



Second Quarter Report
June 2000

FORTIS INC.

Financial Highlights

Period Ended June 30
(in thousands except for share amounts)

| | Three Months Ended | | Six Months Ended | |
|--------------------------------------|--------------------|-----------|------------------|-----------|
| | 2000 | 1999 | 2000 | 1999 |
| Revenue | \$143,723 | \$121,126 | \$310,561 | \$265,448 |
| Cash Flow from Operations | \$20,083 | \$16,419 | \$42,778 | \$51,369 |
| Earnings Applicable to Common Shares | \$10,340 | \$7,908 | \$21,610 | \$18,496 |
| Earnings per Common Share | \$0.78 | \$0.61 | \$1.64 | \$1.42 |

RESULTS FOR THE QUARTER ENDED JUNE 30, 2000

Fortis' earnings applicable to common shares for the second quarter of 2000 grew 30.7 per cent to \$10.3 million, or \$0.78 per common share, compared to \$7.9 million, or \$0.61 per common share, for the second quarter of 1999.

Revenue for the period increased 18.7 per cent to \$143.7 million from \$121.1 million. Cash flow from operations for the same period increased \$3.7 million to \$20.1 million from \$16.4 million.

The growth in earnings reflects the positive contributions of Belize Electricity, Caribbean Utilities and FortisUS Energy, a significant increase in Newfoundland Power's earnings and the positive contribution of the Brunswick Square acquisition to Fortis Properties' earnings. Earnings in the second quarter of 2000 were negatively impacted by

increased energy costs at Maritime Electric due to high oil prices.

ELECTRIC UTILITY OPERATIONS

Newfoundland Power

Newfoundland Power's earnings for the second quarter of 2000 were \$9.0 million compared to \$7.3 million for the second quarter of 1999. On a year-to-date basis, earnings applicable to common shares were \$18.7 million compared to \$16.0 million for the same period last year.

Year-to-date energy sales were 2,656 gigawatt hours (GWh), a 49 GWh or 1.9 per cent increase over the same period last year. Year-to-date revenues were \$197.9 million, up 2.2 per cent, or \$4.2 million, from the same period last year. The increase resulted from higher energy sales combined with a 0.7 per cent increase in electricity rates effective January 1, 2000.

In the first half of 2000, Newfoundland Power's operating expenses were reduced by \$3.3 million compared to the same period in 1999. Approximately \$2.0 million of the reduction was attributable to lower labour costs associated with a 1999 early retirement program, aggressive cost control measures and productivity initiatives. The remaining \$1.3 million reduction resulted from the adoption of new accounting rules for pensions.

The successful resolution of an outstanding income tax issue also contributed to higher earnings during the second quarter by lowering taxes for 1999 and 2000. As a result of numerous representations by Newfoundland Power, a \$40.3 million contingent liability shown in the company's 1999 financial statements has been significantly reduced to \$10.6 million and income tax expense for the second quarter has been reduced by \$1.5 million. Of this \$1.5 million, \$1.0 million relates to the year

ended December 31, 1999 while the balance relates to the six months ended June 30, 2000. Newfoundland Power continues to pursue the resolution of a remaining income tax issue in an effort to eliminate the potential liability.

On July 13, 2000, Newfoundland Power's Board of Directors approved an enhanced early retirement program. The severance and pension costs of \$2.0 million related to this program have been expensed in the quarter.

Maritime Electric

Sales growth continued to be very strong during the second quarter of 2000, increasing 8.4 per cent to 234.1 GWh from 215.9 GWh for the same period last year. Year to date, sales increased 5.9 per cent to 475.9 GWh from 449.4 GWh over the same period in 1999.

