2002 Newfoundland Power Inc. Annual Report

Investing Energy
Building on Success

2002 Annual Report

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Newfoundland Power Inc. operates an integrated generation, transmission and distribution system throughout the island portion of Newfoundland and Labrador. For nearly 120 years, we have been committed to providing customers with safe, reliable electrical service in the most cost-efficient manner possible.

Corporate Profile

Our Company serves approximately 220,000 customers making up approximately 85 per cent of all electrical consumers in the province.

Working together, Newfoundland Power and its employees are committed to providing customers with the service they expect and deserve in an environmentally and socially responsible manner.

Our vision is to be a leader among North American electrical utilities in terms of customer service, reliability and efficiency.

All the common shares of Newfoundland Power are owned by Fortis Inc. (TSX:FTS), a diversified holding company with assets exceeding $2.0 billion.

Cover

Lineperson Keith Halliday is one of our many employees who are proud to deliver a safe, reliable supply of electricity to our customers.

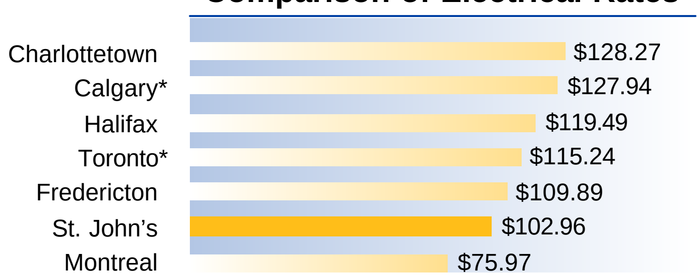
Financial Highlights

	2002	2001
Revenue ($000s)	369,627	359,305
Property, Plant and Equipment ($000s)	949,478	914,735
Long-term Debt ($000s)	335,858	263,758
Common Shareholder's Equity ($000s)	279,515	260,203
Earnings Applicable to Common Shares ($000s)	28,807	28,862
Earnings per Common Share ($)	2.79	2.80

Operating Highlights

	2002	2001
Customers	219,072	216,879
Installed Generating Capacity (MW)		
Hydroelectric	94.5	94.5
Diesel	6.9	6.9
Gas Turbine	46.9	46.9
Total	148.3	148.3
Peak One-hour Demand (MW)	1,194	1,001
Energy Sales (GWh)	4,765	4,667
Average Annual kWh Used per Residential Customer	15,144	14,927
Operating Cost per Customer ($)	223	231
Revenue per Employee ($)	612,980	582,342

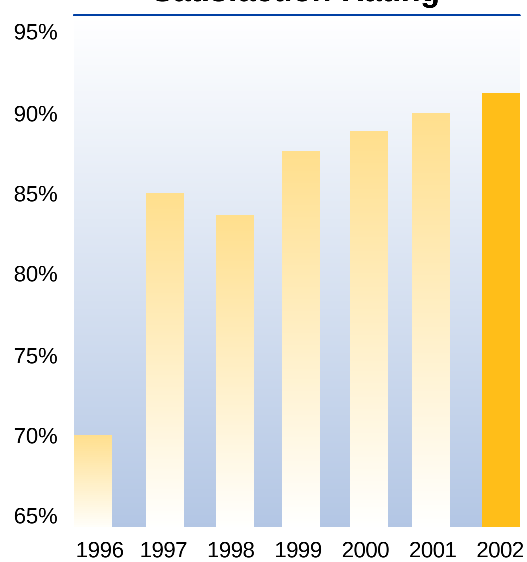
Comparison of Electrical Rates



Rates as of January 1, 2003. Based on Newfoundland Power's monthly average residential usage of 1,262 kWh.

*Based on the regulated rate option for local utilities in effect as of January 1, 2003.

Customer Satisfaction Rating



Our investments in safe, reliable, low cost electrical service are building the foundation for continued success... for our customers, employees and shareholders.

In 2002, we invested in the right places, at the right time and worked hard to control costs. We made investments in every aspect of our business and continued to build on our established track record of providing our customers with reliable service and the lowest rates in Atlantic Canada. Today, customers' expectations for reliable, low cost electricity are greater than ever. And we are committed to making continuous investments in order to meet those expectations.

Letter to Shareholders

In 2002, we delivered more energy to more customers more efficiently than we did in 1993. Over the past ten years, the Company's operating cost per customer has declined by 14 per cent and its workforce has decreased by 26 per cent. Over the same period, the number of customers we served increased by 9 per cent and the amount of energy we sold increased by 11 per cent.

Our focus on operating cost performance combined with investments in productivity initiatives, customer service and employee development has enabled us to deliver solid earnings.

In 2002, we delivered $28.8 million in earnings, a slight decrease from 2001. Earnings in 2001 were higher due to the successful conclusion of a long-standing income tax case and higher electrical rates than in 2002.

Energy sales increased by 2.1 per cent from 4,667 gigawatt hours (GWh) in 2001 to 4,765 GWh in 2002. This growth was primarily influenced by an increase in residential sales, which is attributed to economic growth and the improved competitive position of electricity in the home heating market.

Bruce Chafe, Chair of the Board of Directors, and
Philip Hughes, President and Chief Executive Officer, Newfoundland Power Inc.


POWER

Today, our customers benefit from a well-maintained electrical system.

The benefits associated with our purchase of the Aliant Telecom Inc. joint-use poles in 2001 continue to help reduce the cost of electricity purchased by our customers.

While growth is not always uniform across our service territory, we take our obligation to serve all our customers very seriously. We continue to invest in rural Newfoundland, despite significant out-migration in these areas, while at the same time meeting the growth requirements in urban centres.

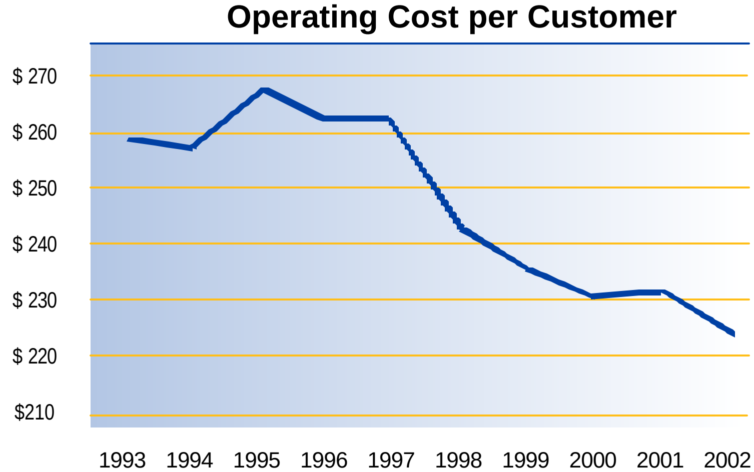
The strength and condition of our electrical system is vital to our ability to provide quality service for our customers at the lowest possible cost, and it requires continuous investments.

We have successfully managed costs while improving service for our customers.

Since 1997, major efforts were undertaken to enhance the electrical system for all our customers. Over the past five years, the Company has invested in excess of $250 million in capital programs, including approximately $60 million in capital projects in 2002, to further improve customer service and reliability while minimizing operating costs.

A central aspect of our capital projects in 2002 was the refurbishment of the electrical system to improve reliability. Although system availability was 99.95 per cent, we believe there is still work to be done, as we are below the Atlantic and National averages for reliability. However, difficult climatic conditions combined with our isolated, stand alone electrical system continuously challenges our reliability performance. By investing capital in the right places and at the right time, we are maximizing asset lives, responding to demands for new services, improving productivity and enhancing the quality of our electrical system.

Operating Cost per Customer



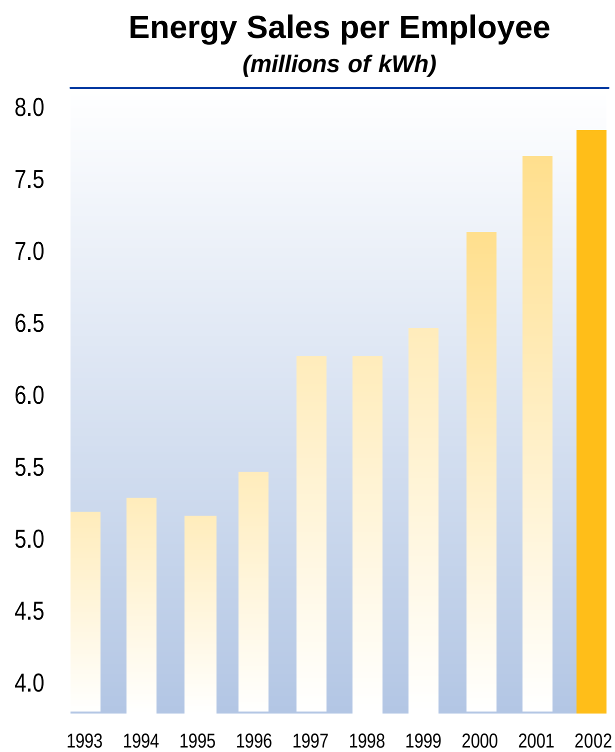
A sound electrical system is becoming increasingly important in today's technologically dependent economy. Investments in technology continue to be a vital requirement to improving productivity as well as supporting the day-to-day operation of our business. We will continue to invest in our electrical system because it enables our customers to benefit from reliable service and the lowest rates in Atlantic Canada.

Our investments and emphasis on improving service has reduced operating costs and has assisted in the achievement of strong customer satisfaction results. In the fourth quarter of 2002, we achieved our highest customer satisfaction rating ever – 93 per cent. Our annual figure of 91 per cent was also our highest annual average. Our track record now stands at a customer satisfaction rating of 90 per cent or higher for seven consecutive quarters. This is quite an accomplishment given the growing diversity of customer expectations.

While we continuously invest in our electrical system, it's our people who drive the business.

We believe that our strength lies in our employees. Our employees take great pride in serving customers, and we highly value their contribution to customer satisfaction and overall business success. We fully recognize that our ability to deliver service 24-hours a day, 365-days a year depends on the willingness of our employees to often go beyond the call of duty.

The lightning storms that hit the island of Newfoundland in the summer of 2002 are a perfect example. Although the severity of the storms was unprecedented, employees immediately came together and worked tirelessly to ensure service was restored to customers as quickly as possible. By the time the storms had passed, the cost to the Company was approximately $1 million. However, the situation served to strengthen our team's commitment to the work we do and the customers we serve.



