
We hereby certify that the condensed return of its business and financial condition contained on pages 12 to 15 inclusive of this Annual Report is full, just and true.

O. R. Carlson

Treasurer.

T. J. Berry

Vice President – Finance and Comptroller.

THE COMMONWEALTH OF MASSACHUSETTS
Suffolk ss. Boston, March 1, 1971. Then personally appeared the above-named O.R. Carlson, 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.

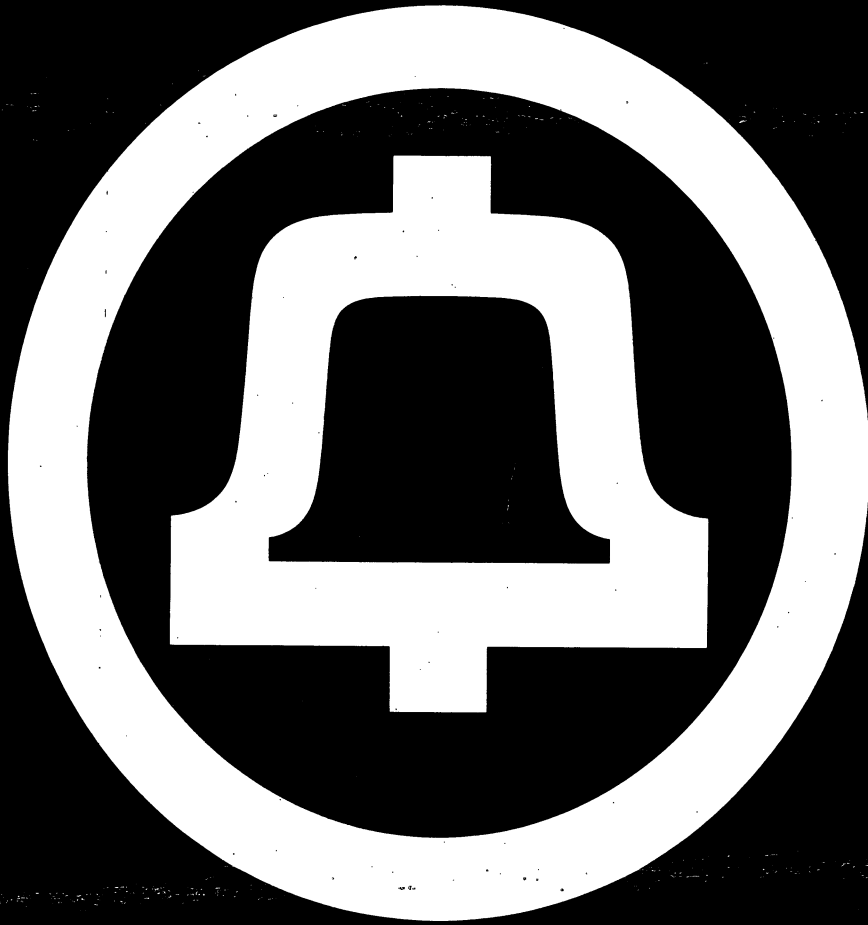
Before me,

Waldemar H. Thomas

Notary Public.

My commission expires December 6, 1974.

Annual Report 1970



New England Telephone

Results in Brief

	1970	1969
Operating revenues and other income	\$825,984,000	\$741,674,000
Operating expenses	546,906,000	482,961,000
Taxes	141,483,000	139,536,000
Interest deductions	48,555,000	36,774,000
Net income	\$ 89,040,000	\$ 82,403,000
Earnings per average share	\$2.65	\$2.63
Dividends per share	\$2.36	\$2.36
Average number of shares outstanding	33,564,549	31,358,634
Number of shareowners*	59,489	57,242
Construction expenditures	\$374,570,000	\$295,457,000
Telephones*	5,097,360	4,883,298
Average business day calls	25,700,000	24,500,000
Employees*	46,043	42,772

*End of year

See page 16 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 20.

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 will 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

The pace of our business slowed somewhat during the final quarter of 1970 when a year-end resurgence of the general economy failed to materialize. Nonetheless, the gain of 215,000 telephones was a strong performance, making this our second best year for telephone growth in the last quarter century. In July, we reached our 5 millionth telephone in service.

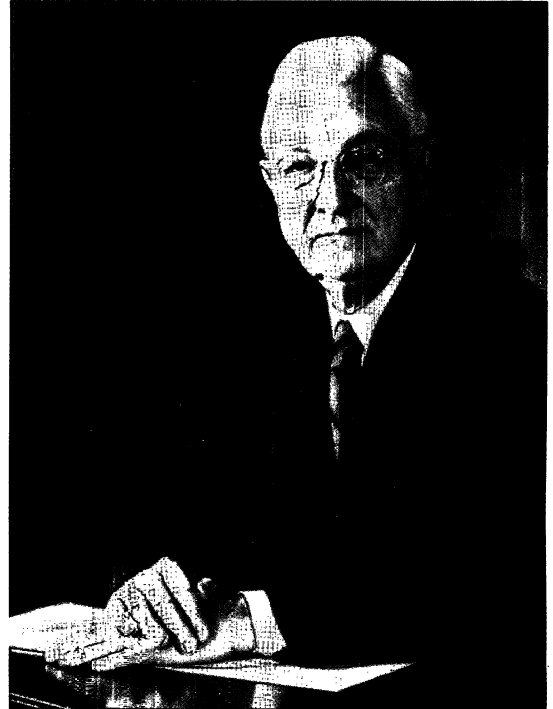
The volume of long distance calls of 461 million was the highest in our history, a substantial increase of 9.5 per cent over 1969.

