

**1996 Fortis Inc. Annual Report**

An aerial night photograph of a residential neighborhood covered in snow. Numerous houses are visible, with many windows glowing with warm interior lights. The scene is captured from a high angle, showing the layout of the houses and the surrounding trees. The overall color palette is dominated by the cool blues of the night and the warm yellows of the artificial lights.

1996 Annual Report

*At home... with service*

**FORTIS** INC.



# PROFILE

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Fortis Inc. is a diversified corporation having holdings in five companies, three of which are electric utilities. Services provided by companies in the Fortis family help our customers and their families feel at home 24 hours a day, every day.

Newfoundland Power serves approximately 210,000 customers or about 85% of the electrical consumers in the Province of Newfoundland. It is regulated by the Board of Commissioners of Public Utilities of Newfoundland.

Maritime Electric serves approximately 62,000 customers, or about 93% of the electrical consumers in the Province of Prince Edward Island. It is governed by the Maritime Electric Company Limited Regulation Act.

Canadian Niagara Power serves approximately 13,500 customers in Fort Erie, Ontario, and markets electricity into the United States and to the City of Cornwall, Ontario.

Fortis Inc. has two non-utility subsidiaries. Fortis Trust, with operations in Newfoundland and Prince Edward Island, is a deposit-taking institution which lends primarily on residential mortgages. Fortis Properties owns and manages hotels and commercial real estate in Atlantic Canada. It also holds a 50% interest in AT&T Canada (Newfoundland) which, through AT&T Canada Long Distance Services, provides long distance telecommunications in Newfoundland as part of the national AT&T Canada Long Distance Service system.

The Common Shares of Fortis Inc. are traded on The Montreal Exchange and The Toronto Stock Exchange. The Preferred Shares of Fortis Inc. are traded on The Toronto Stock Exchange.

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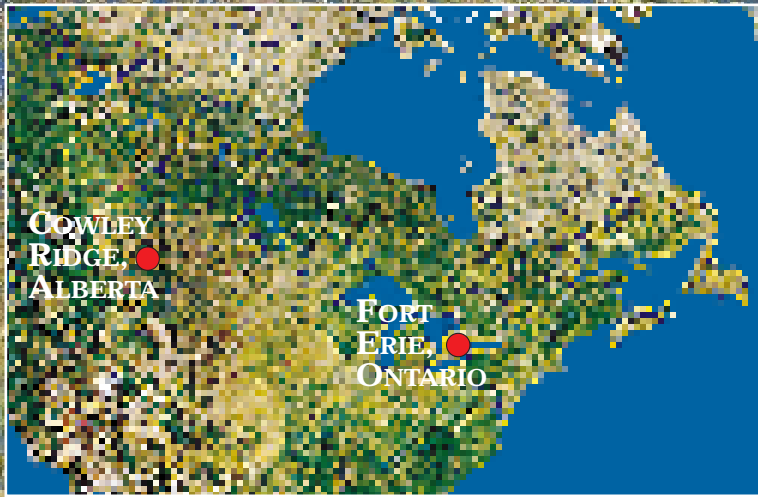
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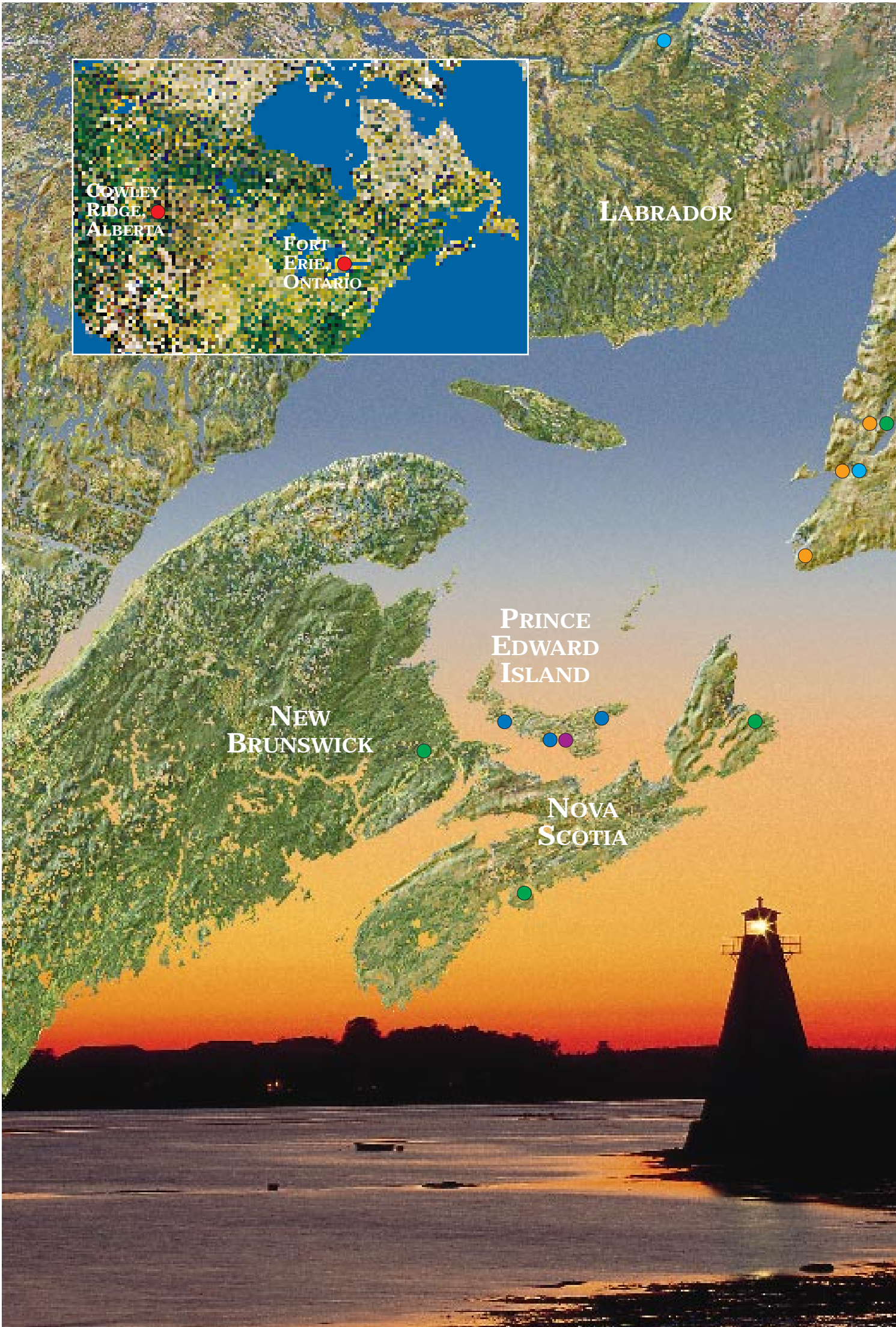


LABRADOR

PRINCE  
EDWARD  
ISLAND

NEW  
BRUNSWICK

NOVA  
SCOTIA





NEWFOUNDLAND

## MAJOR SERVICE CENTRES



St. John's  
Carbonear  
Bonavista/Port Union  
Marystown  
Clareville  
Gander  
Grand Falls  
Corner Brook  
Stephenville  
Port aux Basques



Charlottetown  
Summerside  
Roseneath



Fort Erie  
Cowley Ridge



St. John's  
Corner Brook  
Gander  
Marystown  
St. Anthony  
Halifax  
Sydney  
Moncton



St. John's  
Clareville  
Gander  
Grand Falls  
Corner Brook  
Stephenville  
Goose Bay



St. John's  
Corner Brook  
Charlottetown

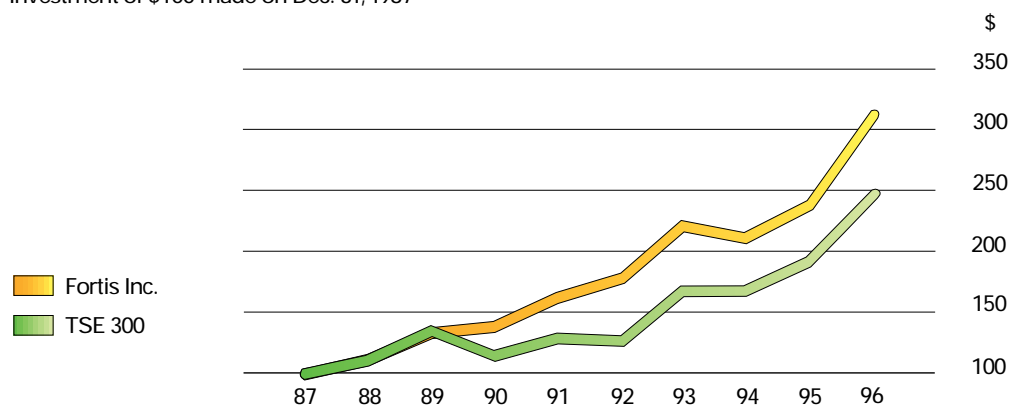


Services provided by companies in the Fortis family help our customers and their families feel at home 24 hours a day, every day.

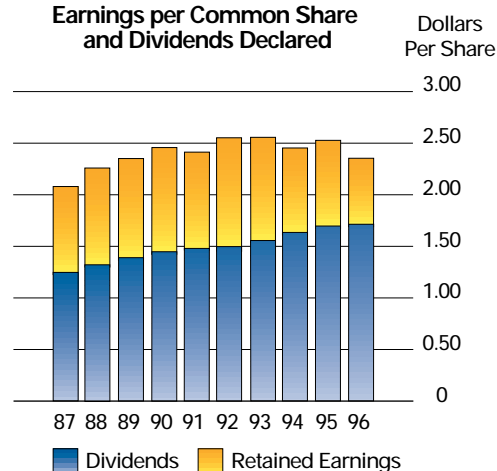
# FINANCIAL HIGHLIGHTS

## Cumulative Total Return

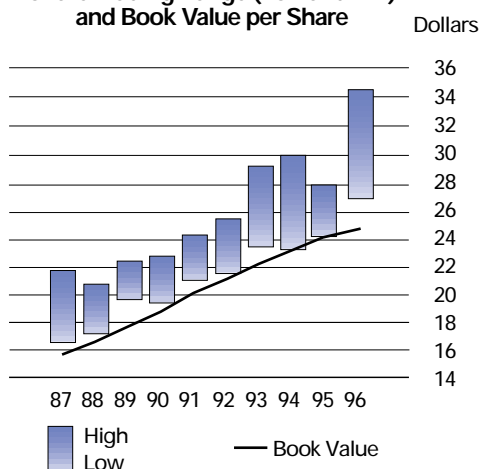
Investment of \$100 made on Dec. 31, 1987



## Earnings per Common Share and Dividends Declared



## Share Trading Range (TSE and ME) and Book Value per Share



## Annual Comparison

	1996	(in thousands)	1995
Operating revenues	\$ 474,293		\$ 447,035
Earnings applicable to common shares	29,045		30,592
Total assets	997,462		916,409
Common shareholders' equity	309,851		294,698
Cash from operations	86,351		60,701

## Quarterly Earnings and Dividends Paid per Common Share

	1996		1995	
Quarter Ended	Earnings	Dividends	Earnings	Dividends
March 31	\$ 0.96	\$ 0.43	\$ 0.94	\$ 0.42
June 30	0.94	0.43	0.98	0.42
September 30	0.25	0.43	0.34	0.42
December 31	0.21	0.43	0.27	0.43
Annual Totals	\$ 2.36	\$ 1.72	\$ 2.53	\$ 1.69





## REPORT TO SHAREHOLDERS

The growth of Fortis continued in 1996 with the acquisition of a 50% interest in Canadian Niagara Power, and further expansion of Fortis Hospitality Services. Both made a positive contribution to earnings in the year.

The earnings of Fortis in 1996 were \$29.0 million, down from \$30.6 million in 1995. Earnings per share declined to \$2.36 from \$2.53. All subsidiaries, except Newfoundland Power, recorded increased earnings in 1996.

The earnings of Newfoundland Power declined as the result of a regulatory decision in 1996 reducing its allowed return. The allowed rate of return on common equity for 1996-97 was determined to be in the range of 10.75% to 11.25%. Earnings of Newfoundland Power were \$25.1 million, down \$2.5 million from 1995.

Regulated returns for Canadian utilities have declined in recent years commensurate with the

Fortis is a national company with its head office in St. John's, Newfoundland

lower interest rate environment. Newfoundland Power is the only Fortis utility which continues to have a regulated return on equity.

Earnings from other Fortis subsidiaries increased by \$0.6 million, while the contribution from our interest in Canadian Niagara Power was \$1.0 million.

The acquisition on October 10, 1996, of a 50% interest in Canadian Niagara Power gives Fortis an important strategic position in the evolving electric utility industry in Ontario. Our partner, Niagara Mohawk Power Corporation, which serves a large portion of upstate New York, retains the remaining 50% interest through a wholly-owned Canadian subsidiary. Under the terms of the shareholder agreement, Fortis and Niagara Mohawk have agreed that Canadian Niagara Power will be the exclusive vehicle for electric utility investments by both companies in Ontario.

With investments in three electric distribution utilities in different provinces, Fortis is the leader in this industry in Canada. Newfoundland Power continues to operate under traditional rate of return regulation, while Maritime Electric and Canadian Niagara Power are at the leading edge of deregulation, and are performing well.

President and Chief Executive Officer, Stanley Marshall on the left, with Angus Bruneau, Chairman of the Board





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Electricity rates in Prince Edward Island continue to decline as Maritime Electric has implemented reductions in accordance with the 1994 legislation that deregulated the Company. The success of Maritime Electric in implementing rate reductions of 12% since 1993, while maintaining profitability, and improving reliability, clearly demonstrates the capabilities of the Company and the benefits of deregulation. Maritime Electric was able to produce a small increase in earnings through improved efficiency and load growth.

Canadian Niagara Power distributes electricity in the Town of Fort Erie which is across the Niagara River from Buffalo, New York. Rates are set at 97% of the average residential rates charged by adjacent municipal utilities in Ontario. Commercial rates are negotiated with customers, but cannot exceed the rates charged by adjacent municipal utilities.

