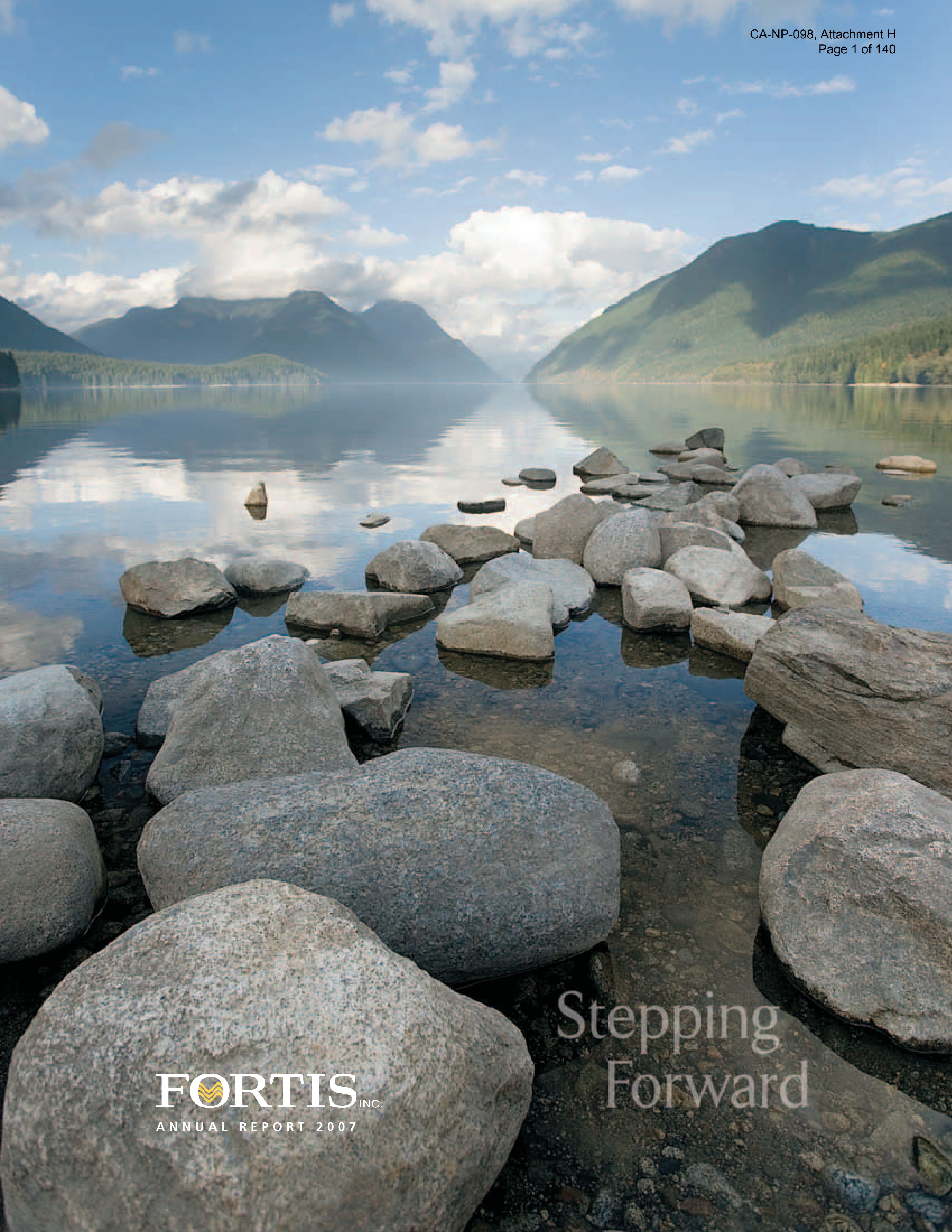
Stepping
Forward
FORTIS INC.
ANNUAL REPORT 2007

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STEPPING FORWARD

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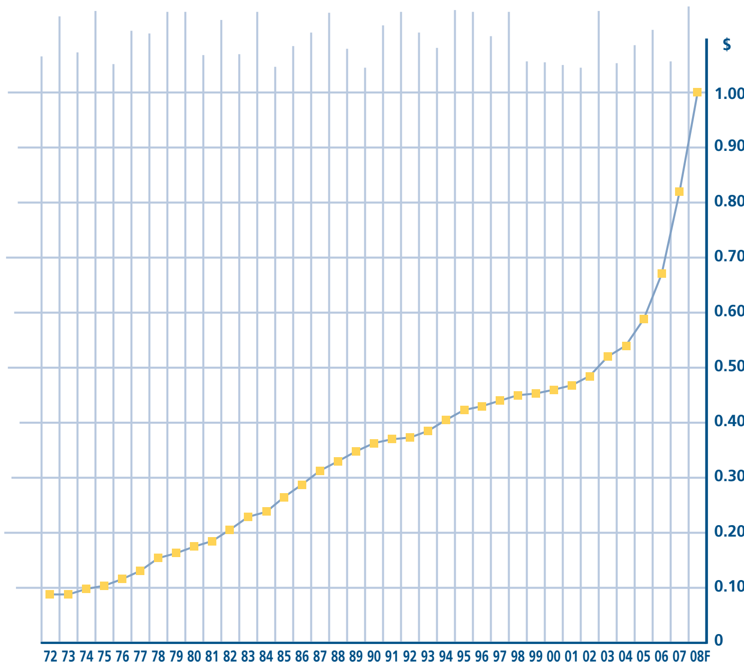
Dividends paid per common share



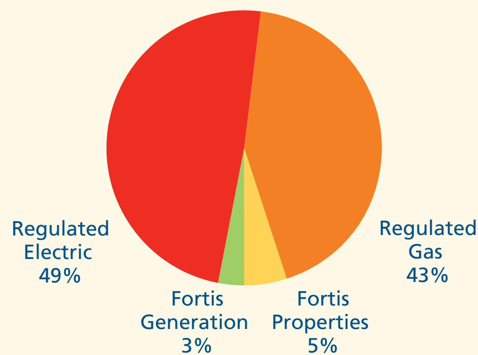
Fortis has increased its annual dividend to common shareholders for 35 consecutive years, the longest record of any public corporation in Canada.

Corporate Profile

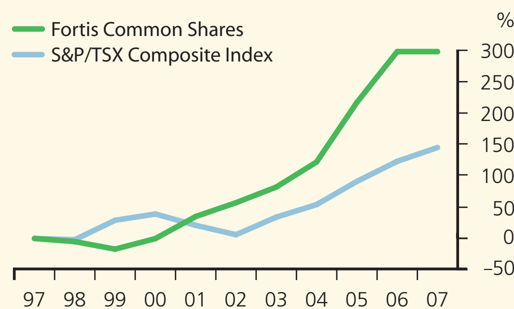
Fortis Inc. is the largest investor-owned distribution utility in Canada, serving almost 2,000,000 gas and electricity customers.

Total Assets Exceed $10 Billion

(as at December 31, 2007)



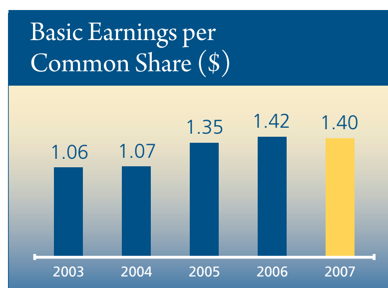
10-Year Cumulative Total Return

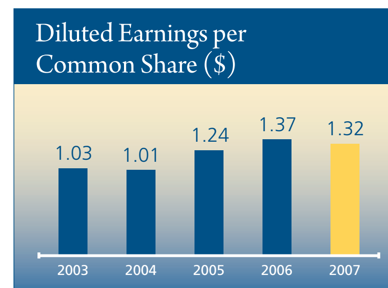


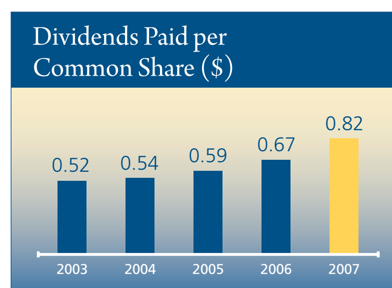
Alberta
Manitoba
Saskatchewan
British Columbia
Newfoundland
Prince Edward Island
Ontario
New Brunswick
Nova Scotia
New York State
Turks and Caicos Islands
Grand Cayman
Belize
Regulated Utility Operations
Gas Operations
Terasen British Columbia
Electric Operations
FortisAlberta Alberta
FortisBC British Columbia
Newfoundland Power Newfoundland
Maritime Electric Prince Edward Island
FortisOntario Ontario
Belize Electricity Belize
Caribbean Utilities Grand Cayman
Fortis Turks and Caicos Turks and Caicos Islands
Non-Regulated Operations
Fortis Generation
Production Areas
Belize, Ontario, Central Newfoundland, British Columbia, Upper New York State
Fortis Properties
Real Estate
Atlantic Canada, Saskatchewan
Hotels
Eastern Canada, Manitoba, Saskatchewan, Alberta, British Columbia

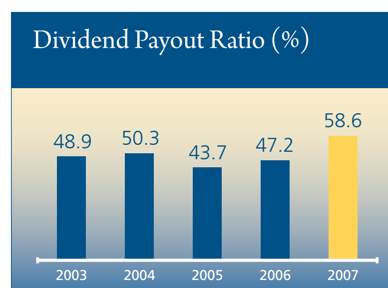
Investor Highlights

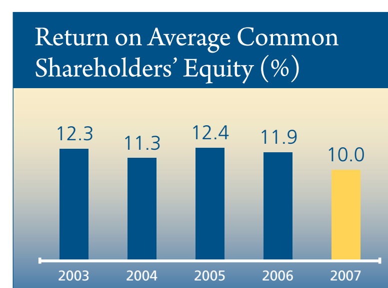
FIVE-YEAR PERFORMANCE

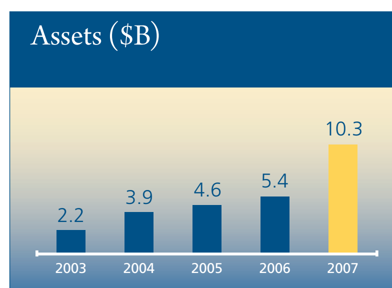


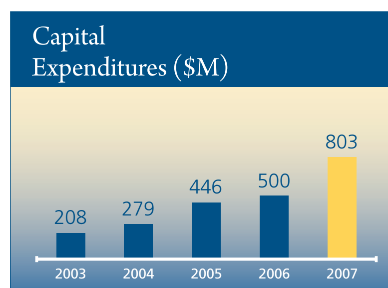


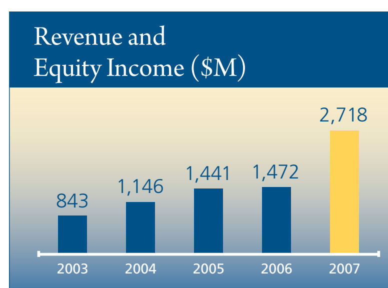


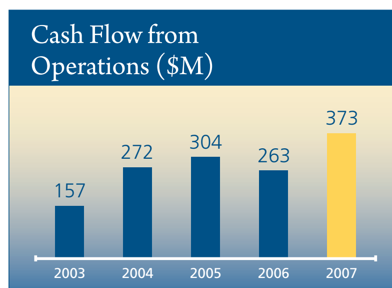


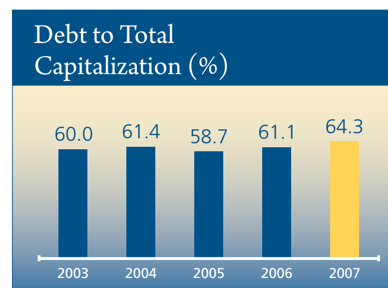


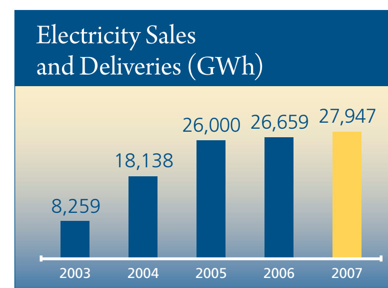












All financial information is presented in Canadian dollars.

Information is for the fiscal year ended December 31, 2007 unless otherwise indicated.