Quarter Ended June 30 (in thousands)

| | Electric Utility | | Non-Utility | | Corporate | | Consolidated | |
|--------------------------------------|------------------|-----------|-------------|-----------|-----------|-----------|--------------|-------------|
| | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 |
| Operating Revenues | \$130,204 | \$110,365 | \$13,525 | \$10,747 | \$- | \$- | \$143,723 | \$121,126 |
| Operating Expenses | 87,340 | 74,171 | 8,459 | 6,703 | 989 | 837 | 96,782 | 81,725 |
| Depreciation and Amortization | 13,162 | 10,726 | 844 | 918 | 53 | 53 | 14,059 | 11,697 |
| Interest Expense | 9,864 | 8,844 | 2,516 | 1,902 | 1,473 | (228) | 13,853 | 10,518 |
| Dividends on Preference Shares | - | - | - | - | 743 | 743 | 743 | 743 |
| Income Taxes | 6,320 | 7,461 | 948 | 593 | (670) | (297) | 6,598 | 7,757 |
| Results of Discontinued Operations | - | 83 | - | - | - | - | - | 83 |
| Amortization of Goodwill | - | - | - | - | 732 | 732 | 732 | 732 |
| Non-Controlling Interest | 643 | 156 | - | - | (27) | (27) | 616 | 129 |
| Earnings Applicable to Common Shares | \$12,875 | \$9,090 | \$758 | \$631 | \$(3,293) | \$(1,813) | \$10,340 | \$7,908 |
| Total Assets | \$1,021,921 | \$820,895 | \$184,699 | \$160,512 | \$115,559 | \$43,329 | \$1,322,179 | \$1,024,736 |

Revenue for the second quarter was \$22.2 million, an increase of \$1.5 million over the same period last year. The increase in revenue reflects growth in energy sales combined with a three per cent increase in residential electricity rates effective April 1, 2000.

Operating expenses for the second quarter were \$16.9 million compared to \$15.4 million for the same period in 1999. The increase over last year reflects the increase in purchased energy and substantially higher energy costs resulting from higher oil prices.

The dramatic increase in oil prices reduced earnings for the second quarter, which were \$0.6 million compared to \$0.7 million for the same period in 1999. Earnings in the second quarter of 1999 were impacted by the annual maintenance outage of Point LePreau which is scheduled for the third quarter of 2000. The average cost of fuel at Charlottetown for the second quarter of 2000 was \$33.39/bbl compared to \$20.43/bbl for the same period last year.

Canadian Niagara Power

Energy sales for the second quarter of 2000 were 154.5 GWh compared to 200.1 GWh for the same period in 1999. The company is no longer purchasing power for resale into the United States. In the second quarter of 1999, 133.8 GWh were sold into the U.S.

Revenue, net of purchased power, for the second quarter was \$8.3 million compared to \$8.1 million for the same period last year.

Fortis' share of Canadian Niagara Power's earnings from continuing operations for the second quarter was \$1.1 million, a slight increase over earnings of \$1.0 million for the same period last year.

Belize Electricity

In its second full quarter of operations since Fortis' investment in Belize Electricity, energy sales were 59.5 GWh, an increase of approximately 17.6 per cent over the same period last year. Year-to-date energy sales increased 20 per cent to 112.9 GWh from 94.0 GWh for the same period last year. Belize Electricity's contribution to operating earnings was \$1.0 million for the second quarter.

Revenue for the second quarter of 2000 was \$16.1 million, an increase of \$2.0 million over revenue of \$14.1 million for the second quarter of 1999. The increase in revenue, reflecting strong growth in energy sales, was achieved despite a seven per cent reduction in commercial electricity rates effective April 2000.

FortisUS Energy

Hydroelectric plants owned by FortisUS achieved record production levels during the second quarter of 2000. Energy production for the period was 26.3 GWh compared to 14.0 GWh for the second quarter of 1999.

Revenue from the sale of electricity was \$1.0 million for the second quarter of 2000. Operating expenses for the reporting period were \$0.3 million.

In the second quarter, FortisUS Energy contributed \$297,000 to overall earnings.

