2000 ANNUAL REPORT

NEWFOUNDLAND AND LABRADOR HYDRO

THE POWER OF COMMITMENT

HYDRO
THE POWER OF
COMMITMENT

The mission of the Newfoundland and Labrador Hydro Group of Companies is to provide electrical power and energy, on behalf of the people of the Province, at the lowest cost consistent with reliable service, due consideration for the environment and the safety of our employees and the customers which we serve.

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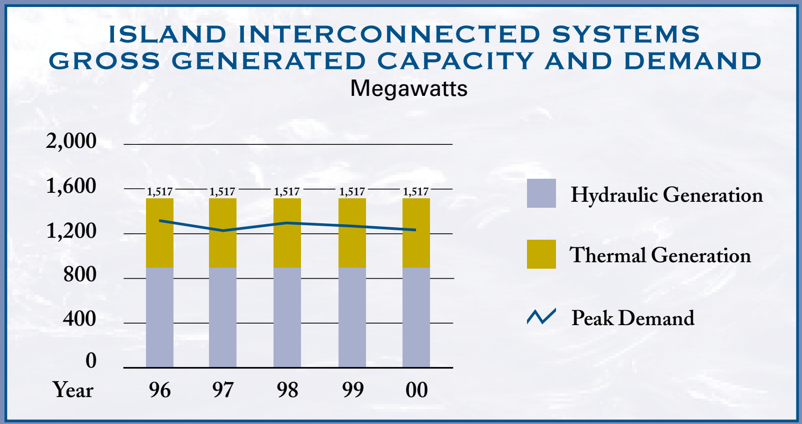
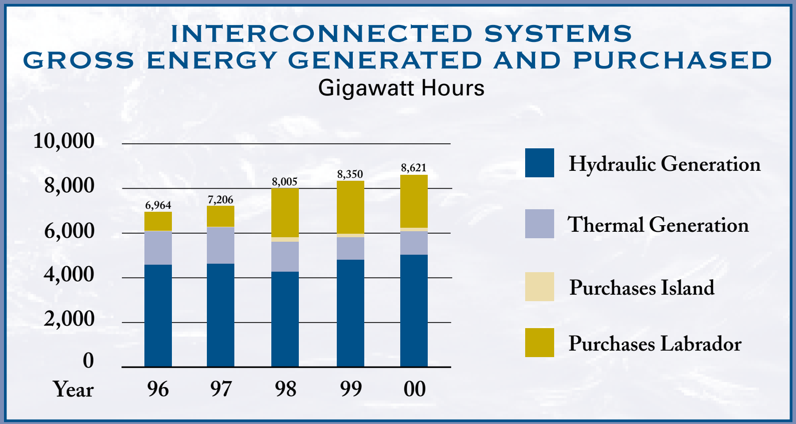
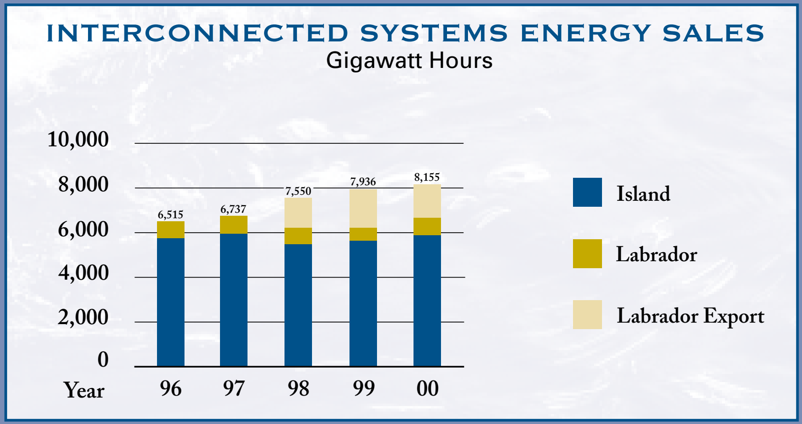
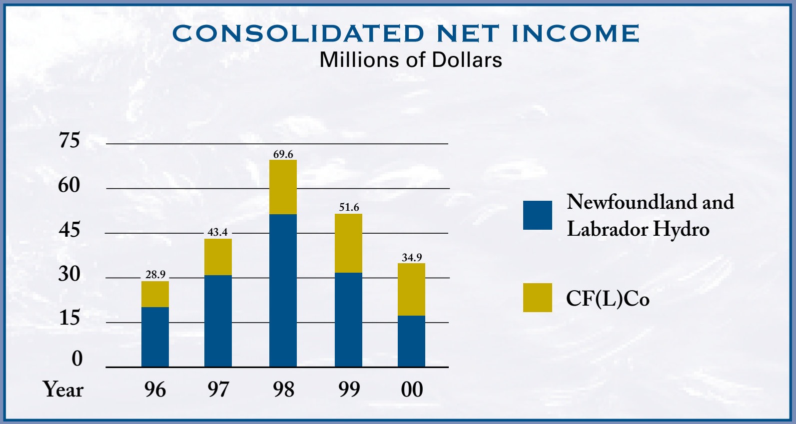








CHAIRMAN AND PRESIDENT'S **REPORT**

On behalf of the Board of Directors, we are pleased to report another successful year for the Hydro Group of Companies. Beginning with a smooth transition from 1999 to 2000, the year continued with another solid financial and operating performance.

Net income for the Hydro Group was $34.9 million. Of this, Churchill Falls (Labrador) Corporation's net income was $17.5 million and Hydro's $17.4 million. Hydro's net income was lower this year primarily as a result of the revenue limit in the export sales to Hydro-Québec. Revenues were taken earlier in the three-year agreement which expires on March 8, 2001. A new agreement for the energy associated with the 130 MW recall of power from CF(L)Co is being negotiated to become effective on March 9, 2001. Under the existing three-year agreement, Hydro had a profit of $68.5 million on sales of $78.9 million.

Positive financial results are an important indicator of our performance, and we continue to pursue efforts to increase stakeholder value. We recognize that our business operations are, in part, a vehicle for public policy and we must therefore reaffirm our mandate to ensure we are meeting shareholder expectations. This is extremely important as we strategically plan our future direction. Our mission is to ensure that the electrical requirements of the province are met by having a reliable and quality supply of power at least-cost. In meeting that commitment, we will be innovative, environmentally proactive and operate in a safe and cost-effective manner.

As a result, we have identified core values for our organization:

- Competence – encouraging and supporting innovation, continuous improvement and learning, and the sharing of our knowledge and experiences.
- Accountability – accepting responsibility for our individual and collective actions and performance.
- Teamwork – promoting safety, cooperation and openness in a supportive work environment.
- Responsibility – valuing actions that are ethically, environmentally and socially responsible.
- Positive Attitude – valuing enthusiasm and pride in our work.
- Integrity – recognizing that trust, respect, honesty and fairness are essential in our daily interactions with all individuals and stakeholders.

These are values that both guide our decision-making and provide a framework for measuring our performance. We are committed to being responsible corporate citizens and to being good environmental stewards.

This year Hydro received governmental approval to address forecasted energy and capacity deficits. On May 16, 2000, the Government of Newfoundland and Labrador released from environmental assessment Hydro's 40 MW Granite Canal project. This $135 million project, within the existing Bay d'Espoir system, will ensure that we continue to meet the capacity and energy requirements of the Island Interconnected system with additional supplies of cost-effective energy from our hydraulic resources.

Government also directed Hydro to negotiate with two of our industrial customers, Corner Brook Pulp and Paper and Abitibi Consolidated Inc. at Grand Falls-Windsor to conclude agreements for the purchase of power and energy to assist in meeting the energy and capacity deficits forecasted to occur in 2003. In November the Minister of Mines and Energy announced that agreements-in-principle have been concluded with both companies.

As we enter this new century of opportunities, Hydro must continue to operate in a cost-effective and efficient manner and it must strive to pursue opportunities for the benefit of all stakeholders.

William E. Wells (L), President and Chief Executive Officer
Dean T. MacDonald (R), Chairman of the Board

THE COMMITMENT TO COMPETENCE

"WE ENCOURAGE AND SUPPORT INNOVATION, CONTINUOUS IMPROVEMENT AND LEARNING, AND THE SHARING OF OUR KNOWLEDGE AND EXPERIENCES"

Our competence in providing electrical power and energy leads to positive results as reflected in our generation statistics.

Energy Production

Hydraulic production for 2000 was the second highest on record. Large inflows into the Bay d'Espoir reservoir system, coupled with mild winter temperatures, enabled us to limit production from the Holyrood thermal generating plant. Reservoir levels remained high at the end of the year, as a result production from hydro generation is expected to continue at high levels. Therefore production from Holyrood during the 2000/2001 winter is expected to remain lower than normal, reducing consumption of no. 6 fuel at a time when prices are extremely high.

We have achieved a 4.5 per cent increase in gross energy production at our generating plants throughout the system. Production from hydraulic resources also increased by 4.5 per cent to a total of 5,032 GWh. Thermal production from the Holyrood generating facility increased slightly to 1,040 GWh while production for peaking and emergency requirements from gas turbines and diesel plants dropped to 0.6 GWh. Purchases from non-utility generators accounted for 161 GWh, up 3.0 per cent from 1999 levels.

Favourable reservoir levels enabled production from the Cat Arm facility to reach its highest level since it was commissioned in 1985. In 2000, approximately 83 per cent of all the energy supplied to our interconnected customers on the Island came from hydraulic resources, both Hydro owned and purchased.

Gross energy production on the isolated systems was 46.8 GWh, an increase of 4.5 per cent from 1999. Power purchases on the isolated system increased by 6 per cent to 12.4 GWh, and were comprised of purchases of 12.1 GWh from Hydro-Québec and 0.3 GWh from the Mary's Harbour hydro facility.

