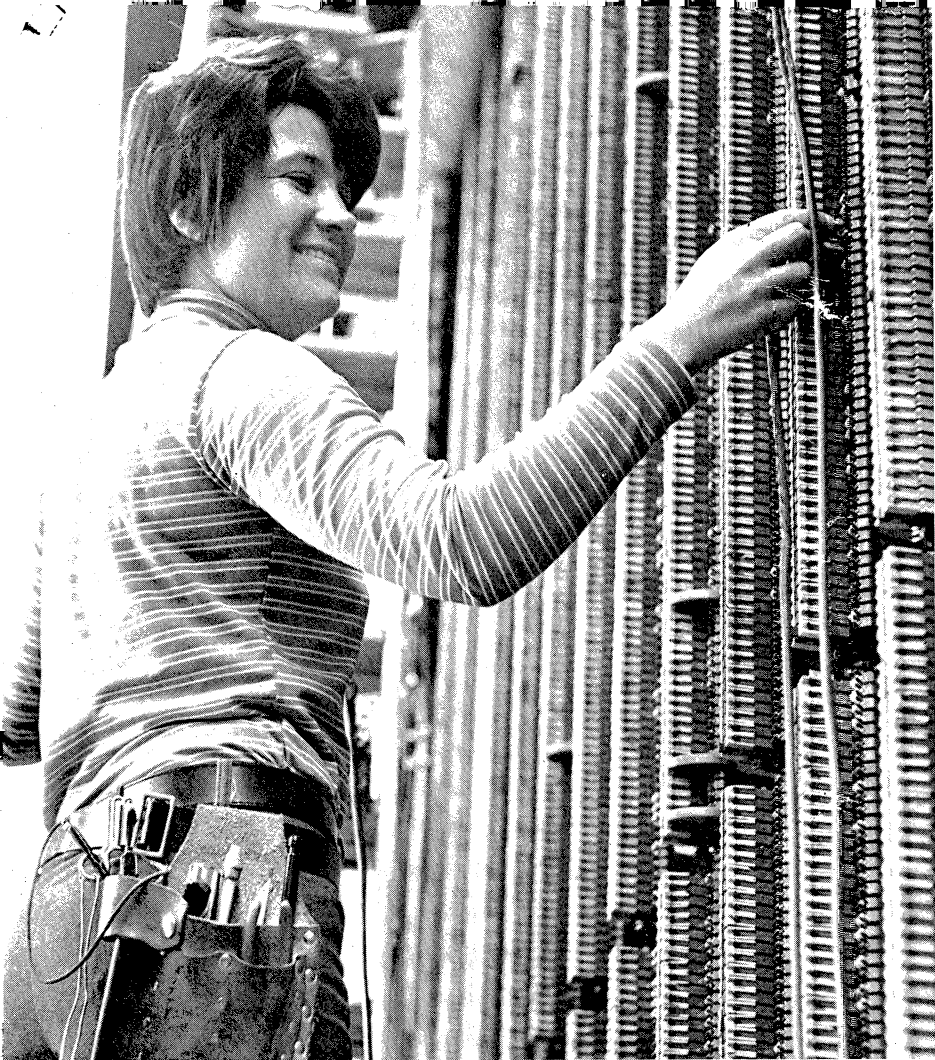




A few of the major building projects completed or well underway at the year's end:

1. Cambridge, Massachusetts: \$11 million building as part of \$73 million project to house electronic systems, increase our switching capacity and speed the handling of local and long distance calls.
2. Manchester, New Hampshire: \$4 million headquarters and computer building serving the entire state.
3. Providence, Rhode Island: \$7 million building addition as part of \$14 million project for more equipment to switch and process long distance calls.
4. Lawrence, Massachusetts: \$10 million building as part of \$49 million expenditure for two electronic central offices — one for additional local calling, the other for long distance growth in the Merrimack Valley area.
5. Lynn, Massachusetts: \$8 million building for 700 people who run our telephone directory business with annual revenues of over \$32 million.
6. Salisbury, Massachusetts: a building for equipment used by telephone operators to handle long distance calls.





Wiring a customer's line in the central office: Every time a telephone is installed, removed or a number changed, a central office man or woman must make the connection for subscriber's service. During the year, this occurred over 2 million times.

Keeping over 78,000 public telephones in proper working order is a big job. Here is a testing system that is easily operated from a central point to make certain that a coin telephone is usable. The Bell Laboratories developed it and Western Electric built it.



Computers help us run the business. But what comes out of computers is never any better than what people put into them. So, as always people make all the difference.