Caribbean Utilities

Caribbean Utilities has announced its audited financial results for the fiscal year ended April 30, 2000. Earnings per Class A Ordinary Share increased to US\$0.73, compared to US\$0.63 for the same period last year, as a result of growth in electricity demand on Grand Cayman. The increase reflects continued growth in the tourism and offshore financial services sectors. New records were achieved in generation as peak load reached a record 65.7 MW in April 2000, up 7.5 per cent over last April's peak load.

Growth in electricity demand is forecast to remain high at 8.5 per cent per annum over the next two years.

Currently, Fortis owns 20.2 per cent of the outstanding Class A Ordinary Shares of Caribbean Utilities and a second major shareholder holds in excess of 30 per cent of the outstanding voting shares. As a result, this investment has been accounted for on the cost basis in the June 30, 2000 consolidated financial statements. Second quarter dividends of \$843,000 from Caribbean Utilities were included in Fortis' second quarter earnings.

NON-UTILITY OPERATIONS

Fortis Properties

Net earnings for the second quarter of 2000 were \$621,000 compared to \$490,000 for the same period last year. The 26.7 per cent growth in earnings was attributable to increased earnings for all three of the company's operating divisions: real estate, hospitality and Brunswick Square.

Revenue for the second quarter of 2000 was \$12.6 million, a 30 per cent increase over revenue of \$9.7 million for the second quarter of 1999. The increase in revenue was mainly related to the inclusion of Brunswick Square, acquired in August 1999.

On August 10, 2000, Fortis Properties announced construction of a 180-room hotel in downtown Halifax, Nova Scotia. Construction of the \$15 million project is scheduled to be completed in the fall of 2001. The property

marks the company's first hotel investment in Halifax and builds upon Fortis Properties' real estate presence in the area.

Fortis Trust

Fortis Trust's earnings for the second quarter of 2000 were \$137,000 compared to earnings of \$142,000 for the same period last year.

CORPORATE

Financial Position

Assets

Total assets for the quarter ended June 30, 2000 aggregated \$1.3 billion, a 30.0 per cent increase over total assets at June 30, 1999. The increase in assets results primarily from acquisitions since the second quarter of 1999.

Liabilities

Short-term borrowings at June 30, 2000 increased \$155.0 million over the comparative June 30, 1999 figure of \$9.4 million, primarily reflecting short term financing for acquisitions made since the second quarter of 1999.

Accounts payable and accrued charges at June 30, 2000 increased \$16.3 million and long term debt at June 30, 2000 increased \$77.1 million over the June 30, 1999 comparative figures. The increase in these

items results primarily from the investments in Belize Electricity and Brunswick Square Limited which have been included in the June 30, 2000 financial statements.

The \$24.3 million increase in deferred credits results from the contributions in aid of construction of Belize Electricity.

Non-Controlling Interest

The \$21.6 million increase in non-controlling interest represents 33 per cent of the net assets of Belize Electricity. While Fortis owns 67 per cent of Belize Electricity, ownership of the remaining 33 per cent minority interest is distributed between the Government of Belize, with a 25 per cent ownership, and the public of Belize with an eight per cent ownership.

Foreign Currency Translation Adjustment

Acquisition of significant ownership interests in foreign jurisdictions has created foreign currency translation adjustments. The assets and liabilities of Belize Electricity and FortisUS Energy, both of which are self-sustaining, are translated at exchange rates in effect at the balance sheet date. The resulting gains and losses are accumulated in the foreign currency translation adjustment in shareholders' equity. Revenue and expense items are translated at average exchange rates prevailing throughout the period.

Change in Accounting Policies

On January 1, 1999, Fortis and its subsidiaries, except Newfoundland Power, adopted the recommendations of Section 3461 of the Canadian Institute of Chartered Accountants (CICA) Handbook, Employee Future Benefits. These recommendations have been applied retroactively. Similarly, Fortis, except with respect to Newfoundland Power, retroactively adopted the recommendations of Section 3465 of the CICA Handbook, Future Income Taxes, during the first quarter of 2000 with restatement of 1999 comparative figures. Newfoundland Power is regulated on a cost-of-service basis and regulatory approval is required for the recovery of current and past expenses. As such, the changes in accounting policies do not apply to Newfoundland Power.