Production at Churchill Falls (Labrador) Corporation increased 1.7 per cent from 1999 to 35,143 GWh, despite having a generating unit out of service for repair for two months. Our reservoir level was 48 per cent of capacity at year-end, slightly below normal levels following several years of below average precipitation.

Energy Sales

Hydro's sales on the Labrador and Island Interconnected systems increased to 6,661 GWh in 2000. This is a 7.3 per cent increase to wholesale, retail and industrial customers over 1999.

Total Island Interconnected energy sales during 2000 were up 4.6 per cent to 5,895 GWh. Industrial sales increased by 5.8 per cent to 1,279 GWh. This increase is attributed to additional sales to the pulp and paper mills. Retail sales to Hydro's rural customers also increased by 2.3 per cent to 353 GWh while sales to Newfoundland Power increased by 4.4 per cent to 4,263 GWh. Sales to rural customers on the isolated systems were 52 GWh.

Hydro's sales to customers on the Labrador Interconnected system increased 34.9 per cent over 1999 to a total of 766 GWh. This was primarily due to a resumption of normal sales levels to an industrial customer. Sales to rural customers increased by 0.9 per cent to 437 GWh; secondary sales increased by 6.2 per cent to 86.4 GWh.

Churchill Falls (Labrador) Corporation exported 30,268 GWh in addition to its energy sales to Hydro in 2000, an increase of 2.0 per cent from 1999 while sales to Hydro increased by 6 GWh to 2,382 GWh. Deliveries to Twin Falls Power Corporation in 2000 were 1,901 GWh, an increase of 8.2 per cent.

Moving a 600 ton generator rotor at the Churchill Falls hydroelectric plant requires experienced, competent employees.

THE COMMITMENT TO **RESPONSIBILITY**

"WE VALUE ACTIONS THAT ARE ETHICALLY, ENVIRONMENTALLY AND SOCIALLY RESPONSIBLE"

We take our responsibilities very seriously at the Hydro Group of Companies. We are responsible for the reliability and quality of power we supply to our customers. We are equally responsible for the environment and for the safety of both our customers and our employees.

Avalon Transmission Line Upgrade

The first two phases of a multi-year capital program to strengthen major transmission lines on the Avalon Peninsula have been completed. The transmission line upgrade will improve the reliability of the transmission lines under ice loading conditions.

In 2000, the upgrades of transmission lines from Sunnyside to Come-by-Chance and from Chapel Arm to Holyrood were completed. They were re-energized on schedule and within the approximate $20 million budget. These upgrades will also result in the ability to transmit more energy. This additional capability will provide an opportunity for more flexible and efficient use of the generating resources serving the Avalon Peninsula.

Work will continue on three other transmission lines as part of Hydro's 2001 and 2002 capital plan.

Dam Safety Program

Hydro has demonstrated responsibility throughout the year with the completion of Emergency Preparedness Plans for two of Hydro's significant dams. We are confident that our dams are reliable and safe. However, our intention is to ensure that contingency plans for all emergencies, no matter how improbable, have been given full consideration.

The establishment of Emergency Preparedness Plans is consistent with sound engineering and operating practice in Canada and the release of the Dam Safety Guidelines by the Canadian Dam Association. These plans identify actions to be taken by Hydro in the unlikely event of an emergency at one of our dams.

The first Emergency Preparedness Plan, for the Long Pond reservoir in Bay d'Espoir, was shared with neighboring municipalities on the South Coast on March 7, 2000. Another plan, for Victoria Dam on the Bay d'Espoir system, was completed and presented to nearby municipalities in central Newfoundland on November 2, 2000.

We conducted information meetings after these plans were finalized. Municipal leaders, agencies, government and other utilities were invited, along with representatives from the Royal Canadian Mounted Police and the Department of Works, Services and Transportation. Representatives of the Newfoundland and Labrador Emergency Measures Organization and the Department of Environment and Labour also attended, and were an integral part of the presentation to the stakeholders.

As part of Hydro's continued commitment to dam safety, we will be preparing an Emergency Preparedness Plan for all structures.

Lineworkers move an osprey nest from
a 230kv transmission line tower to
a newly-installed wooden pole.

THE COMMITMENT TO **TEAMWORK**

"We promote safety, cooperation and openness in a supportive work environment"

Many teams throughout Hydro accomplish the required workload. Each team member has a valuable role to play and their efforts contribute greatly toward achieving the organization's goals and objectives.

ISO 14001 Registration

Our environment teams have been recognized for their work in meeting specific guidelines established by the International Organization for Standardization (ISO), an organization that sets quality standards worldwide. This year, our hydro generating stations received the ISO 14001 Certification for our Environmental Management Systems at Bay d'Espoir and Churchill Falls.

The Quality Management Institute (QMI), an accredited third party environmental management system registrar, conducted on-site audits at hydro generating plants to assess our compliance with the ISO standard. They determined that we had met their high standards for environmental performance.

Our goal is to achieve ISO 14001 performance measurements throughout the corporation. We have already implemented Environmental Management Systems for corporate management and our services management group and anticipate certification in 2001. We plan to establish Environmental Management Systems for our transmission network and rural operations, and our information and telecommunications departments by the end of 2002.

We are proud of the successful efforts of our environmental teams on these projects.

Granite Canal

The development of Granite Canal, situated within the existing Bay d'Espoir Development, is a 40 MW hydroelectric project with energy producing capability of 224 GWh. Work on the project has progressed on schedule since the Government of Newfoundland and Labrador officially announced approval of the Project on May 16, 2000.

The new plant is scheduled to begin producing electrical energy by the summer of 2003. It will be remotely controlled from Hydro's Energy Control Centre in St. John's. Upon completion, the project will assist Hydro with providing the additional power and energy required to satisfy the Island's requirements in the coming years.

We are fulfilling our obligations to the people of Newfoundland and Labrador by providing them with a comprehensive review of our environmental monitoring and mitigation plans for the project. These plans are strengthened by internal procedures to ensure our environmental policies are upheld.

An Environmental Information Session was held in Grand Falls-Windsor on January 30, 2001 to outline Hydro's environmental management program for the development. Information was presented on the Corporation's environmental management system, the project description, fish habitat compensation, wildlife mitigation, site environmental protection and environmental monitoring. Hydro employees were on hand to respond to questions and individual concerns about the project.

The team responsible for the ISO 14001 environmental management system registration at the Churchill Falls hydroelectric plant, left to right, Francis Clarke, Kevin Ryan, Andrew MacNeill, Gord Hynes, Marge Strickland, Graham Van Brunt, Wallace Smith.

THE COMMITMENT TO ACCOUNTABILITY

"We accept responsibility for our individual and collective actions and performance"

There is an obligation to be accountable for all the work we perform as an organization, which we accept in reporting, explaining and justifying our actions.

Holyrood Community Liaison Committee

This committee was established to facilitate communication between our employees at the Holyrood thermal generating plant and area residents. It will provide a forum for open discussion of issues of concern.

In response to expressed community concerns about emissions at the Holyrood generating station, Hydro commissioned an independent human health risk assessment of air emissions at the Holyrood thermal generating station. The study, completed in 1999 by Cantox Environmental Inc. of Halifax, concluded that "no long-term measurable affects would be expected to result from current exposure to metals or organic substances in emissions from the Holyrood facility."

The committee consists of two representatives from each of the communities of Holyrood and Conception Bay South; an official of the Department of Environment and Labour; an official of the Health and Community Services Board (Eastern Region); a representative of the International Brotherhood of Electrical Workers; and two of the senior managers of the Holyrood plant. Meetings are held bi-monthly and a standard agenda is followed which includes a Plant Environmental Review.

Since its inception, the committee has successfully communicated and clarified the results of the Health Risk Assessment carried out by Cantox. It has also assisted in communicating the successful implementation of an ISO 14001 compliant Environmental Management System, which commits Hydro to continuous improvement in the environmental performance of the plant. These efforts have helped local community representatives to achieve a level of comfort on the environmental improvements being made at Holyrood.

Hydro's previous actions to improve environmental performance at Holyrood included a reduction in air emissions through increased boiler efficiency, and the removal from site of PCB's, halon based products and asbestos insulation.

Halon Systems

In 2000, the Hydro Group moved forward with the second phase of its five-year Halon Replacement Program. The objective of the program is to contribute to the protection of the stratospheric ozone layer, through measures to reduce and eventually eliminate halon emissions from Hydro Group facilities.

After extensive review, "inert gas agent" systems were selected as the most economical alternative meeting performance, health and safety, and environmental impact criteria.

The program involves the replacement of 66 fire protection systems at facilities around the province. Twenty-six systems representing two-thirds of total halon use have been decommissioned in the first two years of the program. The remaining systems are scheduled for replacement in 2001 and 2002, one year ahead of our commitment to the Department of Environment.

East Coast Microwave Project

Throughout 2000, we have been working on the design of an east coast digital microwave radio system to interconnect the majority of high voltage terminal stations on the Avalon Peninsula. Construction will begin in May 2001 and should be completed prior to the end of the year.

The existing powerline carrier systems interconnecting the terminal stations with the Energy Control Center have been in service for almost 30 years. The proposed digital radio solution will provide a technically acceptable solution at a reasonable cost, while securing the future bandwidth requirements of the company.

We believe that digital radio technology will also provide opportunities for the generation of non-traditional revenue for the company with the sale of any excess bandwidth to outside parties.

At the Granite Canal Environmental Information Session, left to right, Fred Parsons of the Environment Resource Management Association speaks with Terry Goodyear, Chair of the Board of Director's Environmental Committee and David Kiell, Hydro's Director of Environmental and Property Services.

THE COMMITMENT TO **POSITIVE ATTITUDE**

"We value enthusiasm and pride in our work"

We take a positive approach to the work we perform. For long term employees it has become a matter of tradition, more recent employees continue this tradition by contributing fresh ideas and enthusiasm.

