Q. Please provide copies of the last five annual reports for NLH?

A. Attached are the annual reports for 1998 to 2002.

CA-59 NLH

HYDRO
THE POWER OF COMMITMENT

empowering
empowering employee commitment to environmental responsibility.

Newfoundland and Labrador Hydro
1998 Annual Report

the mission

of the Newfoundland and Labrador Hydro Group of Companies is to provide electrical ***power & 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.*

contents

Environmental Policy &
Guiding Principles

The Newfoundland and Labrador Hydro Group of Companies will help sustain a rich and healthy environment for present and future Newfoundlanders and Labradorians by maintaining a high standard of environmental responsibility and performance through the implementation of a comprehensive environmental management system.

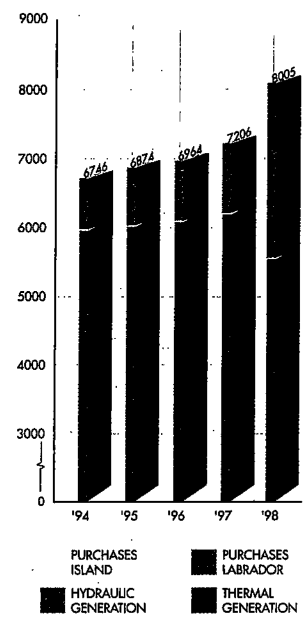
The following guiding principles set out the Hydro Group's environmental responsibility. We will:

1. integrate environmental considerations into decision-making processes at all levels;
2. empower employees to be responsible for the environmental aspects of their jobs and ensure that they have the skills and knowledge necessary to conduct their work in an environmentally responsible manner;
3. use the Province's natural resources in a wise and efficient manner;
4. implement reasonable actions to prevent pollution of air, water, and soil and minimize the impact of any pollution which is accidental or unavoidable;
5. use energy as efficiently as possible during the generation, transmission, and distribution of electricity, and the operation of its facilities, and promote efficient use of electricity by customers;
6. comply with all applicable environmental laws and regulations, and participate in the Canadian Electricity Association's Environment Commitment and Responsibility Program;
7. monitor compliance with environmental laws and regulations, and quantify predicted environmental impacts of selected activities on the environment;
8. audit facilities to assess potential environmental risks and continuously improve environmental performance;
9. maintain a state of preparedness in order to respond quickly and effectively to environmental emergencies;
10. respect the cultural heritage of the people of the Province and strive to minimize the potential impact of Corporate activities on heritage resources;
11. reduce, reuse and recycle waste material whenever feasible; and
12. periodically report to the Board of Directors, Executive Management, employees, government agencies, and the general public which we serve on environmental performance, commitments and activities.

1998 Highlights

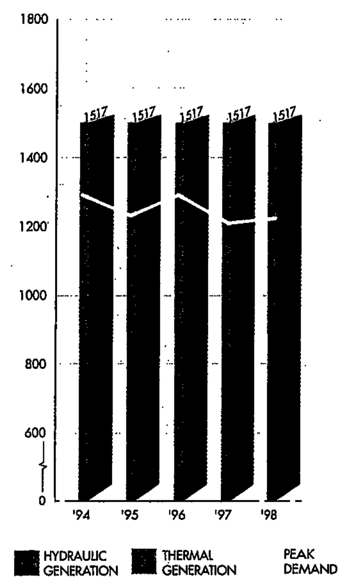
Gross System Generating and Energy Purchases

GIGAWATT HOURS



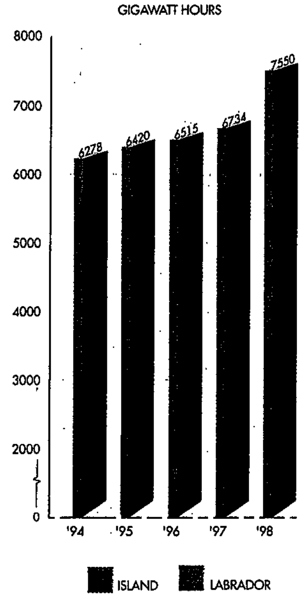
Gross Generation Capacity and Demand

MEGAWATTS



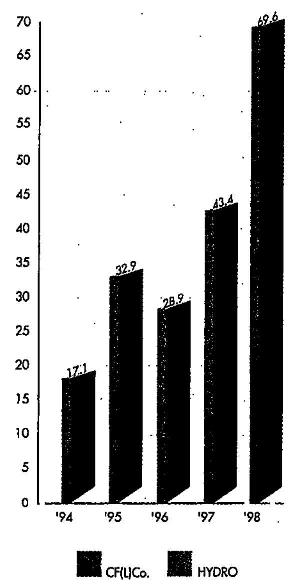
Energy Sales

GIGAWATT HOURS



Consolidated Net Income

MILLIONS OF DOLLARS



president's MESSAGE

ON March 9th, Premiers Tobin and Bouchard announced the Framework Agreement between Newfoundland and Labrador Hydro ("HYDRO") and Hydro-Québec permitting negotiations to proceed on the development of the Churchill River Power Projects. These are massive projects totalling more than $10 billion which will take more than a decade to bring to a commissioning stage. While negotiations continued on a Memorandum of Understanding ("MOU"), during 1998, we have just concluded a very successful field season in Labrador.

1998 may well be remembered as one of the more significant years in the forty-four year history of The Hydro Group.

All of the 1998 scheduled engineering studies and environmental programs were completed. 1998 may well be remembered as one of the more significant years in the forty-four year history of The HYDRO Group.

AGREEMENT between the two utilities enabling HYDRO to recall the remaining 130 MW of power under the Power Contract, for resale to Hydro-Québec at market prices, was also announced on March 9th. The sale is a three year renewable contract which has added approximately $29.9 million to HYDRO's energy sales revenue in 1998, which contributed to a record net income for HYDRO of $69.6 million. The Framework Agreement also included an arrangement for CF(L)Co to sell 682 MW of additional capacity to Hydro-Québec on a seasonal basis from November 1 - March 31, beginning on November 1, 1998 for a term to expire in 2041. Known as the Guaranteed Winter Availability Contract ("GWAC") the total additional revenues over the life of the contract are anticipated to be in the vicinity of $1.5 billion which will substantially ensure the financial viability of CF(L)Co. In anticipation of the signing of the GWAC early in 1999, CF(L)Co has provided the additional capacity since November 1, which should result in the first annual payment of $3.4 million. Payments are to escalate over the term of the Contract.

Norman J. Whalen, Chairman of the Board of Directors (left) and William E. Wells, President and Chief Executive Officer (right).

NEW Environmental Policy and Guiding Principles were announced in July. Our Environmental Management Program includes participation in the Canadian Electricity Association's nation wide Environmental Commitment and Responsibility Program. A first in the province and for HYDRO was the registration of our Holyrood Thermal Generating Station under ISO 14001. The International Standards Organization ("ISO") sets quality standards worldwide and Canada has accepted these standards to achieve and measure environmental performance. The HYDRO Group is committed to sustaining a rich and healthy environment for the present and into the future.

The Hydro Group is committed to sustaining a rich and healthy environment for the present and into the future.

PROJECT 2000 ("P2000") systems implementation proceeded on schedule throughout the year with the installation of new hardware and the implementation of new integrated software modules. The installation of Human Resources, Payroll, Finance, Purchasing and Inventory modules has been completed. Plant Maintenance and Utility Customer Information Systems will be implemented during the first half of 1999. P2000 is one of the more comprehensive projects undertaken at HYDRO and it will significantly alter the way in which employees approach and perform their work in future. We will also begin to see the significant impact that enabling technology will have on our organizational structures and change in business processes over the next two years. A Co-ordinating Committee, under the direction of Executive Management was also implemented to oversee the HYDRO Group Y2K program to ensure that all of our electrical operating systems and financial systems will be Y2K compliant. The P2000 Program, which began in 1996, was an essential first step in our Y2K Program. To date we are on schedule and have inventoried components, completed testing and completed any necessary repairs with a contingency plan to be in place by June 1999.

OUR financial performance continues to be strong in part due to our successful financial management program. HYDRO has operated without a general rate increase since 1992 and, allowing for the impact of the Rate Stabilization Plan, rate increases over the past seven years have been significantly below the Canadian average and the increase in the Consumer Price Index.

HIGHLIGHTS of other activities and events during the year are dealt with in the remainder of this Annual Report.

Our financial performance continues to be strong in part due to our successful financial management program.

I would like to mark the passing on July 22, 1998 of Board member and a great Labradorian in the person of Harry W. Baikie, an employee of HYDRO for 19 years and a member of HYDRO's Board of Directors for 6 years. Harry was an outstanding citizen and gained the respect and admiration of friends, colleagues and his fellow citizens.

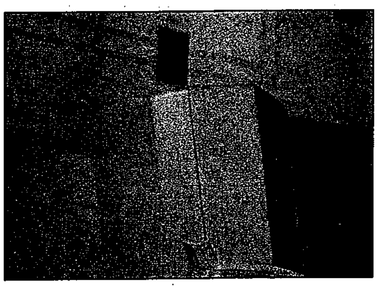
IN recognition of the contribution of all employees within the HYDRO Group to our successful performance, and on behalf of the Board and Senior Management, I express my gratitude to them for their continuing dedication and commitment.

WILLIAM E. WELLS
President and
Chief Executive Officer

Senior Projects Engineer Bob Jerrett (left) and Jerry Lyver (right), Stores Supervisor in Bishop's Falls following the removal of PCB material.

energy PRODUCTION

THE gross energy production from the Island interconnected generating plants was 5,624 GWh, down 10.4% from 1997.



THE major reason for this decline was a prolonged shutdown for two of our industrial customers. Hydraulic generation provided 4,278 GWh, three quarters of the energy production and thermal generation the remaining 1,345 GWh. Surplus energy was also purchased from the industrial customers whose own hydro plants were dormant during their shutdown.

Beginning in October, two new independently-owned hydro electric plants came into production supplying 29.2 GWh, the first energy purchased under their long term contracts.

Beginning in October, two new independently-owned hydro electric plants came into production supplying 29.2 GWh, the first energy purchased under their long term contracts with HYDRO.

THE gross energy production on our isolated systems declined to 45.1 GWh, a reduction of 2.0% from 1997. This was mainly due to a full years' supply of energy being purchased from Hydro-Québec's Lac Robertson hydro plant for the communities in the Labrador Straits area. Additionally, the small independent hydro plant in Mary's Harbour supplemented our diesel plant production in that community. These purchases represent a 17.7% increase over the previous year.

THE CF(L)Co. massive hydro electric plant in central Labrador recorded an 11.1% increase in gross production this year producing 37,651 GWh of power. 1998 was the third consecutive year of above average precipitation and the higher water inflows produced the highest production from the plant since 1984.

Photo above: T. David Collett, Executive Vice-President, Production.

energy SALES

THE Island interconnected system recorded a decline in energy sales of 7.6% from 1997 to 5,480 GWh. As mentioned earlier, this was primarily due to the four month shutdown for two of our industrial customers, which resulted in a 23.8% decrease in industrial sales to 988 GWh.

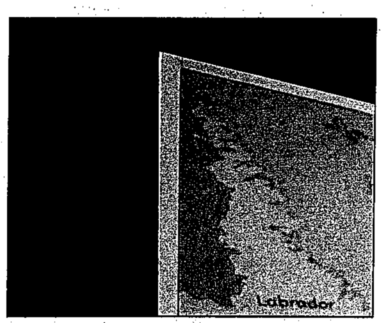
Churchill Falls (Labrador) Corporation exported 32,793 GWh to Hydro-Québec, an increase of 8.2% over 1997.

Sales however to our rural customers increased by 2.0% in 1998 to 335.1 GWh. Our sales to our utility customer, Newfoundland Power also declined this year, to 4,157 GWh, a decrease of 3.5% over last year.

SALES on the Labrador interconnected system were down 9.6% over 1997 to 725.5 GWh. Industrial customers accounted for the largest portion of this decline, their sales declined 17.9%. Also contributing to the overall reduction was a 2.8% decrease in sales to rural customers to 427.0 GWh and a 3.6% decrease in secondary sales to 107.4 GWh. Sales to the isolated rural customers were 49.1 GWh, an increase of 3.4% from last year.

For the very first time HYDRO exported 1,249 GWh to Hydro-Québec, this significant change resulted from the sale of recall power by HYDRO to Hydro-Québec under the arrangement made on March 9, 1998 by Newfoundland and Labrador Premier Brian Tobin and Québec Premier Lucian Bouchard.

CHURCHILL Falls (Labrador) Corporation exported 32,793 GWh to Hydro-Québec, an increase of 8.2% over 1997. Sales to Twin Falls Power Corporation were 1,903 GWh, down slightly from the 1,904 GWh sold in 1997. However, sales to HYDRO increased dramatically to 2,182 GWh, an increase of 1,256 GWh from 1997.



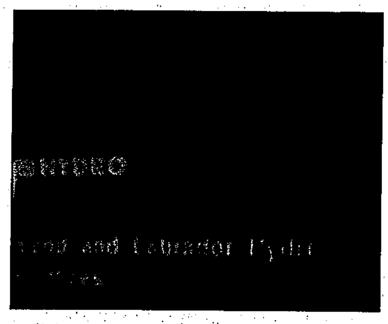



Photo above: James L. Thistle, Vice-President and Chief Negotiator, Labrador Hydro Project.

CF(L)Co's Don Cull and Hydro-Québec's Pierre LePage at the Logan Communications Site, testing the new troposcatter microwave system.

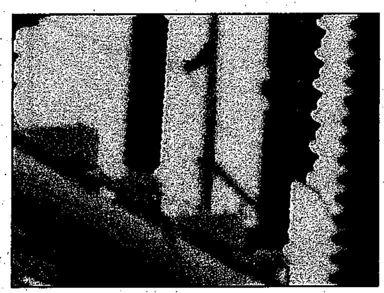
Tom Sheppard (center) of Hydro's Happy Valley/ Goose Bay office reviews the interconnection drawing with Mud Lake residents Reg Kirby and Susan Felsberg.

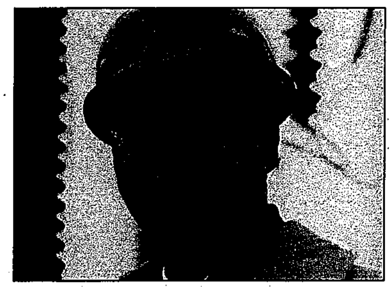
mud LAKE

THE picturesque community of Mud Lake, Labrador is situated on a tributary of the Churchill River southwest of Happy Valley/Goose Bay.

Previously supplied by diesel generated electricity, 35 customers were connected to the Labrador main transmission line system late this year.

Previously supplied by diesel generated electricity, 35 customers were connected to the Labrador main transmission line system late this year. A distribution line was built from Happy Valley/Goose Bay and a submarine cable installed across the Churchill River to the community. The project followed an assessment of the community's electrical requirements which determined the cost effectiveness of this connection from Happy Valley/Goose Bay.





avalon/CONNAIGRE PENINSULAS

A five year plan to upgrade the Avalon Peninsula transmission line system to increase reliability began with survey work in 1997.

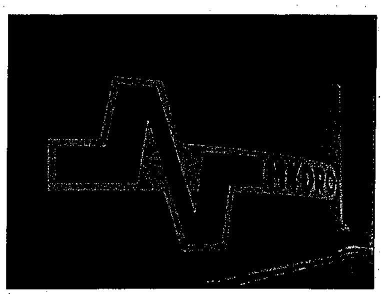
The start of the upgrading to the Avalon Peninsula transmission line systems was delayed somewhat by a shortage of tower steel. The sleet storm last winter that damaged electrical systems in Central and Eastern Canada created an unusual demand on manufacturers. Consequently there was a delay of approximately six months in acquiring the necessary tower steel for this project. The revised schedule will see work start in early March of 1999 with the commencement of the upgrading of TL 217, the 230 kV transmission line from Chapel Arm to Holyrood.

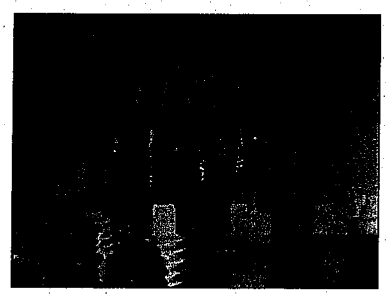
Photo above: David W. Reeves, Vice-President, Transmission and Rural Operations.

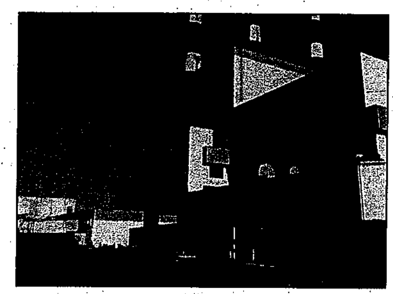
avalon/CONNAIGRE PENINSULAS cont'd

The addition of new structures and stronger hardware along with positioning the transmission line closer to the highway will reduce future interruptions in service to our customers.

THE upgrading and rerouting of the transmission line serving the Connaigre Peninsula was completed this year. The 69 kV line has been subject to several severe ice storms since its construction in the late 1960's. Additionally, the rugged terrain in the area made travelling particularly arduous and time consuming. The addition of new structures and stronger hardware along with positioning the transmission line closer to the highway will reduce future interruptions in service to our customers.







ramea DIESEL PLANT

THIS year saw the completion of a two year program to refurbish the Ramea diesel plant. The project involved replacing the aging diesel engines and their associated controls with new, more efficient diesel engines and automatic controls.

Along with providing more reliable service to our customers, the new installation will see a significant reduction in emissions. The Ramea diesel plant is the largest isolated plant in our system and this $3.3 million investment will ensure the needs of this South Coast community well into the future.

Minnie Organ from the town of Ramea and Hydro's Joe Organ in the renovated Ramea diesel plant.

Gerald Hart, Hydro's meter reader (left) in Fogo explains the new handheld meter to customer Margaret Oake.

customer SERVICE

A Toll free service for customer account enquiries was introduced this year following the establishment of a new communications centre of customer service representatives.

Hydro customers regardless of their location will use the same toll free number which will be available on a 24 hour basis to report service interruptions.

In 1999 we will be activating an additional toll free service for customer service interruptions in all our service areas in the province. HYDRO customers regardless of their location will use the same toll free number which will be available on a 24 hour basis to report service interruptions.

Notification of these new services will be made to our customers with their monthly billing and newsletters. Additionally with the new service in 1999, will be the implementation of a new Utility Customer Information System, which will allow us to better respond to our customer enquiries.

interest EXPENSE

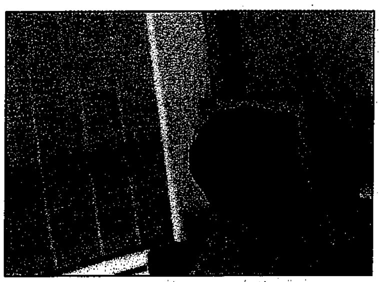
THE low interest rates in Canada continue to provide opportunities to reduce the interest expense on our long-term debt at HYDRO.

In 1998 we exercised the call options on three high coupon bond issues totalling $105 million par value and had another $100 million bond issue reach maturity. The interest rate on these four bond issues ranged between 10.00% to 10.25%. A single 10 year bond issue of $200 million with a 5.50% rate replaced these four issues. The resultant savings for 1998 was $8.1 million over 1997. This active management of our debt portfolio will continue to maximize any similar conditions that materialize in the future.

Photo above: Derek W. Osmond, Vice-President, Finance and Chief Financial Officer.

environmental

THE HYDRO Group developed a new Environmental Management System and has adopted an Environmental Policy with a set of 12 Guiding Principals which are featured at the beginning of this Annual Report. The Environmental Policy is consistent with ISO 14001 and as reported earlier in this report, our Holyrood Thermal Generating Station has now been registered as compliant with this internationally recognized standard.



Coincident with this effort is the involvement of most Canadian utilities, including HYDRO and CF(L)Co, in an Environmental Commitment and Responsibility Program through the Canadian Electrical Association.

1998 marked the first year of annually reporting our environmental performance to this Program, which is independently audited and reviewed by a Board of Directors, comprised of leading Canadian authorities.

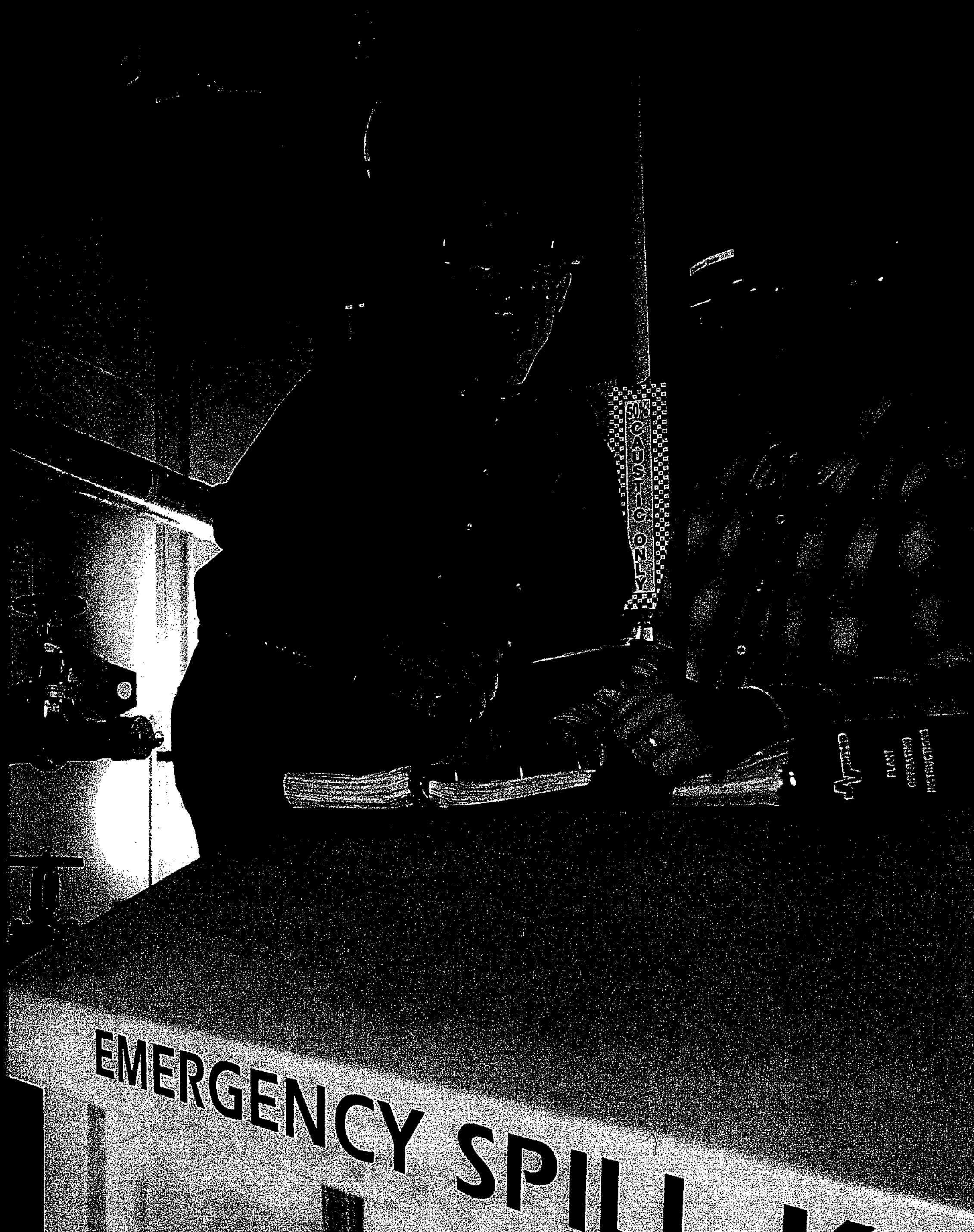
pcb's

Polychlorinatedbiphenyls (PCB's) were used as an insulating fluid in electrical equipment for many years prior to their identification as a toxic substance under certain conditions. A program was developed to test for PCB's and remove all significant PCB equipment from service.

A program was developed to test for PCB's and remove all significant PCB equipment from service.

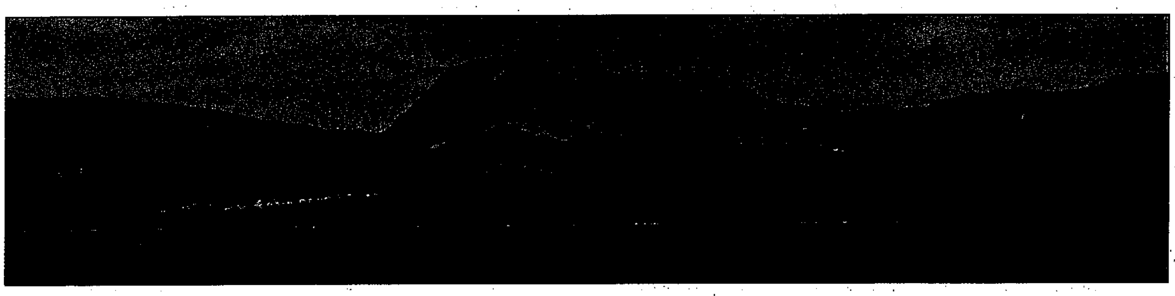
These were stored in government-approved facilities at four company-owned locations. With the change in federal and provincial legislation to allow interprovincial shipment, PCB material was shipped outside the province providing for either decontamination or destruction. Two of our four facilities were retained in service in the event further PCB equipment is identified in the future.

Photo above: Maureen P. Greene, Vice-President, Human Resources, General Counsel and Corporate Secretary.



Holyrood's Environmental and Performance Engineer Michael Taylor (right) with QMI EMS auditor Peter Johnson.

in THE FUTURE

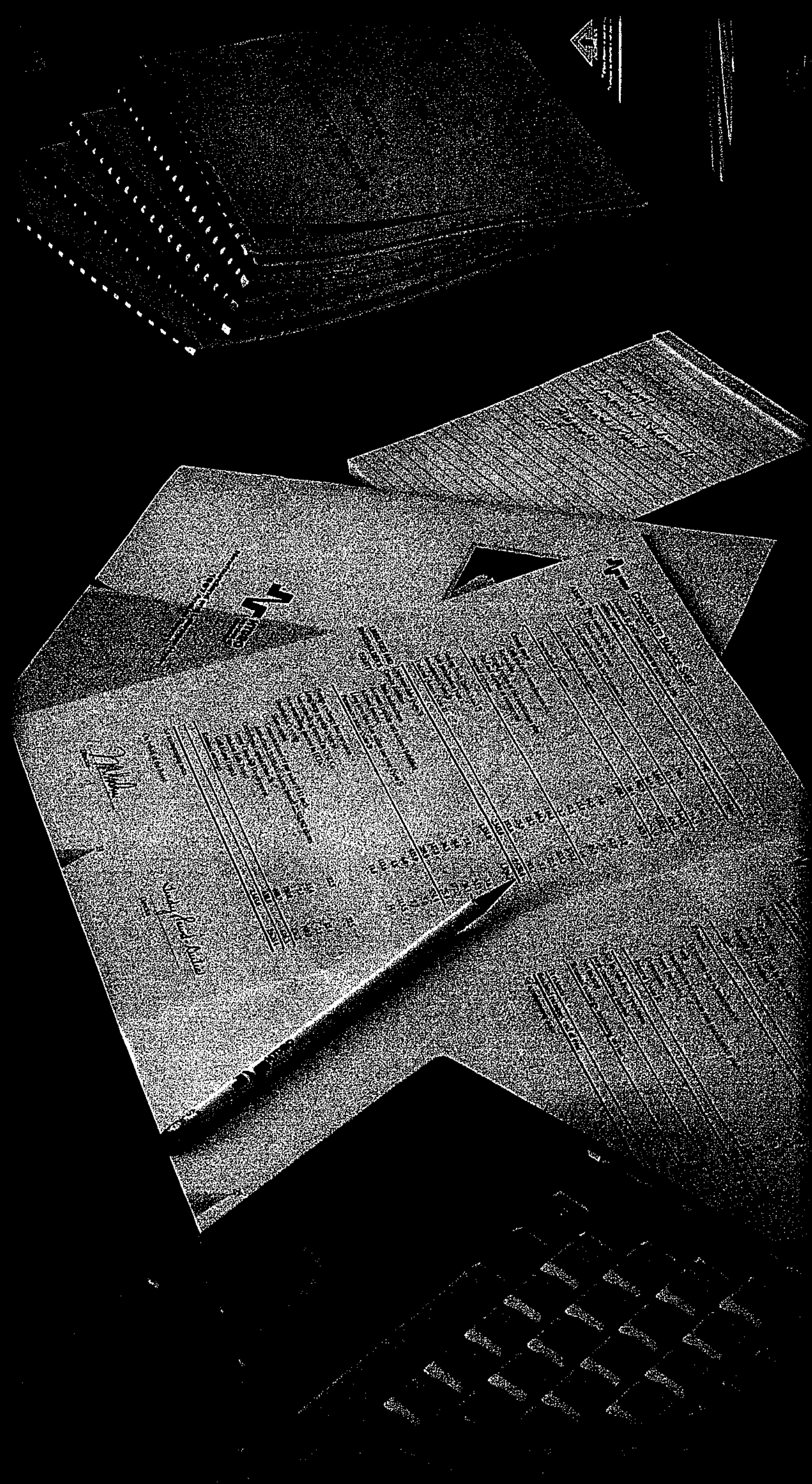


WE look forward to 1999 and the challenges and opportunities we will encounter in fulfilling our mission.

Project 2000 systems implementation will be completed in 1999 and we will begin to fully appreciate the benefits of this integrated suite of applications.

THE negotiations on the Churchill River Power Project will continue next year and the signing of the Memorandum of Understanding will mark an important milestone for this complex undertaking. Project 2000 systems implementation will be completed in 1999 and we will begin to fully appreciate the benefits of this integrated suite of applications. Additionally, we will continue to improve our environmental performance into the future as a provider of clean, safe and reliable electricity. The start of construction to increase the reliability of our transmission line system on the Avalon Peninsula is a major project which will span five years. Finally, our current financial indicators forecast another successful year ahead, however we will continue to be vigilant and cognisant that our customers and stakeholders expect prudent management of our resources.

1998 Financial Section



contents

HYDRO

financial REVIEW AND ANALYSIS

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.

1998 Financial Performance Compared to Previous Year

millions of dollars	1998	1997
Total revenue	404.8	385.8
Total expenses	327.3	336.9
Net income	69.6	43.4
Dividends	16.8	20.9
Retained earnings	551.5	498.7

Results of Operations

REVENUE

TOTAL revenue for 1998 was $404.8 million, an increase of $19.0 million from 1997. Energy sales revenue for 1998 was $391.8 million, an increase of 4.0% or $14.9 million from 1997. The most significant reason for the variance in energy sales revenue is due to a three year agreement which became effective as of March 9, 1998 between HYDRO and Hydro-Québec whereby HYDRO has recalled the remaining power available to it from CF(L)Co and in turn, sold it to Hydro-Québec. Sales to Hydro-Québec in 1998 were 1,249 GWh which resulted in $29.9 million of additional energy sales revenue. This was partially offset by lower utility energy sales which decreased revenue by $7.1 million and lower industrial energy sales which decreased revenue by $11.8 million. CF(L)Co's energy sales revenue increased by $3.9 million. Recovery of costs included in the Rate Stabilization Plan increased from $7.2 million in 1997 to $10.9 million in 1998. Other revenue increased by $0.4 million.

EXPENSES

TOTAL expenses for 1998 amounted to $327.3 million, a decrease of 2.9% or $9.6 million from 1997. The total cost of fuels and power purchased was $34.0 million in 1998, a decrease of $12.4 million from 1997, primarily due to the decrease in industrial and utility energy sales. Operations and administration expenses were $114.8 million in 1998, an increase of $7.9 million over 1997. This increase was primarily due to an increase in system maintenance expense, as well as a settlement of non-utility generator start-up costs. The amortization of costs in the Rate Stabilization Plan increased from $7.2 million in 1997 to $10.9 million in 1998. Depreciation expense was $49.8 million in 1998, an increase of $1.8 million over 1997 as a result of normal additions to fixed assets in service. Total interest expense, which includes a debt guarantee fee, was $117.8 million in 1998, a reduction of $10.6 million from 1997 primarily due to lower interest rates, the exercise of call options on high coupon bonds and lower balances.

HYDRO

financial REVIEW AND ANALYSIS

Results of Operations (cont'd)

NET INCOME

NET income for 1998 amounted to $69.6 million compared with $43.4 million for 1997. The primary causes of the increase of $26.2 million was an increase in sales revenue, primarily due to the sale of recall power to Hydro-Québec combined with lower interest costs.

Capital Expenditures

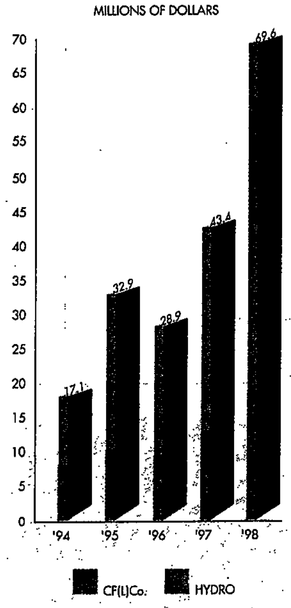
EXPENDITURES for additions to fixed assets in 1998 amounted to $34.0 million compared to $32.0 million in 1997. The 1998 expenditures were for various additions to plant, transmission and distribution facilities throughout the Province. Major additions include $5.0 million for major transmission line upgrades, $2.4 million for a new transformer at the Massey Drive Terminal Station and $2.3 million related to the purchase of an integrated suite of software products.

THE capital program can be financed from two sources, cash generated from operations and cash acquired through borrowing in the capital markets. The capital program for 1998 was financed entirely by cash from operations which amounted to $119.0 million, compared with $92.0 million in 1997.

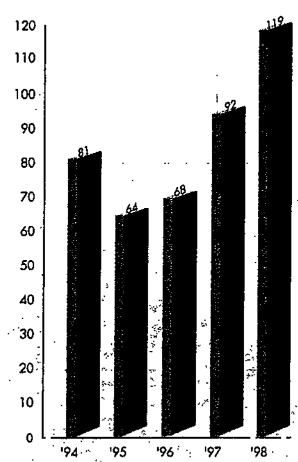
Dividends

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 payments made by HYDRO in 1998 were $12.0 million from net operating income and $4.8 million from its investment in CF(L)Co.

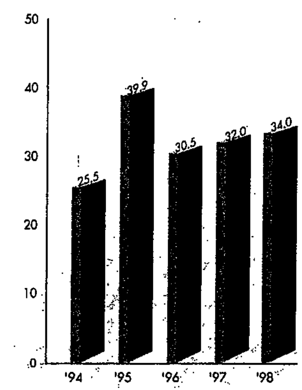
Consolidated Net Income
MILLIONS OF DOLLARS



Cash Flow From Operation
MILLIONS OF DOLLARS



Capital Expenditures
MILLIONS OF DOLLARS



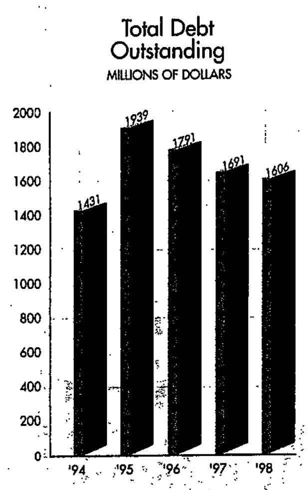
financial REVIEW AND ANALYSIS

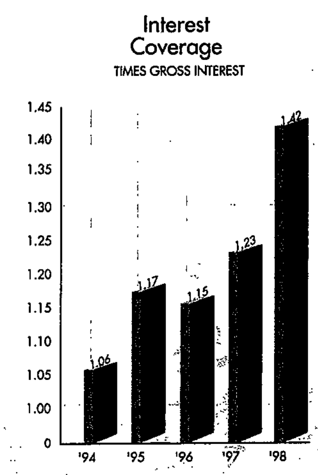
Debt

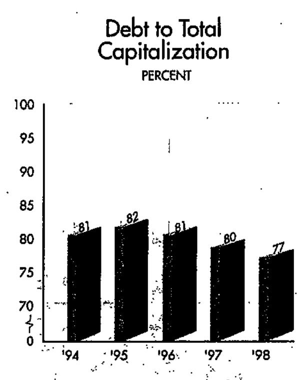
THE lower interest rate environment had a positive impact on HYDRO in 1998 when call options on three high coupon bond issues totaling $105 million par value were exercised. Another $100 million par value high coupon bond issue matured during 1998. These four bond issues, bearing coupons between 10.00% and 10.25%, were replaced by a single 10 year $200 million issue bearing a coupon of 5.50%. HYDRO is continuing the active management of its debt portfolio in 1999 in an effort to minimize our interest costs.