REGULATED

Gas

Terasen[1]	Customers (#)	Employees (#)	Peak Day Demand (TJ)	Gas Volumes (PJ)	Total Assets ($M)	Capital Program ($M)	Rate Base ($M)[2]	Earnings ($M)[3]	Allowed ROE (%)[4] 2007	Allowed ROE (%)[4] 2008
Total	**918,000**	**1,200**	**1,360**	**118**	**4,447**	**120**	**2,945**	**50**	**8.37**	**8.62**

Electric

Company	Customers (#)	Employees (#)	Peak Demand (MW)	Energy Sales (GWh)	Total Assets ($M)	Capital Program ($M)	Rate Base ($M)[2]	Earnings ($M)[3]	Allowed ROE (%)[4] 2007	Allowed ROE (%)[4] 2008
FortisAlberta	448,000	999	3,182	15,378	1,521	285	1,129	48	8.51	8.75
FortisBC	154,000	532	683	3,091	1,135	147	823	31	8.77	9.02
Newfoundland Power	232,000	555	1,142	5,093	986	72	817	30	8.60	8.95
Maritime Electric	72,000	179	218	1,035	367	27	277	10	10.25	10.00
FortisOntario	52,000	124	234	1,174	180	11	111	6	9.00	9.00
Belize Electricity[5]	73,000	274	70	382	206	25	179	12	10.00–15.00[6]	10.00–15.00[6]
Caribbean Utilities[7]	23,000	193	93	527	448	56	320	9	15.00[6]	10.00[6][8]
Fortis Turks and Caicos	8,700	80	28	145	124	25	99	10	17.50[6]	17.50[6]
Total	**1,062,700**	**2,936**	**5,650**	**26,825**	**4,967**	**648**	**3,755**	**156**		

(1) Terasen primarily includes the operations of Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc., and Terasen Gas (Whistler) Inc., collectively known as the "Terasen Gas companies". Gas volumes, capital program and earnings are from May 17, 2007, the date of acquisition.

(2) Forecast mid-year 2008

(3) Contribution to Fortis Inc. consolidated earnings for the fiscal year ended December 31, 2007

(4) Rate of return on common shareholders' equity ("ROE"). For Terasen, ROE is for Terasen Gas Inc. ROE for Terasen Gas (Vancouver Island) Inc. is 70 basis points higher.

(5) Fortis holds a 70.1% interest in Belize Electricity. Information in table represents 100% of Belize Electricity's operations except for earnings data.

(6) Regulated rate of return on rate base assets

(7) Fortis holds a 54% interest in Caribbean Utilities. Information in table represents 100% of Caribbean Utilities' operations for the 12 months ended October 31, 2007, except for earnings data.

(8) As per proposed new licence expected to be issued during the first half of 2008.

NON-REGULATED

Fortis Generation[1]

	Generating Capacity (MW)	Energy Sales (GWh)	Assets[3] ($M)	Earnings[4] ($M)	Capital Program ($M)
Total	**195**	**1,122**	**324**	**24**	**22**

Fortis Properties[2]

	Employees (#)	Assets ($M)	Earnings[4] ($M)	Capital Program ($M)
Total	**1,800**	**535**	**24**	**13**

(1) Includes operations in Belize, Ontario, central Newfoundland, British Columbia and Upper New York State

(2) Includes approximately 2.8 million square feet of commercial real estate primarily in Atlantic Canada and 19 hotels across Canada

(3) Includes $89 million in "Other" non-regulated assets

(4) Contribution to Fortis Inc. consolidated earnings for the fiscal year ended December 31, 2007

Information is for the fiscal year ended December 31, 2007 unless otherwise indicated.

Report to Shareholders

Fortis has delivered record earnings for the 8th consecutive year. It was also a year of record growth with our expansion into natural gas distribution through the acquisition of Terasen. The $3.7 billion acquisition doubled the Corporation's regulated rate base to approximately $6.3 billion and established Fortis as the largest investor-owned distribution utility in Canada.

Earnings applicable to common shares were $193 million in 2007, 31 per cent higher than earnings of $147 million last year. The growth in earnings was primarily attributable to the acquisition of Terasen in May, but also reflected the first full year of ownership of Fortis Turks and Caicos, significant investment in electrical infrastructure at FortisAlberta and FortisBC, stronger performance at Fortis Properties and lower effective corporate taxes. Earnings per common share were $1.40 compared to $1.42 in 2006. The Terasen acquisition diluted earnings per common share by approximately 7 cents in 2007 due to the seasonality of that company's earnings.

Building on our track record of dividend growth, dividends paid per common share grew to 82 cents in 2007, up 22 per cent from 67 cents the previous year. The dividend payout ratio was 58.6 per cent in 2007. Your Board of Directors increased the quarterly common share dividend to 25 cents from 21 cents, commencing with the first quarter dividend paid on March 1, 2008. The increase extends the Corporation's record of annual common share dividend increases to 35 consecutive years, the longest record of any public corporation in Canada. Growth in earnings has enabled Fortis to increase its quarterly common share dividend by 92 per cent since 2003.

Fortis electric utilities own and/or operate approximately 134,000 kilometres of transmission and distribution lines.

Stan Marshall, President and CEO, Fortis Inc. (left) and Bruce Chafe, Chair of the Board, Fortis Inc. (right)

In 2007, Fortis common shares reached a high of $30.00 and closed for the year at $28.99. Over the past five years, Fortis has delivered an average annualized total return of 20.9 per cent, exceeding the results of the S&P/TSX Composite Index and the S&P/TSX Utilities Index, which delivered average annualized total returns of 18.3 per cent and 17.2 per cent, respectively, over the same period.

Our common share market capitalization surpassed $4.5 billion in 2007, $1.4 billion higher than in 2006. The average daily trading volume of Fortis common shares exceeded 400,000 compared to 240,000 in 2006.

We expect the Terasen acquisition to be accretive to earnings per common share of Fortis over the first full year of our ownership. It is a well-managed company and one of the largest natural gas distributors in Canada, serving more than 918,000 customers or 96 per cent of gas users in British Columbia. Its integration within the Fortis Group of Companies is progressing well.

The appointment of a majority of independent directors to the Board of Directors of Terasen in November 2007 was a significant step, ensuring that Terasen operates consistent with the Fortis model, with its own board and management. We welcome our 1,200 Terasen employees to the Fortis Group and look forward to their contribution in building on our world-class reputation for operating efficient utilities and delivering quality customer service. Subsequent to the acquisition of Terasen, Standard & Poor's ("S&P") raised the unsecured debt credit rating of Fortis two notches to 'A–' from 'BBB'. The unsecured debt of Fortis is rated BBB (high) by DBRS.

The gas distribution business of Terasen, which is comprised of Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc., and Terasen Gas (Whistler) Inc., contributed $50 million to earnings since the acquisition in May. Because of its seasonal space-heating load, virtually all of the earnings of Terasen are generated in the first and fourth quarters.

In 2007, Fortis expanded into natural gas distribution through the acquisition of Terasen.

Fortis Generation includes the operations of non-regulated generating assets in Belize, Ontario, central Newfoundland, British Columbia and Upper New York State. The generating capacity of these assets is 195 megawatts ("MW"), 190 MW of which is hydroelectric generation.

Report to Shareholders

Canadian Regulated Electric Utilities delivered $125 million in earnings, 10.6 per cent higher than earnings of $113 million in 2006. The increase was driven by additional investment in electrical infrastructure to meet customer growth at FortisAlberta and FortisBC but also reflected higher corporate income tax recoveries at FortisAlberta, rate increases at FortisBC and a one-time after-tax gain of approximately $2 million at FortisOntario.

Caribbean Regulated Electric Utilities contributed $31 million to earnings, $8 million higher than earnings in 2006, notwithstanding the impact of unfavourable foreign exchange rates associated with the strengthening Canadian dollar. Performance was enhanced by the first full year of earnings' contribution from Fortis Turks and Caicos, electricity sales growth at the three utilities and lower finance charges at Belize Electricity. Caribbean Utilities reported lower earnings due largely to a charge associated with the disposal of steam-turbine assets.

Utility capital expenditures, before customer contributions, were approximately $790 million, including approximately $120 million related to the Terasen Gas companies from the date of acquisition, in 2007.

Utility capital expenditures, before customer contributions, were approximately $790 million, including approximately $120 million related to the Terasen Gas companies from the date of acquisition, in 2007. Over the past five years, our utilities have invested approximately $2.1 billion, on a consolidated basis, in capital projects. Much of this investment occurred at our electric utilities in the high-growth region of western Canada, where growth in customers and energy demand continues at a strong pace.

A number of significant regulatory decisions received in 2007 and early 2008 should provide regulatory stability for 2008, enabling our utilities to focus on operations and meeting the energy needs of customers.

Terasen Gas Inc., FortisBC, Newfoundland Power and Maritime Electric received regulatory approval for their respective 2008 customer rates. In February 2008, FortisAlberta received regulatory approval for the Company's 2008 and 2009 electricity rates. The allowed rates of return on common equity for 2008 for the Corporation's four largest utilities, Terasen Gas Inc., FortisAlberta, FortisBC and Newfoundland Power, increased to 8.62 per cent, 8.75 per cent, 9.02 per cent and 8.95 per cent, respectively.

Terasen Gas (Vancouver Island) Inc. received conditional regulatory approval to construct and operate a 1.5 billion-cubic foot liquefied natural gas storage facility on Vancouver Island, which will better enable the Company to meet customers'

current and future gas demand. The $200 million facility is anticipated to be in service by late 2011.

In December 2007, Caribbean Utilities reached an agreement in principle with the Government of the Cayman Islands on the terms of the Company's new generation licence, initially to be granted for up to 25 years, and, under new arrangements, a new exclusive 20-year transmission and distribution licence. The new licences are expected to be issued during the first half of 2008.

The Government of Belize enacted amendments simplifying the tariff-setting methodology at Belize Electricity. The amendments, enacted in December 2007, settled outstanding matters related to the June 2007 regulatory decision on customer rates.

Fortis Properties achieved another milestone in August 2007 when it expanded to an 8th Canadian province with the acquisition of the Delta Regina in Saskatchewan.

The Fortis Group of Companies serves almost 2,000,000 gas and electricity customers in five Canadian provinces and three Caribbean countries.

Report to Shareholders

Non-regulated Fortis Generation contributed earnings of $24 million compared to $27 million in 2006. Results were impacted by decreased hydroelectric production due to lower rainfall.

Belize Electric Company Limited ("BECOL") began construction of the US$53 million 18-MW Vaca hydroelectric project, the final phase of a three-stage development on the Macal River in Belize, in May. Vaca is expected to increase average annual production from the Macal River by approximately 80 gigawatt hours ("GWh") to 240 GWh. Assuming normal hydrology, the facility is expected to be immediately accretive to earnings per common share when it comes online late in 2009.

For the 10th consecutive year, Fortis Properties delivered record earnings which were $24 million in 2007. Results were driven by expanded hospitality operations in western Canada and a $4 million favourable corporate tax adjustment. The Company achieved another milestone in August 2007 when it expanded its presence to an 8th Canadian province with the acquisition of the Delta Regina in Saskatchewan. This acquisition was immediately accretive to earnings per common share.

The consolidated capital program for the Fortis utilities in 2008 is forecasted to be approximately $900 million. Over the next five years, cumulative capital expenditures are expected to surpass $4 billion.

With the Terasen acquisition, the total assets of Fortis now exceed $10 billion, almost double that of a year ago and 10 times larger than a decade ago.

Fortis and its subsidiaries raised approximately $2.1 billion in the capital markets in 2007. Coincident with the closing of the Terasen acquisition, the Corporation issued approximately $1.15 billion in Common Shares, the net proceeds of which were used to complete the purchase. The remaining purchase price was funded by assumed debt of $2.4 billion and drawings on the Corporation's existing credit facility. In January 2007, Fortis completed a $150 million Common Share issue, the net proceeds of which were used mainly to repay indebtedness incurred for acquisitions in 2006 and support the capital programs of our electric utilities in western Canada. Following the S&P credit rating upgrade, Fortis completed its first offering of 30-year debt in September 2007 when it issued, by way of private placement, US$200 million 6.6% senior unsecured notes to US-based institutional investors. Fortis subsidiaries completed almost $600 million of long-term debt issues during 2007.

With the Terasen acquisition, the total assets of Fortis now exceed $10 billion, almost double that of a year ago and 10 times larger than a decade ago.

Robust capital investment should continue to drive strong organic growth in earnings and dividends.

The consolidated capital program for our utilities in 2008 is forecasted to be approximately $900 million. Over the next five years, cumulative capital expenditures are expected to surpass $4 billion. Most of this capital investment will occur at our operations in western Canada. By 2012, the combined rate base of FortisAlberta and FortisBC is expected to exceed $3 billion, 76 per cent higher than today's level of $1.7 billion. The combined rate base of all Fortis utilities is expected to grow to approximately $8.6 billion in 2012 compared to the current level of approximately $6.3 billion.