Labrador Cavity Nest Box Program

In 2000, Newfoundland and Labrador Hydro, in partnership with Ducks Unlimited Canada and the Conservation Corps of Newfoundland and Labrador, carried out a cavity nest box program in the Upper Lake Melville area of Labrador.

The Cavity Nesting Box Program has been successful in Newfoundland, with the placement of 3,300 boxes. The year 2000 was the first year for the program in Labrador.

Several species of Newfoundland and Labrador waterfowl nest in holes, or cavities, high in trees. Appropriate cavity nesting sites are a fundamental requirement for maintaining and increasing the populations of waterfowl species such as the common goldeneye, the wood duck and the common merganser. These waterfowl typically nest in abandoned woodpecker holes or natural tree cavities created by disease, fire or lightening. However, the availability of suitable trees has been reduced and nesting opportunities are limited because of human impacts on forests and competition for the natural tree cavities from other animals. Artificial nesting cavities such as those provided by nest boxes can help offset this problem by increasing the number of available, secure nesting sites.

The financial support of Newfoundland and Labrador Hydro enabled Green Team members to construct and place 60 nest boxes over the summer. Members also participated in leadership and regional training camps, gained knowledge about waterfowl and their habitats, improved their team work skills, and reached over 500 people through their participation in Environmental Awareness Days including the Northwest River Beach Festival, the Base Summer Recreation Program, the Annual Labrador Canoe Regatta and the Allied Appreciation Week. The team informed people of the project and the importance of nest boxes, in addition to playing environmental games and creating recycling bins with children.

The Green Team Program is very different from most youth employment initiatives and make-work projects. Rather than creating projects for youth to carry out, the Corps work with local organizations like Newfoundland and Labrador Hydro who support projects that are of value to the community.

Contributions

Hydro and its employees contribute annually to many worthy charities and projects. Our five-year pledge to Memorial University of Newfoundland's Opportunity Fund is a major commitment to the education of our province's youth. The major medical institutions, research foundations, youth groups and the arts were all beneficiaries of Hydro's province-wide philanthropic program. Our employees and their social clubs held casual wear days to aid food banks, children-oriented programs and fellow employees who have had severe medical difficulties. They have also shown compassion by bringing two children from Chernobyl, Russia to spend several weeks with their families during the summer.

Left to right, Jim MacNeill, Gary Broderick, Kim Andrews, and Alex Lau, just four of the young and enthusiastic employees at Hydro.

THE COMMITMENT TO **INTEGRITY**

"Trust, respect, honesty and fairness are essential in our daily interactions with all individuals and stakeholders"

Integrity is the foundation of all our business activities. It is evident in our work on inter-utility cooperation and in our dealings with our customers, our regulator and our shareholder.

Inter-utility cooperation

We are working to improve the overall performance of our Island Interconnected system for our customers. In 2000, we worked with Newfoundland Power to establish an Inter-Utility System Reliability Committee to set key objectives for each utility.

The committee will ensure that both utilities are jointly focused on the issues of system performance and outages. In 2000, Hydro and Newfoundland Power set mutual objectives to improve service to customers.

The committee also focused on enhanced communications between the utilities to ensure an increased profile of the importance of system reliability.

As we move into the second year of this joint initiative, we will continue to work with Newfoundland Power to continually improve service to our customers.

Community Relations

Community concerns are taken very seriously. We have endeavored to treat such concerns with respect and fairness. In Nain, local concerns for the preservation of culture were addressed in developing the plans for the construction of a new diesel generating plant. We conducted several archaeological assessments to ensure our operation would not destroy historical artifacts. Community leaders and residents were consulted on the issues pertaining to the new plant. The public meeting at which we outlined our proposal assisted in resolving their concerns.

Construction of the new plant will proceed in 2001.

The Future

Next year we will be filing a general rate application with the Board of Commissioners of Public Utilities. This will be the first rate application by Hydro in 10 years and there are a number of rate issues that must be addressed in ensuring an equitable rate structure for all rate classes, consistent with the cost of service. The price of no. 6 fuel has increased significantly and will have by far the greatest impact on the rates Hydro charges its customers. Our customers expect us to provide least-cost, reliable and environmentally responsible power. We will not stray from this challenge as we continue to ensure that our customers will benefit from the lowest possible rates.

The challenge in any organization is to manage change, which is constant. During the past year, Hydro's executive and senior management have been proactive in developing new strategies to guide the Hydro Group of Companies as they move toward the future. During 2001 we will engage all employees within the Hydro Group in a strategic review and planning for the future, as this commitment is vital to our success. We recognize that it is through the commitment of dedicated employees that the Hydro Group will continue to succeed in meeting its mandate to provide cost-efficient and reliable energy services to the benefit of all Newfoundlanders and Labradorians.

William E. Wells
President and Chief Executive Officer

Dean T. MacDonald
Chairman of the Board

SENIOR MANAGEMENT TEAM

William E. Wells

President and Chief Executive Officer

T. David Collett

Executive Vice-President, Production

Derek W. Osmond

Vice-President, Finance and
Chief Financial Officer

Maureen P. Greene

Vice-President, Human Resources
General Counsel and Corporate Secretary

David W. Reeves

Vice-President, Transmission and
Rural Operations

FINANCIAL **REPORT**

This review and analysis focuses on the consolidated operating results and financial position of the Hydro Group of Companies, except where commentary is identified as relating to Hydro only.

Effective June 18, 1999, Hydro, CF(L)Co and Hydro-Québec entered into a shareholders' agreement which resulted in Hydro adopting the proportionate consolidation method of accounting for its interest in CF(L)Co. (See Note 1 of the Notes to Consolidated Financial Statements, Principles of Consolidation.) Accordingly, the 1999 consolidated statement of income includes CF(L)Co's statement of income, on a line-by-line basis, up to June 18, 1999, and Hydro's proportionate share (65.8%) of CF(L)Co's statement of income, on a line-by-line basis, after that date, with a corresponding reduction in non-controlling interest. There was no impact on consolidated net income. The consolidated balance sheet for both 2000 and 1999 includes only Hydro's proportionate share of CF(L)Co's assets and liabilities.

2000 Financial Performance Compared To Previous Year

millions of dollars	**2000**	1999
Total revenue	**379.7**	406.2
Total expenses	**344.8**	334.8
Write-down of capital assets	**-**	16.7
Net income	**34.9**	51.6
Dividends	**69.9**	17.0
Retained earnings	**528.5**	586.1

Results of Operations

Net Income

Net income for 2000 amounted to $34.9 million compared with $51.6 million for 1999. The decrease of $16.7 million was mainly due to a decrease in the sale of recall energy to Hydro-Québec and an increase in Operations and Administration expenses.

Revenue

Total revenue for 2000 was $379.7 million, a decrease of $26.5 million from 1999. Energy sales for 2000 were $357.0 million, a decrease of 7.1% or $27.4 million from 1999, primarily as a result of lower sales of recall energy to Hydro-Québec and the change in accounting for Hydro's interest in CF(L)Co effective June 18, 1999. This was partially offset by higher retail sales to Newfoundland Power and higher rural sales. Recovery of costs included in the Rate Stabilization Plan decreased from $15.4 million in 1999 to $13.9 million in 2000. The guaranteed winter availability contract between CF(L)Co and Hydro-Québec, also increased revenue by $1.0 million. Other revenue increased by $1.4 million.

Expenses

Total expenses for 2000 amounted to $344.8 million, an increase of 3.0% or $10.0 million over 1999. The total cost of fuels was $42.5 million in 2000, an increase of $7.4 million from 1999, primarily due to the changes in fuel prices, energy sales and hydraulic generation. Power purchases totaled $15.8 million in 2000, an increase of $2.7 million over 1999 due mainly to increased power purchased from non-utility generators and the change in accounting for Hydro's interest in CF(L)Co. Operations and administration expenses were $119.4 million in 2000, an increase of $7.1 million from 1999, primarily due to the change in accounting policy as prescribed by the Canadian Institute of Chartered Accountants, for recording employee future benefits effective January 1, 2000, and higher maintenance costs. The amortization of costs in the Rate Stabilization Plan decreased from $15.4 million in 1999 to $13.9 million in 2000.

In addition to the above, in 1999 Hydro recorded a loss of $16.7 million, associated with the write-down of the Roddickton Woodchip fired thermal generating station.

Depreciation expense was $47.7 million in 2000, a decrease of $3.6 million from 1999 primarily due to the change in accounting for Hydro's interest in CF(L)Co. Total interest expense, which includes a debt guarantee fee, was $105.5 million in 2000, a reduction of $2.1 million from 1999 primarily due to the change in accounting for Hydro's interest in CF(L)Co and lower sinking fund earnings.

Results of Operations (Cont'd)

Capital Expenditures

Expenditures for additions to capital assets in 2000 amounted to $52.8 million compared to $62.3 million in 1999. The 2000 expenditures were for various additions to plant, transmission and distribution facilities throughout the Province. Expenditures include $16.2 million for major transmission line upgrades, $10.0 million related to the potential development of hydro projects in Labrador, $2.4 million for vehicles and heavy equipment and $3.1 million for the Granite Canal project. The capital program is financed from funds generated internally from operations and funds acquired through borrowing in the capital markets.