COMPANY STATISTICS

	1971	1970	1969	1968	1967	1966
YEAR						
Revenues and Other Income	\$ 909,783,000	\$ 825,984,000	\$ 741,674,000	\$ 667,962,000	\$ 620,362,000	\$ 581,835,000
Expenses	615,681,000	546,906,000	482,961,000	413,791,000	387,960,000	361,364,000
Operating Taxes	144,136,000	141,483,000	139,536,000	140,290,000	121,665,000	117,323,000
Interest	65,212,000	48,555,000	36,774,000	27,825,000	20,701,000	17,297,000
Net Income	\$ 84,754,000	\$ 89,040,000	\$ 82,403,000	\$ 86,056,000	\$ 90,036,000	\$ 85,851,000
Net Income (Earnings) Per Average Share	\$2.53	\$2.65	\$2.63	\$2.81	\$2.94	\$2.96
Dividends Per Share.....	\$2.36	\$2.36	\$2.36	\$2.36	\$2.36	\$2.28

AT DECEMBER 31

NUMBER OF SHARES OUTSTANDING	33,564,549	33,564,549	33,564,549	30,623,329	30,623,329	30,623,329
Book Value Per Share	\$33.34	\$33.17	\$32.88	\$32.31	\$31.87	\$31.29
Number of Shareowners	60,294	59,489	57,242	54,667	53,330	51,200
TOTAL PLANT INVESTMENT	\$3,109,078,000	\$2,754,579,000	\$2,456,655,000	\$2,224,077,000	\$2,049,538,000	\$1,880,543,000
Depreciation Reserve	741,445,000	687,236,000	640,460,000	594,078,000	534,069,000	493,974,000
Net Plant Investment	2,367,633,000	2,067,343,000	1,816,195,000	1,629,999,000	1,515,469,000	1,386,569,000
TOTAL TELEPHONES IN SERVICE	5,298,904	5,097,360	4,883,298	4,629,415	4,475,902	4,285,954
% RESIDENCE EXTENSIONS TO						
RESIDENCE MAIN	41%	40%	38%	37%	36%	34%
HOUSEHOLDS WITH TELEPHONES	95.0%	93.3%	92.9%	92.3%	91.8%	90.4%
EMPLOYEES	47,518	46,043	42,772	39,016	37,832	36,608

YEAR

CONSTRUCTION EXPENDITURES	\$ 438,088,000	\$ 374,570,000	\$ 295,457,000	\$ 216,479,000	\$ 219,263,000	\$ 189,912,000
ORIGINATING CALLS - AVERAGE BUSINESS DAY	27,275,000	25,706,000	24,550,000	22,997,000	22,082,000	20,424,000
LONG DISTANCE MESSAGES	495,386,000	460,908,000	420,955,000	373,951,000	348,951,000	323,208,000
Customer Dialed	78%	74%	71%	69%	66%	63%
Customers with Direct Distance Dialing (At December 31)	98%	97%	95%	92%	91%	85%
TOTAL TAXES	\$ 221,772,000	\$ 212,270,000	\$ 204,222,000	\$ 199,236,000	\$ 177,007,000	\$ 161,144,000
Federal Income and Social Security	67,522,000	76,021,000	83,838,000	91,567,000	79,073,000	78,094,000
State and Local	76,614,000	65,462,000	55,698,000	48,723,000	42,592,000	39,229,000
Federal Excise	72,809,000	66,346,000	60,877,000	55,460,000	52,311,000	41,152,000
State Sales	4,827,000	4,441,000	3,809,000	3,486,000	3,031,000	2,669,000
Total Taxes per Customer per Month	\$5.93	\$5.85	\$5.82	\$5.98	\$5.44	\$5.11

Balance Sheets

ASSETS	Thousands of Dollars	
	Dec. 31, 1971	Dec. 31, 1970
TELEPHONE PLANT AND OTHER INVESTMENTS		
Telephone plant — at cost		
Land, buildings and equipment:		
In service	\$2,942,796	\$2,625,970
Under construction	164,518	125,107
Held for future use	1,764	3,502
	<u>3,109,078</u>	<u>2,754,579</u>
Less: Accumulated depreciation	741,445	687,236
	<u>2,367,633</u>	<u>2,067,343</u>
Other investments	2,659	1,556
	<u>2,370,292</u>	<u>2,068,899</u>
 CURRENT ASSETS		
Cash (a)	11,543	8,476
Receivables — less allowance for uncollectibles:		
1971, \$1,000,000; 1970, \$825,000	142,278	141,412
Material and supplies	15,216	14,801
	<u>169,037</u>	<u>164,689</u>
 PREPAID EXPENSES AND DEFERRED CHARGES	 <u>37,992</u>	 <u>27,452</u>
 TOTAL ASSETS	 <u>\$2,577,321</u>	 <u>\$2,261,040</u>