Our two non-utility subsidiaries continued to perform well in 1996. Fortis Trust grew slightly in profitability and assets. The earnings of Fortis Properties increased by \$0.5 million, reflecting acquisitions made in the past two years. With the purchase of three hotels in Sydney, Nova Scotia in 1996, the Company is now Atlantic Canada's largest hotel operator.

Our Newfoundland partnership in telecommunications has benefited from the transition of Unitel to AT&T Canada Long Distance Services. Earnings remained essentially unchanged from the previous year as efforts were directed at growing the customer base.

Fortis was established to achieve growth through geographic and business diversification, while maintaining returns and risk profiles consistent with traditional utility operations. We have achieved growth in the core electric utility business and made other investments in industries that are characterized



by similar capital intensity and customer service requirements. The return to our shareholders has exceeded The Toronto Stock Exchange Gas/Electric Utilities Index.

Our success is attributable to the efforts of all of the dedicated people in the Fortis family. Our employees strive continually to provide services of high quality and value. We succeed when our customers can comfortably take these for granted. We thank all employees for their efforts.

During 1996, the transition at the senior management level was completed. Angus A. Bruneau retired as CEO in May, while remaining Chairman of the Board. H. Stanley Marshall, who has been President of the Corporation since October 1995, assumed the CEO duties.

We welcome A. Fletcher McLaughlin to the Board of Directors, and thank all directors for their support throughout the year.

Angus A. Bruneau  
Chairman of  
the Board

H. Stanley Marshall  
President and  
Chief Executive Officer



◀ The Fortis Building is a prominent land-mark in the City of St. John's



# ACHIEVING OUR VISION

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Since the establishment of Fortis in 1987, we have pursued a strategy of expanding the core electric utility business and diversifying into other businesses within our service territory. Our vision is to be the leading service corporation within Atlantic Canada, and the leader in electric distribution services in Canada. The core business will remain the ownership of electric distribution utilities. Expansion into new business areas will be undertaken where there are real prospects for enhancing existing investments.

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**John C. Walker**

President and Chief Operating Officer, Fortis Properties

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**Aidan F. Ryan**

Chairman, President, and Chief Executive Officer, Newfoundland Power

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**H. Stanley Marshall**

President and Chief Executive Officer, Fortis Inc.

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**Philip G. Hughes**

President and Chief Executive Officer, Maritime Electric

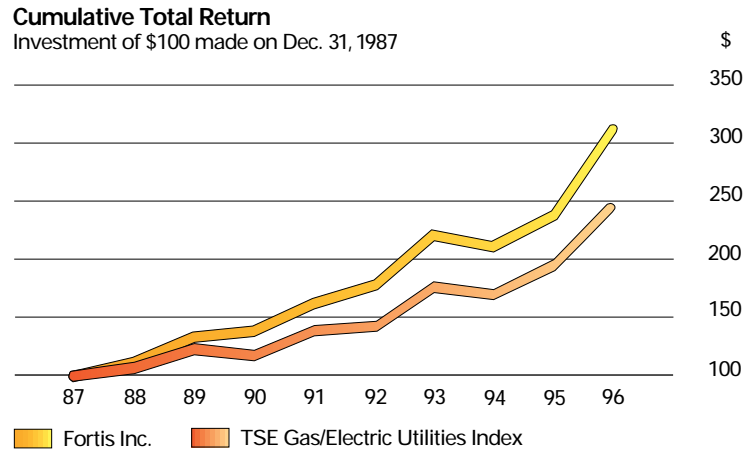
Through growth and diversification, we can continue to strengthen our corporation. Our goal is to utilize our resources to maximize value to our shareholders over the long term. To achieve this goal, we believe that Fortis must continue to grow without significantly disturbing the risk-reward balance which has been associated with the operation of electric utilities in Atlantic Canada. Consequently, we have adopted three primary objectives:

- **Return**—Earnings should continue at a rate at least commensurate with those of well-run Canadian utilities.

As the nature of the electric utility business changes, particularly in respect of regulation, direct comparisons with other utilities is becoming more complex. From the shareholder



perspective, the most meaningful and objective measure of performance is to compare the total return from an investment in Fortis with The Toronto Stock Exchange



("TSE") Gas/Electric Utilities Index. A \$100 investment in Fortis Common Shares made in 1987 would have grown to \$316 by the end of 1996, if dividends had been re-invested. A similar investment in the TSE Gas/Electric Utilities Index would have grown to \$248.

- **Risk**—The financial and business risks should not be substantially greater than those associated with the operation of an electric utility in Atlantic Canada.

At year end, our investments in Newfoundland Power and Maritime Electric represent 86% of our total investment. There is only one other investor-owned utility in Atlantic Canada, Nova Scotia Power which is regulated on its return similar to Newfoundland Power. Maritime Electric, which was deregulated in 1994, faces higher business risk in the short term. However, given the move to deregulation throughout the industry in North America, and the success of Maritime Electric in making the transition, it may face less business risk relative to the regulated utilities over the long term.

In terms of financial risk, Fortis does not attempt to leverage its investments with debt at the parent level. Ideally, each Fortis subsidiary will have sufficient resources to be self-supporting. This has always been true of its three utility investments. However, this is not always possible at the early stages of developing a new business. Also, some flexibility is necessary for Fortis to allocate its financial resources to maximize the overall benefit.



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At this point in its diversification, the risk of Fortis is essentially synonymous with that of its Atlantic utility subsidiaries.

- **Growth** – The growth in assets and market capitalization should be greater than the average of other Canadian public corporations of similar size.

In 1995, the last year for which comparable national data is available, Fortis essentially held its own in terms of growth.

While the continued profitable expansion of our utility business is our preferred investment, slow growth rates for existing operations mean that any significant expansion must come from the acquisition of other systems. The acquisition in 1996 of a 50% interest in Canadian Niagara Power leaves us well positioned to take advantage of expected opportunities in the electric utility industry in Ontario.

Newfoundland Power and Maritime Electric have the potential for acquiring adjacent, government-owned operations and are prepared to do so.

Through Newfoundland Power, Maritime Electric, and Canadian Niagara Power, Fortis has extensive expertise in the operation and management of electric utilities. We will aggressively seek related opportunities in other jurisdictions in Canada but recognize that such opportunities will be limited because of the dominance of the industry by large government-owned utilities.

With limited prospects for expansion of the core business, we will continue to pursue growth from the expansion of our non-utility operations. In diversifying, we have endeavored to stay close to our utility roots, both geographically and in the nature of the business.

We have also been conservative in making small initial investments upon entering new business areas. In all our operations, prudent capital management and the delivery of quality service are the central success factors.

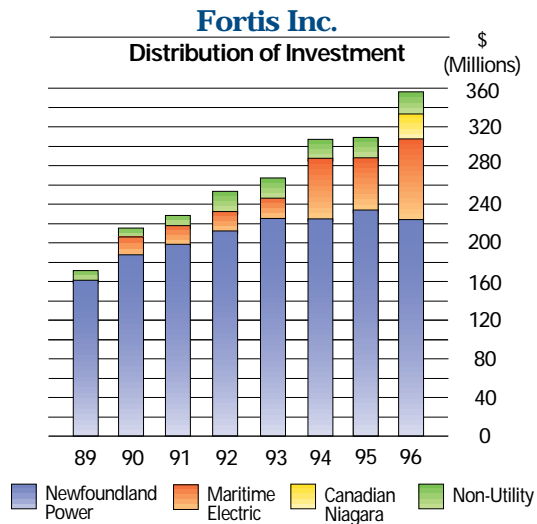


Aerial view of the Rankine Generating Station above Niagara Falls

Fortis is first and foremost a service provider. We operate in several businesses in different parts of Canada under different names. Since the ability to respond to local needs is important for quality service, each subsidiary and affiliate exercises considerable autonomy. We are generally perceived to be the strongest service organization in Newfoundland and Prince Edward Island. We are one of the fastest growing companies in Atlantic Canada.

We are the only company operating electric distribution systems in three provinces. Rates charged by Newfoundland Power are comparable with the median of those charged across Canada. The rates charged by Maritime Electric are higher. Costs of generation, transmission, and distribution blend to determine electricity rates to consumers, with sources of generation playing the most significant role in determining rates. Much of the advantage of lower cost jurisdictions relates to government support of crown corporations and access to low cost hydroelectric and natural gas generation.

In contrast to absolute pricing comparisons, changes in rates provide a measure of a utility's ability to control costs and adapt to changes in the industry. Of the 12 major electric utilities in Canada, Newfoundland Power had the lowest increase in electrical rates over the period January 1, 1991 through January 1, 1997. Electrical rates in Prince Edward Island actually declined 3.3% over the same period.

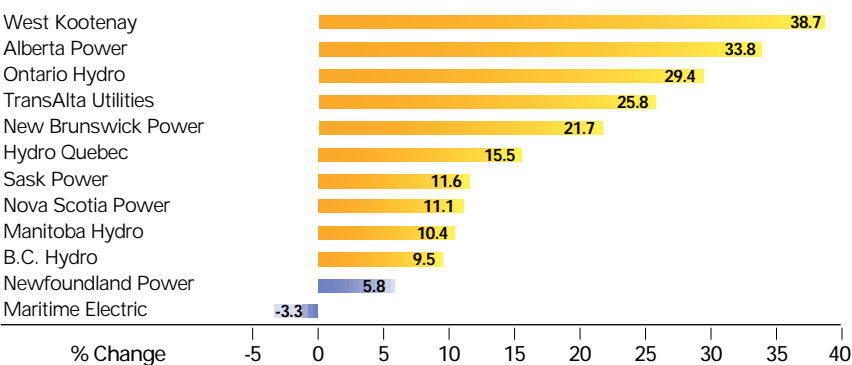


Utility operations are a Fortis strength



Fortis has the sound financial and human resource base on which to extend its horizons. Our well-trained and highly-motivated people are our most valuable resource. We will continue to recruit and develop the best talent for the expansion of our enterprise. Our balance sheet is strong and we have good access to capital on reasonable terms. We will utilize our financial capacity prudently in expansion and diversification. We will remain focused in terms of the nature of our operations, while being sufficiently flexible to respond opportunistically to changing circumstances.

Cumulative Electric Rate Changes in Canada From Jan. 1, 1991 to Jan. 1, 1997



Fortis is not a passive investor. We make investments only where we can, at the outset, significantly influence management of the operations. We are prepared to accept less than full control but we must be at least a 50% partner, or the largest single shareholder, and there must be a reasonable possibility of acquiring full control.



The Delta Sydney in Cape Breton, Nova Scotia, is a popular destination for business and leisure travellers

To achieve our vision in a decentralized organization, all employees within Fortis must share its central values. We hold fundamental that:

- All employees will consistently observe the highest ethical standards. We strive to earn and retain the trust and respect of all those whom we encounter inside and outside our organization.
- Decision making is delegated within the organization to the group or person most knowledgeable about the situation. We do not manage by manual; we empower our people, giving them the tools to do their jobs effectively. We are committed to training and educating our employees and keeping them informed of developments within the organization.
- Superior performance by employees is encouraged, recognized and rewarded. Group and individual performance are significant factors in determining compensation.
- All employees are expected to provide a full account of the financial and human resources entrusted to them. We account for our actions both individually and corporately. All those who have legitimate interest in the affairs of the company will be provided information in the most meaningful manner to assess its performance.



Our telecommunications partnership launches a new name

Fortis is building on a long record of delivering services of high quality and value to our customers and providing good returns to our shareholders. It is the source of our financial strength and the product of our strength in people. Our ability to attract, develop, and retain capable staff is the critical component in the growth of our enterprise. Our investment of capital has been opportunistic; our investment





# FINANCIAL RESULTS

## MANAGEMENT DISCUSSION AND ANALYSIS

The reduction in the earnings of Newfoundland Power masks the improved performance of all other subsidiaries and the contribution to earnings from our 50% share of Canadian Niagara Power. Earnings applicable to common shares declined

### **Karl W. Smith**

Vice President, Finance and CFO, Newfoundland Power

### **G. Wayne Watson**

Vice President, Finance and CFO, Fortis Inc.

### **Glen C. King**

Vice President, Finance, Fortis Trust

### **J. William Geldert**

Vice President, Finance, Maritime Electric

from \$30.6 million in 1995, to \$29.0 million in 1996. The earnings of Newfoundland Power decreased by \$2.5 million, while the earnings from all other subsidiaries increased by \$0.6 million. The contribution to earnings from our interest in Canadian Niagara Power was \$1.0 million. Earnings per common share decreased to \$2.36 in 1996, from \$2.53 in 1995. The return on average common equity in 1996 was 9.61% compared to 10.74% in 1995.

The Corporation extended its twenty-three year record of increasing dividends on Common Shares. Dividends paid per Common Share increased to \$1.72 in 1996 from \$1.69 in 1995.



## Operating Revenues

Consolidated operating revenues increased by \$27.3 million or 6.1% over 1995. The increase of \$2.7 million in Newfoundland Power is mainly attributable to an increase in sales in the residential sector. Maritime Electric recorded an increase of \$4.5 million representing an increase in all sectors, reflecting the overall strength of the Prince Edward Island economy. The \$4.1 million in operating revenue of Canadian Niagara Power represents our share since the date of acquisition on October 10, 1996. The revenues of Fortis Properties increased by \$15.2 million reflecting a full year of operation for the Halifax properties and for the two shopping malls in Newfoundland which were acquired in 1995. The hotel properties acquired in 1995 and 1996 also contributed to the increase. Fortis Trust increased revenues in 1996 by \$0.4 million through increased mortgage lending activity.

### Operating Revenues

	1996	(in millions)	1995
Newfoundland Power	\$ 341.6		\$ 338.9
Maritime Electric	86.2		81.7
Canadian Niagara	4.1		–
Fortis Properties	35.8		20.6
Fortis Trust	5.5		5.1
Other	1.1		.7
	<u>\$ 474.3</u>		<u>\$ 447.0</u>

## Operating Expenses

Consolidated operating expenses increased by \$17.4 million or 4.9% over 1995. Newfoundland Power's expenses decreased by \$1.7 million. Depreciation expense decreased by \$2.6 million as a result of implementing the findings of a periodic depreciation study. This decrease in depreciation was partially offset by increases in purchased power related to increased sales.

The increase of \$3.5 million in operating expense for Maritime Electric reflects increased purchased power costs associated with increased sales and accelerated amortization of deferred costs. The increase of \$13.2 million



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in Fortis Properties operating expenses reflects the acquisition activity of 1995 and 1996.