Dividends

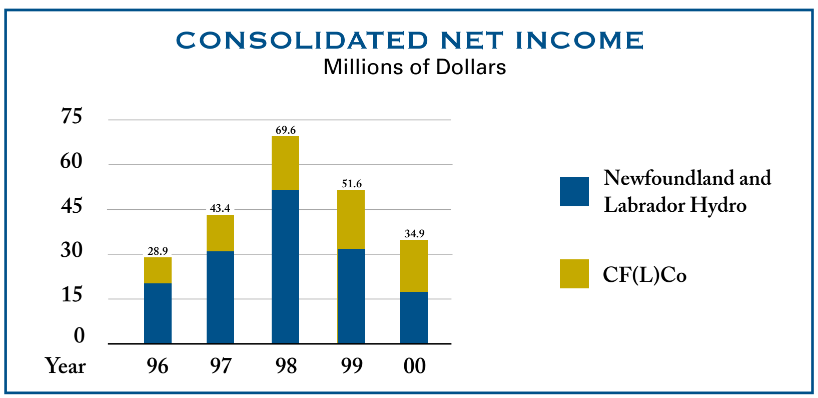
Hydro commenced paying common dividends to the Province in 1995. Hydro pays a dividend based on its net operating income and a further dividend based on the cash flow that Hydro receives from its investment in CF(L)Co, net of debt servicing costs related to the debt that Hydro incurred to finance its investment in CF(L)Co. The dividends paid made by Hydro in 2000 were $36.6 million from net operating income and $33.3 million from its investment in CF(L)Co.

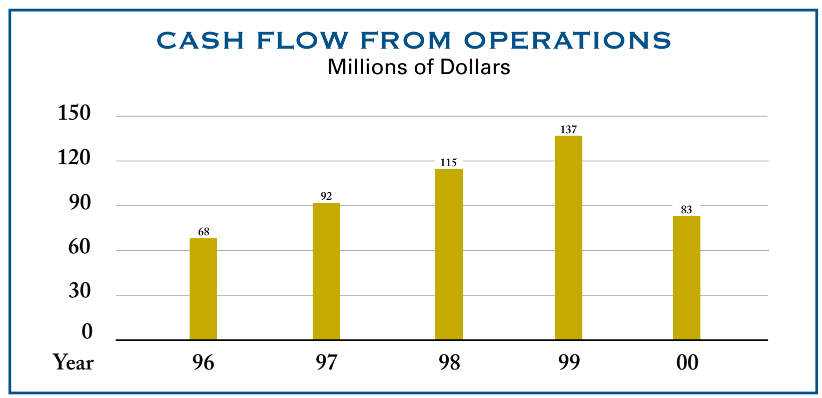
Debt

During 2000 there were no new Debentures issued, nor were there any redemptions. However, Hydro is continuing to manage its debt portfolio in an ongoing effort to minimize interest expense. This is accomplished by a measured approach to floating interest rate exposure and refinancing risk.

Total debt is as shown in the following table:

millions of dollars	**2000**	1999	Increase (Decrease)
Hydro			
Long-term debt	**1,033.1**	1,042.9	(9.8)
Promissory notes	**120.8**	54.0	66.8
	1,153.9	1,096.9	57.0
CF(L)Co			
Long-term debt	**201.1**	220.8	(19.7)
Total debt	**1,355.0**	1,317.7	37.3





Segmented Information

Segmented operating results are as follows:

millions of dollars	2000 Hydro	2000 CF(L)Co	2000 Total	1999 Hydro	1999 CF(L)Co[1]	1999 Total
Revenue						
Energy sales	**303.2**	**64.2**	**367.4**	317.0	77.7	394.7
Recovery of costs in RSP	**13.9**	**-**	**13.9**	15.4	-	15.4
	317.1	**64.2**	**381.3**	332.4	77.7	410.1
Expenses						
Operations and administration	**93.2**	**26.2**	**119.4**	85.3	27.0	112.3
Fuels	**42.5**	**-**	**42.5**	35.1	-	35.1
Amortization of RSP costs	**13.9**	**-**	**13.9**	15.4	-	15.4
Power purchased	**20.4**	**-**	**20.4**	18.9	-	18.9
Depreciation	**35.5**	**11.0**	**46.5**	36.1	14.0	50.1
Interest	**94.2**	**9.1**	**103.3**	93.2	12.8	106.0
	299.7	**46.3**	**346.0**	284.0	53.8	337.8
Income before the following	**17.4**	**17.9**	**35.3**	48.4	23.9	72.3
Interest on debt financing the CF(L)Co investment and other dedicated costs	**-**	**0.4**	**0.4**	-	0.9	0.9
Income from operations	**17.4**	**17.5**	**34.9**	48.4	23.0	71.4
Write-down of capital assets	**-**	**-**	**-**	16.7	-	16.7
Income before non-controlling interest	**17.4**	**17.5**	**34.9**	31.7	23.0	54.7
Non-controlling interest	**-**	**-**	**-**	-	3.1	3.1
Net income to Hydro	**17.4**	**17.5**	**34.9**	31.7	19.9	51.6

[1] Effective June 18, 1999, Hydro adopted the proportionate consolidation method of accounting for its interest in CF(L)Co. Accordingly, the results of CF(L)Co's operations for 1999 represent its total revenues and expenditures to June 18 and only Hydro's proportionate share thereafter.

Financial Indicators (Hydro only)

Hydro calculates its debt/equity ratio and interest coverage on a non-consolidated basis. These are shown in the following table:

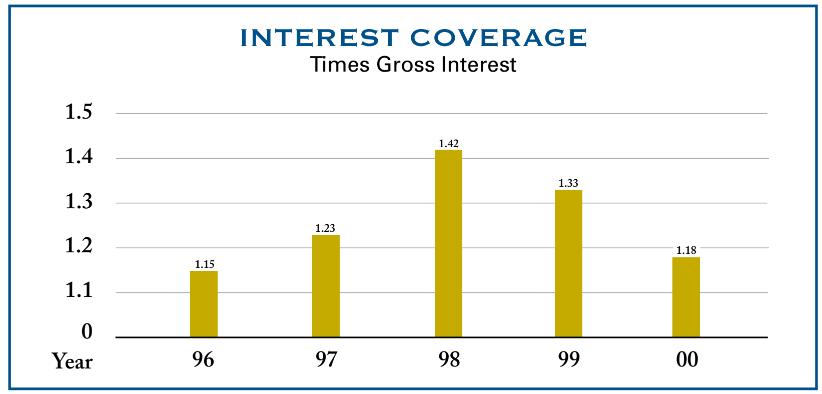
Year	Interest Coverage	Capital Structure % Debt	Equity
*2000	1.18	78	22
*1999	1.33	76	24
*1998	1.42	77	23
1997	1.23	80	20
1996	1.15	81	19

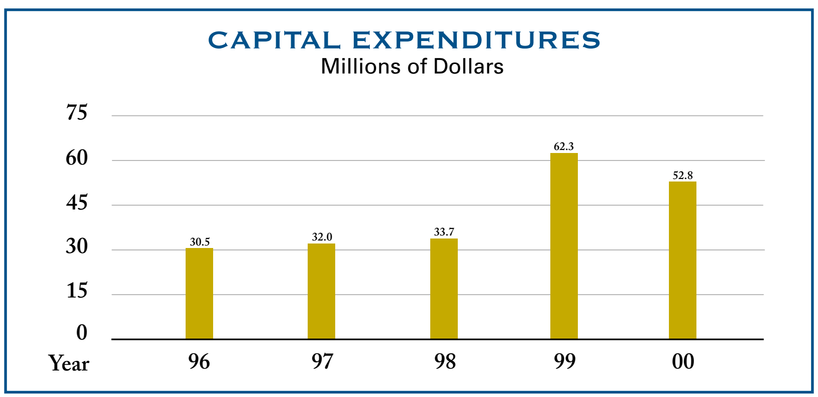
** Includes sales of recall energy to Hydro-Québec effective March 9, 1998.*

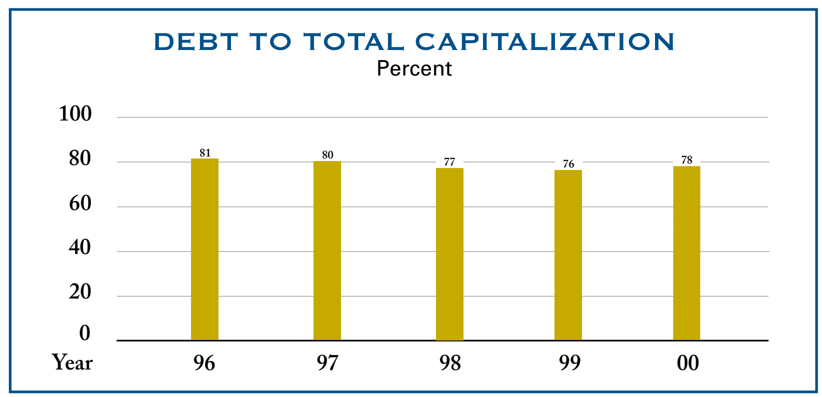
Outlook

At this time there are no increases in electricity rates planned for 2001, except for adjustments arising from the normal operation of the Rate Stabilization Plan. However, Hydro is currently preparing an application to be filed with the Public Utilities Board, by May 31, 2001 for an alteration in rates effective January 1, 2002.

Throughout 2000, the Province of Newfoundland and Labrador and the Province of Québec have continued to examine the viability of hydro developments in Labrador and related projects in Québec.







MANAGEMENT REPORT

The accompanying consolidated financial statements of Newfoundland and Labrador Hydro and all information in the Annual Report are the responsibility of Management and have been approved by the Board of Directors.

The financial statements have been prepared by Management in accordance with accounting principles generally accepted in Canada, applied on a basis consistent with that of the preceding year. The preparation of financial statements necessarily involves the use of estimates based on Management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to February 9, 2001. Financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities. An internal audit department independently evaluates the effectiveness of these internal controls on an ongoing basis, and reports its findings to Management and to the Audit Committee of the Board of Directors.

The responsibility of the external auditors, Ernst & Young LLP, is to express an independent, professional opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditors' Report outlines the scope of their examination and their opinion.