The accompanying notes are an integral part of the financial statements, see page 16

LIABILITIES AND CAPITAL

Thousands of Dollars
Dec. 31, 1971 Dec. 31, 1970

EQUITY

Common shares — par value \$20 per share	\$ 671,291	\$ 671,291
Authorized: 40,000,000 shares. Outstanding: 33,564,549 shares		
Premium on shares	242,076	242,076
Proceeds in excess of par value		
Reinvested earnings (b)	205,522	199,979
	<u>1,118,889</u>	<u>1,113,346</u>

DEBT (c)

Long-term	986,404	786,798
Interim (average interest rate at December 31, 1971 of 5.0%)		
Advances from American Telephone and Telegraph		
Company, parent	143,500	61,500
Notes payable	134,790	142,050
	<u>1,264,694</u>	<u>990,348</u>

CURRENT LIABILITIES

Accounts payable (a)	90,390	71,781
Advance billing and customers' deposits	7,394	6,844
Dividend payable	19,803	19,803
Taxes accrued	11,464	14,613
Interest and rents accrued (d)	15,461	14,003
	<u>144,512</u>	<u>127,044</u>

DEFERRED CREDITS

Unamortized investment tax credit	29,299	25,402
Deferred income taxes	19,704	4,190
Other	223	710
	<u>49,226</u>	<u>30,302</u>

TOTAL LIABILITIES AND CAPITAL	<u>\$2,577,321</u>	<u>\$2,261,040</u>
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STATEMENTS OF INCOME AND REINVESTED EARNINGS

	Thousands of Dollars	
	Year 1971	Year 1970
OPERATING REVENUES		
Local service	\$ 475,928	\$ 437,472
Toll service	397,430	355,254
Miscellaneous	34,590	32,344
Principally from directory advertising		
Less: Provision for uncollectibles	7,634	6,020
Total Operating Revenues	<u>900,314</u>	<u>819,050</u>
OPERATING EXPENSES		
Maintenance	197,619	172,610
Depreciation	134,131	122,413
Portion of the cost of depreciable plant charged against current operations, approximately 5.1% in 1971 and 1970.		
Traffic	84,442	78,306
Costs, principally operators' wages, incurred in the handling of calls.		
Commercial	35,896	30,928
Primarily costs of local business office operations.		
Marketing	37,247	33,086
Accounting	32,417	29,933
Provision for pensions and other employee benefits (e)	69,922	58,557
Services received from parent under license contract	8,516	7,735
Other operating expenses	37,979	32,786
Less: Expenses charged construction	22,488	19,448
Total Operating Expenses	<u>615,681</u>	<u>546,906</u>
NET OPERATING REVENUES	<u>284,633</u>	<u>272,144</u>
OPERATING TAXES		
Federal and state income (f)	62,099	71,081
Other state, local and social security	82,037	70,402
Total Operating Taxes	<u>144,136</u>	<u>141,483</u>
OPERATING INCOME	140,497	130,661
OTHER INCOME — NET	9,469	6,934
Principally interest charged construction		
INCOME BEFORE INTEREST DEDUCTIONS	<u>149,966</u>	<u>137,595</u>
INTEREST DEDUCTIONS	65,212	48,555
Principally on long-term debt		
NET INCOME	<u>84,754</u>	<u>89,040</u>
Add: Reinvested earnings at beginning of year	199,979	190,151
Deduct: Dividends declared (\$2.36 per share)	79,212	79,212
Miscellaneous — net	(1)	—
REINVESTED EARNINGS AT END OF YEAR (b)	<u>\$ 205,522</u>	<u>\$ 199,979</u>
EARNINGS PER SHARE	\$2.53	\$2.65
Based on average shares outstanding, 33,564,549 in 1971 and 1970		

The accompanying notes are an integral part of the financial statements, see page 16

We hereby certify that the condensed return of its business and financial condition contained on pages 12 to 16 inclusive of this Annual Report is full, just and true.

R.G. McAnern

Treasurer.

T.J. Berry

Vice President – Finance and Comptroller.

THE COMMONWEALTH OF MASSACHUSETTS

Suffolk ss. Boston, March 1, 1972. Then personally appeared the above-named R.G. McAnern, Treasurer, and T.J. Berry, Vice President – Finance and Comptroller, and severally made oath that the foregoing certificate by them subscribed is true to the best of their knowledge, information and belief.

Before me,

Haldeemar H. Thomas

Notary Public.