### Finance Charges

Finance charges increased by \$4.1 million which includes \$2.9 million related to the dividends on the First Preference Shares, Series B issued in December 1995. The remainder of the increase is principally due to interest charges on the debt issues of \$40.0 million by Newfoundland Power in May 1996, and \$20.0 million by Maritime Electric in July, 1996.

### Income Taxes

Income taxes increased by \$7.7 million in 1996 over 1995. Approximately \$5.5 million of this increase was incurred by Newfoundland Power. The 1995 income taxes were lower due to a \$9.8 million special contribution by Newfoundland Power to its pension fund, which reduced income taxes by \$4.1

million in that year.

### Liquidity and Capital Resources

Cash from operations amounted to \$86.4 million in 1996 compared to \$60.7 million in 1995. This provided a substantial portion of the Corporation's cash requirements.

Growth in the number of Common Shares was attributable to the various share purchase plans of the Corporation. The number of Common Shares outstanding increased by 290,826 which provided \$8.1 million in additional equity.

Dividends declared on Common Shares amounted to \$21.4 million in 1996 compared to \$20.6 million in 1995.

Newfoundland Power and Maritime Electric financed their capital programs through internally generated cash and long-term borrowings.



Street lighting is an important component of our utility business

Newfoundland Power raised \$40.0 million through the issuance of 30-year bonds with a coupon rate of 8.9%. Maritime Electric raised \$20.0 million through the issuance of 35-year bonds with a coupon rate of 8.92%.

Newfoundland Power paid a special common dividend of \$15.5 million in 1996. This reduced the proportion of average common equity in the capital structure from 47.9% in 1995 to 46.6%.

The Newfoundland Board of Commissioners of Public Utilities ordered that, for the purpose of determining the regulated return, the average common equity cannot exceed 45%.

Maritime Electric redeemed Preference Shares for a total cash consideration of \$8.1 million. A \$15.0 million 30-year bond issue was completed by Maritime Electric on January 10, 1997, with a coupon rate of 8.63%. The proceeds of this issue will be used in part to retire the \$10 million 11.2% long-term debt issue due in 1998. The Company pre-financed because of favourable interest rates.

The capital expenditures of Fortis Properties were \$12.0 million in 1996, down significantly from \$48.9 million in 1995. The Company purchased three hotels in Sydney, Nova Scotia during 1996, renovated the two Newfoundland hotels, and carried out energy retrofits at the Maritime Centre and at the Centennial Building in Halifax. Capital expenditures were financed primarily through loans, capital leases, and internal cash flow.

### Operating Expenses

	1996	(in millions)	1995
Newfoundland Power	\$ 273.2		\$ 274.9
Maritime Electric	64.2		60.7
Canadian Niagara	1.9		–
Fortis Properties	27.0		13.8
Fortis Trust	1.2		1.1
Other	2.9		2.5
	<u>\$ 370.4</u>		<u>\$ 353.0</u>

### Capital Expenditures

	1996	(in millions)	1995
Newfoundland Power	\$ 26.8		\$ 28.2
Maritime Electric	14.1		12.8
Canadian Niagara	0.5		–
Fortis Properties	12.0		48.9
	<u>\$ 53.4</u>		<u>\$ 89.9</u>



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During 1996, the mortgage bonds on the Maritime Centre, and the mortgages on two shopping malls, were repaid using funds borrowed from Fortis at lower interest rates.

### **Risk Analysis**

Our subsidiaries are well positioned to meet the challenges from changes in regulation, increased competition, and slow economic growth in parts of our service territory.

Newfoundland Power operates under traditional rate of return regulation whereby rates to customers are based on the cost of providing service, including a reasonable return. The Company is aware of the changes in regulation in other jurisdictions and is preparing for similar

changes to its regulatory environment.

Newfoundland Power already faces competition in the space heating market. Significant increases in the cost of fuels during 1996 made electric heating more competitive.

The Newfoundland economy is anticipated to decline in 1997. Growth is expected to return in 1998 as a result of recent positive oil and mining developments in the Company's service territory.

Maritime Electric meets the majority of its energy requirement through purchases from New Brunswick Power.

Risks facing the Company are its exposure to increases in the price of oil, and the availability of supply from New Brunswick Power's Point Lepreau Nuclear Generating Station.



Regular inspection of electrical systems improves the reliability of supply to our customers

The Company has signed a Five Year Energy Purchase Agreement with New Brunswick Power to reduce exposure to future oil price increases.

Fortis Properties has strategically positioned itself to manage risk by diversifying its business base and operating territory. The business base includes commercial and retail properties, hospitality services, and telecommunications.

Fortis Trust faces interest rate risk and strives to minimize its exposure by matching the maturities of assets and liabilities. The Company's credit risk philosophy is conservative, with a primary focus on insured residential first mortgages.



Fortis Trust lends primarily on insured residential mortgages

## Outlook

Our largest subsidiary, Newfoundland Power, does not anticipate any significant change in earnings in 1997. The same is true for Maritime Electric.

The redemption of the Series A First Preference Shares, together with our share of a full year's earnings of Canadian Niagara Power, and improved results for other subsidiaries, should result in an improvement in earnings for Fortis in 1997.





# OPERATIONS

## MANAGEMENT DISCUSSION AND ANALYSIS

### Newfoundland Power

Newfoundland Light & Power Co. Limited ("Newfoundland Power") is the principal distributor of electricity in the Province of Newfoundland, providing service to more than 210,000 customers, representing approximately 85% of the electrical consumers in the Province. The balance of the population is serviced by Newfoundland and Labrador Hydro ("Newfoundland Hydro"), a Crown Corporation which also serves several large industrial customers. Newfoundland Power generates approximately 10% of its energy needs and purchases the remainder of its supply from Newfoundland Hydro.

Bad weather  
demands good  
service

### Rate Hearing

During the past year, Newfoundland Power filed an application for a rate increase with the Newfoundland Board of Commissioners of Public Utilities ("PUB"). This was the first time since 1991 that the Company had applied for a general increase in rates.

Approval was sought for an average increase of 2.92% effective November 1, 1996. The PUB determined that the allowed return on average common equity should be in the range of 10.75% to 11.25 %. It approved an increase in rates of approximately 1.0% effective January 1, 1997, based on a rate of return on average common equity of 11.0%. The Company had also proposed restructuring the residential and commercial rate classes. The PUB rejected the proposal in respect of the residential class, but approved the proposal respecting the commercial classes.

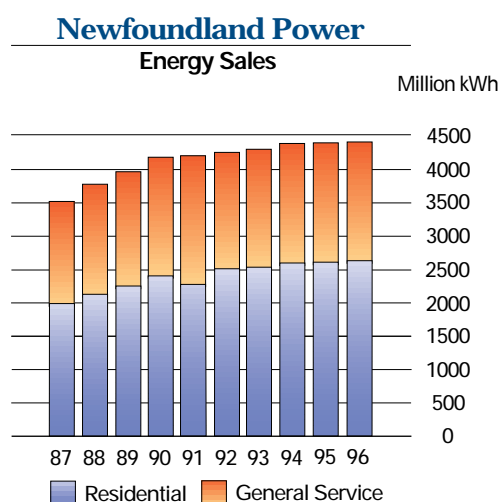
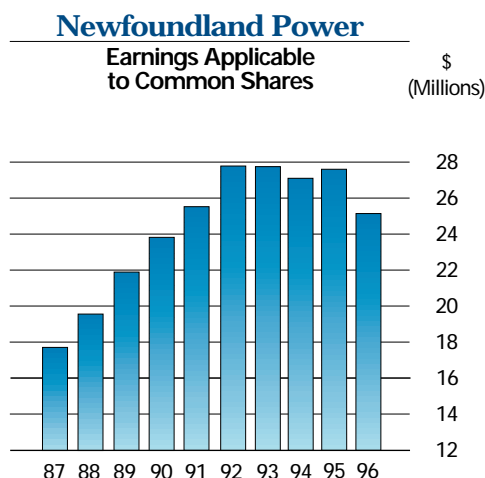


## Regulation

While regulatory changes are occurring in many jurisdictions, Newfoundland Power continues to be subject to traditional rate of return regulation. The Company is concerned about the cost of regulation and is committed to working with the PUB and others to minimize these costs. Newfoundland Power is actively monitoring the regulatory changes in other jurisdictions and is preparing for similar changes in Newfoundland.

## Financial Results

In conjunction with the lower allowed rate of return, earnings applicable to common shares decreased to \$25.1 million in 1996 from \$27.6 million in 1995. Revenue from energy sales increased slightly in 1996 to \$337.9 million from \$335.3 million in 1995. The cost of power purchased from Newfoundland Hydro increased to \$192.1 million from \$191.0 million in 1995 as increased sales resulted in higher energy purchases. Other operating costs, at \$54.7 million, declined compared to the previous year despite a reduction in the amount of general overhead expenses which were capitalized. The results of the most recent depreciation study were implemented in 1996, reducing depreciation rates and expense compared to the previous year. As a result of issuing \$40.0 million in long-term bonds in May 1996, finance charges increased by \$1.3 million compared to 1995. Net capital expenditures declined to \$26.8 million in 1996 from \$28.2 million in 1995, and were focused on maintaining the existing electrical system and enhancing its reliability.







More customers are installing heat pumps because of their energy efficiency

### Energy Sales

Energy sales were impacted by the generally poor economic conditions experienced in the Province in 1996. Sales increased by 1% over 1995 amounts to 4,425 GWh. This increase took place largely in the residential sector as a result of adding approximately 2,000 new customers. Sales in the commercial sector increased by 0.5%, resulting from higher sales to the Hibernia construction site. Otherwise, sales to the commercial sector were lower than the previous year.



### Customer Services

In 1996, Newfoundland Power continued to focus on meeting increased levels of customer expectations. During the year, programs were offered to help customers take advantage of modern heating technologies and to install energy saving features in their homes. An extensive program of insulator replacement was continued in order to improve the reliability of the electrical system. A pre-authorized payment plan was introduced to make it easier for customers to pay their electric bill. Initiatives undertaken at Newfoundland Power's call centre made it easier for customers to contact the Company.

Newfoundland Power initiated a transfer of its Customer Service System to a more advanced computing platform and database management system. Continued investment in this area will result in lower overall costs and enhanced customer service.

### Environmental Initiatives

Newfoundland Power continued to focus on environmental stewardship in 1996 by destroying all PCB waste which accumulated during the year. In addition, all electrical equipment close to municipal water supplies was surveyed and the equipment was replaced if any PCB's were detected. A number of environmental initiatives were carried out at the Company's decommissioned Steam Plant in St. John's including the



The installation of a sea water based heat pump system



removal of contaminated soil. As a result of its ongoing initiatives Newfoundland Power received two environmental related awards during the year.

## Human Resources

Newfoundland Power expanded its incentive pay plan in 1996 to include all employees. Payments are based on corporate performance measured against targets for system reliability, safety,

operating costs, residential energy sales, and employee absenteeism.

The Company continued to emphasize employee development by offering numerous training programs including supervisory skills and technical development for technicians and electrical tradespeople. Significant emphasis was also placed on improving the computer skills of all employees to enable them to take advantage of the improved information technology infrastructure. These initiatives will help employees to better serve the needs of the Company's customers.

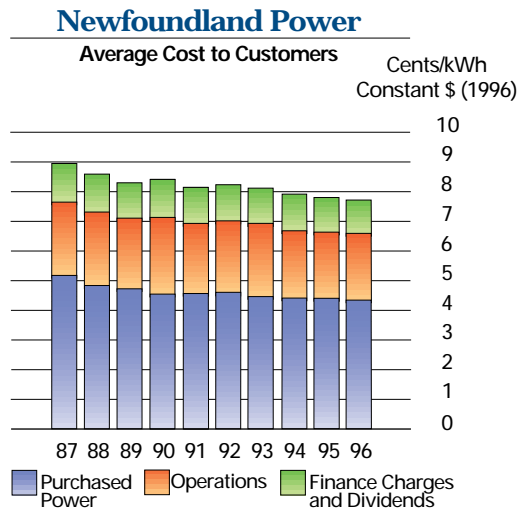
This past year was one of transition for the senior management team at Newfoundland Power. Aidan F. Ryan retired as President at year end but will remain Chairman and CEO until May 1997. Philip G. Hughes, who was previously President of Maritime Electric, became President of Newfoundland Power on January 1, 1997 and will become Chief Executive Officer in May.

## Outlook

Newfoundland Power expects 1997 to be a challenging year due to the continuing difficult economic conditions in the Province. The Company is anticipating energy sales to decline by 0.2% with the completion of the Hibernia construction project.

The Company plans to begin construction of a small hydroelectric plant near Port Aux Basques, on the Province's southwest coast in 1997. In addition to reducing the amount of energy purchased from Newfoundland Hydro, this plant will improve reliability for our customers in that area.

Emphasis will continue to be placed on improving the reliability of the electrical system and enhancing customer service.



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## Maritime Electric

Maritime Electric Company, Limited ("Maritime Electric") is the principal distributor of electricity on Prince Edward Island, operating a fully integrated system of generation, transmission, and distribution. The Company serves 62,000 customers throughout the Province. The Company operates generating plants in Charlottetown and Borden, but purchases most of its energy requirement from New Brunswick Power and transmits it to the Island via two submarine cables. As one of the most unregulated utilities in Canada, Maritime Electric continues to demonstrate the positive benefits of deregulation for both consumers and shareholders by delivering reliable electric service while reducing rates and improving earnings.

## Financial Results

Revenue increased 5.5% in 1996 to \$86.2 million. This increase was achieved while decreasing most rates by 2%. Since December 31, 1993, rates charged by Maritime Electric have decreased by a total of 12%. Operating expenses for 1996 were \$64.2 million, an increase of 5.8% over 1995. Financing costs increased from \$5.6 million to \$6.9 million, due largely to the issuance of \$20.0 million in long-term debt.

The redemption of \$9.1 million of preferred shares reduced the associated dividend expense, resulting in earnings applicable to common shares increasing to \$8.0 million. Net capital expenditures increased to \$14.1 million in 1996, of which approximately \$2.5 million was spent on improvements to system reliability.