Revenues and other income of \$826 million rose 11 per cent above the prior year. In these days of spiraling inflation, however, the costs of doing business continue to escalate. Operating costs, taxes and interest charges were \$737 million, 12 per cent over a year earlier. Net income increased by \$6.6 million to \$89 million. Earnings per share improved to \$2.65 from \$2.63 in 1969. Results for the two periods are not fully comparable since additional shares were outstanding in 1970.

At the end of the year, our telephone plant passed the \$2.75 billion mark. In the past decade, the investment per telephone has grown 48 per cent from \$364 to \$540. Increased usage, changing calling patterns and more costly equipment require heavier outlays of capital. Nevertheless, over the past ten years, telephone rates have risen far less than the advance in the Consumer Price Index. Indeed, some telephone rates have been lowered. Economies of size, persistent efforts to control expenses, forward looking research and developments of the Bell Laboratories and of our manufacturing partner, the Western Electric Company, all come together for this enviable record of which we are proud.

The high cost of borrowed money came at a time when we needed large amounts of new capital to carry on essential construction expenditures for growth, modernization and improvements. In September, we issued \$175 million in debentures at a record cost to the Company of 8.73 per cent. A similar debt issue only two years ago cost 6.41 per cent.

To be successful in the highly competitive market for money, we clearly must have better earnings that will attract the large amounts of capital needed to finance current and anticipated service requirements of the public.



Allen G. Barry

In today's changed economic environment, operating improvements alone cannot offset higher costs of doing business. We are, therefore, pursuing aggressively upward adjustments in prices for services to insure a fair rate of return and an adequate level of earnings.

In Rhode Island, after a long waiting period of ten months, the Public Utilities Commission authorized, in February, 1970, an increase in rates of \$6 million annually. The Company had requested \$9 million.

In July, 1969, we sought additional annual revenues of \$52 million in Massachusetts. Eleven months later, in June, 1970, the Department of Public Utilities approved an increase of \$7.7 million. We appealed that order to the Massachusetts Supreme Judicial Court. The court stayed the order and permitted an additional \$25 million in rates which we are collecting under bond pending a final judgment.

New prices for certain services in New Hampshire were allowed by regulatory authorities in September to produce additional annual revenues of \$2 million.

The Maine Public Utilities Commission approved new rates for some services to add \$1.5 million in annual revenues, effective January 3, 1971.

Report to Share Owners

These increases apply to the intrastate services under the jurisdiction of the state commissions. In November, the American Telephone and Telegraph Company sought authorization from the Federal Communications Commission to increase charges for long distance calls between states to produce an additional \$385 million in annual revenues.

On January 12, 1971, the Commission granted special permission to file revised tariffs to produce an additional \$250 million in net earnings before income taxes. Subject to possible refund pending hearings before the Commission, the new rates became effective January 26, 1971. While this interim increase falls far short of what is required under today's economic conditions, it will contribute to better earnings for this Company inasmuch as we participate in the furnishing of plant and services for interstate communications, and in the sharing of interstate revenues. We are pleased with the Commission's expressed intent to conduct hearings expeditiously on the full amount of increased revenues proposed initially.

We continue to introduce new equipment and methods. In 1970, our construction expenditures were a record \$375 million — more than a million dollars every day — to expand and improve telephone service in our five-state area. We built enough switching equipment

in local offices to increase our call carrying capacity by more than a million calls daily. We added nearly 70,000 talking paths between offices. We placed 3.2 million miles of wire in cable, and two-thirds of this was in the ground and out of sight.

In greater detail in the pages that follow, we have attempted to capture something of what goes on, day-to-day, behind the scenes in the Company. It is an account of 46,000 men and women, millions of dollars and vast amounts of materials, all hard at work together, to provide service — now and for the future.

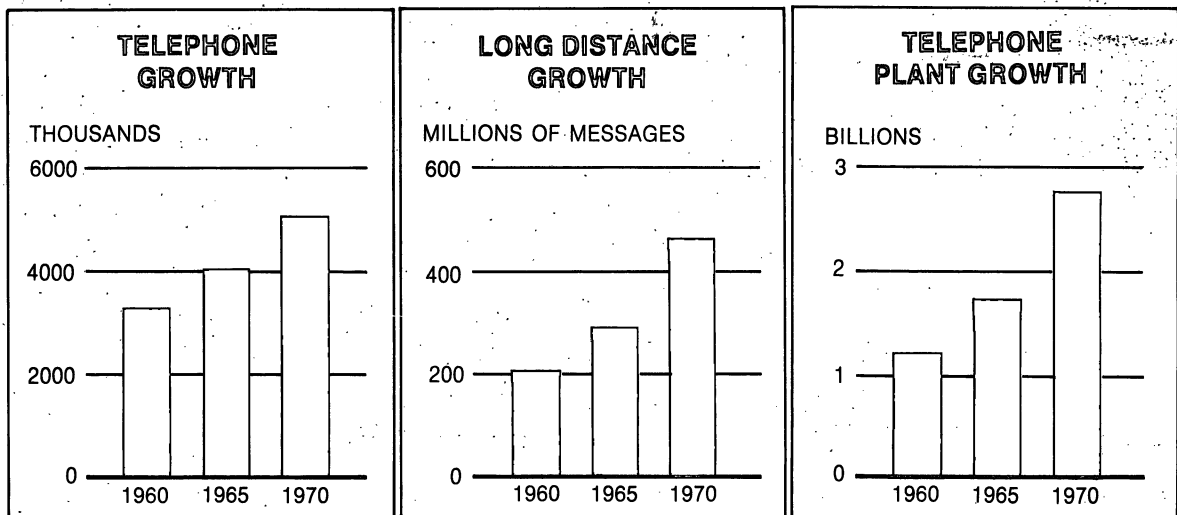
Looking ahead we expect substantial growth and increased usage of our services in 1971. We will meet this growth and make further service betterments. To assure these commitments in this economy, we will have to press for rates that will produce higher earnings so that we can provide the service our customers expect — all of which benefits the share owners.