With that in mind, we have committed to creating an environment that focuses on employee success and closely aligns human resources with corporate strategy. We call this our *People Strategy*, and we are seeing tremendous results. In fact, we received Atlantic and National recognition in 2002 for our focus on employee success. In June, we received the Atlantic Canada Human Resources Awards' first-ever Strategic Partnership Award, and in October we were awarded the Gold Star Agency Award from the International Personnel Management Association – Canada. We attribute our emphasis on employees and their development as one of the keys to the significant improvements in customer satisfaction and business performance in recent years.

Our employees are also committed to giving back to the communities we serve.

Throughout 2002, we demonstrated our commitment to maintaining the highest standard of employee and public safety. In 2002, employee lost-time and medical-aid accidents were at their lowest levels in five years. In an effort to create enhanced safety awareness on a daily basis we launched a new corporate safety campaign, *Partners in Safety*, which focuses on the need for everyone – employees, IBEW Local 1620, contractors and the public – to work together to enhance safety.

Environmental awareness, diligence and management is a part of normal business operations, and our employees share the goal of improved environmental operations and stewardship.

We took part in several environmental audits in 2002, which confirmed that we are in compliance with pertinent legislation and regulations. As we move forward, our employees are committed to continual improvement in environmental performance and safeguarding the environment for future generations.

The Company supports many community groups and charities throughout the province but our employees are the true ambassadors for community betterment. Throughout 2002, employees, retirees and their families gave generously of their time and energy to improve the quality of life for the people of this province.

The use of new meter reading technologies implemented in 2002 are contributing to productivity gains as well as increased accessibility to meters, and thus improved safety, for meter readers such as Chris Browne.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NEWFOUNDLAND
POWER
A FORTIS COMPANY

Building on the success of our long-standing partnership with the Newfoundland and Labrador Division of the Canadian Cancer Society, in September 2002 Newfoundland Power joined forces with the key cancer organizations in the province to launch a new cancer education and awareness initiative – *The Power of Life Project*. This Project is raising funds for cancer treatment, screening and education programs as well as to promote healthy living. Commitments to the four-year Project are already valued at $1.2 million.

In 2002, regulation was a significant focus for the Company. Newfoundland Power was ordered by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) to file a general rate application by October 11, 2002, to set electrical rates for 2003. Our goal in developing our application was to achieve a balance that ensures stable electrical rates and safe, reliable electrical service for customers with the need to preserve the financial integrity of the Company.

In August 2002 the PUB granted approval for Newfoundland Power to increase its electrical rates by 3.68 per cent as a result of Newfoundland and Labrador Hydro's (Hydro) increase in purchased power costs to Newfoundland Power. We fully participated in the Hydro hearing to lessen the impact of these increases on our customers and the economy.

In 2002, the Government of Newfoundland and Labrador released its Electricity Policy Review. The Company made a submission during the public consultation process, outlining our views on industry structure and our support for a move to more flexible, incentive-based regulation that is better aligned with customers' expectations. As of the date of this report, government has not released its report.

At the end of 2002, Ms. Nora Duke, Vice President, Customer and Corporate Services, accepted a one-year assignment as Vice President, Hospitality Services, at one of our sister companies, Fortis Properties. Nora contributed greatly to the leadership and strategic direction of our Company, and her deep passion for customer service and employee development will be missed by all at Newfoundland Power. In January 2003, we welcomed Mr. Michael Mulcahy, formerly of Fortis Properties, to our executive team as Vice President, Customer and Corporate Services. In addition to his background in customer service and human resources, Mike brings with him experience in the electrical industry.

Mr. Derek Hiscock and Mr. Frank Howard will be retiring from our Board of Directors at our next annual general meeting. We would like to thank Messrs. Hiscock and Howard for their guidance over the past six years and for helping move our Company forward. We also take this opportunity to thank our entire Board of Directors for their visionary and effective leadership in 2002.

Finally, our employees must also be thanked for their untiring commitment and tremendous contributions in 2002.

In summary, it has been a very good year for Newfoundland Power. We invested in our electrical system, in our people and in our communities and seized opportunities to build on our success. Our progress provides a solid foundation for us to effectively manage and grow the business into the future.

We look ahead with commitment – a commitment to continue making meaningful investments throughout the Company to provide our customers with safe, reliable electrical service while striving to keep the cost of that service the lowest in Atlantic Canada. We will continue to invest energy and build on the success of a well-maintained, reliable electrical system for our customers, employees and shareholders.

Philip Hughes
President
and Chief Executive Officer

Bruce Chafe
Chair,
Board of Directors

In 2002, we managed our business with a focus on continuing to reduce overall costs and improving service, and achieved success through a mixture of cost reduction, use of technology and sound business management.

Report on Operations

To ensure customers receive safe, reliable service in the most cost-efficient manner possible, we are investing energy into...

. . . our Electrical System

Few industries have more of an impact on people's lives than the electrical industry. In today's technology-driven economy, reliable electrical service is more critical than ever before.

Building on nearly 120 years of knowledge and experience, we believe that success is measured by our ability to meet customers' expectations. And meeting customers' expectations is only attainable through continuous investment. We have therefore been working hard to keep costs down, while at the same time investing millions of dollars each year to maintain and enhance our electrical system.

In recent years we have been challenged by the need to maintain and replace portions of our aging system, which are often located in less populated rural areas.

We are committed to improving reliability for all our customers. In 2002, we mobilized crews from across the island to complete projects more efficiently and with less impact on customers, including upgrades to a distribution line on the Eastport Peninsula.

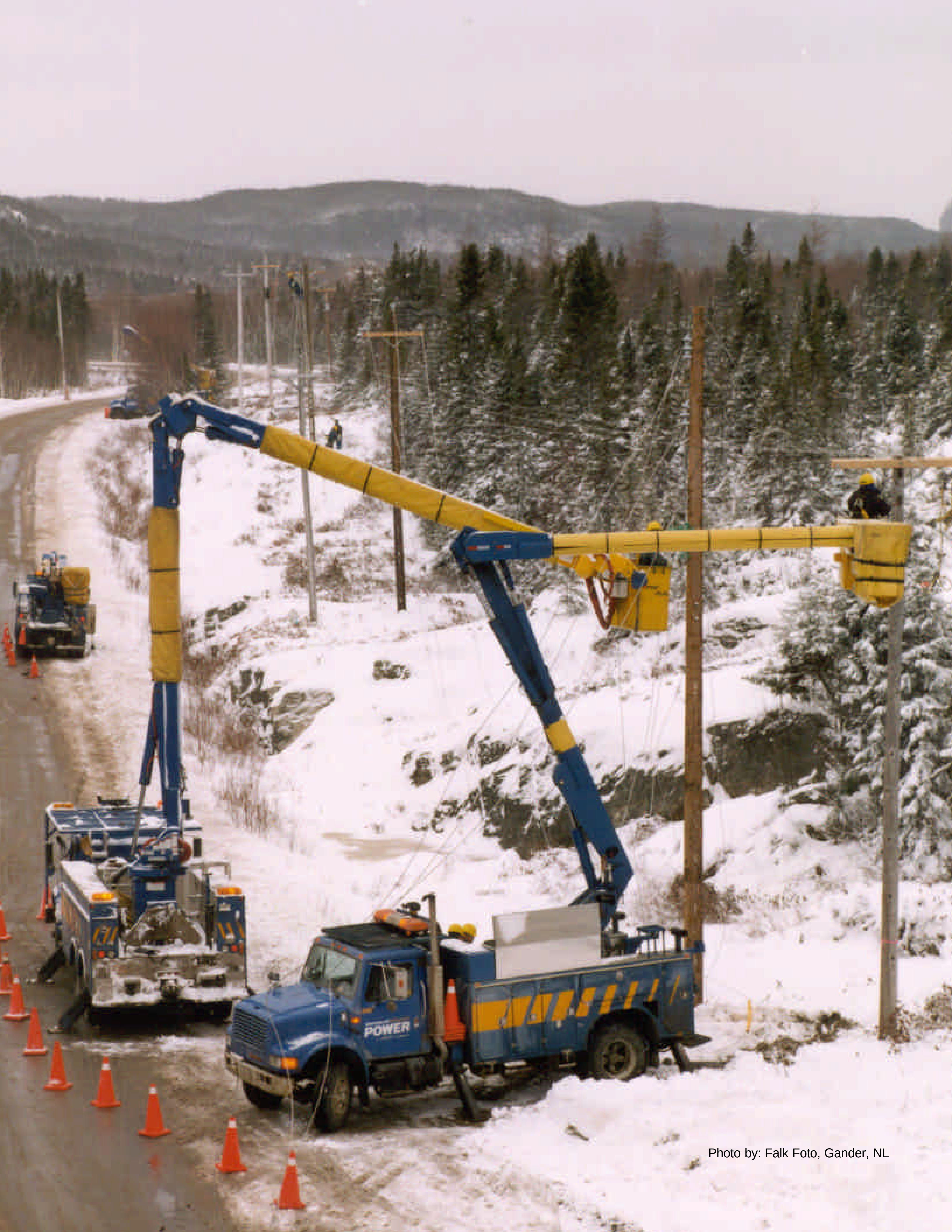


Photo by: Falk Foto, Gander, NL

At the same time, we have been responding to new growth in urban centres. We are addressing this challenge by making appropriate investments throughout our service territory to maintain quality service for all our customers. In 2002, we invested approximately $60 million in capital projects, approximately half of which was allocated to upgrading or replacing equipment.

Productivity continued to be a focus in 2002. Our ability to improve productivity is primarily the result of a dedicated effort to streamline our work processes, leverage technology and strategically deploy our employees and contractors.

Building on our solid tradition of service, we are creating a foundation for the future success of our Company.

To strengthen our electrical system, our capital investments in recent years have been in building new substations, upgrading and rebuilding existing substations, and upgrading transmission and distribution lines in areas where improved reliability was necessary. All of this, combined with our investments in new equipment, protective devices, and remote control and monitoring capabilities, is improving service, lowering maintenance costs and increasing productivity.

To build on our proactive approach to capital replacement in recent years, in 2002 we launched an initiative to improve asset management. Through the use of better business processes, maintenance strategies and computer systems, we are reducing unplanned equipment failures, thereby improving reliability and reducing costs.

Our investments are driven by a commitment to meeting customers' expectations while controlling costs.

An expansion of the System Control and Data Acquisition (SCADA) system to increase control and monitoring of the electrical system is also improving system performance. Upgrades to outage reporting applications in 2002 now link customer residences to their respective feeders. This is providing more accurate and complete information during outages as well as improving capital planning.