Robust capital investment should continue to drive strong organic growth in earnings and dividends.

While the integration of Terasen within the Fortis Group remains a priority for 2008, Fortis will pursue gas and electric utility acquisitions in Canada, the United States and the Caribbean.

There were a number of leadership changes throughout the Fortis Group during the year. Karl Smith was appointed President and Chief Executive Officer, FortisAlberta following the retirement of Philip Hughes. Earl Ludlow succeeded

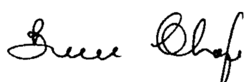
Report to Shareholders

Karl as President and Chief Executive Officer, Newfoundland Power. Nora Duke, formerly Vice President, Hospitality Services, Fortis Properties, succeeded Earl as President and Chief Executive Officer, Fortis Properties. Eddinton Powell, formerly Vice President Finance and Chief Financial Officer, Caribbean Utilities, was appointed President and Chief Executive Officer, Fortis Turks and Caicos. With the acquisition of Terasen, its President and Chief Executive Officer, Randall Jespersen, became part of the senior Fortis team.

The success of your Company attests to the calibre and commitment of our employees. Thank you for a job well done.

Messrs. Harry McWatters and Frank Crothers joined our Board of Directors in May 2007, bringing geographic representation for British Columbia and the Caribbean, respectively, and providing additional insight and strengths.

On behalf of the Board of Directors,



Bruce Chafe
Chair of the Board
Fortis Inc.

H. Stanley Marshall
President and Chief Executive Officer
Fortis Inc.

Stan Marshall, President and CEO, Fortis Inc., addresses the Toronto Board of Trade.

The success of Fortis attests to the calibre and commitment of our almost 6,000 employees.

As I will be retiring from your Board of Directors at the Annual Meeting on May 6, 2008, I would like to take this opportunity to extend my thanks and best wishes to the organization. To our employee group, now almost 6,000 strong, your hard work and customer care will continue to underpin the success of our Company.

Bruce Chafe
Chair of the Board
Fortis Inc.

The vision of Fortis is to be the world leader in those segments of the regulated utility industry in which it operates and the leading service provider within its service areas. In all its operations, Fortis will manage resources prudently and deliver quality service to maximize value to customers and shareholders.

The Corporation will continue to focus on three primary objectives:

i) The growth in assets and market capitalization should be greater than the average of other North American public gas and electric utilities of similar size.

ii) Earnings should continue at a rate commensurate with that of a well-run North American utility.

iii) The financial and business risks of Fortis should not be substantially greater than those associated with the operation of a North American utility of similar size.

Terasen

REGULATED GAS OPERATIONS

Terasen Inc. ("Terasen") is the largest distributor of natural gas in British Columbia, serving more than 918,000 customers in 125 communities or 96 per cent of gas users in the province.

The Company's regulated natural gas and piped-propane distribution business is carried out by Terasen Gas Inc. ("TGI"), Terasen Gas (Vancouver Island) Inc. ("TGVI") and Terasen Gas (Whistler) Inc. ("TGWI"), collectively known as the "Terasen Gas companies". Terasen's operations also include Terasen Energy Services, an emerging company focused on integrating alternative energy into district energy systems.

TGI, the main business of Terasen, provides natural gas distribution services to approximately 825,000 customers in over 100 communities. Its service territory extends from Vancouver to the Fraser Valley and the interior of British Columbia.

TGVI owns and operates the natural gas transmission pipeline from the Greater Vancouver area across the Georgia Strait to Vancouver Island and the distribution system on Vancouver Island and along the Sunshine Coast. It serves approximately 91,200 customers.

TGWI owns and operates the propane distribution system in Whistler, providing service to approximately 2,400 customers.

In November, TGVI received conditional regulatory approval to construct and operate a 1.5 billion-cubic foot liquefied natural gas storage facility at Mount Hayes on Vancouver Island.

The Terasen Gas companies own and operate more than 45,000 kilometres of natural gas distribution and transmission pipelines. In 2007, gas volumes were over 220,000 terajoules ("TJ") with a peak day demand of 1,360 TJ. Terasen delivers approximately 20 per cent of the end-use energy consumed in British Columbia.

The Customer Choice Program, a new program introduced in British Columbia in May 2007, provides residential customers in most service areas in mainland British Columbia with the option of buying natural gas from an independent gas marketer at a multi-year fixed rate or from TGI at a variable rate. The Program, which gives flexibility to customers, does not impact TGI's earnings as natural gas costs are a direct flow through to customers.

Officers of Terasen (l-r): Douglas Stout, VP, Marketing and Business Development; David Bennett, VP, Regulatory Affairs and General Counsel; Jan Marston, VP, Gas Supply and Transmission; Robert Samels, VP, Business Services and CIO; Daryle Britton, VP, HR and Operations Governance; Scott Thomson, VP, Regulatory Affairs and CFO; Roger Dall'Antonio, VP, Corporate Development and Treasurer; Dwain Bell, VP, Distribution; Randall Jespersen, President and CEO

The Terasen Gas companies achieved a Customer Satisfaction Rating of 79 per cent in 2007, its highest rating ever. Terasen's team of 1,200 employees undertook a number of initiatives that helped bolster performance, including productivity enhancements, process changes and new sales and marketing activities. Notable activities included increased advertising and communications necessary to support the introduction of the Customer Choice Program and a comprehensive website redesign.

In cooperation with FortisBC and BC Hydro, and with funding from the provincial and federal governments, TGI encouraged customers to conserve energy and save money by offering them financial incentives to upgrade to high-efficiency natural gas heating systems. It is estimated that the approximately 5,000 customers who participated in the Energy Star Furnace-Upgrade Program in 2007 collectively conserved 63,000 gigajoules of energy and reduced their energy costs by $733,000 over the year.

In 2007, the Terasen Gas companies completed approximately $185 million, before customer contributions, in capital programs to ensure the safe, reliable delivery of energy to customers. Major initiatives included an upgrade, reflecting safety advances in piping,

to 95 kilometres of natural gas distribution pipelines and 7,100 household services in five Vancouver neighbourhoods. Construction also began on a 50-kilometre ("km") natural gas pipeline from Squamish to serve Whistler. Once completed, the propane system in Whistler will be replaced by natural gas. In November, conditional regulatory approval was received to construct and operate a 1.5 billion-cubic foot liquefied natural gas storage facility at Mount Hayes on Vancouver Island. The new storage facility, estimated to cost between $175 million and $200 million, will allow for more efficient use of existing pipeline systems. It will result in improved reliability and security of supply during planned and unplanned system interruptions or in times of high demand. It is expected to come into service by late 2011.

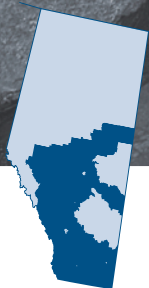
TGI received regulatory approval for thermal metering, a new water-heating measurement method that promotes energy conservation for multi-family complexes. It also provides long-term growth opportunities for the utility through increased market share in British Columbia's growing housing sector.

The Terasen Gas companies continued to focus on environmental and safety initiatives, including progress on emissions-reduction requirements. The Transmission Group achieved a milestone, celebrating 33 years without a lost-time injury. Early in the year, the regional flood preparedness plan was implemented to deal with potential flooding from a historically high spring snow-pack melt. Together with the provincial and local governments, the utility helped ensure public safety concerning its natural gas system.

A new five-year collective agreement was negotiated with the Canadian Office and Professional Employees Union, Local 378. The agreement complements the five-year collective agreement negotiated with the International Brotherhood of Electrical Workers, Local 213 in 2006.

Terasen is well positioned as a leading and innovative contributor to British Columbia's energy future.

The Terasen Gas companies own and operate more than 45,000 kilometres of natural gas distribution and transmission pipelines.



FortisAlberta

REGULATED ELECTRIC OPERATIONS

FortisAlberta is an electric utility that distributes electricity, generated by other market participants, to end-use customers in southern and central Alberta. Its electricity system includes approximately 106,000 kilometres of distribution lines and comprises more than 60 per cent of Alberta's total electricity distribution network. The Company serves more than 448,000 customers in 175 growing communities and met a peak demand of 3,182 MW in 2007.

FortisAlberta serves more than 448,000 customers and met a peak demand of 3,182 MW in 2007.

FortisAlberta operates in a dynamic, high-growth environment with significant energy demand. Delivering quality customer service is fundamental to the success of the business. The Company received a Customer Satisfaction Rating of 76 per cent in 2007, consistent with its average annual rating over the past three years.

Approximately $285 million, before customer contributions, was invested in capital projects in 2007, driven largely by growth in customer demand. Capital projects included the construction of an additional $1.5 million distribution line from the new Blackmud substation to support customer demand in the Leduc-Nisku area, which experienced a 10 per cent increase in load growth in 2007. A $2.3 million upgrade of distribution facilities in the Fort Saskatchewan area was undertaken to support the growth of a heavy-oil upgrade megaproject. Approximately $75 million was invested in projects to upgrade conductors and replace aging poles, switches and regulator equipment. New distribution lines were built in the Canmore and Olds areas to provide alternative lines and improve reliability given the increased load growth experienced in these areas in recent years. Work continued on the installation of automated distribution equipment in Airdrie, Banff, Leduc and St. Albert, which will reduce the amount of travel and patrol time required to locate line faults, enabling faster restoration of electricity service.

FortisAlberta worked closely with the transmission service provider and the Alberta Electric System Operator to add substation capacity and improve reliability in Olds, Innisfail, Suffield, Red Deer and Acheson. The Company opened its doors to three new operations facilities in St. Albert, Brooks and Sylvan Lake in 2007. Work continued on the construction of FortisAlberta's new $29 million operations and customer service facility in Airdrie, which is expected to open in 2008.

Officers of FortisAlberta (l-r): Daniel Pigeon, VP, Finance and CFO; Karl Smith, President and CEO; Gary Smith, VP, Operations and Engineering; Cynthia Johnston, VP, Customer Service; Alan Skiffington, VP, Corporate Services and CIO

A pilot program to install Automated Meter Infrastructure ("AMI") technology at more than 26,000 customer sites was successfully implemented in 2007. The technology improves billing accuracy, reduces billing inquiries and enhances customer service. AMI technology will be installed at the Company's remaining customer sites by 2010.

In Alberta's highly competitive labour market, FortisAlberta continues to focus on attracting, developing and retaining a skilled workforce. More than 330 positions were filled by existing staff and new employees this year.

Safe work practices resulted in performance that generally exceeds the Canadian average for utilities of comparable size within the Company's industry group. FortisAlberta led a cooperative safety program in partnership with other Alberta utilities and the Government of Alberta to reinforce the message about the hazards of high-voltage lines. Thirty field offices were recognized for achieving anniversary milestones without lost-time incidents. Nine offices attained seven or more years without a lost-time incident.

FortisBC

REGULATED ELECTRIC OPERATIONS

FortisBC is an integrated electric utility operating in the southern interior of British Columbia, serving approximately 154,000 customers directly and indirectly. Its utility assets include 6,900 kilometres of transmission and distribution lines and four regulated hydroelectric generating plants with a combined capacity of 223 MW on the Kootenay River. The annual gross energy entitlement from the plants is approximately 1,591 GWh. The Company also manages 784 MW of hydroelectric generation through contract services. It generates approximately 45 per cent of its electricity requirements, with the balance met through power purchase agreements. The utility met a peak demand of 683 MW in 2007.

FortisBC achieved an average overall Customer Satisfaction Rating of 86 per cent in 2007, a marked improvement from its Customer Satisfaction Rating of 71 per cent three years earlier. Contact Centre personnel attained an average response time of 33.2 seconds and reduced the number of inbound calls almost 10 per cent from the previous year. The Company processed 466 residential extension quotes and 2,227 new service installations were completed in 2007. Based on consultation with customers, an enhanced bill format was designed and introduced.

Focused on creating opportunities for information-sharing and long-term cooperative relationships, FortisBC introduced a public open-house format and new strategies for proactive and timely communication on capital projects. Consultations were held with the public, stakeholders and First Nations on five major infrastructure projects.

In 2007, FortisBC invested a record $147 million, before customer contributions, in capital projects to meet growing energy demand and replace aging infrastructure.

In 2007, FortisBC invested a record $147 million, before customer contributions, in capital projects to meet growing energy demand and replace aging infrastructure. A record number of transmission upgrades were completed this year. The new $20 million Nk'Mip distribution substation and associated 18-km transmission line were constructed to create an additional source of supply into the growing Osoyoos area. The new 23-km transmission line to Big White, the first phase of the $20 million Big White Project, was completed and construction began on the $27 million Kettle Valley Substation Project in the Rock Creek area. Approximately $20 million was invested in the utility's ongoing hydroelectric generation Upgrade and Life-Extension Program in 2007. The Program rebuilds the generating units and auxiliary systems, extending the life of the assets for an estimated additional 40 years.