For the Board of Directors

Allen G. Barry

President

February 16, 1971



Take a day... any day...
for New England Telephone



*READY TO SERVE: Hanna Wahlstedt is one of nearly 11,000
New England Telephone operators who handle 1.7 million*

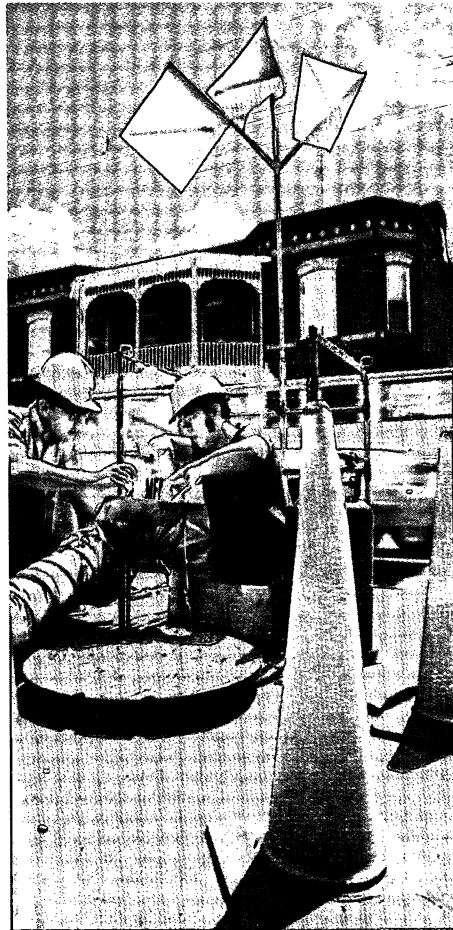
*calls on a normal day - more than 1,000 are emergency
calls from customers for police, fire or hospital assistance.*

Take
a day...
any
day...

The day's work for the nation starts in New England. Here the "down-east" State of Maine first greets the rising sun.

Most of the time telephone foremen in the Pine Tree State — and throughout the Company's five-state area — beat the sun to their offices to review the work ahead and prepare assignments for crews ready to go by 7:30. The men are up to their hard hats every day — early and late — transforming the Company's multi-million dollar construction expenditure into service for customers. They re-

***MORE TO GROW ON:** Here are Robert Koszewski and Robert Aucoin, above, and Robert Magne, below, of our construction forces. Splicers worked nearly 1.5 million man-hours on outside cable plant in 1970. Bringing new cable alive - splice by splice - is a meticulous job. It may mean knitting together a small 11-pair cable in a rural area or a big 3600-pair one in a metropolitan center. The result is service, when and wherever the customer wants it.*



inforce thousands of other telephone people who share the responsibility for keeping a \$2.75 billion telephone plant polished up and trouble free and running at peak efficiency every hour of every day.

Construction expenditures for the entire Company rose in 1970 to an all-time high of \$375 million for buildings, telephones, cable and wire, central office switching facilities, and a myriad of other telephone equipment. About one-fourth of the money was spent to connect over a million telephones at new locations, to remove 860,000, and to rearrange 808,000 more.



TELEPHONE LINES AND THE ENVIRONMENT: John Hendricks and Paul Paradysz were part of the extraordinary effort in 1970 that placed underground more than 2 million miles of wire in cable. In most new residential developments, telephone lines go into the ground to increase reliability of service and improve the appearance of neighborhoods.

Take a day ---

Any day ---

A foreman schedules his work and, if all goes well, it develops the way he plans. But trouble may hit and he must shift his schedules fast. For example, a construction company's backhoe rips through an underground cable in Holyoke, Massachusetts, and men must be reassigned to repair it. This cable, hidden from view, is part of the program to put telephone lines underground where practicable. Two-thirds of the total 3.2 million miles of wire in cable placed in 1970 went underground. For the fourth year in a row, more wire went into the ground than into the air. New cables cost \$75 million, and keeping all the cable plant in good working order required another \$19 million.

Any day, anywhere the work is varied. Take Rhode Island as an example of what goes on throughout New England. In Newport, telephones are installed one day on the HMS Rose, a replica of the British Royal Navy frigate that blockaded Newport during the American Revolution. The frigate's telephones are part of the 4,000 or more installed any normal workday in our Company. Or the work may be to provide facilities for toll free calling between Jamestown and Narragansett. In 1970, similar projects throughout the Company resulted in the elimination of toll charges on 3.5 million calls between communities.

One day early in the year a five-story addition got underway at the 1 Greene Street telephone building in Providence. It is a very important addition for, among other purposes, it will house an electronic central office for local calls and a new switching unit to speed long distance calls to and from Rhode Island. In the growth year of 1970, 160 additions and new buildings were under construction, mainly to house more telephone equipment — 86 of them completed during the year.

Take
a day...
any
day...



BUILDING MORE SERVICE: Another section of terminal apparatus goes into a central office, and by the year's end, central office installers added 226,000 new terminals for more telephones and other communications services. James Madrey is building the framework for terminal apparatus. His work follows the planning, engineering and manufacturing for a new central office with its 15 million parts.