We have spent approximately $1 billion to build our electrical system, which is comprised of over 10,000 kilometres of transmission and distribution lines, 137 substations, and 23 hydro plants. Storekeepers like Noel Chafe play an important role in controlling inventory as we continue to upgrade and rebuild our system.


POWER
SERVICE
LIMIT 4000 LBS

Customers continue to rank reliability as the most important attribute of electrical service, and in 2002, our commitment to improving reliability was stronger than ever. Continued investments in our electrical system are reducing the number of unplanned outages. However, two extraordinary circumstances in 2002 resulted in major outages for our customers.

After strengthening the electrical system on the Burin Peninsula, we had plans to relocate the gas turbine at Salt Pond on the Burin Peninsula to the Bonavista North area. However, our plans were delayed after the failure of a power transformer at our Salt Pond Substation and a subsequent failure of our replacement portable transformer. Despite the failure of the two power transformers and the necessary delay of the relocation of the gas turbine to 2003, we forged ahead and made investments to improve reliability for our customers before making the transition.

August 2002 will long be remembered for its severe lightning storms, which brought with it more than 10,000 strikes of lightning. Many employees and customers described it as being the most intense lightning storms they had ever seen. Damage to electrical equipment was widespread – affecting almost half the island and causing hundreds of isolated electrical problems and power outages in nearly 300 communities. The series of storms was impossible to predict, but thanks to the tenacity of our employees, we were able to bring the situation under control. Crews from all over the province were mobilized and able to quickly and efficiently restore power to customers. By the time all repairs were completed, the storms cost the Company approximately $1 million.

The circumstances on the Burin Peninsula combined with severe lightning storms and a higher than normal incidence of loss of supply from Newfoundland and Labrador Hydro had a significant impact on our reliability performance in 2002. However, continued progress in upgrading the electrical system has substantially reduced the number of unplanned outages and improved customer service. Our capital investments are improving reliability, and in 2002 we delivered electricity to our customers 99.95 per cent of the time.

Throughout 2002, the Company built on the strength of teamwork by coordinating employees and equipment from different areas of the province to complete many of its capital projects. By joining forces, our crews completed larger projects more efficiently and with less impact on customers' electrical service.

The following are highlights of our capital investments of approximately $60 million in 2002:

Distribution:

Rebuild of the distribution lines between Dunville and Fox Harbour, and the Grand Codroy Bridge to Cape Anguille;

Upgrades to the distribution line running from Glovertown to the Eastport Peninsula;

Installation of substation reclosers on distribution lines in the Bonavista North area;

Replacement of poles, crossarms, insulators and other hardware along the transmission line between Ochre Pit Cove and Salmon Cove;

Replacement of over 2,000 electrical insulators in the Gander Bay area; and,

New looped cable system for a portion of the underground distribution system in downtown St. John's.

Transmission:

Rebuild of the transmission line between Grand Bank and Grand Beach; and,

Replacement of an 11-kilometre section and upgrade of a 10-kilometre section of the transmission line between Goulds and Mobile.

Substation:

Rebuild of the Gander Substation, which saw the existing wooden bus structure replaced with a steel structure; and,

Replacement of a power transformer and circuit breaker at the Rattling Brook Substation.

Energy Supply:

Replacement of the wooden penstock with a steel structure and installation of more energy-efficient hydroelectric equipment at the Seal Cove Hydro Plant.

By investing capital in the right places, at the right time, we are maximizing the life of our assets and enabling work to be carried out at a lower cost.

We are committed to investing in capital programs that improve the reliability of electrical supply and service to our customers. We believe our investments are helping us meet our service obligations to our customers while keeping rates low and supporting economic growth for our province.

. . . our Customers

From offering customers the quality of service they expect and deserve, to contributing to the province's growing economy, providing reliable, low cost service is the foundation upon which we are building success. And success can be measured by our outstanding customer satisfaction ratings. In the fourth quarter of 2002 we achieved our highest customer satisfaction rating ever – 93 per cent – and our highest annual average of 91 per cent. For seven consecutive quarters, we maintained a customer satisfaction rating of at least 90 per cent.

Day after day, our employees deliver more than just electricity.

Now that we are meeting our customers' expectations, we are making investments that will allow us to maintain customer satisfaction levels at a lower cost. Everyday we seek to identify ways to use technology to expand customers' choices while at the same time offering the personal service customers require. To do so, we are continuing to monitor customers' expectations and adapting our services to improve efficiencies.

We are continuously investing in training and development initiatives for employees, in new services for our website and our ability to respond to customers more quickly and efficiently. There has been nearly a 60 per cent increase in the number of visits to our website in 2002 compared to 2001, as an increasing number of customers are choosing to use our website to find information on our programs and services or to do business with us on-line. The Internet has become a key medium for customers to learn more about our programs and services that encourage them to manage their use of energy more efficiently.

Energy conservation is an important issue for our customers, and we consider the provision of information on this topic to be an essential element of good customer service. Throughout 2002, Newfoundland Power continued to promote energy conservation programs and services through customer newsletters, bill inserts, advertising and partnerships with organizations such the Newfoundland and Labrador Conservation Corps and the Newfoundland and Labrador Home Builders' Association.

Customer Service Specialist Gerard Curtis works one-on-one with customers and contractors to help them reduce their use of electricity.

In 2002, we replaced our existing handheld meter reading system with a new, more technologically advanced system. The new system enables our meter readers to cover a greater range of reporting in less time, and allows for the automation of several processes which were previously completed manually.

We are investing in technology to improve the level of service we provide while building on traditional service practices.

A major initiative in 2002 was the installation of approximately 700 automated meter reading meters in locations that were difficult to access. Beyond productivity gains, the new meters provide accessibility to meters that proved difficult to read, as well as improve safety for meter readers.

. . . our Employees

For over a century, our employees have played a vital role in the development of industry, business and communities in our province. We have a solid record as a leading service provider in the province. This is a result of a commitment by our employees to providing customers with the highest level of service – whatever the situation or time of day.

When most people are heading home due to poor weather, many of our employees are heading to work! Our operations team often brave the elements of the harsh Newfoundland climate and work beyond the call of duty to restore power during service interruptions. That was the case during the lightning storms in August 2002 and the snow storms during the 2002 holiday season. While many people were vacationing and enjoying time with families, our dedicated employees were working tirelessly to restore power to our customers as quickly as possible.

After the implementation of a new SCADA system, our System Control Centre team recognized a need for further training. Together, they committed to a nine-month customized training program that would equip them to better use this state-of-the-art technology. Left to right: (front) Larry Wall, Brian Walsh, Vince Stuckless, (back) Paul Trickett, Chris O'Keefe, Geoff Ford and Eugene Doyle.

In addition, the Company's commitment to customers is demonstrated behind the scenes on a daily basis by people who monitor and strengthen the electrical system, develop efficient business processes and respond to customer calls.

Everyday, we are investing energy to serve our customers better. We do this by investing in our employees.

In order to ensure that our employees are skilled and equipped to provide quality service to our customers while supporting their own personal growth, we invest in training and development, health and wellness, and tools and equipment that support their productivity and enhance their ability to do their jobs well.

Employee success has become an integral part of our strategy and has led to significant progress in employee development and success. In fact, in 2002, we were honoured to receive National and Atlantic recognition for our commitment to our employees. The International Personnel Management Association – Canada awarded our Company with the Gold Star Agency Award. This is the first National award in human resources for the Company and came on the heels of an Atlantic award in human resources. Both awards were acknowledgments of the impact that our focus on employee success is having on employees and our Company, and were certainly highlights for us in 2002.

. . . Safety

Given the inherent hazardous nature of electricity, safety must be our number one priority. We have a daily commitment to ensuring that safety remains a priority throughout the Company, which is having a positive impact on the health and well-being of our employees. In 2002, employee lost-time and medical-aid accidents were at their lowest levels in five years.

Safety is our priority. Make it yours too!

Linepersons such as Ed Corrigan recognize that safety must never be compromised – no matter what the situation.


POWER

Safety awareness was emphasized in 2002, particularly amongst employees and contractors. Specific training was provided in aerial device, high voltage rubber glove techniques and transmission line conductor training to many of our linepersons and their supervisors. In addition, training sessions were completed on the Workplace Hazardous Materials Information System for employees working with or exposed to controlled products. New safety and work method standards were also developed for tree trimming contractors, and seminars were conducted for line construction contractors on safety related to our Aliant Telecom Inc. pole agreement.

We also undertook a number of activities to ensure our safety practices were in compliance with new provincial Occupational Health and Safety legislation introduced in 2002. For the first time ever, Company and Union representatives provided training for all Occupational Health and Safety Committee members throughout the Company.

A new safety management system proved successful in 2002. The new technology enables the Company to manage safety aspects such as planning and accident investigation, as well as report on safety activities and trends to enhance overall due diligence related to safety.

A team was established to evaluate and select more ergonomically friendly tools for linepersons. Awareness of ergonomic issues and a focus on their prevention is having an impact. In 2002, the number of ergonomic related injuries accounted for approximately 20 per cent of all injuries compared to 36 per cent in 2001. The Company emphasizes that the responsibility for ensuring a safe work environment rests upon everyone.

The safety of employees and the public is never compromised.

In 2002, we launched a new corporate safety campaign, *Partners in Safety*. It focused on management, employees, IBEW Local 1620, contractors, Occupational Health and Safety Committees and the public working together to enhance work safety. A theme within the campaign, *One Way to Productivity – the Safe Way*, emphasized the principle that safety and productivity are not mutually exclusive.

We also made investments in public safety throughout 2002, including electrical safety awareness training for fire departments across the island, and safety demonstrations for many schools as well as at our community *EnviroFests*.

Each and every day, safety is the number one priority of our employees, including Power Plant Operations Coordinator John Curran.


POWER

. . . our Environment

We are committed to operating in an environmentally sensitive manner that responds to the expectations of customers, governments and shareholders. We believe that environmental management is the responsibility of all employees, and for that reason we have made environmental awareness and diligence a part of normal business operations.

In keeping with the philosophy of continual improvement, we have demonstrated our commitment to investing in environmental system improvements in several ways. We have an ongoing program to reduce PCBs, with an objective of eliminating PCBs from the system. We completed a five-year asbestos management program, limiting asbestos to either the exterior of facilities or inaccessible locations where risks are deemed minimal. We also replaced a large single-walled fuel storage tank with double-walled tanks, thus minimizing the risk to the environment.