The Board of Directors, through its Audit Committee, is responsible for ensuring that Management fulfills its responsibility for financial reporting and internal controls. The Audit Committee meets regularly with Management, the internal auditors and the external auditors to satisfy itself that each group has properly discharged its respective responsibility and to review the financial statements before recommending approval by the Board of Directors. The internal and external auditors have full and free access to the Audit Committee, with and without the presence of Management.

D. W. Osmond
Vice-President, Finance and Chief Financial Officer

William E. Wells
President and Chief Executive Officer

AUDITORS' REPORT

To the Lieutenant-Governor in Council
Province of Newfoundland

We have audited the consolidated balance sheet of **Newfoundland and Labrador Hydro** as at December 31, 2000 and the consolidated statements of income and retained earnings and cash flows for the year 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 audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Canada. As required by The Hydro Corporation Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

St. John's, Newfoundland
Canada
February 9, 2001

Ernst & Young LLP

Chartered Accountants

CONSOLIDATED BALANCE SHEET

As at December 31 (millions of dollars)	**2000**	1999
ASSETS		
Capital assets (Note 3)		
Capital assets in service	**2,517.7**	2,478.3
Less contributions in aid of construction	**104.8**	105.6
	2,412.9	2,372.7
Less accumulated depreciation	**669.6**	628.6
	1,743.3	1,744.1
Construction in progress	**46.6**	42.2
	1,789.9	1,786.3
Current assets		
Cash and cash equivalents	**0.4**	0.1
Short-term investments	**4.1**	8.1
Accounts receivable	**62.2**	61.6
Current portion of rate stabilization plan	**11.5**	17.0
Fuel and supplies at average cost	**49.0**	49.9
Prepaid expenses	**2.5**	1.1
	129.7	137.8
Long-term receivable (Note 4)	**3.7**	4.2
Sinking funds (Note 10)	**35.4**	28.8
Investments (Note 5)	**9.3**	13.0
Rate stabilization plan	**24.1**	17.5
Deferred charges (Note 7)	**149.5**	153.4
	2,141.6	2,141.0

See accompanying notes

CONSOLIDATED BALANCE SHEET

As at December 31 (millions of dollars)	**2000**	1999
LIABILITIES AND SHAREHOLDER'S EQUITY		
Long-term debt (Note 8)	**1,043.3**	1,226.4
Current liabilities		
Bank indebtedness	**5.3**	4.8
Accounts payable and accrued liabilities	**35.1**	40.0
Accrued interest	**26.7**	27.0
Long-term debt due within one year (Note 8)	**190.9**	37.3
Promissory notes (Note 8)	**120.8**	54.0
	378.8	163.1
Foreign exchange loss provision	**9.0**	8.0
Employee future benefits (Notes 2 and 9)	**27.1**	2.5
Non-controlling interest in LCDC	**14.8**	14.8
Shareholder's equity		
Share capital		
Common shares of par value of $1 each		
Authorized 25,000,000 shares; issued 22,503,942 shares	**22.5**	22.5
Contributed capital (Note 5)		
Lower Churchill Development	**15.4**	15.4
Muskrat Falls Project	**2.2**	2.2
Gull Island Project	**100.0**	100.0
Retained earnings	**528.5**	586.1
	668.6	726.2
Commitments and contingencies (Note 12)	-	-
	2,141.6	2,141.0

See accompanying notes

On behalf of the Board:

Director

Director

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended December 31 (millions of dollars)	**2000**	1999
Revenue		
Energy sales	**357.0**	384.4
Recovery of costs in rate stabilization plan	**13.9**	15.4
Guaranteed winter availability	**4.6**	3.6
Rentals and royalties	**0.3**	0.4
Other	**3.9**	2.4
	379.7	406.2
Expenses		
Operations and administration	**119.4**	112.3
Fuels	**42.5**	35.1
Amortization of costs in rate stabilization plan	**13.9**	15.4
Power purchased	**15.8**	13.1
Depreciation	**47.7**	51.3
Interest (Note 11)	**105.5**	107.6
	344.8	334.8
Income from operations	**34.9**	71.4
Write-down of capital assets (Note 3)	**-**	16.7
Income before non-controlling interest	**34.9**	54.7
Non-controlling interest	**-**	3.1
Net income	**34.9**	51.6
Retained earnings, beginning of year	**586.1**	551.5
Less employee future benefits (Note 2)	**22.6**	-
	598.4	603.1
Dividends	**69.9**	17.0
Retained earnings, end of year	**528.5**	586.1

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31 (millions of dollars)	**2000**	1999
Cash provided by (used in)		
Operating activities		
Income before non-controlling interest	**34.9**	54.7
Adjusted for items not involving a cash flow		
Depreciation	**47.7**	51.3
Amortization of deferred charges	**1.7**	1.8
Rate stabilization plan	**(1.1)**	14.2
Write-down of capital assets	**-**	16.7
Other	**3.1**	3.6
	86.3	142.3
Change in non-cash balances related to operations		
Accounts receivable	**0.7**	11.9
Fuel and supplies	**0.9**	(13.0)
Prepaid expenses	**(1.4)**	1.1
Accounts payable and accrued liabilities	**(7.1)**	1.3
Accrued interest	**(0.3)**	(6.4)
Employee future benefits	**2.0**	0.9
Adjustment to deferred foreign exchange	**0.9**	1.0
Adjustment for non-controlling interest	**-**	(0.2)
Long-term receivable	**0.5**	(1.6)
	82.5	137.3
Financing activities		
Long-term debt retired	**(32.4)**	(140.8)
Foreign exchange loss recovered	**6.4**	7.1
Dividends paid by a subsidiary to a non-controlling interest	**-**	(1.3)
Increase (decrease) in promissory notes	**66.8**	(29.1)
Dividends	**(69.9)**	(17.0)
	(29.1)	(181.1)

Year ended December 31 (millions of dollars)	**2000**	1999
Investing activities		
Net additions to capital assets	**(52.8)**	(62.3)
Decrease (increase) in short-term investments	**4.0**	(6.7)
Increase in sinking funds	**(10.7)**	(13.8)
Sinking funds redeemed	**-**	117.6
Decrease in investments	**3.7**	4.8
Additions to deferred charges	**-**	(1.6)
Change in accounts payable related to investing activities	**2.2**	(2.7)
	(53.6)	35.3
Net decrease in cash	**(0.2)**	(8.5)
Cash position, beginning of year	**(4.7)**	3.8
Cash position, end of year	**(4.9)**	(4.7)
Cash position is represented by		
Cash and cash equivalents	**0.4**	0.1
Bank indebtedness	**(5.3)**	(4.8)
	(4.9)	(4.7)

See accompanying notes

Newfoundland and Labrador Hydro ("Hydro") is incorporated under a special act of the Legislature of the Province of Newfoundland (the "Province") as a Crown corporation and its principal activity is the development, generation and sale of electric power. Hydro and its subsidiary and jointly controlled companies, other than Twin Falls Power Corporation Limited, are exempt from paying income taxes under Section 149 (1) (d) of the Income Tax Act.

1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and to conform with recommendations of the Board of Commissioners of Public Utilities of the Province of Newfoundland ("PUB").

Preparation of these consolidated financial statements requires the use of estimates and assumptions that affect the amounts reported and disclosed in these statements and related notes. Any variations between these estimates and actual amounts are not expected to materially affect reported results.

Rates and Regulations (Excluding Sales by Subsidiaries)

The Province enacted legislation in 1996 that changes the manner in which Hydro will be regulated. In future, the rates to be charged to all customers and Hydro's earnings on a rate of return basis, will be fully regulated. As well, Hydro's capital expenditure program is subject to review and approval by the PUB.

Rates charged rural customers do not recover the full costs of providing the service but Hydro recovers the resulting deficit from other customers.

Principles of Consolidation

The consolidated financial statements include the financial statements of Hydro and its subsidiary companies, Gull Island Power Company Limited ("GIPCo"), (100% owned) and Lower Churchill Development Corporation Limited ("LCDC"), (51% owned).

Effective June 18, 1999, Hydro, Churchill Falls (Labrador) Corporation Limited ("CF(L)Co") and Hydro-Québec entered into a shareholders' agreement which provided, among other matters, that certain of the strategic operating, financing and investing policies of CF(L)Co be subject to approval jointly by representatives of Hydro and Hydro-Québec. Although Hydro retains its 65.8% ownership interest, the agreement changed the nature of the relationship between Hydro and Hydro-Québec, with respect to CF(L)Co, from that of majority and minority shareholders, respectively, to that of joint venturers. Accordingly, Hydro has adopted the proportionate consolidation method of accounting for its interest in CF(L)Co subsequent to the effective date of the shareholders' agreement (the investment is fully consolidated for periods prior to the effective date).

CF(L)Co is incorporated under the laws of Canada and has completed and commissioned a hydroelectric generating plant and related transmission facilities situated in Labrador which has a rated capacity of 5,428,000 kilowatts ("CF(L)Co Project"). A power contract with Hydro-Québec, dated May 12, 1969 ("Power Contract") provides for the sale of substantially all the energy from the CF(L)Co Project until 2041. CF(L)Co receives certain benefits from Hydro-Québec, including significant revenues, under a guaranteed winter availability contract through 2041.

The cost of Hydro's investment in CF(L)Co exceeded the equity in the book value of the net assets acquired by $77.1 million. This amount is assigned to capital assets and is being amortized on a straight-line basis at the rate of 1.5% per annum. As at December 31, 2000, $30.1 million (1999 - $28.9 million) had been amortized.

Under the terms and conditions of the Churchill Falls (Labrador) Corporation (Lease) Act, 1961, CF(L)Co must pay rentals and royalties to the Province annually.

A portion of Hydro's shareholding in CF(L)Co is deposited in a voting trust pursuant to an agreement with Hydro-Québec.

GIPCo is incorporated under the laws of Canada. Its objective was to develop the hydroelectric potential at Gull Island on the Lower Churchill River in Labrador, and construct a direct current transmission system from Labrador to the island of Newfoundland (the "Gull Island Project"), (see Note 5).