My commission expires December 6, 1974.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

SOURCE OF FUNDS:	Thousands of Dollars	
From Operations	Year 1971	Year 1970
Net Income	\$ 84,754	\$ 89,040
Add: Expenses not requiring funds:		
Depreciation	134,131	122,413
Deferred income taxes	15,514	4,190
Investment credits — net	3,898	(557)
Less: Income not providing funds	10,814	7,253
Total funds from operations	227,483	207,833
From Financing		
Issuance of long-term debt	199,606	174,247
Proceeds of interim debt — net	74,740	83,170
	\$ 501,829	\$465,250
APPLICATION OF FUNDS:		
Telephone plant	423,608	366,308
Dividends	79,212	79,212
Increase (decrease) in working capital	(13,120)	13,141
Other — net	12,129	6,589
	\$ 501,829	\$465,250
The change in working capital is accounted for by:		
Increase in current assets:		
Cash	\$ 3,067	\$ 350
Receivables	866	17,239
Material and supplies	415	1,243
	4,348	18,832
Increase (decrease) in current liabilities:		
Accounts payable	18,609	5,916
Advance billing and customers' deposits	550	(346)
Taxes accrued	(3,149)	(4,661)
Interest and rents accrued	1,458	4,782
	17,468	5,691
Increase (decrease) in working capital, as above	\$ (13,120)	\$ 13,141

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

*TO THE SHARE OWNERS OF
NEW ENGLAND TELEPHONE AND TELEGRAPH COMPANY*

We have examined the balance sheet of New England Telephone and Telegraph Company as of December 31, 1971 and the related statements of income and reinvested earnings and of 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 of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the financial statements of the company for the year 1970.

In our opinion the financial statements (pages 12 to 16) present fairly the financial position of New England Telephone and Telegraph Company at December 31, 1971 and 1970, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

BOSTON, MASSACHUSETTS

FEBRUARY 1, 1972

LYBRAND, ROSS BROS. & MONTGOMERY

NOTES TO FINANCIAL STATEMENTS

- (a) The Company follows the practice of making certain payments by draft and recording such drafts as accounts payable until such time as the banks honoring the drafts have presented them for payment. The American Telephone and Telegraph Company maintains cash and temporary cash investments which the Company may draw upon on a day-to-day basis to meet its obligations, including coverage of outstanding drafts. Outstanding drafts included in accounts payable amounted to \$14,353,000 at the end of 1971 and \$9,899,000 at the end of 1970.
- (b) In January 1972 the Massachusetts Department of Public Utilities issued an order allowing the full \$55,000,000 in revenues requested in July 1969. The Company had been collecting about 60% of this amount, a portion of which was subject to refund, since August 1970. Also in January 1972, the Department allowed an additional \$43,600,000 in revenues of \$79,500,000 requested in October 1971. These increases became effective February 8, 1972.

Reinvested Earnings at December 31, 1971 and December 31, 1970 have been restated to reflect the provisions of the January 1972 order from the Massachusetts Department of Public Utilities authorizing the Company to permanently retain revenues it had been collecting subject to refund since August 1970.

- (c) At December 31, 1971, comprises bonds and debentures aggregating \$55,000,000 maturing in 1974 and 1975 at rates of 3% and 2 $\frac{3}{4}$ %, respectively, \$60,000,000 in 1977 and 1982 at rates of 3 $\frac{1}{4}$ % and 3%, respectively, \$860,000,000 thereafter at rates ranging from 3 $\frac{1}{8}$ % to 8 $\frac{5}{8}$ % and seven year — 7% direct reduction notes of \$11,404,000 of which \$2,166,000 will mature during the year 1972.

On November 16, 1971 the Company announced a new issue of Company shares on the ratio of one new share for each six shares held as of February 7, 1972 and an issue of \$100,000,000 of seven year notes in March 1972.

- (d) At December 31, 1971 the Company was party to certain long-term leases which expire on various dates after December 31, 1974. The aggregate annual rentals for such leases decline from \$10,390,000 at December 31, 1974 to \$7,494,000 at December 31, 1979 to \$4,289,000 at December 31, 1984 and to lesser amounts thereafter.
- (e) The Company has a non-contributory plan covering all employees and providing for service pensions and certain death benefits. The Company has an accrual program under which actuarially determined regular payments are made to trust funds that are irrevocably devoted to service pension and death benefit purposes. The total provision for these service pensions and death benefits, including amounts charged to construction, was \$43,351,000 in 1971 and \$38,558,000 in 1970. Amendments to the Plan on June 1, 1971 and October 1, 1971 provided for improved benefits and resulted in increased pension accruals beginning October 1, 1971. The cost of these changes was about \$2,684,000 in 1971 (\$10,438,000 on an annual basis).
- (f) The financial statements reflect the application of certain accounting policies described in this note.