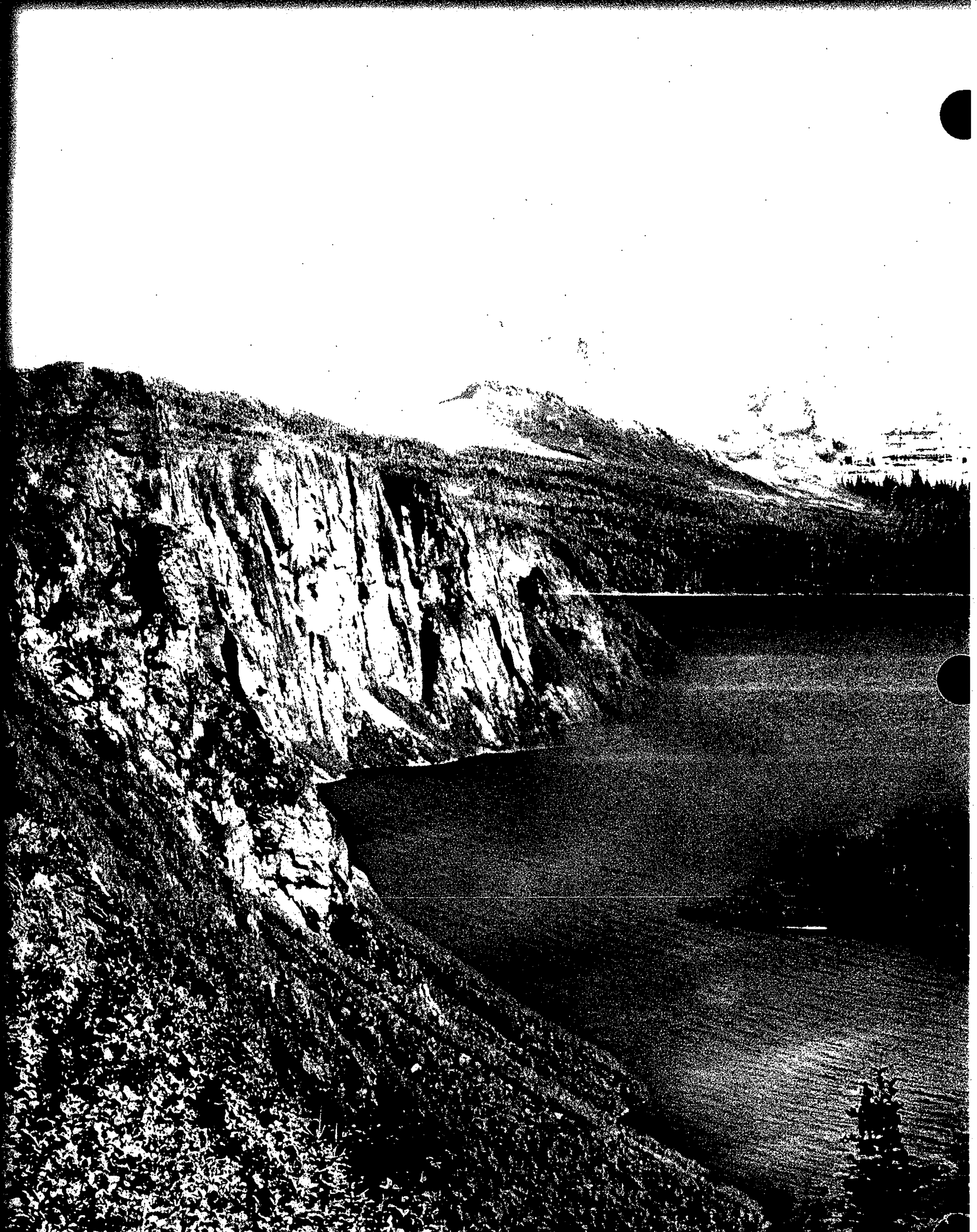
TOTAL debt is as shown in the following table:

millions of dollars	1998	1997	Increase (Decrease)
Hydro			
Long-term debt	1,134.4	1,079.8	54.6
Promissory notes	83.1	209.9	(126.8)
	1,217.5	1,289.7	(72.2)
CF(L)Co			
Long-term debt	388.8	401.5	(12.7)
Total debt	1,606.3	1,691.2	(84.9)









financial REVIEW AND ANALYSIS

Segmented Information

Segmented operating results are as follows:

	Hydro	CF(L)Co	Total	Hydro	CF(L)Co	Total
millions of dollars		1998			1997	
Revenue						
Energy sales	304.2	95.5	399.7	292.7	88.7	381.4
Recovery of costs in RSP	10.9	–	10.9	7.2	–	7.2
	315.1	95.5	410.6	299.9	88.7	388.6
Expenses						
Operations and administration	81.7	33.0	114.7	75.4	31.5	106.9
Fuels	26.9	–	26.9	43.9	–	43.9
Amortization of costs in RSP	10.9	–	10.9	7.2	–	7.2
Power purchased	13.5	–	13.5	5.7	–	5.7
Depreciation	32.1	16.6	48.7	29.9	16.9	46.8
Interest	98.8	16.5	115.3	106.9	18.4	125.3
	263.9	66.1	330.0	269.0	66.8	335.8
Net Operating Income	51.2	29.4	80.6	30.9	21.9	52.8
Interest on Debt Financing the CF(L)Co Investment and Other Dedicated Costs	–	(3.1)	(3.1)	–	(3.9)	(3.9)
Net Income from Operations	51.2	26.3	77.5	30.9	18.0	48.9
Non-controlling Interest	–	7.9	7.9	–	5.5	5.5
Net Income	51.2	18.4	69.6	30.9	12.5	43.4

Year 2000 Readiness

THE Year 2000 problem or Millennium Bug refers to the inability of computer hardware and software components, and systems to operate correctly with respect to dates that reference the years 1999 and 2000 and beyond. The Year 2000 issue consists of a number of date related problems.

HYDRO has implemented a Y2K Program to minimize the possibility of interruptions in the electrical service provided to the customers and to ensure that our internal business operations will continue to be conducted in a normal manner. The Year 2000 Program has several phases including compiling an inventory of all known date sensitive equipment and software, testing and verifying that it is Year 2000 ready and repairing or replacing equipment and software that is not Year 2000 ready. A contingency plan is being developed and is scheduled to be formalized on or before June 30, 1999. HYDRO has assessed and continues to follow-up on the Year 2000 readiness of third parties such as customers, suppliers and contractors and others that could impact on its ability to provide service to its customers.

HYDRO has and continues to provide monthly status reports on its Year 2000 readiness to the Boards of Directors of the HYDRO Group of Companies, the Board of Commissioners of Public Utilities for Newfoundland ("PUB") and to

Year 2000 Readiness (cont'd)

interested customers and third parties that have requested such information. HYDRO's Year 2000 readiness is available and updated regularly on HYDRO's Website at www.nlh.nf.ca. HYDRO has also retained the services of an independent third party consultant to review and assess HYDRO's Year 2000 Program. This assessment is expected to be completed on or before April 30, 1999.

HYDRO estimates that it will incur approximately $14 million in hardware and software costs to replace the financial and operating systems, upgrade other systems and for internal staffing and consulting costs with respect to the Year 2000 problem. The costs of new hardware and software will be capitalized while maintenance or modifications costs will be expensed as incurred. Corporate responsibility for the Year 2000 Program rests with Executive Management.

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
*1998	1.42	77	23
1997	1.23	80	20
1996	1.15	81	19
1995	1.17	82	18
1994	1.06	81	19

* Includes sales to Hydro-Québec with affect from March 9, 1998.

Outlook

AT this time there are no increases in electricity rates planned for 1999 except for adjustments arising from the normal operation of the Rate Stabilization Plan.

THROUGHOUT 1998, 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.

IN the course of these discussions, three projects have been selected for potential development. Negotiations were ongoing in 1998 and will continue into 1999, including discussions with Aboriginal Groups, with a view to concluding a Memorandum of Understanding in the very near future.

HYDRO

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 16, 1999. 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 and 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 fulfils 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

D. W. OSMOND
Vice President, Finance
and Chief Financial Officer

WILLIAM E. WELLS
President and Chief
Executive Officer

HYDRO

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, 1998 and the consolidated statements of income and retained earnings and changes in financial position 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 generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. 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 16, 1999

Ernst & Young LLP
Chartered Accountants

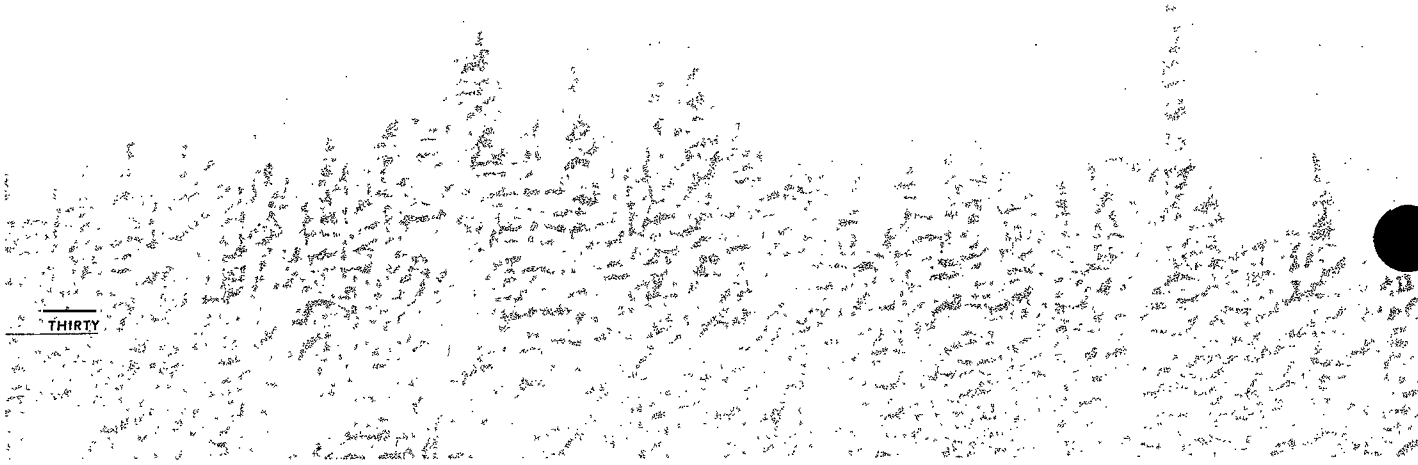
HYDRO

consolidated BALANCE SHEET

December 31, 1998 with comparative figures for 1997

millions of dollars	1998	1997
ASSETS		
Fixed assets (Note 2)		
Fixed assets in service	2,804.0	2,780.7
Less contributions in aid of construction	142.3	113.6
	2,661.7	2,667.1
Less accumulated depreciation	688.4	669.2
	1,973.3	1,997.9
Construction in progress	16.8	10.4
	1,990.1	2,008.3
Current assets		
Cash and short-term investments	13.8	17.8
Receivables	90.9	64.4
Current portion of rate stabilization plan	17.0	13.1
Fuel and supplies at average cost	39.6	47.1
Prepaid expenses	2.7	3.9
	164.0	146.3
Sinking funds (Notes 5 and 7)	113.3	144.3
Rate stabilization plan	31.7	28.3
Investments (Note 3)	21.7	25.8
Deferred charges (Note 4)	202.3	191.8
	2,523.1	2,544.8

See accompanying notes



HYDRO

consolidated BALANCE SHEET

December 31, 1998 with comparative figures for 1997

millions of dollars	1998	1997
LIABILITIES AND SHAREHOLDER'S EQUITY		
Long-term debt (Note 5)	1,398.5	1,334.0
Current liabilities		
Bank indebtedness	4.7	2.7
Accounts payable and accrued liabilities	48.0	36.4
Accrued interest	33.9	36.5
Long-term debt due within one year (Note 5)	124.7	147.3
Promissory notes (Note 5)	83.1	209.9
	294.4	432.8
Foreign exchange loss provision	7.0	6.0
Long-term payable (Note 6)	1.9	4.8
Non-controlling interest in CF(L)Co	114.9	113.6
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 3)		
Lower Churchill Development	15.4	15.4
Muskrat Falls Project	2.2	2.2
Gull Island Project	100.0	100.0
Retained earnings	551.5	498.7
	691.6	638.8
Commitments and contingencies (Notes 9 and 10)		
	2,523.1	2,544.8

See accompanying notes

On behalf of the Board:

DIRECTOR

Judy Pound-Curtis
DIRECTOR

HYDRO

consolidated STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended December 31, 1998 with comparative figures for 1997

millions of dollars	1998	1997
Revenue		
Energy sales	391.8	376.9
Recovery of costs in rate stabilization plan	10.9	7.2
Rentals and royalties	0.5	0.5
Other	1.6	1.2
	404.8	385.8
Expenses		
Operations and administration	114.8	106.9
Fuels	26.9	43.9
Amortization of costs in rate stabilization plan	10.9	7.2
Power purchased	7.1	2.5
Depreciation	49.8	48.0
Interest (Note 8)	117.8	128.4
	327.3	336.9
Net income from operations	77.5	48.9
Non-controlling interest	7.9	5.5
Net income	69.6	43.4
Retained earnings, beginning of year	498.7	476.2
	568.3	519.6
Dividends	16.8	20.9
Retained earnings, end of year	551.5	498.7

See accompanying notes

HYDRO

consolidated STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1998 with comparative figures for 1997

millions of dollars	1998	1997
Cash provided by (used in)		
Operating activities		
Net income	77.5	48.9
Add (deduct) items not involving a cash flow		
Depreciation	49.8	48.0
Amortization of deferred exchange loss	1.1	1.0
Amortization of other deferred charges	2.1	3.2
Rate stabilization plan	(7.3)	(11.1)
Other	3.2	2.5
	126.4	92.5
Decrease in long-term payable	(2.9)	(2.9)
Change in non-cash balances related to operations	(4.5)	2.4
	119.0	92.0
Financing activities		
Long-term debt issued	201.6	101.6
Long-term debt retired	(224.3)	(390.6)
Deferred foreign exchange loss incurred	(11.8)	(6.6)
Dividends paid by a subsidiary to a non-controlling interest	(6.6)	(5.4)
Increase (decrease) in promissory notes	(126.8)	134.5
	(167.9)	(166.5)
Dividends	(16.8)	(20.9)
Investing activities		
Decrease (increase) in investments	4.1	(20.6)
Increase in sinking funds	(34.6)	(49.8)
Sinking funds redeemed	129.1	162.5
Reductions (additions) to deferred charges	(3.5)	2.8
Additions to fixed assets	(34.0)	(32.0)
Net change in payables and receivables relating to investing activities	(1.4)	1.3
	59.7	64.2
Net decrease in cash	(6.0)	(31.2)
Cash and short-term investments, beginning of year	15.1	46.3
Cash and short-term investments, end of year	9.1	15.1
Cash is represented by		
Cash and short-term investments	13.8	17.8
Bank indebtedness	(4.7)	(2.7)
	9.1	15.1

See accompanying notes

notes TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1998

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 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 conformity with generally accepted accounting principles as established 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, its 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, Churchill Falls (Labrador) Corporation Limited ("CF(L)Co"), (65.8% owned), Gull Island Power Company Limited ("GIPCo"), (100% owned) and Lower Churchill Development Corporation Limited ("LCDC"), (51% owned).

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 and having 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.

notes TO CONSOLIDATED FINANCIAL STATEMENTS

1. *Summary of Significant Accounting Policies (cont'd)*

PRINCIPLES OF CONSOLIDATION (cont'd)

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 fixed assets and is being amortized on a straight-line basis at the rate of 1.5% per annum. As at December 31, 1998, $27.5 million (1997 - $26.6 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.

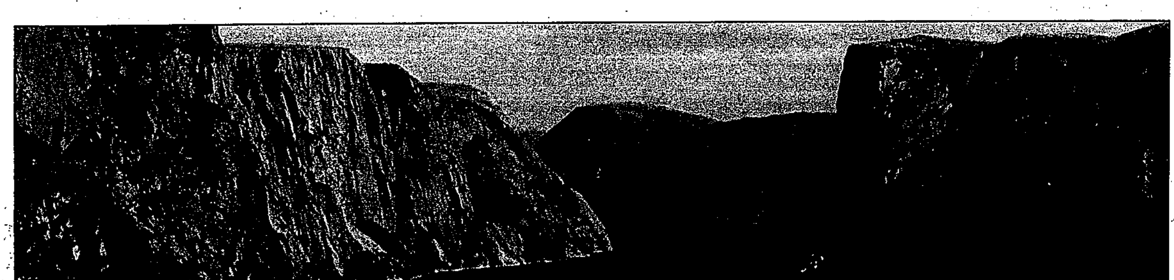
GIPCo is incorporated under the laws of Canada. Its objective was to develop the hydroelectric potential at Gull Island on the Lower Churchill River in Labrador, and construct a direct current transmission system from Labrador to the island of Newfoundland (the "Gull Island Project"), (see Note 3).

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 3).

CF(L)Co holds 33.3% of the equity share capital of Twin Falls Power Corporation Limited ("Twin Falls") and is a party with other shareholders in a participation agreement which gives CF(L)Co joint control of Twin Falls. This investment is accounted for by the proportionate consolidation method.

SHORT-TERM INVESTMENTS

SHORT-TERM investments consist primarily of Canada treasury bills and banker's acceptances bearing interest from 4.65% to 5.47% (1997 - 4.08% to 4.43%) with original maturities at date of purchase of beyond one month and less than twelve months. Such short-term investments are carried at cost, which approximates fair value, due to the short period of time to maturity.



notes TO CONSOLIDATED FINANCIAL STATEMENTS

1. *Summary of Significant Accounting Policies (cont'd)*

FIXED 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

PLANT under construction includes the costs incurred in preliminary feasibility studies, engineering and construction of new generation, transmission and distribution facilities. Interest is charged to plant under construction 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 fixed assets and the net fixed assets 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 property, plant and equipment 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

notes TO CONSOLIDATED FINANCIAL STATEMENTS

1. *Summary of Significant Accounting Policies (cont'd)*

FIXED ASSETS AND DEPRECIATION (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 4.92% to 5.60% (1997 - 3.75% to 5.25%) 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. Receivables comprise amounts related to energy delivered in excess of the base amount, as defined by the Power Contract.

DIFFERENCES between amounts related to energy delivered and the base amounts are determined annually and are subject to interest at 7% (1997 - 7%). These amounts are also subject to yearly review and adjustment.

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

notes TO CONSOLIDATED FINANCIAL STATEMENTS

1. *Summary of Significant Accounting Policies (cont'd)*

FOREIGN CURRENCY TRANSLATION (cont'd)

that time. Commencing in 1992, the PUB required HYDRO to provide a $1.0 million a year 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.

PENSION PLAN

EMPLOYEES are covered by the Province's Public Service Pension Plan to which contributions are made equally by employers and employees. The employers also provide group life insurance and health care benefits on a cost shared basis to its retired employees and in certain cases, their surviving spouses. The cost of providing these benefits is charged to operations as the benefits are incurred.

2. *Fixed Assets*

	Fixed Assets in Service	Contribution In aid of Construction	Accumulated Depreciation	Construction In Progress
millions of dollars			1998	
Generation Plant				
Hydroelectric	1,468.7	48.3	271.2	0.8
Thermal	244.3	–	155.5	1.9
Diesel	51.0	10.2	15.5	0.2
Transmission and Distribution	664.0	57.3	130.2	2.7
Service facilities	34.0	–	12.6	–
Project costs (Note 3)	97.0	–	–	–
Capital studies (Note 3)	25.0	–	–	–
Other	220.0	26.5	103.4	11.2
	2,804.0	142.3	688.4	16.8

notes TO CONSOLIDATED FINANCIAL STATEMENTS

2. *Fixed Assets (cont'd)*

millions of dollars	Fixed Assets in Service	Contribution In aid of Construction	Accumulated Depreciation	Construction In Progress
			1997	
Generation Plant				
Hydroelectric	1,468.2	20.8	285.2	1.0
Thermal	243.9	–	143.7	0.2
Diesel	48.4	10.6	13.6	0.9
Transmission and Distribution	650.7	56.0	120.2	2.1
Service facilities	34.0	–	12.0	–
Project costs (Note 3)	97.2	–	–	–
Capital studies (Note 3)	24.9	–	–	–
Other	213.4	26.2	94.5	6.2
	2,780.7	113.6	669.2	10.4

CF(L)Co assets in service amounting to $940.2 million (1997 – $939.2 million) are pledged as collateral for long-term debt.

3. *Investments*

INVESTMENTS consist of the following:

millions of dollars	1998	1997
Lower Churchill Option	5.2	5.2
Government of Canada Coupons, at cost (market value $16.8; 1997 - $20.7)	16.5	20.6
	21.7	25.8

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

3. *Investments (cont'd)*

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, 1999 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.

4. *Deferred Charges*

millions of dollars	1998	1997
Unamortized debt discount, financing expenses and other	16.4	15.1
Foreign exchange losses		
HYDRO - Realized	96.3	96.3
CF(L)Co		
Recoverable under the Power Contract	87.8	75.9
Unrecoverable portion to be amortized	11.7	11.7
	195.8	183.9
Less current portion recoverable included in current assets	9.9	7.2
	185.9	176.7
	202.3	191.8

5. Long-Term Debt

	Hydro	CF(L)Co	Total	Hydro	CF(L)Co	Total
millions of dollars		1998			1997	
Summary of long-term debt						
Long-term debt	1,134.4	388.8	1,523.2	1,079.8	401.5	1,481.3
Less payments due within one year	87.1	37.6	124.7	114.5	32.8	147.3
	1,047.3	351.2	1,398.5	965.3	368.7	1,334.0

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

millions of dollars	1999	2000	2001	2002	2003
	87.1	12.6	163.0	142.5	12.8

Details of long-term debt are as follows:

HYDRO

Series	Interest Rate %	Year of Issue	Call Date	Year of Maturity	1998	1997	
millions of dollars							
U	10.125	1988	–	1998	–	100.0	
M	10.250	1976	1998	2001	–	30.0	(a)
K	10.250	1978	1998	2001	–	35.0	(a)
N	13.375	1981	1999	2001	75.0	75.0	(a)
W	10.750	1991	–	2001	150.0	150.0	
	10.000	1977	1999	2002	30.0	30.0	(a)
Z	5.250	1997	2002	2002	100.0	100.0	
L	10.000	1978	1998	2003	–	40.0	(a)
V	10.500	1989	–	2014	125.0	125.0	(a)
X	10.250	1992	–	2017	150.0	150.0	(a)
Y	8.400	1996	–	2026	300.0	300.0	(a)
AA	5.500	1998	–	2008	200.0	–	
Total debentures					1,130.0	1,135.0	
Less sinking fund investments in own debentures					49.0	112.5	
					1,081.0	1,022.5	
Government of Canada loans at 5.25% to 7.91% maturing in 1998 to 2014					46.4	50.9	
Other					7.0	6.4	
					1,134.4	1,079.8	
Less payments due within one year					87.1	114.5	
					1,047.3	965.3	

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.

notes TO CONSOLIDATED FINANCIAL STATEMENTS

5. Long-Term Debt (cont'd)

CERTAIN debentures contain a provision whereby HYDRO may, at its option, redeem the debt issue at par value plus outstanding interest to the date of redemption.

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

THE payments due within one year include sinking fund requirements of $6.2 million (1997 - $9.3 million).

CF(L)Co

millions of dollars	1998	1997
First Mortgage Bonds		
7.750% Series A due December 15, 2007		
(U.S. $196.3; 1997 - U.S. $216.8)	300.9	310.2
7.875% Series B due December 15, 2007	19.8	21.8
General Mortgage Bonds		
7.500% due three years after latest maturity of any First Mortgage Bonds	68.1	69.5
	388.8	401.5
Less payments due within one year	37.6	32.8
	351.2	368.7

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 $44.0 million in each of the years 1999 to 2003 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.

notes TO CONSOLIDATED FINANCIAL STATEMENTS

6. *Long-Term Payable*

THE long-term payable to Hydro-Québec bears interest at 7% per annum and is repayable over a four year period which commenced in September 1996. The current portion of $2.9 million (1997 - $2.9 million) is included in accounts payable and accrued liabilities.

7. *Financial Instruments*

FAIR VALUE

THE estimated fair values of financial instruments as at December 31, 1998 and 1997 are based on relevant market prices and information available at the time. The fair value of 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 fixed 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	1998		1997	
Financial Assets				
Sinking funds	113.3	118.3	144.3	155.8
Financial Liabilities				
Long-term debt including amount due in one year	1,523.2	1,792.4	1,481.3	1,723.3
Long-term payable including amount due in one year	4.8	4.6	7.7	7.6

CASH and short-term investments, accounts receivable and payable, bank indebtedness, promissory notes and accrued interest are all short-term in nature and as such, their carrying value approximates fair value. At December 31, 1998 of the total accounts receivable balance outstanding approximately 29.57% (1997 - 38.77%) is due from a regulated utility, 41.64% (1997 - 35.22%) from Hydro-Québec and 11.33% (1997 - nil) from another Crown Corporation of the Province.

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 1999 to 2026. 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

7. *Financial Instruments (cont'd)*

SINKING FUNDS (cont'd)

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 11.68% (1997 - 4.16% to 15.22%).

8. *Interest Expense*

millions of dollars	1998	1997
Gross interest		
Long-term debt	155.3	176.4
Promissory notes	7.3	5.0
	162.6	181.4
Amortization of debt discount and financing expenses	1.8	2.3
Provision for foreign exchange losses	1.0	1.0
	165.4	184.7
Less		
Recovered from Hydro-Québec (a)	21.8	19.1
Interest capitalized during construction	0.4	0.4
Interest earned	36.8	47.9
Net interest expense	106.4	117.3
Debt guarantee fee	11.4	11.1
Net interest and guarantee fee	117.8	128.4

(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 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 if funds are not otherwise available.

9. *Commitments and Contingent Liabilities*

(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 with respect to construction costs, outages and plant shutdowns. The aggregate of these claims, less any amounts that have been provided for in HYDRO's financial statements is approximately $2.2 million (1997 - $2.1 million). The final resolution of these matters is currently under negotiation.

9. Commitments and Contingent Liabilities (cont'd)

Legal proceedings have been commenced against HYDRO by one of its customers claiming approximately $20.0 million related to outages and plant shutdowns. HYDRO is defending this claim and Management believes that this claim will not be successful.

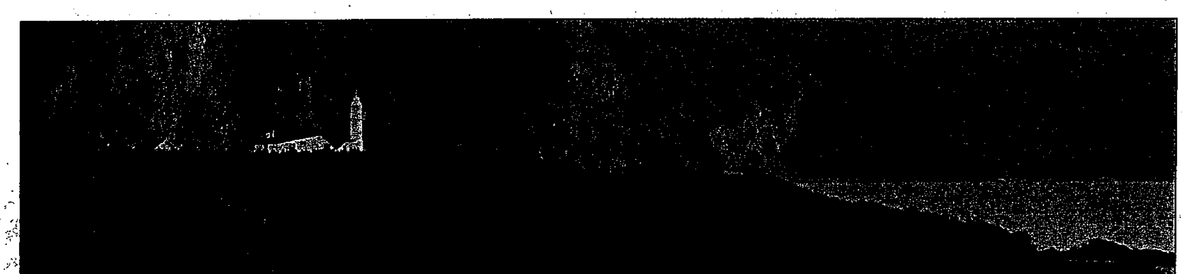
(c) Outstanding commitments for capital projects total approximately $16.0 million at December 31, 1998 (1997 - $7.6 million).

10. Year 2000

THE Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. Management has developed and is implementing a plan designed to identify and address the expected effects of the Year 2000 Issue on the Company. As at December 31, 1998, the Company has commenced the identification of computer systems that will require modification or replacement. An assessment of the readiness of third parties such as customers, suppliers and others is ongoing. However, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

11. Comparative Figures

CERTAIN of the 1997 comparative figures have been reclassified to conform with the 1998 financial statement presentation.



HYDRO

financial STATISTICS

Years ended December 31

in millions of dollars	1998	1997	1996	1995	1994
OPERATING RESULTS					
Revenue					
Energy sales	391.8	376.9	364.7	365.5	358.8
Rentals and royalties	0.5	0.5	0.5	0.7	0.7
Recovery of costs in RSP	10.9	7.2	1.5	–	–
Other	1.6	1.2	2.4	3.4	2.4
	404.8	385.8	369.1	369.6	361.9
Expenses					
Operations and administration	114.8	106.9	108.7	108.1	114.1
Amortization of RSP costs	10.9	7.2	1.5	–	–
Fuels and power purchased	34.0	46.4	43.8	42.3	41.2
Depreciation	49.8	48.0	46.8	45.7	41.1
Interest	117.8	128.4	134.6	134.8	142.8
	327.3	336.9	335.4	330.9	339.2
Net Income Before Non-controlling Interest	77.5	48.9	33.7	38.7	22.7
Non-controlling Interest	7.9	5.5	4.8	5.8	5.6
Net Income	69.6	43.4	28.9	32.9	17.1
Contributions to Net Income					
HYDRO Corporate	51.2	30.9	20.1	22.6	8.3
CF(L)Co	18.4	12.5	8.8	10.3	8.8
FINANCIAL POSITION					
Total Current Assets	164.0	146.3	170.7	156.1	145.6
Total Current Liabilities	294.4	432.8	324.4	427.3	196.2
Net Working Capital	(130.4)	(286.5)	(153.7)	(271.2)	(50.6)
Fixed Assets	2,678.5	2,677.5	2,649.8	2,601.3	2,566.4
Accumulated Depreciation	688.4	669.2	624.0	559.6	516.4
Fixed Assets, Net	1,990.1	2,008.3	2,025.8	2,041.7	2,050.0
Sinking Funds(1)	113.3	144.3	203.1	325.9	–
Other Assets	255.7	245.9	220.8	227.4	36.4
Long-Term Debt(1)	1,398.5	1,334.0	1,538.7	1,584.6	1,305.9
Other Liabilities	138.6	139.2	141.0	138.9	143.0
Shareholder's Equity	691.6	638.8	616.3	600.3	586.9
EMPLOYEES AT YEAR END					
Permanent	1,078	1,097	1,098	1,155	1,192
Temporary	196	156	155	180	221
Total	1,274	1,253	1,253	1,335	1,413

(1) Prior to 1995, all Sinking Funds were netted against Long-Term Debt

HYDRO

operating STATISTICS

Years ended December 31

	1998	1997	1996	1995	1994
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	57	57
Total	7,255	7,255	7,255	7,254	7,254
ELECTRIC ENERGY GENERATED, NET (GWh)					
CF(L)Co	37,543	33,727	28,998	29,945	30,643
HYDRO					
Hydraulic	4,260	4,628	4,574	4,394	5,045
Thermal	1,255	1,528	1,409	1,554	795
Diesel	41	41	64	74	68
Total	43,099	39,924	35,045	35,967	36,551
ELECTRIC ENERGY SALES (GWh)					
CF(L)Co					
Export	32,793	30,301	25,748	26,693	27,413
HYDRO					
Utility	4,157	4,306	4,187	4,214	4,201
Rural	811	815	765	751	758
Industrial	1,286	1,660	1,637	1,541	1,405
Export	1,249	–	–	–	–
Total	40,296	37,082	32,337	33,199	33,777
AVERAGE SALES REVENUE (cents per kWh)					
CF(L)Co					
Export	0.26	0.27	0.29	0.30	0.28
HYDRO					
Utility	4.49	4.51	4.53	4.53	4.53
Rural	5.46	5.45	5.66	5.76	5.75
Industrial	3.26	3.24	3.27	3.27	3.26
Export	2.39	–	–	–	–
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	1,431	1,353
69 kV	636	636	636	588	614
Total	4,688	4,688	4,688	4,589	4,537
PEAK DEMAND (MW)					
CF(L)Co System	5,602	5,584	5,577	5,690	5,664
HYDRO System	1,295	1,229	1,318	1,250	1,305

officers

NEWFOUNDLAND AND LABRADOR HYDRO

NORMAN J. WHALEN
Chairman

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

JAMES L. THISTLE[1]
Vice-President and Chief Negotiator, Labrador Hydro Project

JOHN C. ROBERTS
Corporate Controller

MARK G. S. BRADBURY
Treasurer

GERALD C. BOWERS
Assistant Treasurer

PETER A. HICKMAN
Assistant Corporate Secretary

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

NORMAN J. WHALEN
Chairman

WILLIAM E. WELLS
Chief Executive Officer

T. DAVID COLLETT
President

DEREK W. OSMOND
Vice-President, Finance and Chief Financial Officer

MAUREEN P. GREENE
Vice-President, Human Resources, General Counsel and Corporate Secretary

JAMES R. HAYNES
General Manager

JOHN C. ROBERTS
Controller

MARK G. S. BRADBURY
Treasurer

GERALD C. BOWERS
Assistant Treasurer

PETER A. HICKMAN
Assistant Corporate Secretary

TWIN FALLS POWER CORPORATION LIMITED

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Vice-President, Finance and Chief Financial Officer

MAUREEN P. GREENE
Vice-President, Human Resources, General Counsel and Corporate Secretary

JAMES R. HAYNES
General Manager

JOHN C. ROBERTS
Controller

MARK G. S. BRADBURY
Treasurer

GERALD C. BOWERS
Assistant Treasurer

PETER A. HICKMAN
Assistant Corporate Secretary

LOWER CHURCHILL DEVELOPMENT CORPORATION LIMITED

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Chairman

DAVID BURPEE
Vice-Chairman

WILLIAM E. WELLS
President and Chief Executive Officer

MAUREEN P. GREENE
Corporate Secretary

MARK G. S. BRADBURY
Treasurer

PETER A. HICKMAN
Assistant Corporate Secretary

GULL ISLAND POWER COMPANY LIMITED

NORMAN J. WHALEN
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WILLIAM E. WELLS
President and Chief Executive Officer

T. DAVID COLLETT
Executive Vice-President

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, Operations and Engineering

JOHN C. ROBERTS
Controller

MARK G. S. BRADBURY
Treasurer

GERALD C. BOWERS
Assistant Treasurer

PETER A. HICKMAN
Assistant Corporate Secretary

[1] Appointed March 9, 1998

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board OF DIRECTORS

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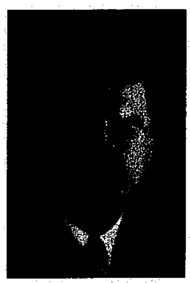
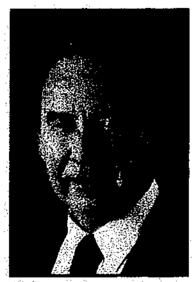
Norman J. Whalen
Henry (Harry) W. Baikie[1]
Shirley P. Frost
John Gale
Terry Goodyear
Dean MacDonald
Trudy Pound-Curtis
Fred Way
William E. Wells



Norman J. Whalen

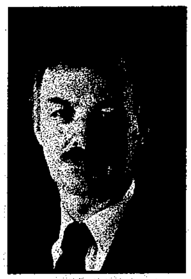


Henry (Harry) W. Baikie

Shirley P. Frost

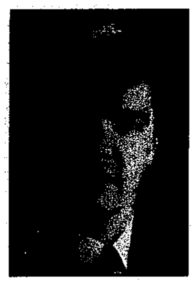
CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

Norman J. Whalen
T. David Collett, ex officio
John P. Henderson
Marie-José Nadeau[2]
Thierry Vandal[2]
William E. Wells
Victor L. Young



John Gale

Terry Goodyear

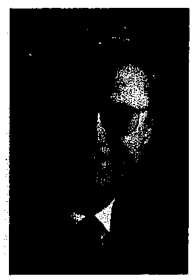


Dean MacDonald

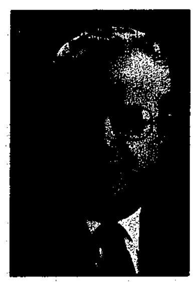
TWIN FALLS POWER CORPORATION LIMITED

T. David Collett
Ralph Berge[3]
Maureen P. Greene
James R. Haynes
John LeBoutillier
Eldon MacDonald
Derek W. Osmond
Avit Ouellet
David W. Reeves

Trudy Pound-Curtis



Fred Way



William E. Wells

GULL ISLAND POWER COMPANY LIMITED

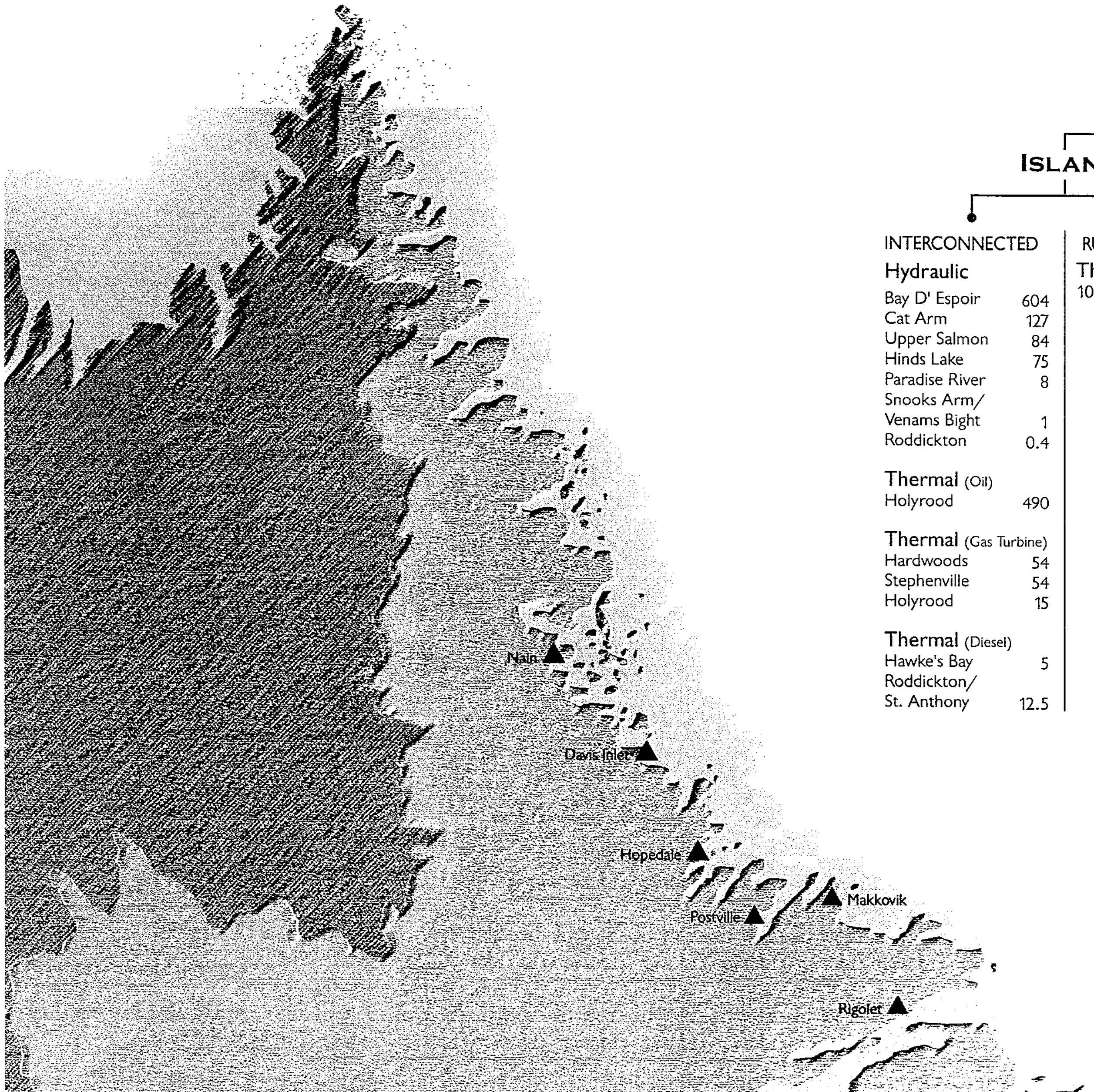
Norman J. Whalen
T. David Collett
Derek W. Osmond
David W. Reeves
William E. Wells

LOWER CHURCHILL DEVELOPMENT CORPORATION LIMITED

Norman J. Whalen
David Burpee
John P. Henderson
William E. Wells

[1]Passed away July 22, 1998 [2]Appointed April 23, 1998 [3]Appointed July 1, 1998

System Map



1998 Installed Generating Capacity

Megawatts (MW)

The Hydro Group

- Hydro
  - Island
  - Labrador
- CF(L)Co
  - Labrador

Hydro – 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	12.5

Hydro – Island – Rural Isolated

Thermal (Diesel)

10 Sites 8.6

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

Hydro – Labrador – Interconnected

Thermal (Diesel)

Happy Valley-Goose Bay	11.7
Mud Lake	0.2

Thermal (Gas Turbine)

Happy Valley-Goose Bay	27.0

Hydro – Labrador – Rural Isolated

Thermal (Diesel)