LCDC is incorporated under the laws of Newfoundland and was established with the objective of developing all or part of the hydroelectric potential of the Lower Churchill River (the "Lower Churchill Development"), (see Note 5).

Cash Equivalents and Short-Term Investments

Cash equivalents and short-term investments consist primarily of Canadian treasury bills and banker's acceptances bearing interest rates of 5.82% to 6.21% per annum (1999 - 4.60% to 5.10%). Those with original maturities at date of purchase of three months or less are classified as cash equivalents whereas those with original maturities beyond three months and less than twelve months are classified as short-term investments. Both are stated at cost, which approximates market value.

Capital Assets and Depreciation

Expenditures for additions, improvements and renewals are capitalized and normal expenditures for maintenance and repairs are charged to operations.

Hydro, GIPCo and LCDC

Construction in progress includes the costs incurred in preliminary feasibility studies, engineering and construction of new generation, transmission and distribution facilities. Interest is charged to construction in progress at rates equivalent to the weighted average cost of funds borrowed.

Hydro has made no provision in its accounts to date for future removal and site restoration costs. The inclusion of these costs in the rate base is subject to the rate setting process.

Contributions in aid of construction are funds received from customers and governments toward the cost of capital assets. Contributions are treated as a reduction to capital assets and the net capital assets are depreciated.

Depreciation is calculated on hydroelectric generating plant and on transmission plant in service on the sinking fund method using interest factors ranging from 5.25% to 15.79%. Depreciation on other plant in service is calculated on the straight-line method. These methods are designed to fully amortize the cost of the facilities, after deducting contributions in aid of construction, over their estimated service lives.

Estimated service lives of the major assets are as follows:

Generation Plant	
Hydroelectric	50, 75 and 100 years
Thermal	25 and 30 years
Diesel	20 years
Transmission	
Lines	40 and 50 years
Switching stations	40 years
Distribution System	30 years
Other	3 to 50 years

CF(L)Co

CF(L)Co uses the group depreciation method for certain capital assets other than the generation plant, transmission and terminals and service facilities.

Depreciation is provided on a straight-line basis over the following estimated useful lives:

Generation Plant	
Hydroelectric	67 years
Transmission and Terminals	67 years
Service facilities	67 years
Other	5 to 100 years

1. Summary of Significant Accounting Policies (Cont'd)

Capital Assets and Depreciation (Cont'd)

CF(L)Co (Cont'd)

CF(L)Co has made no provision in its accounts for future removal and site restoration costs as they cannot be estimated at this time.

Losses on other than normal retirements are charged to operations in the year incurred as adjustments to depreciation expense.

Debt Discount and Financing Expenses

These costs are amortized on a straight-line basis over the lives of the respective debt issues.

Rate Stabilization Plan

On January 1, 1986, Hydro, having received the concurrence of the PUB, implemented a rate stabilization plan which primarily provides for the deferral of cost variances resulting from changes in fuel prices, levels of precipitation and load. The balance in the plan is amortized over a three year period. Adjustments required in retail rates to cover the amortization of the balance in the plan do not require a reference to the PUB and are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

Promissory Notes

Promissory Notes bear interest from 5.70% to 5.99% per annum (1999 - 4.90% to 5.40%) with carrying value approximating fair value due to their short-term nature.

Revenue Recognition

Revenue is recorded on the basis of power deliveries made.

Deferred revenue represents amounts billed under the Power Contract in excess of energy delivered. Amounts related to energy delivered in excess of the base amount, as defined by the Power Contract, are recorded as receivables. Differences between amounts related to energy delivered and the base amounts are determined annually and are subject to interest at 7% per annum (1999 - 7%).

Foreign Currency Translation

Foreign currency transactions are translated into their Canadian dollar equivalent as follows:

(a) At the transaction date, each asset, liability, revenue or expense is translated using exchange rates in effect at that date.

(b) At each balance sheet date monetary assets and liabilities are translated using exchange rates in effect at that date.

(i) In the case of Hydro, foreign exchange losses related to long-term debt, including current portion, are subject to the rate setting process. The PUB has accepted the inclusion by Hydro of realized foreign exchange losses in rates charged to customers. Any such loss, net of any gain, not recovered due to the operation of the rate setting process is deferred to the time of the next rate hearing for inclusion in the new rates to be set at that time. Commencing in 1992, the PUB required Hydro to provide a $1.0 million annual provision for a foreign exchange loss on its Swiss Franc denominated debt. This provision is included in interest expense.

(ii) Under the provisions of the Power Contract CF(L)Co's exposure for a foreign exchange loss is limited. CF(L)Co recovers a portion of the difference between actual foreign exchange rates prevailing at the settlement dates of its First Mortgage Bonds and a Weighted Average Exchange Rate as defined in the Power Contract. The recoverable portion of the unrealized foreign exchange loss is deferred until the settlement dates. The foreign exchange loss not recoverable under the Power Contract is being amortized to operations on a straight line basis over the remaining life of the debt.

Financial Instruments

Hydro enters into interest rate swap agreements to manage interest rate risk. Net receipts or payments under the swap agreements are recorded as adjustments to interest expense.

2. Accounting Change

Employee Future Benefits

Effective January 1, 2000, Hydro implemented accrual accounting for employee future benefits, whereby the expected cost of providing these benefits is recognized as employees render service, as required by new recommendations of the Canadian Institute of Chartered Accountants. Previously, these costs were charged to operations as benefits were incurred, with the exception of retiring allowances which were accrued as employees became eligible to retire (1999 - $2.5 million). The cost of employee future benefits has been actuarially determined for accounting purposes based on assumptions that reflect management's best estimates of the effect of future events on the actuarial present value of the accrued benefits. This change has been applied retroactively, without restatement of prior years. Accordingly, the impact on the 2000 financial statements is a reduction in opening retained earnings of $22.6 million, and a decrease in net income of $2.0 million.

3. Capital Assets

	Capital Assets in Service	Contributions In aid of Construction	Accumulated Depreciation	Construction In Progress
millions of dollars		**2000**		
Generation Plant				
Hydroelectric	**1,239.2**	**20.5**	**234.5**	**3.2**
Thermal	**223.1**	**-**	**166.8**	**1.5**
Diesel	**53.6**	**8.5**	**19.8**	**1.9**
Transmission and Distribution	**646.4**	**56.8**	**130.4**	**2.6**
Service facilities	**22.3**	**-**	**8.9**	**-**
Project costs (Note 5)	**96.7**	**-**	**-**	**-**
Capital studies (Note 5)	**24.9**	**-**	**-**	**-**
Other	**211.5**	**19.0**	**109.2**	**37.4**
	2,517.7	**104.8**	**669.6**	**46.6**

	Capital Assets in Service	Contributions In aid of Construction	Accumulated Depreciation	Construction In Progress
millions of dollars		**1999**		
Generation Plant				
Hydroelectric	1,238.4	20.5	223.9	0.8
Thermal	222.4	-	157.5	0.2
Diesel	53.1	10.2	17.9	1.0
Transmission and Distribution	616.1	56.6	119.5	12.3
Service facilities	22.3	-	8.6	-
Project costs (Note 5)	96.9	-	-	-
Capital studies (Note 5)	24.9	-	-	-
Other	204.2	18.3	101.2	27.9
	2,478.3	105.6	628.6	42.2

Included in the above amounts are CF(L)Co assets in service amounting to $623.2 million (1999 - $621.6 million) which are pledged as collateral for long-term debt.

The write-down of capital assets of $16.7 million in 1999 is related to the abandonment and decommissioning of a 5,000kW wood chip fired thermal generating station in Roddickton.

4. Long-Term Receivable

The long-term receivable from Hydro-Québec bears interest at 7% per annum and is receivable over a four year period which commenced in September 2000. The current portion of $1.1 million (1999 - nil) is included in accounts receivable.

5. Investments

millions of dollars	2000	1999
Lower Churchill Option	**5.2**	5.2
Government of Canada Coupons, at cost (market value $4.1; 1999 - $7.7)	**4.1**	7.8
	9.3	13.0

LCDC was incorporated in 1978 pursuant to the provisions of an agreement (the "Principal Agreement"), between the Province and the Government of Canada. The Province and the Government of Canada own equity interests of 51% and 49% of LCDC, respectively. The Principal Agreement provides that future issues of Class A common shares shall preserve, as nearly as possible, this ratio of beneficial ownership. Hydro is the designate for the Province's shareholding in LCDC.

Upon agreement to continue with the Lower Churchill Development, GIPCo's assets and the hydroelectric development rights to the Lower Churchill River, (the "Water Rights"), will be acquired by LCDC pursuant to the provisions of an agreement between LCDC and the Province, (the "Option Agreement"). The purchase price in respect of GIPCo's assets will be a maximum of $100.0 million less $5.2 million representing the value assigned to 520 Class A common shares of LCDC issued pursuant to the signing of the Option Agreement. As consideration for GIPCo's assets, LCDC will issue a 10% Convertible Demand Debenture in the amount of $94.8 million. LCDC will issue 3,000 Class B common shares, without nominal or par value, to the Province in consideration of the Water Rights and the Province will transfer such shares to Hydro. The parties have agreed that the value of each Class B common share is $10,000. The Option Agreement expires November 24, 2001 and it is not anticipated that there will be any loss upon sale of GIPCo's assets to LCDC.

Hydro holds 1,540 Class A common shares of LCDC which have a stated value of $10,000 each. 520 shares were acquired in 1979 pursuant to signing of the Option Agreement and 510 shares were acquired in each of the years 1980 and 1981, by way of capital contributions from the Province.