DEPRECIATION — Depreciation is provided on a straight-line basis. Accelerated depreciation has been adopted for income tax purposes on eligible plant placed in service after December 31, 1969, and provision is made (\$15,514,000 in 1971 and \$4,190,000 in 1970) for the related deferred income taxes ("normalization").

CAPITALIZATION OF CERTAIN TAXES AND EXPENSES — The Company has consistently followed the practice of deducting for income tax purposes certain taxes and payroll-related construction costs which are capitalized in the financial statements. In addition, Interest Charged Construction is excluded from taxable income. The resulting effect on income taxes, to the extent it is not offset by a related reduction in depreciation expense for tax purposes, is reflected in Net Income.

INVESTMENT TAX CREDIT — The investment tax credit has been deferred and is being amortized by credits to operating income over the service life of the plant which gave rise to the credit.

The financial statements which appear on pages 12 to 16 are summaries of the accounts of New England Telephone and Telegraph Company. The Company maintains its accounts in accordance with the Uniform System of Accounts prescribed for telephone companies by the Federal Communications Commission.



Vice President — Finance and Comptroller

Board of Directors

- James S. Barker
Vice Chairman, Bank of New Hampshire, National Association, Manchester, New Hampshire
- Allen G. Barry
Chairman of the Board, New England Telephone and Telegraph Company
- Louis W. Cabot
Chairman of the Board, Cabot Corporation, Boston, Mass.
- Abram T. Collier
President and Chairman, New England Mutual Life Insurance Company, Boston, Mass.
- H. Halsey Davis
Chairman of the Board, George C. Shaw Company, Portland, Maine
- Haynes H. Fellows, Jr.
Vice President, New England Telephone and Telegraph Company
- Robert H. I. Goddard
Partner, Brown & Ives, Providence, Rhode Island
- Elliott M. Gordon
President and Chairman, Towle Manufacturing Company, Newburyport, Mass.
- Milton P. Higgins
Chairman, Finance Committee, Norton Company, Worcester, Mass.
- Richard D. Hill
Chairman of the Board, First National Boston Corporation, Boston, Mass.
- Leland J. Kalmbach
Honorary Chairman of the Board, Massachusetts Mutual Life Insurance Company, Springfield, Mass.
- Maurice Lazarus
Chairman of the Finance Committee, Federated Department Stores, Inc., Boston, Mass.
- William C. Mercer
President, New England Telephone and Telegraph Company
- Horace P. Moulton
Vice President and General Counsel, American Telephone and Telegraph Company, New York, New York
- George Olmsted, Jr.
Director, Scott Paper Company, Boston, Mass.
- Frederick P. Smith
President and Chairman of the Board, Burlington Savings Bank, Burlington, Vermont
- H. Bradford Washburn, Jr.
Director, Museum of Science, Boston, Mass.

Officers

- Chairman of the Board*
Allen G. Barry
- President*
William C. Mercer
- Vice Presidents*
Thomas J. Berry
Comptroller
Harold R. Dann
Haynes H. Fellows, Jr.
John M. Gepson
General Counsel and Secretary
Bruce Harriman
William M. Hogan, Jr.
Edward L. King
Robert F. Landry
Albert C. Palmer
John F. Prendiville, Jr.
Rodney M. Torres
Joseph J. Urban
- Treasurer*
Robert G. McAnern

General Managers

- Raymond H. Frost
Maine
- Bruce Harriman
Massachusetts
- Julian S. Hartwell
New Hampshire
- Lincoln A. Divoll
Rhode Island
- Louis M. Reder
Vermont



**New England
Telephone**

185 Franklin Street
Boston, Massachusetts 02107
Phone (617) 743-2534

Arthur J. McCarthy
General Accountant

March 31, 1972

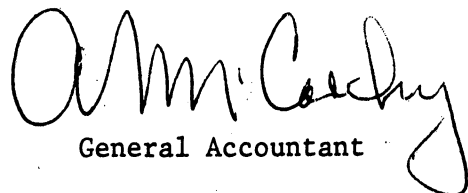
City Clerk

Cambridge, Mass.

Dear Sir:

Enclosed is a copy of Annual Report to the Share Owners of
New England Telephone and Telegraph Company for the year 1971 filed
in accordance with Massachusetts General Laws (Ter. Ed.), Chapter 166,
Section 12A.

Very truly yours,


General Accountant

GBM/hf

Encl.

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Annual Report of New England Telephone Co.
filed in accordance with Gen.Laws Chap.166,
Sec. 12A

April 10, 1972.

Placed on File