16 Sites 20.4

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

CF(L)Co – Labrador – Interconnected

Hydraulic

Churchill Falls	5,428

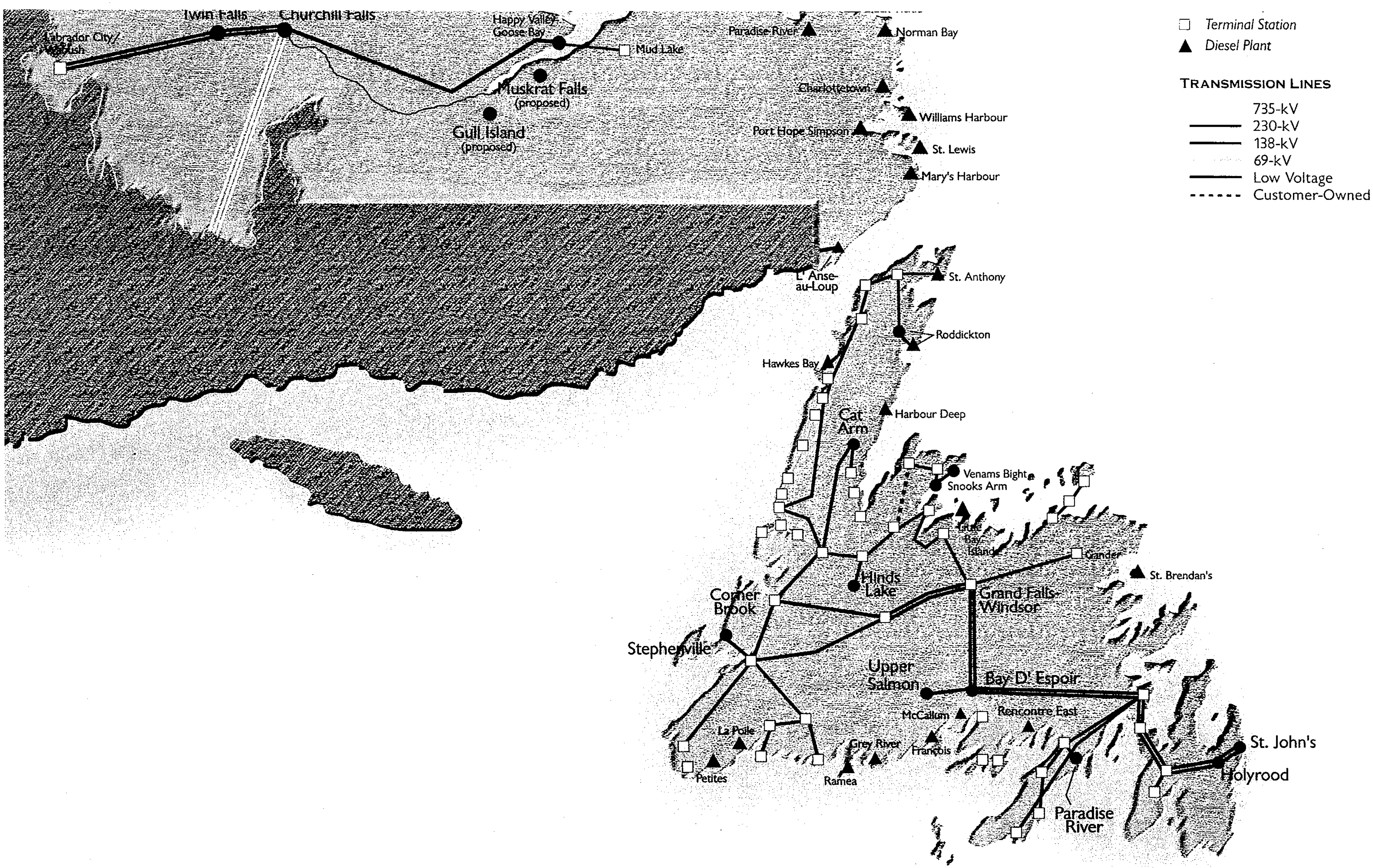
1998 Gross Island Interconnected Energy Supply

Gigawatt hours (GWh)

Hydraulic Generation	
Bay D'Espoir	2,617
Cat Arm	652
Upper Salmon	558
Hinds Lake	410
Paradise River	32
Mini Hydro	8
	4,277
Percentage of Total Energy Supply	76%

Thermal Generation	
Holyrood	1,343
Gas Turbine and Diesel	2
	1,345
Percentage of Total Energy Supply	24%

Legend



Terminal Station
Diesel Plant
TRANSMISSION LINES
735-kV
230-kV
138-kV
69-kV
Low Voltage
Customer-Owned
Twin Falls
Churchill Falls
Happy Valley-Goose Bay
Mud Lake
Muskrat Falls
(proposed)
Gull Island
(proposed)
Paradise River
Norman Bay
Charlottetown
Williams Harbour
Port Hope Simpson
St. Lewis
Mary's Harbour
L'Anse-au-Loup
St. Anthony
Roddickton
Hawkes Bay
Harbour Deep
Cat Arm
Venams Bight
Snooks Arm
Little Bay Island
Gander
St. Brendan's
Hinds Lake
Grand Falls-Windsor
Corner Brook
Stephenville
Upper Salmon
Bay D' Espoir
McCallum
Rencontre East
La Poile
Grey River
François
Petites
Ramea
St. John's
Holyrood
Paradise River

CA-59 NLH

COMMITMENT AND PURPOSE FROM FUNCTION TO PROCESS

HYDRO
THE POWER OF COMMITMENT

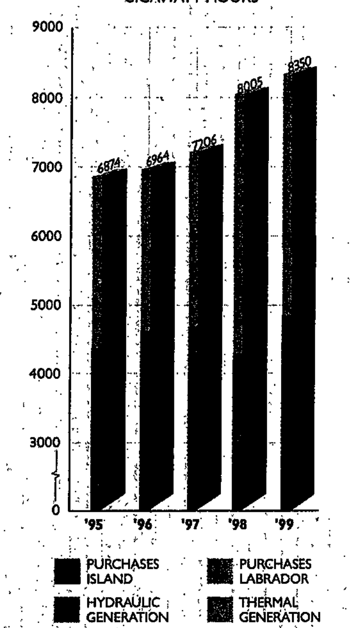
NEWFOUNDLAND AND LABRADOR HYDRO 1999 ANNUAL REPORT

CONTENTS

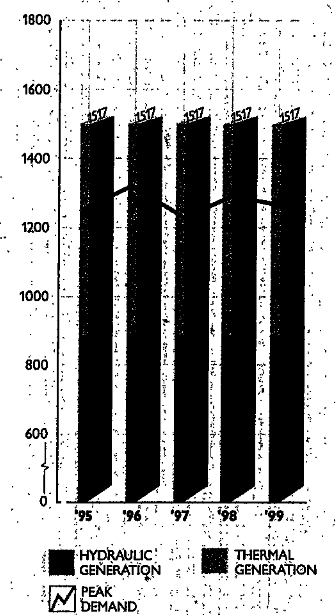
CONTENTS

1999 HIGHLIGHTS

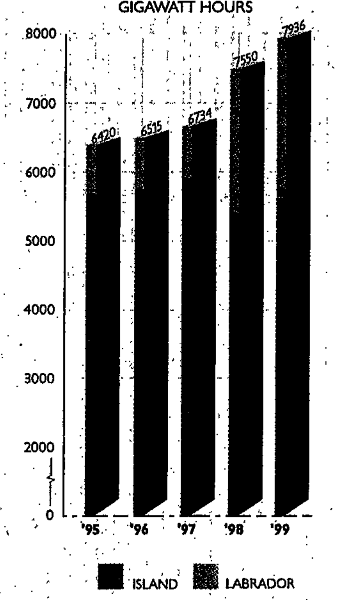
Gross System Generation and Energy Purchases
GIGAWATT HOURS



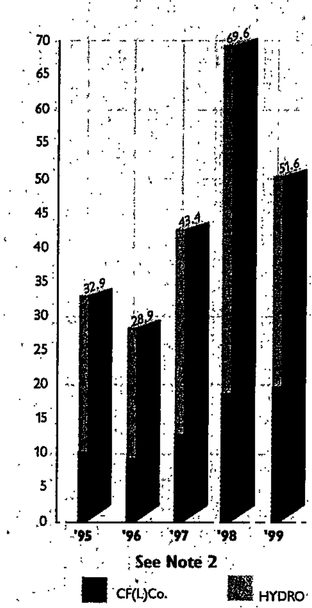
Island Gross Generation Capacity and Demand
MEGAWATTS



Interconnected System Energy Sales
GIGAWATT HOURS



Consolidated Net Income
MILLIONS OF DOLLARS



CHAIRMAN AND PRESIDENT'S MESSAGE

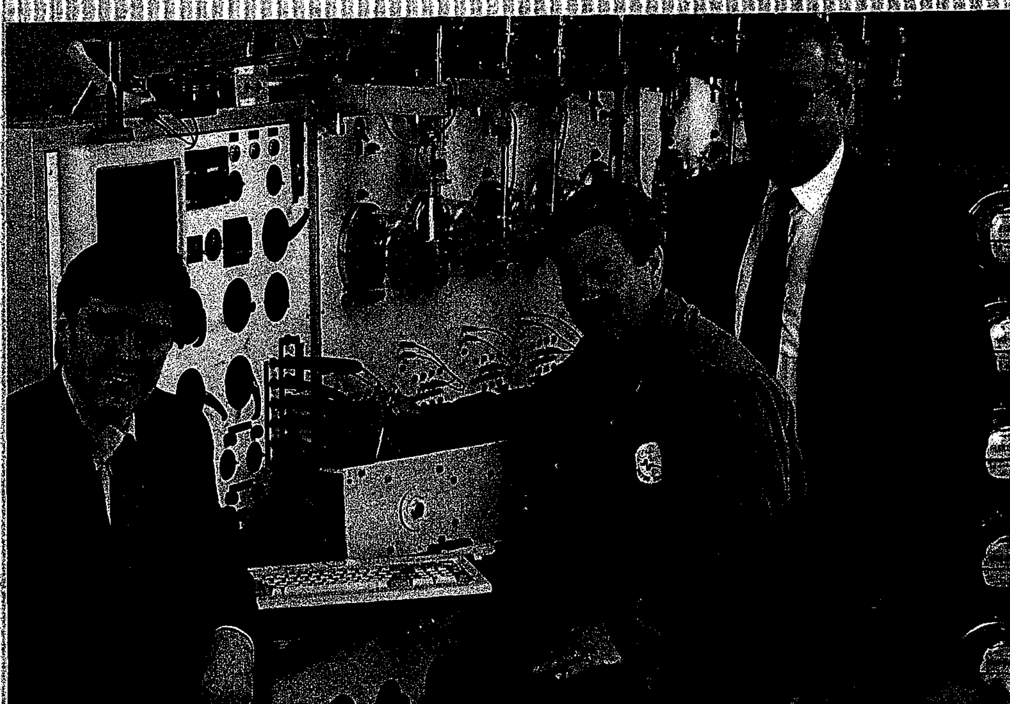
The HYDRO Group had another very successful year in 1999 recording a net income of $51.6 million. **BOTH HYDRO AND CF(L)CO HAVE PERFORMED WELL.** HYDRO recorded net income of $31.7 million after the $16.7 million write-down of the Roddickton Thermal Plant. HYDRO's share of CF(L)Co net income was $19.9 million. This success is attributable to a number of factors. Additional revenues as a result of recent agreements with Hydro-Québec for the sale of 130 MW of recall power under the Power Contract, and the sale of 682 MW of additional capacity under the Guaranteed Winter Availability Contract ("GWAC"), have had a very positive impact on our bottom line.

We have benefited from a combination of better than average inflows to our reservoirs, lower than forecasted fuel prices and lower borrowing costs. We end the year with a debt/equity ratio of 76/24 and an embedded cost of debt of 8.6% down from an earlier high of 11%. The continued ability to meet regulated revenue requirements is reflected in the fact that HYDRO has not had a general rate increase since 1992.

OUR ACCOMPLISHMENTS FOR THE YEAR INCLUDED THE COMPLETION OF THE IMPLEMENTATION PHASE OF PROJECT 2000 ("P2000"). This three-year program involved the implementation of fully integrated software applications for our Financial Management and Business Information Systems as well as the installation of a new mainframe computer. Refinements, as we move forward, will support the development of cost-effective systems and improve our business processes. Our Y2K readiness initiative, in conjunction with P2000, ensured the successful transition of our operations and business systems from December 31, 1999 to January 1, 2000. In September, a new Information Systems and Telecommunications Department ("IS&T") was formed to take the lead in information technology and our telecontrol operations, as we enhance our information technology capabilities and improve our business processes and operations with solid technical support.

Negotiations with Hydro-Québec on the Churchill River developments continued throughout the year. In June of 1999, the GWAC and associated Shareholder's Agreement were signed with Hydro-Québec, ensuring the continued financial viability of CF(L)Co.

HYDRO was created more than forty-five years ago to achieve the electrification of the province. It has had a relatively short history, which until the 1990's, was preoccupied with growth and expansion, and the building of systems to service sparsely populated areas within a large territory. The interconnection of the community of LaPoile in December concluded the current program of interconnecting isolated systems to the Island transmission grid. At present, we operate twenty-five isolated systems on the Island and along the Labrador coast; at one time there were more than eighty throughout the province.



Dean T. MacDonald, Chairman of the Board (left) with Cyril Chislett, Technologist (centre) and William E. Wells, President and Chief Executive Officer (right) in the St. John's meter shop.

At the end of the century and millennium, the HYDRO Group can look back over the past forty-five years of its history with some sense of pride and accomplishment. In 2000, the Silver Lights Club comprised of retired and long-service employees, will publish a history of the HYDRO Group from its inception to 1999. While the challenges of the past have been dealt with, we now have to confront the new challenges that lie ahead as we move into the 21st century. The values that have reshaped our society will inevitably reshape the way in which HYDRO will conduct its business in future.

CHAIRMAN AND PRESIDENT'S MESSAGE

IN CONTINUING TO FULFILL THE HYDRO MISSION AND MANDATE OF "LEAST-COST RELIABLE POWER", two of the more dominant issues relate to system reliability and the environment. To be successful, the corporation must operate in line with prevailing social attitudes and expectations. The impact of technology on all of the activities within our society dictates a much higher standard and expectation in relation to past definitions of "reliable energy". A major challenge for HYDRO in the first years of the new millennium is to ensure that our system reliability achieves its maximum potential.

WE ARE UNIQUE IN THAT WE OPERATE A POWER SYSTEM ON THE ISLAND OF NEWFOUNDLAND THAT IS ISOLATED FROM THE NORTH AMERICAN GRID. Within our system we have relatively large units of generation and many kilometers of radial transmission and distribution lines. The challenge will be to reduce power disruptions to a minimum throughout the system and maintain power delivery standards while continuing to be cost-effective.

It is essential to the provincial economy that we maintain our relative competitiveness in energy pricing. Our options now are more limited with respect to new sources of competitively-priced generation to service Island requirements. With a relatively low load growth forecast, we expect to meet the future energy requirements through a combination of small hydro developments and thermal power. Should differing circumstances emerge with respect to new capacity requirements, the challenge to maintain competitive electricity prices will increase. Of particular significance in the future for the Island portion of the province is whether natural gas may become an energy source for power generation.

WITHIN THE HYDRO GROUP WE ARE DETERMINED TO HAVE A WORLD-CLASS ENVIRONMENTAL MANAGEMENT SYSTEM TO ENSURE THAT WE MEET CURRENT AND EMERGING EXPECTATIONS WITH RESPECT TO ENVIRONMENTALLY RESPONSIBLE ACTIONS AND PROCEDURES. Consistent with changing social attitudes, the HYDRO Group recognizes the necessity of publicly acknowledging environmental impacts and social demands. We expect to proceed in an open and consultative manner that will facilitate the decision-making process. A consultative process should greatly assist in our dealing with environmental constraints and social issues. In 1999 we initiated a health risk assessment at our Holyrood Thermal Generating Station. This included public consultation and the involvement of our recently established "Community Liaison Committee". All stakeholders must be ready to seek realistic and practical solutions to the environmental issues that exist and inevitably will arise. In 1999, we continued the commitment to have the environmental aspects of all major generating facilities within the HYDRO Group managed in compliance with the ISO 14001 standard. The 1998 registration of the Holyrood Thermal Generating Station was renewed for another year. All hydraulic generating facilities, including those at Churchill Falls, Labrador, had environmental management systems developed by the end of 1999 and registration is anticipated early in 2000. All HYDRO's rural and transmission operations are scheduled to become ISO 14001 compliant by 2002. These standards are based on audited compliance and continuous improvement in environmental management.

In order to achieve our objectives, we must be innovative and able to adapt to new circumstances, having a clear understanding of the need for change and a willingness to accept the changes that are necessary. **AS WE ENTER THE 21ST CENTURY, WE ARE CONFIDENT THAT WE HAVE THE FOUNDATION AND FRAMEWORK TO MEET NEW CHALLENGES AND FULFILL OUR COMMITMENT IN PROVIDING RELIABLE LEAST-COST ELECTRICITY.**

We wish to acknowledge the efforts of our employees in meeting the challenges of the past and in particular those that confronted them in 1999 and, as well, recognize their contributions to the significant achievements of the corporation. We would also like to thank the Board of Directors for their continuing support and guidance during the year.

WILLIAM E. WELLS
President and Chief Executive Officer

DEAN T. MACDONALD
Chairman of the Board

ENERGY PRODUCTION

ISLAND INTERCONNECTED SYSTEM HYDRO's generating plants gross energy production was 5,812 GWh, up 3.4% from 1998. Production from hydraulic resources totaled 4,817 GWh, up 12.6% from 1998, as a result of record inflows into the Bay D'Espoir reservoirs from January to May. Thermal production from the Holyrood generating facility was 993 GWh with the gas turbines and diesels producing 2 GWh for peaking and emergency requirements. In 1999 HYDRO had its first complete year of purchases from two Non-Utility Generators purchasing 156 GWh during the year. HYDRO's peak for the year was 1,265 MW, below the record of 1,318 MW established in 1996.

ISOLATED RURAL SYSTEM Gross energy production on the isolated systems was 44.8 GWh, a reduction of 0.7% from 1998. Power purchases on the isolated system were 11.7 GWh consisting of 11.5 GWh from Hydro-Québec in Southern Labrador and 0.2 GWh from the Mary's Harbour hydro facility. These purchases represent an increase of 3.8% over 1998.

CHURCHILL FALLS Churchill Falls produced 34,612 GWh during the year, an 8.1% decrease from 1998. This was a result of a decrease in demand from Hydro-Québec and the loss of a generation unit for approximately two months.

ENERGY SALES

ISLAND INTERCONNECTED SYSTEM Energy sales during 1999 were up 2.9% from 1998 to 5,637 GWh. Industrial sales increased by 22.3% to 1,208 GWh. This was due to the resumption of normal loading for two of our industrial customers following a labour interruption in 1998. Sales to HYDRO's rural customers increased by 3.0% to 345 GWh in 1999. Sales to Newfoundland Power fell to 4,084 GWh, 1.8% lower than 1998, primarily due to warmer than normal temperatures during the winter months.

GRAHAM VAN BRUNT, DIRECTOR PLANT OPERATIONS AND MAINTENANCE (left) AND DON CULL, ASSET MANAGER (right) IN THE CHURCHILL FALLS UNDERGROUND POWERHOUSE

ENERGY SALES

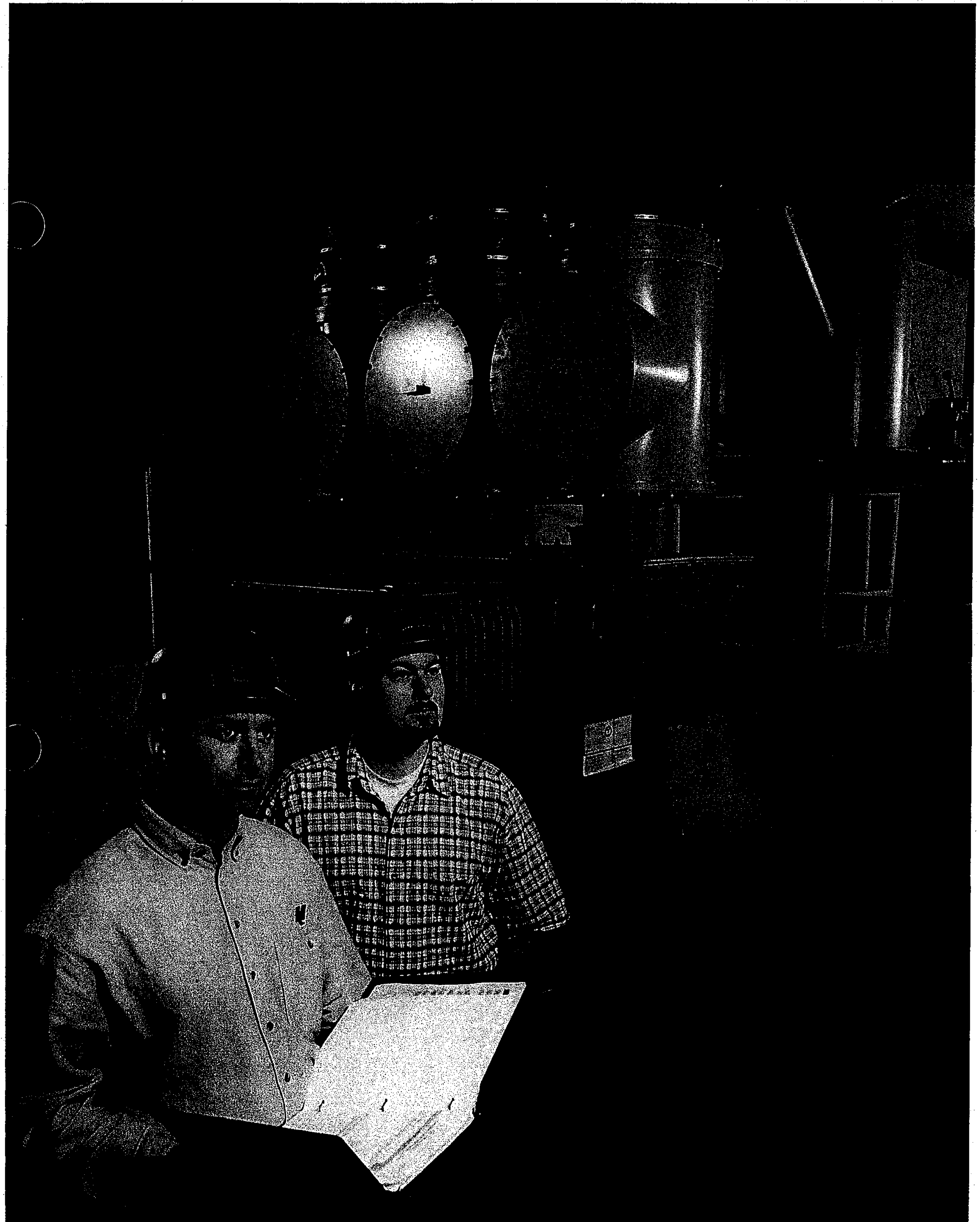
LABRADOR INTERCONNECTED SYSTEM HYDRO's sales to customers on the Labrador Interconnected system were 568 GWh, down 21.7% over 1998. This drop was primarily due to a decrease of 71.9% in sales to industrial customers offset slightly by a 1.4% increase in sales to rural customers to 433 GWh. Secondary sales decreased by 24.3% to 81.3 GWh.

LABRADOR EXPORT SALES HYDRO's exported energy to Hydro-Québec reached 1,731 GWh in 1999. This is an increase of 28.8% from 1998 due to the first full year of the export agreement and additional energy available resulting from the reduction in normal industrial customer requirements.

ISOLATED SYSTEMS Sales to rural customers on the isolated systems were 52 GWh, an increase of 5.9% over 1998, primarily in the Labrador isolated systems.

CF(L)Co CF(L)Co exported 29,674 GWh in 1999, a decrease of 9.5% from 1998. Sales to HYDRO were 2,376 GWh an increase of 194 GWh from 1998 due to HYDRO's first full year of operation under the arrangement for exports to Hydro-Québec. Deliveries to TWINCo were 1,756 GWh, down 7.7% from 1,903 GWh in 1998 due to a decrease in industrial sales.

LAPOILE INTERCONNECTION The community of LaPoile is situated on the southwest coast of the Island. On December 1st, the 68 customers were connected to the Island main transmission line system. A low voltage line was built from Grand Bruit to LaPoile at a cost of $1.9 million. The project also involved the laying of two submarine cables across the LaPoile Bay. These customers will also now have the same lower electrical rates as others connected to the Island system. LaPoile became the fourth community in as many years to have their electrical service converted from diesel-powered generators to the province's main transmission line systems. This will conclude our current conversion program as the remaining 25 isolated systems appear not to offer a cost benefit opportunity.

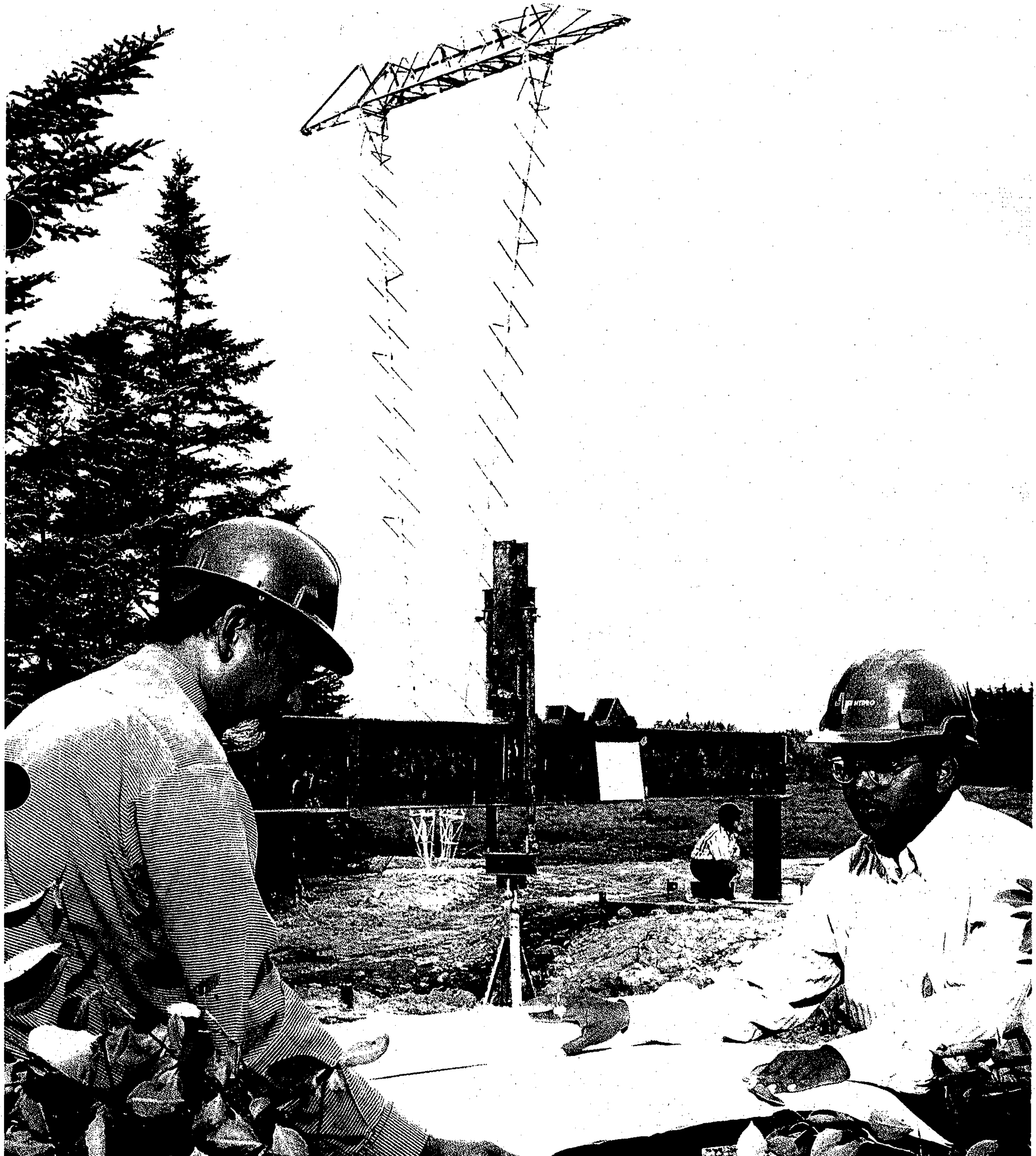


EXTERNAL ENVIRONMENTAL AUDITOR DANIEL GARAND (left), AND DARREN MOORE HYDRO'S ASSET AND PLANT ENGINEERING SUPERINTENDENT (right) IN THE NO.2 BAY D'ESPOIR HYDRO GENERATING PLANT.

AVALON PENINSULA TRANSMISSION LINE UPGRADING HYDRO has begun a multi-year program to strengthen the major transmission line systems on the Avalon Peninsula. This program is being undertaken to improve the system's reliability during ice storms with a more rigorous and improved design. Additional towers, stronger conductor and hardware will be installed to strengthen the transmission lines which have experienced heavier ice loading since their initial design and construction. This year one half of the transmission line from Holyrood to Chapel Arm was completed; upon completion next year, the total cost will be $17.5 million. In 2000, the transmission line from Sunnyside to Come By Chance will be similarly strengthened to withstand heavier ice loading.

P2000 The completion of the implementation of an integrated suite of applications was a major project for HYDRO in 1999. This followed the replacement of our mainframe computer, which could not accommodate this new programming. The integrated suite of applications serve our financial, administrative and maintenance activities and provide the opportunity to improve and expand the information available for decision making. Throughout HYDRO, systems such as Payroll, Materials Management, Financial Reporting and Customer Information provide an online capability to better manage our resources and customer information. Essentially, the integrated suite has incorporated a set of comprehensive business practices as an alternative to designing one which is unique to a company.

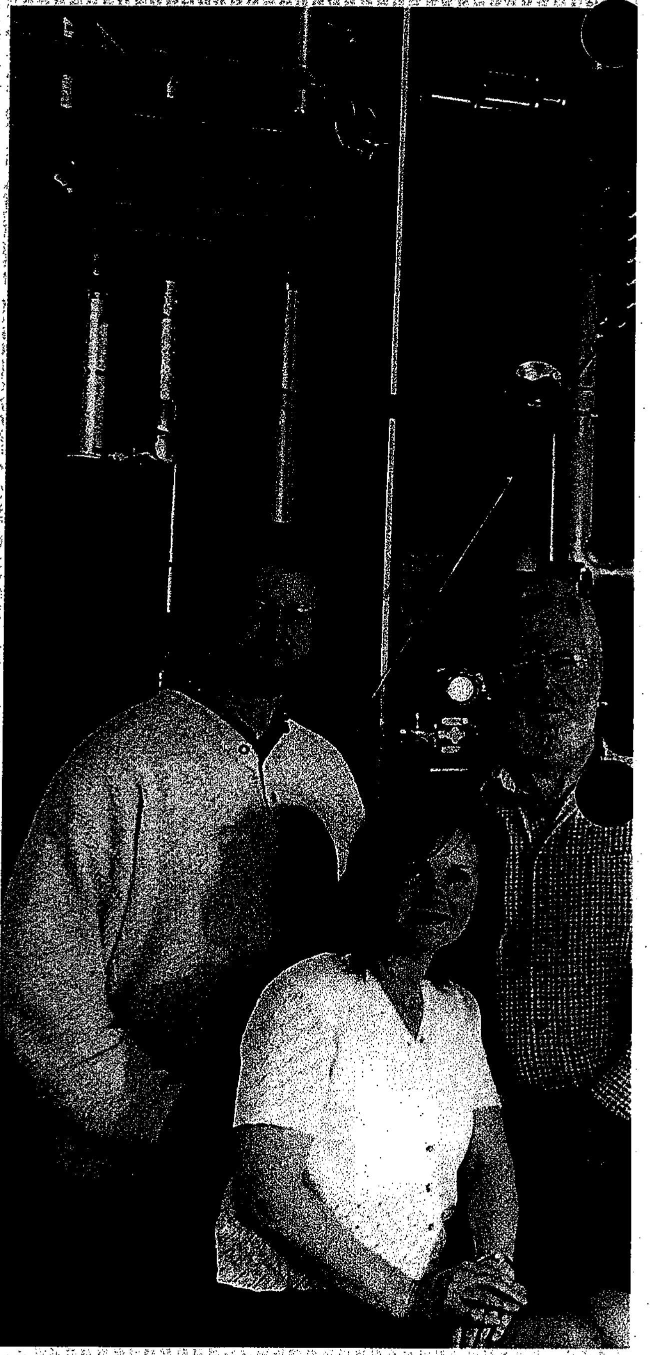
Y2K The world watched with a great deal of anticipation for the date change to the year 2000. Major companies and service providers, such as HYDRO, had conducted a comprehensive review program of their operations to identify and replace date sensitive equipment. As noted above, this review program also involved our financial and administrative systems which were replaced in 1998 and 1999 with a new integrated suite of applications. A contingency plan was also implemented throughout the province ensuring critical areas were as prepared as possible. The Holyrood Thermal Generating Station's date sensitive equipment was advanced a month ahead of time, inventories of critical supplies were brought to maximum levels and personnel were assigned to major locations for New Year's Eve. The considerable effort to ensure our system was reliable resulted in a successful conclusion as the New Year arrived without incident.

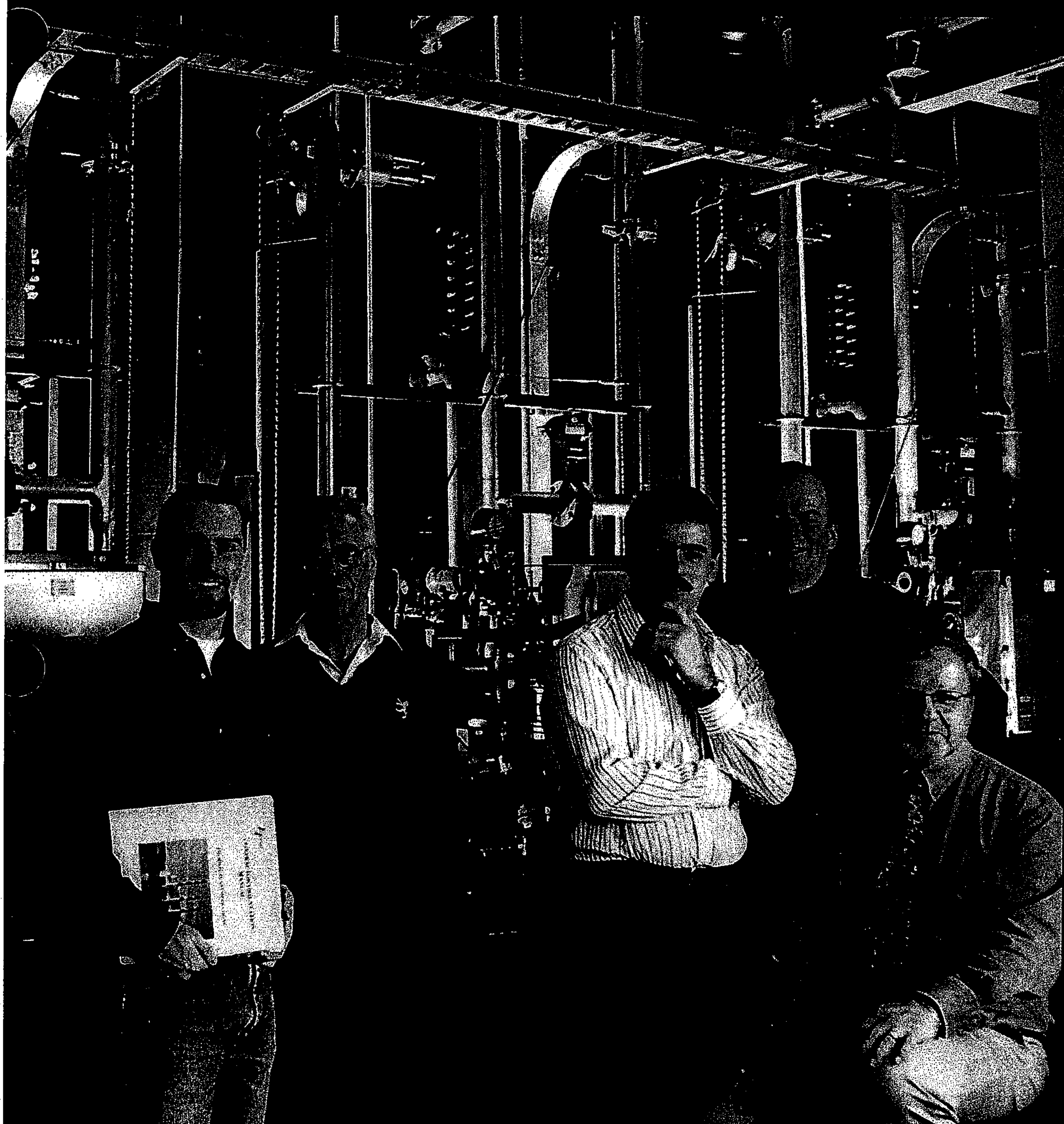


DR. ASIM HALDAR, SENIOR ENGINEER TECHNICAL SUPPORT (left)
AND DR. PRASAD YENEMULA, TRANSMISSION LINE DESIGN ENGINEER (right)
REVIEWING FOUNDATION TEST DRAWINGS FOR THE UPGRADING
OF THE AVALON PENINSULA TRANSMISSION LINES.

HOLYROOD HEALTH RISK ASSESSMENT

As part of its ongoing environmental monitoring process HYDRO commissioned a health risk assessment of the air emissions from the Holyrood Thermal Generating Station. The objective of the health risk assessment was to determine whether air emissions from the facility pose a potential health risk to local residents, and to identify which issues, if any, require further study. Two open houses were held in the area, the first to explain the process and to obtain the concerns of residents in the Holyrood/Conception Bay area. The second open house was held to share the results with the residents. The study concluded that long-term adverse health effects would not be expected as a result of the air emissions. However, short-term health effects, such as respiratory irritation may occur in sensitive individuals on an infrequent basis. Several recommendations relating to the obtaining of more data to validate the results, and to further assess key issues, will be addressed, along with continuing our ongoing environmental monitoring process.





THE ENVIRONMENTAL MANAGEMENT TEAM OF THE HOLYROOD THERMAL GENERATING PLANT ACHIEVED ISO 14001 REGISTRATION. (left to right): MICHAEL TAYLOR, CHERYL OLIVER, HERB DOWDEN, SCOTT CROSBIE, GEORGE MOORE, TERRY LEDREW, ANDREW MACNEILL, GERRY NOSEWORTHY.

FUTURE

IN 2000 we will continue the upgrading of the Avalon Peninsula transmission lines to improve system reliability. In Nain, Labrador we are planning to construct a new powerhouse to better serve our customers. Geotechnical surveys will be carried out next year prior to the construction of a replacement digital microwave system. This will allow greater reliability for our Energy Control Centre to control and monitor the major terminal stations on the Avalon Peninsula. The two year project will cost $10.7 million and will reduce HYDRO's dependence on leased facilities. We are also planning for new sources of generation as our forecasted load on the Island system increases slightly each year.