The additions and new buildings are in plain sight. Unseen is the equipment within the buildings costing millions of dollars and thousands of man-hours to install and test. Several of the buildings will house new switching machines for long distance calls like the one completed last year at our 185 Franklin Street headquarters in Boston. These machines are flexible, and they speed calls along.

Additional space was required for equipment to bring Direct Distance Dialing to more customers — 44,000 of them in Maine at Ellsworth, Presque Isle, Houlton and Brunswick. By the year's end expansion of DDD in 57 central offices throughout the Company area made that service available to 97 per cent of our customers.

One day last summer a modern Electronic Switching System for local calling was cut into service in Cambridge, and more capacity was added last fall to the electronic office at Harrison Avenue in downtown Boston. Electronic Switching Systems provide instantaneous call processing and exceptional reliability. They help keep maintenance costs down too.

Take a day ---

Any day ---

New England Telephone is growing. Some 3,200 more men and women worked for the Company at the end of 1970 than at the start of the year. More than 11,000 were hired to net those additional people, and to bring the number of employees to 46,000. Telephone people are getting younger too. Now 85 per cent of employees are under 50 years of age, 61 per cent under 40, and 44 per cent under 30.

Every business day you will see New England swinging through the doors of Telephone Employment Centers. For example, the new office in Boston is off to an auspicious start. It's where the action is — the heart of the shopping district at the Park Street subway across from the Common. The Center has facilities for simultaneously interviewing 17 applicants and testing 50 others. From its opening on June 22 to the end of the year, some 11,000 applicants walked in the doors. More than 2,300 were hired.

Any day and every day the policy of New England Telephone is to provide equal employment opportunities for all people, and to make special efforts to hire disadvantaged people. For example, "Project Saturday" is active in Boston, Brockton, Lowell, Lynn, New Bedford, Springfield, and Worcester, Massachusetts; and Providence, Rhode Island. This Company-sponsored activity encourages high school students to stay in school and to take Saturday training with the prospect of telephone employment after graduation.

Cool ---

Professional ---

Sure ---

Telephone people bring skills to the great diversity of jobs in the Company. But it takes training and time and experience to make a real professional. The training comes first. It goes on in all departments. Nearly a thousand telephone men and women are being trained on a normal day to keep them ahead of change and technological advances. Young people can do an outstanding job when they are trained well. And seasoned veterans bring their expertise to the work to provide the balance for an effective telephone team dedicated to service.

Take a day ---

Any day ---

And Americans make more telephone calls

than any other people. That's saying a lot. Canadians held the record for 18 years until 1969 when we increased our conversations by 44 over the previous year. The average in the United States is now 745 calls per person per year. Canada is in second place with 710. New



THE NETWORK GROWS: The installation of new equipment calls for special care. Each addition must be compatible with all equipment in other cities and towns so that customers can call here, there, and everywhere. David Tabb is wiring new switches to add another area to the Direct Distance Dialing network. Some 97 per cent of New England Telephone customers can dial their own long distance calls.

Take
a day...
any
day...

Englanders are doing their bit to keep the United States in first place. Ask any operator. Last year operators handled more than 1.7 million calls on a normal day.

At resort areas like Cape Cod, telephone calls increase about 50 per cent in the summer. In the Hyannis office, for example, local high school and college students work part time during the school year and full time in the summer so that the thousands of vacationers who visit the Cape can call around to keep in touch.

It is called Directory Assistance now, but a few still call it Information. Whichever it is called, it reflects growth. Calls to Directory Assistance have increased some 70 per cent over the past decade. Directory Assistance operators handled about 718,000 calls a day.



ELECTRONIC RECORD KEEPING: Cynthia Simard works with magnetic tape files of customer billing records in the Accounting Department. The Company's 32 computers help Accounting people prepare customer bills, issue paychecks, keep track of a \$2.75 billion plant and develop reports for managing the business.



THE SAFE WAY IS THE RIGHT WAY:
Safety is threaded through all training and job procedures, and is designed into equipment and tools as well. Here Joseph McNutt demonstrates a basic safety practice: "Before entering, ventilate the manhole for two minutes and meter-test for explosive gas." Doing the job the safe way every time makes the safe way an intuitive work habit.

Customers expect faster answers, and our Directory Assistance system speeds operator response to calls for number service. An Automatic Call Distributor receives calls from 44 Greater Boston communities. It scans 300 console positions in six widely separated offices and routes each call to the first available position. These Directory Assistance offices are linked through a common network for flexibility and quick response. A new office in Malden was added to the Greater Boston complex in 1970, and in Providence, Rhode Island Directory Assistance service was expanded from two to three offices.

The Directory Assistance operator must have accurate and current lists of names, addresses, and telephone numbers. And there are 3 million customers with listings in the white pages of the directories. They change constantly, too, over half of them each year. So additional reference material for Directory Assistance operators has to be issued to supplement the regular directories printed annually for use by customers. Updated reprints are published daily, weekly and monthly — over 4 million copies in all during a year. These are in addition to the 10.5 million directories printed for 94 areas and distributed by hand or mail each year so that customers can find listings themselves at home or at work. Nearly one-half million directories are needed for replacement alone of worn, torn, or missing directories at 76,000 public telephones.