In Atlantic Canada, winter months are peak demand periods for electrical consumption



## Energy Sales

Energy sales increased by 7.9% to 823 GWh reflecting strong economic activity in the Province. The system peak demand rose to 166 MWh, an increase of 3.7% over 1995. Growth was distributed across all customer sectors.

## Energy Supply

A total of 892 GWh was required to meet customer needs during 1996. Maritime Electric generated 6 GWh with the balance purchased from New Brunswick Power. The Energy Purchase Agreement signed with New Brunswick Power in 1995 helped to offset the increase in oil prices in 1996. This agreement was replaced with a five-year contract effective November 1, 1996. The new Energy Purchase Agreement, and changes to the Point Lepreau Participation Agreement, reduce the proportion of Maritime Electric's energy supply susceptible to oil price fluctuations to 30%. These agreements should help provide a reliable and competitively priced energy supply for the next five years.

In September, the Point Lepreau Nuclear Generating Station was taken out of service for repairs. This unplanned outage cost Maritime Electric an additional \$3.3 million in expenses for replacement energy. The Company negotiated modifications to the Agreement which mitigated subsequent costs.

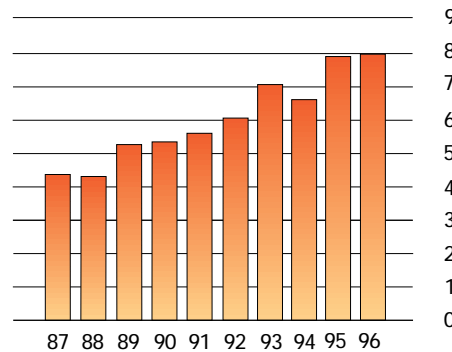
## Customer Services

Success in any business environment requires that a company satisfy customer needs. Maritime Electric is endeavouring to increase customer satisfaction through such initiatives as an improved Service Order Management System, Cash Processing System, Automatic Call Distribution System, and increased emphasis on system reliability.

### Maritime Electric

#### Earnings Applicable to Common Shares

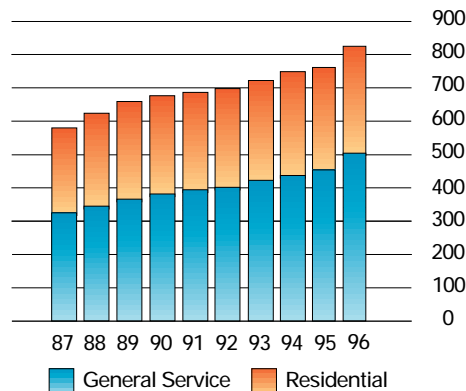
\$  
(Millions)



### Maritime Electric

#### Energy Sales

Million kWh





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## Environmental Initiatives

Emphasis on protecting the Prince Edward Island environment continued in 1996 through programs to remove transformers from sensitive areas. Environmental audits and assessments are performed on a rotating basis. A new waste water treatment plant was commissioned at the Charlottetown Plant.

## Regulation

Maritime Electric operations are subject to the Maritime Electric Company Limited Regulation Act. The Act requires that by January 1, 1998 electricity rates in Prince Edward Island will not be more than 110% of those charged by New Brunswick Power for equivalent service, and that the system reliability be no less than the average levels achieved during the period 1990 to 1993. System

reliability has consistently exceeded the target. Maritime Electric customers experienced an average of just over two hours of interrupted service during 1996, compared to an average of five hours during the 1990-1993 period. Since 1993, electricity rates have declined by a total of 12%.

## Human Resources

In 1996, Maritime Electric employees reduced their all injury frequency rate to 6.8 (9.7 in 1995), and lost only 366 hours due to injury (1,152 hours in 1995).

The Company opened a Learning Centre at the Charlottetown office to provide on-site employee training in such areas as computer literacy, time and stress management, customer service, and job related activities. The Learning Centre also conducts programs for families of



Maritime Electric plays an integral role in the hospitality industry in Prince Edward Island

employees and will be available to the general public in 1997.

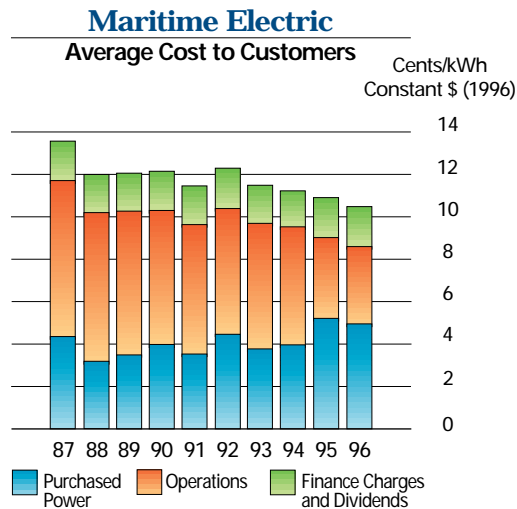
Maritime Electric and IBEW Local 1432 renewed the collective agreement in 1996 for a five-year term.

On January 1, 1997, James A. Lea, who had been a Vice President of Maritime Electric, became President and Chief Executive Officer of the Company, replacing Philip G. Hughes who was appointed President of Newfoundland Power.

## Outlook

As rates continue to decline for most rate classes, it is a challenge to maintain earnings. Fortunately, the Prince Edward Island economy continues to show good growth, and sales are expected to increase by approximately 3%. The Confederation Bridge linking Prince Edward Island to New Brunswick is due to open in June. This will make the Island more attractive for tourists, and remove barriers for Island businesses.

Approximately 25% of Maritime Electric's energy requirements are provided from New Brunswick Power's Point Lepreau Nuclear Generating Station. The nature of this supply contract, the term of which is for the life of the plant, is such that the Company has assumed all of the benefits and obligations of ownership of approximately 4% of the unit's 625 MW capacity. On January 16, 1997, New Brunswick Power took the unit out of service for repairs. This outage is expected to result in an additional expense of \$2.5 million in 1997 for replacement energy.



A well lit wharf is a welcome sight to any fisherman



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## Canadian Niagara Power

The acquisition by Fortis of a 50% interest in Canadian Niagara Power Company, Limited ("Canadian Niagara Power") in October 1996 was an important strategic step. It is one of only three investor-owned utilities in the Province of Ontario. With this acquisition, Fortis has established a presence in Canada's largest energy market.

Canadian Niagara Power came into existence on April 7, 1892, with the signing of an agreement between the Commissioners for the Queen Victoria Niagara Falls Park and representatives of the Canadian Niagara Falls Power Company, whose owners were in the process of developing generating stations on the American side of the

Niagara River. Construction of what was to become the Rankine Generating Station commenced in 1901, and was completed on January 2, 1905. The station is located 1,500 feet from the crest of Niagara Falls and has continuously generated electricity since its opening.

Prior to the acquisition by Fortis, Canadian Niagara Power was a subsidiary of Niagara Mohawk Power Corporation, the tenth largest utility in the United States. Niagara Mohawk remains an integral participant in Canadian Niagara, and an important partner of Fortis in pursuing opportunities in Ontario. The shareholders agreement between Fortis and Niagara Mohawk provides that both companies

Canadian Niagara Power's customer service centre, Fort Erie, Ontario





will use Canadian Niagara Power as their exclusive vehicle for further investments in the electric utility industry in Ontario.

Canadian Niagara Power is an integrated electric utility. It produces energy at the Rankine Station and distributes electricity to 13,500 customers in the Town of Fort Erie. Through its two transmission lines across the Niagara River, Canadian Niagara Power delivers energy to Niagara Mohawk and other customers in the United States, and wheels power through the Niagara Mohawk system to the City of Cornwall in Eastern Ontario.

Under an agreement with Ontario Hydro, water which would otherwise be used at the Rankine Station, is diverted to Ontario Hydro's Sir Adam Beck Plant where it can produce substantially more energy.

Canadian Niagara Power receives energy from Ontario Hydro that is essentially equivalent to that which would have been generated at the Rankine Station.

Canadian Niagara Power also owns and operates Canada's largest wind-driven generating facility. The Cowley Ridge Wind Plant in Alberta consists of 52 turbines which generate 18.9 MW of power for sale to TransAlta Utilities, and into the Alberta Power Pool.

In the Province of Ontario, almost all of the generation and transmission of electricity is undertaken by provincially-owned Ontario Hydro, North America's largest utility. Most distribution services are provided by municipally-owned utilities which purchase power from Ontario Hydro. The Macdonald Report, "A Framework for Competition", was released in 1996. It recommended the segregation of the electric utility industry in Ontario into the three segments of generation, transmission, and distribution. This disaggregation would



Harnessing the wind at Cowley Ridge, Alberta

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be accompanied by the privatization of most of Ontario Hydro, and the introduction of competition in generation. The report also suggests that there could be competitive opportunities in electrical distribution. Canadian Niagara Power is well positioned to avail of the changes recommended by the Macdonald Report.

### Energy Sales

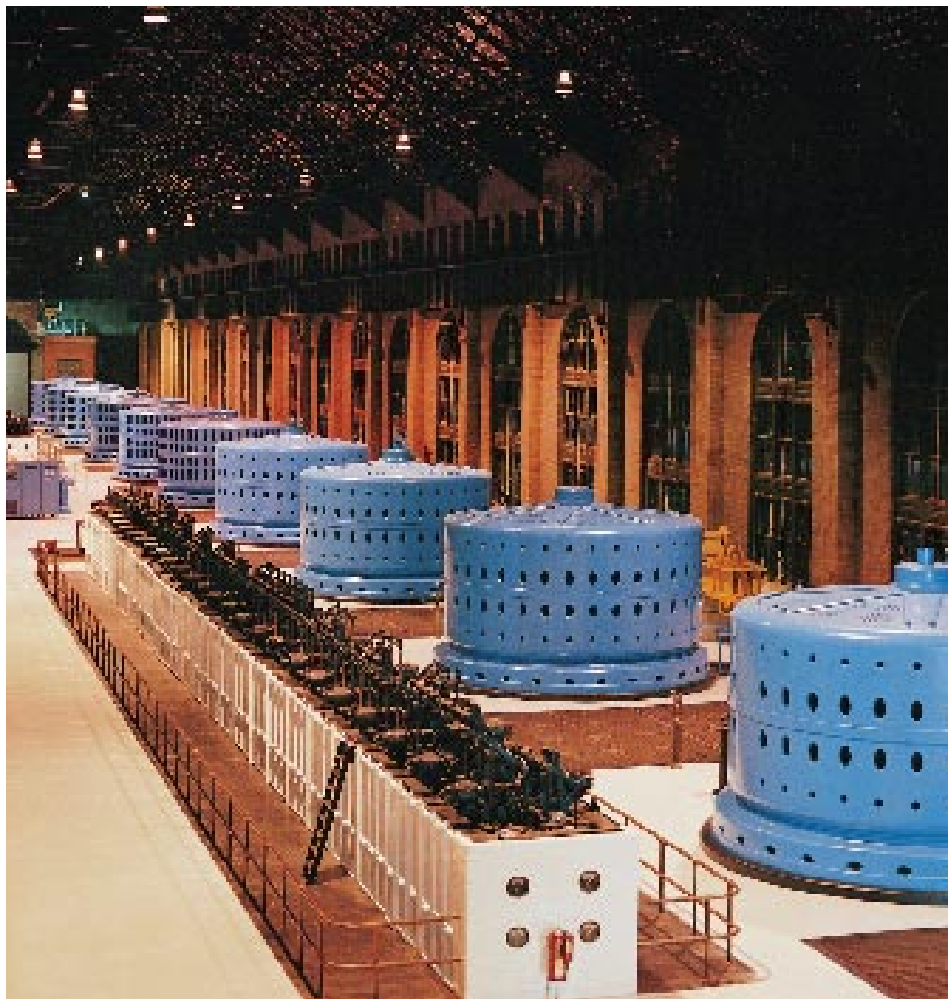
Canadian Niagara Power energy sales in Ontario and the United States in 1996 were 637 GWh, an increase of 2.4% over 1995. Fort Erie customers received 248 GWh, an increase of 5.3%. Sales to the City of Cornwall declined 11.2% to 110 GWh. Niagara Mohawk took 211 GWh, a decrease of 43 GWh from 1995, while sales to third parties in the United States amounted to 68 GWh.

Canadian Niagara Power participates in the developing energy market in the United States. Sales to utilities other than Niagara Mohawk commenced in June. The energy marketing activities of Canadian Niagara Power are both a source of immediate financial benefit and longer term potential, as expertise is developed from early participation in the United States market.

### Energy Supply

Generation from the Rankine Station and deliveries from Ontario Hydro under the water exchange agreement totaled 669 GWh for 1996.

Cowley Ridge generated 57 GWh, an improvement of 9% over 1995. Availability was 97%. During 1996, Canadian Niagara Power assumed operating responsibility when the manufacturer of



Inside the Rankine Generating Station at Niagara Falls

equipment, who was also the operator, entered Chapter 11 bankruptcy proceedings. Improvements effected by Canadian Niagara Power, such as installation of new software, have enabled the Cowley Ridge Plant to achieve the highest reliability of any similar wind turbine installation in North America.

## Outlook

In April 1997, Canadian Niagara Power will mark the 90th anniversary of service to the Town of Fort Erie. Over the last several years, the Company and the Town

have co-operated to attract new business to the area. Success has translated into economic growth and increasing sales which should continue into 1997.

Growth in sales to Fort Erie, and an increase in sales to the City of Cornwall, together with improved margins on sales into the United States, should combine to produce improved earnings for 1997.

The 80 employees of the Company are engaged in a program to improve productivity while enhancing customer service. The collective agreement covering 80% of our workforce expires in May 1997. For the first time labour negotiations on behalf of Canadian Niagara Power will be conducted by Company personnel.



James H. Fretz,  
Vice President  
and General  
Manager and  
James G. Hreljac,  
Controller of  
Canadian  
Niagara Power





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## Fortis Properties

Fortis Properties Corporation ("Fortis Properties") is the primary vehicle for the diversification and growth of Fortis outside the core electric utility business. The Company was formed in 1989 and is engaged in the ownership and management of commercial, retail, and hotel properties in Atlantic Canada. Through a partnership with AT&T Canada Long Distance Services, Fortis Properties also provides telecommunication services in Newfoundland.

During 1996, Fortis Properties continued to grow and improve its financial performance.