CLARENCE PAYNE, TECHNICAL OPERATOR (right), DOUG YOUNG, PLANT OPERATIONS SUPERVISOR WESTERN REGION (left) AND IVAN SNOW, PLANT OPERATOR (background) AT HINDS LAKE HYDRO GENERATING PLANT.

THE MISSION

THE MISSION

HYDRO

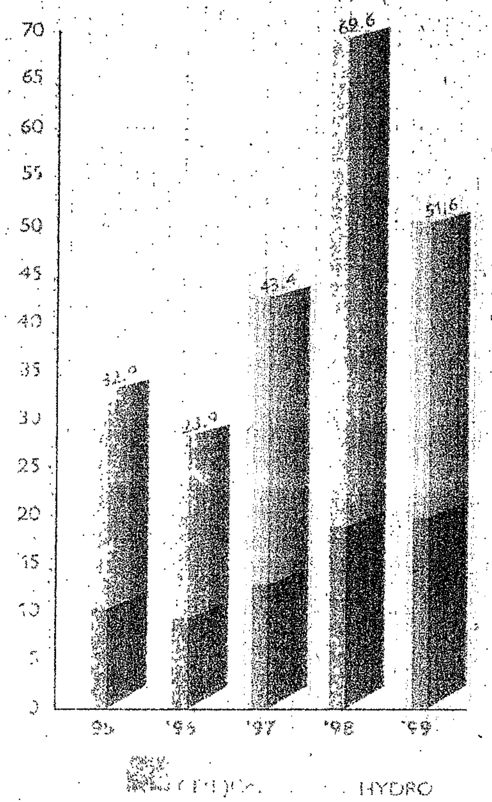
The mission of the **NEWFOUNDLAND AND LABRADOR HYDRO GROUP OF COMPANIES** is to provide electrical **POWER & ENERGY** on behalf of the people of the Province, at the **LOWEST COST** consistent with reliable **SERVICE**, due consideration for the **ENVIRONMENT** and the **SAFETY** of our employees and the customers which we serve.

THE POWER OF COMMITMENT

1999 FINANCIAL SECTION

HYDRO

Consolidated Net Income
MILLIONS OF DOLLARS



NEWFOUNDLAND AND LABRADOR HYDRO

CONTENTS FINANCIAL SECTION

FINANCIAL REVIEW AND ANALYSIS

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 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. Furthermore, the consolidated balance sheet as at December 31, 1999 includes only HYDRO'S proportionate share of CF(L)Co's assets and liabilities whereas the consolidated balance sheet at December 31, 1998 included 100% of CF(L)Co's assets and liabilities offset by non-controlling interest.

1999 Financial Performance Compared to Previous Year

millions of dollars	1999	1998
Total revenue	**406.2**	404.8
Total expenses	**334.8**	327.3
Write-down of capital assets	**16.7**	–
Net income	**51.6**	69.6
Dividends	**17.0**	16.8
Retained earnings	**586.1**	551.5

Results of Operations

NET INCOME

Net income for 1999 amounted to $51.6 million compared with $69.6 million for 1998. The decrease of $18.0 million was mainly due to the write-down of the Roddickton woodchip fired thermal generating station, which has been approved by the Public Utilities Board ("PUB") (See Note 3 of the Notes to Consolidated Financial Statements).

Results of Operations (cont'd)

REVENUE

Total revenue for 1999 was $406.2 million, an increase of $1.4 million from 1998. Energy sales for 1999 were $384.4 million, a decrease of 1.9% or $7.4 million from 1998, primarily as a result of the change in accounting for HYDRO's interest in CF(L)Co. This was partially offset by higher sales of recall energy to Hydro-Québec and higher industrial sales. Recovery of costs included in the Rate Stabilization Plan increased from $10.9 million in 1998 to $15.4 million in 1999. A guaranteed winter availability contract between CF(L)Co and Hydro-Québec, retroactive to November 1998, also increased revenue by $3.6 million. Rentals and royalties and other revenue increased by $0.7 million.

EXPENSES

Total expenses for 1999 amounted to $334.8 million, an increase of 2.3% or $7.5 million over 1998. The total cost of fuels was $35.1 million in 1999, an increase of $8.2 million from 1998, primarily due to the changes in fuel prices, energy sales and hydraulic generation. Power purchases totaled $13.1 million in 1999, an increase of $6.0 million over 1998 due mainly to the full year's effect of new contracts with non-utility generators which became effective in the last quarter of 1998. Operations and administration expenses were $112.3 million in 1999, a decrease of $1.8 million from 1998, primarily due to the change in accounting for HYDRO's interest in CF(L)Co. The amortization of costs in the Rate Stabilization Plan increased from $10.9 million in 1998 to $15.4 million in 1999.

Depreciation expense was $51.3 million in 1999, an increase of $0.8 million over 1998 as a result of additions to plant in service. Total interest expense, which includes a debt guarantee fee, was $107.6 million in 1999, a reduction of $10.2 million from 1998 primarily due to the retirement of two high coupon bond issues, lower rates and lower balances.

In addition to the above, in 1999 HYDRO has recorded a loss of $16.7 million, associated with the write-down of the Roddickton woodchip fired thermal generating station, which is no longer required for the generation of electricity and which has been approved by the PUB.

CAPITAL EXPENDITURES

Expenditures for additions to fixed assets in 1999 amounted to $62.3 million compared to $33.7 million in 1998. The 1999 expenditures were for various additions to plant, transmission and distribution facilities throughout the Province. Expenditures included $25.9 million related to the potential development of hydro projects in Labrador, $10.3 million for major transmission line upgrades and $2.6 million for vehicles and heavy equipment.

The capital program can be financed from two sources, cash generated from operations and cash acquired through borrowing in the capital markets. The capital program for 1999 was financed entirely by cash from operations which amounted to $137.3 million, compared with $114.7 million in 1998.

Results of Operations (cont'd)

DIVIDENDS

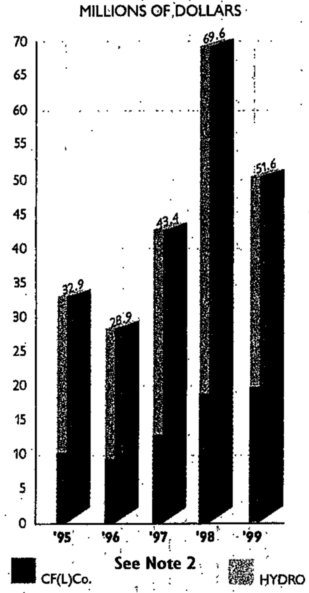
HYDRO commenced paying common dividends to the Province in 1995. HYDRO pays a dividend based on its net operating income and a further dividend based on the cash flow that HYDRO receives from its investment in CF(L)Co, net of debt servicing costs related to the debt that HYDRO incurred to finance its investment in CF(L)Co. The payments made by HYDRO in 1999 were $12.0 million from net operating income and $5.0 million from its investment in CF(L)Co.

DEBT

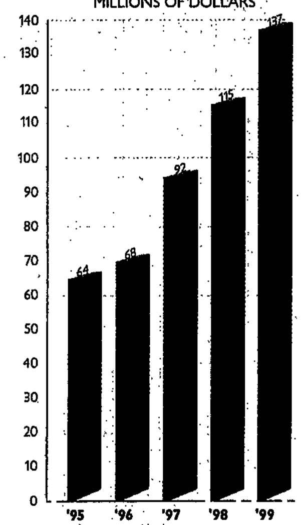
HYDRO is continuing to actively manage its debt portfolio in an ongoing effort to minimize interest costs. Call options were exercised on two high coupon bond issues during 1999. These two bond issues, totaling $105 million par value and bearing coupons of 13.375% and 10.00%, were fully funded by sinking funds and did not require any new borrowing. The change in CF(L)Co's debt is a result of the change in accounting for HYDRO's interest in CF(L)Co, in addition to regular debt retirement.

Total debt is as shown in the following table:

millions of dollars	1999	1998	Increase (Decrease)
HYDRO			
Long-term debt	1,042.9	1,134.4	(91.5)
Promissory notes	54.0	83.1	(29.1)
	1,096.9	1,217.5	(120.6)
CF(L)Co			
Long-term debt	220.8	388.8	(168.0)
Total debt	1,317.7	1,606.3	(288.6)



See Note 2



See Note 2

Segmented Information

Segmented operating results are as follows:

	HYDRO	CF(L)Co[1]	Total	HYDRO	CF(L)Co	Total
millions of dollars		1999			1998	
Revenue						
Energy sales	317.0	77.7	394.7	304.2	95.5	399.7
Recovery of costs in RSP	15.4	–	15.4	10.9	–	10.9
	332.4	77.7	410.1	315.1	95.5	410.6
Expenses						
Operations and administration	85.3	27.0	112.3	81.0	33.0	114.0
Fuels	35.1	–	35.1	26.9	–	26.9
Amortization of costs in RSP	15.4	–	15.4	10.9	–	10.9
Power purchased	18.9	–	18.9	13.5	–	13.5
Depreciation	36.1	14.0	50.1	32.8	16.6	49.4
Interest	93.2	12.8	106.0	98.8	16.5	115.3
	284.0	53.8	337.8	263.9	66.1	330.0
Income before the following	48.4	23.9	72.3	51.2	29.4	80.6
Interest on debt financing the CF(L)Co investment and other dedicated costs	–	0.9	0.9	–	3.1	3.1
Income from operations	48.4	23.0	71.4	51.2	26.3	77.5
Write-down of capital assets	16.7	–	16.7	–	–	–
Income before Non-controlling interest	31.7	23.0	54.7	51.2	26.3	77.5
Non-controlling interest	–	3.1	3.1	–	7.9	7.9
Net income to HYDRO	31.7	19.9	51.6	51.2	18.4	69.6

(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
*1999	1.33	76	24
*1998	1.42	77	23
1997	1.23	80	20
1996	1.15	81	19
1995	1.17	82	18

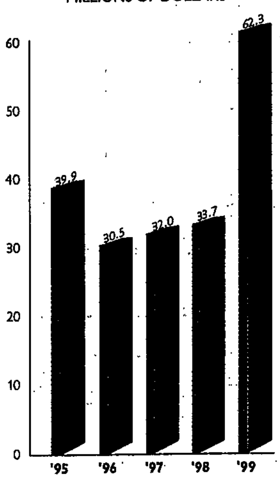
* Includes sales of recall energy to Hydro-Québec effective March 9, 1998.

Outlook

At this time there are no increases in electricity rates planned for 2000 except for adjustments arising from the normal operation of the Rate Stabilization Plan.

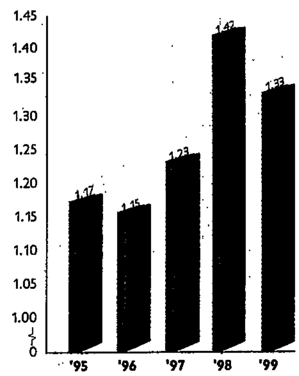
Throughout 1999, the Province of Newfoundland and Labrador and the Province of Québec have continued to examine the viability of hydro developments in Labrador and related projects in Québec.

Capital Expenditures
MILLIONS OF DOLLARS

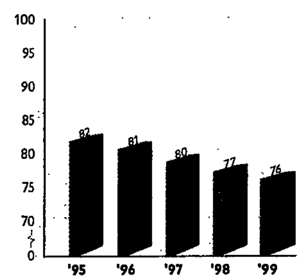


See Note 2

Interest Coverage
TIMES GROSS INTEREST



Debt to Total Capitalization
PERCENT



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 18, 2000. 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, 1999 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, 1999 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 18, 2000

Ernst & Young LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEET

December 31, 1999 with comparative figures for 1998

millions of dollars	1999	1998
ASSETS		
Capital assets (Note 3)		
Capital assets in service	2,478.3	2,807.7
Less contributions in aid of construction	105.6	114.5
	2,372.7	2,693.2
Less accumulated depreciation	628.6	719.3
	1,744.1	1,973.9
Construction in progress	42.2	16.8
	1,786.3	1,990.7
Current assets		
Cash and cash equivalents	0.1	8.5
Short-term investments	8.1	5.3
Accounts receivable	67.1	90.9
Current portion of rate stabilization plan	17.0	17.0
Fuel and supplies at average cost	49.9	39.6
Prepaid expenses	1.1	2.7
	143.3	164.0
Sinking funds (Note 9)	28.8	113.3
Investments (Note 4)	13.0	21.7
Rate stabilization plan	17.5	31.7
Deferred charges (Note 6)	153.4	201.7
	2,142.3	2,523.1

See accompanying notes

CONSOLIDATED BALANCE SHEET

December 31, 1999 with comparative figures for 1998

millions of dollars	1999	1998
LIABILITIES AND SHAREHOLDER'S EQUITY		
Long-term debt (Note 7)	1,226.4	1,398.5
Current liabilities		
Bank indebtedness	4.8	4.7
Accounts payable and accrued liabilities	43.5	48.0
Accrued interest	27.0	33.9
Long-term debt due within one year (Note 7)	37.3	124.7
Promissory notes (Note 7)	54.0	83.1
Due to CF(L)Co	0.3	–
	166.9	294.4
Foreign exchange loss provision	8.0	7.0
Long-term payable (Note 8)	–	1.9
Non-controlling interest in CF(L)Co (Note 1)	–	114.9
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 4)		
Lower Churchill Development	15.4	15.4
Muskrat Falls Project	2.2	2.2
Gull Island Project	100.0	100.0
Retained earnings	586.1	551.5
	726.2	691.6
Commitments and contingencies (Note 11)		
	2,142.3	2,523.1

See accompanying notes

On behalf of the Board:

DIRECTOR

Trudy Pound-Curtis

DIRECTOR

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended December 31, 1999 with comparative figures for 1998

millions of dollars	1999	1998
Revenue		
Energy sales	384.4	391.8
Recovery of costs in rate stabilization plan	15.4	10.9
Guaranteed winter availability	3.6	—
Rentals and royalties	0.4	0.5
Other	2.4	1.6
	406.2	404.8
Expenses		
Operations and administration	112.3	114.1
Fuels	35.1	26.9
Amortization of costs in rate stabilization plan	15.4	10.9
Power purchased	13.1	7.1
Depreciation	51.3	50.5
Interest (Note 10)	107.6	117.8
	334.8	327.3
Income from operations	71.4	77.5
Write-down of capital assets (Note 3)	16.7	—
Income before non-controlling interest	54.7	77.5
Non-controlling interest	3.1	7.9
Net income	51.6	69.6
Retained earnings, beginning of year	551.5	498.7
	603.1	568.3
Dividends	17.0	16.8
Retained earnings, end of year	586.1	551.5

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 1999 with comparative figures for 1998

millions of dollars	1999	1998 (Note 2)
Cash provided by (used in)		
Operating activities		
Income before non-controlling interest	54.7	77.5
Adjusted for items not involving a cash flow		
Depreciation	51.3	50.5
Amortization of deferred charges	1.8	1.9
Rate stabilization plan	14.2	(7.3)
Write-down of capital assets	16.7	–
Other	3.6	2.7
	142.3	125.3
Change in non-cash balances related to operations		
Accounts receivable	12.7	(23.7)
Fuel and supplies	(13.0)	7.9
Prepaid expenses	1.1	1.0
Accounts payable and accrued liabilities	1.3	8.5
Accrued interest	(6.4)	(2.6)
Due to CF(L)Co	0.3	–
Adjustment for deferred foreign exchange	1.0	1.2
Adjustment for non-controlling interest	(0.2)	–
Long-term payable	(1.8)	(2.9)
	137.3	114.7
Financing activities		
Long-term debt issued	–	200.9
Long-term debt retired	(140.8)	(244.9)
Foreign exchange loss recovered	7.1	8.7
Dividends paid by a subsidiary to a non-controlling interest	(1.3)	(6.6)
Decrease in promissory notes	(29.1)	(126.8)
Dividends	(17.0)	(16.8)
	(181.1)	(185.5)
Investing activities		
Net additions to capital assets	(62.3)	(33.7)
Decrease (increase) in short-term investments	(6.7)	10.1
Increase in sinking funds	(13.8)	(34.6)
Sinking funds redeemed	117.6	129.1
Decrease in investments	4.8	4.1
Additions to deferred charges	(1.6)	(3.1)
Change in accounts payable related to investing activities	(2.7)	3.0
	35.3	74.9
Net (decrease) increase in cash	(8.5)	4.1
Cash position, beginning of year	3.8	(0.3)
Cash position, end of year	(4.7)	3.8
Cash is represented by		
Cash and cash equivalents	0.1	8.5
Bank indebtedness	(4.8)	(4.7)
	(4.7)	3.8

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 conformity 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. HYDRO's capital expenditure program is also 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).

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

PRINCIPLES OF CONSOLIDATION (cont'd)

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 and having a rated capacity of 5,428,000 kW ("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, 1999, $28.9 million (1998 - $27.7 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 4).

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 4).

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 4.60% to 5.10% (1998 - 4.65% to 5.47%). 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.

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

CAPITAL ASSETS AND DEPRECIATION (cont'd)

HYDRO, GIPCo and LCDC (cont'd)

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

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.

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

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 4.90% to 5.40% (1998 - 4.92% to 5.60%) 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% (1998 - 7%). These amounts are also subject to yearly review and adjustment.

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.

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

FOREIGN CURRENCY TRANSLATION (CONT'D)

(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.

PENSION PLAN

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan, to which contributions are made equally by the employers and employees.

OTHER EMPLOYEE FUTURE BENEFITS

The employers provide group life insurance and health care benefits on a cost-shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. The cost of providing these benefits is charged to operations as the benefits are incurred. Commencing in 2000, HYDRO will implement accrual accounting for these other employee future benefits, as required by new recommendations from the Canadian Institute of Chartered Accountants.

2. Accounting Change

STATEMENT OF CASH FLOWS

HYDRO has adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to Cash Flow Statements, the major effect of which is a change in the definition of cash equivalents and the exclusion of certain non-cash transactions. The change has been applied retroactively and prior years have been restated.

3. Capital Assets

	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 4)	96.9	–	–	–
Capital studies (Note 4)	24.9	–	–	–
Other	204.2	18.3	101.2	27.9
	2,478.3	105.6	628.6	42.2
millions of dollars		1998		
Generation Plant				
Hydroelectric	1,468.7	20.5	299.0	0.8
Thermal	244.3	–	155.5	1.9
Diesel	51.0	10.2	15.5	0.2
Transmission and Distribution	664.0	57.3	130.2	2.7
Service facilities	34.0	–	12.6	–
Project costs (Note 4)	97.0	–	–	–
Capital studies (Note 4)	25.0	–	–	–
Other	223.7	26.5	106.5	11.2
	2,807.7	114.5	719.3	16.8

Included in the above amounts are CF(L)Co assets in service amounting to $621.6 million (1998 - $942.8 million) which are pledged as collateral for long-term debt.

The Roddickton/St. Anthony area was interconnected to the main Island grid in 1996. At that time, a 5,000 kW woodchip fired thermal generating station and a 2,350 kW diesel generating station in Roddickton were removed from normal production and placed in stand-by mode for a period of time during which the performance of the new transmission interconnection was assessed. In November 1999, HYDRO applied to the PUB to abandon and decommission these generating stations. In February 2000, the PUB issued an order authorizing HYDRO to abandon the woodchip fired thermal generating station, resulting in a write-down of capital assets of $16.7 million. The PUB has deferred a decision on the diesel generating station (net carrying amount - $0.4 million).

4. Investments

Investments consist of the following:

millions of dollars	1999	1998
Lower Churchill Option	5.2	5.2
Government of Canada Coupons, at cost (market value $7.7; 1998 - $16.8)	7.8	16.5
	13.0	21.7

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, 2000 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.

5. 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, 1999, and its proportionate interest in CF(L)Co's operations from June 18, 1999 through December 31, 1999. The investment is fully consolidated prior to June 18, 1999 (Note 1).

millions of dollars	1999
Current assets	31.6
Long-term assets	423.8
Current liabilities	34.2
Long-term liabilities	195.6
Revenues	30.3
Expenses	22.1
Net income	8.2
Cash provided by (used in)	
Operating activities	14.7
Financing activities	(9.5)
Investing activities	2.1

6. Deferred Charges

millions of dollars	1999	1998
Unamortized debt discount, financing expenses and other	15.2	15.8
Foreign exchange losses		
HYDRO - Realized	96.3	96.3
CF(L)Co		
Recoverable under the Power Contract	41.4	87.8
Unrecoverable portion to be amortized	6.2	11.7
	143.9	195.8
Less current portion recoverable included in current assets	5.7	9.9
	138.2	185.9
	153.4	201.7

7. Long-Term Debt

	HYDRO	CF(L)Co	Total	HYDRO	CF(L)Co	Total
millions of dollars		1999			1998	
Summary of long-term debt						
Long-term debt	1,042.9	220.8	1,263.7	1,134.4	388.8	1,523.2
Less payments due within one year	12.1	25.2	37.3	87.1	37.6	124.7
	1,030.8	195.6	1,226.4	1,047.3	351.2	1,398.5

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

millions of dollars	2000	2001	2002	2003	2004
	37.3	189.7	141.7	44.1	28.0

The payments due within one year include sinking fund requirements of $5.8 million (1998 - $6.2 million).

Details of long-term debt are as follows:

HYDRO

Series	Interest Rate %	Year of Issue	Call Date	Year of Maturity	1999	1998	
millions of dollars							
N	13.375	1981	1999	2001	–	75.0	(a)
W	10.750	1991	–	2001	150.0	150.0	
	10.000	1977	1999	2002	–	30.0	(a)
Z	5.250	1997	–	2002	100.0	100.0	
V	10.500	1989	–	2014	125.0	125.0	(a)
X	10.250	1992	–	2017	150.0	150.0	(a)
Y	8.400	1996	–	2026	300.0	300.0	(a)
AA	5.500	1998	–	2008	200.0	200.0	
Total debentures					1,025.0	1,130.0	
Less sinking fund investments in own debentures					29.7	49.0	
					995.3	1,081.0	
Government of Canada loans at 5.25% to 7.91% maturing in 2006 to 2014					41.6	46.4	
Other					6.0	7.0	
					1,042.9	1,134.4	
Less payments due within one year					12.1	87.1	
					1,030.8	1,047.3	

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

7. 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	1999	1998
First Mortgage Bonds		
7.750% Series A due December 15, 2007 (U.S. $114.5; 1998 - U.S. $196.3)	165.3	300.9
7.875% Series B due December 15, 2007	11.6	19.8
General Mortgage Bonds		
7.500% due December 15, 2010	43.9	68.1
	220.8	388.8
Less payments due within one year	25.2	37.6
	195.6	351.2

The First Mortgage Bonds, Series A and B, are repayable in fixed semi-annual and in contingent annual sinking fund installments. 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 installments, 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 $26.3 million in each of the years 2000 to 2004 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.

8. Long-Term Payable

The long-term payable to Hydro-Québec bears interest at 7% per annum and is repayable over a four year period which commenced in September 1996. The current portion of $1.3 million (1998 - $2.9 million) is included in accounts payable and accrued liabilities.

9. Financial Instruments

FAIR VALUE

The estimated fair values of financial instruments as at December 31, 1999 and 1998 are based on relevant market prices and information available at the time. The fair value of 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	1999		1998	
Financial Assets				
Sinking funds	28.8	27.3	113.3	118.3
Financial Liabilities				
Long-term debt including amount due within one year	1,263.7	1,398.9	1,523.2	1,792.4
Long-term payable including amount due within one year	1.3	1.1	4.8	4.6
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, 1999 of the total accounts receivable balance outstanding approximately 38.14% (1998 - 29.57%) is due from a regulated utility, and 36.04% (1998 - 41.94%) from Hydro-Québec.

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 1999 to 2026. 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 5.48% to 10.55% (1998 - 5.80% to 11.68%).

9. Financial Instruments (cont'd)

INTEREST RATE RISK

HYDRO has 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 receives a fixed rate of 4.62% and pays the three month Canadian Dealers Offered Rate which is fixed quarterly. The agreement expires in March, 2000.

10. Interest Expense

millions of dollars	1999	1998
Gross interest		
Long-term debt	123.5	155.3
Promissory notes	3.6	7.3
	127.1	162.6
Amortization of debt discount and financing expenses	1.4	1.8
Provision for foreign exchange losses	1.0	1.0
	129.5	165.4
Less		
Recovered from Hydro-Québec (a)	16.5	21.8
Interest capitalized during construction	2.0	0.4
Interest earned	14.4	36.8
Net interest expense	96.6	106.4
Debt guarantee fee	11.0	11.4
Net interest and guarantee fee	107.6	117.8

(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, Churchill Falls 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, Churchill Falls 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.

11. 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 with respect to construction costs, outages and plant shutdowns. The aggregate of these claims, less any amounts that have been provided for in HYDRO's financial statements is approximately $2.3 million (1998 - $2.2 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 $18.8 million at December 31, 1999 (1998 - $16.0 million).

12. Comparative Figures

Certain of the 1998 comparative figures have been reclassified to conform with the 1999 financial statement presentation.

FINANCIAL STATISTICS

Years ended December 31

in millions of dollars	1999(1)	1998	1997	1996	1995
OPERATING RESULTS					
Revenue					
Energy sales	**384.4**	391.8	376.9	364.7	365.5
Rentals and royalties	**0.4**	0.5	0.5	0.5	0.7
Recovery of costs in RSP	**15.4**	10.9	7.2	1.5	–
Guaranteed Winter Availability	**3.6**	–	–	–	–
Other	**2.4**	1.6	1.2	2.4	3.4
	406.2	404.8	385.8	369.1	369.6
Expenses					
Operations and administration	**112.3**	114.1	106.9	108.7	108.1
Amortization of RSP costs	**15.4**	10.9	7.2	1.5	–
Fuels and power purchased	**48.2**	34.0	46.4	43.8	42.3
Depreciation	**51.3**	50.5	48.0	46.8	45.7
Interest	**107.6**	117.8	128.4	134.6	134.8
	334.8	327.3	336.9	335.4	330.9
Income from Operations	**71.4**	77.5	48.9	33.7	38.7
Write Down of Capital Assets	**16.7**	–	–	–	–
Net Income Before Non-controlling Interest	**54.7**	77.5	48.9	33.7	38.7
Non-controlling Interest	**3.1**	7.9	5.5	4.8	5.8
Net Income	**51.6**	69.6	43.4	28.9	32.9
Contributions to Net Income					
HYDRO Corporate	**31.7**	51.2	30.9	20.1	22.6
CF(L)Co	**19.9**	18.4	12.5	8.8	10.3
FINANCIAL POSITION					
Total Current Assets	**143.3**	164.0	146.6	170.7	156.1
Total Current Liabilities	**166.9**	294.4	433.0	324.4	427.3
Net Working Capital	**(23.6)**	(130.4)	(286.4)	(153.7)	(271.2)
Fixed Assets	**2,414.9**	2,710.0	2,677.5	2,649.8	2,601.3
Accumulated Depreciation	**628.6**	719.3	669.2	624.0	559.6
Fixed Assets, Net	**1,786.3**	1,990.7	2,008.3	2,025.8	2,041.7
Sinking Funds	**28.8**	113.3	144.3	203.1	325.9
Other Assets	**183.9**	255.1	245.8	220.8	227.4
Long-Term Debt	**1,226.4**	1,398.5	1,334.0	1,538.7	1,584.6
Other Liabilities	**22.8**	138.6	139.2	141.0	138.9
Shareholder's Equity	**726.2**	691.6	638.8	616.3	600.3
EMPLOYEES AT YEAR END					
Permanent	**1,069**	1,078	1,097	1,098	1,155
Temporary	**207**	196	156	155	180
Total	**1,276**	1,274	1,253	1,253	1,335

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

OPERATING STATISTICS

Years ended December 31

	1999	1998	1997	1996	1995
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	57
Total	7,255	7,255	7,2[illegible]5	7,255	7,254
ELECTRIC ENERGY GENERATED, NET (GWh)					
CF(L)Co	34,508	37,543	33,727	28,998	29,945
HYDRO					
Hydraulic	4,801	4,260	4,628	4,574	4,394
Thermal	914	1,255	1,528	1,409	1,554
Diesel	41	41	41	64	74
Total	40,2[illegible]4	43,099	39,9[illegible]4	[illegible]5,045	35,967
ELECTRIC ENERGY SALES (GWh)					
CF(L)Co					
Export	29,674	32,793	30,301	25,748	26,693
HYDRO					
Utility	4,084	4,157	4,306	4,187	4,214
Rural	830	811	815	765	751
Industrial	1,343	1,286	1,660	1,637	1,541
Export	1,731	1,344(1)	–	–	–
Total	37,662	40,391	37,082	32,337	33,199
AVERAGE SALES REVENUE (cents per kWh)					
CF(L)Co					
Export	0.27	0.27	0.27	0.29	0.30
HYDRO					
Utility	4.49	4.49	4.51	4.53	4.53
Rural	5.54	5.46	5.45	5.65	5.76
Industrial	3.58	3.26	3.24	3.27	3.27
Export	2.22	2.21(1)	–	–	–
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	1,431
69 kV	636	636	636	636	588
Total	4,688	4,688	4,688	4,688	4,589
PEAK DEMAND (MW)					
CF(L)Co System	5,590	5,602	5,584	5,577	5,690
HYDRO System	1,265	1,295	1,229	1,318	1,250

(1) Restated to 1999 format.

COMMITMENT AND PURPOSE
FROM FUNCTION TO PROCESS

HYDRO

NEWFOUNDLAND AND LABRADOR HYDRO

BOARD OF DIRECTORS

NEWFOUNDLAND AND LABRADOR HYDRO

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Terry Goodyear

Trudy Pound - Curtis

Barbara Fong

William Kelly

Deborah Thiel

Mark Dobbin

Wayne Trask

William E. Wells

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Thierry Vandal

Albert Hickman

Len Stirling

Bob Warr

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Victor Young

T. David Collett, ex-officio

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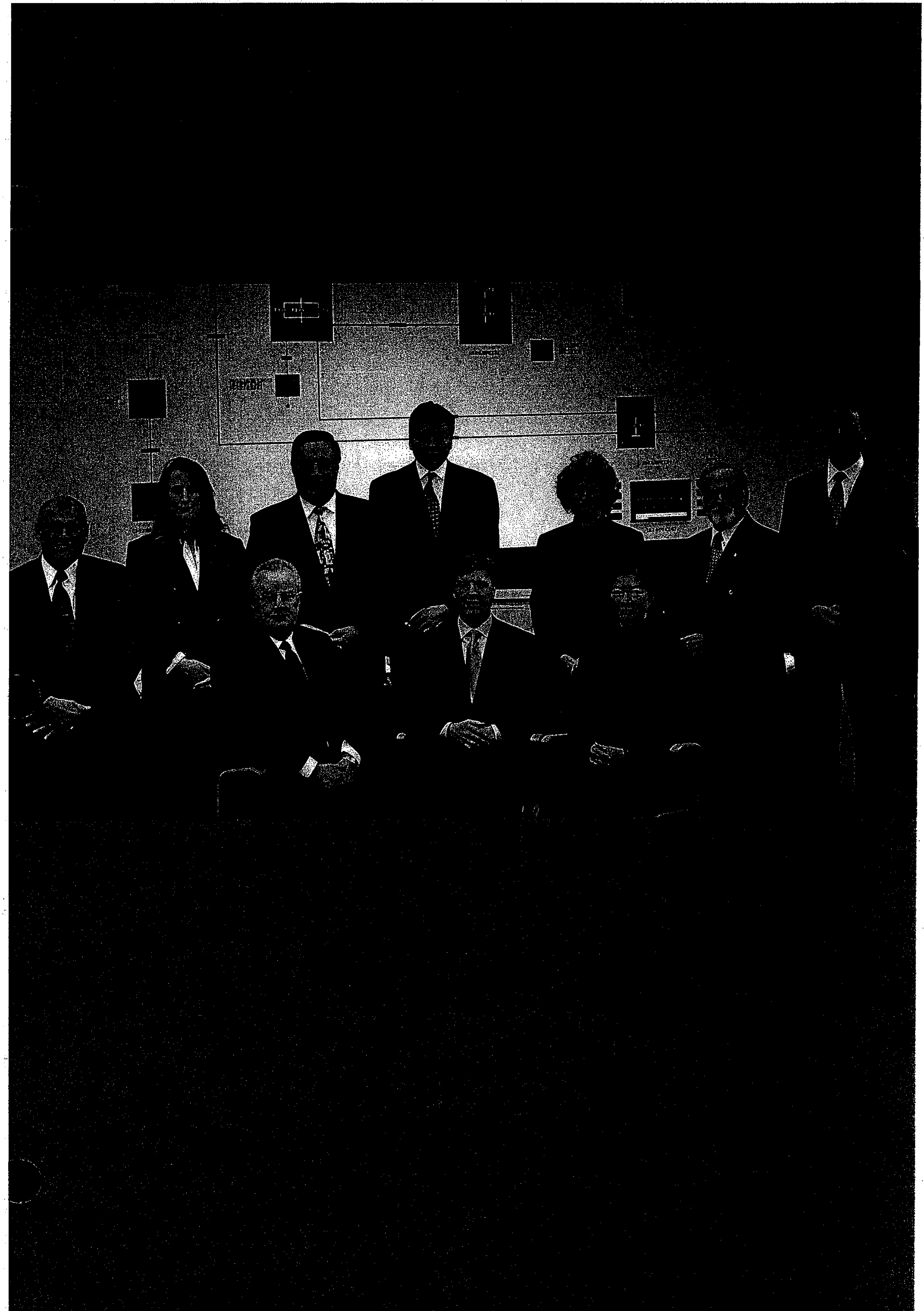

OFFICERS

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President and Chief Executive Officer

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Executive Vice-President Production

MAUREEN P. GREENE
Vice-President Human Resources, General Counsel and Corporate Secretary

DEREK W. OSMOND
Vice-President Finance and Chief Financial Officer

DAVID W. REEVES
Vice-President Transmission and Rural Operations

JAMES L. THISTLE
Vice-President Labrador Hydro Project

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Corporate Controller and Treasurer

GERALD BOWERS
Assistant Treasurer

PETER HICKMAN
Assistant Corporate Secretary

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Assistant Treasurer

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Assistant Corporate Secretary

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Vice-President Human Resources, General Counsel and Corporate Secretary

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Treasurer

GERALD BOWERS
Assistant Treasurer

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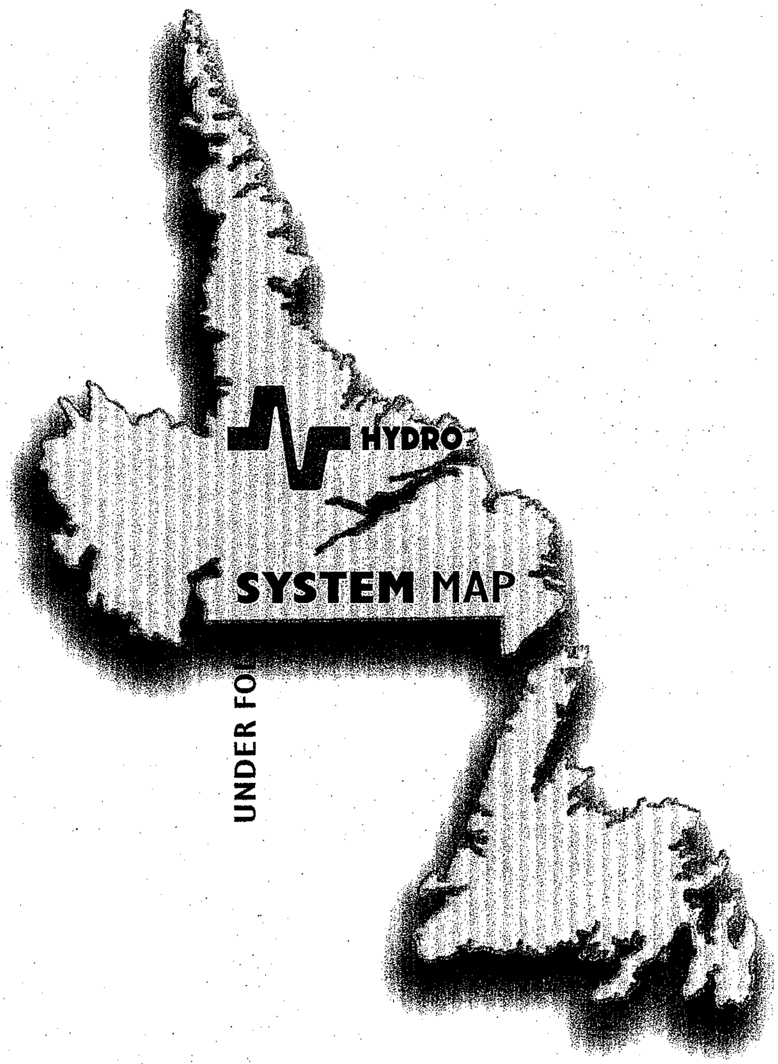
Assistant Corporate Secretary



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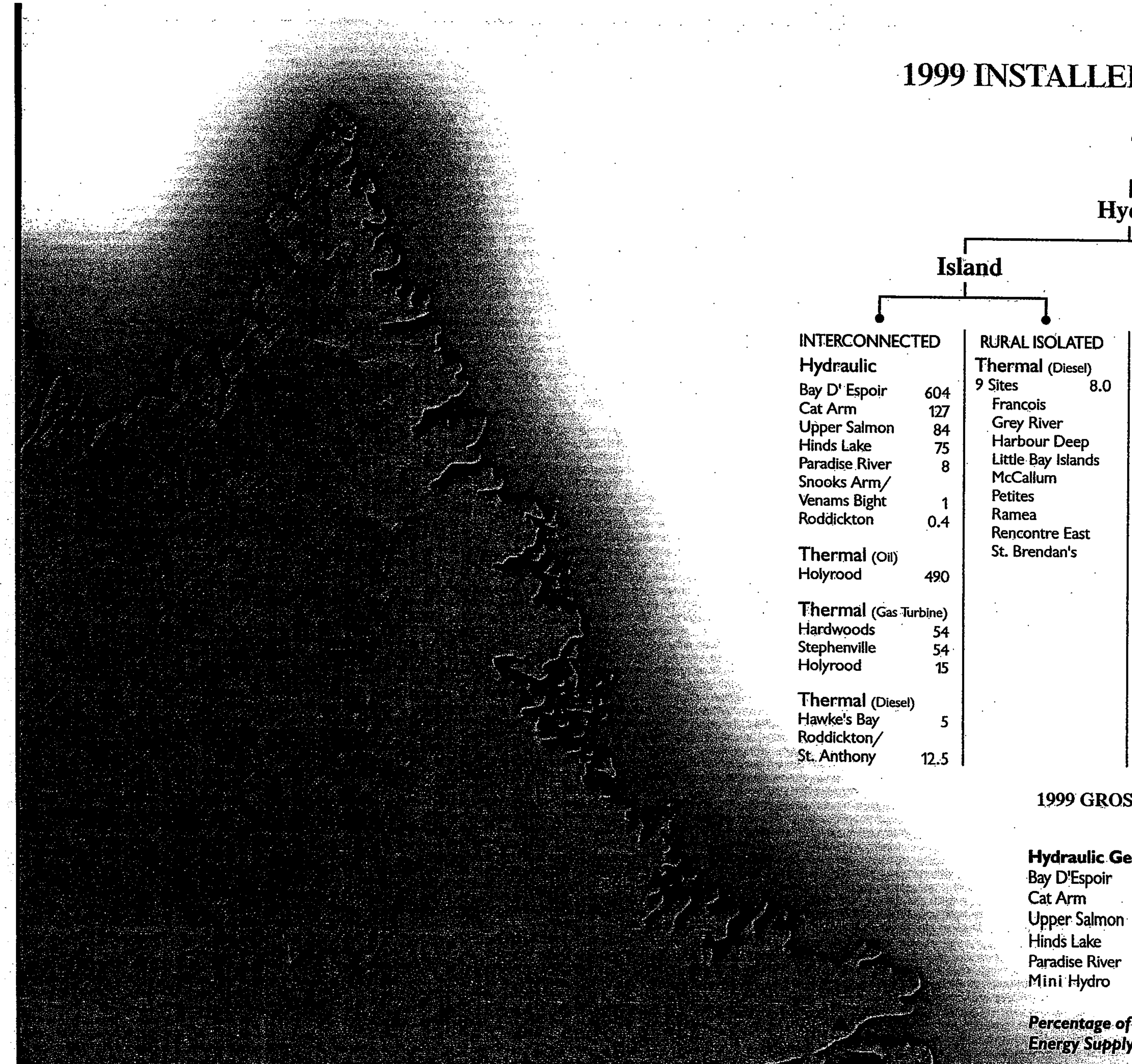