The Company has an ongoing program to replace mercury vapour street lighting with a much more energy-efficient, high-pressure sodium lighting system. We also purchase energy-efficient, stainless steel transformers. These programs limit greenhouse gas emissions, since less fossil fuel has to be used for generation.

We are investing energy to minimize the impact of our business on the environment.

We also took part in several environmental audits in 2002. An environmental compliance audit of the Company's operations assessed our compliance with legislation and regulations, and dealt with the generation, transmission and distribution operations of the Company.

An ISO 14001 surveillance audit was completed in 2002 for the generation section and related corporate functions as part of the ISO 14001 registration requirements.
The audit verified that the Company's Environmental Management System conforms to the ISO 14001 standard, allowing us to maintain ISO 14001 registration status.

We are committed to minimizing the impact of our operations on the environment as well as promoting environmental awareness within the communities we serve. Our Tors Cove Hydro Plant, like all others across the island, incorporates environmental standards into daily operations.

Our employee-driven *Environmental Commitment Program*, which was initiated in 1997, is stronger than ever. The Company, through its employees, has initiated more than 250 environmental partnerships with local community groups and schools across the island.

Our employees are our environmental ambassadors.

In 2002, more than 5,500 community members, organizations and individuals took part in our *EnviroFest* celebrations, and more than 1,500 students island-wide participated in our *Fish Friends* program, sponsored by the Atlantic Salmon Federation. Also, in 2002 we hosted six tree planting projects, planting hundreds of trees on school properties throughout our service territory.

As we move forward, the Company and its employees are committed to continual improvement in environmental performance and safeguarding the environment for future generations.

. . . our Communities

Our service to customers is broadened by our commitment to the communities in which we live and work. Newfoundlanders and Labradorians are renowned for their volunteer efforts, and our employees and their families are no exception. Each year they willingly give hundreds of hours to community work to improve the quality of life for the people of this province.

While we continued to support education, business, youth, the arts and other needs in the community, one of the highlights in 2002 was the launch of a new major corporate charity – *The Power of Life Project*.

The Power of Life Project is a new cancer education and awareness initiative that is raising funds for cancer treatment, screening and education programs as well as to promote healthy living. The Project is being spearheaded by our Company and the key cancer organizations in the province, but the decision to continue supporting the fight against cancer was ultimately a decision of our employees and customers. That is why we believe so strongly in the Project.

The employees of Newfoundland Power are committed to the fight against cancer in this province.

Pictured left to right are: Phonse Delaney, Manager, Western Region; John Adams, Meter Reader; Philomena Hackett, Customer Account Representative; Dave White, Linecrew Working Foreperson; and, Sheri DeBruijn, Human Resources Specialist.

We have been supporting the fight against cancer since 1998 through the *Families Can Beat Cancer* campaign. We are building on the success of that campaign and have joined forces with the Newfoundland and Labrador Division of the Canadian Cancer Society, the Newfoundland Cancer Treatment and Research Foundation and the Government of Newfoundland and Labrador.

Our initial goal was to raise more than $1 million over the next four years, however commitments to date are already valued at $1.2 million.

We are working together to make a difference.
Together, we have the power!

As a Company, we will be making corporate donations valued by the charitable organizations at $625,000, and our employees and customers are making contributions through our payroll and billing systems. Within the first month of the Project, employees pledged in excess of $15,000. As promised, the Company matched employee contributions up to $10,000 bringing the total to $25,000. With the Government of Newfoundland and Labrador matching funds 2:1, the total from employee contributions in the first month of the campaign was actually $75,000.

The funds raised through the Project will be directed to primarily two areas:

- programming and public education programs across the province to raise awareness about the importance of cancer prevention and early detection, and the benefits of healthy living and cancer screening services; and,
- the purchase of a CT Simulator for the province, which costs $600,000, and will provide leading-edge radiation therapy to cancer patients.

The Power of Life Project is for
our employees and their families
who are proud cancer survivors today;
for our employees and their families
who fought, but lost, courageous battles
with cancer and are dearly missed;
and, for all those who are fighting cancer today.

Management Discussion & Analysis

Financial Results

Newfoundland Power earned $2.79 per common share in 2002, a decrease of $0.01 per share from 2001 earnings of $2.80 per share.

Earnings were $28.8 million in 2002 down slightly from $28.9 million in 2001. Earnings in 2002 were positively impacted by higher energy sales and increased pole rental revenue, and negatively impacted by higher depreciation expense and pension costs. The Company's earnings in 2001 were higher due to a tax refund related to the successful resolution of a long-standing tax case.

Revenue for 2002 was $369.6 million, up from $359.3 million in 2001, an increase of $10.3 million, or 2.9 per cent over 2001. The increase in revenue is attributed to higher energy sales, particularly in the residential market, increased pole rental revenue associated with the purchase of joint-use poles from Aliant Telecom Inc. in 2001, and a 3.68 per cent increase in electrical rates effective September 1, 2002. The rate increase resulted from Newfoundland and Labrador Hydro's (Hydro) 6.5 per cent increase in purchased power rates to Newfoundland Power. These revenue increases were partially offset by a 0.6 per cent decrease in electrical rates, effective January 1, 2002, related to the operation of Newfoundland Power's automatic adjustment formula.

Energy sales for 2002 were 4,765 gigawatt hours (GWh) compared to 4,667 GWh hours in 2001. This 2.1 per cent increase is a result of the improved economic performance in the province. Energy sales were led by the residential sector, which saw an increase of 2.5 per cent from 2,775 GWh in 2001 to 2,843 GWh in 2002. This increase was due to the improved competitive position of electricity in the home heating market, the increase in new home construction and growth in personal disposable income. Commercial energy sales rose by 1.6 per cent, from 1,892 GWh in 2001 to 1,922 GWh in 2002. The increase in the commercial market reflects the positive growth in the service sector and the continued growth in onshore activity related to the province's offshore oil industry. This growth was somewhat offset by a reduction in construction activity due to the completion of the Terra Nova floating, production, storage and offloading vessel at Bull Arm, Newfoundland and Labrador in 2001.

Purchased power expense increased from $202.5 million in 2001 to $210.8 million in 2002. The increase can be attributed to the increase in energy sales and the 6.5 per cent increase in the purchased power rate from Hydro effective September 1, 2002.

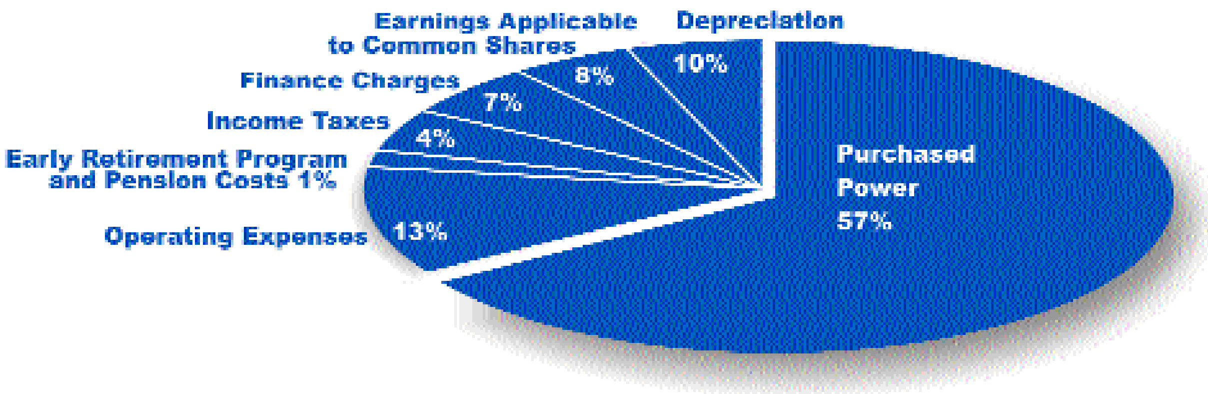
Operating expenses were $46.8 million in 2002, compared to $47.9 million in 2001, a decrease of 2.3 per cent or $1.1 million. Operating cost per customer in 2002 was $223 - the lowest level in over a decade - and down 14 per cent from 1993.

Early retirement program and pension costs were $4.0 million in 2002 compared to $5.0 million in 2001. The costs in 2001 include $3.5 million for an early retirement program. Higher pension expenses in 2002 related to a two per cent increase for retirees on June 1, 2002 and the recognition of losses arising from pension plan performance.

Depreciation expense for 2002 was $35.4 million, up $1.4 million from last year. The increase is attributable to the Company's continuing investment in its electrical system and its ongoing purchase of joint-use poles from Aliant Telecom Inc. As part of its general rate application filed with the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) on October 11, 2002, the Company has asked the PUB to approve new depreciation rates for 2003. The proposed depreciation rates are lower, reflecting the expectation that the Company's assets will last longer.

Finance charges for 2002 were $26.9 million, comparable to 2001, despite an increase in the amount of debt outstanding. During the year, increases in debt were principally financed with lower cost short-term credit facilities.

Allocation of Revenue



Income Tax

In October 2002, the Canada Customs and Revenue Agency (CCRA) confirmed a 2000 reassessment related to the Company's 1993 taxation year, which included as income the value of electricity consumed in December 1993 but billed in January 1994. CCRA did not deduct from income the value of electricity consumed in December 1992 and billed by the Company in January 1993. CCRA has therefore assessed the Company on 54 weeks of revenue in 1993.

Since the Company's inception in 1966, its practice has been to record revenue on a billed basis rather than on an accrual basis. The billed method, which has been followed consistently, has been audited and accepted previously by CCRA and is in accordance with regulatory requirements.

The Company believes it has reported its tax position appropriately and has filed a Notice of Appeal with the Tax Court of Canada. The court action is not expected to begin until 2004.

Should the Company be unsuccessful in defending its method of recognizing revenue, a liability of approximately $14.9 million, including accrued interest, would arise. In this event, the Company could apply to the PUB to include the amount in the rate making process. Such an application might include a request to change the current practice of recognizing revenue when billed to the accrual method. If the PUB were to approve such a change in accounting practice, electricity consumed in December but billed in January, valued at approximately $21.0 million, would be included in revenue.

The provisions of the Income Tax Act require the Company to deposit one half of the amount in dispute with CCRA. The amount currently deposited with CCRA arising from the 2000 reassessment is approximately $7.0 million.

The Company records income taxes in accordance with PUB orders, which results in taxes being recorded only on certain differences between the books of account and the tax return. In particular, the Company does not record taxes on the differences between depreciation expense and capital cost allowance, and pension expense and pension funding. As a result, the effective tax rate is subject to variation from the statutory rate.