Officers of FortisBC (l-r): David Bennett, VP, Regulatory Affairs, General Counsel and Corporate Secretary; Michele Leeners, VP, Finance and CFO; Don Debienne, VP, Generation; John Walker, President and CEO; Michael Mulcahy, VP, Customer and Corporate Services; Doyle Sam, VP, Transmission and Distribution

FortisBC continues to lead a cooperative safety awareness campaign in partnership with other British Columbia utilities and safety organizations. The Generation Department achieved over 365 days without a lost-time incident.

FortisBC is committed to environmental stewardship through partnerships with the South Okanagan-Similkameen Invasive Plant Society, the Boundary Weed Management Committee and the Central Kootenay Invasive Plant Committee. The utility also works with multi-agency groups committed to protecting the aquatic environment.

In November 2007, the Government of British Columbia announced the appointment of John Walker, President and Chief Executive Officer, FortisBC, to a new Climate Action Team. The Team's mandate is to make recommendations to the Province on actions to meet its commitment to become carbon neutral by 2010.

Newfoundland Power

REGULATED ELECTRIC OPERATIONS

Newfoundland Power operates an integrated generation, transmission and distribution system in Newfoundland. The Company serves approximately 232,000 customers or 85 per cent of electricity consumers in the province. It owns and operates 29 small generating stations with an installed generating capacity of approximately 139 MW, of which 96 MW is hydroelectric generation, and has approximately 11,000 kilometres of transmission and distribution lines. Newfoundland Power met a peak demand of 1,142 MW in 2007. About 90 per cent of its energy requirement is purchased from Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro").

More than 59 per cent of the $72 million invested, before customer contributions, in capital projects in 2007 was directed to plant and equipment replacement to enhance reliability for customers. The remaining capital investment was driven by commercial and residential construction activity, growth in cottage areas and increased replacement of plant to accommodate fibre-optic cable installations by telecommunication companies in the province.

A $17 million refurbishment of the Rattling Brook hydroelectric generating facility, the largest capital project in dollar terms ever undertaken by the Company, was completed in 2007. The refurbishment will increase the plant's generating capacity to 14.1 MW and should net a 9 per cent increase in power production. The plant now uses approximately 129,000 fewer barrels of oil annually, which will help minimize the impact of fuel costs on electricity rates and benefit the environment.

Strategic capital investment and employee commitment to customer service enabled electricity to be delivered to customers 99.93 per cent of the time in 2007, despite the impact of a severe snowstorm in December which caused major system damage and impacted upwards of 20,000 customers in the Clarenville and Bonavista areas.

A $17 million refurbishment of the Rattling Brook hydroelectric generating facility, the largest capital project in dollar terms ever undertaken by Newfoundland Power, was completed in 2007.

While challenged with increasing energy prices, Newfoundland Power achieved a Customer Satisfaction Rating of 88 per cent in 2007 compared to 89 per cent last year. An independent survey conducted during the year ranked the Company the highest among Canadian utilities of similar size in satisfying residential customers.

Officers of Newfoundland Power (l-r): Lisa Hutchens, VP, Customer Relations and Corporate Services; Peter Alteen, VP, Regulatory Affairs and General Counsel; Phonse Delaney, VP, Engineering and Operations; Jocelyn Perry, VP, Finance and CFO; Earl Ludlow, President and CEO

Providing energy-efficiency programs and services continues to be a focus for the Company. The number of customers requesting energy-efficiency information increased 55 per cent and visits to the *Saving Energy* section of its website increased 76 per cent compared to 2006.

A long-term workforce strategy is in place to address future hiring needs. The utility participates in a trade apprenticeship program as well as post-secondary and high-school career fairs. Twenty apprentice linepersons were in training in 2007, the highest level for the utility since the early 1970s.

In 2007, Newfoundland Power achieved its best safety performance on record. The internationally recognized OHSAS 18001 Health and Safety Management System was implemented to further improve safety performance.

The Company was bestowed the Environmental Performance Award by the Newfoundland and Labrador Environmental Industry Association and received a Business Award of Excellence in the category "Contributions to the Community and Community Service" by the St. John's Board of Trade.

Maritime Electric

REGULATED ELECTRIC OPERATIONS

Maritime Electric, the principal electric utility on Prince Edward Island (“PEI”), serves approximately 72,000 customers, or 90 per cent of electricity consumers in the province, and met a peak demand of 218 MW in 2007. The utility owns and operates a fully integrated system comprised of more than 5,200 kilometres of transmission and distribution lines, providing for the generation, transmission and distribution of electricity across the Island. Maritime Electric maintains on-Island generating facilities at Charlottetown and Borden-Carleton with a combined total capacity of 150 MW. The electricity system is connected to the mainland power grid via two submarine cables under the Northumberland Strait.

In 2007, the Company purchased more than 87 per cent of the energy required to serve customers from New Brunswick Power (“NB Power”). It has entitlement to energy and capacity from NB Power’s Point Lepreau and Dalhousie Generating Stations through agreements that extend for the life of these stations. The Point Lepreau Station will undergo an 18-month refurbishment beginning on April 1, 2008 that will extend its life by 25 years, providing additional stability with respect to long-term energy supply. The remainder of off-Island energy purchases is made at market prices under an agreement with NB Power. Maritime Electric obtains the balance of its energy requirements either from its own generating plants or from on-Island wind-powered generation facilities.

The Company invested approximately $27 million, before customer contributions, in 2007 to improve system reliability and customer service. Construction was completed on a $2.5 million 69-kilovolt (“kV”) transmission line that delivers wind-powered energy from a commercial operation in western PEI to the North American grid. Maritime Electric supports the development of PEI’s wind resource and its integration into the overall energy supply strategy in a timely and consistent manner. The Company issued a Request for Expressions of Interest for wind-powered energy development projects to ensure the utility’s system-development planning process enables wind-powered energy to comprise part of PEI’s long-term energy supply.

In September 2007, Maritime Electric secured 30 MW of transmission capacity on the International Power Line, a second transmission line between New Brunswick and Maine. This line will increase both northbound and southbound flows with New England and should increase energy supply options.

Maritime Electric invested approximately $27 million, before customer contributions, in 2007 to improve system reliability and customer service.

Officers of Maritime Electric (l-r): Bill Geldert, VP, Finance, CFO and Corporate Secretary; Fred O’Brien, President and CEO; John Gaudet, VP, Corporate Planning and Energy Supply; Steve Loggie, VP, Customer Service

Maritime Electric received a Customer Satisfaction Rating of 73.3 per cent in 2007 compared to 79.5 per cent in 2006. A considerable number of customer outages in 2007 were due to extreme weather conditions including severe lightning, Tropical Storm Noel and a major ice storm.

An external audit of the Company’s Safety Management System referenced numerous achievements since completion of the previous audit, particularly the many steps taken by Maritime Electric in demonstrating its commitment to safety. The development of a Safe Work Management System to manage safety and to document policies, procedures and programs was instrumental in the improvement of the overall rating. The completion of a new vehicle and crew assignment system helps meet the requirements of working-alone legislation.

FortisOntario

REGULATED ELECTRIC OPERATIONS

FortisOntario is an integrated electric utility which owns and operates Canadian Niagara Power and Cornwall Electric. Its utilities serve approximately 52,000 customers, mainly in Fort Erie, Port Colborne, Cornwall and Gananoque, Ontario. The Company owns regulated transmission assets in the Niagara and Cornwall regions, including an interconnection between New York State and Fort Erie, Ontario. It has more than 1,360 kilometres of transmission and distribution lines and met a combined peak demand of 234 MW in 2007. FortisOntario owns a 10 per cent interest in each of Westario Power Holdings Inc. and Rideau St. Lawrence Holdings Inc., two regional electric distribution companies serving more than 27,000 customers. The Company purchases its electricity from the Independent Electricity System Operator in Ontario, with the exception of Cornwall Electric which is supplied by Hydro-Québec.

In 2007, a new $1.4 million substation was commissioned in Gananoque, providing improved reliability and security of service to the community.

FortisOntario invested $11 million, before customer contributions, in capital expenditures in 2007 to connect new customers and upgrade its transmission and distribution assets to further improve system reliability and safety. During the year, work continued on the conversion of the 4.8-kV Fort Erie system to an 8.3-kV system. Progress was made on the Port Colborne SCADA expansion program, designed to enhance remote monitoring and control of substations. A new $1.4 million substation was commissioned in Gananoque, providing improved reliability and security of service to the community. A Service Centre for Gananoque field operations was also refurbished, improving efficiencies for field personnel. Capital programs in Cornwall focused on new customer connections, as well as planned line improvements to replace deteriorated plant and improve system security. Major capital works included a 115-kV transmission line relocation and the replacement of aging underground distribution switching units.

Officers of FortisOntario (l-r): Scott Hawkes, VP, Corporate Services, General Counsel and Corporate Secretary; Glen King, VP, Finance and CFO; William Daley, President and CEO; Angus Orford, VP, Operations

FortisOntario achieved a Customer Satisfaction Rating of 83 per cent in 2007, similar to the rating achieved in 2006. Customers continue to rate reliability/safe delivery of electricity and quality of service as high priorities at 90 per cent and 85 per cent, respectively. The Company continues to exceed performance standards set by the Ontario Energy Board with respect to response times, service connections and call-answer statistics.

FortisOntario, in conjunction with the Ontario Power Authority, launched four electricity-conservation and demand-management programs in 2007. The Summer Savings Program encouraged customers to reduce electricity consumption by 10 per cent in July and August with a 10 per cent credit for customers achieving the reduction. More than 30 per cent of eligible customers met the reduction target.

FortisOntario met or exceeded all of its health, safety and environmental key performance indicators for 2007, including zero lost-time injuries for all work locations. FortisOntario, Cornwall Electric and Canadian Niagara Power each received the Silver Safety Award from the Electrical & Utilities Safety Association of Ontario in recognition of their successful plans to implement a sustainable health and safety management system.

Belize Electricity

REGULATED ELECTRIC OPERATIONS

Belize Electricity earned a Customer Satisfaction Rating of 84 per cent in 2007.

Belize Electricity is the primary distributor of electricity in Belize, Central America. Serving approximately 73,000 customers, the utility met a peak demand of 70 MW in 2007 from multiple sources of energy, including power purchases from BECOL, Comisión Federal de Electricidad (the Mexican state-owned power company), Hydro Maya Limited and from its own diesel-fired and gas-turbine generation. All major load centres are connected to the country's national electricity system, which is interconnected with the Mexican national electricity grid, allowing the Company to optimize its power supply options. Belize Electricity has an installed generating capacity of 36 MW and owns approximately 2,740 kilometres of transmission and distribution lines. Fortis holds a 70.1 per cent controlling interest in Belize Electricity.

Through its pursuit of competitively priced energy sources, the Company was able to maintain stable electricity rates in the face of record-breaking oil prices. Hydroelectricity supplied approximately 40 per cent of the country's peak energy demand, which grew by approximately 5 per cent in 2007.

Capital investments to expand and improve the electricity system surpassed US$23.5 million, before customer contributions, in 2007. Almost 95 kilometres of distribution lines were constructed countrywide, including line extensions to electrify several rural communities under the Power III Rural Electrification Project, a joint initiative between Belize Electricity and the Government of Belize. Since the Project's establishment in 1999, approximately US$15 million has been invested in capital initiatives for this Project and first-time service has been extended to more than 11,000 customers. Capital projects were also undertaken to connect tourism developments in the popular tourist destinations of San Pedro Town and Placencia Village, to connect a large-scale shrimp farm in southern Belize and to replace aging distribution systems in the Belize District.

During 2007, more than 7,000 electronic meters were installed to replace aging equipment. Improvements were also made to the bill-editing and meter-sealing programs and meter inspections continued countrywide.

Belize Electricity earned a Customer Satisfaction Rating of 84 per cent in 2007. A significant customer service initiative during the year was the installation of an Automated Call Distributor and Interactive Voice Response System. The System provides call-in customers with automated information such as service restoration times, bill payment due dates and account balances. An extensive renovation of the customer service office in Punta Gorda Town, the southernmost municipality in the country, was also completed during the year.

Officers of Belize Electricity (l-r): Joseph Sukhnandan, VP, Engineering and Energy Supply; Juliet Estell, Manager, Executive Services and Company Secretary; Lynn Young, President and CEO; Rene Blanco, VP, Finance and CFO; Felix Murrin, VP, Customer Care and Operations (Effective October 29, 2007, Mr. Curtis Eck was appointed VP, Customer Care and Operations following the retirement of Mr. Murrin.)