Cash Flows

Operations

Cash flows from operations for the second quarter of 2000 aggregated \$20.1 million compared to \$16.4 million in the second quarter of 1999, an increase of \$3.7 million. This improvement is due to the net contribution of the operations of Belize Electricity and FortisUS Energy which were both acquired during the fourth quarter of 1999.

Investing

During the second quarter of 2000, cash used in investing activities totaled \$14.4 million, a \$0.5 million increase in cash used over the same period in 1999. Capital additions in the second quarter of 2000 increased \$5.6 million over the second quarter of 1999 reflecting the capital additions of Belize Electricity and Fortis Properties' expansion of its Holiday Inn St. John's hotel. Cash provided by mortgages receivable declined \$3.2 million mainly as a result of the issue of a Mortgage-Backed Securities pool by Fortis Trust during the second quarter of 1999. Due to the successful resolution of the outstanding tax issue of Newfoundland Power, the \$8.8 million of the corporate tax deposit was refunded decreasing cash used in investing activities. Additional acquisition costs of \$0.4 million associated with Caribbean Utilities were incurred in the second quarter of 2000.

Financing

During the second quarter of 2000, financing activities used \$2.5 million. The \$8.8 million refund resulting from the resolution of the outstanding income tax issue pertaining to Newfoundland Power was applied to short term borrowings. An additional \$4.5 million in long term debt was acquired in the second quarter of 2000 and used primarily to finance capital additions.

Dividends

Consolidated dividends increased \$1.2 million in the second quarter of 2000 over the same period last year. During the quarter, \$1.0 million was paid to the non-controlling shareholders of Belize Electricity in addition to the \$129,000 paid to the non-controlling shareholders of Newfoundland Power. The remaining \$0.2 million increase reflects the increase in the quarterly dividend rate to \$0.46 from \$0.45 combined with the growth in the average number of common shares outstanding.

Unaudited Financial Statements

Consolidated Statement of Earnings (in thousands)

| | Quarter Ended June 30 | | Year to Date June 30 | |
|---|--------------------------|--------------|-------------------------|---------------|
| | 2000 | 1999 | 2000 | 1999 |
| Operating revenues | \$143,723 | \$121,126 | \$310,561 | \$265,448 |
| Expenses | | | | |
| Operating | 96,782 | 81,725 | 213,647 | 182,006 |
| Depreciation and amortization | 14,059 | 11,697 | 28,375 | 23,412 |
| | 110,841 | 93,422 | 242,022 | 205,418 |
| Operating income | 32,882 | 27,704 | 68,539 | 60,030 |
| Finance charges | | | | |
| Interest on long term debt | 13,853 | 10,518 | 27,112 | 20,801 |
| Dividends on preference shares | 743 | 743 | 1,488 | 1,488 |
| Income before income taxes | 18,286 | 16,443 | 39,939 | 37,741 |
| Income taxes | 6,598 | 7,757 | 15,481 | 17,705 |
| Income before undernoted items | 11,688 | 8,686 | 24,458 | 20,036 |
| Amortization of goodwill | (732) | (732) | (1,464) | (1,464) |
| Results of discontinued operations | - | 83 | - | 182 |
| Non-controlling interest | (616) | (129) | (1,384) | (258) |
| Earnings applicable to common shares | 10,340 | 7,908 | 21,610 | 18,496 |
| Average common shares outstanding | 13,198 | 13,034 | 13,198 | 13,034 |
| Earnings per common share (\$) | \$0.78 | \$0.61 | \$1.64 | \$1.42 |