## Financial Results

Earnings of Fortis Properties increased to \$1.1 million from \$0.6 million in 1995. Revenue increased to \$35.8 million from \$20.6 million in 1995, and operating expenses increased to \$27.0 million from \$13.8 million. Revenue and operating expenses increased primarily as a result of acquisitions made in 1995 and 1996. Earnings before interest and taxes increased to \$8.5 million from \$6.8 million in 1995.

## Real Estate

Fortis Properties owns and manages approximately 1.4 million square feet of

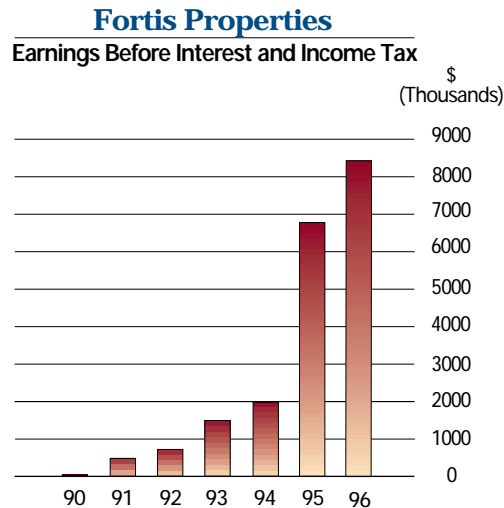


The Maritime Centre  
in downtown Halifax,  
Nova Scotia

commercial real estate in Newfoundland and Nova Scotia. Revenue from the real estate operations increased to \$17.9 million from \$13.4 million in 1995. Operating expenses increased to \$10.3 million from \$7.1 million in 1995. The increase in revenue and operating expenses is due primarily to the acquisitions made in 1995. During 1996, emphasis was placed on consolidating the newly acquired properties, while improving revenues and operational efficiencies. Energy management system upgrades and lighting retrofits were carried out at several of the properties. Installation of broadband telecommunication capability, as part of the upgrading to "Smart Building" status at the Maritime Centre and at the Centennial Building, has improved the marketability of these properties and positioned them to meet the

changing requirements of tenants. In Halifax, the Company's average vacancy rate was 11.5% compared to the overall market rate of 16%.

In Newfoundland, vacancies in Company owned properties declined from 11.7% in 1995 to 9.7% in 1996. The sales of retail tenants in our properties increased by approximately 4%, while retail sales declined by approximately 2% throughout the Province. Two national retail outlets at the Company's Newfoundland malls achieved the highest sales per square foot of all of the stores of those retailers.



Fortis has successfully re-developed the Millbrook Mall in Corner Brook



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## Hospitality Services

The hospitality division of Fortis Properties ("Hospitality Services") became the largest hotel operator in Atlantic Canada during 1996, with over 1,100 rooms available. This represents an increase

of 283% in rooms over 1995. The Holiday Inn Express in Moncton and the Radisson Suite Hotel in Halifax joined the Holiday Inn Express, Halifax as properties managed by Hospitality Services. More than \$3.0 million was invested in



The Holiday Inn in Corner Brook, Newfoundland, provides the best facilities in the area...

refurbishing the guest rooms and public areas at the Holiday Inns in St. John's and Corner Brook. As part of market positioning, the swimming pool at Corner Brook was enclosed, making it the only year-round facility in that market.

Revenue from Hospitality Services was \$10.4 million and operating expenses totalled \$9.2 million.

Tourism activity was down in Atlantic Canada in 1996 as compared to 1995, attributable in part to poor weather conditions in certain areas. Also, travelers delayed visitation plans until 1997 to take in the Cabot 500 celebrations in Newfoundland and Cape Breton and the opening of the Confederation Bridge between New Brunswick and Prince Edward Island.



... and the best service



Winter travel to Corner Brook was down compared to previous years due to poor snow conditions at the Marble Mountain ski resort.

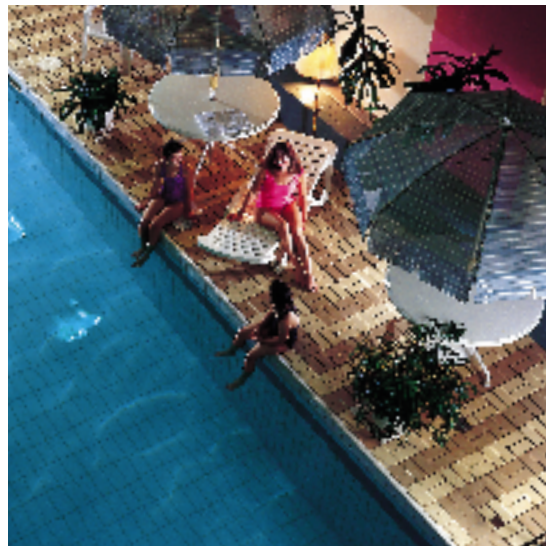
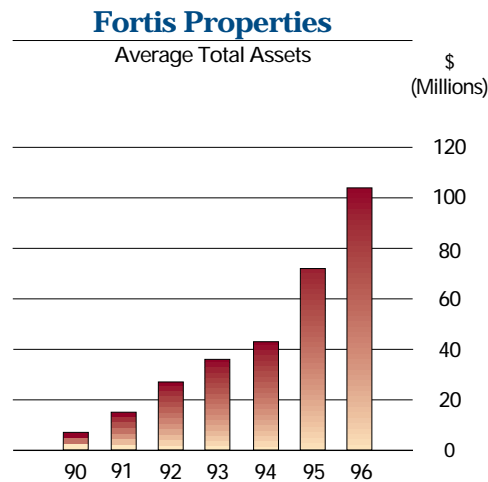
In July, Hospitality Services acquired the Delta Sydney, Holiday Inn Sydney, and Sydney Inn in Cape Breton. Our market presence in Sydney enhances our ability to market regionally to group and bus tour operators.

Hospitality Services is committed to providing the highest value product in the market segments in which it competes. In 1996, the Holiday Inn Express Moncton received the Newcomer of the Year Award from Holiday Inn Worldwide as one of the best new hotels in the worldwide system. The Holiday Inn Express Halifax achieved a Torchbearer Award as one of the top twenty-five properties for product quality and guest satisfaction out of 1,800 North American Holiday Inns. The Radisson Suite Hotel was awarded the prestigious Four Diamond Award from the AAA/CAA, and has consistently ranked in the top 20 in the Radisson system for product quality and guest satisfaction.

### Telecommunications

In 1996, the ownership issue surrounding our partner Unitel Communications was resolved with the emergence of AT&T Canada Long Distance Services. The AT&T brand is well recognized and accepted for its high quality service.

The customer base of our AT&T Canada (Newfoundland) partnership increased by 14% in 1996 as compared to 1995 and the total number of calls increased by 5% over 1995. During 1996, the partnership achieved



Amenities like the indoor pool at the Delta Sydney, recognize the importance of a growing hospitality industry

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its first major success in winning provincial institutional business.

In the first quarter of 1997, the partnership is opening a call center in St. John's.

This centre will focus on customer retention and outbound marketing activities. It will have the capability to develop programs for other Fortis subsidiaries and third parties.



The Radisson Suite Hotel Halifax, a premier all suites hotel



## Employees

With the expansion of Hospitality Services, the number of employees has increased to 465 from 269. This does not include the employees of hotel properties managed, but not owned, by Hospitality Services.

During the year, the Company and the CAW, Local 4624 renewed the collective agreement at the Delta Sydney for a three-year term. At the Holiday Inn St. John's, the unionized food and beverage employees elected to form a bargaining unit separate from the other hotel employees. Collective agreements covering the food and beverage employees were signed for a three-year term with the Retail Wholesale Canada,

Canadian Service Sector Division of the United Steelworkers of America, Local 597. New employees in the food and beverage area will be paid on a different wage scale from those hired before the signing of their agreement.

The collective agreements covering the Sydney Inn and the Holiday Inn Sydney expired in late 1996. The Hotel Employees' and Restaurant Employees' Union, Local 772 represents both operations. These contracts will be re-negotiated in 1997.



Attention to customer comfort and satisfaction is apparent at the Radisson Suite Hotel in Halifax

## Outlook

Fortis Properties anticipates that growth will continue in 1997. Earnings are expected to increase, reflecting strengthening demand for office space and growth in tourism. Growth in the telecommunications business is expected to be moderate, due primarily to increased competition and pressure on rates.

The earnings of Hospitality Services are expected to improve due primarily to the Cabot 500 celebrations in Newfoundland and Cape Breton, and the opening of the Confederation Bridge between New Brunswick and Prince Edward Island.

Fortis Properties anticipates an external debt financing of approximately \$50 million in 1997. The proceeds would be used to repay loans from Fortis.





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## Fortis Trust

In 1996, Fortis Trust Corporation ("Fortis Trust") celebrated 60 years of serving the home financing and investment needs of Newfoundlanders. Newfoundland Building and Loan Association was incorporated in August 1936, and was modelled along the lines of the British building societies. It issued its first residential mortgage in 1937. The Company, which was acquired by Fortis and renamed Fortis Trust in 1989, has branches in St. John's and Corner Brook, Newfoundland and operates in Prince Edward Island through Maritime Electric. Fortis Trust is a member of the Canada Deposit Insurance Corporation ("CDIC"), and a lender approved by Canada Mortgage and Housing Corporation ("CMHC") for participation in programs under the National Housing Act.

## Financial Results

Earnings for 1996 were \$330,000. Earnings for 1995 were \$313,000, including an after tax gain on the disposal of securities of \$56,000. Excluding this capital gain, earnings in 1996 have increased by 28.4% over 1995. As a result of regulatory restrictions, Fortis Trust's capitalization rate (the ratio of average shareholders equity to average assets) is in excess of the financial services industry average, which restricts the return on equity. Net interest income increased by 26.4% to \$1.6 million for 1996, due to an increase in the interest rate spread. Non-interest expenses for the year were \$1.2 million compared to \$1.1 million last year.



## Assets

Assets under administration grew 6.7% to \$71.3 million. Of all the branches of lending institutions in Newfoundland, our St. John's branch had the third largest number of CMHC insured loans approved during 1996. Approximately 59% of the mortgage portfolio is insured by CMHC. Non-performing loans were 0.75% of total loans which is below the average of CDIC members. Mortgage Backed Securities pools totalling \$5.9 million were issued in 1996. These pools provide funding and service fee revenue.

Fortis Trust continues to upgrade its hardware and software systems. This investment will improve customer service and help control expenses as business volume continues to grow.

Late in the year, Fortis Trust assumed responsibility for the administration of the Fortis Consumer Share Purchase Plan and Employee Share Purchase Plan.

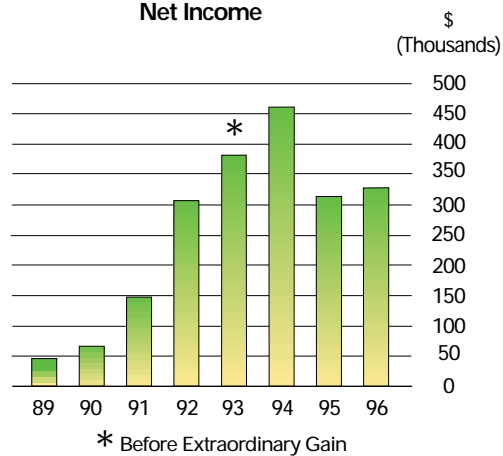
Consolidating service delivery of these plans in-house will afford further opportunities to market Fortis Trust lending and investment services to our employees and others in the Fortis family.

## Outlook

The trend towards improved earnings should continue in 1997. The low interest rate environment is expected to continue throughout the year. The Company's ability to grow will be restricted as retail deposit funding is limited in this environment. Mortgage Backed Securities pools will continue to be used as a funding source.

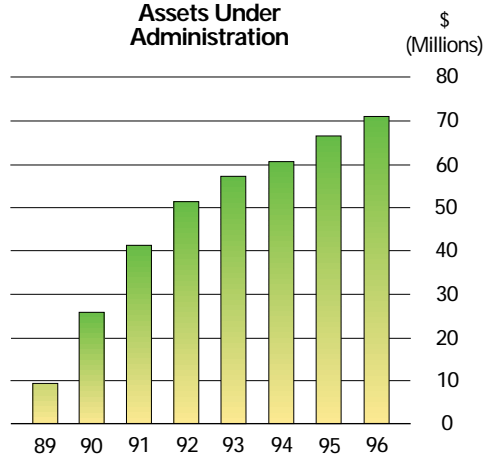
### Fortis Trust

#### Net Income



### Fortis Trust

#### Assets Under Administration





## OUR COMMUNITY

Fortis and its employees play an important role in the communities we serve. We believe that members of the Fortis family must contribute to the communities in which we live. Fortis employees are involved in church groups, service clubs, sports organizations, scout and guide troops, schools, health care institutions, and innumerable other

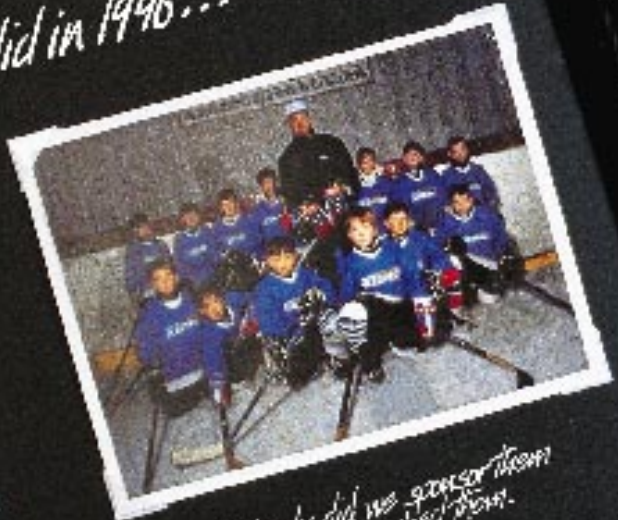
organizations. Many employees contribute generously of their own time. Our companies make contributions in cash, and services and through the use of employees and equipment.

Fortis supports the efforts of our people to improve the communities in which we operate and live.