If the full tax allocation method of accounting had always been followed, the cumulative deferred tax liability would be approximately $79.5 million.

The effective tax rate for 2001 was reduced as a result of the resolution of a long-standing tax case. This case covered the 1988 through 1993 taxation years and related to the deductibility of certain amounts capitalized by the Company for regulatory and accounting purposes but expensed for tax purposes. CCRA had not allowed these expenses to be deducted for tax purposes. In 2000, CCRA confirmed the Company's position on this matter.

As a result, in 2000 a corporate tax deposit was returned to the Company along with $6.8 million of interest. The deposit had been made in accordance with the Income Tax Act to allow the Company to continue to contest the issue.

In 2001, the Company requested CCRA to refund taxes paid by the Company related to this issue for the years 1994 through 1998, and received a refund comprised of $1.7 million interest and $4.3 million tax.

The effective tax rate for 2002 has returned to more normal levels.

Capital Resources and Liquidity

Cash from operations totaled $68.6 million in 2002, an increase of $12.8 million from 2001. The increase is attributable to the change in non-cash working capital.

In October 2002, the Company raised $75.0 million through the issue of a new series of 30-year 7.52 per cent First Mortgage Sinking Fund Bonds. These bonds carry similar terms and conditions as the existing bonds outstanding. These funds were used to repay short-term borrowings, which were principally incurred to fund the Company's ongoing capital programs and the purchase of Aliant Telecom Inc. joint-use poles.

Newfoundland Power has bank credit facilities of $110.0 million available, of which $16.0 million was drawn as of December 31, 2002.

The Company's $55.3 million 2003 capital budget was approved by the PUB on December 23, 2002, and will be financed using a combination of internally generated funds and existing credit facilities.

In 2002, the Company reduced the quarterly dividend rate on its common shares to $0.23 per share from $0.46 per share. The reduction was necessary to maintain adequate common equity levels and to increase internally generated cash flows. The Company's percentage of equity in its capital structure has declined largely related to the 100 per cent debt-financed purchase of Aliant Telecom Inc. joint-use poles. The Company's goal is to keep its equity level close to the 45 per cent level allowed by the PUB.

Regulation

Newfoundland Power operates under cost of service regulation as contained in provincial legislation. Earnings are regulated on the basis of rate of return on rate base. In 1998, the PUB established an automatic adjustment formula which is used to set customer rates. The formula determines the annual allowed rate of return on equity, which is used in conjunction with the cost of debt and preferred equity, to determine the allowed range for the return on rate base. In accordance with this formula, in 2002 the allowed return on equity was reduced to 9.05 per cent, causing the allowed rate of return on rate base to be reduced to 10.06 per cent, with a range of 9.88 per cent to 10.24 per cent. Previously, the return on rate base was 10.28 per cent with a range of 10.10 per cent to 10.46 per cent. This change resulted in a 0.6 per cent reduction in electrical rates to customers effective January 1, 2002.

Electricity Policy Review

In 2002, the Company made a submission to the Department of Mines and Energy on its Electricity Policy Review. The province initiated its Review in 1998 to examine five elements that affect the electricity business: legislation and regulation, existing electrical industry structure, electricity supply in the province, pricing and electricity as a tool for economic development. The Review was published and a public consultation process was undertaken. As part of this consultation process, the Company provided input on how the industry should be structured and indicated that it supports a move to more flexible, incentive-based regulation. This approach is reflective of global regulatory trends and is better aligned with the expectations of customers regarding reliability and price.

Hydro General Rate Application

As a result of a general rate application heard by the PUB in 2001, Hydro was granted approval to increase the rate it charges Newfoundland Power for purchased power by 6.5 per cent effective September 1, 2002. The impact to Newfoundland Power's customers was a 3.68 per cent increase in electrical rates on September 1, 2002.

Hydro maintains a Rate Stabilization Plan (RSP) that flows through to customers any changes in fuel purchase costs associated with both fuel prices and volumes consumed. In addition to the increase granted Hydro, the PUB ordered Hydro to freeze the balance in the RSP and adjust the price of fuel, on a go forward basis, from $12.50 to $25.91 per barrel of No. 6 oil. The balance of the RSP will be collected beginning July 1, 2003, resulting in an approximate 1.8 per cent increase in rates for Newfoundland Power's customers. Changes in rates from the continued operation of the plan will begin July 1, 2004, and will depend on actual fuel prices and volumes consumed.

The PUB also ordered Hydro to file its next general rate application no later than December 31, 2003. Hydro has indicated to the PUB that in its next general rate application it will seek to increase its revenue to pay for new generation coming on line in 2003 and 2004. This new generation includes Hydro's 40 MW Granite Canal project and smaller projects at the sites of two of its industrial customers. This will likely result in increases in purchased power costs to Newfoundland Power. The Company is entitled to recover such increased costs from its customers.

Newfoundland Power General Rate Application

As required by the PUB, on October 11, 2002, Newfoundland Power filed a general rate application to set 2003 electrical rates. The Company is requesting a 1.39 per cent increase effective May 1, 2003. The hearing is scheduled to commence in March 2003.

Over the past five years, Newfoundland Power's electrical rates have decreased by approximately one per cent, excluding flow through rate increases from Hydro. Including flow through increases from Hydro, the net impact on customers has been an increase of approximately three per cent in electrical rates over the past five years.

In 2001, the Company earned excess revenue of $0.9 million. This primarily resulted from increased pole rental revenues from the purchase of joint-use poles from Aliant Telecom Inc. and an income tax refund. The Company has asked the PUB, as part of its 2003 general rate application, to use this excess revenue to reduce revenue requirements in 2003 and 2004.

The hearing into the Company's general rate application will also include a review of the automatic adjustment formula, which has been used for the past three years to set electrical rates. The Company has proposed the continued use of the formula to set rates beyond 2003. However, the Company has also suggested adjustments to align the formula with current regulatory trends, including using the consensus forecast for setting interest rates. This is similar to the approach adopted by the National Energy Board and the British Columbia Utilities Commission.

Newfoundland Power's current rates are set based on an allowed return on common equity of 9.05 per cent, which is the lowest allowed rate of return on equity for an investor-owned utility in Canada. The Company is requesting that rates for 2003 be set based on a return on common equity of 10.75 per cent.

Risk Analysis

The Company operates an integrated generation, transmission and distribution system throughout the island portion of Newfoundland and Labrador, serving approximately 220,000 customers in 600 communities. These customers represent approximately 85 per cent of all electrical consumers in the province. The balance of the population is served by Hydro, a Crown corporation that also serves several large industrial customers in Newfoundland and Labrador.

The recovery of current and past expenses incurred in the delivery of electrical service continues to be the principal long-term risk facing Newfoundland Power. This risk is affected by a number of factors including the general economic conditions in the Company's service territory, potential changes in regulation and the regulatory system, and competition in the energy market.

Over the past decade the province's population has declined as a result of out-migration. The 2001 census indicates that the population has declined by approximately 56,000, or 11 per cent, since 1991. This decline negatively impacts the Company's energy sales growth. Out-migration has had a greater impact on the rural portion of the province.

Newfoundland and Labrador will continue to experience positive economic growth in 2003. The Conference Board of Canada forecast, dated December 6, 2002, predicts the province will post real Gross Domestic Product growth of 3.2 per cent in 2003. This growth will be led by the construction sector resulting from the development of the White Rose oil field and the Voisey's Bay Project, including the construction of a mine and mill/concentrator at Voisey's Bay and a hydromet demonstration plant at Argentia, Newfoundland and Labrador.

However, energy sales growth for Newfoundland Power is more influenced by growth in the service sector of the economy, which is forecast to grow by 2.7 per cent in 2003. In addition, changes in employment levels, personal disposable income, energy prices and population demographics have a significant influence on sales growth. Increasing electrical rates, primarily driven by increases at Hydro resulting from higher fuel costs and new generation, will continue to negatively influence energy consumption for the next few years. The Company does not anticipate any significant loss of market share, as oil prices remain high and natural gas will not likely enter the Company's market territory in the near future.

Tourism in early 2002 was adversely impacted by the tragedy of September 11, 2001 but has since returned to more normal levels. A growing part of the tourism sector has been the cruise line industry, which the City of St. John's and the province have been cultivating over the years.

Continued challenges in the fishing industry and ongoing discussions about the strength of cod stocks has prompted the federal government to initiate discussions with respect to the broadening closure of the industry.

The Company generates approximately 10 per cent of its energy requirements from its hydroelectric facilities and purchases the balance of its needs from Hydro. In 2002, purchased power costs represented 57 per cent of the Company's annual revenues. On the island portion of the province, Hydro generates approximately 65 per cent of its energy needs from its hydroelectric facilities, with the balance being largely produced from its oil-fired plant located in Holyrood, Newfoundland and Labrador. The fuel costs associated with the Holyrood generating facility represent approximately 27 per cent of the Company's purchased power costs.

The Company's electrical rates include the operation of a Rate Stabilization Account (RSA) that flows through changes in fuel purchase costs associated with both fuel prices and volumes consumed by both Newfoundland Power and Hydro (through the operation of Hydro's RSP). The RSA smoothes the impact of changing fuel prices on both the Company's earnings and customers' electrical rates.

While the island's small population base and geographic isolation from the North American grid makes retail choice unlikely, the outcome of the province's Electricity Policy Review may have an impact on future generation developments and the separation of the wires business from generation.

Management Report

The accompanying financial statements of Newfoundland Power Inc. 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 some amounts that are based on management's best estimates and judgments.

The financial statements have been prepared by management 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 financial information and that the assets of the Company are properly safeguarded. The effectiveness of these internal controls is evaluated on an ongoing basis by the external and internal auditors.

The Audit, Risk & Environment Committee reviews the annual financial statements and recommends their approval to the Board of Directors. This 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 financial statements have been audited by Deloitte & Touche LLP, and their report follows.

Philip Hughes
President
and Chief Executive Officer

Barry Perry
Vice President, Finance
and Chief Financial Officer

Auditors' Report

To the Shareholders,
Newfoundland Power Inc.