1999 INSTALLED GENERATING CAPACITY

Megawatts (MW)

The Hydro Group

- Hydro
  - Island
  - Labrador
- CF(L)Co
  - Labrador

Hydro – 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	12.5

RURAL ISOLATED

Thermal (Diesel)
9 Sites 8.0
- Francois
- Grey River
- Harbour Deep
- Little Bay Islands
- McCallum
- Petites
- Ramea
- Rencontre East
- St. Brendan's

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 20.0
- Black Tickle
- Cartwright
- Charlottetown
- Davis Inlet
- Hopedale
- L'Anse-au-Loup
- Makkovick
- Mary's Harbour
- Nain
- Norman Bay
- Paradise River
- Port Hope Simpson
- Postville
- Rigolet
- St. Lewis
- Williams Harbour

CF(L)Co – Labrador

INTERCONNECTED

Hydraulic	
Churchill Falls	5,428

1999 GROSS ISLAND INTERCONNECTED ENERGY SUPPLY

Gigawatt hours (GWh)

Hydraulic Generation	
Bay D'Espoir	3,096
Cat Arm	676
Upper Salmon	653
Hinds Lake	355
Paradise River	38
Mini Hydro	7
	4,825
Percentage of Total Energy Supply	81%

Hydraulic Power Purchase	162
Percentage of Total Energy Supply	2%
Thermal Generation	
Holyrood	993
Gas Turbine and Diesel	2
	995
Percentage of Total Energy Supply	17%

Generating Station
Terminal Station
Diesel Plant
Transmission Lines
735-kV
230-kV
138-kV
69-kV
Low Voltage
Customer-Owned
Norman Bay
Williams Harbour
St. Lewis
Mary's Harbour
St. Anthony
Roddickton
Harbour Deep
Cat Arm
Venams Bight
Snooks Arm
St. Brendan's
Hinds Lake
Grand Falls
Windsor
Stephenville
Upper Salmon
Bay D' Espoir
St. John's
Holyrood
Paradise River

HYDRO

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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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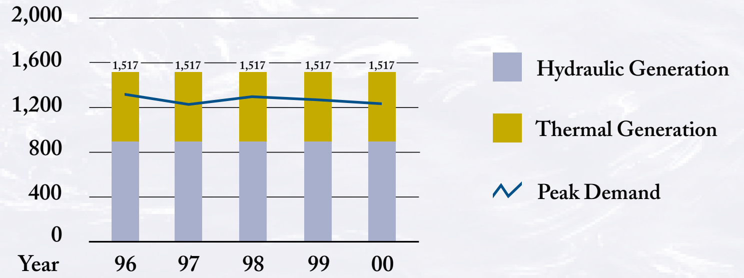
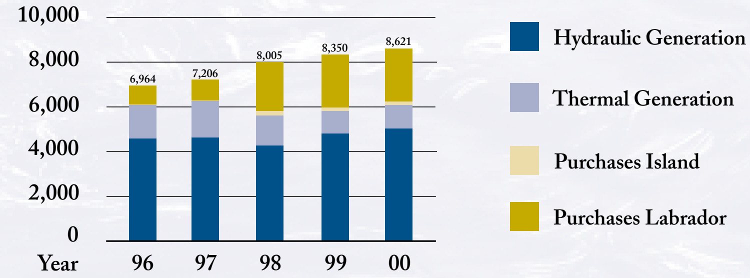
ISLAND INTERCONNECTED SYSTEMS GROSS GENERATED CAPACITY AND DEMAND
Megawatts

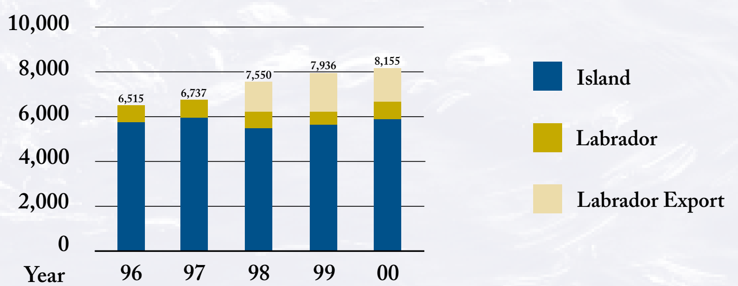


INTERCONNECTED SYSTEMS GROSS ENERGY GENERATED AND PURCHASED
Gigawatt Hours

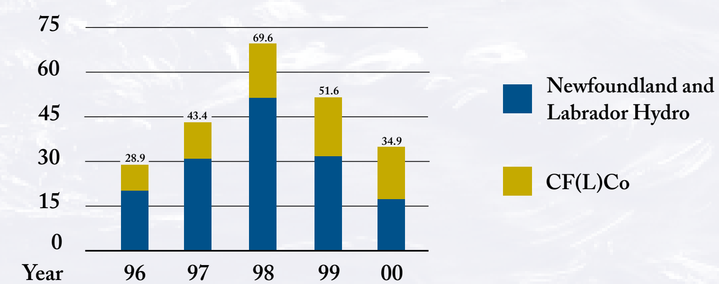


FINANCIAL **HIGHLIGHTS**

INTERCONNECTED SYSTEMS ENERGY SALES
Gigawatt Hours



CONSOLIDATED NET INCOME
Millions of Dollars



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

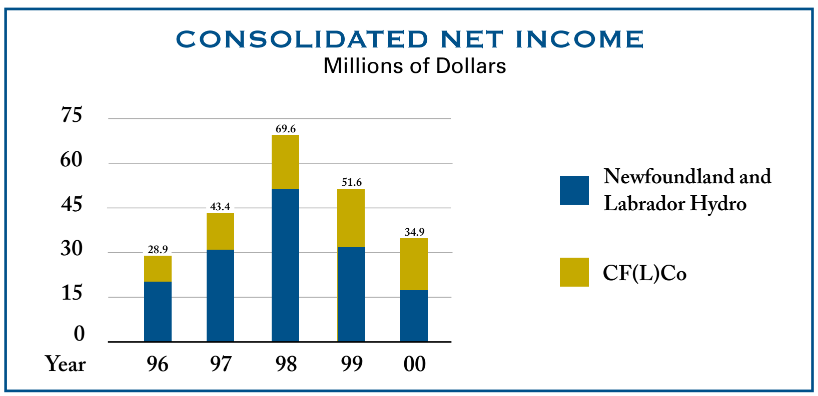
Hydro commenced paying common dividends to the Province in 1995. Hydro pays a dividend based on its net operating income and a further dividend based on the cash flow that Hydro receives from its investment in CF(L)Co, net of debt servicing costs related to the debt that Hydro incurred to finance its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

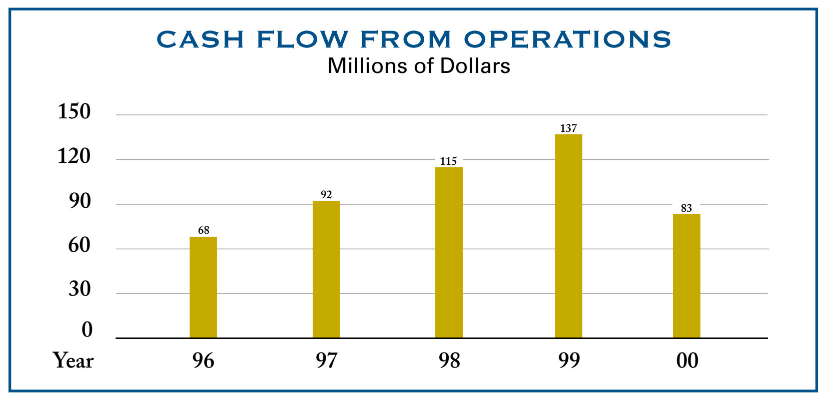
Debt

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

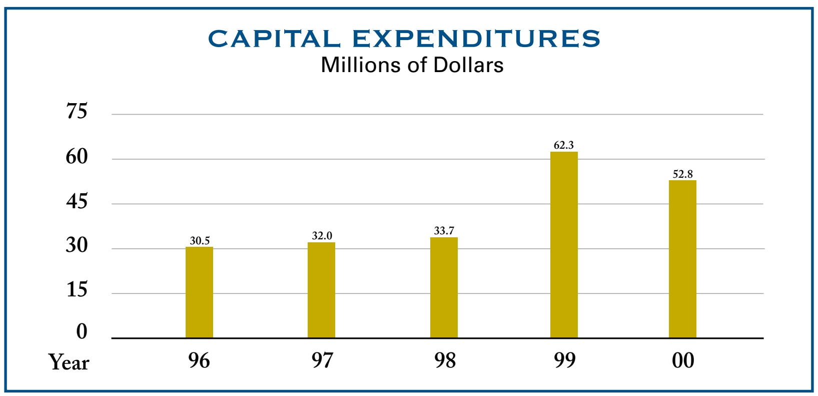
[1] Effective June 18, 1999, Hydro adopted the proportionate consolidation method of accounting for its interest in CF(L)Co. Accordingly, the results of CF(L)Co's operations for 1999 represent its total revenues and expenditures to June 18 and only Hydro's proportionate share thereafter.

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:

	Interest	Capital Structure %	
Year	Coverage	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

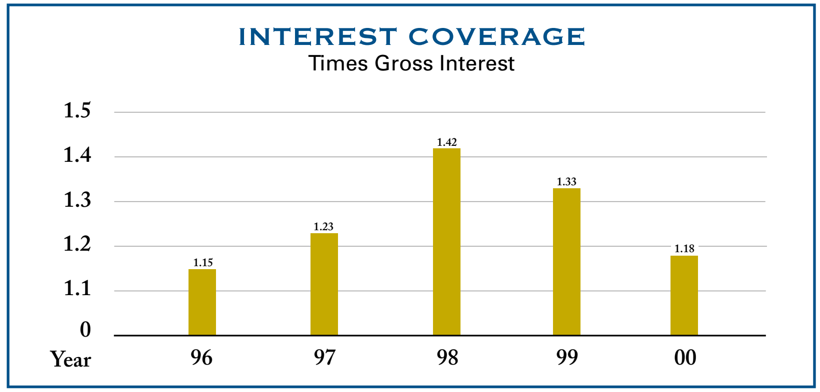
** Includes sales of recall energy to Hydro-Québec effective March 9, 1998.*

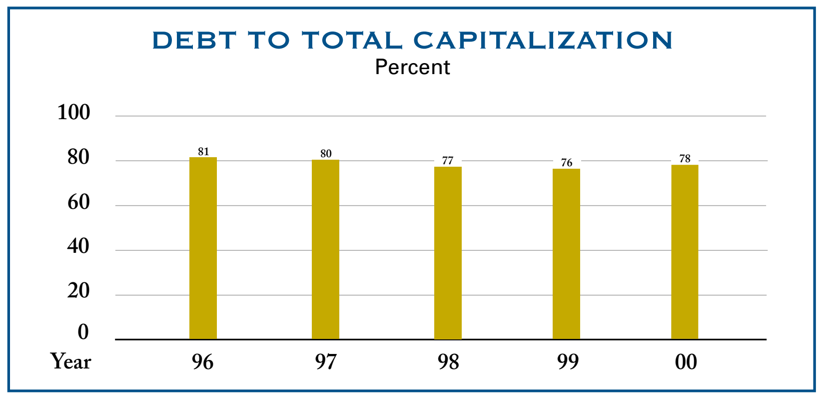


Outlook

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

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			
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.

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

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

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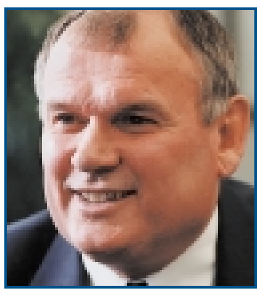

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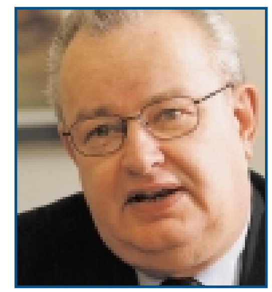

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First Vice-President and
Atlantic Regional Manager
Johnson Incorporated

Robert Warr
Managing Director
Nor-Lab Limited

William E. Wells
Chief Executive Officer
Churchill Falls (Labrador)
Corporation Limited

Victor L. Young
Chairman and
Chief Executive Officer
Fishery Products International

T. David Collett, ex-officio
President
Churchill Falls (Labrador)
Corporation Limited

Twin Falls Power Corporation Limited

T. David Collett
President
Twin Falls Power Corporation
Limited

Ralph Berge
Manager, Purchasing and Energy
Cliffs Mining Company

Maurice McClure
Manager, Financial Services
Iron Ore Company of Canada

Grant Goddard
Vice-President, Operations
Iron Ore Company of Canada

Maureen P. Greene
Vice-President, Human Resources,
General Counsel and Corporate
Secretary
Newfoundland and Labrador Hydro

Andrew E. MacNeill
General Manager
Churchill Falls (Labrador)
Corporation Limited

Derek W. Osmond
Vice-President, Finance and Chief
Financial Officer
Newfoundland and Labrador Hydro

David W. Reeves
Vice-President, Transmission and
Rural Operations
Newfoundland and Labrador Hydro

Lower Churchill Development Corporation Limited

Dean T. MacDonald

William E. Wells

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

OFFICERS

Newfoundland and Labrador Hydro

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William E. Wells
President and
Chief Executive Officer

T. David Collett
Executive Vice-President
Production

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Resources,
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Corporate Secretary

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Vice-President, Transmission
and Rural Operations

John C. Roberts
Corporate Controller

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Gerald C. Bowers
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

Newfoundland and Labrador Hydro
Head and Corporate Office
500 Columbus Drive, P.O. Box 12400
St. John's, Newfoundland
Canada A1B 4K7

Tel: (709) 737-1400 Fax: (709) 737-1231
Website: www.nlh.nf.ca E-mail: hydro@nlh.nf.ca

2001

Annual Report

Newfoundland and Labrador Hydro

HYDRO
THE POWER OF COMMITMENT

Mission

Newfoundland and Labrador Hydro is a crown corporation committed to providing cost-effective and reliable energy services to our customers for the benefit of all people of the province.

Our skilled and committed employees will use innovative methods and technologies, and will maintain high standards of safety and health, and environmental responsibility.

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Head Office

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THE POWER OF COMMITMENT

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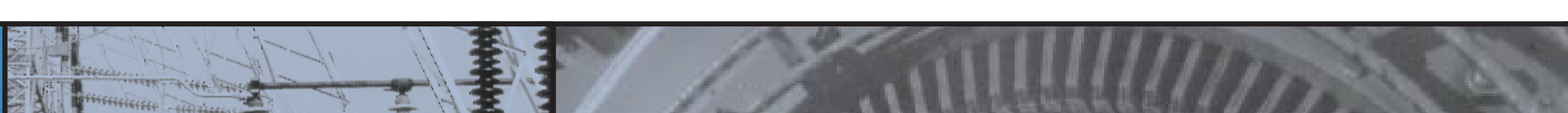
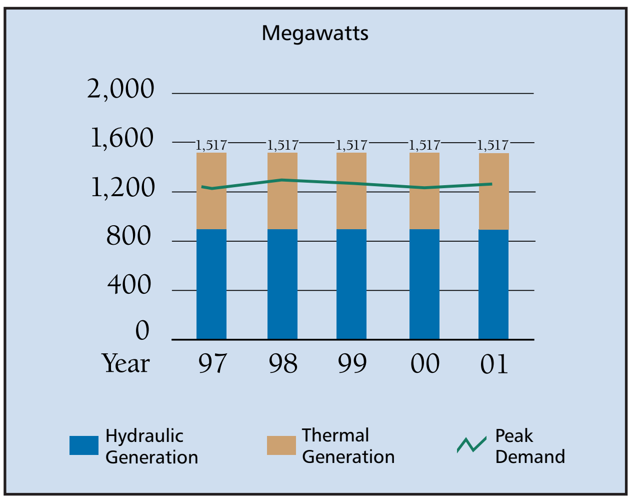
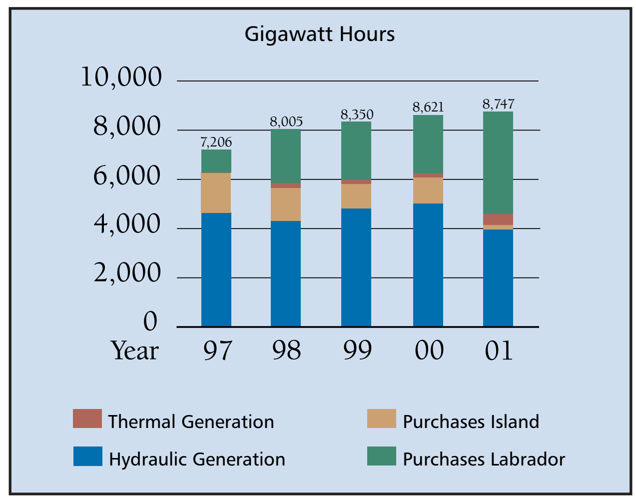


Highlights

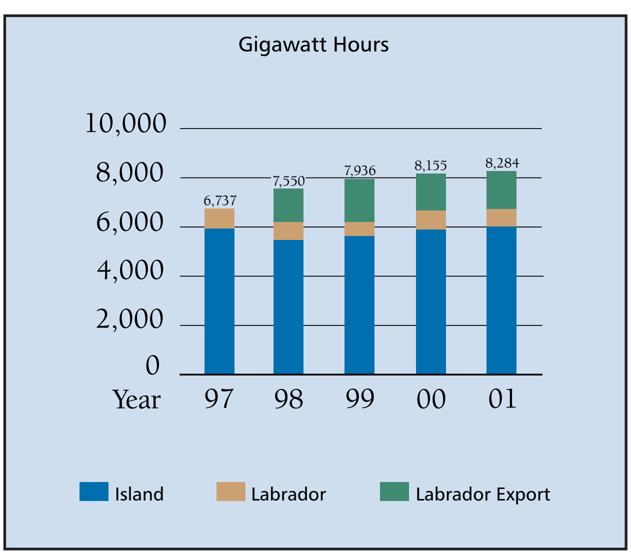
Island Interconnected Systems Gross Generated Capacity and Demand



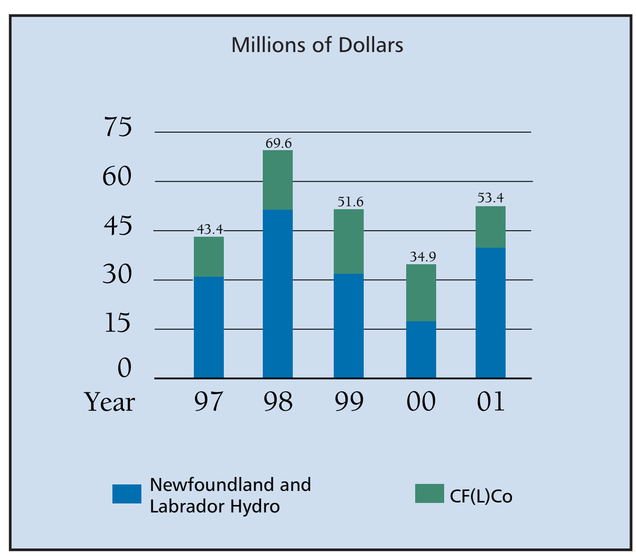
Interconnected Systems Gross Energy Generated and Purchased

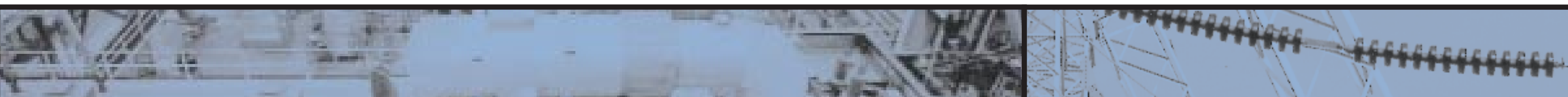


Interconnected Systems Energy Sales



Consolidated Net Income





Year in Review

Newfoundland and Labrador Hydro (Hydro) is a crown corporation, owned by the Province of Newfoundland and Labrador (province). Hydro generates, transmits and distributes electrical power and energy to utility, residential and industrial customers throughout the province.

Hydro is the parent company of the Hydro Group of Companies (Hydro Group) comprised of Newfoundland and Labrador Hydro, Churchill Falls (Labrador) Corporation Limited (CF(L)Co), Lower Churchill Development Corporation Limited (LCDC), Gull Island Power Company Limited (GIPCo), and Twin Falls Power Corporation Limited (TWINCo). The Hydro Group's installed generating capacity is the fourth largest of all utility companies in Canada. Our power generating assets include eight hydraulic plants, one oil-fired plant, four gas turbines, 29 diesel plants and the Churchill Falls hydraulic plant, which is the largest underground powerhouse in the world with a rated capacity of 5,428 megawatts (MW) of power.

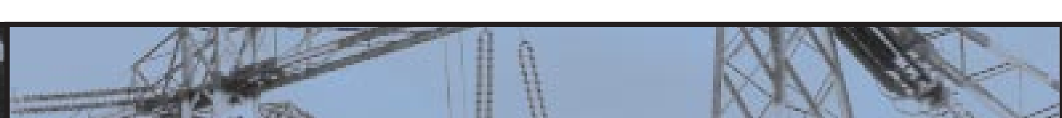
Each year, the Hydro Group generates over 80 per cent of the energy consumed within the province. With a workforce of about 1,060 employees, the corporation directly serves several large industrial customers in the province and over 35,000 residential and commercial customers in rural Newfoundland and Labrador. Hydro also sells energy to Newfoundland Power, an investor-owned utility that distributes electrical power to the balance of the province's population.

Chairman and President's Report

We are pleased to report, on behalf of the Board of Directors, that 2001 was another successful year for the Hydro Group of Companies. We met our financial targets, successfully managed operating costs, improved system reliability, and operated in an environmentally responsible and prudent manner.

Overall, net income for the Hydro Group was $53.4 million on revenues of $397.1 million, a net income increase of $18.5 million over 2000. Earnings from Newfoundland and Labrador Hydro (Hydro) were the largest component of the Hydro Group's net income at $40.4 million compared to $17.4 million in 2000. This increase of $23.0 million is primarily the result of a renewal of the agreement on the sale of 130 megawatts (MW) of recall power and energy to Hydro-Québec. The net income from CF(L)Co was $13.0 million, compared to $17.5 million in 2000. This decrease of $4.5 million is due to lower energy sales and increased operating costs.

Energy sales within the province vary from year to year, depending on the level of demand from residential customers and on the level of activity among industrial users. Hydro's sales, on the Labrador and Island Interconnected Systems combined, grew by one per cent in 2001. This 1.0 per cent increase is the result of



Reginald Sheppard,
Line Worker, Harbour Breton

a 2.1 per cent increase in demand on the Island System (to 6,017 gigawatt hours (GWh)) and a 7.0 per cent decrease in sales on the Labrador System (to 709 GWh). Higher sales to Newfoundland Power offset slightly lower sales to Hydro's industrial customers. The decrease on the Labrador Interconnected System was primarily due to reduced sales to an industrial customer.

The Guaranteed Winter Availability Contract between CF(L)Co and Hydro-Québec increased revenue by $2.9 million despite a decline in CF(L)Co export sales. CF(L)Co produced 32,910 GWh in 2001, 6.4 per cent less than 2000. Lower reservoir storage levels and lower demand from Hydro-Québec caused decreased export sales. CF(L)Co exported 28,159 GWh, 7.0 per cent below 2000. Sales to Hydro decreased to 2,381 GWh, and deliveries for TWINCo were lower at 1,821 GWh.

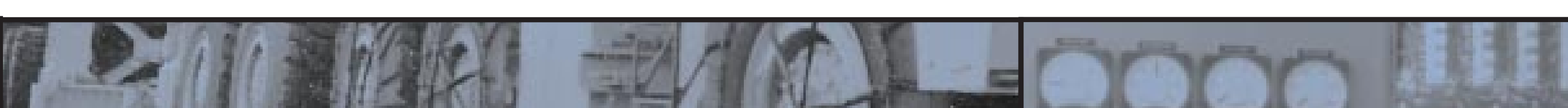
A renewal of the three-year agreement for the energy associated with the 130 MW sale by Hydro of Churchill Falls recall power to Hydro-Québec became effective March 9, 2001. Gross revenues under the new agreement are expected to be in the vicinity of $98 million, resulting in a profit to Hydro of approximately $86 million.

Encouraging financial results have a positive impact on our corporate performance. They support our mission of providing least cost, reliable electrical power and energy in a safe and environmentally sound manner.

Least Cost Electrical Power and Energy

Providing least cost electrical power and energy means keeping electrical rates and all costs as low as possible, while providing a reliable, safe, and environmentally acceptable energy supply.

During 2001, we focused significant resources on the task of filing a general rate application with the Board of Commissioners of Public Utilities (PUB). This year, for the first time in 10 years, Hydro requested a general rate increase from the PUB. Our proposal for an increase of 6.6 per cent to Newfoundland Power would result in an approximate 3.6 per cent increase in retail rates, and an 8.5 per cent increase in industrial rates if approved by the PUB. The PUB convened a hearing on our proposal on September 24, 2001.



L Background:
Brian Pierce, Line Worker,
Harbour Breton

L Foreground:
Jim Crewe, Line Worker
Apprentice, Bay d'Espoir

R Bucket:
Allan Crewe, Line Worker,
Harbour Breton

R Foreground:
Joe Walsh, Lines Supervisor,
Bay d'Espoir

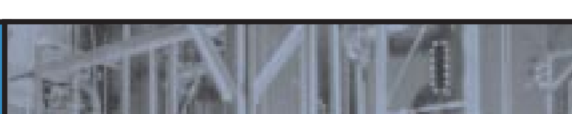
Preparation and presentation of our application to the PUB was a lengthy, complex and challenging process, requiring significant effort on the part of those involved. The application generated over 20,000 pages of evidence and lasted for 68 days. Hearings concluded early in 2002 and we are currently awaiting a decision from the PUB.

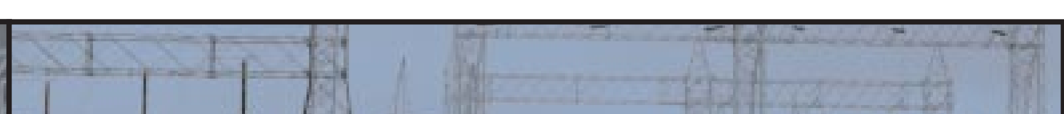
One of the major reasons for the rate hearing was, and continues to be, the large difference between the real cost of fuel required to supply the Holyrood Thermal Generation Station (HTGS), and the cost included in our current rate formula approved by the PUB in 1991. The HTGS provides up to one quarter of the Island's electricity requirements by using Bunker C fuel (grade no. 6) to produce electricity. The consumption of fuel at the plant is dependent on production and demand and may vary from one and a half million to three and a half million barrels a year.

Current electricity rates include a price component for fuel of $12.50 a barrel, set by the PUB in 1991 when Hydro filed its general rate application. Hydro, in its general rate application filed on May 30, 2001, proposed that the price of fuel to be included in its rates be set at $20 per barrel. The proposal will permit the rates charged to electricity consumers to more properly reflect the current cost of fuel.

If the price of fuel is re-based at $20 per barrel in Hydro's rates, it will have a positive impact on the Rate Stabilization Plan (RSP), a plan intended to smooth out fluctuations in customers' bills as a result of variations in fuel prices, load and hydraulic production. To reduce the immediate impact on customers, we requested an increase in the current RSP cap for Newfoundland Power from $50 million to $85 million. This would allow the difference between the actual cost of fuel and the $20 per barrel included in Hydro's proposed rates to accumulate in the RSP and continue to be automatically recovered from customers over a three-year period.

The PUB was also requested to approve more uniform rates for customers on the Labrador Interconnected System. We proposed restructuring the current 24 rate classes in Labrador City, Happy Valley/ Goose Bay and Wabush into six rate classes. This proposal reflects the principles used in rate-setting on the Island Interconnected System and supports the proposition that customers receiving essentially the





L Background: Gerard Piercy, Civil Engineer, Granite Canal

L Foreground: Bob Barnes, Project Manager, Granite Canal

R: Dave Vokey, Environmental Coordinator, Granite Canal

same service from an interconnected system should pay similar rates. Other issues dealt with in the application included rural subsidies, the cost of service, and the setting of rates based on a rate of return on regulated rate base. Hydro's 2002 capital budget was also submitted for approval.

Granite Canal Hydroelectric Development

Prior to the end of 2001, construction began on the Granite Canal Hydroelectric Development, a 40 MW project situated within the existing Bay d'Espoir development. Work on the project has progressed on schedule and within budget.

This year's construction phase followed design and specification preparation as well as tendering and contract execution. By the end of 2001, contractors had completed the 250-person construction camp; finished excavating the powerhouse, penstock, intake and power canal; poured over 4,000 m^3 of concrete at the powerhouse and intake; constructed the warehouse; completed over 75 per cent of their detailed design work; upgraded 86 km of road to the site; and cleared and started surveying the transmission line right-of-way. The use of new technologies throughout the transmission line design process has resulted in time savings.

Throughout the development of this project, specific emphasis has been placed on associated environmental issues. The public has been consulted and Hydro has provided a comprehensive review of its extensive environmental monitoring and mitigation plans. Sensitivity to environmental concerns includes items such as consideration of five years of data on caribou migration in the area of the project. Environmental principles and policies have been set and internal procedures are in place to ensure environmental policies are followed.

The Granite Canal plant is scheduled to begin producing electrical energy by mid-2003. It will be remotely controlled from our Energy Control Centre in St. John's and will assist us with supplying the Island's power and energy requirements in the future.

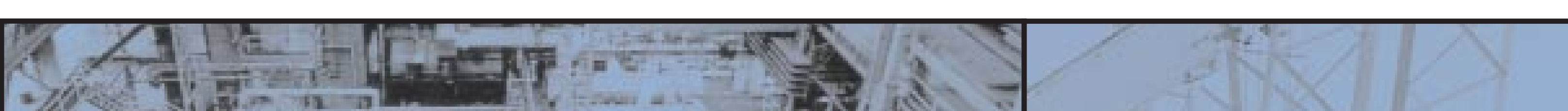
System Reliability

Hydro is dedicated to providing quality power within a reliable system. In 2001, we improved service to customers by decreasing the number and duration of power outages; we achieved operating capacity records at Holyrood in response to additional demands; and we undertook capital works projects to improve the reliability of our transmission lines, to enhance telecommunications infrastructure, and to conduct significant maintenance work at Churchill Falls.

Inter-Utility Cooperation

In 2001, we moved into the second year of a joint initiative to improve the performance on the Island Interconnected System. The Inter-Utility System Reliability Committee, comprised of senior representatives from Hydro and Newfoundland Power, sets objectives to continually improve service to the customers of both utilities.

This year, our efforts to achieve performance targets in the operation of the transmission network both on the Island and in Labrador were successful. We improved our record for outages and outage durations to our high

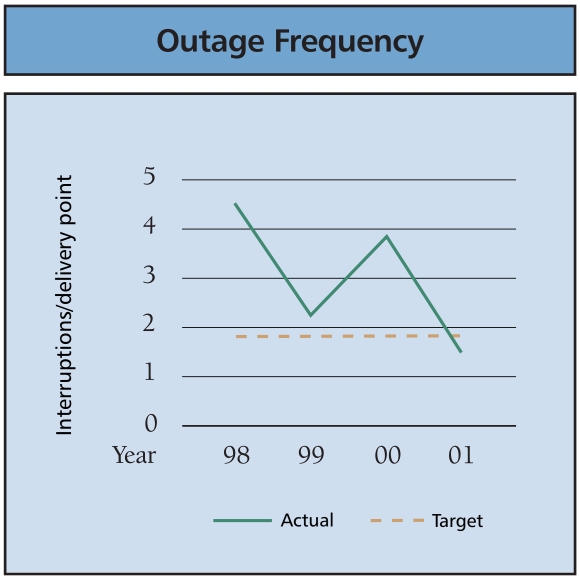


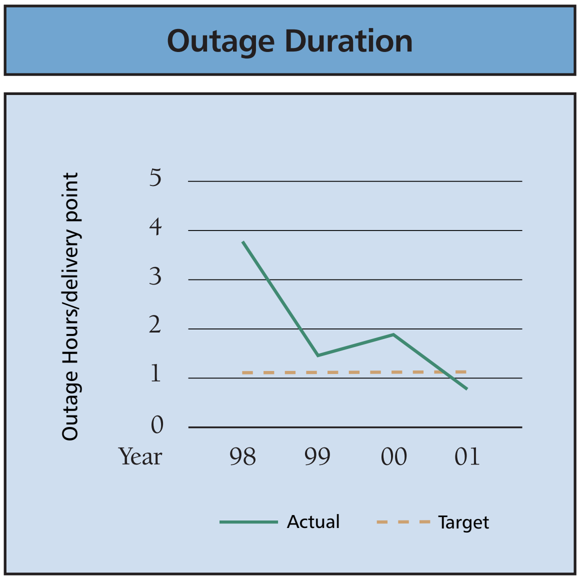
Glenn Hicks, Network Services Engineer, Chapel Arm Microwave Site

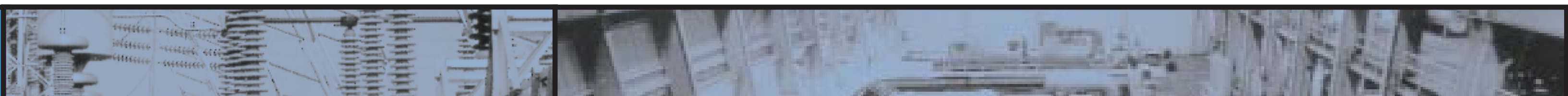
voltage delivery points to Newfoundland Power, to industrial customers and to our distribution systems. Our actual outage frequency and duration results were well below established targets for 2001. The number of outages was 20.1 per cent better than our target, and the outage time was 36.1 per cent better.

Our ongoing efforts to improve system reliability, coupled with favourable weather conditions in 2001, enabled us to exceed our expectations. Moreover, we have undertaken specific actions such as installing lightning arrestors on critical 230 kilovolts (kV) transmission lines; maintaining a lightning tracking system; replacing insulators; and upgrading transmission line ice-loading capability while continuing to raise the profile of reliability throughout the corporation.

Hydro will continue efforts to improve reliability performance in 2002.







Chapel Arm Microwave Tower

Gerard Dunphy, Senior Project Leader, Engineering, Kilbride Microwave Site

Peak Production Records

Reservoir levels deteriorated significantly in 2001 as Hydro experienced its seventh-lowest year of inflows in a 51-year period. This resulted in a significant increase in thermal production from HTGS to 2,219 GWh, the second highest on record. Production from Hydro's hydraulic resources decreased by 21 per cent to 64 per cent of the corporation's total production.

The high production at HTGS resulted in production-related records throughout the year. During December, the plant established a record high output of 504 MW and a one-day production record of 11.8 GWh. In addition, the plant achieved a record annual efficiency factor of 633 kWh/barrel of fuel. High utilization and on-line Performance Monitoring Programs on each unit contributed to the achievement of these results. From November 16, 2001, the three generating units at HTGS were operating at full capacity.

Avalon Transmission Line Upgrade

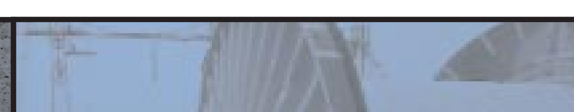
Construction continued in 2001 on a multi-year capital program to strengthen transmission lines on the Avalon Peninsula. By the end of the year, the third phase of the upgrade program between Come-by-Chance and Chapel Arm was completed.

The upgrade, involving 44 km of transmission line, was completed on schedule and on budget. It will improve the reliability of our 230 kV transmission lines under wind and ice-loading conditions. It will also result in an increase in load-carrying capability, which will provide an opportunity for more flexible and efficient use of our generating resources on the Avalon Peninsula.

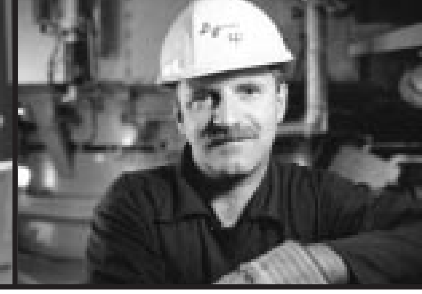
Work is continuing on the final phase, which is to upgrade two transmission lines between Holyrood and St. John's.

East Coast Microwave Project

The East Coast Microwave Project is a new digital microwave radio system that provides communications to the majority of the power transmission terminal stations on the Avalon Peninsula. This state-of-the-art telecommunications infrastructure was constructed to replace powerline carrier systems that were at the end of their 30-year service life and to improve our ability to restore power during system disturbances. The project involved the construction of nine microwave towers and the installation of associated communications equipment.







L: Gary Feltham, Planner for Maintenance Planning, Churchill Falls

C: Trudy Sooley, Office Clerk, Bay d'Espoir

R: Dale Wells, Millright, Churchill Falls

West Tailrace Tunnel Maintenance

In 2000, the first inspection of the mile-long West Tailrace Tunnel at Churchill Falls was completed. The tunnel, in generally excellent shape after more than 28 years of service, required maintenance on a very short section. This was successfully completed in 2001 at a cost of $3.5 million without any disruption in service.

Environment

We continue to maintain our proactive position on environmental responsibility and stewardship. This year, among many other environmental initiatives, we produced a comprehensive report on our environmental activities and performance. Efforts continued to develop and maintain environmental management systems that meet international standards, and we continued to enhance public awareness and foster open communication with our stakeholders.

