

## FORTIS INC.

### REPORT TO SHAREHOLDERS

#### Results for the period ended June 30, 1998

Consolidated earnings for the quarter ended June 30, 1998 declined \$3.6 million reflecting decreases in the earnings of Newfoundland Power and Maritime Electric of \$2.7 million and \$1.3 million respectively.

As a result of lower earnings in Newfoundland Power and Maritime Electric, consolidated earnings for the six months ended June 30 declined to \$16.1 million from \$21.4 million.

### UTILITY OPERATIONS

#### Newfoundland Power

Earnings for the year to date includes a reduction in revenue of \$4 million recorded in the second quarter to reflect the results of the recent PUB decision. On July 31, 1998 the PUB issued an order following a hearing into the Company's capital structure and allowed rate of return. The PUB determined that an appropriate rate of return on equity for 1998 was 9.25%, down from its previous allowed rate of return of 11%.

Energy sales for the year to date were 2571.7 GWh compared to 2590.0 GWh in 1997. Contributing to the decline was the completion of construction at Hibernia Management and Development Co. Limited's Bull Arm site in 1997 as well as a decrease in average usage by residential customers. These declines have been partially offset by increased energy sales to other medium to large customers.

Revenues for the first six months of 1998 were \$189.4 million, \$6.6 million lower than 1997. In addition to the decrease related to the rate reduction arising from the regulatory decision, revenue is lower due to a decline in energy sales and lower rates in effect during the first quarter of 1998.

Operating expenses for the year to date period were \$132.6 million, \$2.5 million lower than 1997, reflecting a reduction in labour costs and retiring allowances associated with early retirement programs offered in 1997.

#### Maritime Electric

Energy sales for the first half of 1998 were 431.6 GWh, an increase of 0.9% over energy sales of 427.7 GWh for the same period in 1997. Year to date revenue was \$39.8 million for 1998 compared to \$43.9 million for the same period in 1997. The reduction in

revenue reflects a 1% reduction in rates on July 1, 1997 and a further 7% average decrease in rates effective January 1, 1998.

Operating expenses were \$29.8 million compared to \$30.1 million for the first half of 1997. This decrease in operating expenses is attributable to lower fuel prices in 1998, which were partially offset by increased replacement energy costs incurred during the scheduled maintenance outage at New Brunswick Power's Point Lepreau Nuclear Generating Station.

For the first six months of 1998, earnings applicable to common shares were \$1.4 million compared to \$3.9 million for the same period in 1997. The decrease in earnings is primarily due to the decrease in revenue associated with lower rates.

On June 15, 1998, Maritime Electric redeemed \$10 million 11.2% First Mortgage Bonds.

#### Canadian Niagara

Revenues increased \$0.8 million from \$17.7 million to \$18.5 million due to additional energy sales into the United States during the six month period. This increase was offset by increases in purchased power and general operating expenses.

Fortis' share of Canadian Niagara's earnings for the six months ended June 30, 1998 was \$2.3 million which is consistent with the same period last year.

### NON-UTILITY OPERATIONS

Fortis Properties' earnings decreased by \$0.7 million during the first half of 1998 compared to 1997. The decrease in earnings resulted from higher financing costs and lower income from the AT&T (Newfoundland) partnership, partially offset by increases in earnings of the real estate and hospitality operations.

Fortis Trust experienced a modest decrease in assets under administration during the first half of the year, however, the company continued to maintain earnings consistent with the prior year.

August 17, 1998 H. Stanley Marshall  
President and CEO

### DIRECTORS & OFFICERS

#### Directors

Stephen T. Bellringer  
Gilbert S. Bennett  
Angus A. Bruneau  
Bruce Chafe  
Darryl D. Fry  
Linda L. Inkpen  
H. Stanley Marshall  
David A. Scales  
James M. Stanford

#### Corporate Officers

H. Stanley Marshall  
• *President and CEO*  
G. Wayne Watson  
• *Vice President, Finance and CFO*  
Ronald W. McCabe  
• *General Counsel and Corporate Secretary*

### CORPORATE INFORMATION

#### Share Listings

Fortis common shares are listed on both The Toronto Stock Exchange and The Montreal Exchange (symbol FTS).

Fortis preference shares are listed on The Toronto Stock Exchange (symbol FTSPRB).

Registrar and Transfer Agent - Montreal Trust Company.