*Some of the things we did in 1996...*



*When not on the job  
we help save lives.*



*Not only did we sponsor them  
we also coached them.*



*We donated to the  
development of walking trails at  
Kenney's Head, St. John's*



*With our support these  
junior achievers won the  
national award.*





*We prepared a little enthusiasm  
and served up breakfast to launch  
2nd Annual PEI Festival for Health.*



*We donated office space to the  
1999 Corner Brook Winter Games Committee.*



*We provided well deserved  
recognition at the  
Festival for Health.*



*We helped build a home  
for the better humanity.*

## OUR COMMUNITY

Periodically, Fortis undertakes special projects of significant interest or benefit to our customers and the development of our businesses. Our objective is to utilize the special resources of Fortis to draw attention to important events that contribute to the recognition of our communities at the national level.

Late in 1996, we were presented with an opportunity to make a major contribution to the rich heritage of our home province. To mark the 500th Anniversary of the discovery of Newfoundland by John Cabot, Fortis accepted the invitation of CBC Newfoundland and Labrador to become the presenting sponsor of "East of Canada-The Story of Newfoundland". This five part documentary series will chronicle the history of Newfoundland as a colony, country and province. Each episode will tell its story through "eyewitness" accounts of participants, or historians, illustrated with

amazing images which capture the essence and feel of Newfoundland's unique heritage.

It is anticipated that "East of Canada-The Story" of Newfoundland will be broadcast in Newfoundland and Labrador in May and again in December of 1997. All Canadians should have the opportunity to witness this unique television project when it is broadcast on the CBC National Network and CBC Newsworld in September. Copies of the video will be distributed to educational institutions and made available for purchase by the general public early in 1998.





# FINANCIALS

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## Management Report

The accompanying financial statements of Fortis Inc. and its subsidiaries, and all information in the annual report, are the responsibility of management and have been approved by the Board of Directors. The financial statements include certain amounts that are based on management's best estimates and judgments.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Financial information contained elsewhere in the annual report is consistent with that in the financial statements.

Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and that the assets of the Corporation are properly safeguarded. The effectiveness of these internal controls is evaluated on an ongoing basis by the external and internal auditors.

The Audit Committee, which is comprised solely of outside directors, reviews the annual consolidated financial statements and recommends their approval to the Board of Directors. The Committee meets with the internal and external auditors, with and without management present, to discuss the results of the audits, the adequacy of the internal accounting controls and financial reporting matters.

The consolidated financial statements have been audited by Deloitte & Touche, Chartered Accountants, and their report follows.

President, and Chief Executive Officer

Vice President, Finance and Chief Financial Officer

## Auditors' Report

To the Shareholders, Fortis Inc.

We have audited the consolidated balance sheets of Fortis Inc. as at December 31, 1996 and 1995 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

St. John's, Newfoundland,  
Chartered Accountants  
February 28, 1997.



**FORTIS INC.**  
(Incorporated under the laws of the Province of Newfoundland)  
**CONSOLIDATED BALANCE SHEET**  
As at December 31

<b>ASSETS</b>	<b>1996</b>	<i>(in thousands)</i>	<b>1995</b>
<b>Current Assets</b>			
Cash	\$ 7,587	\$	5,498
Accounts receivable	53,980		57,823
Materials and supplies	7,578		6,897
Prepaid expenses	2,175		2,441
	<b>71,320</b>		<b>72,659</b>
<b>Other Assets</b>			
Mortgages receivable–Fortis Trust	60,971		57,415
Corporate income tax deposit (Note 13)	15,595		15,595
Deferred charges (Note 1)	34,757		20,219
	<b>111,323</b>		<b>93,229</b>
<b>Income–Producing Properties</b> (Note 2)	<b>87,374</b>		<b>81,182</b>
<b>Utilities' Capital Assets</b> (Note 3)	<b>679,692</b>		<b>642,279</b>
<b>Goodwill</b>	<b>47,753</b>		<b>27,060</b>
	<b>\$ 997,462</b>	<b>\$</b>	<b>916,409</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Bank indebtedness	\$ 54,210	\$	36,858
Accounts payable and accrued charges	63,428		61,239
Deposits payable–Fortis Trust	35,729		32,882
Dividends payable	5,936		6,672
Income taxes payable	6,303		205
Interest accrued on long term debt	4,144		3,658
Current instalments of long term debt	2,671		11,854
	<b>172,421</b>		<b>153,368</b>
<b>Long Term Debt</b> (Note 4)	<b>435,654</b>		<b>385,343</b>
<b>Deposits Due Beyond One Year–Fortis Trust</b>	<b>17,448</b>		<b>16,703</b>
<b>Deferred Credits</b> (Note 5)	<b>53,658</b>		<b>47,307</b>
<b>Non-Controlling Interest</b> (Note 6)	<b>8,430</b>		<b>18,990</b>
<b>SHAREHOLDERS' EQUITY</b>			
<b>Shareholders' Equity</b>			
Common shares (Note 7)	131,924		123,846
Earnings retained and invested in the business	177,927		170,852
Common shareholders' equity	309,851		294,698
	<b>\$ 997,462</b>	<b>\$</b>	<b>916,409</b>

Contingent liability (Note 13)

See accompanying notes to consolidated financial statements.

Approved on Behalf of the Board:

Director

Director

**FORTIS INC.**  
**CONSOLIDATED STATEMENT OF EARNINGS**

For the Year Ended December 31

	1996	<i>(in thousands)</i>	1995
<b>Operating Revenues</b>	<b>\$ 474,293</b>		\$ 447,035
<b>Operating Expenses</b>			
Purchased power	236,398		230,095
Other expenses	97,990		84,908
Depreciation	35,993		37,998
	<b>370,381</b>		353,001
<b>Operating Income</b>	<b>103,912</b>		94,034
<b>Finance Charges</b>			
Interest and amortization (Note 8)	38,487		37,246
Dividends on preference shares	7,325		4,448
	<b>45,812</b>		41,694
<b>Earnings Before Undernoted Items</b>	<b>58,100</b>		52,340
<b>Income Taxes</b>	<b>28,029</b>		20,334
<b>Earnings Before Non-Controlling Interest</b>	<b>30,071</b>		32,006
<b>Non-Controlling Interest</b>	<b>1,026</b>		1,414
<b>Earnings Applicable to Common Shares</b>	<b>\$ 29,045</b>		\$ 30,592
<b>Average Common Shares Outstanding</b>	<b>12,318,888</b>		12,099,726
<b>Earnings Per Common Share</b>	<b>\$ 2.36</b>		\$ 2.53

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS**

For the Year Ended December 31

	1996	<i>(in thousands)</i>	1995
<b>Balance at Beginning of Year</b>	<b>\$ 170,852</b>		\$ 160,894
Earnings applicable to common shares	29,045		30,592
Dividends on common shares	(21,390)		(20,634)
Premium paid on early redemption of preference shares of Maritime Electric	(580)		
<b>Balance at End of Year</b>	<b>\$ 177,927</b>		\$ 170,852

*See accompanying notes to consolidated financial statements.*

**FORTIS INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**  
For the Year Ended December 31

	1996	(in thousands)	1995
<b>Cash from operations</b>			
Earnings applicable to common shares	\$ 29,045		\$ 30,592
<b>Items not affecting cash</b>			
Depreciation	35,993		37,998
Deferred income taxes	(593)		(1,486)
Non-controlling interest	1,026		1,414
Other	1,717		1,168
Change in non-cash working capital	14,312		6,610
	<b>81,500</b>		76,296
Working capital of Canadian Niagara Power Company, Limited at date of acquisition	4,851		
Corporate income tax deposit (Note 13)			(15,595)
	<b>86,351</b>		60,701
<b>Cash from external financing</b>			
Issue of common shares	8,078		9,953
Issue of preference shares			50,000
Net proceeds from long term debt	59,805		32,924
Repayment of long term debt	(43,908)		(14,658)
Redemption of preference shares of subsidiaries	(8,080)		(1,625)
Increase (decrease) in bank indebtedness	17,352		(15,068)
Increase (decrease) in deposits payable	745		(1,469)
	<b>33,992</b>		60,057
<b>Cash used in investing</b>			
Acquisition of 50% interest in Canadian Niagara Power Company, Limited	(25,208)		
Capital expenditures (net)	(42,173)		(41,822)
Income producing properties	(11,247)		(48,071)
Mortgages	(3,556)		(9,516)
Increase in deferred charges	(12,262)		(3,669)
Other investments	(1,392)		
	<b>(95,838)</b>		(103,078)
<b>Dividends</b>			
Common shares	(21,390)		(20,634)
Subsidiaries to minority shareholders	(1,026)		(1,414)
	<b>(22,416)</b>		(22,048)
<b>Increase (decrease) in cash</b>	<b>2,089</b>		(4,368)
<b>Cash, beginning of year</b>	<b>5,498</b>		9,866
<b>Cash, end of year</b>	<b>\$ 7,587</b>		\$ 5,498

*See accompanying notes to consolidated financial statements.*



**FORTIS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 1996

## **Summary of Accounting Policies**

### **Consolidated Financial Statements**

Consolidated financial statements include the accounts of Fortis Inc. (the "Corporation") and the following wholly owned subsidiaries:

Newfoundland Light & Power Co. Limited

("Newfoundland Power")

Maritime Electric Company, Limited

("Maritime Electric")

Fortis Properties Corporation ("Fortis Properties")

Fortis Trust Corporation ("Fortis Trust")

The accounts of Fortis Properties include its wholly owned subsidiary, 10460 Newfoundland Inc., and the 50% interest in AT&T Canada (Newfoundland) which has been reported on a proportionate consolidation basis.

On October 10, 1996 the Corporation acquired 50% ownership in the common shares of Canadian Niagara Power Company, Limited ("Canadian Niagara"). The Corporation's 50% interest has been reported on a proportionate consolidation basis including the share of earnings for the period October 11 to December 31, 1996.

### **Basis of Presentation**

The Corporation considers its operations fall principally into one business segment—the sale of electricity in the provinces of Newfoundland, Prince Edward Island and Ontario.

The Corporation's other operations include:

Fortis Properties—owners and managers of commercial real estate and hotels in Atlantic Canada. Fortis Properties also holds a 50% interest in AT&T Canada (Newfoundland), providing long distance telecommunications to customers in the Province of Newfoundland.

Fortis Trust—a trust company dealing primarily in residential first mortgages and guaranteed investment certificates in Newfoundland and Prince Edward Island.

### **Income—Producing Properties**

Income-producing properties are recorded at cost.

### **Depreciation**

Fortis Properties depreciates income producing buildings on the sinking fund method using an

imputed interest rate of 6% over the estimated useful lives of twenty-five to forty years.

Telecommunications fixed assets are depreciated using the straight line method based on the estimated economic lives of the assets, which primarily range from three to forty years.

### **Goodwill**

Goodwill, representing the excess of the acquisition cost of shares of Maritime Electric and Canadian Niagara over the assigned value of net assets acquired, is being amortized on a straight line basis over twenty-five and twelve years respectively. Expected future earnings support the carrying value of goodwill.

### **Changes in Financial Position**

Bank indebtedness is considered a non-current liability in the statement of changes in financial position as it is anticipated the indebtedness will be replaced by long term debt or capital stock.

### **The accounting policies which follow are principally related to Newfoundland Power, Maritime Electric and Canadian Niagara. Regulation**

Newfoundland Power is regulated by the Board of Commissioners of Public Utilities of the Province of Newfoundland ("The P.U.B."). Accounting policies conform to generally accepted accounting principles and to accounting requirements established from time to time by The P.U.B. for Newfoundland Power.

Maritime Electric's activities are regulated under the Maritime Electric Company Limited Regulation Act (Prince Edward Island) and are monitored by the Island Regulatory and Appeals Commission.

### **Revenue**

Revenue from the sale of electricity by Newfoundland Power is recognized on billings rendered monthly, on a cyclical basis, to customers.

Revenue from the sale of electricity by Maritime Electric and Canadian Niagara is recognized on the accrual basis.

Real estate revenue is derived from leasing retail and office space to tenants for varying periods of time. The leases are primarily of a net

nature with tenants paying basic rental plus a pro rata share of defined overhead expenses. Certain retail tenants pay additional rent based on a percentage of the tenant's sales. Expenses recovered from tenants are recorded as revenue and overhead costs as operating expenses.

### **Utilities' Capital Assets**

Capital assets of Newfoundland Power are stated at values approved by The P.U.B. as at June 30, 1966 with subsequent additions at cost. Asset additions at Maritime Electric and Canadian Niagara are recorded at cost. The cost of capital assets retired, less net salvage, is charged to accumulated depreciation.

Maintenance and repairs are charged against revenue, while renewals and betterments are capitalized.

### **Depreciation**

Depreciation is provided in the accounts of Newfoundland Power, Maritime Electric and Canadian Niagara primarily on a straight line method based on the estimated service life of capital assets.

The composite rate of depreciation before reduction for amortization of contributions in aid of construction and contributions from government are:

	<b>1996</b>	<b>1995</b>
Newfoundland Power	3.7%	3.9%
Maritime Electric	3.2%	3.3%
Canadian Niagara	3.3%	

### **Interest Charged to Construction**

On certain construction projects, Newfoundland Power records interest at varying rates as set out by The P.U.B.. Maritime Electric calculates interest during construction at a rate approximately equal to the cost of capital. Such capitalized interest is included as a cost in the appropriate capital asset accounts.

### **Customer and Government Contributions**

Contributions represent the cost of capital assets contributed by customers and governments. Certain contributions by the Province of Newfoundland to Newfoundland Power carry conditional options allowing the Province to reacquire capital assets so

contributed. These accounts are being reduced annually by an amount equal to the charge for depreciation provided on the contributed portion of the cost of the assets involved.

### **Weather Normalization Account**

The P.U.B. has ordered provision of a weather normalization account in Newfoundland Power to adjust for the effect of variations in temperature and streamflow when measured against long term averages. The balance in the weather normalization account as at December 31, 1996 and the underlying calculations are subject to P.U.B. approval.

### **Materials and Supplies**

Materials and supplies are recorded at average cost.

### **Deferred Charges**

Deferred charges are amortized as follows:

Debt discount and expenses—over the life of each issue, except for realized exchange losses incurred by Newfoundland Power which are amortized, as approved by The P.U.B., over five years ending 1997.

Capital stock issue expenses—over a twenty year period from date of issue except for retractable preference shares which are amortized over the retraction period.

Reorganization and certain other costs are being amortized over three and five year periods.