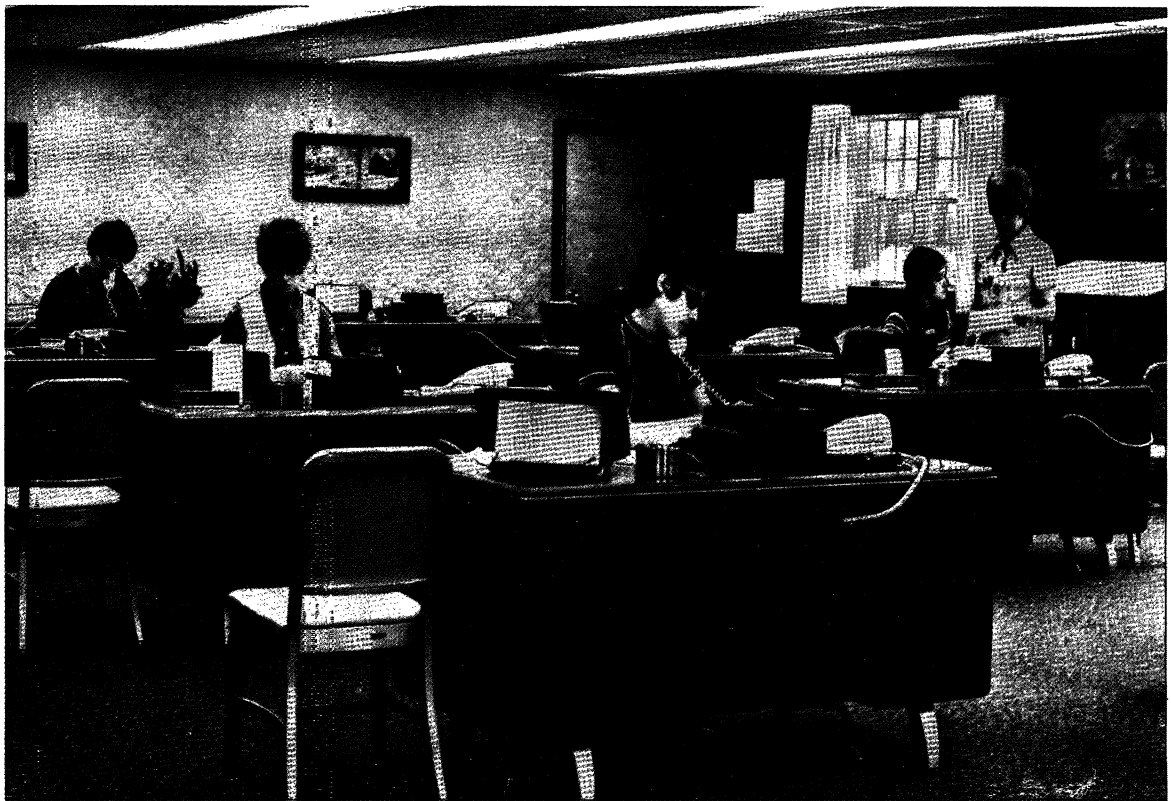
All this is to say that a large number of small but important business transactions each day in the Directory Department add up to king-size quantities in a year — 6.6 billion pages of print, 9,500 tons of paper, 130 tons of ink — in the interest of good number service for 3 million customers.

Take a day ---

Any day ---

And telephone people keep their ears' open.

Take
a day...
any
day...



TELEPHONE BUSINESS OFFICE: On a typical day as many as 54,000 people call or visit 97 business offices where they receive individualized attention. Business office personnel are involved in just as many intra-Com-pany contacts every day to work out whatever arrangements are in the customers' best interests. Serving in this office are Janice Sanville, Priscilla Mayo, Florence Burke, Cherrie Wilson, and Elsie Bovee.

They manage the business by sampling reactions of customers to recent experiences with employees and service. They listen, they act. In Rhode Island, for example, customers said that they had difficulty in understanding explanations about service given by our Business Office Representatives. The girls received special training. In a short time, customers' reactions indicated that they were far happier with the clearer explanations.

Take a day - - - B.E. (before electronics) green eye-shade, pencil behind ear.

Any day - - - A.E. (after electronics) magnetic memories and high speed printers.

An Accounting force of 2,500 women and 400 men cajole and master 32 computers that issue monthly bills to 3 million customers, and paychecks to 46,000 employees. They maintain the ledgers for a business with revenues and other income of \$826 million, operating expenses, taxes and interest payments of \$737 million and construction expenditures of \$375 million.

Take a day - - -

Any day - - -

And customers visit 97 business offices in person or by telephone to discuss service and charges. The early Seventies will bring larger quarters for business offices in Haverhill, Framingham, and Worcester, Massachusetts; Montpelier, Vermont; Claremont and Manchester, New Hampshire; Biddeford and Waterville, Maine; and a new office in Wakefield, Rhode Island, to mention a few. The objective is to make it easier for customers to do business with New England Telephone.

Selling in the telephone business is mostly consulting with customers to provide service that does the best job at the lowest price. That's why some 400 highly trained Communications Consultants fan out over our five-state territory to help large users of communications services arrange the most efficient communications systems. Sales people offer customers 2,400 communication devices and services in thousands of combinations that can be tailored to the need of an individual customer. It's the job of the Communications Consultant, supported by other Sales and Marketing people, to put the right mix together for each customer with

complex communications requirements. And there are a lot of them — 20,000 with three or more telephone lines, and 10,000 with switchboards. All in the ubiquitous, unending effort to provide customers with the kind of communications services they want.

Stretch it ---

Compress it ---

Any day is 24 hours. So is the telephone business.

The day people close the business offices, garage the trucks, cubicle the headsets. They rejoin their families. They go to school. They serve in community activities. Over 500 employees — elected or appointed — shoulder their civic responsibilities. Others volunteer in many organizations working for the good of the community, soliciting for United Fund or Red Cross, participating in Blood Banks — everything from school committees to drug action groups. Telephone Pioneers — 19,000 veteran telephone people with their own programs of community service — work with the handicapped and underprivileged.