Safety training remains an integral component of daily operations. In August 2007, the Company implemented a new service-installation guide consistent with the National Electric Code used in North America. Training by FortisAlberta now enables Belize Electricity to conduct independent in-house training on work methods, such as hot-stick and rubber-glove live-line maintenance techniques, which helps improve system reliability.

The Company continues to make meaningful progress towards becoming ISO 14001 compliant by 2009. The Environmental Management System is now implemented in all high-risk areas and efforts are underway to roll out the system to low-risk areas.

Caribbean Utilities

REGULATED ELECTRIC OPERATIONS

Caribbean Utilities generates, transmits and distributes electricity to more than 23,000 customers on Grand Cayman, Cayman Islands. The Company is one of the most reliable and efficient utilities in the region. The utility owns and operates approximately 550 kilometres of transmission and distribution lines and 22 kilometres of high-voltage submarine cable. Its electricity system has an installed generating capacity of approximately 137 MW and met a record peak demand of approximately 93 MW in August 2007.

The Class A Ordinary Shares of Caribbean Utilities are listed in US funds on the Toronto Stock Exchange under the symbol CUP.U. Fortis increased its investment in Caribbean Utilities to approximately 54 per cent in November 2006, becoming controlling shareholder.

Caribbean Utilities owns and operates approximately 550 kilometres of transmission and distribution lines and 22 kilometres of high-voltage submarine cable.

Caribbean Utilities earned a Customer Satisfaction Rating of 84 per cent in 2007. Customer service initiatives undertaken throughout the year included marketing of external payment options, such as direct debit; implementation of Telelink, an automated voice-activated customer-service system; the continued installation of new automated meters; and promotion of the Energy Smart Program, designed to help customers conserve energy. The Company offers free residential and commercial energy audits to all customers as part of its Energy Smart activities.

System reliability was 99.95 per cent year-to-date October 31, 2007. Capital expenditures for the fiscal year ended April 30, 2007 totalled US$36 million, before customer contributions. Major capital projects included the US$22 million 16-MW diesel-fired generating unit and auxiliary equipment commissioned in June 2007, and transmission and distribution projects, which will further enhance system reliability. Information technology projects included the development of business continuity plans for several departments and an enterprise-wide Crisis Management and Business Continuity Plan.

Caribbean Utilities has a comprehensive Environmental Management System and was recertified as compliant with ISO 14001:2004 for its power generation, transmission and distribution systems. The Company is the only organization in the Cayman Islands with ISO 14001 certification. Environmental Management System initiatives included ongoing emergency preparedness planning, continuous employee education programs, and stringent environmental and structural design standards.

Officers of Caribbean Utilities (l-r): Douglas Murray, Corporate Secretary; Letitia Lawrence, VP, Finance and CFO; Richard Hew, President and CEO; Andrew Small, VP, Transmission and Distribution; David Watler, VP, Production

With 193 employees, more than 90 per cent of whom are Caymanian, Caribbean Utilities recorded more than 11,000 employee training hours for its fiscal year 2007. Training initiatives included information technology instruction to a diverse group of employees, as well as an internationally recognized accredited apprenticeship program for employees of the Production and Transmission Division.

Employee and public safety practices remain a priority. Initiatives this year included contractor safety programs, revisions to energy-control procedures, Occupational Safety and Health Administration-certified courses and monthly health and safety meetings.

The Company continues its commitment to the “Investors in People” certification, which was achieved in early 2006. This internationally recognized standard aligns the utility’s human resource strategies with its business objectives. Employee-development initiatives will continue throughout 2008 as the utility strives to maintain its employer-of-choice position in the country.

Fortis Turks and Caicos

REGULATED ELECTRIC OPERATIONS

Fortis Turks and Caicos serves more than 8,700 customers, or 85 per cent of electricity consumers, on the Turks and Caicos Islands. It owns and operates a fully integrated system providing for the generation and distribution of energy in Providenciales, North Caicos and Middle Caicos pursuant to a 50-year licence that expires in 2037. It also owns and operates an independent generating station and distribution system on South Caicos and is the sole provider of electricity for that island pursuant to a 50-year licence that expires in 2036. The Company has a combined diesel-fired generating capacity of 48 MW and met a combined peak demand of 28 MW in 2007. Fortis Turks and Caicos owns and operates 325 kilometres of transmission and distribution lines.

A major focus has been the integration of Fortis Turks and Caicos within the Fortis Group of Companies since its acquisition in August 2006. In July 2007, Mr. Eddinton Powell, formerly Vice President Finance and Chief Financial Officer, Caribbean Utilities, took the helm as President and Chief Executive Officer, Fortis Turks and Caicos. Under his leadership, management remains focused on meeting the growing needs of customers.

The utility's customer base increased 13 per cent in 2007, driven largely by strong economic growth in the country. Current economic conditions on the Turks and Caicos Islands suggest the Company can expect to achieve growth in energy demand in the range of 18 per cent to 25 per cent per annum over the next several years. The robust growth in energy demand is being driven by tourism and the high level of condominium and hotel development. One of the utility's large hotel customers, for example, is investing US$68 million to expand its facility to more than 600 rooms.

Fortis Turks and Caicos has a combined diesel-fired generating capacity of 48 MW and met a combined peak demand of 28 MW in 2007.

Fortis Turks and Caicos invested US$24 million, before customer contributions, in capital projects in 2007 to meet current and projected growth in energy demand resulting from a rapidly growing customer base. Two diesel-fired generating units, with a combined generating capacity of 7 MW, were commissioned in 2007. Four additional units, with a combined generating capacity of 13 MW, were purchased during the year and will be installed in 2008 and 2009. The rapid increase in load has necessitated the expansion of the Richmond Hill and Grace Bay substations. The Grace Bay substation, which was brought into service only a year ago, is reaching its installed capacity and considerable work has been carried out to double its capacity by the end of 2008.

Officers of Fortis Turks and Caicos (l-r): Robert Hamill, VP, Finance and CFO; Brian Walsh, VP, Operations; Eddinton Powell, President and CEO; Allan Robinson, VP, Customer and Corporate Services; Ernest Jackson, VP, Production and Engineering

Throughout 2007, Fortis Turks and Caicos developed and implemented a number of programs designed to enhance customer service. A new Customer Care Centre was opened in December. The Company also installed a new automated meter-reading system that will greatly improve the efficiency of the meter-reading process. As part of its efforts to enhance customer relations, management is focused on developing strong working relationships with its on-Island stakeholders.

Safety and employee development remain key operational priorities for Fortis Turks and Caicos. Throughout 2007, safety training was provided to employees in high-risk jobs and job-specific training was provided to meter technicians, control room operators, line apprentices, engineering service staff, customer service agents and information systems staff.

Fortis Generation

NON-REGULATED OPERATIONS

Fortis Generation includes the operations of non-regulated generating assets in Belize, Ontario, central Newfoundland, British Columbia and Upper New York State. The generating capacity of these non-regulated assets is 195 MW, 190 MW of which is hydroelectric generation.

In Belize, BECOL owns and operates the 25-MW Mollejon and 7-MW Chalillo hydroelectric generating facilities located on the Macal River. Mollejon and Chalillo are the largest commercial hydroelectric generating facilities in Belize. Energy production was 167 GWh in 2007, a slight decrease from last year due to lower rainfall levels. Production was still above expected levels based on historical average rainfall. BECOL sells its entire output to Belize Electricity under a 50-year Power Purchase Agreement ("PPA").

In May 2007, construction began on the US$53 million 18-MW Vaca hydroelectric generating facility situated approximately five kilometres downstream of Mollejon. Vaca is the final phase of the three-stage hydroelectric development plan for the Macal River. The run-of-river facility will increase average annual energy production from the Macal River by approximately 80 GWh to 240 GWh. Belize Electricity has signed a 50-year PPA with BECOL for the purchase of energy generated by the Vaca facility, commencing late in 2009.

In May 2007, construction began on the US$53 million 18-MW Vaca hydroelectric generating facility situated approximately five kilometres downstream of Mollejon on the Macal River in Belize.

In Ontario, non-regulated operations include 75 MW of water-right entitlement associated with the Rankine hydroelectric generating station at Niagara Falls, a 5-MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW. With the exception of the cogeneration plant in Cornwall, the electricity produced from these facilities is sold in Ontario at market prices.

In central Newfoundland, Fortis Generation holds a 51 per cent interest in the Exploits River Hydro Partnership ("Exploits Partnership") with Abitibi-Consolidated Company of Canada ("Abitibi-Consolidated"). The Exploits Partnership was established in 2001 and commenced operations in 2003 following the development of additional capacity at Abitibi-Consolidated's two hydroelectric generating plants in central Newfoundland. Abitibi-Consolidated continues to use the historical annual generation while the additional energy produced as a result of the project is sold to Newfoundland Hydro under a 30-year PPA. The Exploits Partnership achieved production of 137 GWh in 2007.

In British Columbia, the non-regulated asset is the 16-MW run-of-river Walden hydroelectric generating plant near Lillooet, which was acquired in May 2004 as part of the assets of FortisBC. The plant sells its entire output to BC Hydro under a long-term contract.

In Upper New York State, the non-regulated assets are four hydroelectric generating stations located in Moose River, Philadelphia, Dolgeville and Diana. The plants have a combined generating capacity of approximately 23 MW. The average annual 85 GWh of energy output of these modern facilities is sold at the wholesale level through a series of renewable contracts.

Fortis Properties

NON-REGULATED OPERATIONS

Fortis Properties owns and operates 19 hotels, offering more than 3,500 rooms, in eight Canadian provinces, and approximately 2.8 million square feet of commercial office and retail space primarily in Atlantic Canada. The Company, a wholly owned subsidiary of Fortis, is the primary vehicle for non-utility diversification and growth.

In August 2007, Fortis Properties expanded to an 8th Canadian province with the acquisition of the Delta Regina in Saskatchewan. The complex is comprised of 274 hotel rooms, the Saskatchewan Trade and Convention Centre, 52,000 square feet of Class A commercial office space and a parking garage. The hotel strengthens the Company's hotel portfolio while increasing its presence in western Canada.

The Hospitality Division showed continued improvement in customer satisfaction ratings in 2007. The Delta St. John's Hotel and Conference Centre was recognized by Delta Hotels with the *Best in Class, Guest Satisfaction* and *Most Improved Guest Satisfaction* awards, recognizing employee excellence in customer service. Additionally, the Delta St. John's and Delta Brunswick placed in the top three for the *Hotel of the Year, Franchise* award. Revenue per available room ("REVPAR") increased for the 12th consecutive year, reaching $79.31. The increase in REVPAR was primarily attributable to the addition of the four hotels in western Canada, acquired in November 2006, and the Delta Regina.

The Real Estate Division is anchored by high-quality tenants under long-term leases with a year-end occupancy rate of 96.8 per cent, outpacing the national rate of 93.8 per cent.

The Building Owners and Managers Association ("BOMA") Atlantic recognized Blue Cross Centre in Moncton, New Brunswick with the BOMA Environmental Stewardship Award. The award acknowledged the property's efforts in limiting its environmental impact through its energy-efficient building design, energy- and water-consumption tracking, and recycling initiatives.

Fortis Properties owns and operates 19 hotels, offering more than 3,500 rooms, in eight Canadian provinces.

The $2 million recladding of the Delta Sydney in Nova Scotia was completed in November 2007. The project remedied building infrastructure issues and revitalized the property's exterior, increasing its attractiveness in the market. Work began on a $1.4 million electrical refit at the Delta Brunswick/Brunswick Square complex to improve building infrastructure and ensure the continued comfort of guests and tenants.

Officers of Fortis Properties (l-r): Neal Jackman, VP, Finance and CFO; Nora Duke, President and CEO; Wayne Myers, VP, Real Estate

A Company-wide Health and Safety Plan was launched in 2007 with emphasis placed on key initiatives such as safety communication and leadership, safety training and orientation, incident reporting, contractor management, and early and safe return to work. Safety audits were conducted at 19 properties and will continue throughout 2008 for the remainder of the properties.

Employee development initiatives continued with the provision of special assignments and secondments to enhance employee performance. The Company's Mentoring Program continued and a renewed emphasis was placed on leadership development. Training was completed in the areas of respectful workplace, collective agreement administration, and health and safety.

Our Community

Our team spirit extends beyond our office buildings and operational facilities. It kicks into high gear on soccer fields, marches along in school parades, helps fill food bank shelves and champions scores of community events where volunteers make a difference in the quality of daily living for others.

In 2007, the Fortis Group of Companies contributed almost $3 million in financial and in-kind donations to a wide spectrum of worthy community causes. Hundreds of our employees were involved.