### **Deferred Income Taxes**

The Corporation, Canadian Niagara and the Corporation's subsidiaries, except Newfoundland Power, follow the tax allocation basis of providing for income taxes. The P.U.B. specifies Newfoundland Power's method of accounting for income taxes. Commencing January 1, 1981, The P.U.B. allowed the tax allocation method with respect to the timing difference between depreciation and capital cost allowances for all depreciable assets. If the full tax allocation method of accounting had always been followed, the cumulative amount of the deferred income tax credit would have been increased by approximately \$85.3 million to December 31, 1996 (1995—\$84.2 million).

## 1. Deferred Charges

		December 31	
	1996	(in thousands)	1995
Unamortized debt discount and expenses	\$ 5,190	\$	3,789
Unamortized capital stock issue expenses	1,029		2,283
Deferred pension costs	24,006		10,937
Weather normalization account	2,705		1,134
Other	1,827		2,076
	<b>\$ 34,757</b>	<b>\$</b>	<b>20,219</b>

## 2. Income-Producing Properties

		December 31	
	1996	(in thousands)	1995
Land, buildings and tenant inducements	\$ 92,342	\$	83,493
Accumulated depreciation	4,968		2,311
	<b>\$ 87,374</b>	<b>\$</b>	<b>81,182</b>

## 3. Utilities' Capital Assets

		December 31	
	1996	(in thousands)	1995
Utilities' capital assets	\$ 1,099,000	\$	1,025,038
Accumulated depreciation	419,308		382,759
	<b>\$ 679,692</b>	<b>\$</b>	<b>642,279</b>

## 4. Long Term Debt

		December 31	
	1996	(in thousands)	1995
<b>Fortis Inc.</b>			
2,000,000 8.70% First Preference Shares, Series A	\$ 50,000	\$	50,000
2,000,000 5.95% First Preference Shares, Series B	50,000		50,000
	<b>100,000</b>		<b>100,000</b>

### Newfoundland Power First mortgage sinking fund bonds:

11.50% Series AB, due 2005	14,100	14,250
11.875% Series AC, due 2007	35,870	36,270
10.55% Series AD, due 2014	35,753	36,153
10.90% Series AE, due 2016	38,000	38,400
10.125% Series AF, due 2022	38,400	38,800
9.00% Series AG, due 2020	39,200	39,600
8.90% Series AH, due 2026	40,000	
	<b>241,323</b>	<b>203,473</b>

### Maritime Electric First mortgage bonds:

11.2% due 1998	10,000	10,000
12.0% due 2010	15,000	15,000
11.5% due 2016	12,000	12,000
8.55% due 2018	15,000	15,000
8.92% due 2031	20,000	
	<b>72,000</b>	<b>52,000</b>



#### 4. Long Term Debt (continued)

	1996	December 31 (in thousands)	1995
<b>Fortis Properties</b>			
First mortgage sinking fund bonds			27,099
First mortgages			8,800
Note payable and loan payable			5,825
Obligations under capital leases, promissory notes	<b>1,885</b>		
	<b>1,885</b>		41,724
<b>Canadian Niagara</b>			
Term loan	<b>17,500</b>		
Note payable-10.867% due 2013	<b>5,617</b>		
	<b>23,117</b>		
	<b>438,325</b>		397,197
Less: Current instalments	<b>2,671</b>		11,854
	<b>\$ 435,654</b>		<b>\$ 385,343</b>

Series A and Series B First Preference Shares have been reclassified retroactively as long term debt in accordance with Section 3860 of the CICA Handbook. Accordingly these preference shares and the dividends thereon have been classified as debt and finance charges respectively.

Series A First Preference Shares are retractable at the holder's option on September 30, 1997 at \$25.00 per share together with all accrued and unpaid dividends thereon. The Corporation may redeem any or all of the outstanding First Preference Shares, Series A, at any time following September 30, 1997 for a redemption price of \$25.00 per share together with all accrued and unpaid dividends thereon.

Series B First Preference Shares were issued for cash in December, 1995 and are retractable at the holder's option on or before November 25, 2002 at \$25.00 per share together with all accrued and unpaid dividends thereon. The Corporation may redeem any or all of the outstanding First Preference Shares, Series B, at any time on or after December 2, 2002 for a redemption price of \$25.00 together with all accrued and unpaid dividends thereon.

The Newfoundland Power and Maritime Electric first mortgage bonds are secured by a first fixed and specific charge on utilities' capital assets owned or to be acquired and by a floating charge on all other assets.

The Canadian Niagara term loan is secured by a general security agreement covering all its assets and a collateral mortgage on real property. The note payable is secured by utilities' capital assets.

Canadian Niagara is party to two interest rate swap contracts with durations of ten years to hedge against interest exposures on \$14 million of indebtedness. The separate contracts have the effect of fixing the rate of interest on \$14 million of the \$17.5 million term loan. The remaining \$3.5 million of the term loan bears interest at a floating rate of Bankers' Acceptance rate + 1%.

The annual requirements to meet sinking fund payments, instalments and maturing issues of long term debt in each of the next five years are as follows:

	(in thousands)				
	1997	1998	1999	2000	2001
Sinking fund payments and instalments	\$ 2,671	\$ 4,185	\$ 4,701	\$ 4,718	\$ 4,737
Maturing issues		10,000			
	<b>\$ 2,671</b>	<b>\$ 14,185</b>	<b>\$ 4,701</b>	<b>\$ 4,718</b>	<b>\$ 4,737</b>

In accordance with the new disclosure requirements of the CICA, the estimated fair value of long term debt was \$535 million at December 31, 1996 (1995-\$460 million). Fair value was estimated using present value techniques based on borrowing rates at year end for debt with similar terms and maturities and quoted market value for those instruments which are publicly traded. Since the Corporation does not intend to settle the debt prior to maturity, the fair value estimate does not represent an actual liability and therefore does not include exchange or settlement costs.

## 5. Deferred Credits

	1996	December 31 (in thousands)	1995
Contributions in aid of construction	\$ 25,592	\$	24,733
Contributions from government	4,678		5,550
Deferred income taxes	21,238		17,024
Post retirement benefits–Canadian Niagara	2,150		
	<b>\$ 53,658</b>	<b>\$</b>	<b>47,307</b>

## 6. Non-Controlling Interest

The non-controlling interest at December 31, 1996 consists of preference shares of Newfoundland Power. The non-controlling interest at December 31, 1995 consisted of preference shares of Newfoundland Power and Maritime Electric. During the year, preference shares of these subsidiaries were redeemed for a total cash consideration of \$8.1 million (1995–\$1.6 million).

## 7. Capital Stock

Authorized

- (a) an unlimited number of Common Shares without nominal or par value;
- (b) an unlimited number of First Preference Shares without nominal or par value;
- (c) an unlimited number of Second Preference Shares without nominal or par value.

### Common Shares–Issued and Outstanding

	1996	December 31 (in thousands)	1995
12,477,658 Common Shares (1995–12,186,832)	<b>\$ 131,924</b>	<b>\$</b>	<b>123,846</b>

### Common Shares were issued during the year as follows:

	Number of Shares	Amount (in thousands)
Employee share purchase plan	30,317	\$ 899
Consumer share purchase plan	86,547	2,612
Dividend reinvestment plan	63,670	1,901
Executive stock option plan	110,292	2,666
Issued for cash	<b>290,826</b>	<b>\$ 8,078</b>

At December 31, 1996, 1,371,000 common shares were reserved for issue under the terms of the above plans. The Corporation is authorized to grant certain key employees of Fortis Inc. and its subsidiaries options to purchase common shares.

The following stock options are outstanding as at December 31, 1996:

Number of Shares	Exercise Price	Expiry Date
7,189	\$ 23.475	1997
31,359	\$ 24.075	1998
27,671	\$ 28.85	1999
55,333	\$ 24.60	2000
54,618	\$ 27.4875	2001
<b>176,170</b>		

### Preference Shares–Issued and Outstanding

Refer to Note 4 to these consolidated financial statements.

## 8. Interest and Amortization

	December 31	
	1996	1995
	(in thousands)	
<b>Interest</b> - Long term debt	\$ 36,308	\$ 34,974
- Other	1,834	3,527
Interest charged to construction	(485)	(473)
Interest earned	(1,330)	(1,847)
Amortization of debt and stock issue expenses	2,160	1,065
	<b>\$ 38,487</b>	<b>\$ 37,246</b>

## 9. Income Tax Rate

Taxes on income vary from the amount that would be determined by applying the combined statutory Canadian federal, Newfoundland, Prince Edward Island and Ontario provincial income tax rates to earnings. The following is a reconciliation of the combined statutory rates to the effective income tax rate:

	December 31	
	1996	1995
	%	%
Statutory income tax rate	43.4	43.4
Large corporations tax	1.9	2.3
General expenses capitalized	(3.1)	(5.1)
Plant dismantling costs	(1.5)	(2.2)
Pension costs	(2.1)	(9.4)
Dividends on preference shares	5.5	3.7
Other	4.1	6.1
	<b>48.2</b>	<b>38.8</b>

## 10. Financial Instruments

Canadian Niagara enters into forward exchange contracts primarily to protect against the possibility of loss from future exchange rate fluctuations. Forward exchange contracts are used to hedge anticipated future sales denominated in U.S. dollars. At December 31, 1996, Canadian Niagara had entered into forward exchange contracts to sell approximately \$1,651,000 (\$1,245,000 U.S.) of U.S. dollars at various dates during the next twelve months.

## 11. Pensions

The Corporation, Canadian Niagara and certain of the Corporation's subsidiaries maintain contributory defined benefit pension plans covering regular employees. The plans provide pensions based on length of service and final average earnings.

The present value of the accrued pension benefits is \$116.5 million (1995-\$123.1 million) and the value of the pension plan assets is \$113.3 million (1995-\$92.9 million).

Pension costs charged to income and capital in 1996 was \$5.3 million (1995-\$6.5 million).

On January 1, 1996 Maritime Electric replaced its contributory defined benefit pension plan with a group RRSP.



## **12. Commitments**

Fortis Properties has given an option to one of its tenants to purchase specific property under the terms of a ground lease. The option is exercisable by the tenant between January 15, 2019 and January 14, 2020 for a total consideration of \$48.3 million. Should the option not be exercised, full ownership of the property will revert to the tenant at the end of the ground lease term, July 1, 2034.

## **13. Contingent Liability**

### **Newfoundland Power**

During 1995, Revenue Canada reassessed Newfoundland Power for the years 1988 to 1993 relative to the disallowance of certain amounts capitalized for regulatory and accounting purposes but claimed as an expense for income tax purposes. The reassessments also included in income the value of electricity rendered in December but not billed to customers until the subsequent month. Newfoundland Power's practice, which has been consistent and is in accordance with regulatory requirements, is to record revenue on a billed basis.

In management's opinion, Newfoundland Power has reported its tax position appropriately.

On October 12, 1995 Newfoundland Power filed notices of objection to the reassessments with Revenue Canada. No provision has been made in the accounts for additional income taxes, if any, which may be determined to be payable. Should Newfoundland Power be unsuccessful in defending its position, a liability of approximately \$33.9 million, including interest to December 31, 1996, would arise offset by approximately \$16.6 million related to recording electricity revenue on the accrual basis, and Newfoundland Power would make application to The P.U.B. for this amount to be considered in the rate setting process.

In accordance with provisions of the Income Tax Act, Newfoundland Power paid \$15,595,000, representing one-half of the amount in dispute, pending resolution of this matter.

## **14. Related Party Transactions**

At December 31, 1996 Fortis Inc. owed Canadian Niagara \$3 million.

During the year Canadian Niagara entered into transactions with other related parties in the normal course of operations. These transactions are measured at the exchange amount established and agreed to by the related parties.

## **15. Subsequent event**

On January 10, 1997, Maritime Electric completed a \$15 million long term debt issue at 8.625% due 2027.

# HISTORICAL FINANCIAL SUMMARY

	1996	1995	1994	1993
<b>Income Statement</b> (in thousands \$)				
Operating Revenues	474,293	447,035	388,558	343,252
Purchased Power	236,398	230,095	205,776	186,142
Other Operating Expenses	97,990	84,908	65,831	55,168
Depreciation	35,993	37,998	32,722	27,513
Finance Charges: Interest Expense	38,487	37,246	28,814	25,885
Dividends Preference Shares	7,325	4,448	4,350	4,350
Income Taxes	28,029	20,334	23,040	18,827
Equity Income				2,396
Non-controlling Interest	1,026	1,414	1,062	1,480
Earnings Applicable to Common Shares	29,045	30,592	26,963	26,283
<b>Balance Sheet</b> (in thousands \$)				
Current Assets	71,320	72,659	78,230	57,504
Long Term Investments				36,574
Other Assets	159,076	120,289	94,618	57,398
Fixed Assets	767,066	723,461	664,713	508,213
Total Assets	997,462	916,409	837,561	659,689
Current Liabilities	172,421	153,368	160,864	102,660
Long Term Debt	335,654	285,343	264,699	221,988
Preference Shares	100,000	100,000	50,000	50,000
Deposits Due Beyond One Year	17,448	16,703	18,172	19,683
Deferred Credits	53,658	47,307	48,337	25,621
Minority Interest	8,430	18,990	20,702	10,905
Common Shareholders' Equity	309,851	294,698	274,787	228,832
<b>Cash Flow</b> (in thousands \$)				
Operations	86,351	60,701	62,134	62,194
External Financing	33,992	60,057	64,557	4,174
Investing Activities	95,838	103,078	106,405	48,924
Dividends Paid	22,416	22,048	24,136	21,893
<b>Financial Statistics</b>				
Return on Average Common Equity	9.61%	10.74%	10.71%	11.84%
<b>Capitalization Ratios</b> (year end)				
Long Term Debt	44.5%	41.8%	44.3%	43.6%
Non-controlling Interest	1.1%	2.7%	3.3%	2.2%
Preference Shares	13.3%	14.1%	8.1%	9.7%
Common Shareholders' Equity	41.1%	41.4%	44.3%	44.5%
<b>Interest Coverage</b>				
Debt	2.4	2.4	2.8	2.7
All Fixed Charges	2.0	2.0	2.2	2.2
Capital Expenditures	53,420	89,893	51,249	43,752
<b>Common Share Data</b>				
Book Value per Share-Year End (\$)	24.83	24.18	23.29	22.13
<b>Average Common Shares Outstanding</b> (in thousands)				
	12,319	12,100	10,949	10,270
Earnings per Common Share (\$)	2.36	2.53	2.46	2.56
Dividends Declared per Common Share (\$)	1.72	1.70	1.64	1.56
Dividends Paid	1.72	1.69	1.62	1.54
Dividend Payout Ratio	72.9%	66.8%	65.9%	60.2%
Price Earnings Ratio	14.4	10.8	10.5	11.2
<b>Share Trading Summary (TSE &amp; ME)</b>				
Closing Price (\$)	34.00	27.25	25.75	28.75
Volume (in thousands)	3,405	2,018	2,030	3,041

Notes: 1986 data refers to Newfoundland Power only.