Consolidated Statement of Retained Earnings (in thousands)

| | 2000 | 1999 | 2000 | 1999 |
|--|------------------|-----------|------------------|-----------|
| Balance at beginning of period | \$195,852 | \$189,965 | \$190,661 | \$189,585 |
| Change in accounting policy for post retirement benefits | - | - | - | (3,266) |
| Change in accounting policy for future income taxes | - | - | - | (1,053) |
| As restated | 195,852 | 189,965 | 190,661 | 185,266 |
| Earnings applicable to common shares | 10,340 | 7,908 | 21,610 | 18,496 |
| | 206,192 | 197,873 | 212,271 | 203,762 |
| Dividends on common shares | (6,082) | (5,890) | (12,161) | (11,779) |
| Balance at end of period | \$200,110 | \$191,983 | \$200,110 | \$191,983 |

Notes:

1. The 1999 comparative figures have been restated to reflect the discontinued operations resulting from the sale of Canadian Niagara Power's wind-powered electric generating operations in Cowley Ridge, Alberta.
2. The comparative figures have been retroactively adjusted to reflect the change in accounting policy resulting from the adoption of the recommendations of Section 3461, Employee Future Benefits, and Section 3465, Income Taxes, of the CICA Handbook.

Consolidated Balance Sheet (in thousands)

As at June 30

ASSETS

Current Assets

| | <u>2000</u> | <u>1999</u> |
|-----------------------------------|---------------|---------------|
| Cash | \$7,008 | \$3,903 |
| Accounts receivable | 61,345 | 53,746 |
| Materials and supplies | 17,675 | 6,657 |
| Assets of discontinued operations | - | 10,283 |
| | <u>86,028</u> | <u>74,589</u> |

Other Assets

| | | |
|-------------------------------------|----------------|----------------|
| Mortgages receivable - Fortis Trust | 50,899 | 52,190 |
| Corporate income tax deposit | 6,751 | 15,595 |
| Deferred charges | 60,035 | 50,573 |
| | <u>117,685</u> | <u>118,358</u> |

Utilities' capital assets

| | | |
|-----------------------------------|--------------------|--------------------|
| Income producing properties | 876,130 | 692,213 |
| Investment in Caribbean Utilities | 124,915 | 99,125 |
| Goodwill | 79,899 | - |
| | 37,522 | 40,451 |
| | <u>\$1,322,179</u> | <u>\$1,024,736</u> |

LIABILITIES

Current Liabilities

| | | |
|--|----------------|----------------|
| Short term borrowings | \$164,456 | \$9,407 |
| Accounts payable and accrued charges | 89,669 | 73,341 |
| Deposits payable - Fortis Trust | 31,419 | 34,356 |
| Liabilities of discontinued operations | - | 9,313 |
| | <u>285,544</u> | <u>126,417</u> |

Deposits due beyond one year - Fortis Trust

| | | |
|--------------------------|---------|---------|
| Long term debt | 14,952 | 13,227 |
| Preference shares | 502,405 | 425,296 |
| Deferred credits | 50,000 | 50,000 |
| Non-controlling interest | 81,855 | 57,575 |
| | 30,043 | 8,429 |

SHAREHOLDERS' EQUITY

| | | |
|---|--------------------|--------------------|
| Common shares | 156,903 | 151,809 |
| Foreign currency translation adjustment | 367 | - |
| Retained earnings | 200,110 | 191,983 |
| | <u>357,380</u> | <u>343,792</u> |
| | <u>\$1,322,179</u> | <u>\$1,024,736</u> |

Notes

1. The comparative figures have been restated to reflect the discontinued operations resulting from the sale of Canadian Niagara Power's wind-powered electric generating operations in Cowley Ridge, Alberta.
2. The comparative figures have been retroactively adjusted to reflect the change in accounting policy resulting from the adoption of the recommendations of Section 3461, Employee Future Benefits, and Section 3465, Income Taxes, of the CICA Handbook.