6. Joint Venture

The following amounts included in the consolidated financial statements represent Hydro's proportionate share of CF(L)Co's assets and liabilities at December 31, 2000, and its proportionate interest in CF(L)Co's operations for the year ended December 31, 2000. The investment was fully consolidated prior to June 18, 1999 (Note 1).

millions of dollars	2000	1999
Current assets	**31.5**	31.6
Long-term assets	**412.8**	423.8
Current liabilities	**36.9**	34.2
Long-term liabilities	**173.2**	195.6
Revenues	**68.4**	30.3
Expenses	**46.7**	22.1
Net income	**21.7**	8.2
Cash provided by (used in)		
Operating activities	**28.0**	14.7
Financing activities	**(24.5)**	(9.5)
Investing activities	**1.1**	2.1

7. Deferred Charges

millions of dollars	2000	1999
Unamortized debt discount, financing expenses and other	**13.5**	15.2
Foreign exchange losses		
Hydro - Realized	**96.3**	96.3
CF(L)Co		
Recoverable under the Power Contract	**41.1**	41.4
Unrecoverable portion to be amortized	**5.7**	6.2
	143.1	143.9
Less current portion recoverable included in current assets	**7.1**	5.7
	136.0	138.2
	149.5	153.4

8. Long-Term Debt

	Hydro	CF(L)Co	Total	Hydro	CF(L)Co	Total
millions of dollars		**2000**			1999	
Summary of long-term debt						
Long-term debt	**1,033.1**	**201.1**	**1,234.2**	1,042.9	220.8	1,263.7
Less payments due within one year	**162.9**	**28.0**	**190.9**	12.1	25.2	37.3
	870.2	**173.1**	**1,043.3**	1,030.8	195.6	1,226.4

Required repayments of long-term debt and sinking fund requirements over the next five years will be as follows:

millions of dollars	2001	2002	2003	2004	2005
	190.9	143.0	45.4	28.7	27.2

The payments due within one year include sinking fund requirements of $5.8 million (1999 - $5.8 million).

Details of long-term debt are as follows:

Hydro

Series	Interest Rate %	Year of Issue	Year of Maturity	2000	1999	
millions of dollars				**2000**	1999	
W	10.75	1991	2001	**150.0**	150.0	
Z	5.25	1997	2002	**100.0**	100.0	
AA	5.50	1998	2008	**200.0**	200.0	
V	10.50	1989	2014	**125.0**	125.0	(a)
X	10.25	1992	2017	**150.0**	150.0	(a)
Y	8.40	1996	2026	**300.0**	300.0	(a)
Total debentures				**1,025.0**	1,025.0	
Less sinking fund investments in own debentures				**33.7**	29.7	
				991.3	995.3	
Government of Canada loans at 5.25% to 7.91% maturing in 2006 to 2014				**36.5**	41.6	
Other				**5.3**	6.0	
				1,033.1	1,042.9	
Less payments due within one year				**162.9**	12.1	
				870.2	1,030.8	

(a) Sinking funds have been established for these issues.

8. Long-Term Debt (Cont'd)

Hydro (Cont'd)

Promissory notes, debentures and long-term loans are unsecured and unconditionally guaranteed as to principal and interest and where applicable, sinking fund payments, by the Province. The Province charges Hydro a guarantee fee of one percent annually on the total debt (net of sinking funds) guaranteed by the Province, outstanding as of the preceding December 31.

CF(L)Co

millions of dollars	2000	1999
First Mortgage Bonds		
7.750% Series A due December 15, 2007 (U.S. $98.8; 1999 - U.S. $114.5)	**148.1**	165.3
7.875% Series B due December 15, 2007	**10.0**	11.6
General Mortgage Bonds		
7.500% due December 15, 2010	**43.0**	43.9
	201.1	220.8
Less payments due within one year	**28.0**	25.2
	173.1	195.6

The First Mortgage Bonds, Series A and B, are repayable in fixed semi-annual and in contingent annual sinking fund instalments. There has been no contingent repayments in the last five years.

The Deed of Trust and Mortgage securing the General Mortgage Bonds provides for semi-annual sinking fund payments and a balloon payment at maturity. Each semi-annual payment is equal to 1% of the aggregate principal amount outstanding on January 1, preceding each payment date. The General Mortgage Bonds are subordinate to the First Mortgage Bonds.

Due to the contingent nature of the amounts of certain of the sinking fund instalments, it is not possible to be precise concerning long-term debt repayments over the next five years; however fixed sinking fund payments are estimated to average $26.0 million in each of the years 2001 to 2005 inclusive.

Under the terms of long-term debt instruments, CF(L)Co may pay cash dividends only out of earnings, as defined, accumulated from September 1, 1976. A shareholders' agreement signed in June, 1999 places additional restrictions on dividends, based on cash flow.

9. Employee Future Benefits

Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multiemployer defined benefit plan. The employers' contributions of $3.2 million (1999 - $2.8 million) are expensed as incurred.

Other Benefits

Additionally, Hydro provides group life insurance and healthcare benefits on a cost-shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. Information about these plans is as follows:

millions of dollars	2000
Accrued benefit obligation	
Balance at beginning of year	**25.1**
Current service cost	**0.9**
Interest cost	**1.8**
Benefits paid	**(0.7)**
Balance at end of year	**27.1**
Plan deficit	**27.1**

The significant actuarial assumptions used in measuring the company's accrued benefit obligations include a discount rate of 7.0% and an average rate of compensation increase of 3.5%. In addition, in determining the expected cost of healthcare benefits, it was assumed that healthcare costs will increase by 12.0% in 2000 and decrease gradually to 5.0% in 2007 and remain level thereafter. The net benefit plan expense is as follows:

millions of dollars	**2000**
Current service cost	**0.9**
Interest cost	**1.8**
Net benefit plan expense	**2.7**

10. Financial Instruments

Fair Value

The estimated fair values of financial instruments as at December 31, 2000 and 1999 are based on relevant market prices and information available at the time. The fair value of long-term receivable, long-term debt and the long-term payable is estimated based on the quoted market price for the same or similar debt instruments. The fair value estimates below are not necessarily indicative of the amounts that Hydro might receive or incur in actual market transactions. As a significant number of Hydro's assets and liabilities, including fuels and supplies and capital assets, do not meet the definition of financial instruments, the fair value estimates below do not reflect the fair value of Hydro as a whole.

	Carrying Value	Fair Value	Carrying Value	Fair Value
millions of dollars	**2000**		1999	
Financial Assets				
Sinking funds	**35.4**	**36.9**	28.8	27.3
Long-term receivable including amount due in one year	**4.9**	**5.0**	4.2	4.3
Financial Liabilities				
Long-term debt including amount due in one year	**1,234.2**	**1,416.6**	1,263.7	1,398.9
Interest rate swaps	-	-	-	0.2

Cash and cash equivalents, short-term investments, accounts receivable, bank indebtedness, accounts payable, accrued interest and promissory notes are all short-term in nature and as such, their carrying value approximates fair value. At December 31, 2000 of the total accounts receivable balance outstanding approximately 43.0% (1999 - 41.6%) is due from a regulated utility, and 33.8% (1999 - 30.3%) from Hydro-Québec.

10. Financial Instruments (Cont'd)

Sinking Funds

Sinking fund investments consist of bonds, debentures, promissory notes and coupons issued by, or guaranteed by, the Government of Canada or any province of Canada, and have maturity dates ranging from 2009 to 2028. Hydro debentures which Management intends to hold to maturity are deducted from long-term debt while all other sinking fund investments are shown separately on the balance sheet as assets. Annual contributions to the various sinking funds are as per bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 5.80% to 10.55% (1999 - 5.48% to 10.55%).

Interest Rate Risk

Hydro entered into an interest rate swap agreement with a major Canadian financial institution in order to manage the interest rate exposure associated with its debt. The notional amount of the swap ($100 million) does not represent an amount exchanged between the parties and is not a measure of Hydro's exposure resulting from the use of swaps. Hydro received a fixed rate of 4.62% and paid the three month Canadian Dealers Offered Rate which was fixed quarterly. The agreement expired in March, 2000.

11. Interest Expense

millions of dollars	**2000**	1999	
Gross interest			
Long-term debt	**113.5**	123.5	
Promissory notes	**5.7**	3.6	
	119.2	127.1	
Amortization of debt discount and financing expenses	**1.3**	1.4	
Provision for foreign exchange losses	**1.0**	1.0	
	121.5	129.5	
Less			
Recovered from Hydro-Québec	**13.3**	16.5	(a)
Interest capitalized during construction	**3.7**	2.0	
Interest earned	**9.6**	14.4	
Net interest expense	**94.9**	96.6	
Debt guarantee fee	**10.6**	11.0	
Net interest and guarantee fee	**105.5**	107.6	

(a) Under the terms of the Power Contract, CF(L)Co recovers the difference between interest calculated at the rates prescribed in the Power Contract and interest paid on its long-term debt.

Also, CF(L)Co can request Hydro and Hydro-Québec to make advances against the issue of Subordinated Debt Obligations, to service its debt and to cover expenses if funds are not otherwise available. If such request fails to attract sufficient advances, CF(L)Co can require Hydro-Québec to make additional advances, against the issue of units of Subordinate Debentures and shares of common stock, to service its debt and to cover its expenses that remain unfunded.

12. Commitments and Contingencies

(a) Under the terms of a sublease with Twin Falls, expiring on December 31, 2014, CF(L)Co is required to deliver to Twin Falls, at an agreed price, horsepower equivalent to the installed horsepower of the Twin Falls plant and to maintain Twin Falls' plant and equipment.

(b) Hydro has received claims instituted by various companies and individuals with respect to outages and other miscellaneous matters. The aggregate of these claims, less any amounts that have been provided for in Hydro's financial statements is approximately $0.3 million (1999 - $2.3 million). The final resolution of these matters is currently under negotiation.

Legal proceedings have been commenced against Hydro by one of its customers claiming approximately $22.7 million related to outages and plant shutdowns. Hydro is defending this claim and Management believes that this claim will not be successful.