Here's a few of the community initiatives we were proud to support:

Terasen donated 40 desktop computers to *Seabird Island First Nation*. The computers will be part of a network that will provide high-speed broadband wireless access to the community of Seabird Island.

FortisAlberta and its employees donated $148,000 to the eight *United Way* chapters in its service territories across Alberta, exceeding the campaign goal of $125,000 and surpassing the Company's 2006 donation by more than $40,000.

FortisBC employees and volunteers participated in the 5th annual *Moving Mountains Relay*, a 370-km run from Trail to Kelowna. More than $21,000 was raised to help purchase an osteotomy hip system for the Orthopedic Unit at the BC Children's Hospital.

Newfoundland Power pledged $350,000 to *PRIORITY: The Campaign for Cancer Care* for the purchase of a new four-dimensional CT simulator for the Dr. H. Bliss Murphy Cancer Centre. The equipment will enable the cancer care team to enhance the accuracy of radiation treatment for cancer patients.

Maritime Electric sponsors an annual *$5,000 Environmental Studies Grant Program*. The funds are used to help educate high school students about issues pertaining to the natural environment and how it can be managed in a sustainable manner.

FortisOntario donated a collection of historical documents, photos and artifacts depicting the beginning and evolution of electricity in Canada to the *Cornwall Museum*. Valued at more than $230,000, the donation was the largest in the museum's history.

Belize Electricity has pledged US$10,000 over three years to the *Belize Emergency Response Team*. The non-profit organization is the only fully trained and equipped ambulance service in Belize.

Employees of Caribbean Utilities contributed over 300 hours to community events. The Company was the principal sponsor of the *CUC Primary Football League* with more than 15 primary schools across Grand Cayman participating.

Fortis Turks and Caicos completed its first annual *Home Makeover* in December. Home is where the heart is and employees put their hearts into helping complete some major roof repairs, install new light fixtures and upgrade the property of a well-deserving community member.

Fortis Properties partnered with community groups and the Government of Newfoundland and Labrador on the *Makin' It Work* project. The initiative provides unemployed or underemployed persons with on-the-job training for frontline hospitality positions.

Thanks to our employees and all volunteers for stepping forward.

Management Discussion and Analysis

Dated March 14, 2008

Barry Perry, VP, Finance and CFO, Fortis Inc.

The following Management Discussion and Analysis ("MD&A") should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements included in the Fortis Inc. 2007 Annual Report. The MD&A has been prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. *Financial information in the MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and is presented in Canadian dollars unless otherwise specified. Fortis Inc. ("Fortis" or the "Corporation") includes forward-looking information in the MD&A within the meaning of applicable securities laws in Canada ("forward-looking information"). The purpose of the forward-looking information is to provide management's expectations regarding the Corporation's future growth, results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management. The forward-looking information in the MD&A includes, but is not limited to, statements regarding: the Corporation's expectation to generate sufficient cash required to complete planned capital programs from a combination of long-term debt and short-term borrowings, internally generated funds and the issuance of common shares and preference shares; the Corporation's belief that it does not anticipate any difficulties in accessing the required capital on reasonable market terms; the Corporation's consolidated forecasted gross capital expenditures for 2008 and in total over the next five years, as well as expected significant capital projects in 2008 and their expected cost and time to complete; the Corporation's expectation of the impact of foreign exchange on 2008 basic earnings per common share; and the Corporation's belief that its capital program should drive growth in earnings and dividends. The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the Corporation's ability to maintain its gas and electricity systems to ensure their continued performance; the competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the availability of natural gas supply; favourable economic conditions; the level of interest rates; the ability to hedge certain risks; access to capital; maintenance of adequate insurance coverage; the ability to obtain licences and permits; the level of energy prices; retention of existing service areas; favourable labour relations; and sufficient human resources to deliver service and execute the capital program. The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulation; integration of Terasen Inc. and management of expanded operations; operating and maintenance risks; natural gas prices and supply; economic conditions; weather and seasonality; interest rates; changes in tax legislation; derivative instruments and hedging; risks related to Terasen Gas (Vancouver Island) Inc.; capital resources; environment; insurance; licences and permits; energy prices and the cessation of the Niagara Exchange Agreement; loss of service area; First Nations Lands; counterparty risk; labour relations; human resources; and liquidity risk. For additional information with respect to the Corporation's risk factors, reference should be made to the Corporation's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities and to the heading "Business Risk Management" in the MD&A for the year ended December 31, 2007.*

All forward-looking information in the MD&A is qualified by its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

A discussion of the financial condition and results of operations for the fourth quarter of 2007 is contained in the Corporation's Interim MD&A for the 3 and 12 months ended December 31, 2007 dated and filed on SEDAR at www.sedar.com on February 7, 2008.

Corporate Overview and Strategy

Fortis is the largest investor-owned distribution utility company in Canada, serving almost 2,000,000 gas and electricity customers. Its regulated holdings include a natural gas distribution utility in British Columbia and electric distribution utilities in five Canadian provinces and three Caribbean countries. Fortis owns non-regulated generation assets across Canada and in Belize and Upper New York State. It also owns hotels and commercial real estate across Canada. In 2007, the Corporation's electricity distribution systems met a combined peak electricity demand of approximately 5,700 megawatts ("MW") and its gas distribution system met a peak day demand of 1,360 terajoules ("TJ").

The vision of Fortis is to be the world leader in those segments of the regulated utility industry in which it operates and the leading service provider within its service areas. Fortis has adopted a strategy of profitable growth with earnings per common share as the primary measure of performance. The Corporation's first priority is to pursue organic growth opportunities in existing operations. Additionally, the Corporation pursues growth through acquisitions.

The key goals of the Corporation's regulated utilities are to operate sound gas and electricity distribution systems, and deliver gas and electricity safely and reliably to customers at reasonable rates. The Corporation's core business is highly regulated. It is segmented by franchise area and, depending on regulatory requirements, by the nature of the assets. The reporting segments of the Corporation are: (i) Regulated Gas Utilities – Canadian; (ii) Regulated Electric Utilities – Canadian; (iii) Regulated Electric Utilities – Caribbean; (iv) Non-Regulated – Fortis Generation; (v) Non-Regulated – Fortis Properties; and (vi) Corporate and Other. The earnings of the Corporation's regulated utilities are primarily determined under traditional cost of service and rate of return methodologies. Earnings of the Canadian regulated utilities are generally exposed to changes in interest rates which factor into customer rate-setting mechanisms.

Fortis also holds investments in non-regulated generation assets, and commercial real estate and hotels, which are treated as two separate segments. The Corporation's non-regulated generation assets operate in three countries and have a combined generating capacity of 195 MW, mainly hydroelectric. Except for non-regulated hydroelectric generation operations in Belize and British Columbia, the Corporation's non-regulated generation operations are owned and/or managed by Fortis Properties to ensure standard operating practices, to enable leveraging of expertise across the various jurisdictions and to allow the pursuit of non-regulated hydroelectric projects. The Corporation's investments in non-regulated assets provide for financial, tax and regulatory flexibility, and enhance shareholder return.

The Corporation's operating segments allow senior management to evaluate the operational performance and assess the overall contribution of each segment to the Corporation's long-term objectives. Each operating segment operates as an autonomous unit, assumes profit and loss responsibility, and is accountable for its own resource allocation.

The following summary describes the operations included in each of the Corporation's reportable segments.

Regulated Utilities

The following summary describes the Corporation's interests in regulated gas and electric utilities in Canada and the Caribbean by utility:

Regulated Gas Utilities – Canadian

Terasen Gas Companies: Includes Terasen Gas Inc. ("TGI"), Terasen Gas (Vancouver Island) Inc. ("TGVI") and Terasen Gas (Whistler) Inc. ("TGWI"), which Fortis acquired through the acquisition of Terasen Inc. ("Terasen") on May 17, 2007.

TGI is the largest distributor of natural gas in British Columbia, serving approximately 825,000 residential, commercial and industrial customers in a service area that extends from Vancouver to the Fraser Valley and the interior of British Columbia.

TGVI owns and operates the natural gas transmission pipeline from the Greater Vancouver area across the Georgia Strait to Vancouver Island and the distribution system on Vancouver Island and along the Sunshine Coast of British Columbia, serving approximately 91,200 residential, commercial and industrial customers.

In addition to providing transmission and distribution ("T&D") services to customers, TGI and TGVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from northeastern British Columbia and, through TGI's Southern Crossing Pipeline, from Alberta.

TGWI owns and operates the propane distribution system in Whistler, British Columbia, providing service to approximately 2,400 residential and commercial customers.

Regulated Electric Utilities – Canadian

a. *FortisAlberta:* FortisAlberta owns and operates the electricity distribution system in a substantial portion of southern and central Alberta, serving over 448,000 customers.

b. *FortisBC:* Includes FortisBC Inc., an integrated electric utility operating in the southern interior of British Columbia, serving approximately 154,000 customers. FortisBC Inc. owns four hydroelectric generating plants with a combined capacity of 223 MW. During 2007, the entitlement capacity and energy output for a number of FortisBC Inc.'s hydroelectric generating units were optimized as a result of past turbine and generator upgrade projects. Entitlement capacity was rebalanced from 235 MW to 223 MW and energy output increased by 11,000 megawatt hours ("MWh") as a result of negotiated adjustments to the Canal Plant Agreement with BC Hydro. Included with the FortisBC component of the Regulated Electric Utilities – Canadian segment are the operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generating facility owned by Teck Cominco Metals Ltd., the 149-MW Brilliant Hydroelectric Plant owned by Columbia Power Corporation and the Columbia Basin Trust ("CPC/CBT"), the 185-MW Arrow Lakes Hydroelectric Plant owned by CPC/CBT and the distribution system owned by the City of Kelowna. FortisBC's assets also include the regulated electric utility formerly operated as Princeton Light and Power Company, Limited.

c. *Newfoundland Power:* Newfoundland Power is the principal distributor of electricity in Newfoundland, serving approximately 232,000 customers. Newfoundland Power has an installed generating capacity of 139 MW, of which 96 MW is hydroelectric generation.

d. *Maritime Electric:* Maritime Electric is the principal distributor of electricity on Prince Edward Island ("PEI"), serving approximately 72,000 customers. Maritime Electric also maintains on-Island generating facilities with a combined capacity of 150 MW.

e. *FortisOntario:* FortisOntario provides integrated electric utility service to approximately 52,000 customers in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. FortisOntario operations include Canadian Niagara Power Inc. ("Canadian Niagara Power") and Cornwall Street Railway, Light and Power Company, Limited ("Cornwall Electric"). Included in Canadian Niagara Power's accounts is the operation of the electricity distribution business of Port Colborne Hydro Inc., which has been leased from the City of Port Colborne under a 10-year lease agreement that expires in April 2012. FortisOntario also owns a 10 per cent interest in each of Westario Power Holdings Inc. and Rideau St. Lawrence Holdings Inc., two regional electric distribution companies formed in 2000, serving more than 27,000 customers.

Regulated Electric Utilities – Caribbean

a. *Belize Electricity:* Belize Electricity is the principal distributor of electricity in Belize, Central America, serving approximately 73,000 customers. The Company has an installed generating capacity of 36 MW. Fortis holds a 70.1 per cent controlling interest in Belize Electricity.

b. *Caribbean Utilities:* Caribbean Utilities is the sole provider of electricity on Grand Cayman, Cayman Islands, serving more than 23,000 customers. The Company has an installed generating capacity of approximately 137 MW. On November 7, 2006, Fortis acquired an additional approximate 16 per cent ownership interest in Caribbean Utilities and now owns approximately 54 per cent of the Company. Caribbean Utilities is a public company traded on the Toronto Stock Exchange (TSX:CUP.U) and has an April 30th fiscal year end. Caribbean Utilities' balance sheet as at November 7, 2006 was consolidated in the December 31, 2006 balance sheet of Fortis. Beginning with the first quarter of 2007, Fortis has been consolidating Caribbean Utilities' financial statements on a two-month lag basis and, accordingly, has consolidated Caribbean Utilities' October 31, 2007 balance sheet, and statements of earnings and cash flows for the 12-month period ended October 31, 2007 with the Corporation's December 31, 2007 consolidated financial statements. During 2006, the statement of earnings of Fortis reflected the Corporation's approximate 37 per cent ownership interest in Caribbean Utilities, previously accounted for on an equity basis, on a two-month lag.

c. *P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. (collectively referred to as Fortis Turks and Caicos):* Fortis Turks and Caicos is the principal distributor of electricity on the Turks and Caicos Islands, serving more than 8,700 customers. The Company has a combined diesel-fired generating capacity of 48 MW. Fortis Turks and Caicos was acquired by Fortis, through a wholly owned subsidiary, on August 28, 2006.