Three Plant Department men were honored in 1970 with the Bell System's Vail awards for their outstanding acts of bravery. Charles C. Yarrow received a silver Vail medal for exceptional bravery in saving a drowning woman. Francis G. Ryan, Jr. and James J. Smart each received a bronze Vail medal for rescuing a young woman from her burning home.

The night people take over telephone functions the day people have put aside. They are fewer in number, but without them, no tomorrow. The loneliest hours come after midnight — operators at switchboards to respond to customers' requests for assistance — switchmen in central offices to make sure that calls flow through the network without delay — maintenance men on the alert to correct a service interruption. A small team, but large enough to insure good service while cities and

towns sleep. And buttressed by the ever-ready force of day people who are available on call for emergencies.

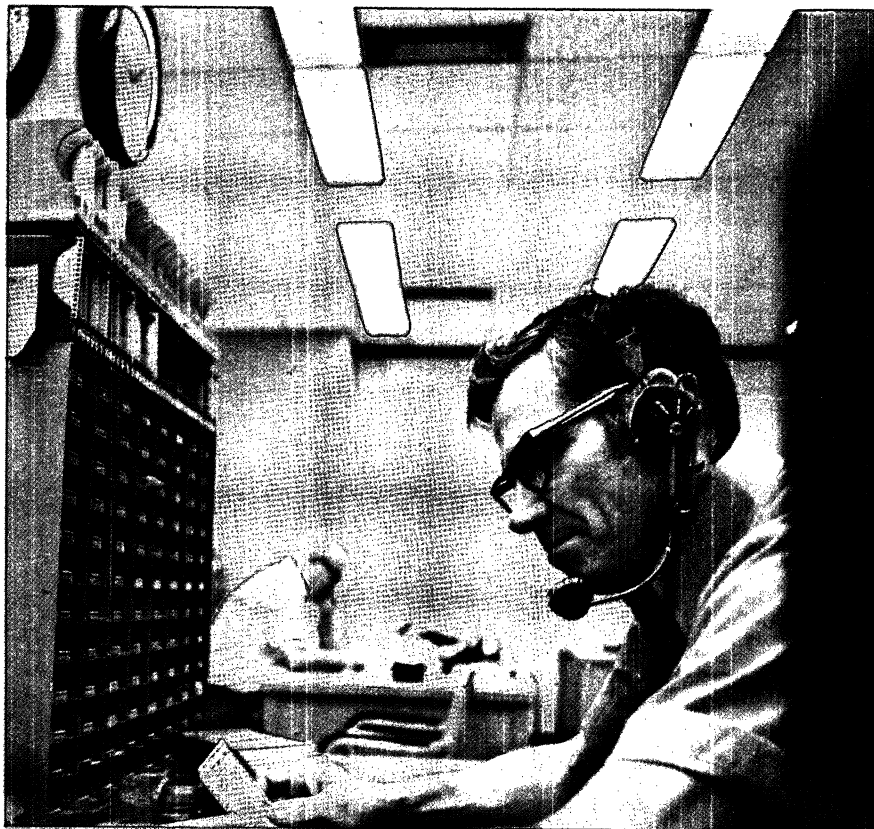
A driver clocks 210 miles on a solitary cross-state supply run. By the time he gets back to Boston, women accustomed to being first up in the family have arrived to prepare meals in Company cafeterias.

Local foremen from Maine to Rhode Island prepare to open their offices once again.

It's another day ---

Any day - - - in the telephone business. Multiply it by 365 and 1970 was a year of solid accomplishment, a year of growth, modernization and improvements that respond to present needs and build a strong base for the Seventies.

ROUND THE CLOCK: There is no closing time for telephone service. Gerard McDonald and Paul Slattery cover a centralized report bureau from 11:30 p.m. to 7 a.m. They are joined in the night hours by switchboard operators, central office switchmen, and other telephone men and women who make certain that service is continuous. It's a 24-hour a day responsibility.



Balance Sheets

ASSETS	Thousands of Dollars	
	December 31, 1970	December 31, 1969
TELEPHONE PLANT AND OTHER INVESTMENTS		
Telephone plant — at cost		
Land, buildings and equipment:		
In service	\$2,625,970	\$2,355,162
Under construction	125,107	98,337
Held for future use.....	3,502	3,156
	<u>2,754,579</u>	<u>2,456,655</u>
Less: Accumulated depreciation	687,236	640,460
	<u>2,067,343</u>	<u>1,816,195</u>
Miscellaneous physical property — at cost	1,556	37
	<u>2,068,899</u>	<u>1,816,232</u>
CURRENT ASSETS		
Cash	8,476	8,126
Receivables — less allowance for uncollectibles: 1970, \$825,000; 1969, \$741,000	141,412	124,173
Material and supplies	14,801	13,558
	<u>164,689</u>	<u>145,857</u>
PREPAID EXPENSES AND DEFERRED CHARGES	<u>27,452</u>	<u>22,373</u>
TOTAL ASSETS	<u>\$2,261,040</u>	<u>\$1,984,462</u>

The accompanying notes are an integral part of the financial statements, see page 15

LIABILITIES AND CAPITAL

Thousands of Dollars
December 31, 1970 December 31, 1969

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 (a)	199,979	190,151
Includes \$4,122,000 reserved		
	<u>1,113,346</u>	<u>1,103,518</u>

DEBT (b)