Environmental Performance Report

In 2001, we published our first annual Environmental Performance Report. Although protection of the environment has long been one of our corporate priorities, the report provided us with a means to inform stakeholders of the comprehensive set of principles which guide our environmental activities and evaluate our performance.

ISO 14001 Registration

We are committed to continuing our work in meeting worldwide quality environmental standards. In 1997, we adopted the Environmental Management System (EMS) standard established by International Organization for Standardization (ISO). This standard, also adopted by the Canadian Electricity Association, sets a framework for continually improving environmental performance.

To meet the ISO 14001 standard, the Hydro Group has been divided into management areas, each with its own environmental management team comprised of local senior managers. Each area sets objectives and targets, and plans and implements programs to achieve them. Independent auditors evaluate the management system's effectiveness in controlling those aspects of its activities that may have a significant impact on the environment. Upon successful review, management areas qualify for ISO 14001 certification. The EMS, however, must continually improve for certification to be maintained.

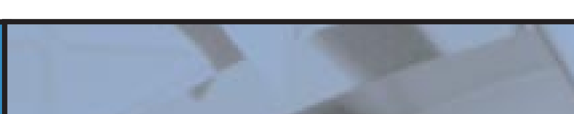
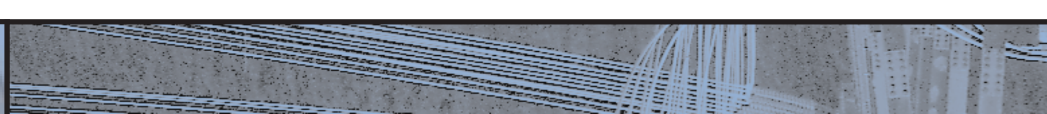
We began our goal of achieving ISO 14001 performance measurements throughout the entire corporation with our thermal generating station at Holyrood (1999), followed by our hydro generating stations on the Island and in Labrador, which received ISO 14001 certification during 2000. In 2001, we achieved certification for our corporate management and services management areas.

The Transmission and Rural Operations (TRO) Division has begun the process of implementing an EMS. We hope to achieve full implementation in each of the three TRO regions by the end of 2002, and receive ISO 14001 certification in 2003. This will include the transmission network and rural operations including diesel generators and associated distribution network.

The EMS for the Services departments will be expanded to include departments which provide services to TRO and other corporate activities.

Stack Emissions Testing

Stack emissions testing, conducted every two years, was performed on the three generating units at Holyrood

L: Claude Quinton, Transmission Lines Specialist, Bishop Falls

C: Dion Farrell, Lineworker, Bay d'Espoir

R: Ina Miller, Air Services Clerk, Churchill Falls

during 2001. These tests monitor particulates, particulate particle size, metals, sulphates, sulphur dioxide (SO_2), nitrogen oxides (NO_x), carbon monoxide (CO), and carbon dioxide (CO_2) in the exhaust stacks.

The test results are reported to the provincial Department of Environment to satisfy an existing agreement. Test results also provide on-site measurement data to be used for site evaluation, annual reporting and exhaust-gas modeling. These results provide data on our initiatives to improve overall unit performance and efficiency.

Community Liaison Committee

In an effort to enhance public awareness and foster open communication with stakeholders, the management of the Holyrood plant continued meetings with its Community Liaison Committee. The committee is comprised of representatives from the provincial Department of Environment, the Town of Conception Bay South, the Town of Holyrood, the Regional Health and Community Services Board, and Hydro management.

The meetings, held bi-monthly, present a forum to review plant performance as it relates to the general public. Discussions address general inquiries and impending operational issues. At each meeting, we present a status report of Holyrood's EMS and Environmental Management Programs. The report covers topics such as air monitoring, generating unit efficiency, asbestos abatement, controlled substance spill, waste material recycling, auxiliary power usage, general service cooling water usage, waste disposal of contaminated materials and oil system leak detection surveillance.

The work of the Community Liaison Committee is conducted in the spirit of open community consultation. We consider it to be one of the successes that has and will continue to guide us in our efforts to be more aware of the concerns of local residents.

Open House

We invited the general public to attend an open house at Holyrood during Environment Week. The theme for Environment Week 2001 was "Acting Today for Tomorrow".

Throughout the week, group tours were scheduled and an official open house was held. Displays focused on environmental activities such as the plant's EMS and on facilities like the ambient air monitoring network, wastewater treatment plant and controlled waste landfill. Guests were invited to view a slide presentation and take a guided tour of the facility.

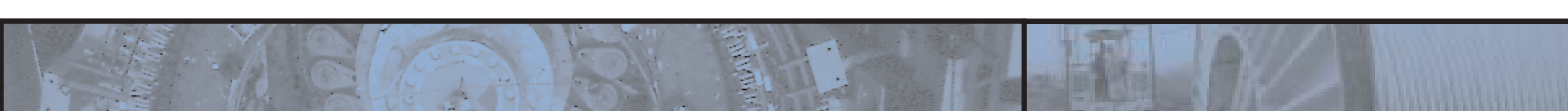
Employees

We recognize the contribution of each one of our employees towards the overall success of the corporation. We remain committed to providing them with a safe work environment in which they can feel respected and valued.

Safety and Health Program

Safety continues to be the corporation's first priority. Early this year, we introduced a revised Safety and Health Program; and by the end of the year, most employees had received a comprehensive introduction to the program. The objective of the revised program is to provide employees and our contractors with more comprehensive direction and guidance for safety and health in the workplace.

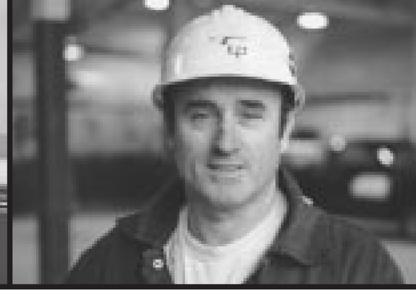
We are committed to protecting our employees from personal injury and occupational illness by providing and maintaining safe and healthy workplaces. Both Hydro



L: Jerry Thompson, Drafter, Bishop Falls

C: John Coffey, Heavy Equipment Operator, Churchill Falls

R: Harold Lee, General Maintenance, Bay d'Espoir



and CF(L)Co have made significant reductions in the frequency and severity of accidents since last year.

Our goal is to achieve the best possible safety record in our industry.

Contributions

The Hydro Group and our employees contribute annually to numerous charities and projects. In 2001, corporate donations were made to hospitals, youth groups and the arts, among others. Employees and their social clubs held special fundraisers to assist food banks and raise funds for a variety of worthy causes.

Both the Hydro Group and our employees provided assistance following the September 11th terrorist attacks on the United States. We provided a special corporate donation to the Canadian Red Cross; social club members collected funds from employees to provide additional financial support; and employees donated comfort kits and took it upon themselves to organize a breakfast at our offices for stranded airline passengers diverted to St. John's following the attacks.

Customer Service

We are committed to listening to customers. In 2001, we continued to survey customers to measure their satisfaction with the service provided. Overall, 96 per cent of our residential customers were satisfied with the level of service provided by our employees. Furthermore, our Customer Service Index (CSI), a weighted average of satisfaction scores for each of 14 issues, was 7.9 out of 10. The analysis of information collected in these surveys enables us to identify opportunities and implement practices to continuously improve our record of customer service.

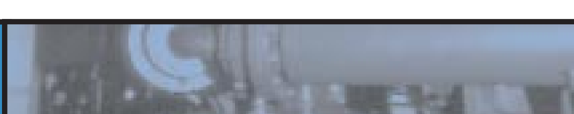
In 2001, we redesigned our customer newsletter. Customer News continues to readily address issues our customers have identified as important. We have also implemented three new initiatives to improve workflow, establish consistency, and improve efficiency in the way employees respond to customer requests and inquiries. Our "Contribution in Aid of Construction" (CIAC) on-line system is part of a new process for handling new service requests; our "Damage Claim" on-line system makes it easier for us to handle customer damage claims; and our "Customer Assistance" database enhances our ability to process general customer inquiries.

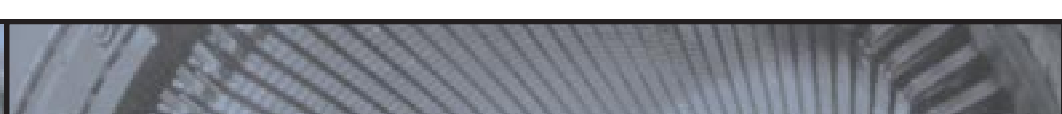
In 2002, two new payment options will be introduced for customers – an equal payment plan and a pre-authorized payment option – in response to customer interest. We will continue to focus on customer concerns and will respond to identified customer needs to ensure continuous improvement in the service provided.

Meter Shop

Hydro's meter shop in St. John's received formal accreditation from Measurement Canada on February 21, 2001. An accredited meter shop permits us to seal our own customer meters and, as well, allows us to provide service to others. Accreditation followed a Measurement Canada review and audit of the ISO 9000-compliant Quality Assurance Program for customer metering. This program covered the revenue metering process from start to finish and involved all employees who are involved in providing meters to our customers.

We are proud that Hydro is the only organization in Newfoundland and Labrador to have an accredited Meter Shop. This reflects our employees' commitment and brings a higher level of quality assurance to our customer metering process.





L: Edward Mullaly, Mechanical Maintenance Supervisor, Churchill Falls

C: Madonna Pelley, Inventory Control Supervisor, Bishop Falls

R: Philip Chislett, Mobile Equipment Operator, Churchill Falls

Future

The Government of Newfoundland and Labrador previously announced that it would conduct an Energy Policy Review to establish the future direction for the electricity industry within the province. The review includes an examination of existing legislation and regulation, the existing electricity industry structure, pricing, electricity supply, and the use of electricity as a tool for economic development. A position paper is expected to be released in the Spring of 2002.

Internally, meetings continued in 2001 to involve employees at all levels in an ongoing strategic planning process to ensure our future success. In 2002, the emphasis will continue on the establishment of key performance indicators which demonstrate Hydro's ability to meet its commitment of reliable, least-cost power in the future. This process will have a significant impact on how the organization will evolve to meet future needs.

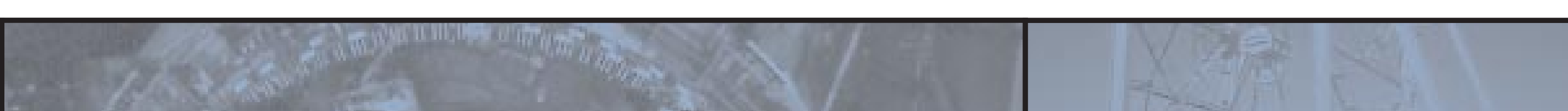
As we move to the future, providing cost-effective, reliable service in a safe and environmentally friendly manner continues to be our priority. In 2002, we are looking forward to receiving a decision from the PUB on our general rate application; making progress on the Granite Canal Hydroelectric Development; improving system performance; finalizing a multi-year capital program to strengthen transmission lines on the Avalon Peninsula; completing ISO 14001 registrations; and making additional progress with safety and health in the workplace.

We would like to note the retirement of Executive Vice-President (Production) and President of CF(L)Co, David Collett, following a 35-year career with the Hydro Group. He has made an outstanding contribution to the organization, and we wish him well. We would also like to thank members of the Hydro Board of Directors for their contribution and support during the last year.

On behalf of our Board, we would like to thank our employees for their continued commitment this year. It is through them that we achieve recognition as a cost-effective and quality supplier of energy services.

William E. Wells
President and Chief Executive Officer

Dean T. MacDonald
Chairman of the Board



FINANCIAL REPORT

FINANCIAL REVIEW AND ANALYSIS

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.

2001 Financial Performance Compared To Previous Year

millions of dollars	**2001**	2000
Total revenue	**397.1**	379.7
Total expenses	**343.7**	344.8
Net income	**53.4**	34.9
Dividends	**53.3**	69.9
Retained earnings	**528.6**	528.5

Results of Operations

Net Income

Net income for 2001 amounted to $53.4 million compared with $34.9 million for 2000. The increase of $18.5 million was mainly due to an increase in the sale of recall energy to Hydro-Québec combined with a small decrease in operations and administration expenses.

Revenue

Total revenue for 2001 was $397.1 million, an increase of $17.4 million over 2000. Energy sales for 2001 were $374.8 million, an increase of 5.0% or $17.8 million over 2000, primarily as a result of higher sales of recall energy to Hydro Québec and higher retail sales to Newfoundland Power. This was partially offset by lower rural sales. Recovery of costs included in the Rate Stabilization Plan decreased from $13.9 million in 2000 to $11.2 million in 2001. The guaranteed winter availability contract between CF(L)Co and Hydro-Québec, also increased revenue by $2.9 million. Other revenue decreased by $0.6 million.

Expenses

Total expenses for 2001 amounted to $343.7 million, a decrease of 0.3% or $1.1 million from 2000. The total cost of fuels was $50.2 million in 2001, an increase of $7.7 million over 2000, primarily due to the changes in fuel prices, energy sales and hydraulic generation. Power purchases totaled $15.6 million in 2001, a decrease of $0.2 million from 2000. Operations and administration expenses were $119.1 million in 2001, a decrease of $0.3 million from 2000, primarily due to an increase in capital recoveries in Hydro partially offset by slightly higher salary and fringe benefit costs in 2001 and higher professional services related to Hydro's 2001 rate application. The amortization of costs in the Rate Stabilization Plan decreased from $13.9 million in 2000 to $11.2 million in 2001.

Depreciation expense was $44.5 million in 2001, a decrease of $3.2 million from 2000 primarily due to some major generating assets in Hydro being fully depreciated early in 2001. Total interest expense, which includes a debt guarantee fee, was $103.1 million in 2001, a reduction of $2.4 million from 2000, primarily due to higher interest earned and lower rates partially offset by higher debt balances.

Capital Expenditures

Expenditures for additions to fixed assets in 2001 amounted to $94.9 million compared to $52.8 million in 2000. The 2001 expenditures were for various additions to plant, transmission and distribution facilities throughout the province. Expenditures include $36.9 million for the Granite Canal project, $7.7 million related to the potential development of hydro projects in Labrador, $14.3 million for major transmission line upgrades and $10.0 million for a new microwave system. 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 payments made by Hydro in 2001 were $43.3 million from net operating income and $10.0 million from its investment in CF(L)Co.

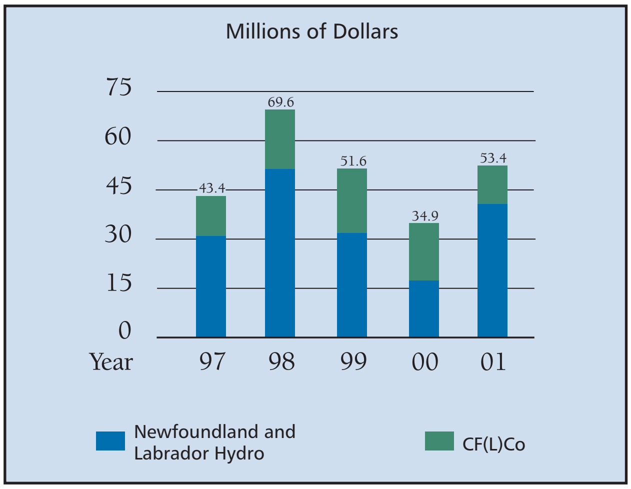
Debt

During 2001, there were two new debentures issued. The first was for $150 million carrying a coupon of 6.65% maturing in August 2031. The second was for $100 million carrying a coupon of 5.05% and maturing in December 2006. In addition, the Series W debenture matured in 2001. This debenture was for $150 million and carried a coupon of 10.75%. The retirement of this relatively high coupon bond and its replacement with lower cost debt, has enabled Hydro to realize a continued trend toward a reduction in its overall cost of debt.

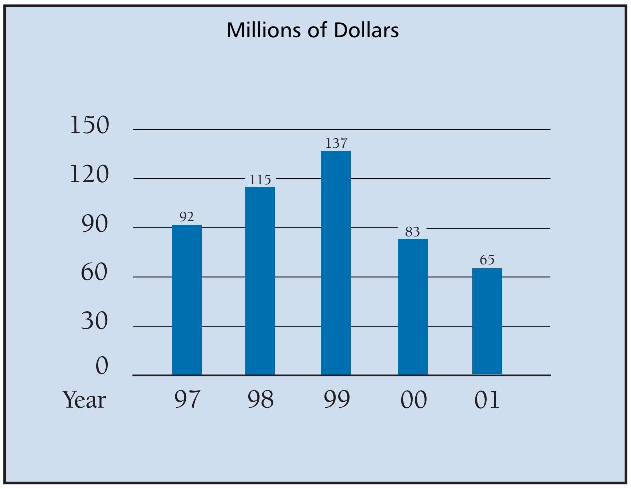
Total debt is as shown in the following table:

millions of dollars	**2001**	2000	Increase (Decrease)
Hydro			
Long-term debt	**1,122.3**	1,033.1	89.2
Promissory notes	**138.0**	120.8	17.2
	1,260.3	1,153.9	106.4
CF(L)Co			
Long-term debt	**180.7**	201.1	(20.4)
Total debt	**1,441.0**	1,355.0	86.0

Consolidated Net Income



Cash Flow From Operations



Segmented Information

Segmented operating results are as follows:

millions of dollars	**2001** Hydro	**2001** CF(L)Co	**2001** Total	2000 Hydro	2000 CF(L)Co	2000 Total
Revenue						
Energy sales	**325.3**	**62.7**	**388.0**	303.2	64.2	367.4
Recovery of costs in RSP	**11.2**	**-**	**11.2**	13.9	-	13.9
	336.5	**62.7**	**399.2**	317.1	64.2	381.3
Expenses						
Operations and administration	**90.8**	**28.3**	**119.1**	93.2	26.2	119.4
Fuels	**50.2**	**-**	**50.2**	42.5	-	42.5
Amortization of RSP costs	**11.2**	**-**	**11.2**	13.9	-	13.9
Power purchased	**20.1**	**-**	**20.1**	20.4	-	20.4
Depreciation	**32.2**	**11.2**	**43.4**	35.5	11.0	46.5
Interest	**91.6**	**8.7**	**100.3**	94.2	9.1	103.3
	296.1	**48.2**	**344.3**	299.7	46.3	346.0
Income from operations	**40.4**	**14.5**	**54.9**	17.4	17.9	35.3
Interest on debt financing the CF(L)Co investment and other dedicated costs	**-**	**1.5**	**1.5**	-	0.4	0.4
Net income to Hydro	**40.4**	**13.0**	**53.4**	17.4	17.5	34.9

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:

	Interest	Capital Structure %	
Year	Coverage	Debt	Equity
*2001	1.42	80	20
*2000	1.18	78	22
*1999	1.33	76	24
*1998	1.42	77	23
1997	1.23	80	20

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

Outlook

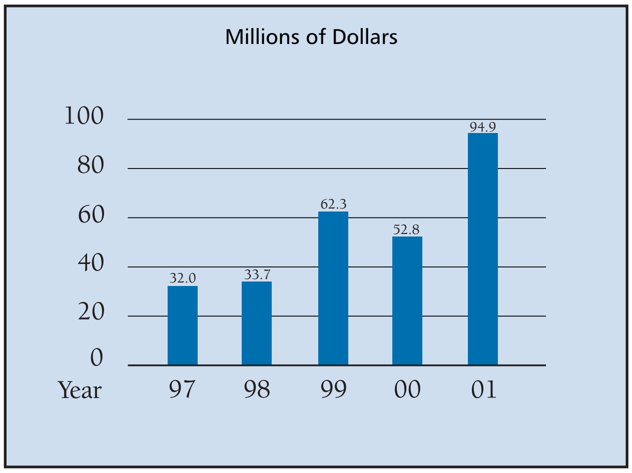
As a regulated utility, Hydro must receive approval for all proposed rate alterations for its retail, rural and island industrial customers from the Board of Commissioners of Public Utilities of the Province of Newfoundland and Labrador (PUB).

In May 2001, Hydro submitted an application to the PUB for a rate increase with a proposed implementation date of January 1, 2002.

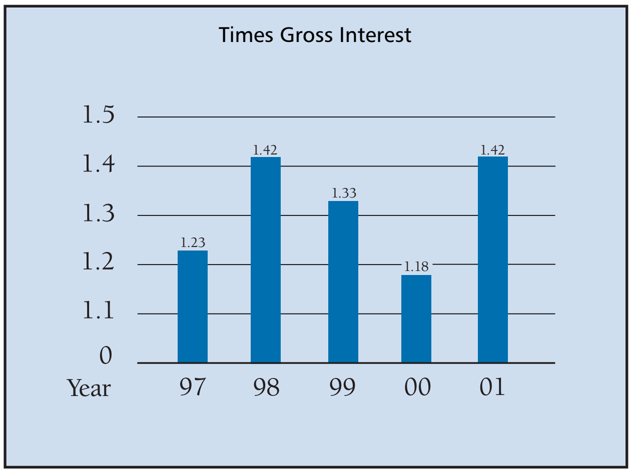
The hearing into the application to the PUB for an alteration in rates commenced in September 2001 and finished on January 29, 2002, with the conclusion of Oral Argument. Until an Order of the PUB is known, Hydro cannot determine the magnitude of the effect on its 2002 regulated earnings.

Throughout 2001, the Province of Newfoundland and Labrador has continued to examine the viability of hydro developments in Labrador.

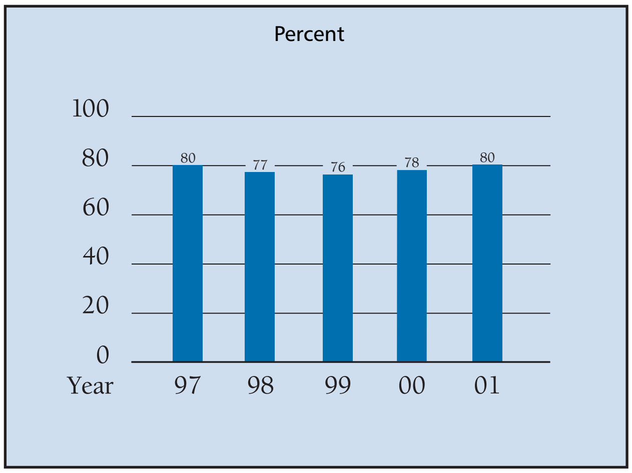
Capital Expenditures



Interest Coverage (Hydro only)



Debt To Total Capitalization (Hydro only)



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 Canadian generally accepted accounting principles, 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 8, 2002. 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 auditor, Ernst and Young LLP, is to express an independent, professional opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditor's Report outlines the scope of their examination and their opinion.

The Board of Directors, through its Audit Committee, is responsible for ensuring that Management fulfils its responsibility for financial reporting and internal controls. The Audit Committee meets regularly with Management, the internal auditors, and the external auditor 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

To the **Lieutenant-Governor in Council**
Province of Newfoundland and Labrador

We have audited the consolidated balance sheet of **Newfoundland and Labrador Hydro** as at December 31, 2001 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 Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. 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 and Labrador
Canada
February 8, 2002

Ernst & Young LLP
Chartered Accountants

As at December 31 (millions of dollars)	**2001**	2000
ASSETS		
Capital assets (Note 2)		
Capital assets in service	**2,566.8**	2,517.7
Less contributions in aid of construction	**109.9**	104.8
	2,456.9	2,412.9
Less accumulated depreciation	**707.6**	669.6
	1,749.3	1,743.3
Construction in progress	**88.7**	46.6
	1,838.0	1,789.9
Current assets		
Cash and cash equivalents	**1.1**	0.4
Short-term investments	**4.0**	4.1
Accounts receivable	**66.7**	62.2
Current portion of rate stabilization plan	**21.1**	11.5
Fuel and supplies at average cost	**46.3**	49.0
Prepaid expenses	**2.0**	2.5
	141.2	129.7
Long-term receivable (Note 3)	**1.1**	3.7
Sinking funds (Note 9)	**42.7**	35.4
Investments (Note 4)	**5.2**	9.3
Rate stabilization plan	**63.9**	24.1
Deferred charges (Note 6)	**147.2**	149.5
	2,239.3	2,141.6

See accompanying notes

Consolidated Balance Sheet

As at December 31 (millions of dollars)	**2001**	2000
LIABILITIES AND SHAREHOLDER'S EQUITY		
Long-term debt (Note 7)	**1,156.7**	1,043.3
Current liabilities		
Bank indebtedness	**2.1**	5.3
Accounts payable and accrued liabilities	**48.7**	35.1
Accrued interest	**25.5**	26.7
Long-term debt due within one year (Note 7)	**146.3**	190.9
Promissory notes (Note 7)	**138.0**	120.8
	360.6	378.8
Foreign exchange loss provision	**10.0**	9.0
Employee future benefits (Note 8)	**28.5**	27.1
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 4)		
Lower Churchill Development	**15.4**	15.4
Muskrat Falls Project	**2.2**	2.2
Gull Island Project	**100.0**	100.0
Retained earnings	**528.6**	528.5
	668.7	668.6
Commitments and contingencies (Note 11)	**-**	-
	2,239.3	2,141.6

See accompanying notes

On behalf of the Board:

Director

Director

Consolidated Statement of Income and Retained Earnings

Year ended December 31 (millions of dollars)	**2001**	2000
Revenue		
Energy sales	**374.8**	357.0
Recovery of costs in rate stabilization plan	**11.2**	13.9
Guaranteed winter availability	**7.5**	4.6
Rentals and royalties	**0.3**	0.3
Other	**3.3**	3.9
	397.1	379.7
Expenses		
Operations and administration	**119.1**	119.4
Fuels	**50.2**	42.5
Amortization of costs in rate stabilization plan	**11.2**	13.9
Power purchased	**15.6**	15.8
Depreciation	**44.5**	47.7
Interest (Note 10)	**103.1**	105.5
	343.7	344.8
Net income	**53.4**	34.9
Retained earnings, beginning of year	**528.5**	563.5
	581.9	598.4
Dividends	**53.3**	69.9
Retained earnings, end of year	**528.6**	528.5

See accompanying notes

Year ended December 31 (millions of dollars)	**2001**	2000
Cash provided by (used in)		
Operating activities		
Income before non-controlling interest	**53.4**	34.9
Adjusted for items not involving a cash flow		
Depreciation	**44.5**	47.7
Amortization of deferred charges	**1.6**	1.7
Rate stabilization plan	**(49.4)**	(1.1)
Other	**3.8**	3.1
	53.9	86.3
Change in non-cash balances related to operations		
Accounts receivable	**(2.3)**	0.7
Fuel and supplies	**2.7**	0.9
Prepaid expenses	**0.5**	(1.4)
Accounts payable and accrued liabilities	**6.2**	(7.1)
Accrued interest	**(1.2)**	(0.3)
Employee future benefits	**1.4**	2.0
Adjustment to deferred foreign exchange	**1.1**	0.9
Long-term receivable	**2.6**	0.5
	64.9	82.5
Financing activities		
Long-term debt issued	**250.0**	-
Long-term debt retired	**(185.9)**	(32.4)
Foreign exchange loss recovered	**7.8**	6.4
Increase in promissory notes	**17.2**	66.8
Dividends	**(53.3)**	(69.9)
	35.8	(29.1)
Investing activities		
Net additions to capital assets	**(94.9)**	(52.8)
Decrease in short-term investments	**0.1**	4.0
Increase in sinking funds	**(11.5)**	(10.7)
Decrease in investments	**4.1**	3.7
Additions to deferred charges	**(2.0)**	-
Change in accounts payable related to investing activities	**7.4**	2.2
	(96.8)	(53.6)
Net increase (decrease) in cash	**3.9**	(0.2)
Cash position, beginning of year	**(4.9)**	(4.7)
Cash position, end of year	**(1.0)**	(4.9)
Cash position is represented by		
Cash and cash equivalents	**1.1**	0.4
Bank indebtedness	**(2.1)**	(5.3)
	(1.0)	(4.9)

See accompanying notes

Newfoundland and Labrador Hydro ("Hydro") is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (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 Canadian generally accepted accounting principles and to conform with recommendations of the Board of Commissioners of Public Utilities ("PUB") of the province.

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. Actual results may differ from these estimates.

Rates and Regulations (Excluding Sales by Subsidiaries)

The province enacted legislation in 1996 that changed 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.

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, 2001, $31.2 million (2000 – $30.1 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 4).

LCDC is incorporated under the laws of Newfoundland and Labrador 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 4).

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 2.15% to 6.09% per annum (2000 – 5.82% to 6.21%). 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 incurred cost of capital assets, or the fair value of assets contributed. 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

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.

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

Promissory Notes

Promissory Notes bear interest from 2.08% to 3.90% per annum (2000 – 5.70% to 5.99%) 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 (2000 – 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. Commencing in 2002, CF(L)Co will implement new recommendations from the Canadian Institute of Chartered Accountants whereby these unrealized gains and losses will be recognized in the current period, rather than being deferred and amortized.

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.

Employee Future Benefits

Employees participate in the province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions are expensed as incurred.

Hydro provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee future benefits is accounted for on an accrual basis, and has been actuarially determined using the projected benefit method prorated on service and management's best estimate of salary escalation, retirement ages of employees, and expected health care costs.

2. Capital Assets

millions of dollars	Capital Assets In Service	Contributions In Aid Of Construction	Accumulated Depreciation	Construction In Progress
		2001		
Generation Plant				
Hydroelectric	**1,240.1**	**20.5**	**245.2**	**40.0**
Thermal	**225.8**	**-**	**173.4**	**-**
Diesel	**58.7**	**8.3**	**21.7**	**3.3**
Transmission and Distribution	**666.2**	**56.7**	**140.8**	**1.5**
Service facilities	**22.0**	**-**	**9.1**	**-**
Project costs (Note 4)	**96.5**	**-**	**-**	**-**
Capital studies (Note 4)	**25.0**	**-**	**-**	**-**
Other	**232.5**	**24.4**	**117.4**	**43.9**
	2,566.8	**109.9**	**707.6**	**88.7**

millions of dollars	Capital Assets In Service	Contributions In Aid Of Construction	Accumulated Depreciation	Construction In Progress
		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 4)	96.7	-	-	-
Capital studies (Note 4)	24.9	-	-	-
Other	211.5	19.0	109.2	37.4
	2,517.7	104.8	669.6	46.6

Included in the above amounts are CF(L)Co assets in service amounting to $646.2 million (2000 – $623.2 million) which are pledged as collateral for long-term debt.

3. 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 (2000 – $1.1 million) is included in accounts receivable.

4. Investments

millions of dollars	**2001**	2000
Lower Churchill Option	**5.2**	5.2
Government of Canada Coupons,		
at cost (market value 2000 – $4.1)	**-**	4.1
	5.2	9.3

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, 2002, 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.

5. 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, 2001, and its proportionate interest in CF(L)Co's operations for the year ended December 31, 2001.

millions of dollars	**2001**	2000
Current assets	**34.9**	31.5
Long-term assets	**395.0**	412.8
Current liabilities	**40.2**	36.9
Long-term liabilities	**148.8**	173.1
Revenues	**58.6**	60.0
Expenses	**48.4**	46.7
Net income	**10.2**	13.3
Cash provided by (used in)		
Operating activities	**28.3**	28.0
Financing activities	**(25.0)**	(24.5)
Investing activities	**1.2**	1.1

6. Deferred Charges

millions of dollars	**2001**	2000
Unamortized debt discount,		
financing expenses and other	**13.8**	13.5
Foreign exchange losses		
Hydro – Realized	**96.3**	96.3
CF(L)Co		
Recoverable under the Power Contract	**41.2**	41.1
Unrecoverable portion to be amortized	**5.1**	5.7
	142.6	143.1
Less current portion recoverable included in current assets	**9.2**	7.1
	133.4	136.0
	147.2	149.5

7. Long-Term Debt

	Hydro	**CF(L)Co**	**Total**	Hydro	CF(L)Co	Total
millions of dollars		**2001**			2000	
Summary of long-term debt						
Long-term debt	**1,122.3**	**180.7**	**1,303.0**	1,033.1	201.1	1,234.2
Less payments due within one year	**114.4**	**31.9**	**146.3**	162.9	28.0	190.9
	1,007.9	**148.8**	**1,156.7**	870.2	173.1	1,043.3

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

millions of dollars	2002	2003	2004	2005	2006
	146.3	48.9	31.4	29.6	128.7

The payments due within one year include sinking fund requirements of $7.3 million (2000 – $5.8 million).

Details of long-term debt are as follows:

Hydro

Series	Interest Rate %	Year of Issue	Year of Maturity			
millions of dollars				**2001**	2000	
W	10.75	1991	2001	**-**	150.0	
Z	5.25	1997	2002	**100.0**	100.0	
AC	5.05	2001	2006	**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)
AB	6.65	2001	2031	**150.0**	-	(a)
Total debentures				**1,125.0**	1,025.0	
Less sinking fund investments in own debentures				**37.9**	33.7	
				1,087.1	991.3	
Government of Canada loans at 5.25% to 7.91% maturing in 2006 to 2014				**31.0**	36.5	
Other				**4.2**	5.3	
				1,122.3	1,033.1	
Less payments due within one year				**114.4**	162.9	
				1,007.9	870.2	

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

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.

7. Long-Term Debt (Cont'd)

CF(L)Co

millions of dollars	**2001**	2000
First Mortgage Bonds		
7.750% Series A due December 15, 2007 (U.S. $81.8; 2000 – U.S. $98.8)	**130.2**	148.1
7.875% Series B due December 15, 2007	**8.3**	10.0
General Mortgage Bonds		
7.500% due December 15, 2010	**42.2**	43.0
	180.7	201.1
Less payments due within one year	**31.9**	28.0
	148.8	173.1

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 $25.0 million in each of the years 2002 to 2006 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.

8. Employee Future Benefits

Pension Plan

Employees participate in the province's Public Service Pension Plan, a multi-employer defined benefit plan. The employers' contributions of $3.6 million (2000 – $3.2 million) are expensed as incurred.

Other Benefits

Additionally, Hydro provides group life insurance and health care 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	**2001**	2000
Accrued benefit obligation		
Balance at beginning of year	**27.1**	25.1
Current service cost	**0.9**	0.9
Interest cost	**2.0**	1.8
Benefits paid	**(1.5)**	(0.7)
Balance at end of year	**28.5**	27.1
Plan deficit	**28.5**	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 health care benefits, it was assumed that health care 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	**2001**	2000
Current service cost	**0.9**	0.9
Interest cost	**2.0**	1.8
Net benefit plan expense	**2.9**	2.7

9. Financial Instruments

Fair Value

The estimated fair values of financial instruments as at December 31, 2001 and 2000 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	**2001**		2000	
Financial Assets				
Sinking funds	**42.7**	**43.5**	35.4	36.9
Long-term receivable including amount due in one year	**2.2**	**2.3**	4.9	5.0
Financial Liabilities				
Long-term debt including amount due in one year	**1,303.0**	**1,489.9**	1,234.2	1,416.6

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, 2001, of the total accounts receivable balance outstanding, approximately 38.5% (2000 – 43.0%) is due from a regulated utility and 39.1% (2000 – 33.8%) from Hydro-Québec.

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% (2000 – 5.80% to 10.55%).

10. Interest Expense

millions of dollars	**2001**	2000	
Gross interest			
Long-term debt	**114.4**	113.5	
Promissory notes	**6.2**	5.7	
	120.6	119.2	
Amortization of debt discount and financing expenses	**1.3**	1.3	
Provision for foreign exchange losses	**1.0**	1.0	
	122.9	121.5	
Less			
Recovered from Hydro-Québec	**14.0**	13.3	(a)
Interest capitalized during construction	**5.1**	3.7	
Interest earned	**11.8**	9.6	
Net interest expense	**92.0**	94.9	
Debt guarantee fee	**11.1**	10.6	
Net interest and guarantee fee	**103.1**	105.5	

(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, Churchill Falls 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, Churchill Falls 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.

11. 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 $1.6 million (2000 – $0.3 million). The final resolution of these matters is currently under negotiation.

Legal proceedings have commenced against Hydro by one of its customers claiming approximately $23.0 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 $80.9 million at December 31, 2001 (2000 – $47.4 million). Hydro has commenced development of a hydroelectric generating station at Granite Canal. Total project cost is expected to be approximately $134.6 million, with an anticipated in-service date of June 2003. As at December 31, 2001, $40.0 million had been expended on this project.

(d) In connection with the Granite Canal development, Hydro has issued an irrevocable Letter of Credit, in the amount of $5.4 million to ensure compliance with the terms of the Fish Habitat Compensation Agreement between Hydro and the Department of Fisheries and Oceans.

12. Comparative Figures

Certain of the 2000 comparative figures have been reclassified to conform with the 2001 financial statement presentation.