Non-Regulated – Fortis Generation

The following summary describes the Corporation's non-regulated generation assets by location:

a. *Belize:* Operations consist of the 25-MW Mollejon and 7-MW Chalillo hydroelectric generating facilities in Belize. All of the electricity output is sold to Belize Electricity under a 50-year power purchase agreement expiring in 2055. Hydroelectric generation operations in Belize are conducted through the Corporation's wholly owned indirect subsidiary, Belize Electric Company Limited ("BECOL"), under a Franchise Agreement with the Government of Belize.

b. *Ontario:* Includes 75 MW of water-right entitlement associated with the Niagara Exchange Agreement, a 5-MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW. Non-regulated generation operations in Ontario are conducted through FortisOntario Inc. and Fortis Properties. On January 1, 2006, the former FortisOntario Generation Corporation was amalgamated with CNE Energy Inc. and, effective January 1, 2007, CNE Energy Inc. was amalgamated with Fortis Properties.

c. *Central Newfoundland:* Through the Exploits River Hydro Partnership ("Exploits Partnership"), a partnership between the Corporation, through its wholly owned subsidiary, Fortis Properties, and Abitibi-Consolidated Company of Canada ("Abitibi-Consolidated"), 36 MW of additional capacity was developed and installed at two of Abitibi-Consolidated's hydroelectric generating plants in central Newfoundland. Since the amalgamation of CNE Energy Inc. with Fortis Properties on January 1, 2007, Fortis Properties has held directly a 51 per cent interest in the Exploits Partnership and Abitibi-Consolidated holds the remaining 49 per cent interest. The Exploits Partnership sells its output to Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro") under a 30-year power purchase agreement expiring in 2033.

d. *British Columbia:* Includes the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. This plant sells its entire output to BC Hydro under a long-term contract expiring in 2013. Hydroelectric generation operations in British Columbia are conducted through the Walden Power Partnership, a wholly owned partnership of FortisBC Inc.

e. *Upper New York State:* Includes the operations of four hydroelectric generating stations in Upper New York State, with a combined capacity of approximately 23 MW, operating under licences from the US Federal Energy Regulatory Commission. Hydroelectric generation operations in Upper New York State are conducted through the Corporation's indirect wholly owned subsidiary, FortisUS Energy Corporation ("FortisUS Energy").

Non-Regulated – Fortis Properties

Fortis Properties owns and operates 19 hotels with more than 3,500 rooms in eight Canadian provinces and approximately 2.8 million square feet of commercial real estate primarily in Atlantic Canada.

Corporate and Other

The Corporate and Other segment captures expense and revenue items not specifically related to any other reportable segment. Included in this segment are finance charges including interest on debt incurred directly by Fortis and Terasen Inc. and dividends on preference shares classified as long-term liabilities; foreign exchange gains or losses; dividends on preference shares classified as equity; other corporate expenses, including Fortis and Terasen corporate operating costs, net of recoveries from subsidiaries; interest and miscellaneous revenues; and corporate income taxes. Also included in the Corporate and Other segment are the financial results of CustomerWorks Limited Partnership ("CWLP"). CWLP is a non-regulated shared-services business in which Terasen holds a 30 per cent interest. CWLP operates in partnership with Enbridge Inc. and provides customer service contact, meter reading, billing, credit, support and collection services to the Terasen Gas companies and several smaller third parties. CWLP's financial results are recorded using the proportionate consolidation method of accounting. Terasen was acquired by Fortis on May 17, 2007.

Financial Highlights

For the Years Ended December 31st	**2007**	2006	Variance *(%)*
Net earnings applicable to common shares *($ millions)*	**193**	147	31.3
Basic earnings per common share *($)*	**1.40**	1.42	(1.4)
Diluted earnings per common share *($)*	**1.32**	1.37	(3.6)
Weighted average number of common shares outstanding *(millions)*	**137.6**	103.6	32.8
Revenue and equity income *($ millions)*	**2,718**	1,472	84.6
Dividends paid per common share *($)*	**0.82**	0.67	22.4
Return on average common shareholders' equity *(%)*	**9.99**	11.87	(15.8)
Total assets *($ millions)*	**10,273**	5,441	88.8
Cash flow from operating activities *($ millions)*	**373**	263	41.8

Acquisitions: On May 17, 2007, Fortis completed the acquisition of all of the issued and outstanding common shares of Terasen, formerly a wholly owned subsidiary of Kinder Morgan, Inc. for aggregate consideration of $3.7 billion, including the assumption of approximately $2.4 billion of consolidated debt. Terasen owns and operates a gas distribution business carried on by TGI, TGVI and TGWI. Terasen is the principal natural gas distributor in British Columbia, serving over 918,000 customers or 96 per cent of gas users in the province. The acquisition did not include the petroleum transportation assets of Kinder Morgan Canada (formerly Terasen Pipelines), which are comprised primarily of refined and crude oil pipelines.

A significant portion of the net cash purchase price of Terasen was satisfied with the net proceeds of the public offering of Subscription Receipts completed by Fortis on March 15, 2007. Fortis issued 44,275,000 Subscription Receipts for gross proceeds of approximately $1.15 billion. Upon closing of the acquisition on May 17, 2007, each Subscription Receipt was automatically exchanged, without payment of additional consideration, for one Common Share of Fortis. Each Subscription Receipt holder also received a cash payment of 21 cents per Subscription Receipt, which was an amount equal to the dividend declared per Common Share of Fortis to holders of record as of May 4, 2007. The remaining net cash purchase price was financed, on an interim basis, by drawing $125 million on the Corporation's existing credit facility.

On August 1, 2007, Fortis Properties purchased the Delta Regina, comprising the Delta Regina Hotel, the Saskatchewan Trade and Convention Centre, 52,000 square feet of commercial office space and a parking garage, in Regina, Saskatchewan for an aggregate cash purchase price of approximately $50 million.

On November 7, 2006, Fortis acquired an additional approximate 16 per cent ownership interest in Caribbean Utilities for approximately $56 million (US$49 million), and now owns approximately 54 per cent of the Company.

On November 1, 2006, Fortis Properties purchased four hotels in Alberta and British Columbia for an aggregate cash purchase price of approximately $52 million. The four hotels acquired were the Holiday Inn Express and Suites, and Best Western, in Medicine Hat, Alberta; Ramada Hotel and Suites in Lethbridge, Alberta; and Holiday Inn Express in Kelowna, British Columbia.

On August 28, 2006, Fortis, through a wholly owned subsidiary, acquired all of the issued and outstanding shares of Fortis Turks and Caicos for cash consideration of approximately $98 million (US$88 million). Fortis Turks and Caicos serves more than 8,700 customers, or 85 per cent of electricity consumers, on the Turks and Caicos Islands pursuant to 50-year licences that expire in 2036 and 2037.

Key Trends and Risks: The acquisition of Terasen improves the risk profile of Fortis by providing the Corporation with a more economically diverse portfolio of assets and earnings. The expansion into natural gas added a new business segment, doubled the regulated rate base of Fortis to approximately $6.3 billion and was complementary to the Corporation's proven core competencies in managing regulated electric distribution utilities. The distribution franchises of the Terasen Gas companies have a well-diversified, mature, principally residential customer base and operate in a service territory that is experiencing strong economic growth and includes substantially all of the service territory of FortisBC. The expansion into natural gas distribution provides Fortis with a platform for future growth in the regulated natural gas business in Canada and the United States.

Following the Terasen acquisition, a large proportion of the businesses of Fortis serve the high-growth economies of western Canada. At December 31, 2007, regulated utility assets comprised 92 per cent of total assets compared to 86 per cent at December 31, 2006. At December 31, 2007, regulated utility assets in Canada comprised 84 per cent of total assets compared to 71 per cent at December 31, 2006.

Over the past few years, declining long-term interest rates in Canada have negatively impacted the allowed rate of return on common shareholders' equity ("ROE") used to set customer rates at each of the Corporation's four largest regulated utilities. However, due to a modest increase in long-term Canada bond rates during 2007, the allowed ROEs at TGI, FortisAlberta, FortisBC and Newfoundland Power were increased, for the purpose of setting customer rates in 2008, in accordance with the automatic adjustment formulas approved by the respective regulators. The chart below highlights the trend in the regulator-allowed ROEs at the above named utilities:

Regulator-Allowed ROE

(%)	2005	2006	2007	2008
TGI	9.03	8.80	8.37	8.62
FortisAlberta	9.50	8.93	8.51	8.75
FortisBC	9.43	9.20	8.77	9.02
Newfoundland Power	9.24	9.24	8.60	8.95

The impact on the Corporation's earnings of lower allowed ROEs was largely offset by increased rate bases and energy sales and the realization of operating cost efficiencies.

Economic growth in the province of Alberta has been robust, translating into strong customer and energy sales growth in FortisAlberta's service territory. This service territory includes environs of Calgary and Edmonton and includes the corridor between these cities. A healthy British Columbia provincial economy and population growth in the Okanagan region have favourably impacted customer and sales growth at FortisBC over the past few years. As a result, organic earnings growth derived from investment in utility infrastructure at the Corporation's Canadian regulated electric utilities is expected to be primarily driven by FortisAlberta and FortisBC. The Corporation's other Canadian regulated electric utilities – Newfoundland Power, Maritime Electric and FortisOntario – operate in more mature, stable environments, resulting in slower earnings growth.

With the acquisition of Terasen, regulated assets in the Caribbean region, as a percentage of total regulated assets, have decreased from 18 per cent at December 31, 2006 to 8 per cent at December 31, 2007. The regulated rate of return on rate base assets ("ROA") achieved in the Caribbean is higher compared to that achieved in Canada. The higher return is correlated with increased operating risks associated with local economic and political factors and weather conditions. The Corporation's operations in the Caribbean are exposed to hurricane risk. Fortis uses external insurance to help mitigate the impact on its operations of potential hurricane damage and related business interruption.

The key business risk to Fortis is regulatory risk. Except for the Terasen Gas companies and FortisBC, the Corporation's other utilities are regulated by different regulatory authorities. Relationships with the regulatory authorities are managed at the local utility level and such relationships have generally been positive. In late 2007 and early 2008, regulator-approved negotiated settlement agreements were reached at FortisBC and Newfoundland Power for 2008 electricity rates and at FortisAlberta for 2008 and 2009 electricity rates. Achieving regulator-approved negotiated settlement agreements has eliminated the cost of full-scale public hearing processes. In December 2007, an agreement in principle ("AIP") was reached between Caribbean Utilities and the Government of the Cayman Islands on the terms of a new generation licence, initially to be granted for up to 25 years, and, under new arrangements, a new exclusive 20-year T&D licence. The new licences are expected to be issued during the first half of 2008. In December 2007, regulatory amendments were enacted in Belize which settled outstanding matters associated with the regulator's decision concerning Belize Electricity's 2007/2008 electricity rates. In January 2008, Maritime Electric received regulatory approval for 2008 electricity rates. Although the potential receipt of an adverse regulatory decision may materially affect the ability of any utility to recover the cost of providing its services and achieve a reasonable rate of return, the impact on the Corporation as a whole is lessened due to the geographic and regulatory diversity of the Corporation's operations. For a complete discussion of regulatory activity and decisions and the Corporation's business risks, see the "Regulatory Highlights" and "Business Risk Management" sections of this MD&A.

Common share dividend payments increased to 82 cents per common share in 2007. A 19 per cent increase in the quarterly common share dividend to 25 cents from 21 cents, effective for the first quarter of 2008, extends the Corporation's record of annual common share dividend increases to 35 consecutive years, the longest record of any public corporation in Canada. Growth in earnings has enabled Fortis to increase its quarterly common share dividend 92 per cent since 2003.

Net Earnings Applicable to Common Shares and Earnings per Common Share: Fortis achieved net earnings applicable to common shares of $193 million in 2007, a 31.3 per cent increase over earnings of $147 million last year. Basic earnings per common share were $1.40 in 2007 compared to $1.42 last year.

The growth in overall earnings was primarily attributable to the acquisition of Terasen in May 2007, but also reflected the first full year of ownership of Fortis Turks and Caicos, significant investment in electrical infrastructure at FortisAlberta and FortisBC, stronger performance at Fortis Properties and lower effective corporate taxes.

The seasonality of earnings of the Terasen Gas companies, combined with the impact of a $1.15 billion common share issue to fund a substantial portion of the cash purchase price of Terasen, diluted basic earnings per common share by 7 cents in 2007.