#### Share Prices (TSE & ME)

	Quarter Ended - June 30	
	1998	1997
High	\$ 46.50	\$ 34.85
Low	44.50	31.30
Close	45.00	34.65

#### Investor Relations Department

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**FORTIS INC.**  
**QUARTERLY REPORT**

**JUNE 30, 1998**

**FORTIS INC.**
**CONSOLIDATED STATEMENT OF EARNINGS  
(Unaudited)**

	3 Months Ended June 30 (in thousands)		Year to Date June 30 (in thousands)	
	1998	1997	1998	1997
Operating revenues	\$ 115,167	\$ 123,160	\$ 259,362	\$ 270,915
Operating expenses				
Purchased power	53,588	53,967	131,054	131,963
Other expenses	25,389	27,215	50,665	52,866
Depreciation and amortization	12,140	10,528	23,873	20,877
	<u>91,117</u>	<u>91,710</u>	<u>205,592</u>	<u>205,706</u>
Operating income	24,050	31,450	53,770	65,209
Finance charges				
Interest on long term debt	10,163	9,295	20,360	18,971
Dividends on preference shares	743	1,831	1,487	3,662
Earnings before income taxes	13,144	20,324	31,923	42,576
Income taxes	6,370	9,978	15,525	20,834
Earnings before non-controlling interest	6,774	10,346	16,398	21,742
Non-controlling interest	129	129	258	258
Earnings applicable to common shares	<u>\$ 6,645</u>	<u>\$ 10,217</u>	<u>\$ 16,140</u>	<u>\$ 21,484</u>
Average common shares outstanding	12,895	12,578	12,895	12,578
Earnings per common share	\$ 0.52	\$ 0.81	\$ 1.25	\$ 1.71
Dividends paid per common share	\$ 0.45	\$ 0.44	\$ 0.90	\$ 0.88

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS  
(Unaudited)**

	1998		1997	
	1998	1997	1998	1997
Balance at beginning of period	\$ 189,170	\$ 183,629	\$ 185,480	\$ 177,927
Earnings applicable to common shares	6,645	10,217	16,140	21,484
	<u>195,815</u>	<u>193,846</u>	<u>201,620</u>	<u>199,411</u>
Dividends - common shares	5,805	5,565	11,610	11,130
Balance at end of period	<u>\$ 190,010</u>	<u>\$ 188,281</u>	<u>\$ 190,010</u>	<u>\$ 188,281</u>

**CONSOLIDATED STATEMENT OF CHANGES IN  
FINANCIAL POSITION  
(Unaudited)**

	Year to Date June 30 (in thousands)	
	1998	1997
Cash from operations		
Earnings applicable to common shares	\$ 16,140	\$ 21,484
Items not affecting cash	23,766	21,448
Change in non-cash working capital	(8,768)	(14,646)
	<u>31,138</u>	<u>28,286</u>
Cash used in investing		
Capital expenditures - net	(24,662)	(24,686)
Mortgages	275	1,994
Change in deferred charges and credits	(1,877)	(7,370)
	<u>(26,264)</u>	<u>(30,062)</u>
Cash from external financing		
Net proceeds from common shares	5,643	4,095
Change in long term debt	(10,860)	19,748
Redemption of preference shares of subsidiary	-	-
Change in bank indebtedness	10,980	(5,806)
Decrease in deposits payable	(2,795)	(3,955)
	<u>2,968</u>	<u>14,082</u>
Dividends		
Common shares	(11,610)	(11,130)
Subsidiaries to minority shareholders	( 258)	( 258)
	<u>(11,868)</u>	<u>(11,388)</u>
Increase in cash	(4,026)	918
Cash, beginning of period	11,823	7,587
Cash, end of period	<u>\$ 7,797</u>	<u>\$ 8,505</u>

**CONSOLIDATED BALANCE SHEET  
(Unaudited)**

	As at June 30 (in thousands)	
	1998	1997
<b>CURRENT ASSETS</b>		
Cash	\$ 7,797	\$ 8,505
Other current assets	57,461	66,592
	<u>65,258</u>	<u>75,097</u>
<b>OTHER ASSETS</b>		
Mortgages receivable - Fortis Trust	57,293	58,977
Corporate income tax deposit	15,595	15,595
Deferred charges	45,848	40,062
Income-producing properties	93,558	92,486
Fixed assets	686,782	675,793
Goodwill	43,380	46,309
	<u>\$ 1,007,714</u>	<u>\$ 1,004,319</u>
<b>LIABILITIES</b>		
Current liabilities	\$ 154,507	\$ 153,467
Long term debt	388,945	345,523
Preference shares	50,000	100,000
Deposits due beyond one year		
- Fortis Trust	17,649	20,954
Deferred credits	51,397	51,577
Non-controlling interest	8,498	8,498
	<u>670,996</u>	<u>680,019</u>
<b>SHAREHOLDERS' EQUITY</b>		
Common shares	146,708	136,019
Earnings retained and invested in the business	190,010	188,281
	<u>336,718</u>	<u>324,300</u>
	<u>\$ 1,007,714</u>	<u>\$ 1,004,319</u>

**Note:** Certain 1997 comparative figures have been reclassified to conform with the presentation adopted in 1998.