Year ended December 31 (millions of dollars)	**2001**	2000	1999[1]	1998	1997
OPERATING RESULTS					
Revenue					
Energy sales	**374.8**	357.0	384.4	391.8	376.9
Rentals and royalties	**0.3**	0.3	0.4	0.5	0.5
Recovery of costs in RSP	**11.2**	13.9	15.4	10.9	7.2
Guaranteed winter availability	**7.5**	4.6	3.6	-	-
Other	**3.3**	3.9	2.4	1.6	1.2
	397.1	379.7	406.2	404.8	385.8
Expenses					
Operations and administration	**119.1**	119.4	112.3	114.1	106.9
Amortization of RSP costs	**11.2**	13.9	15.4	10.9	7.2
Fuels and power purchased	**65.8**	58.3	48.2	34.0	46.4
Depreciation	**44.5**	47.7	51.3	50.5	48.0
Interest	**103.1**	105.5	107.6	117.8	128.4
	343.7	344.8	334.8	327.3	336.9
Income from operations	**53.4**	34.9	71.4	77.5	48.9
Write down of capital assets	**-**	-	16.7	-	-
Net income before non-controlling interest	**53.4**	34.9	54.7	77.5	48.9
Non-controlling interest	**-**	-	3.1	7.9	5.5
Net income	**53.4**	34.9	51.6	69.6	43.4
Contributions to net income					
Hydro Corporate	**40.4**	17.4	31.7	51.2	30.9
CF(L)Co	**13.0**	17.5	19.9	18.4	12.5
FINANCIAL POSITION					
Total current assets	**141.2**	129.7	137.8	164.0	146.3
Total current liabilities	**360.6**	378.8	163.1	294.4	432.8
Net working capital	**(219.4)**	(249.1)	(25.3)	(130.4)	(286.5)
Capital assets	**2,545.6**	2,459.5	2,414.9	2,710.0	2,677.5
Accumulated depreciation	**707.6**	669.6	628.6	719.3	669.2
Capital assets, net	**1,838.0**	1,789.9	1,786.3	1,990.7	2,008.3
Sinking funds	**42.7**	35.4	28.8	113.3	144.3
Other assets	**217.4**	186.6	188.1	255.1	245.9
Long-term debt	**1,156.7**	1,043.3	1,226.4	1,398.5	1,334.0
Other liabilities	**53.3**	50.9	25.3	138.6	139.2
Shareholder's equity	**668.7**	668.6	726.2	691.6	638.8
EMPLOYEES AT YEAR END					
Permanent	**1,026**	1,063	1,069	1,078	1,097
Temporary	**203**	219	207	196	156
Total	**1,229**	1,282	1,276	1,274	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	**2001**	2000	1999	1998	1997
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	**57**	55	55	58	58
Total	**7,254**	7,252	7,252	7,255	7,255
ELECTRIC ENERGY GENERATED, NET (GWh)					
CF(L)Co	**32,910**	35,108	34,508	37,543	33,727
Hydro					
Hydraulic	**3,959**	5,016	4,801	4,260	4,628
Thermal	**2,095**	966	914	1,255	1,528
Diesel	**46**	43	41	41	41
Total	**39,010**	41,133	40,264	43,099	39,924
ELECTRIC ENERGY SALES (GWh)					
CF(L)Co					
Export	**28,159**	30,268	29,674	32,793	30,301
Hydro					
Utility	**4,423**	4,263	4,084	4,157	4,306
Rural	**832**	842	830	811	815
Industrial	**1,528**	1,607	1,343	1,286	1,660
Export	**1,558**	1,494	1,731	1,344	-
Total	**36,500**	38,474	37,662	40,391	37,082
AVERAGE SALES REVENUE (cents per kWh)					
CF(L)Co					
Export	**0.27**	0.27	0.27	0.27	0.27
Hydro					
Utility	**4.50**	4.49	4.49	4.49	4.51
Rural	**5.60**	5.53	5.54	5.46	5.45
Industrial	**3.14**	2.90	3.58	3.26	3.24
Export	**2.22**	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	**5,637**	5,606	5,590	5,602	5,584
Hydro System	**1,262**	1,240	1,265	1,295	1,229

Newfoundland and Labrador Hydro

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Elmer Harris

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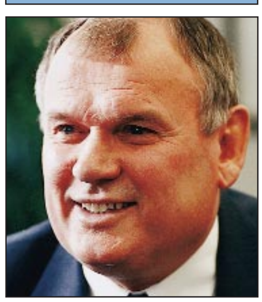
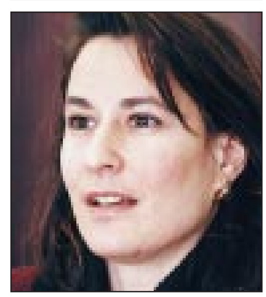


Electrician
Wabush Mines

Deborah Thiel



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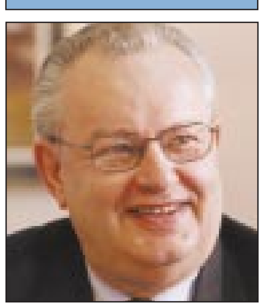

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Vice-President, Transmission
and Rural Operations
Newfoundland and
Labrador Hydro

James R. Haynes
Vice-President, Production
Newfoundland and
Labrador Hydro

John Sanders
President
Wabush Mines

Lower Churchill Development Corporation Limited

Dean T. MacDonald

William E. Wells

David Burpee

James R. Haynes

Gull Island Power Company Limited

Dean T. MacDonald

William E. Wells

James R. Haynes

David W. Reeves

Derek W. Osmond

Newfoundland and Labrador Hydro

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President and
Chief Executive Officer

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Vice-President,
Production

Maureen P. Greene
Vice-President, Human Resources, General Counsel and Corporate Secretary

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Vice-President, Finance and
Chief Financial Officer

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Vice-President,
Transmission and Rural Operations

Peter A. Hickman
Assistant Corporate Secretary

John C. Roberts
Corporate Controller

Mark G. S. Bradbury
Treasurer

Gerald C. Bowers
Assistant Treasurer

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Andrew E. MacNeill
General Manager

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

John C. Roberts
Corporate Controller

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Gerald C. Bowers
Assistant Treasurer

Peter A. Hickman
Assistant Corporate Secretary

Twin Falls Power Corporation Limited

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Vice-President, Finance and
Chief Financial Officer

Andrew E. MacNeill
General Manager

John C. Roberts
Corporate Controller

Mark G. S. Bradbury
Treasurer

Gerald C. Bowers
Assistant Treasurer

Peter A. Hickman
Corporate Secretary

Lower Churchill Development Corporation Limited

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Assistant Corporate Secretary

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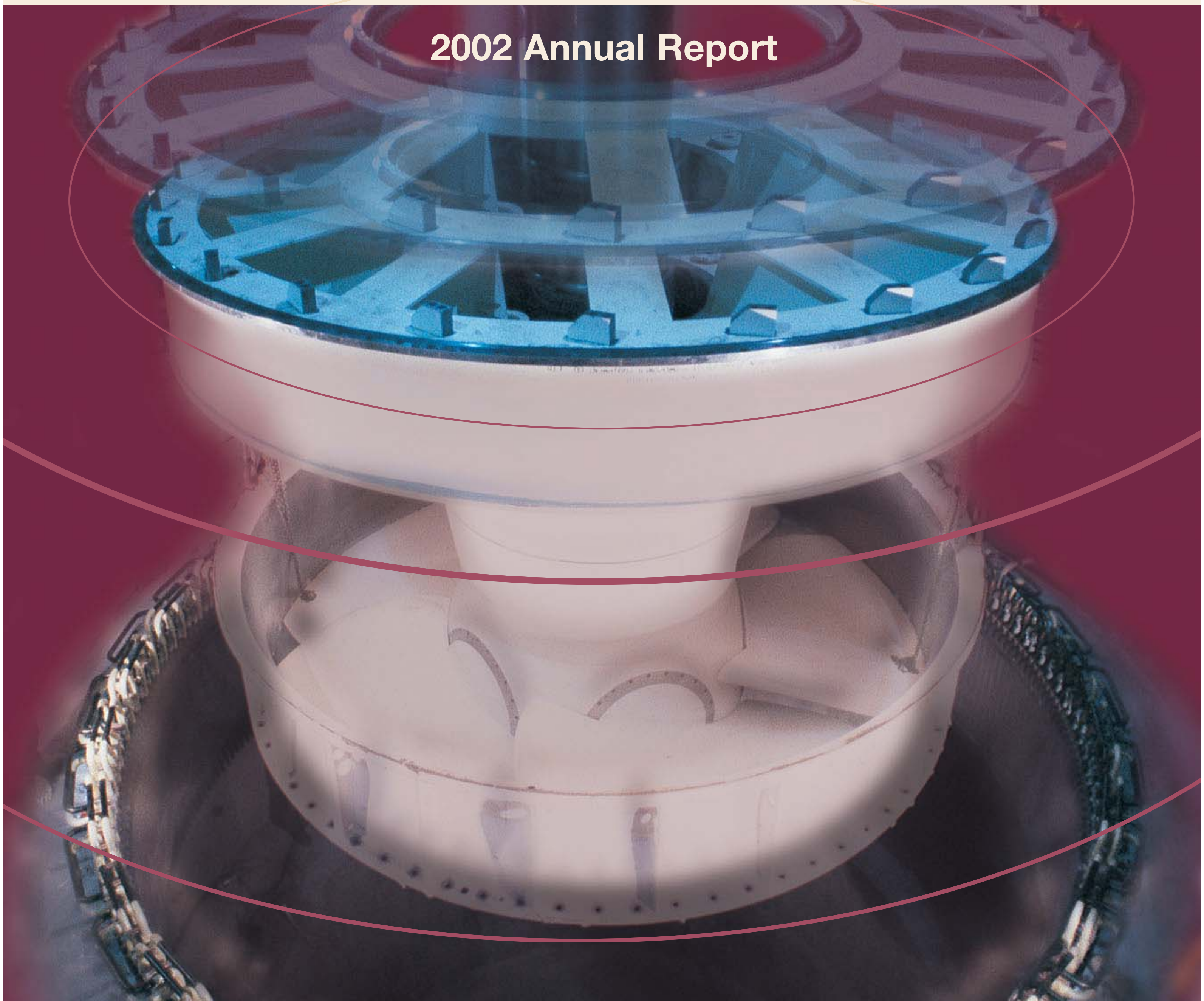
HYDRO
THE POWER OF
COMMITMENT

Newfoundland and Labrador Hydro

HYDRO
THE POWER OF COMMITMENT

2002 Annual Report



MISSION

Newfoundland and Labrador Hydro is a Crown Corporation committed to providing cost-effective and reliable energy services to our customers for the benefit of all people of the Province.

Our skilled and committed employees will use innovative methods and technologies and will maintain high standards of safety and health and environmental responsibility.

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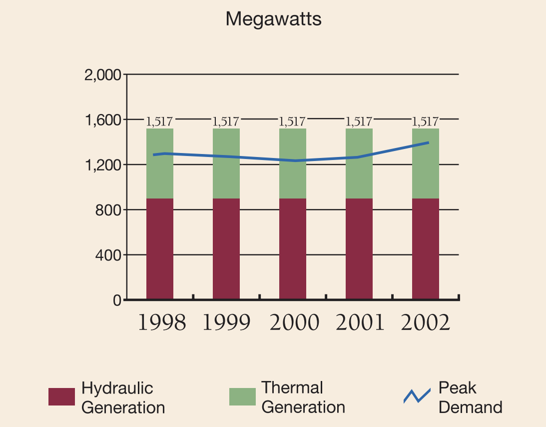
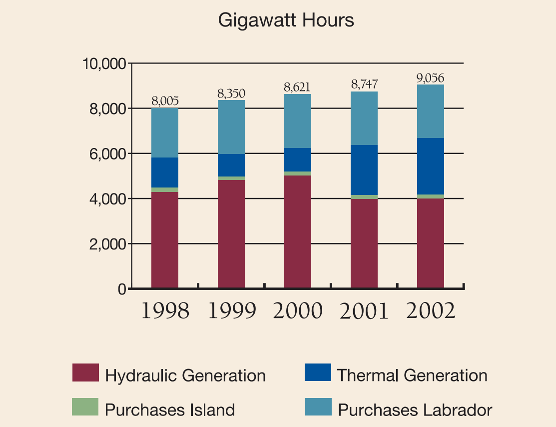
HIGHLIGHTS

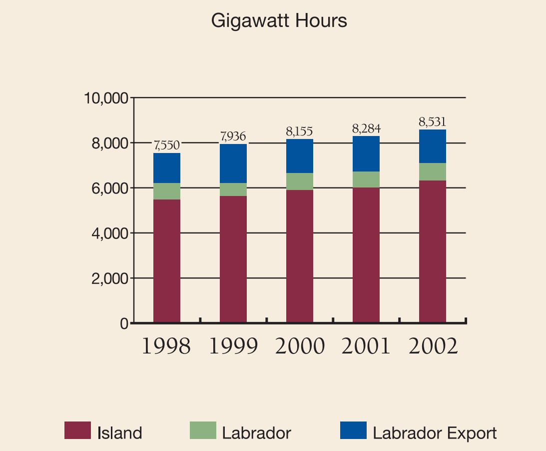
Island Interconnected System Gross Generating Capacity and Peak Demand



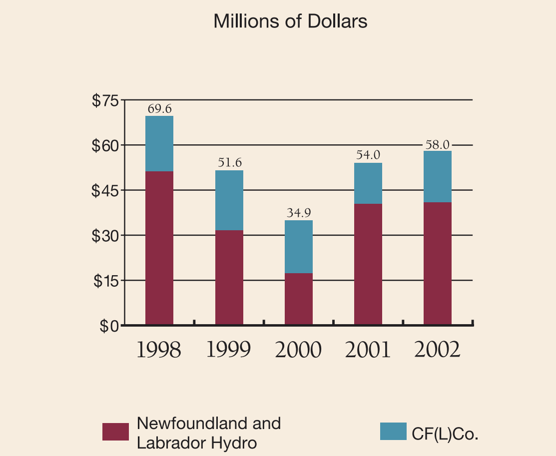
Interconnected Systems Gross Energy Generated and Purchased



Interconnected Systems Energy Sales

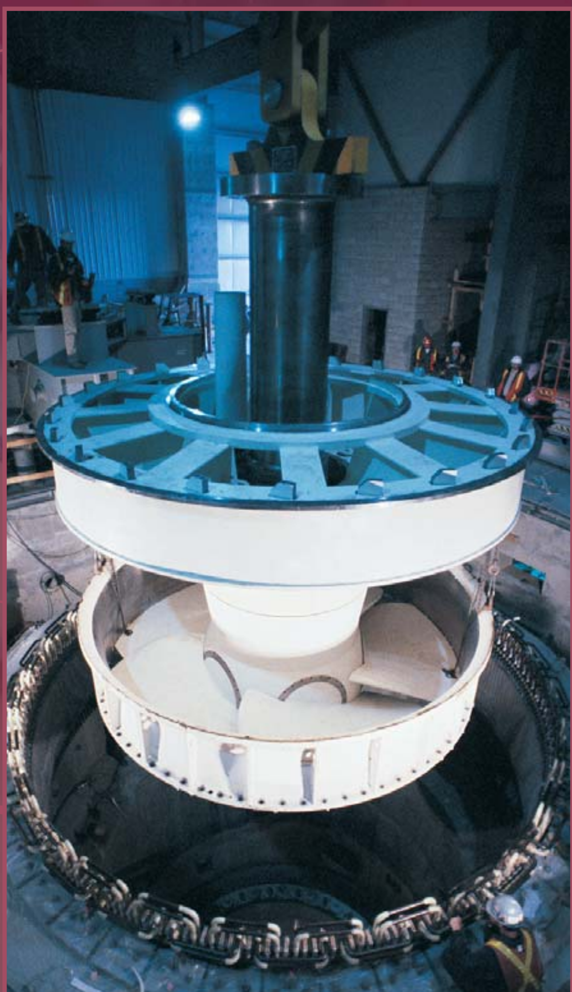


Consolidated Net Income



MESSAGE FROM THE PRESIDENT

President and Chief Executive Officer William E. Wells



Lowering the turbine runner into position at the new Granite Canal hydroelectric generating plant.

The past year has been one of challenge and adjustment within the Hydro Group, as we continue to pursue our strategic goals and objectives in the fulfillment of our mission to provide cost-effective and reliable energy services to our customers, for the benefit of all the people of the Province.

As the results indicate, the financial performance of the Hydro Group in 2002 exceeded expectations. This was despite the fact that new rates for our regulated activity did not come into effect until September 1, 2002.

The Order of the Board of Commissioners of Public Utilities ("PUB") issued on June 7, 2002, following a lengthy and complex hearing, was Hydro's first as a fully regulated utility. It outlines the regulatory framework, which will apply to Hydro's regulated activities in the future. The Order covered more than 90 policy and operational issues. In the aftermath of the Order, we are dealing with the significant policy and operational issues that will affect the position of Hydro at its next General Rate Application that must be filed in 2003 by Order of the PUB.

The combination of lower reservoir inflows, increased production to meet demand and soaring fuel prices for Bunker "C" fuel will have a significant impact on costs and, therefore, rates paid by our industrial and utility customers, a matter which will become more evident throughout 2003.

The Holyrood Thermal plant, which is an integral component of the Island Interconnected System, had a record gross production of 2,511 GWh in 2002. More importantly, the plant was available to produce as required and operated at record levels of efficiency. On the negative side, the average cost per barrel of Bunker "C" fuel for 2002 was $32.50 and 3.7 million barrels were required to meet the demand. While the PUB Order raised the purchase price of Bunker "C" fuel in Hydro rates from $12.50 to $25.91 per barrel, effective September 1, 2002, the outstanding balance in the Rate Stabilization Plan continues to increase substantially due to higher fuel prices.

The strategic focus on improving corporate performance continued in 2002 with the development of a comprehensive program to assess business processes across all departments, eliminate waste and identify the process changes required to ensure that corporate performance is optimized, as determined by Key Performance Indicators ("KPI"). The development of appropriate performance indicators was an essential element of the strategy to ensure that eventually performance at every level throughout the Corporation can be measured. Identified changes in process and work methods are ready for implementation at the beginning of 2003, particularly in supply chain management. The business improvement process will continue enabling all employees to ensure that efficiencies in operations and costs, over which they have control, are maximized to the benefit of consumers.

As production levels rise, over the past ten years the Corporation's workforce has declined by 21%. The Corporation is maintaining the appropriate levels of compensation through salaries, wages and benefits for all of its employees, while maximizing the efficiency of its operations. In 2002, the four collective agreements applicable to employees within the Hydro Group, members of the IBEW, were renewed for three-year terms.

Capital expenditures on system improvements over the past five years have been $348 million. In 2002, the multi-year, $45 million upgrade of the transmission line from Sunnyside to St. John's was completed, providing significant increased margins of security to a large percentage of the Island population on the Avalon Peninsula from any disruption due to major storms.

Construction of the $135 million, 40 MW Granite Canal powerhouse continued on time and within budget. This unit will come on stream mid-2003 and provide a cost-effective supply to the Island Interconnected System for many years to come.

The publication of our second annual Environmental Performance report in June is reflective of the significant progress made within the Hydro Group on a very proactive commitment to environmental stewardship. At year's end, all operations in the Hydro Group have been registered or are in compliance with ISO 14001 standards. The registration of the transmission and rural operations division will be completed in 2003.

We are equally as determined to achieve the equivalent success within our corporate Safety and Health Program and have, as a target, the achievement of an exemplary safety record.

The Hydro Group is a significant contributor to the provincial economy, not only in the supply of 84% of the requirements for reliable and cost-effective energy. The Hydro Group generated profits of $58 million in 2002; the total payment to the Government of Newfoundland and Labrador in dividends and guarantee fees was $140.2 million.

In providing services to its 35,000 retail customers throughout the rural areas of the Province, and supplying the requirements of its industrial customers and Newfoundland Power serving 219,000 Island customers, all the employees of the Hydro Group are aware of the significant role they play in the economic fortunes of our Province and the responsibility entrusted to them. The results of their efforts in 2002 are outlined in this report.

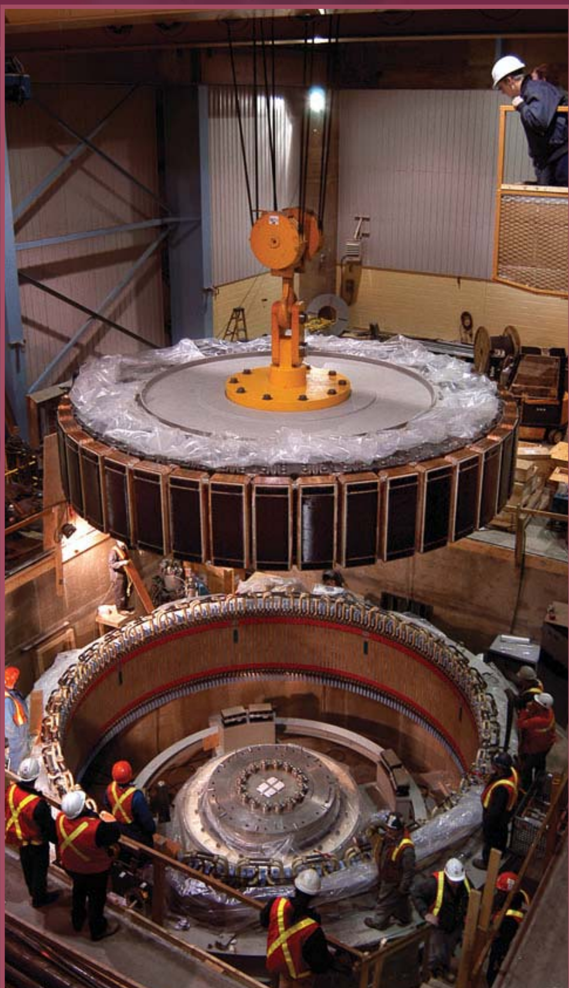
I should like to note the retirement of Derek W. Osmond, Vice-President of Finance and Chief Financial Officer, as of December 31, 2002, following a 27-year career with the Hydro Group. I extend my best wishes to Derek for a healthy and well-deserved retirement.

Mr. J. Wayne Trask retired from the Board of Directors of Hydro at the end of 2001. Mr. Victor L. Young resigned from the Board of Directors of CF(L)Co. in June, and Messrs. Dean T. MacDonald and Mark Dobbin resigned from the Board of Directors of Hydro in November 2002. As members of their respective boards, they made a significant contribution during their term of office and I should like to thank them for their support and assistance. To the directors of the Hydro and CF(L)Co. Boards I also extend my appreciation for their ongoing support and commitment during the past year.

Finally, on behalf of Board members and Executive management, I express our gratitude to all employees of the Hydro Group for their contribution throughout the year.

William E. Wells
President and Chief Executive Officer

YEAR IN REVIEW


Lowering the generator rotor into position at the new Granite Canal hydroelectric generating plant.

Newfoundland and Labrador Hydro engaged in a number of important initiatives and reached several significant milestones in 2002. From a year of record sales to the installation of the turbine/generator at Granite Canal, the past year has been quite productive.

ENERGY SALES AND PRODUCTION

In 2002, Hydro experienced record sales on its Island and Labrador interconnected systems. Combined sales totaled 7,100 GWh. This is a 5.5% increase over 2001 and a 5.4% increase over the record set in 1997. With the second consecutive year of below-average inflows into the Island hydro reservoirs, gross production from the Holyrood Thermal generating station set an all time high of 2,511 GWh. This is a 13% increase over 2001 and a 9% increase over the previous high set in 1987. Higher production requirements from the Holyrood facility also enabled us to establish an efficiency record of 648 kWh per barrel (net), a 2.5% increase over the previous record set in 2001. Net production increased at Churchill Falls to 35,516 GWh, a 7.9% increase over the previous year.

On January 31, a record peak of 1,403 MW was established on the Island Interconnected System. This was a significant increase over the 1,318 MW peak set in 1996.

GENERAL RATE APPLICATION

On June 7, 2002, the Board of Commissioners of Public Utilities ("PUB") issued its decision on Hydro's General Rate Application ("GRA"). The decision reflected the complexity of the lengthy hearing (over a 19-week period) and some 20,000 pages of evidence filed.

General rate increases became effective September 1, 2002, and included a 3.6% increase for residential customers on the Island Interconnected Rural and Isolated Systems.

The primary issue affecting cost was the adjustment of Bunker "C" fuel prices in rates from $12.50 a barrel set in 1992 to $25.91 a barrel to more properly reflect current fuel costs.

Consumers and industrial customers are protected from fluctuations in fuel prices impacting monthly bills by the Rate Stabilization Plan ("RSP"). Bunker "C" fuel is used by Hydro at the Holyrood Thermal plant. However, escalating fuel costs had resulted in higher outstanding balances in the RSP. The PUB froze the outstanding balances of August 31, 2002, and directed that it be recovered over a five-year period starting in 2003. Balances in the new plan have increased beyond expectation since September as actual prices for Bunker "C" fuel have exceeded forecast prices to date. Outstanding balances in the new account are to be recovered from ratepayers over a two-year period beginning in 2004.

Hydro will be filing another GRA in 2003 to recover the cost of new sources of generation coming on-stream in 2003 to meet system requirements.

RELIABILITY

The Avalon Peninsula transmission upgrade program began in 1997-1998 when Hydro Engineering staff established a higher ice and wind loading criteria for these major 230 kV lines. Since their construction in the 1960's, these lines have been subjected to more severe ice and wind conditions than anticipated at the original design stage. This caused significant damage and more frequent lengthy power interruptions over the years, most recently in 1994.

The redesign of the steel tower transmission lines from Sunnyside to St. John's involved reconductoring, re-insulation, addition of new towers and strengthening of existing towers. Construction was completed in 2002 at a total capital cost of $45 million over the six-year period.

NEW GENERATION

The Granite Canal hydroelectric project had a busy construction year. All of the civil structures were virtually completed, and the turbine/generator was put in place. The 40 MW project is within budget and on schedule for in-service in June 2003.

We also successfully negotiated two supply contracts with Corner Brook Pulp and Paper and Abitibi-Consolidated. These companies have completed a co-generation project and hydro generation project respectively. This additional capacity, along with our Granite Canal plant, will provide a total of 87 MW to the Island interconnected grid to meet the anticipated increased demand.

At the request of Government, Hydro had a feasibility study conducted to assess the potential of wind generation to provide energy to the Island Interconnected System. The potential for a wind generation facility is currently being assessed.

CUSTOMER SERVICES

In 2002 we continued to survey residential customers in order to measure their satisfaction with the service provided. As well, a satisfaction survey of commercial customers was completed and will be used for future reference against the benchmarking study completed in 2001. The Customer Satisfaction Index for residential customers improved for the third consecutive year, increasing from 7.6 in 2000 and 7.9 in 2001 to 8.1 in 2002. Information obtained in these surveys will assist us in exploring new opportunities to improve customer service.

In response to customer requests for payment options, Hydro implemented an equal payment plan and a pre-authorized payment plan for residential customers on July 1, 2002. By mid-2003, customers will not only have the option of speaking to a customer services representative, but will also be able to access their account information and receive power outage information automatically over the Internet or by interactive voice response.

Recognizing the need for continual energy conservation, Hydro has developed a multi-year energy conservation initiative branded "***HYDROWISE***". The objectives of the initiative are to make information available to help customers in the wise use of electricity and to encourage customer participation in response to various applications that address their individual needs. Hydro has also partnered with the Conservation Corps of Newfoundland and Labrador to provide specialized energuide and energy audit services to customers.

ENVIRONMENT

One of our most significant achievements this year was to attain consistency of the Environmental Management Systems ("EMS") in all regions of the Transmission and Rural Operations Division with the ISO 14001 EMS standard. With this, all environmental issues facing the Hydro Group of Companies are managed through this international standard. In addition to being consistent with the ISO 14001 standard, all of our EMS management areas are certified, except the Transmission and Rural Operations Division, which will be registered for certification in 2003.

Being recognized for our accomplishments brings a sense of pride to all of us. Hydro was awarded the business category award in the Newfoundland and Labrador Environmental Awards program. We were cited for "the exemplary attitude and concern for the environment through sound environmental management policy and demonstrated action to prevent and reduce pollution". This recognition is a reflection of the diligent work efforts and contributions of all employees.

The Granite Canal hydroelectric project provides many opportunities for us to demonstrate our ability to harness a natural resource in an environmentally responsible manner. It is natural to expect a project of this nature to require extensive environmental work such as caribou monitoring, fish telemetry and raptor studies. By far, the most significant environmental aspect of the project has been the design and construction of a fish habitat compensation facility. The need to replace spawning and rearing habitat for fish was identified, as the new passage of water from the plant would eliminate this habitat that existed prior to the development of the project. Approval from the Department of Fisheries and Oceans was obtained to construct the habitat. This multi-million dollar feature is a highlight of the project and unique in Canada.

SAFETY

The provision of a safe and healthy work place for all employees continues as a key priority. The Hydro Group's comprehensive Safety and Health Program based on industry best practices and our own internal standards was converted to a web-based electronic format in 2002 in preparation for inclusion in the Corporate Intranet. Conversion to a web format will provide on-line access to information for all employees regardless of their work location.

Hydro's safety performance in 2002, as compared with our peers within the Canadian Electricity Association ("CEA"), continued to be favourable with respect to All Injury Frequency, Disabling Injury Frequency and Injury Severity Rating. Our goal is to achieve the best possible safety record.

CHURCHILL FALLS

In 2002, we had the benefit of higher inflows to our reservoirs, resulting in an above-average 36.6 TWhrs of energy produced, at an overall load factor of 75%.

The Guaranteed Winter Availability Contract ("GWAC"), which provides for the sale of additional capacity outside the power contract to Hydro-Québec, contributes additional revenue to the Corporation. In 2002, 97.2% of the possible revenue from additional capacity was received under the Agreement.

In the first year of a three-year project, renovation of the Donald Gordon Centre began including disabled access, fire safety and ventilation improvements. The Centre is the largest building in Churchill Falls and houses a hotel, restaurant, school, library, supermarket, retail sales area, post office and recreation facilities.

POLE PURCHASE AGREEMENT

On December 4, 2002, Hydro and Aliant signed a Support Structures Purchase Agreement for Hydro's purchase of all the Aliant-owned joint use poles in Hydro's service territory in Newfoundland and Labrador.

Aliant has agreed to pay an annual rental fee per pole for the communication space it occupies on all joint use poles. This fee will escalate over the term of the Agreement, and the Agreement will renew automatically for successive ten-year terms unless one of the parties terminates the Agreement.

ELECTRICITY POLICY REVIEW

In late March, the Government released its Electricity Policy Review ("EPR"). Hydro welcomed the opportunity to reflect on the future of the electricity industry in the Province and believes that there are opportunities to assist in restraining cost pressures and changes that will help the system to be more efficient in the years ahead. As part of the consultation process, Hydro submitted a report in June outlining its position on the various proposals contained in the EPR.

CLIMATE CHANGE EDUCATION CENTRE

In June, the Climate Change Education Centre was officially opened. The Centre is a project of the Conservation Corps of Newfoundland and Labrador, aimed at identifying key areas in educating the public on climate change and influencing the role we can play in meeting this global challenge. Hydro is proud to be the corporate sponsor of this project. The other sponsors of the Centre are the Province of Newfoundland and Labrador and Environment Canada. This project brings together partners from government, business, environmental and health organizations, educational institutions, community groups and individuals in the development of an information and support centre for climate change education and outreach activities in Newfoundland and Labrador.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis highlights the primary factors that have an impact on the financial results and operations of the Corporation. It should be read in conjunction with the audited financial statements and the accompanying notes.

Newfoundland and Labrador Hydro ("Hydro") is a Crown Corporation, owned by the Province of Newfoundland and Labrador ("Province"). Hydro generates, transmits and distributes electrical power and energy to utility, industrial and residential customers throughout the Province.

Hydro is the parent company of the Hydro Group of Companies ("Hydro Group") comprised of Newfoundland and Labrador Hydro, Churchill Falls (Labrador) Corporation Limited ("CF(L)Co."), Lower Churchill Development Corporation Limited ("LCDC"), Gull Island Power Company Limited ("GIPCo."), and Twin Falls Power Corporation Limited ("TWINCo."). The Hydro Group's installed generating capacity is the fourth largest of all utility companies in Canada. Our power generating assets include nine operating hydraulic plants, including the Churchill Falls hydraulic plant, which is the largest underground powerhouse in the world with a rated capacity of 5,428 MW of power, one oil-fired plant, four gas turbines and 28 diesel plants.

FINANCIAL OVERVIEW

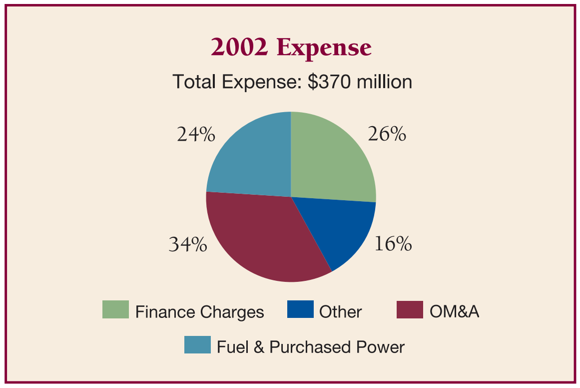
During 2002, Hydro continued to provide safe, reliable, cost-effective power to customers throughout the Province, export electricity to Hydro-Québec and pay significant dividends to the Province. Net income for 2002 increased by $4.0 million compared to 2001.

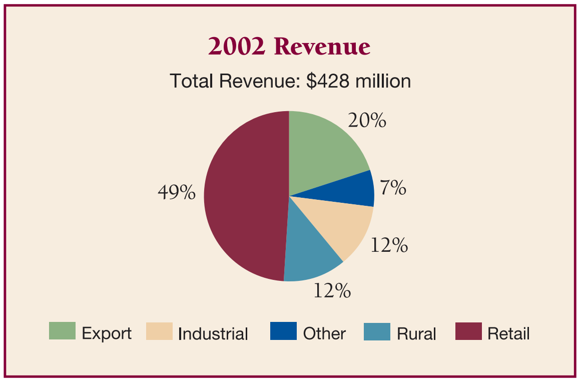
Income was up 7% mainly due to increased sales to all classes of customers in 2002, as well as an increase in base rates to most regulated customers effective September 1, 2002. At the same time, a large portion of the increase in revenue was offset by higher fuel costs and higher operations and administration expenses. Debt levels rose in 2002 to finance a portion of capital expenditures, as well as fuel costs which were deferred in the Rate Stabilization Plan ("RSP").

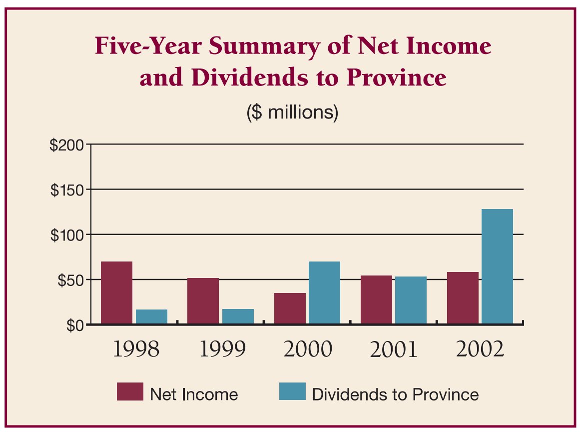
The Hydro Group has a workforce of approximately 1,220 Full-Time Equivalents.

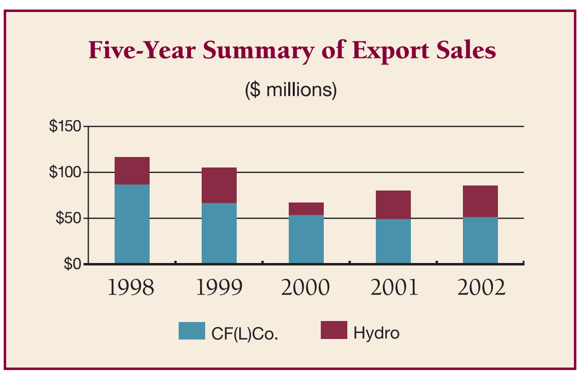
COMPOSITION OF REVENUE AND EXPENSE

Hydro's revenue consists of sales of electricity to several large industrial customers in the Province and over 35,000 residential and commercial customers in rural Newfoundland and Labrador. Hydro also sells energy to Newfoundland Power, an investor-owned utility that distributes electrical power to



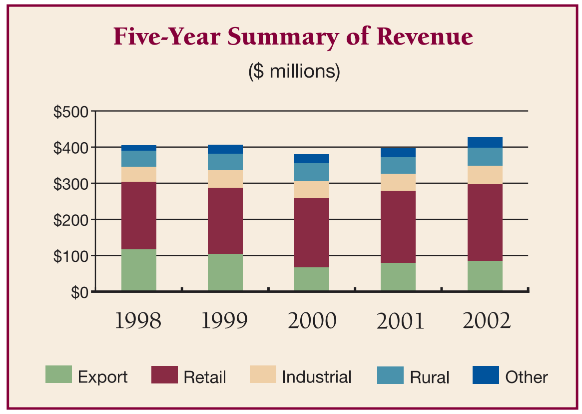






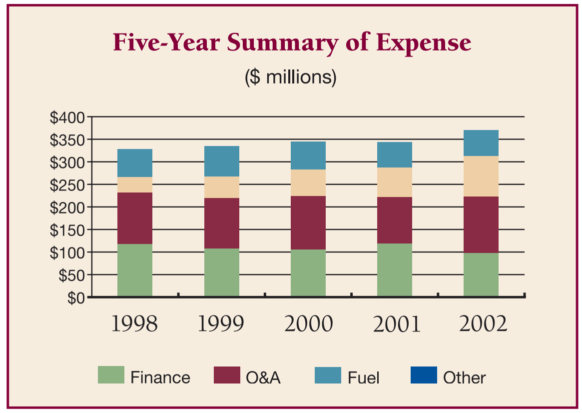
the balance of the population on the island portion of the Province. Export sales consist of power generated at Churchill Falls and sold to Hydro-Québec. The majority of these sales are made directly by CF(L)Co. to Hydro-Québec at rates set under a long-term power contract. The remainder is sold to Hydro-Québec by Hydro at market rates.

The Corporation's major expense categories consist of fuel and purchased power, operating, maintenance and administration, finance charges and depreciation.



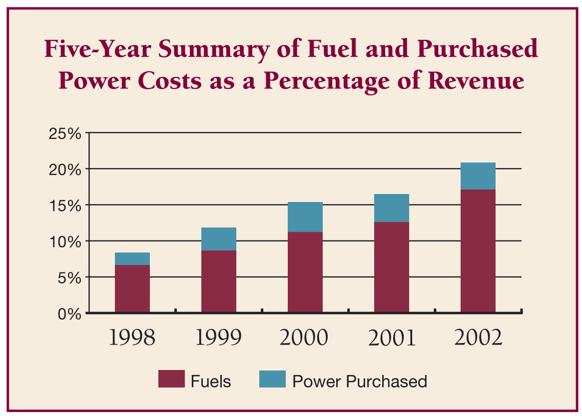
NET INCOME

Hydro's consolidated net income was $58 million in 2002, an increase of $4.0 million from 2001. Over the past five years, Hydro has paid $285 million in dividends to the Province.



REVENUE

Total revenue growth in 2002 was approximately 8%, mainly due to load growth in both the retail and industrial sectors combined with a general rate increase to regulated customers approved by the PUB effective September 2002. Also contributing to higher revenue was higher export sales to Hydro-Québec and additional compensation from the Guaranteed Winter Availability Contract between CF(L)Co. and Hydro-Québec.



EXPENSES

Total expenses for 2002 were 8% higher than 2001, primarily due to a 46% increase, or $23 million, in fuel costs. This increase is due to higher fuel prices in base rates and an increase in thermal production due to higher energy sales, coupled with a decrease in hydraulic production relative to thermal. In 2002, 17¢ of every dollar of revenue went to pay for fuel costs compared to 13¢ in 2001.

Hydro pays various fees, taxes and other charges as indicated below:

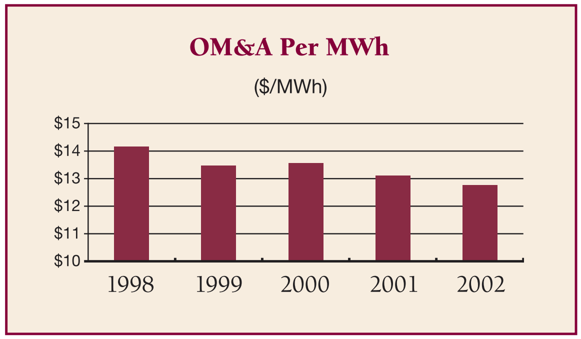
Fees, Taxes and Water Rentals (millions of dollars)

Payment	Recipient	**2002**	2001
Debt Guarantee Fee	Government of Newfoundland and Labrador	**$ 12.2**	$ 11.2
Payroll Tax	Government of Newfoundland and Labrador	**1.1**	1.1
Rentals and Royalties	Government of Newfoundland and Labrador	**4.4**	4.3
Municipal Taxes	Various Newfoundland and Labrador Municipalities	**1.0**	1.0
Total		**$ 18.7**	$ 17.6

OPERATIONS AND ADMINISTRATION

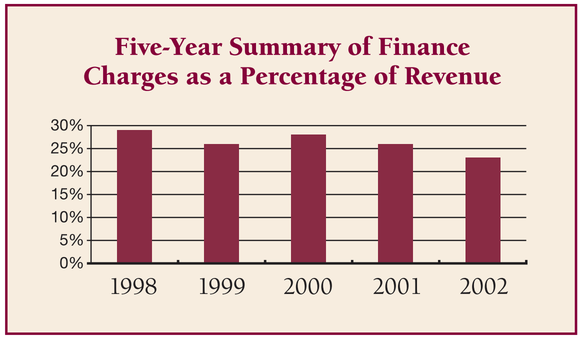
Operations and administration expense increased 6% in 2002 over 2001. This increase was due primarily to higher salaries and fringe benefits costs, plus significant maintenance expense relating to an overhaul of one of CF(L)Co.'s aircraft. Salaries were up in 2002 reflecting terms of collective bargaining agreements and an increase in the cost of benefits, as well as lower allocations to the capital program.