(c) Outstanding commitments for capital projects total approximately $47.4 million at December 31, 2000 (1999 - $18.8 million). Hydro has commenced development of a hydroelectric generating station at Granite Canal. Total project cost is expected to be approximately $134.5 million, with an anticipated in-service date of June 2003. As at December 31, 2000, $3.1 million had been expended on this project.

13. Comparative Figures

Certain of the 1999 comparative figures have been reclassified to conform with the 2000 financial statement presentation.

FINANCIAL STATISTICS

Year ended December 31 (millions of dollars)	**2000**	1999[1]	1998	1997	1996
OPERATING RESULTS					
Revenue					
Energy sales	**357.0**	384.4	391.8	376.9	364.7
Rentals and royalties	**0.3**	0.4	0.5	0.5	0.5
Recovery of costs in RSP	**13.9**	15.4	10.9	7.2	1.5
Guaranteed Winter Availability	**4.6**	3.6	-	-	-
Other	**3.9**	2.4	1.6	1.2	2.4
	379.7	406.2	404.8	385.8	369.1
Expenses					
Operations and administration	**119.4**	112.3	114.1	106.9	108.7
Amortization of RSP costs	**13.9**	15.4	10.9	7.2	1.5
Fuels and power purchased	**58.3**	48.2	34.0	46.4	43.8
Depreciation	**47.7**	51.3	50.5	48.0	46.8
Interest	**105.5**	107.6	117.8	128.4	134.6
	344.8	334.8	327.3	336.9	335.4
Income From Operations	**34.9**	71.4	77.5	48.9	33.7
Write Down of Capital Assets	-	16.7	-	-	-
Net Income Before Non-controlling Interest	**34.9**	54.7	77.5	48.9	33.7
Non-controlling Interest	-	3.1	7.9	5.5	4.8
Net Income	**34.9**	51.6	69.6	43.4	28.9
Contributions to Net Income					
Hydro Corporate	**17.4**	31.7	51.2	30.9	20.1
CF(L)Co	**17.5**	19.9	18.4	12.5	8.8

FINANCIAL STATISTICS

Year ended December 31 (millions of dollars)	2000	1999[1]	1998	1997	1996
FINANCIAL POSITION					
Total Current Assets	**129.7**	137.8	164.0	146.3	170.7
Total Current Liabilities	**378.8**	163.1	294.4	432.8	324.4
Net Working Capital	**(249.1)**	(25.3)	(130.4)	(286.5)	(153.7)
Capital Assets	**2,459.5**	2,414.9	2,710.0	2,677.5	2,649.8
Accumulated Depreciation	**669.6**	628.6	719.3	669.2	624.0
Capital Assets, Net	**1,789.9**	1,786.3	1,990.7	2,008.3	2,025.8
Sinking Funds	**35.4**	28.8	113.3	144.3	203.1
Other Assets	**186.6**	188.1	255.1	245.9	220.8
Long-Term Debt	**1,043.3**	1,226.4	1,398.5	1,334.0	1,538.7
Other Liabilities	**50.9**	25.3	138.6	139.2	141.0
Shareholder's Equity	**668.6**	726.2	691.6	638.8	616.3

EMPLOYEES AT YEAR END					
Permanent	**1,063**	1,069	1,078	1,097	1,098
Temporary	**219**	207	196	156	155
Total	**1,282**	1,276	1,274	1,253	1,253

[1] *Effective June 18, 1999, Hydro adopted the proportionate consolidation method of accounting for its interest in CF(L)Co (65.8%).*

Years ended December 31	**2000**	1999	1998	1997	1996
INSTALLED GENERATING CAPACITY (rated MW)					
CF(L)Co	**5,428**	5,428	5,428	5,428	5,428
TWINCo	**225**	225	225	225	225
Hydro					
Hydraulic	**899**	899	899	899	899
Thermal	**645**	645	645	645	645
Diesel	**58**	58	58	58	58
Total	**7,255**	7,255	7,255	7,255	7,255
ELECTRIC ENERGY GENERATED, NET (GWh)					
CF(L)Co	**35,108**	34,508	37,543	33,727	28,998
Hydro					
Hydraulic	**5,016**	4,801	4,260	4,628	4,574
Thermal	**966**	914	1,255	1,528	1,409
Diesel	**43**	41	41	41	64
Total	**41,133**	40,264	43,099	39,924	35,045
ELECTRIC ENERGY SALES (GWh)					
CF(L)Co					
Export	**30,268**	29,674	32,793	30,301	25,748
Hydro					
Utility	**4,263**	4,084	4,157	4,306	4,187
Rural	**842**	830	811	815	765
Industrial	**1,607**	1,343	1,286	1,660	1,637
Export	**1,494**	1,731	1,344(1)	-	-
Total	38,474	37,662	40,391	37,082	32,337

OPERATING STATISTICS

Years ended December 31	**2000**	1999	1998	1997	1996
AVERAGE SALES REVENUE (cents per kWh)					
CF(L)Co					
Export	**0.27**	0.27	0.27	0.27	0.29
Hydro					
Utility	**4.49**	4.49	4.49	4.51	4.53
Rural	**5.53**	5.54	5.46	5.45	5.65
Industrial	**2.90**	3.58	3.26	3.24	3.27
Export (as per contract)	**2.22**	2.22	2.22	-	-

TRANSMISSION LINES (kilometres)					
CF(L)Co					
735 kV	**608**	608	608	608	608
230 kV	**431**	431	431	431	431
Hydro					
230 kV	**1,531**	1,531	1,531	1,531	1,531
138 kV	**1,482**	1,482	1,482	1,482	1,482
69 kV	**636**	636	636	636	636
Total	**4,688**	4,688	4,688	4,688	4,688

PEAK DEMAND (MW)					
CF(L)Co System	**5,606**	5,590	5,602	5,584	5,577
Hydro System	**1,240**	1,265	1,295	1,229	1,318

BOARD OF DIRECTORS

Newfoundland and Labrador Hydro

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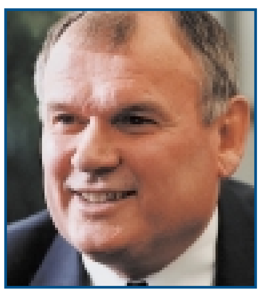
Mines and Energy

Terry Goodyear
Professional Engineer
(Retired)

Trudy Pound-Curtis
Comptroller
Memorial University

Barbara Fong
Executive Vice-President
Instrumar Limited



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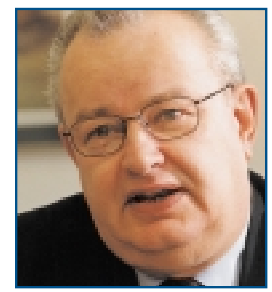
Chief Executive Officer
Vector Aerospace
Corporation

J. Wayne Trask
Chairman and
Chief Executive Officer
Corporate Ventures
Incorporated



William E. Wells
President and
Chief Executive Officer
Newfoundland and
Labrador Hydro

BOARD OF DIRECTORS

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General
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Thierry Vandal
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Atlantic Regional Manager
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Managing Director
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Fishery Products International

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Corporation Limited

Twin Falls Power Corporation Limited

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Twin Falls Power Corporation
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Grant Goddard
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Rural Operations
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David Burpee

T. David Collett

Gull Island Power Company Limited

Dean T. MacDonald

William E. Wells

T. David Collett

David W. Reeves

Derek W. Osmond

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President and
Chief Executive Officer

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Executive Vice-President
Production

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Vice-President, Transmission
and Rural Operations

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Assistant Treasurer

Peter A. Hickman
Assistant Corporate Secretary

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Assistant Treasurer

Peter A. Hickman
Assistant Corporate Secretary

2000 INSTALLED GENERATING CAPACITY

Megawatts (MW)

The Hydro Group

CF(L)Co

Labrador

Interconnected

Hydraulic	
Churchill Falls	5,428

Hydro

Labrador

Interconnected

Thermal (Diesel)	
Happy Valley-Goose Bay	11.7
Mud Lake	0.2

Thermal (Gas Turbine)	
Happy Valley-Goose Bay	27.0

Rural Isolated

Thermal (Diesel)	
16 Sites	20.9

- Black Tickle
- Cartwright
- Charlottetown
- Davis Inlet
- Hopedale
- L'Anse-au-Loup
- Makkovik
- Mary's Harbour
- Nain
- Norman Bay
- Paradise River
- Port Hope Simpson
- Postville
- Rigolet
- St. Lewis
- Williams Harbour

Island

Interconnected

Hydraulic	
Bay D' Espoir	604
Cat Arm	127
Upper Salmon	84
Hinds Lake	75
Paradise River	8
Snooks Arm/Venams Bight	1
Roddickton	0.4

Thermal (Oil)	
Holyrood	490

Thermal (Gas Turbine)	
Hardwoods	54
Stephenville	54
Holyrood	15

Thermal (Diesel)	
Hawke's Bay	5
Roddickton/St. Anthony	9.7

Rural Isolated

Thermal (Diesel)	
9 Sites	7.9

- François
- Grey River
- Harbour Deep
- Little Bay Islands
- McCallum
- Petites
- Ramea
- Rencontre East
- St. Brendan's

2000 Gross Island Interconnected Energy Supply

Gigawatt hours (GWh)

Hydraulic Generation	
Bay D' Espoir	3,123
Cat Arm	838
Upper Salmon	641
Hinds Lake	389
Paradise River	37
Mini Hydro	4
	5,032
Percentage of Total Energy Supply	81%

Hydraulic Power Purchase	161
Percentage of Total Energy Supply	2%

Thermal Generation	
Holyrood	1040
Gas Turbine and Diesel	1
	1041
Percentage of Total Energy Supply	17%

HYDRO
THE POWER OF COMMITMENT

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