We have audited the balance sheets of Newfoundland Power Inc. as at December 31, 2002 and 2001 and the statements of income, retained earnings and cashflows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian 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 financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and 2001 and the results of its operations and cashflows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

St. John's, Newfoundland and Labrador
January 17, 2003

Chartered Accountants

Statements of Income

For the Years Ended December 31

	2002	2001
	(in thousands)	
Revenue (Note 2)	$ 369,627	$ 359,305
Purchased Power	210,764	202,479
Operating Expenses	46,795	47,891
Early Retirement Program and Pension Costs	3,972	5,017
Depreciation	35,442	34,003
Finance Charges (Note 3)	26,853	26,700
	323,826	316,090
Income Before Income Taxes	45,801	43,215
Income Taxes (Note 4)	16,381	13,730
Net Income	29,420	29,485
Dividends on Preference Shares	613	623
Earnings Applicable to Common Shares	$ 28,807	$ 28,862
Earnings per Common Share	$ 2.79	$ 2.80

Statements of Retained Earnings

For the Years Ended December 31

	2002	2001
	(in thousands)	
Balance at Beginning of the Year	$ 189,882	$ 180,010
Net income	29,420	29,485
	219,302	209,495
Dividends		
Preference shares	613	623
Common shares	9,495	18,990
	10,108	19,613
Balance at End of the Year	$ 209,194	$ 189,882

See accompanying notes to financial statements.

Balance Sheets

As at December 31

	2002	2001
	(in thousands)	
Assets		
Fixed Assets (Note 5)		
Property, plant and equipment	$ 949,478	$ 914,735
Less: accumulated depreciation	381,003	369,659
	568,475	545,076
Corporate Income Tax Deposit (Note 14)	6,949	6,949
Deferred Charges (Note 6)	79,567	68,804
Current Assets		
Cash	2,485	-
Accounts receivable	36,846	35,420
Materials and supplies at average cost	4,525	4,458
Rate stabilization account	5,751	4,288
	49,607	44,166
	$ 704,598	$ 664,995
Shareholders' Equity and Liabilities		
Shareholders' Equity		
Common shares (Note 7)	$ 70,321	$ 70,321
Retained earnings	209,194	189,882
Common shareholder's equity	279,515	260,203
Preference shares (Note 7)	9,709	9,709
	289,224	269,912
Long-term Debt (Note 8)	332,208	260,858
Current Liabilities		
Bank indebtedness	-	140
Short-term borrowings (Note 9)	15,987	75,109
Accounts payable and accrued charges (Note 2)	63,529	56,076
Current installments of long-term debt	3,650	2,900
	83,166	134,225
	$ 704,598	$ 664,995

APPROVED ON BEHALF OF THE BOARD:

Derek Hiscock
Director

Bruce Chafe
Director

See accompanying notes to financial statements.

Statements of Cashflows

For the Years Ended December 31

	2002	2001
	(in thousands)	
Cash From (Used in) Operations		
Net income	$ 29,420	$ 29,485
Reduction in income tax deposit	-	6,687
Items not affecting cash		
Depreciation	35,442	34,003
Weather normalization account	(1,019)	(1,160)
Amortization of deferred charges	239	231
Change in non-cash working capital	4,497	(13,420)
	68,579	55,826
Cash From (Used in) Financing		
Net proceeds from long-term debt	74,325	-
Repayment of long-term debt	(2,900)	(16,400)
Redemption of preference shares	-	(181)
Short-term borrowings	(59,122)	55,885
Contributions from customers	1,027	1,330
Dividends		
Preference shares	(613)	(623)
Common shares	(9,495)	(18,990)
	3,222	21,021
Cash (Used in) Investing		
Capital expenditures (net of salvage)	(59,868)	(68,081)
Increase in deferred charges	(9,308)	(8,906)
	(69,176)	(76,987)
Increase (decrease) in Cash	2,625	(140)
Bank Indebtedness, Beginning of the Year	(140)	-
Cash (Bank Indebtedness), End of the Year	$ 2,485	$ (140)

See accompanying notes to financial statements.

December 31, 2002

SUMMARY OF ACCOUNTING POLICIES

Regulation

Accounting policies conform to Canadian generally accepted accounting principles and to accounting requirements established from time to time by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB). In order to achieve proper matching of revenues and expenses, the Company follows accounting practices prescribed by the PUB. Accordingly, the timing of recognition of certain revenues and expenses may differ from that otherwise expected under Canadian generally accepted accounting principles applicable to non-regulated operations.

Revenue

Revenue is derived from the sale of electricity on the island portion of Newfoundland and Labrador and is recognized as bills are rendered to customers. Other revenues are recognized as earned.

Fixed Assets

Property, plant and equipment is stated at values approved by the PUB as at June 30, 1966 with subsequent additions at cost. Contributions representing the cost of property, plant and equipment contributed by customers and governments are netted against property, plant and equipment. The cost of plant and equipment retired, less salvage, is charged to accumulated depreciation. On certain construction projects, interest, as set out by the PUB, is capitalized and included as a cost in the appropriate property accounts.

Depreciation is provided in the accounts on the straight-line method based on the estimated service life of plant and equipment, as approved by the PUB. The composite rate is 3.8 per cent (2001 - 3.8 per cent).

Certain contributions by the Province of Newfoundland and Labrador carry conditional options allowing the province to reacquire the property, plant and equipment.

Pension Costs

Pension costs are actuarially determined using the projected benefit method prorated on service and management's best estimate assumptions. Adjustments arising from plan amendments, experience gains and losses, changes in actuarial assumptions and the difference between the actuarial present value of accrued pension obligations and the market value of pension plan assets are amortized on a straight-line basis over the expected average remaining service life of the employee group, except for pension liabilities created by early retirement offerings. The pension liabilities created by these offerings are expensed when an employee accepts the offer in accordance with Canadian generally accepted accounting principles, unless otherwise ordered by the PUB. The cumulative difference between pension fund contributions and pension costs is recorded in the Company's accounts as deferred pension costs.

Other Post-employment Benefits

The Company provides extended health care and life insurance benefits for all retired employees. In accordance with regulatory requirements, the cost of these benefits is recorded in the year paid.

Deferred Charges

Deferred charges are amortized as follows:

Debt discount and expense:	over the life of each issue.
Capital stock issue expense:	over 20 years from date of issue.

Rate Stabilization Account

The Company's rate schedule includes a rate stabilization clause which permits the Company to recover charges to the Rate Stabilization Account (the Account) from customers. The rate is recalculated on July 1 of each year to reflect changes in the Account from year to year and any changes in the rates charged to the Company by Newfoundland and Labrador Hydro (Hydro) as the result of the operation of its Rate Stabilization Plan.

Weather Normalization Account

The PUB has ordered the provision of a weather normalization account to adjust for the effect of variations in weather and streamflow when compared to long-term averages. The balance in the weather normalization account is subject to annual approval by the PUB.

Income Taxes

The PUB specifies the method of accounting for income taxes. Commencing January 1, 1981, the PUB allowed the tax allocation method with respect to the timing difference between depreciation and capital cost allowances (CCA) for all depreciable assets. If the full tax allocation method of accounting had always been followed, the cumulative deferred income tax liability would have increased by approximately $79.5 million at December 31, 2002 (2001 - $76.8 million).

Use of Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

1. Description of Business

Newfoundland Power Inc. operates an integrated generation, transmission and distribution system throughout the island portion of Newfoundland and Labrador. The Company's customers make up approximately 85 per cent of all electrical consumers in the province. The Company generates approximately 10 per cent of its energy needs and purchases the remainder from Hydro.

2. Revenue

Newfoundland Power operates under cost of service regulation as prescribed by orders of the PUB. Earnings are regulated on the basis of rate of return on rate base. In 2002, the approved range of return on rate base allowed under PUB orders was 9.88 per cent to 10.24 per cent (2001 - 10.10 per cent to 10.46 per cent). As a result of interest received in 2001, due to the retroactive application to the 1994 to 1998 taxation years of the May 2000 tax reassessment with respect to general expenses capitalized (GEC), the Company exceeded the maximum allowed rate of return on rate base in 2001. A reserve account, included in accounts payable and accrued charges, has been established by previous orders of the PUB to account for excess revenue. In 2001, a provision of $0.9 million was made to this account arising from the excess revenue in that year. As part of its 2003 General Rate Application, the Company has proposed that the excess revenue be used to reduce its revenue requirement from customers in 2003 and 2004.

3. Finance Charges

		2002	2001
		(in thousands)	
Interest	- long-term debt	$ 26,094	$ 26,400
	- short-term borrowings	1,846	1,526
Amortization	- debt discount and expense	167	161
	- capital stock issue expense	72	70
Interest earned		(872)	(1,110)
Interest charged to construction		(454)	(347)
		$ 26,853	$ 26,700

Long-term and short-term interest payments made during the year totaled $27.0 million (2001 - $28.0 million).

4. Income Tax Rate

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

	2002	2001
	(in percentages)	
Statutory income tax rate	40.1	42.1
Large corporations tax	2.2	2.2
GEC	(2.4)	(3.0)
Pension costs	(10.1)	(8.6)
Depreciation in excess of CCA	7.0	8.0
Other timing differences not recorded	(1.0)	(0.5)
Prior year adjustment for GEC	-	(8.4)
Effective income tax rate	35.8	31.8

Income tax payments made during the year totaled $10.3 million (2001 - $17.2 million).

During 2001, Canada Customs and Revenue Agency (CCRA) confirmed the deductibility of GEC for the 1994 to 1998 taxation years for income tax purposes. The resultant impact for years prior to 2001 was recorded as a reduction in income taxes in 2001.

5. Fixed Assets

	December 31, 2002 (in thousands)			
	Cost	Accumulated Depreciation	Net Book Value	Composite Depreciation Rate
Distribution	$ 524,308	$ 208,148	$ 316,160	3.6%
Transmission and substations	183,903	82,055	101,848	3.0%
Generation	116,551	38,445	78,106	2.1%
Land, buildings and equipment	90,267	31,547	58,720	6.9%
Transportation and communications	34,449	20,808	13,641	9.8%
	$ 949,478	$ 381,003	$ 568,475	3.8%

	December 31, 2001 (in thousands)			
	Cost	Accumulated Depreciation	Net Book Value	Composite Depreciation Rate
Distribution	$ 501,027	$ 198,925	$ 302,102	3.5%
Transmission and substations	176,548	79,303	97,245	3.0%
Generation	110,202	37,328	72,874	2.1%
Land, buildings and equipment	90,193	32,489	57,704	6.8%
Transportation and communications	36,765	21,614	15,151	9.3%
	$ 914,735	$ 369,659	$ 545,076	3.8%

6. Deferred Charges

	2002	2001
	(in thousands)	
Deferred pension costs	$ 64,684	$ 55,536
Weather normalization account	10,919	9,900
Unamortized debt discount and expense	3,490	2,828
Unamortized capital stock issue expense	458	527
Other	16	13
	$ 79,567	$ 68,804

7. Capital Stock

Authorized

(a) an unlimited number of Class A and Class B Common Shares without nominal or par value. The shares of each class are inter-convertible on a share for share basis and rank equally in all respects including dividends. The Board of Directors may provide for the payment, in whole or in part, of any dividends to Class B shareholders by way of a stock dividend;

(b) an unlimited number of First Preference Shares without nominal or par value except that Series A, B, D and G First Preference Shares have a par value of $10 each;

(c) an unlimited number of Second Preference Shares without nominal or par value.