In 2002, 29¢ out of every dollar in revenue went to pay for operations and administration. This is down from 30¢ in 2001.



FINANCE CHARGES

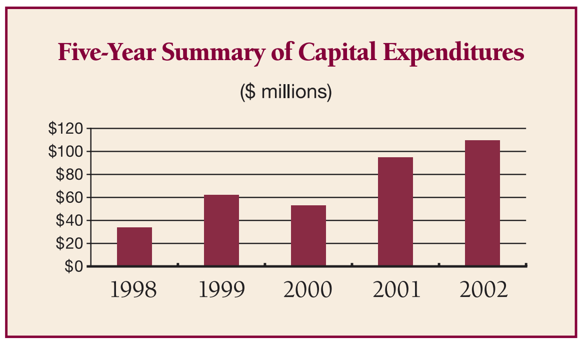
Although overall borrowings increased, net interest expense, including the guarantee fee, decreased in 2002 by $4.7 million to $97.8 million. This is mainly due to lower interest rates on Hydro's debt and lower outstanding balance of CF(L)Co.'s debt.

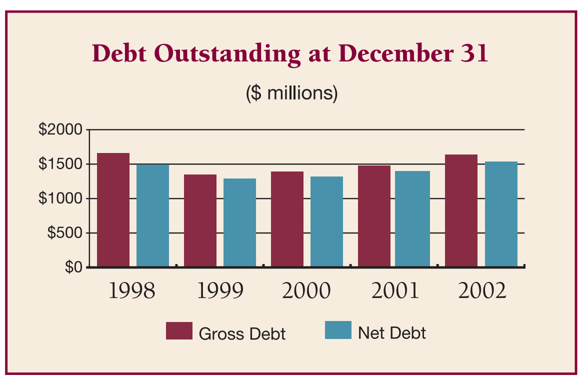


CAPITAL EXPENDITURES

In order to ensure a safe, reliable and cost-effective supply of electricity for its customers, Hydro invested $110 million in various capital projects during 2002, compared to $95 million in 2001. Major capital investments in 2002 included:

- $63 million to add 40 MW of hydraulic generation capacity at Granite Canal situated within the existing Bay d'Espoir Development by June 2003.
- $6 million related to the potential development of hydro projects in Labrador.
- $13 million to strengthen transmission lines on the Avalon Peninsula.
- $6 million related to the improvements to our Distribution System, along with additions for new customers.
- $3 million for improvements to our Isolated Diesel plants which included $1.8 million for the completion of a new diesel plant at Nain.
- $4 million for the purchase of joint use poles from Aliant.
- $4 million for improvements at our Hydraulic Plant which included $1.3 million to interconnect one of our water control structures to the System Grid.





BORROWING AND DEBT

During 2002, Hydro was able to take advantage of a favourable interest rate environment and borrowed $250 million of long-term Canadian denominated debt. The Corporation also increased promissory notes outstanding by $44 million. Funds from these borrowings were used to finance a portion of the Corporation's capital expenditures, fund the refinancing of a $100 million maturing long-term debenture, retire $40 million in other long-term debt and make sinking fund contributions of $14 million.

Hydro's net debt increased $140 million to $1,538 million at December 31, 2002, from $1,398 million at December 31, 2001.

PERFORMANCE MEASURES

During 2001, Hydro developed a strategic plan to provide long-term direction and facilitate long-term planning. The plan includes Hydro's mandate, mission, vision statement and core values, as well as its strategic objectives. One of the stated objectives is: "To optimize corporate performance". During 2002, Hydro identified several key indicators of corporate performance while attempting to maintain consistency with measures used by the Canadian Electricity Association ("CEA") Committee on Corporate Performance and Productivity Evaluation ("COPE").

Return on equity increased from 2001, primarily due to a decrease in retained earnings caused by the payment of $121 million in dividends to the Province during 2002. This, coupled with increased borrowing required to fund the capital program and growing RSP balances, caused the percentage of debt in capital structure to increase during 2002 as well. OM&A cost per MWh improved during 2002 due to an increase in energy delivered without a commensurate increase in controllable costs.

SAIDI and SAIFI measures deteriorated during 2002, primarily due to equipment failures and adverse weather conditions, as well as an increase in planned outages to accommodate distribution system upgrading.

Financial Performance Indicators (Hydro only)	**2002**	2001
Return on Equity (%)	**15.9**	13.5
Debt to Capital (%)	**85.00**	79.00
Interest Coverage Ratio	**1.37**	1.38
OM&A Per MWh ($)	**12.77**	13.12

Non-Financial Performance Indicators (Hydro only)	**2002**	2001
SAIFI – Transmission	**1.72**	1.43
SAIDI – Transmission (minutes)	**106.72**	44.00
SAIFI – Distribution	**9.44**	7.47
SAIDI – Distribution (hours)	**13.63**	10.17
Generated Energy (GWh)	**39,421.00**	36,496.00
All Injury Frequency Rate	**1.98**	2.17
Customer Satisfaction Index	**8.1**	7.9

Description of Performance Indicators

Return on Equity – Net Income / Average Equity.

Debt to Capital – Year-end debt balance expressed as a percentage of the total corporate financing structure.

Interest Coverage Ratio – The extent to which income before financing charges is able to cover the Corporation's interest obligations.

System Average Interruption Frequency Index (SAIFI) – Total number of sustained outages/total number of delivery points or customers. An outage is sustained if over one minute in duration. For transmission, denominator is delivery points; for distribution, it is customers. This is used to track the overall performance of Hydro's transmission and distribution system.

System Average Interruption Duration Index (SAIDI) – Total duration (minutes) of all outages/number of delivery points or customers. For transmission, denominator is delivery points; for distribution, it is customers. This is used to track the performance in responding to outages.

Generated Energy (GWh) – is the volume of electricity that was generated from Hydro's generating facilities.

All Injury Frequency Rate – [(# of disabling injuries + # of medical aid injuries) x 200,000] / Hours worked. It measures the frequency with which injuries occur.

OM&A Per MWh – Controllable Corporate Operating, Maintenance and Administrative Cost / energy deliveries (MWh).

Customer Satisfaction Index – The weighted average of satisfaction ratings of the service attributes, based on annual rural residential customer survey.

HYDRO SUBSIDIARIES

Hydro has one wholly-owned subsidiary, GIPCo., as well as a 51% interest in LCDC and a 65.8% interest in CF(L)Co. CF(L)Co. is incorporated under the laws of Canada and operates a hydroelectric generating plant and related transmission facilities in Labrador with a rated capacity of 5,428 MW.

REGULATION

In September 2002, new rates were approved by the Board of Commissioners of Public Utilities ("PUB") for all of Hydro's regulated sales. The hearing into the general rate application, which was filed in May 2001, was the longest hearing in Hydro's history. The length of the hearing was due, at least in part, to the extended period of time since Hydro's previous general rate proceeding, approximately ten years earlier, as well as the changes in the regulatory framework since that time.

Prior to 1996, final approval of Hydro's retail rates rested with the Government, following recommendations made by the PUB after public hearings were held. However, as a result of legislative changes in 1996, the PUB has full authority in the Province to deal with regulatory matters concerning Hydro, including approval of its capital and borrowing programs, in addition to the rates charged to most of its customers. The hearing of 2001-2002 was Hydro's first proceeding as a utility regulated on the basis of return on rate base. During that hearing, Hydro proposed to seek a nominal rate of Return On Equity ("ROE") of 3% in the short term in order to lessen the impact of the increase in fuel price on rates. The PUB accepted this proposal and acknowledged that this level of ROE is below normal market returns.

Hydro will be filing a rate application in 2003 seeking to recover additional costs of new power purchase contracts with non-utility generators, as well as costs of a new hydro development, Granite Canal, which is coming on-stream in mid-2003. There are also other matters to pursue which were initiated at the previous hearing including corporate financial targets, rural rate setting, the rural deficit and fuel costs. Hydro will be seeking resolution of these matters in 2003.

2002 NET INCOME

(millions of dollars)

2002 Net Income	Hydro (Unconsolidated)	CF(L)Co.	GIPCo.	LCDC	Eliminating Entries	Hydro (Consolidated)
Revenue	$ 362.2	$ 66.8	$ -	$ -	$ (1.3)	$ 427.6
Expenses	321.4	48.8	-	-	(0.5)	369.7
Net Income (loss)	$ 40.8	$ 18.0	$ -	$ -	$ (0.8)	$ 57.9

2002 BALANCE SHEET

Total Assets	$ 2,044.8	$ 406.9	$ 100.0	$ 30.2	$ (262.6)	$ 2,319.3
Liabilities	$ 1,551.2	$ 163.9	$ -	$ -	$ 10.6	$ 1,725.7
Equity	493.6	243.0	100.0	30.2	(273.2)	593.6
Total Liabilities and Equity	$ 2,044.8	$ 406.9	$ 100.0	$ 30.2	$ (262.6)	$ 2,319.3

OUTLOOK FOR 2003

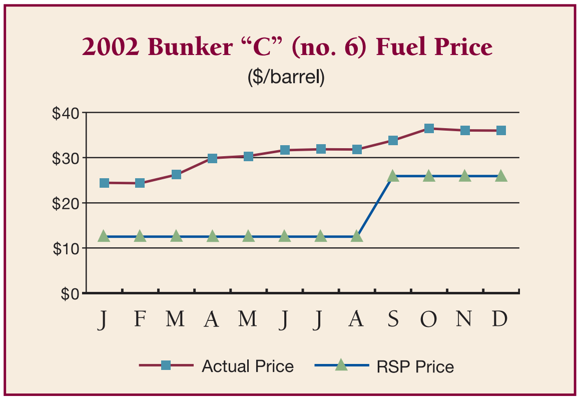
Earnings are expected to be lower in 2003, primarily due to increased fuel and power purchase costs, as well as higher interest expense. Additionally, the total outstanding balances owing to Hydro from customers related to deferred fuel charges in the RSP is forecast to exceed $160 million by year-end 2003.

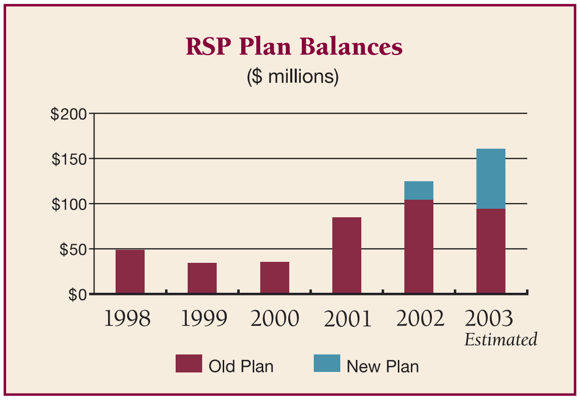
RATE STABILIZATION PLAN

In addition to the impact that the change in fuel price and lower reservoir levels have had on Hydro's income statement, there have also been significant impacts on the balance of the RSP. Prior to September 2002, the price of no. 6 fuel in the base rates to be charged to consumers was $12.50 per barrel. As fuel prices increased, the difference between the cost of fuel consumed and the cost upon which rates were set, accumulated in the RSP resulting in a balance owing to Hydro from its customers of $105.8 million at the end of August 2002. As a result of the 2001-2002 general rate application before the PUB, this balance was frozen and is to be recovered over a five-year period. Additionally, the price of no. 6 fuel was reset to $25.91 per barrel, which was the average forecast price for 2002 at that time. However, during 2002, purchase prices peaked at $39.43 per barrel in September which resulted in the average price per barrel consumed climbing to $36 by year-end. As at December 31, 2002, an additional amount of $20.5 million owing to Hydro from its customers had accumulated in the RSP. This amount, plus amounts accumulating through 2003, will be recoverable over a two-year period starting in 2004. Based on a current average forecast fuel price of $32.70 per barrel, Hydro is projecting this balance to grow to $67 million by year-end 2003.

HUMAN RESOURCES

Human resource management including recruitment and retention of a qualified workforce, compensation, training and development and succession planning will remain key to Hydro's continued success as 25% of its workforce will be eligible for retirement over the next five years. Fostering cooperative relations with Hydro's bargaining units is also key for future success. In 2002, collective agreements were renewed with the IBEW for a three-year period.





INFRASTRUCTURE AND TECHNOLOGY

Hydro's generation and transmission facilities were constructed primarily during the 1960's and 1970's. Many facilities are now approaching 40 years of age and require increasing amounts of maintenance to maintain acceptable levels of reliability. Significant capital investment is also required each year to ensure that facilities and equipment are upgraded, replaced or installed to meet the increasing demand for electrical energy from our customers.

New developments in generation, transmission and distribution, and metering technologies will affect the way the Corporation operates in the future. Renewable energy sources, such as wind, may offer the potential for cost-effective generation of power.

ENVIRONMENT

Environmental issues are expected to become more significant for the utility industry in the future. In an effort to continue to provide reliable service while realizing its responsibility to the environment, Hydro adopted the ISO 14001 Environmental Management System ("EMS") standard in 1997. ISO 14001 is the foundation of the CEA's Environmental Commitment and Responsibility Program. It requires organizations to make a commitment to comply with legal and other requirements, prevent pollution and work to continually improve their environmental performance.

RISK MANAGEMENT

Hydro is exposed to various forms of risk in its business environment. Changes in interest rates, fluctuation in foreign currency exchange rates and changes in fuel prices can impact an organization's future financial success.

The Corporation manages its exposure to interest rates through an ongoing benchmarking against key indices, having due consideration for the Corporation's relative risk profile. This approach was instrumental in the Corporation's decision in 2002, to increase floating rate debt as a percentage of overall debt, and thereby take advantage of historically low short-term rates in that year. The Corporation mitigates its foreign exchange exposure through a diversified approach utilizing forward currency contracts.

The Corporation is also subject to risks associated with damage of its assets, interruption of service and liability claims. The Hydro Group recognizes these exposures and employs a variety of risk control and financing techniques. Regular maintenance and inspection of assets, redundancy of critical facilities and other loss prevention solutions are utilized to eliminate and/or reduce these exposures. The Corporation purchases an insurance program to finance certain potential losses. This program is reviewed at least annually to ensure the appropriate coverages are purchased at the most reasonable cost. Self-insurance, insurance deductibles and reviews of exposures are also used to reduce the cost of risk.

As an electrical utility, the working environment for the majority of Hydro's employees is hazardous and unforgiving. To ensure that its employees are protected from accidents and industrial illness, Hydro has established a comprehensive Safety and Health Program. The program draws on industry best practices, state-of-the-art personal protective equipment, task analysis and standardized work methods and engineered solutions to provide employees with a safe environment in which to work. The safety and well being of its workforce is a priority at Hydro.

IMPROVING BUSINESS PROCESS

In 2002, Hydro implemented a business improvement process to ensure continuous improvement in work processes driven by process metrics and traceable to corporate Key Performance Indicators ("KPI"). This is consistent with our strategic planning process and the resulting strategic issues and goals.

A senior management improvement team, headed by an executive director and assisted initially by a consultant, through various process improvement teams, reviewed and renewed the goods and services process, the inventory and consumables process, the purchasing card and travel process and the accounts payable process. In addition to these processes, the teams started the review and renewal of the work management and budgeting process and the asset management process.

Hydro's objective is to eliminate non-value added work in its processes and leverage the functionality of its integrated software suite to support process improvement and deliver better business information, effective work management tools, effective budgeting tools and process metrics.

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 Canadian generally accepted accounting principles, 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 14, 2003. 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 Canadian 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 fulfils 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.

John C. Roberts
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 and Labrador

We have audited the consolidated balance sheet of **Newfoundland and Labrador Hydro** as at December 31, 2002, 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 Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. 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 and Labrador
Canada
February 14, 2003

Ernst & Young LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEET

As at December 31 (millions of dollars)	**2002**	2001 (Note 2)
ASSETS		
Capital assets (Note 3)		
Capital assets in service	**2,604.7**	2,566.8
Less contributions in aid of construction	**108.9**	109.9
	2,495.8	2,456.9
Less accumulated depreciation	**745.7**	707.6
	1,750.1	1,749.3
Construction in progress	**154.6**	88.7
	1,904.7	1,838.0
Current assets		
Cash and cash equivalents	**0.2**	1.1
Short-term investments	**-**	4.0
Accounts receivable	**62.0**	56.4
Current portion of rate stabilization plan	**-**	21.1
Current portion of long-term receivable (Note 4)	**27.5**	10.3
Fuel and supplies at average cost	**48.0**	46.3
Prepaid expenses	**2.5**	2.0
	140.2	141.2
Long-term receivables (Note 4)	**110.6**	33.1
Sinking funds (Note 10)	**48.7**	42.7
Investments (Note 5)	**5.2**	5.2
Rate stabilization plan	**20.5**	63.9
Deferred charges (Note 7)	**89.4**	100.1
	2,319.3	2,224.2

See accompanying notes

CONSOLIDATED BALANCE SHEET

As at December 31 (millions of dollars)	**2002**	2001
		(Note 2)
LIABILITIES AND SHAREHOLDER'S EQUITY		
Long-term debt (Note 8)	**1,354.9**	1,156.7
Current liabilities		
Bank indebtedness	**4.4**	2.1
Short-term borrowing	**3.3**	-
Accounts payable and accrued liabilities	**59.3**	48.7
Accrued interest	**27.7**	25.5
Long-term debt due within one year (Note 8)	**50.2**	146.3
Promissory notes (Note 8)	**181.5**	138.0
	326.4	360.6
Employee future benefits (Note 9)	**29.6**	28.5
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	**453.5**	523.5
	593.6	663.6
Commitments and contingencies (Note 12)	**-**	-
	2,319.3	2,224.2

See accompanying notes

On behalf of the Board:

Director

Director

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended December 31 (millions of dollars)	**2002**	2001
		(Note 2)
Revenue		
Energy sales	**399.6**	374.8
Recovery of costs in rate stabilization plan	**14.0**	11.2
Guaranteed winter availability	**9.5**	7.5
Rentals and royalties	**0.3**	0.3
Other	**4.2**	3.3
	427.6	397.1
Expenses		
Operations and administration	**125.8**	119.1
Fuels	**73.2**	50.2
Amortization of costs in rate stabilization plan	**14.0**	11.2
Power purchased	**15.8**	15.6
Depreciation	**43.0**	44.5
Interest (Note 11)	**97.8**	102.5
	369.6	343.1
Net income	**58.0**	54.0
Retained earnings, beginning of year, as previously reported	**528.6**	528.5
Less CF(L)Co. foreign exchange loss (Note 2)	**5.1**	5.7
Retained earnings, as restated	**523.5**	522.8
Dividends	**128.0**	53.3
Retained earnings, end of year	**453.5**	523.5

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31 (millions of dollars)	**2002**	2001
		(Note 2)
Cash provided by (used in)		
Operating activities		
Income before non-controlling interest	**58.0**	54.0
Adjusted for items not involving a cash flow		
Depreciation	**43.0**	44.5
Amortization of deferred charges	**4.0**	1.6
Rate stabilization plan	**64.5**	(49.4)
Other	**-**	3.8
Foreign exchange (gain) loss	**(0.1)**	0.5
	169.4	55.0
Change in non-cash balances related to operations		
Accounts receivable	**(5.6)**	(2.3)
Fuel and supplies	**(1.7)**	2.7
Prepaid expenses	**(0.5)**	0.5
Accounts payable and accrued liabilities	**11.8**	6.2
Accrued interest	**2.2**	(1.2)
Employee future benefits	**1.1**	1.4
Long-term receivable	**(104.8)**	2.6
	71.9	64.9
Financing activities		
Long-term debt issued	**250.0**	250.0
Long-term debt retired	**(138.1)**	(185.9)
Foreign exchange loss recovered	**8.5**	7.8
Increase in short-term borrowing	**3.3**	-
Increase in promissory notes	**43.5**	17.2
Dividends	**(128.0)**	(53.3)
	39.2	35.8
Investing activities		
Net additions to capital assets	**(109.7)**	(94.9)
Decrease in short-term investments	**4.0**	0.1
Increase in sinking funds	**(14.1)**	(11.5)
Decrease in investments	**-**	4.1
Reductions (additions) to deferred charges	**6.7**	(2.0)
Change in accounts payable related to investing activities	**(1.2)**	7.4
	(114.3)	(96.8)
Net (decrease) increase in cash	**(3.2)**	3.9
Cash position, beginning of year	**(1.0)**	(4.9)
Cash position, end of year	**(4.2)**	(1.0)
Cash position is represented by		
Cash and cash equivalents	**0.2**	1.1
Bank indebtedness	**(4.4)**	(2.1)
	(4.2)	(1.0)
Supplementary disclosure of cash flow information		
Interest income received	**1.7**	2.3
Interest paid	**104.1**	106.6

See accompanying notes

Newfoundland and Labrador Hydro ("Hydro") is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador ("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 ("TWINCo."), 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 Canadian generally accepted accounting principles and to conform with recommendations of the Board of Commissioners of Public Utilities ("PUB") of the Province.

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. Actual results may differ from these estimates.

Rates and Regulations (Excluding Sales by Subsidiaries)

Hydro's earnings from its electrical sales to most customers within the Province are regulated on the basis of return on rate base. As well, Hydro's borrowing and capital expenditure programs are subject to review and approval by the PUB.

Rates charged to 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.

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 5,428,500 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, 2002, $32.4 million (2001 - $31.2 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 ("Gull Island Project"), (Note 5).

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

Cash Equivalents and Short-Term Investments

Cash equivalents and short-term investments consist primarily of Canadian treasury bills and banker's acceptances. 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

12 months are classified as short-term investments. Both are stated at cost, which approximates market value. There were no investments outstanding at December 31, 2002. There were short-term investments outstanding at December 31, 2001, bearing interest rates of 2.20% to 6.09% per annum.

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 capital.

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 incurred cost of capital assets, or the fair value of assets contributed. 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

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 ("RSP") which primarily provides for the deferral of cost variances resulting from changes in fuel prices, levels of precipitation and load. 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.

In 2002, the PUB ordered changes with respect to the recovery of the balance in the RSP, as well as for any future balances that may accumulate. The RSP balance as at August 31, 2002, has been converted to a long-term receivable and the balance outstanding at December 31, 2002, will be recovered over five years, commencing in 2003 (Note 4). The RSP activity for the period September - December 2002, and all of 2003, will be amortized over two years, commencing in 2004.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Promissory Notes

Promissory Notes bear interest from 2.80% to 3.29% per annum (2001 - 2.15% to 3.90%) 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 (2001 - 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 adjusted to reflect 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. This amortization is included in interest expense. Commencing in 2002, the PUB ordered Hydro's deferred foreign exchange losses, net of the $10.0 million provision previously accumulated, be amortized over a forty-year period (Note 7).

 (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 portion of the unrealized foreign exchange loss, which is recoverable on the settlement dates, is included in long-term receivables (Note 4).

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.

Employee Future Benefits

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions are expensed as incurred.

Hydro provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee future benefits is accounted for on an accrual basis and has been actuarially determined using the projected benefit method prorated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs. The excess of net cumulative actuarial gains and losses over 10% of the accrued benefit obligation are amortized over the expected average remaining service life of the employee group, which is approximately 12 years.

2. ACCOUNTING CHANGE

Foreign Exchange

Churchill Falls has adopted new recommendations of the Canadian Institute of Chartered Accountants with respect to foreign exchange gains and losses. Unrealized gains and losses associated with the First Mortgage Bonds that are not recoverable from Hydro-Québec under the Power Contract are included in net income for the current year. Previously, these gains and losses were deferred and amortized on a straight-line basis over the remaining life of the debt. This change has been applied retroactively, and prior years have been restated to reflect this change. Accordingly, the impact on the 2002 financial statements is an increase in net income of $1.2 million, and the impact on the 2001 financial statements is a reduction in opening retained earnings of $5.7 million and an increase in net income of $0.6 million.

3. CAPITAL ASSETS

	Capital Assets in Service	Contributions in Aid of Construction	Accumulated Depreciation	Construction in Progress
millions of dollars		**2002**		
Generation Plant				
Hydroelectric	**1,243.6**	**20.5**	**256.1**	**102.7**
Thermal	**223.5**	**-**	**173.3**	**0.2**
Diesel	**62.5**	**7.9**	**23.1**	**0.1**
Transmission and Distribution	**693.3**	**56.0**	**155.7**	**1.0**
Service facilities	**22.0**	**-**	**9.5**	**-**
Project costs (Note 5)	**96.4**	**-**	**-**	**-**
Capital studies (Note 5)	**25.0**	**-**	**-**	**-**
Other	**238.4**	**24.5**	**128.0**	**50.6**
	2,604.7	**108.9**	**745.7**	**154.6**

millions of dollars		2001		
Generation Plant				
Hydroelectric	1,240.1	20.5	245.2	40.0
Thermal	225.8	-	173.4	-
Diesel	58.7	8.3	21.7	3.3
Transmission and Distribution	666.2	56.7	140.8	1.5
Service facilities	22.0	-	9.1	-
Project costs (Note 5)	96.5	-	-	-
Capital studies (Note 5)	25.0	-	-	-
Other	232.5	24.4	117.4	43.9
	2,566.8	109.9	707.6	88.7

Included in the above amounts are CF(L)Co. assets in service amounting to $633.6 million (2001 - $631.3 million) which are pledged as collateral for long-term debt.

4. LONG-TERM RECEIVABLES

millions of dollars	**2002**	2001
Previous Rate Stabilization Plan		
Retail	**76.3**	-
Industrial	**28.0**	-
	104.3	-
Hydro-Québec		
Unrealized foreign exchange	**31.1**	41.2
Other	**2.7**	2.2
	33.8	43.4
Less due within one year	**27.5**	10.3
	110.6	33.1

The receivable arising from the RSP bears interest at the weighted average cost of capital, which is approximately 7.2%, and is to be recovered over a five-year period commencing in 2003.

The other 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.

5. INVESTMENTS

millions of dollars	**2002**	2001
Lower Churchill Option	**5.2**	5.2

LCDC was incorporated in 1978 pursuant to the provisions of an agreement ("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, ("Water Rights"), will be acquired by LCDC pursuant to the provisions of an agreement between LCDC and the Province, ("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, 2003, 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. In 1979, 520 shares were acquired 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, 2002, and its proportionate interest in CF(L)Co.'s operations for the year ended December 31, 2002.

millions of dollars	**2002**	2001
Current assets	**34.6**	34.9
Long-term assets	**371.7**	389.9
Current liabilities	**45.3**	40.2
Long-term liabilities	**113.9**	148.8
Revenues	**62.9**	58.6
Expenses	**49.0**	47.9
Net income	**13.9**	10.7
Cash provided by (used in)		
Operating activities	**25.4**	28.9
Financing activities	**(24.3)**	(25.0)
Investing activities	**1.6**	1.2

7. DEFERRED CHARGES

millions of dollars	**2002**	2001
Debt discount, financing expenses and other	**19.6**	26.2
Accumulated amortization	**14.3**	12.4
	5.3	13.8
Foreign exchange losses realized	**96.3**	96.3
Accumulated provision	**10.0**	10.0
	86.3	86.3
Accumulated amortization	**2.2**	-
	84.1	86.3
Net deferred charges	**89.4**	100.1

8. LONG-TERM DEBT

	Hydro	CF(L)Co.	Total	Hydro	CF(L)Co.	Total
millions of dollars		**2002**			2001	
Summary of long-term debt						
Long-term debt	**1,257.1**	**148.0**	**1,405.1**	1,122.3	180.7	1,303.0
Less payments due within one year	**16.1**	**34.1**	**50.2**	114.4	31.9	146.3
	1,241.0	**113.9**	**1,354.9**	1,007.9	148.8	1,156.7

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

millions of dollars	2003	2004	2005	2006	2007
	50.2	32.8	31.0	230.1	30.1

The payments due within one year include sinking fund requirements of $8.8 million (2001 - $7.3 million).

Details of long-term debt are as follows:

Hydro

Series	Interest Rate %	Year of Issue	Year of Maturity			
millions of dollars				**2002**	2001	
Z	5.25	1997	2002	**-**	100.0	
AC	5.05	2001	2006	**200.0**	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)
AB	6.65	2001	2031	**300.0**	150.0	(a)
Total debentures				**1,275.0**	1,125.0	
Less sinking fund investments in own debentures				**46.0**	37.9	
				1,229.0	1,087.1	
Government of Canada loans at 5.25% to 7.91% maturing in 2006 to 2014				**25.1**	31.0	
Other				**3.0**	4.2	
				1,257.1	1,122.3	
Less payments due within one year				**16.1**	114.4	
				1,241.0	1,007.9	

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

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	**2002**	2001
First Mortgage Bonds		
7.750% Series A due December 15, 2007 (U.S. $63.4; 2001 - U.S. $81.8)	**100.2**	130.2
7.875% Series B due December 15, 2007	**6.4**	8.3
General Mortgage Bonds		
7.500% due December 15, 2010	**41.4**	42.2
	148.0	180.7
Less payments due within one year	**34.1**	31.9
	113.9	148.8

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 $22.4 million in each of the years 2003 to 2007 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 multi-employer defined benefit plan. The employers' contributions of $3.6 million (2001 - $3.4 million) are expensed as incurred.

Other Benefits

Additionally, Hydro provides group life insurance and health care 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	**2002**	2001
Accrued benefit obligation		
Balance at beginning of year	**28.5**	27.1
Current service cost	**0.9**	0.9
Interest cost	**2.0**	2.0
Actuarial loss	**7.5**	-
Past service cost	**0.4**	-
Benefits paid	**(1.8)**	(1.5)
Balance at end of year	**37.5**	28.5
Plan deficit	**37.5**	28.5
Unamortized actuarial loss	**(7.5)**	-
Unamortized past service cost	**(0.4)**	-
Accrued benefit liability at end of year	**29.6**	28.5

The most recent actuarial valuation was performed as at December 31, 2002. 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 health care benefits, it was assumed that health care costs will increase by 12.0% in 2003, decrease gradually to 5.0% in 2010 and remain level thereafter.

The net benefit plan expense is as follows:

millions of dollars	**2002**	2001
Current service cost	**0.9**	0.9
Interest cost	**2.0**	2.0
Net benefit plan expense	**2.9**	2.9

10. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at December 31, 2002, and 2001, 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	**2002**		2001	
Financial Assets				
Sinking funds	**48.7**	**54.2**	42.7	43.5
Long-term receivable including amount due in one year	**138.1**	**138.2**	43.4	43.5
Financial Liabilities				
Long-term debt including amount due in one year	**1,405.1**	**1,673.6**	1,303.0	1,489.9

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, 2002, of the total accounts receivable balance outstanding, approximately 46.9% (2001 - 45.6%) is due from a regulated utility and 25.1% (2001 - 28.0%) from Hydro-Québec.

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% (2001 - 5.80% to 10.55%).

11. INTEREST EXPENSE

millions of dollars	**2002**	2001	
Gross interest			
Long-term debt	**105.3**	105.6	
Promissory notes	**5.0**	6.2	
	110.3	111.8	
Amortization of debt discount and financing expenses	**1.3**	1.3	
Provision for foreign exchange losses	**2.2**	1.0	
Foreign exchange (gain) loss	**(0.1)**	0.5	
	113.7	114.6	
Less			
Recovered from Hydro-Québec	**5.3**	6.3	(a)
Interest capitalized during construction	**7.7**	5.1	
Interest earned	**15.1**	11.8	
Net interest expense	**85.6**	91.4	
Debt guarantee fee	**12.2**	11.1	
Net interest and guarantee fee	**97.8**	102.5	

(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, Churchill Falls 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, Churchill Falls 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 $6.4 million (2001 - $1.6 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 $23.0 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 $23.8 million at December 31, 2002, (2001 - $80.9 million). Hydro has commenced development of a hydroelectric generating station at Granite Canal. The total project cost is expected to be approximately $134.6 million, with an anticipated in-service date of June 2003. As at December 31, 2002, $102.7 million (2001 - $40.0 million) had been expended on this project.

(d) In connection with the Granite Canal development, Hydro has issued an irrevocable Letter of Credit, in the amount of $5.4 million, to ensure compliance with the terms of the Fish Habitat Compensation Agreement between Hydro and the Department of Fisheries and Oceans.

13. COMPARATIVE FIGURES

Certain of the 2001 comparative figures have been reclassified to conform with the 2002 financial statement presentation.

FINANCIAL STATISTICS

Years ended December 31 (millions of dollars)	**2002**	2001 (2)	2000	1999 (1)	1998
OPERATING RESULTS					
Revenue					
Energy sales	**399.6**	374.8	357.0	384.4	391.8
Rentals and royalties	**0.3**	0.3	0.3	0.4	0.5
Recovery of costs in RSP	**14.0**	11.2	13.9	15.4	10.9
Guaranteed winter availability	**9.5**	7.5	4.6	3.6	-
Other	**4.2**	3.3	3.9	2.4	1.6
	427.6	397.1	379.7	406.2	404.8
Expenses					
Operations and administration	**125.8**	119.1	119.4	112.3	114.1
Amortization of RSP costs	**14.0**	11.2	13.9	15.4	10.9
Fuels and power purchased	**89.0**	65.8	58.3	48.2	34.0
Depreciation	**43.0**	44.5	47.7	51.3	50.5
Interest	**97.8**	102.5	105.5	107.6	117.8
	369.6	343.1	344.8	334.8	327.3
Income from operations	**58.0**	54.0	34.9	71.4	77.5
Write down of capital assets	**-**	-	-	16.7	-
Net income before non-controlling interest	**58.0**	54.0	34.9	54.7	77.5
Non-controlling interest	**-**	-	-	3.1	7.9
Net income	**58.0**	54.0	34.9	51.6	69.6
Contributions to net income					
Hydro Corporate	**40.9**	40.4	17.4	31.7	51.2
CF(L)Co.	**17.1**	13.6	17.5	19.9	18.4
FINANCIAL POSITION					
Total current assets	**140.2**	141.2	129.7	137.8	164.0
Total current liabilities	**326.4**	360.6	378.8	163.1	294.4
Net working capital	**(186.2)**	(219.4)	(249.1)	(25.3)	(130.4)
Capital assets	**2,650.4**	2,545.6	2,459.5	2,414.9	2,710.0
Accumulated depreciation	**745.7**	707.6	669.6	628.6	719.3
Capital assets, net	**1,904.7**	1,838.0	1,789.9	1,786.3	1,990.7
Sinking funds	**48.7**	42.7	35.4	28.8	113.3
Other assets	**225.7**	202.3	186.6	188.1	255.1
Long-term debt	**1,354.9**	1,156.7	1,043.3	1,226.4	1,398.5
Other liabilities	**44.4**	43.3	50.9	25.3	138.6
Shareholder's equity	**593.6**	663.6	668.6	726.2	691.6
EMPLOYEES AT YEAR END					
Permanent	**990**	1,026	1,063	1,069	1,078
Temporary	**241**	203	219	207	196
Total	**1,231**	1,229	1,282	1,276	1,274

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

(2) Restated to reflect Churchill Falls' adoption of new recommendations of the Canadian Institute of Chartered Accountants with respect to foreign exchange gains and losses.

OPERATING STATISTICS

Years ended December 31	**2002**	2001	2000	1999	1998
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	**57**	58	58	58	58
Total	**7,254**	7,255	7,255	7,255	7,255
ELECTRIC ENERGY GENERATED, NET (GWh)					
CF(L)Co.	**35,516**	32,910	35,108	34,508	37,543
Hydro					
Hydraulic	**3,986**	3,959	5,016	4,801	4,260
Thermal	**2,380**	2,095	966	914	1,255
Diesel	**48**	46	43	41	41
Total	**41,930**	39,010	41,134	40,264	43,099
ELECTRIC ENERGY SALES (GWh)					
CF(L)Co.					
Export	**30,782**	28,159	30,268	29,674	32,793
Hydro					
Utility	**4,589**	4,423	4,263	4,084	4,157
Rural	**894**	832	842	830	811
Industrial	**1,675**	1,528	1,607	1,343	1,286
Export	**1,481**	1,558	1,494	1,731	1,344
Total	**39,421**	36,500	38,474	37,662	40,391
AVERAGE RATE (cents per kWh)					
CF(L)Co.					
Export	**0.25**	0.27	0.27	0.27	0.27
Hydro					
Utility	**4.60**	4.50	4.49	4.49	4.49
Rural	**5.59**	5.60	5.53	5.54	5.46
Industrial	**3.08**	3.14	2.85	3.58	3.26
Export	**2.27**	2.22	2.22	2.22	2.22
TRANSMISSION LINES (km)					
CF(L)Co.					
735 kV	**608**	608	608	608	608
230 kV	**431**	431	431	431	431
Hydro					
230 kV	**1,533**	1,534	1,536	1,536	1,536
138 kV	**1,533**	1,533	1,533	1,533	1,533
69 kV	**586**	587	586	586	586
Total	**4,691**	4,693	4,694	4,694	4,694
PEAK DEMAND (MW)					
CF(L)Co. System	**5,587**	5,637	5,606	5,590	5,602
Hydro System	**1,403**	1,262	1,240	1,265	1,295

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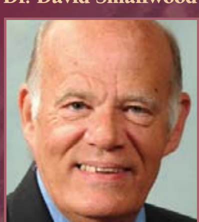

Educational
Consultant

William E. Wells

President and Chief Executive Officer
Newfoundland and Labrador Hydro

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James R. Haynes
David W. Reeves
Derek W. Osmond [2]

(1) Resigned November 25, 2002
(2) Retired December 31, 2002

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Vice-President, Transmission and Rural Operations

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Corporate Controller

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Gerald C. Bowers
Assistant Treasurer

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Gerald C. Bowers
Assistant Treasurer

Peter A. Hickman
Assistant Corporate Secretary

TWIN FALLS POWER CORPORATION LIMITED

Maureen P. Greene
President

Derek W. Osmond (2)
Vice-President, Finance and Chief Financial Officer

Andrew E. MacNeill
General Manager

John C. Roberts
Corporate Controller

Mark G.S. Bradbury
Treasurer

Gerald C. Bowers
Assistant Treasurer

Peter A. Hickman
Corporate Secretary

LOWER CHURCHILL DEVELOPMENT CORPORATION LIMITED

Dean T. MacDonald (1)
Chairman

William E. Wells
President and
Chief Executive Officer

David Burpee
Vice-Chairman

Maureen P. Greene
Corporate Secretary

Mark G.S. Bradbury
Treasurer

Peter A. Hickman
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