Long-term	786,798	612,551
Interim (average interest rate at December 31, 1970 of 6.2%)		
Advances from American Telephone and Telegraph Company, parent	61,500	22,800
Notes payable	142,050	97,580
	<u>990,348</u>	<u>732,931</u>

CURRENT LIABILITIES

Accounts payable	71,781	65,865
Advance billing and customers' deposits	6,844	7,190
Dividend payable	19,803	19,803
Taxes accrued	14,613	19,274
Interest and rents accrued (c)	14,003	9,221
	<u>127,044</u>	<u>121,353</u>

DEFERRED CREDITS

Unamortized investment credit	25,402	25,959
Deferred income taxes	4,190	—
Other	710	701
	<u>30,302</u>	<u>26,660</u>

TOTAL LIABILITIES AND CAPITAL	<u>\$2,261,040</u>	<u>\$1,984,462</u>
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Statements of Income and Reinvested Earnings

Thousands of Dollars
Year 1970 Year 1969

OPERATING REVENUES		
Local service	\$ 437,472	\$ 399,120
Toll service	355,254	312,568
Miscellaneous	32,344	29,341
Principally from directory advertising		
Less: Provision for uncollectibles	6,020	3,570
Total Operating Revenues (a)	819,050	737,459
OPERATING EXPENSES		
Maintenance	172,610	151,601
Depreciation	122,413	111,176
Portion of the cost, computed on the straight line method, of depreciable plant charged against current operations, approximately 5.1% in 1970 and 5.2% in 1969.		
Traffic	78,306	71,114
Costs, principally operators' wages, incurred in the handling of messages.		
Commercial	30,928	27,542
Primarily costs of local business office operations.		
Marketing	33,086	29,098
Accounting	29,933	26,603
Provision for pensions and other employee benefits (d)	58,557	47,481
Services received from parent under license contract	7,735	6,960
Other operating expenses	32,786	27,349
Less: Expenses charged construction	19,448	15,963
Total Operating Expenses	546,906	482,961
NET OPERATING REVENUES	272,144	254,498
OPERATING TAXES		
Federal and state income (e)	71,081	80,374
Other state, local and social security	70,402	59,162
Total Operating Taxes	141,483	139,536
OPERATING INCOME	130,661	114,962
OTHER INCOME — NET	6,934	4,215
Principally interest charged construction		
INCOME BEFORE INTEREST DEDUCTIONS	137,595	119,177
INTEREST DEDUCTIONS	48,555	36,774
Principally on long-term debt		
NET INCOME (a)	89,040	82,403
Add: Reinvested earnings at beginning of year	190,151	181,818
Deduct: Dividends declared (\$2.36 per share)	79,212	74,006
Miscellaneous — net	—	64
REINVESTED EARNINGS AT END OF YEAR (a)	\$ 199,979	\$ 190,151
EARNINGS PER SHARE (a)	\$2.65	\$2.63
Based on average shares outstanding, 33,564,549 in 1970 and 31,358,634 in 1969		

The accompanying notes are an integral part of the financial statements, see page 15

STATEMENTS OF SOURCE AND DISPOSITION OF FUNDS

SOURCE OF FUNDS	Thousands of Dollars		DISPOSITION OF FUNDS	Thousands of Dollars	
	Year 1970	Year 1969		Year 1970	Year 1969
Operations:					
Net income	\$ 89,040	\$ 82,403	Telephone plant	\$373,561	\$297,372
Depreciation	122,413	111,176	Dividends	79,212	74,006
	211,453	193,579	Increase in working capital	13,141	—
Increase in shares	—	105,884	Other	2,956	3,816
Increase in debt	257,417	68,947			
Decrease in working capital	—	6,784			
	\$468,870	\$375,194		\$468,870	\$375,194

NOTES TO FINANCIAL STATEMENTS

- (a) Total operating revenues include approximately \$8,635,000 collected since August 20, 1970, in the Commonwealth of Massachusetts under bond pending determination by state authorities as to the reasonableness of increased rates. The amount included in net income and reinvested earnings with respect to such revenues is approximately \$4,122,000 (\$.12 per share).
- (b) At December 31, 1970, comprises bonds and debentures aggregating \$55,000,000 maturing in 1974 and 1975 at rates of 3% and 2¾%, respectively, \$60,000,000 in 1977 and 1982 at rates of 3¼% and 3%, respectively, \$660,000,000 thereafter at rates ranging from 3⅞% to 8⅝% and seven year — 7% direct reduction notes of \$11,798,000 of which \$2,136,000 will mature during the year 1971.
- Since December 31, 1970 the Company has announced an intention to sell up to \$200,000,000 of 33 year debentures. The total proceeds of this offering will be applied toward the repayment of advances and notes payable.
- (c) At December 31, 1970, the Company's net annual rentals under existing long-term leases, which expire on various dates, aggregated approximately:
- | | | | |
|-----------|--------------|---|-------------|
| 1971-1974 | \$11,095,000 | — | \$8,093,000 |
| 1975-1979 | \$ 7,465,000 | — | \$5,748,000 |
| 1980-1984 | \$ 5,187,000 | — | \$2,699,000 |
- (d) The Company has a non-contributory plan covering all employees that provides for service pensions and 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 \$38,558,000 in 1970 and \$32,742,000 in 1969. About \$8,900,000 in 1970 and about \$5,000,000 in 1969 are the result of amendments to the plan effective June 1, 1969, principally the elimination of an adjustment of pensions for the old-age benefit under the Social Security Act.
- (e) Includes \$4,190,000 of taxes deferred in 1970 as a result of adopting accelerated tax depreciation.

The financial statements which appear on pages 12 to 15 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.