Issued and outstanding

		2002	2001
		(in thousands)	
Common shares			
10,320,270	Class A Common Shares	$ 70,321	$ 70,321
Preference shares			
179,225	5 1/2% Series A	$ 1,792	$ 1,792
337,983	5 1/4% Series B	3,380	3,380
229,765	7 1/4% Series D	2,298	2,298
223,950	7.60% Series G	2,239	2,239
970,923	First Preference Shares	$ 9,709	$ 9,709

Series A, B, D and G First Preference Shares are cumulative redeemable voting shares.

Each series of First Preference Shares is redeemable at the option of the Company at a premium not in excess of the annual dividend rate.

Series D and G First Preference Shares are subject to the operation of purchase funds and the Company has the right to purchase limited amounts of Series D and G at or below par.

8. Long-term Debt

	2002	2001
	(in thousands)	
First mortgage sinking fund bonds		
11.875% Series AC, due 2007	$ 33,470	$ 33,870
10.550% Series AD, due 2014	33,353	33,753
10.900% Series AE, due 2016	35,600	36,000
10.125% Series AF, due 2022	36,000	36,400
9.000% Series AG, due 2020	36,800	37,200
8.900% Series AH, due 2026	37,635	38,035
6.800% Series AI, due 2028	48,000	48,500
7.520% Series AJ, due 2032	75,000	-
	335,858	263,758
Less: current installments	3,650	2,900
	$ 332,208	$ 260,858

First mortgage bonds are secured by a first fixed and specific charge on property, plant and equipment owned or to be acquired by the Company and by a floating charge on all other assets. Annual payments required to meet sinking fund payments, installments and maturities of long-term debt are as follows:

2003	$ 3,650,000
2004	$ 3,650,000
2005	$ 3,650,000
2006	$ 3,650,000
2007	$ 35,120,000

The estimated fair value of the Company's first mortgage bonds was $360.0 million at December 31, 2002 (2001 - $325.0 million). Fair value was estimated using present value techniques based on borrowing rates at year-end for debt with similar terms and maturities. The fair value estimate does not include exchange or settlement costs, as the Company does not intend to retire the debt prior to maturity.

9. Short-term Borrowings

Short-term borrowings over the year consist of bankers' acceptances and a demand loan issued against unsecured bank lines of credit and bear interest at rates ranging from 2.11 per cent to 4.75 per cent (2001 - 2.5 per cent to 4.0 per cent). The Company had authorized lines of credit of $110.0 million, of which $94.0 million were unused at year-end.

10. Employee Future Benefits

The Company provides extended health care and life insurance benefits for all retired employees. In accordance with regulatory requirements, the cost of these benefits is recorded in the year paid.

Costs associated with the Company's defined benefit pension plan are determined annually by independent actuaries using management's best estimates of expected plan investment performance, salary escalation and retirement ages of employees.

Information about the defined benefit plan, which represents a contractual obligation of the Company, is as follows:

	2002	2001
	(in thousands)	
Accrued benefit obligation		
Balance, beginning of the year	$ 158,441	$ 148,304
Current service costs	3,274	3,372
Interest costs	10,460	10,139
Benefits paid	(10,334)	(10,410)
Actuarial losses	2,715	3,957
Plan amendments	1,228	3,079
Balance, end of the year	$ 165,784	$ 158,441
Plan assets		
Fair value, beginning of the year	$ 161,526	$ 162,500
Expected return on assets	12,989	13,039
Benefits paid	(10,334)	(10,410)
Actuarial losses	(22,958)	(17,529)
Contributions to the plan	13,358	13,926
Fair value, end of the year	$ 154,581	$ 161,526

(continued)

	2002	2001
	(in thousands)	
Funded status		
(Deficit) surplus, end of the year	$ (11,203)	$ 3,085
Unamortized amounts	56,581	31,858
Transitional assets	19,306	20,593
Deferred pension costs	$ 64,684	$ 55,536
Significant assumptions used		
Discount rate during year	6.75%	7.00%
Discount rate at December 31	6.75%	6.75%
Expected long-term rate of return on plan assets	8.00%	8.00%
Rate of compensation increases	4.50%	4.50%
Average remaining service year of active employees	17	18
Net benefit expense for the year		
Current service costs	$ 2,036	$ 2,194
Interest costs	10,460	10,139
Expected return on plan assets	(12,989)	(13,039)
Amortization of transitional obligation and amendments	2,516	4,366
Amortization of actuarial loss	924	-
Net benefit expense	$ 2,947	$ 3,660

11. Related Party Transactions

The Company is a wholly-owned subsidiary of Fortis Inc. In 2002, net charges to Fortis and its subsidiaries were $4,238,000 (2001 - $3,743,000). The net charges are based on fair market value or cost as appropriate. The balance receivable from related parties at year-end was $1,096,000 (2001 - $3,365,000).

12. Financial Instruments

The Company's financial instruments consist primarily of accounts receivable, bank indebtedness, short-term borrowings, accounts payable and accrued charges, and long-term debt. These financial instruments have a fair value which approximates carrying value, unless otherwise disclosed.

Credit Risk

Accounts receivable do not represent a significant concentration of credit risk because amounts are owed by a large number of customers on normal credit terms.

Exchange Risk

The Company realizes all of its sales in Canadian dollars and is not exposed to foreign exchange rate fluctuations.

Interest Rate Risk

Long-term debt bears fixed interest rates, thereby minimizing cash flow and interest rate exposures.

Weather Normalization Account

The Company operates a weather normalization account, the balance of which is approved by the PUB annually, to adjust for the effect of variations in weather and streamflows compared to long-term averages. This account minimizes the impact of changing weather conditions on the Company's financial results.

13. Commitments

On September 13, 2001 the Company entered into an agreement to acquire 70,000 joint-use poles. The agreement will result in the Company owning virtually all of the joint-use poles within its service territory. The acquisition will be completed over a five-year period. Payments to December 31, 2002 totaled $28.3 million. Remaining payments are as follows:

January 1, 2003	$ 4,044,000
January 1, 2004	$ 4,044,000
January 1, 2005	$ 4,044,000

14. Contingent Liability

In 2002, CCRA confirmed a 2000 reassessment related to the Company's 1993 taxation year, which included in income the value of electricity consumed in December 1993 but not billed until January 1994. The Company's practice since its inception in 1966 has been to record revenue on a billed basis. This method has been audited and accepted previously by CCRA and is in accordance with regulatory requirements.

The Company believes it has reported its tax position appropriately and has filed a Notice of Appeal with the Tax Court of Canada. The court action is not expected to commence until 2004. No provision has been made in the accounts for additional income taxes, if any, which may be determined to be payable. Should the Company be unsuccessful in defending its method of recognizing revenue, a liability of approximately $14.9 million, including accrued interest, would arise. In this event, the Company could apply to the PUB to include the amount in the rate making process. Such an application might include a request to change the current practice of recognizing revenue from the billed method to the accrual method. If the PUB were to approve such a change in accounting practice, electricity consumed in December but billed in January, valuing approximately $21.0 million, would be included in revenue.

The provisions of the Income Tax Act requires the Company to deposit one half of the amount in dispute with CCRA. The amount currently deposited with CCRA arising from the reassessment is approximately $7.0 million.

15. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year’s presentation.

Ten Year Summary

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Income Statement Items (in $000s)										
Revenue	369,627	359,305	348,413	342,001	335,751	343,677	341,560	338,934	338,367	333,570
Purchased power	210,764	202,479	199,266	192,755	191,586	190,711	192,114	191,081	188,352	186,146
Other expenses	50,767	52,908	52,486	52,709	52,641	57,555	54,735	54,865	51,355	50,161
Finance charges	26,853	26,700	26,641	26,488	25,233	24,949	24,010	22,739	22,972	22,494
Depreciation	35,442	34,003	29,625	29,638	28,067	26,800	26,314	28,896	28,141	26,921
Income taxes	16,381	13,730	13,296	16,927	16,027	18,105	18,617	13,120	19,745	18,666
Earnings applicable to common shares	28,807	28,862	26,473	22,858	21,571	24,931	25,144	27,638	27,090	27,702
Balance Sheet Items (in $000s)										
Property, plant and equipment	949,478	914,735	865,406	844,598	817,820	790,290	770,165	752,597	730,649	703,513
Accumulated depreciation	381,003	369,659	353,078	344,506	330,453	319,209	301,063	283,936	262,085	239,332
Net fixed assets	568,475	545,076	512,328	500,092	487,367	471,081	469,102	468,661	468,564	464,181
Total assets	704,598	664,995	628,252	608,130	585,676	564,394	554,125	545,874	527,726	523,894
Long-term debt	335,858	263,758	280,158	283,208	286,258	238,808	241,323	203,473	217,031	218,906
Preference shares	9,709	9,709	9,890	9,890	9,890	9,890	9,890	9,890	10,902	10,905
Common equity	279,515	260,203	250,331	242,848	229,485	227,512	226,157	234,779	225,098	226,054
Total capital	625,082	533,670	540,379	535,946	525,633	476,210	477,370	448,142	453,031	455,865
Operating Statistics										
Sources of Energy (in millions of kWh)										
Purchased	4,604	4,495	4,432	4,292	4,259	4,244	4,236	4,186	4,178	4,093
Generated	424	416	423	450	429	424	423	423	420	420
Total	5,028	4,911	4,855	4,742	4,688	4,668	4,659	4,609	4,598	4,513
Sales (in millions of kWh)										
Residential	2,843	2,775	2,707	2,672	2,652	2,669	2,635	2,600	2,594	2,540
Commercial and street lighting	1,922	1,892	1,848	1,828	1,788	1,769	1,790	1,782	1,777	1,746
Total	4,765	4,667	4,555	4,500	4,440	4,438	4,425	4,382	4,371	4,286
Energy sales per employee	7.9	7.6	7.1	6.5	6.3	6.3	5.5	5.3	5.4	5.3
Customers (year-end)										
Residential	188,925	186,828	185,287	183,921	182,324	181,168	179,375	177,431	175,797	172,942
Commercial and street lighting	30,147	30,051	29,923	29,720	29,786	29,518	29,421	29,243	29,103	28,686
Total	219,072	216,879	215,210	213,641	212,110	210,686	208,796	206,674	204,900	201,628
Operating cost per customer ($)*	223	231	230	235	243	262	262	268	258	259
Revenue per employee ($)	612,980	582,342	539,339	492,088	476,243	487,485	425,355	412,328	419,290	409,288
Number of regular employees (year-end)	603	617	646	695	705	705	803	822	807	815