Consolidated Statement of Cash Flows (in thousands)

| | Quarter ending June 30 | | Year to date June 30 | |
|--|---------------------------|-----------------|-------------------------|----------------|
| | 2000 | 1999 | 2000 | 1999 |
| Cash from (used in) operations | | | | |
| Earnings before discontinued operations | \$10,340 | \$7,825 | \$21,610 | \$18,314 |
| Items not affecting cash | | | | |
| Depreciation and amortization | 14,791 | 12,429 | 29,839 | 24,876 |
| Future income taxes | (820) | 915 | (933) | 1,543 |
| Non-controlling interest | 616 | 129 | 1,384 | 258 |
| Accrued employee future benefits | (1,995) | (1,869) | (3,393) | (3,331) |
| Other | (19) | 164 | 98 | 185 |
| | 22,913 | 19,593 | 48,605 | 41,845 |
| Change in Non-Cash Working Capital | (2,830) | (3,174) | (5,827) | 9,524 |
| | 20,083 | 16,419 | 42,778 | 51,369 |
| Cash from (used in) investing | | | | |
| Capital additions | (22,537) | (16,901) | (41,379) | (33,062) |
| Investment in Class A Ordinary Shares of Caribbean Utilities | (376) | - | (79,899) | - |
| Additional investment in Belize Electricity and FortisUS Energy | (17) | - | (436) | - |
| Mortgages | 33 | 3,275 | (812) | 2,808 |
| Change in corporate tax deposit | 8,844 | - | 8,844 | - |
| Change in deferred charges and credits | (339) | (240) | (126) | 272 |
| | (14,392) | (13,866) | (113,808) | (29,982) |
| Cash from (used in) external financing | | | | |
| Issue of common shares | 997 | 1,228 | 2,959 | 2,715 |
| Net increase in long term debt | 4,490 | (2,318) | 5,392 | (321) |
| Change in short term borrowings | (9,029) | 4,784 | 71,869 | (12,811) |
| Contributions in aid of construction | 203 | 526 | 631 | 901 |
| Change in deposits payable beyond one year | 830 | (852) | (689) | (2,518) |
| | (2,509) | 3,368 | 80,162 | (12,034) |
| Dividends | | | | |
| Common shares | (6,082) | (5,890) | (12,161) | (11,779) |
| Subsidiaries to non-controlling shareholders | (1,124) | (129) | (1,254) | (258) |
| | (7,206) | (6,019) | (13,415) | (12,037) |
| Change in cash | (4,024) | (98) | (4,283) | (2,684) |
| Cash, beginning of period | 11,032 | 4,001 | 11,291 | 6,587 |
| Cash, end of period | \$ 7,008 | \$ 3,903 | \$ 7,008 | \$3,903 |

Notes:

- The comparative figures have been restated to reflect the discontinued operations resulting from the sale of Canadian Niagara Power's wind-powered electric generating operations in Cowley Ridge, Alberta.
- Certain comparative figures have been restated to conform with the current period presentation.

Important Dates - Dividends & Earnings

Expected Earnings Release Dates

| | |
|------------------|------------------|
| August 14, 2000 | November 8, 2000 |
| February 1, 2001 | April 26, 2001 |

Expected Dividend Record Dates

| | |
|------------------|------------------|
| August 4, 2000 | November 3, 2000 |
| February 2, 2001 | May 4, 2001 |

Expected Dividend Payment Dates*

| | |
|-------------------|------------------|
| September 1, 2000 | December 1, 2000 |
| March 1, 2001 | June 1, 2001 |

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

Registrar and Transfer Agent

Montreal Trust Company

Share Price (TSE)

| Quarter Ending June 30 | <u>2000</u> | <u>1999</u> |
|------------------------|-------------|-------------|
| High | 33.75 | 38.50 |
| Low | 29.50 | 33.75 |
| Close | 32.55 | 34.20 |

Share Listings

Toronto Stock Exchange (TSE)
Common Shares (FTS)
First Preference Shares, Series B (FTSPRB)

*Inquiries for general information or
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