T. J. Berry

Vice President — Finance and Comptroller

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, 1970 and the related statement of income and reinvested earnings and statement of source and disposition of funds 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 1969.

In our opinion, subject to the outcome of rate case proceedings referred to in note (a) of Notes to Financial Statements, the financial statements (pages 12 to 15) present fairly the financial position of New England Telephone and Telegraph Company at December 31, 1970 and 1969 and the results of its operations and the source and disposition of its funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

BOSTON, MASSACHUSETTS

FEBRUARY 1, 1971

LYBRAND, ROSS BROS. & MONTGOMERY

COMPANY STATISTICS

	1970	1969	1968	1967	1966	1965
YEAR						
Revenues and Other Income	\$ 825,984,000	\$ 741,674,000	\$ 667,962,000	\$ 620,362,000	\$ 581,835,000	\$ 534,479,000
Expenses	546,906,000	482,961,000	413,791,000	387,960,000	361,364,000	332,115,000
Operating Taxes	141,483,000	139,536,000	140,290,000	121,665,000	117,323,000	107,802,000
Interest	48,555,000	36,774,000	27,825,000	20,701,000	17,297,000	16,791,000
Net Income	\$ 89,040,000	\$ 82,403,000	\$ 86,056,000	\$ 90,036,000	\$ 85,851,000	\$ 77,771,000
Net Income (Earnings) Per Average Share	\$2.65	\$2.63	\$2.81	\$2.94	\$2.96	\$2.85
Dividends Per Share	\$2.36	\$2.36	\$2.36	\$2.36	\$2.28	\$2.20

AT DECEMBER 31

NUMBER OF SHARES OUTSTANDING	33,564,549	33,564,549	30,623,329	30,623,329	30,623,329	27,295,436
Book Value Per Share	\$33.17	\$32.88	\$32.31	\$31.87	\$31.29	\$29.26
Number of Shareowners	59,489	57,242	54,667	53,330	51,200	44,090
TOTAL PLANT INVESTMENT	\$2,754,579,000	\$2,456,655,000	\$2,224,077,000	\$2,049,538,000	\$1,880,543,000	\$1,738,696,000
Depreciation Reserve	687,236,000	640,460,000	594,078,000	534,069,000	493,974,000	455,410,000
Net Plant Investment	2,067,343,000	1,816,195,000	1,629,999,000	1,515,469,000	1,386,569,000	1,283,286,000
TOTAL TELEPHONES IN SERVICE	5,097,360	4,883,298	4,629,415	4,475,902	4,285,954	4,075,522
Dial Operated	100%	100%	100%	100%	100%	99.7%
Customers with Direct Distance Dialing	97%	95%	92%	91%	85%	84%
% RESIDENCE EXTENSIONS TO RESIDENCE MAIN	40%	38%	37%	36%	34%	32%
HOUSEHOLDS WITH TELEPHONES	93.3%	92.9%	92.3%	91.8%	90.4%	89.2%
EMPLOYEES	46,043	42,772	39,016	37,832	36,608	34,562

YEAR

CONSTRUCTION EXPENDITURES	\$ 374,570,000	\$ 295,457,000	\$ 216,479,000	\$ 219,263,000	\$ 189,912,000	\$ 169,616,000
ORIGINATING CALLS - AVERAGE BUSINESS DAY	25,706,000	24,550,000	22,997,000	22,082,000	20,424,000	19,199,000
LONG DISTANCE MESSAGES	460,908,000	420,955,000	373,951,000	348,951,000	323,208,000	291,688,000
Customer Dialed	74%	71%	69%	66%	63%	60%
TOTAL TAXES	\$ 212,270,000	\$ 204,222,000	\$ 199,236,000	\$ 177,007,000	\$ 161,144,000	\$ 156,660,000
Federal Income and Social Security	76,021,000	83,838,000	91,567,000	79,073,000	78,094,000	69,513,000
State and Local	65,462,000	55,698,000	48,723,000	42,592,000	39,229,000	38,289,000
Federal Excise	66,346,000	60,877,000	55,460,000	52,311,000	41,152,000	47,058,000
State Sales	4,441,000	3,809,000	3,486,000	3,031,000	2,669,000	1,800,000
Total Taxes per Customer per Month	\$5.85	\$5.82	\$5.98	\$5.44	\$5.11	\$5.12

Board of Directors

James S. Barker

Vice Chairman, Bank of New Hampshire, National Association, Manchester, New Hampshire

Allen G. Barry

President, New England Telephone and Telegraph Company

George R. Brown

Former Chairman of the Board, USM Corporation, Boston, Mass.

Louis W. Cabot

Chairman of the Board, Cabot Corporation, Boston, Mass.

Abram T. Collier

President, 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

Trustee, Brown & Ives, Providence, Rhode Island

Elliott M. Gordon

President, Towle Manufacturing Company, Newburyport, Mass.

Milton P. Higgins

Chairman of the Board, Norton Company, Worcester, Mass.

Leland J. Kalmbach

Honorary Chairman, Massachusetts Mutual Life Insurance Company, Springfield, Mass.

Maurice Lazarus

Vice Chairman, Federated Department Stores, Inc., Boston, Mass.

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

Chairman of the Board and President, Burlington Savings Bank, Burlington, Vermont

H. Bradford Washburn, Jr.

Director, Museum of Science, Boston, Mass.

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Allen G. Barry

Vice Presidents

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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

Rodney M. Torres

Joseph J. Urban

Treasurer

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Maine

Bruce Harriman
Massachusetts

Julian S. Hartwell
New Hampshire

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Rhode Island

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Vermont

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