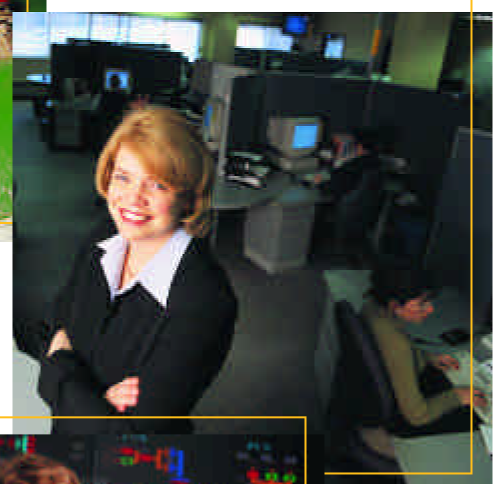
** (Gross operating expenses less early retirement program and pension costs)/number of customers at year-end.*

Executive Team

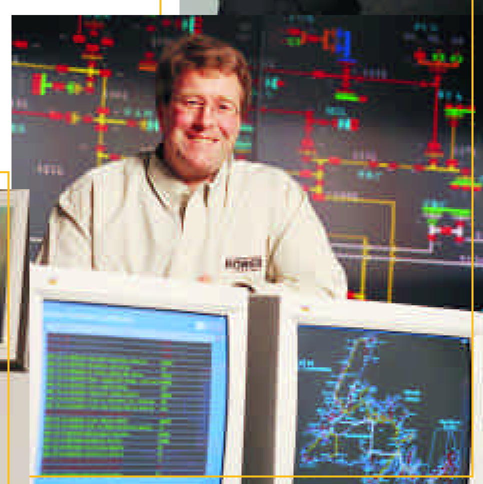
Mr. Philip Hughes
President and Chief Executive Officer

Mr. Earl Ludlow
Vice President, Engineering and Operations

Mr. Barry Perry
Vice President, Finance and Chief Financial Officer



Ms. Nora Duke
Vice President, Customer and Corporate Services

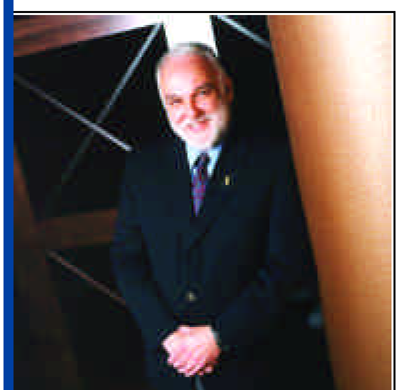


Mr. Michael Mulcahy
Vice President, Customer and Corporate Services
(Effective January 2003)

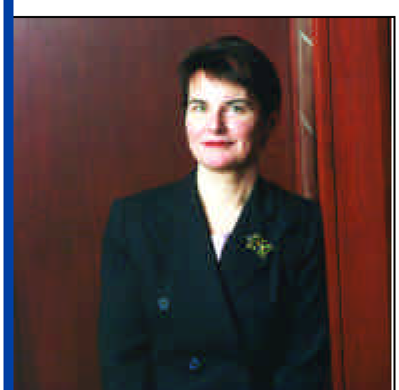
Mr. Peter Alteen
Corporate Counsel and Secretary

Board of Directors

Mr. Bruce Chafe
Chair, Board of Directors
Newfoundland Power Inc.
St. John's, Newfoundland & Labrador



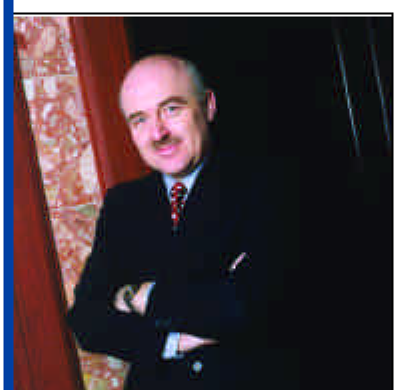
Mr. Peter Fenwick
Freelance Journalist and Commentator
Cape St. George, Newfoundland & Labrador



Ms. Leslie Galway
President & Chief Executive Officer
Newfoundland Ocean Industries Association
St. John's, Newfoundland & Labrador

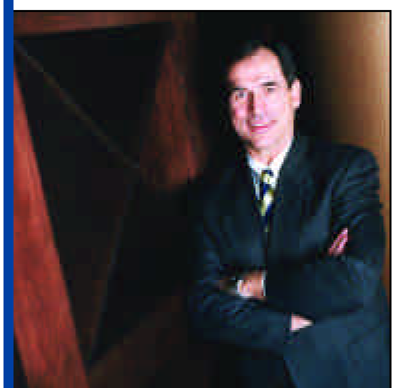
Dr. Rex Gibbons
Executive Vice President & Senior Geoscience Consultant
Jacques Whitford Environment Ltd.
St. John's, Newfoundland & Labrador

Mr. Derek Hiscock
President
Optipress Inc.
Dartmouth, Nova Scotia

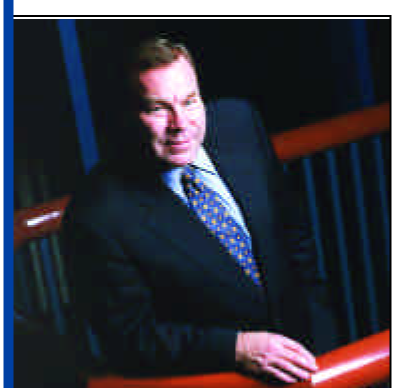


Mr. Frank Howard
President
Riverview Chev-Olds Limited
Grand Falls-Windsor, Newfoundland & Labrador

Mr. Philip Hughes
President & Chief Executive Officer
Newfoundland Power Inc.
St. John's, Newfoundland & Labrador



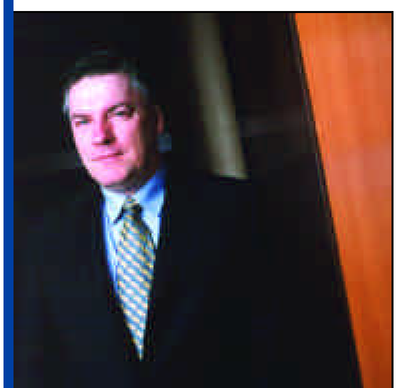
Mr. James Lea
President & Chief Executive Officer
Maritime Electric Company, Limited
Charlottetown, Prince Edward Island



Mr. Stanley Marshall
President & Chief Executive Officer
Fortis Inc.
St. John's, Newfoundland & Labrador

Ms. Dell Texmo
President
Living Rooms Limited
St. John's, Newfoundland & Labrador

Mr. Peter Woodward
Vice President, Operations
Woodward Group of Companies
Happy Valley-Goose Bay
Newfoundland & Labrador



Mr. Lynn Young
President & Chief Executive Officer
Belize Electricity Limited
Belize City, Belize

Investing Energy into Our Communities . . .

We are proud to provide our customers with reliable service, and we are equally as proud that community groups throughout the province can count on us for support. In 2002, we were pleased to provide financial, in-kind and hands-on contributions to the following organizations and many more:

Education & Development of Youth

Memorial University of Newfoundland, College of the North Atlantic, Newfoundland School for the Deaf, Newfoundland & Labrador School Chess Association, Brother T.I. Murphy Resource Learning Centre, Junior Achievement of Newfoundland & Labrador, Eastern Newfoundland Science Fair Council, Newfoundland Science Centre, Newfoundland & Labrador High School Athletic Federation, Scouts Canada, Newfoundland & Labrador Winter Games

Health

The Burin Peninsula Health Care Foundation, The Newfoundland & Labrador Division of the Canadian Cancer Society, The Newfoundland Cancer Treatment & Research Foundation, The Western Memorial Health Care Foundation, The Children's Wish Foundation, The Newfoundland & Labrador Down Syndrome Society, Canadian Diabetes Association, Alzheimer Society of Newfoundland & Labrador, Trinity Conception Health Foundation, Janeway Children's Hospital Foundation, Newfoundland & Labrador Region of the Canadian Red Cross, St. John Ambulance, Mazol Shriners, Community Food Sharing Association, Coats for Kids

Safety

Newfoundland & Labrador Fire Chiefs and Firefighters Association, Firefighter Electrical Safety Training, Learn Not to Burn Program, Child Find Newfoundland & Labrador, School Electrical Safety Program, Safe Communities, Newfoundland & Labrador Safety Council

Environment

Atlantic Salmon Federation, Tree Canada, Newfoundland & Labrador Conservation Corps, Newfoundland & Labrador Home Builders' Association, Hughes Brook Aquatic Centre, Thomas Howe Demonstration Forest, Trans Canada Trail Foundation

Arts & Culture

Newfoundland Symphony Orchestra, Kiwanis Clubs, Shakespeare by the Sea, Newfoundland Symphony Youth Choir

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Montreal, QC H3A 3K9
Tel: (514) 982-7000
Fax: (514) 982-7635
www.computershare.com

2002 Annual General Meeting
Thursday, April 15, 2003 at 8:00 a.m.
Main Boardroom, 3rd Floor
Newfoundland Power Inc.
55 Kenmount Road
St. John's, NL

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Canadian Niagara Power Company, Limited
www.cnpower.com
Belize Electricity Limited
www.bel.com.bz
Caribbean Utilities Company, Ltd.
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Fortis Properties Corporation
www.fortisproperties.com

Industry Websites
Energy Council of Canada
www.energy.ca
Canadian Electricity Association
www.canelect.ca

Photography: Ned Pratt, St. John's, Newfoundland & Labrador
Design & Production: Corporate Communications, Newfoundland Power Inc.
Printing: Print Atlantic, St. John's, Newfoundland & Labrador

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