Preference shares and the dividends thereon have been reclassified as debt and finance changes respectively.

1992	1991	1990	1989	1988	1987	1986
337,405	324,774	309,853	278,815	265,879	248,579	239,067
184,527	181,034	174,185	159,266	152,671	139,599	134,545
55,518	51,047	49,772	43,752	40,812	41,809	37,669
26,396	24,942	24,242	20,996	19,046	17,362	16,555
24,778	23,531	22,603	18,914	18,145	16,151	15,490
4,350	4,350	1,207				
16,480	15,632	13,456	12,039	13,243	13,163	14,484
2,387	1,920	863				
1,931	2,316	2,460	2,456	2,684	2,800	3,278
25,812	23,842	22,791	21,392	19,278	17,695	17,046
62,176	53,095	46,775	46,098	44,521	39,734	37,299
35,526	30,755	17,007				
50,887	45,147	32,457	13,008	3,165	3,058	3,106
493,631	474,831	456,536	413,125	372,920	346,883	326,301
642,220	603,828	552,775	472,231	420,606	389,675	366,706
96,638	125,134	112,649	86,350	79,363	56,013	65,968
218,906	157,312	157,881	164,959	138,724	140,632	112,342
50,000	50,000	50,000				
13,517	13,213	1,600				
25,820	26,480	24,849	22,833	24,748	24,413	26,406
22,296	29,889	30,938	33,600	33,671	34,876	36,067
215,043	201,800	174,858	164,489	144,100	133,741	125,923
61,244	57,671	49,715	44,153	44,649	34,304	40,465
16,805	30,072	70,588	37,754	16,644	18,550	5,036
53,245	68,802	105,495	66,755	46,346	39,104	32,109
21,508	21,521	17,120	15,317	14,011	13,414	13,428
12.38%	12.66%	13.49%	13.93%	13.88%	13.63%	13.98%
43.5%	41.2%	38.9%	47.5%	44.1%	47.7%	42.7%
4.4%	6.2%	7.4%	8.9%	10.6%	10.8%	12.8%
9.8%	10.4%	11.9%				
42.3%	42.2%	41.8%	43.6%	45.3%	41.5%	44.5%
2.8	2.8	2.5	2.6	2.8	2.9	3.1
2.2	2.0	2.1	2.2	2.3	2.3	2.3
46,916	45,052	69,242	56,774	46,346	39,104	32,109
21.10	20.04	18.82	17.78	16.63	15.66	14.80
10,131	9,907	9,254	9,091	8,575	8,521	8,483
2.55	2.41	2.46	2.35	2.25	2.08	2.01
1.50	1.48	1.45	1.39	1.32	1.25	1.195
1.49	1.48	1.435	1.375	1.30	1.24	1.15
58.8%	61.4%	58.3%	59.1%	58.7%	60.1%	59.5%
9.6	9.9	8.8	9.5	8.9	9.1	9.1
24.50	24.00	21.63	22.38	20.13	19.00	18.25
2,186	1,773	1,802	1,578	1,050	1,598	2,631



# INVESTOR INFORMATION

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## Head Office

The Fortis Building  
Suite 1201  
139 Water Street  
P.O. Box 8837  
St. John's, NF  
A1B 3T2

Tel: (709) 737-2800

1-800-563-5880

Fax: (709) 737-5307

Web site: [www.fortis.ca](http://www.fortis.ca)

## Annual Meeting—1997

Shareholders are invited to the Annual General Meeting to be held at 11:00 a.m., May 15, 1997, at the Holiday Inn St. John's, 180 Portugal Cove Rd, St. John's, NF

## Shareholder Services

### General Inquiries

Inquiries for general information or for any publication of the Corporation may be directed to the Corporate Secretary at the Head Office address.

### Financial Inquiries

Shareholders and financial analysts may obtain financial information by contacting Investor Relations at the Head Office address.

## Stock Prices

	High	Low	Close
1996	34.70	27.00	34.00
1995	28.00	24.25	27.25
1994	30.00	23.75	25.75
1993	29.25	23.50	28.75
1992	24.50	22.00	24.50
1991	24.25	21.00	23.88
1990	22.75	19.38	21.63

## Duplicate Annual Reports

While every effort is made to avoid duplications, some shareholders may receive extra reports as a result of multiple share registrations. Shareholders wishing to consolidate these accounts should contact the Transfer Agent.

## Common Dividends\* – 1997

Record Date	Payment Date
Feb. 14	Mar. 1
May 9	June 1
Aug. 8	Sept. 1
Nov. 7	Dec. 1

\* The declaration and payment of dividends are subject to Board of Directors' approval.

## Exchange Listings

Common (FTS) – The Toronto Stock Exchange and Montreal Exchange; First Pref A (FTSPRA) and First Pref B (FTSPRB) – The Toronto Stock Exchange.

## Dividend Reinvestment Plan

The Corporation offers a Dividend Reinvestment and Share Purchase Plan to Common Shareholders as a convenient method of increasing their investment in Fortis Inc.

Participants have their dividends plus any optional cash payments (minimum of \$100; annual maximum \$20,000) automatically deposited in the plan to purchase additional Common Shares. Shares are sold quarterly on March 1, June 1, Sept. 1, and Dec. 1

at the average market price then prevailing on The Toronto Stock Exchange. Inquiries should be directed to Dividend Reinvestment Services, Montreal Trust Company.

## Valuation Day

The value of a Fortis Inc. (NLP) Common Share on Valuation Day, December 22, 1971, recognized by the Department of National Revenue for capital gains taxation purposes, was \$6.125 after adjustment for the June 1985 two-for-one share split. The valuation of a Fortis Inc. (FTS) Common Share on February 22, 1994 was \$28.625.

## Transfer Agent and Registrar

Montreal Trust Company  
Stock Transfer Services,  
Place Montreal Trust, 7th floor  
1800 McGill College Avenue,  
Montreal, Quebec H3A 3K9  
Tel: (514) 982-7933

Montreal Trust is responsible for the maintenance of shareholder records and the issue, transfer, and cancellation of stock certificates. Transfers can be effected in their St. John's, Halifax, Charlottetown, Montreal, Toronto, and Vancouver offices. Montreal Trust also distributes dividends and shareholder communications. Enquiries with respect to these matters and corrections to shareholder information should be addressed to the Transfer Agent.

# CORPORATE DIRECTORY

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## Fortis Inc.

### Directors

Angus A. Bruneau, (Chair); Gilbert S. Bennett; Linda L. Inkpen; Harold W. Lundrigan;  
H. Stanley Marshall; A Fletcher McLaughlin; Arne R. Nielsen; Aidan F. Ryan; David A. Scales

### Officers

H. Stanley Marshall, *President & Chief Executive Officer*  
G. Wayne Watson, *Vice President, Finance & Chief Financial Officer*  
Raymond F. Gosine, *Corporate Secretary*  
Ronald W. McCabe, *Assistant Corporate Secretary*

## Subsidiaries and Affiliates:

### Newfoundland Power

#### Directors

Aidan F. Ryan (*Chair*); Frank J. Coleman; Gilbert G. Dalton;  
Derrick E. Gill; Philip G. Hughes; Linda L. Inkpen; Janet Kelly;  
H. Stanley Marshall; John E. Moore; Harold L. Wareham

#### Officers

Aidan F. Ryan, *Chairman, President & Chief Executive Officer*  
Peter Alteen, *Corporate Counsel & Assistant Secretary*  
Mardon J. Erbland, *Vice President, Corporate & Employee Services*  
John G. Evans, *Vice President, Customer Service*  
Raymond F. Gosine, *Vice President & Corporate Secretary*  
W. Wallace Pinhorn, *Vice President, Technical Services*  
Karl W. Smith, *Vice President, Finance & Chief Financial Officer*

### Maritime Electric

#### Directors

David A. Scales, (*Chair*); Philip G. Hughes; William G. Lea;  
W. David Loggie; N. Pauline MacDonald; H. Stanley Marshall;  
George A. McMurdo; Raymond M. Murphy; Aidan F. Ryan

#### Officers

Philip G. Hughes, *President & Chief Executive Officer*  
J. William Geldert, *Vice President, Finance & Corporate Secretary*  
James A. Lea, *Vice President, Corporate Planning & Development*  
Earl A. Ludlow, *Vice President, Operations*

### Canadian Niagara Power

#### Directors

Harry W. Macdonell, (*Chair*); Gilbert S. Bennett; Albert J. Budney;  
William E. Davis; Richard Drouin; H. Stanley Marshall;  
Milan M. Nastich; Grant L. Reuber; G. Wayne Watson

#### Officers

Harry W. Macdonell, *Chairman of The Board*  
H. Stanley Marshall, *President & Chief Executive Officer*  
James H. Fretz, *Vice President & General Manager*  
James G. Hreljac, *Controller*  
Ronald W. McCabe, *Corporate Secretary*  
Dawn L. Reiger, *Director Corporate Accounting*  
David H. Gordon, *Assistant Corporate Secretary*

### Fortis Properties

#### Directors

H. Stanley Marshall, (*Chair*); Gilbert S. Bennett<sup>°</sup>;  
Harry G. Benson; Norval R. Blair; A. Fletcher McLaughlin\*,  
Stewart McInnes; Joseph D. Randell; Robert W. Verge;  
John C. Walker; G. Wayne Watson; O. Keith Wellon

<sup>°</sup>Retired in November, 1996

\*Appointed November, 1996

#### Officers

H. Stanley Marshall, *Chairman & Chief Executive Officer*  
John C. Walker, *President & Chief Operating Officer*  
Stanley D. Collins, *Vice President, Operations (Newfoundland)*  
Raymond F. Gosine, *Assistant Corporate Secretary*  
Ronald W. McCabe, *Corporate Secretary*  
Michael A. Mulcahy, *Vice President, Corporate Services*  
Wayne W. Myers, *Vice President, Operations (Nova Scotia)*  
W. Glenn Squires, *Vice President, Hospitality Services*  
G. Wayne Watson, *Vice President, Finance*

### Fortis Trust

#### Directors

David R. Baird, (*Chair*); Philip G. Hughes; Malcolm C. LeMessurier;  
H. Stanley Marshall; A. Douglas Moores; Harold L. Wareham;  
Derek W. Young

#### Officers

H. Stanley Marshall, *President & Chief Executive Officer*  
Raymond F. Gosine, *Corporate Secretary*  
Glen C. King, *Vice President, Finance*  
Ronald W. McCabe, *Vice President, Customer Service*  
John E. Sargent, *Vice President & Branch Manager*

# BOARD OF DIRECTORS

## CORPORATE GOVERNANCE

The Board of Directors and management of Fortis have always recognized the importance of good corporate governance practices in the proper conduct of the affairs of the Corporation. The 1994 report of The Toronto Stock Exchange Committee on Corporate Governance provided guidelines for corporations to assess their governance practices. Fortis is in compliance with most of the 14 guidelines. A detailed assessment is set out in the Management Information Circular in respect of the May 15, 1997 Annual Meeting of Shareholders.

The Board annually appoints from its members a number of standing committees. Each committee has a written mandate which sets out in detail the activities or areas of the Corporation's business to which the committee is required to devote its attention. With only minor exceptions, the committees' decision making is limited to the making of recommendations to the full Board. All committees are currently composed of "unrelated" directors.

## COMMITTEES OF THE BOARD OF DIRECTORS

### Nominating and Corporate Governance

This Committee is charged among other things, with,

- i) proposing to the full Board new nominees for election to the Board;
- ii) carrying out processes specified by the Board for assessing the effectiveness of the Board as a whole and each Board committee;
- iii) reviewing and making recommendations to the Board with respect to the adequacy and form of the compensation of directors;
- iv) developing and recommending the approach to corporate governance issues; and
- iv) approving the engagement of an outside consultant by an individual director.

It is composed of Dr. Inkpen (Chair), and Messrs. McLaughlin, Nielsen and Scales.

### Audit

This Committee monitors most aspects of Fortis' financial activities and liaises with the external auditors to perform reviews of most financial related public documents. It is composed of Messrs. Bennett (Chair), Lundrigan, McLaughlin, and Dr. Inkpen.

### Human Resources

This Committee reviews recommendations for the appointment of senior management and compensation policies for Fortis and its subsidiaries. It is responsible for the administration of Fortis' profit sharing and pension plans. It is composed of Messrs. Nielsen (Chair), Bennett, Lundrigan and Scales.

### Executive Stock Option

This Committee is composed of the same members as the Human Resources Committee. It is responsible for the administration of the Fortis Stock Option Plan.





**Angus A. Bruneau**  
Chairman, Fortis Inc.  
St. John's, Newfoundland



**H. Stanley Marshall**  
President and  
Chief Executive Officer  
Fortis Inc.  
St. John's, Newfoundland



**Linda L. Inkpen**  
Medical Practitioner  
St. John's, Newfoundland



**Aidan F. Ryan**  
Chairman, President and  
Chief Executive Officer  
Newfoundland Power  
St. John's, Newfoundland



**Arne R. Nielsen**  
Energy Consultant  
Calgary, Alberta



**David A. Scales**  
Chairman, Maritime Electric  
Charlottetown, PEI



**A. Fletcher McLaughlin**  
Financial Adviser  
Toronto, Ontario



**Harold W. Lundrigan**  
Corporate Director  
Corner Brook, Newfoundland



**Gilbert S. Bennett**  
Business Consultant and  
Corporate Director  
Toronto, Ontario





**FORTIS**<sub>INC.</sub>

The Fortis Building  
Suite 1201  
139 Water Street  
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