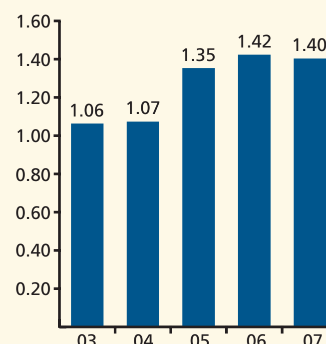
Revenue and Equity Income: Revenue and equity income increased almost 85 per cent to approximately $2.72 billion from approximately $1.47 billion last year. Revenue of $905 million from the Terasen Gas companies, from the date of acquisition, was the main driver of the increase. The remainder of the increase was driven by Caribbean Utilities, Newfoundland Power, Fortis Properties and Fortis Turks and Caicos. Due to the increase in the Corporation's ownership in Caribbean Utilities to an approximate 54 per cent controlling interest in November 2006, Fortis has been consolidating Caribbean Utilities' financial results since the first quarter of 2007. During 2006, the statement of earnings of Fortis reflected the Corporation's approximate 37 per cent interest in Caribbean Utilities, previously accounted for on an equity basis. The increase in revenue at Newfoundland Power was driven by the flow through of higher purchased power costs, and the increase in revenue at Fortis Properties was primarily due to expanded hospitality operations in western Canada. The increase in revenue at Fortis Turks and Caicos was due to the first full year of ownership by Fortis.

Dividends: Dividends paid per common share increased to 82 cents in 2007 from 67 cents last year. On June 1, 2007, Fortis increased its quarterly common share dividend paid to 21 cents from 19 cents. Commencing with the first quarter dividend paid on March 1, 2008, Fortis increased its quarterly common share dividend 19 per cent to 25 cents per common share from 21 cents. The Corporation's dividend payout ratio was 58.6 per cent in 2007 compared to 47.2 per cent last year.

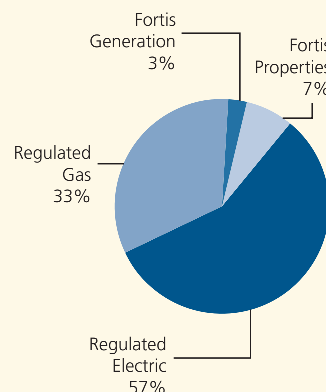
Return on Average Common Shareholders' Equity: Return on average common shareholders' equity was 10.0 per cent in 2007 compared to 11.9 per cent last year. The decrease reflected the impact of a lower ROE in 2007 at each of the Corporation's three largest electric utilities and the part-year ownership and seasonality of earnings of the Terasen Gas companies.

Asset Growth: Total assets increased almost 89 per cent to approximately $10.27 billion at year-end 2007 from $5.44 billion at year-end 2006, driven by the acquisition of Terasen. Of the approximate $4.8 billion increase in total assets year over year, approximately $4.5 billion, including goodwill of $907 million, related to Terasen. The remaining increase in assets was primarily due to the Corporation's continued investment in electricity systems, driven by the capital expenditure programs at FortisAlberta and FortisBC, and the acquisition of the Delta Regina, partially offset by the unfavourable impact of foreign exchange associated with translation of foreign currency-denominated assets.

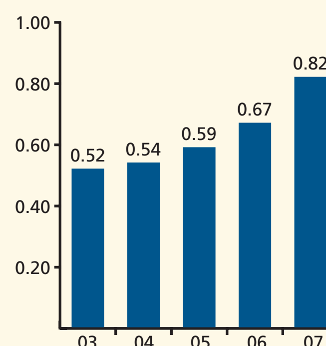
Basic Earnings per Common Share *($)*



Total Revenue
(year ended December 31, 2007)

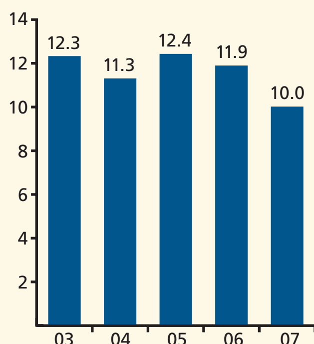


Dividends Paid per Common Share *($)*

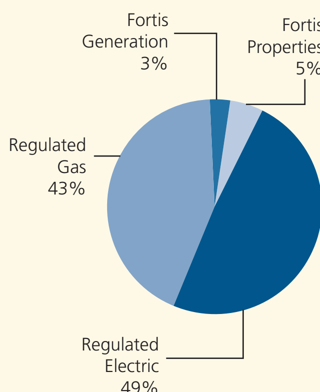


Management Discussion and Analysis

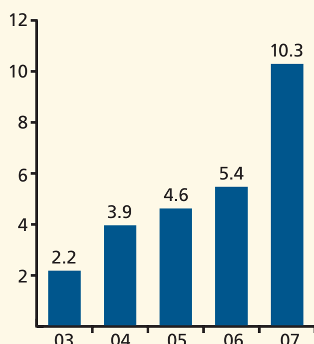
Return on Average Common Shareholders' Equity *(%)*



Total Assets
(as at December 31, 2007)



Total Assets *($ billions)*
(as at December 31st)



Cash Flow from Operating Activities: Cash flow from operating activities, after working capital adjustments, was $373 million in 2007, 41.8 per cent higher than $263 million last year. The increase in cash flow from operating activities, after working capital adjustments, was driven by FortisAlberta, Caribbean Utilities and FortisBC, partially offset by cash used in operating activities at the Terasen Gas companies.

2007 Capital Expenditures: During 2007, consolidated utility capital expenditures, before customer contributions ("gross utility capital expenditures"), were $790 million, including $120 million related to the Terasen Gas companies from the date of acquisition. Total capital investment at FortisAlberta and FortisBC during 2007 was approximately $432 million, representing approximately 55 per cent of total gross utility capital expenditures. Much of this capital investment was driven by robust customer growth and the need to enhance the reliability of electricity systems.

Financings: During 2007, Fortis and its subsidiaries raised approximately $2.1 billion of capital from a combination of common share and long-term debt issuances. In January 2007, 5.17 million Common Shares were publicly offered for gross proceeds of approximately $150 million. The proceeds were primarily used to repay existing indebtedness incurred under the Corporation's committed credit facilities, principally to fund a portion of acquisitions in 2006; to support capital expenditure programs of the Corporation's regulated electric utilities in western Canada; and for general corporate purposes. In May 2007, the Corporation publicly issued 44.3 million Common Shares for gross proceeds of approximately $1.15 billion, upon conversion of Subscription Receipts that were initially issued in March 2007, to finance a significant portion of the net cash purchase price of Terasen. In September 2007, Fortis privately placed 30-year US$200 million 6.60% unsecured notes, the proceeds of which were used to repay existing indebtedness previously borrowed under the Corporation's committed credit facility associated with the Terasen acquisition, and for general corporate purposes. At the subsidiary level, FortisAlberta issued 40-year $110 million 4.99% unsecured debentures in January 2007; FortisBC issued 40-year $105 million 5.90% unsecured debentures in July 2007; Newfoundland Power issued 30-year $70 million 5.901% first mortgage sinking fund bonds in August 2007; Caribbean Utilities privately placed 15-year US$40 million 5.65% unsecured notes in total in June and November 2007; and TGI issued 30-year $250 million 6.00% unsecured debentures in October 2007. Proceeds from the long-term debt issuances at the electric utilities were primarily used to repay indebtedness previously borrowed under their respective committed credit facilities incurred in support of capital spending. The proceeds from the issuance of $250 million unsecured debentures by TGI were used to refinance $250 million of existing debt that matured in October 2007. Investor confidence in the growth strategy of Fortis resulted in the execution of the above financings at attractive rates and terms.

Segmented Results of Operations

The segmented results of the Corporation are outlined below.

Segmented Net Earnings
Years Ended December 31st

($ millions)	**2007**	2006	Variance
Regulated Gas Utilities – Canadian			
Terasen Gas Companies[1]	**50**	–	50
Regulated Electric Utilities – Canadian			
FortisAlberta	**48**	42	6
FortisBC	**31**	27	4
Newfoundland Power	**30**	30	–
Other Canadian[2]	**16**	14	2
	125	113	12
Regulated Electric Utilities – Caribbean[3]	**31**	23	8
Non-Regulated – Fortis Generation	**24**	27	(3)
Non-Regulated – Fortis Properties[4]	**24**	19	5
Corporate and Other[5]	**(61)**	(35)	(26)
Net Earnings Applicable to Common Shares	**193**	147	46

[1] Financial results are from May 17, 2007, the date of acquisition.
[2] Includes Maritime Electric and FortisOntario
[3] Includes Belize Electricity, Caribbean Utilities, and Fortis Turks and Caicos acquired on August 28, 2006. Results for 2007 reflect the consolidation of Caribbean Utilities' financial statements on a two-month lag basis. Results for 2006 reflect the Corporation's previous approximate 37 per cent ownership interest in Caribbean Utilities accounted for on an equity basis on a two-month lag.
[4] Includes the results of Delta Regina from August 1, 2007, the date of acquisition
[5] Includes net corporate expenses and, from May 17, 2007, the net expenses of non-regulated Terasen corporate-related activities and Terasen's 30 per cent ownership interest in CWLP

REGULATED UTILITIES

The Corporation's primary business is regulated utilities. The regulated earnings in Canada and the Caribbean represented approximately 81 per cent of the Corporation's earnings from its operating segments in 2007 (2006 – 75 per cent). Total regulated assets represented 92 per cent of the Corporation's total assets as at December 31, 2007 (December 31, 2006 – 86 per cent).

Regulated Gas Utilities – Canadian

Terasen Gas Companies

Financial Highlights

Year Ended December 31st[1]	**2007**
Gas Volumes *(TJ)*	**118,309**
($ millions)	
Revenue	**905**
Energy Supply Costs	**559**
Operating Expenses	**150**
Amortization	**58**
Finance Charges	**80**
Gain on Sale of Property	**(8)**
Corporate Taxes	**16**
Earnings	**50**

[1] Data is from May 17, 2007, the date of acquisition.

On May 17, 2007, Fortis acquired all of the issued and outstanding shares of Terasen. Terasen owns and operates a gas distribution business carried on by TGI, TGVI and TGWI. Terasen is the principal distributor of natural gas in British Columbia, serving over 918,000 customers or 96 per cent of gas users in the province. TGI provides gas distribution services to a service area that extends from Vancouver to the Fraser Valley and the interior of British Columbia. TGVI owns a combined gas distribution and transmission system serving customers along the Sunshine Coast and in various communities on Vancouver Island, including Victoria and surrounding areas. TGWI provides propane distribution services to approximately 2,400 customers in the Whistler area.

Earnings: The Terasen Gas companies reported $50 million in earnings from the date of acquisition on May 17, 2007. Seasonality materially impacts the earnings of the Terasen Gas companies as a major portion of the gas distributed is ultimately used for space heating. Virtually all of the earnings of the Terasen Gas companies are generated in the first and fourth quarters. Performance was consistent with that expected to be achieved by the Terasen Gas companies during the period and with operating performance achieved during the same period last year. Results during the period included a $7 million after-tax gain on the sale of surplus land.

As a result of the operation of British Columbia Utilities Commission ("BCUC")-approved regulatory deferral mechanisms, changes in consumption levels and the commodity cost of natural gas do not materially impact the earnings of the Terasen Gas companies. These mechanisms accumulate the margin impact of variations in the actual-versus-forecast gas volumes consumed by residential and commercial customers and also accumulate differences between actual natural gas costs and forecast natural gas costs as recovered in base rates. Additionally, the Terasen Gas companies use a BCUC-approved interest rate deferral account to absorb interest rate fluctuations, thereby effectively fixing the rate of interest on short-term and variable-rate credit-facility borrowings.

Gas Volumes: Gas volumes from the date of acquisition were 118,309 TJ. On an annual basis, gas volumes were 220,977 TJ, up 5.7 per cent from 209,013 TJ in 2006. The increase in annual gas volumes was due to cooler weather and growth in the number of customers. Increased volumes result in both higher revenue and natural gas costs and generally do not have a material impact on the earnings of the Terasen Gas companies.

Net customer additions at TGI were 9,939 during 2007 compared to 10,289 net customer additions during 2006. Though 2007 was another strong year for housing starts in British Columbia, adverse weather conditions slowed construction activity late in the year. In addition, growth in multi-family housing impacted net additions as natural gas usage is less prevalent in this type of dwelling. Net customer additions at TGVI were 3,922 during 2007 compared to 4,120 net customer additions during 2006.

Following the acquisition of Terasen by the Corporation, Standard & Poor's ("S&P") raised its unsolicited long-term corporate credit and senior unsecured debt credit ratings on TGI to 'A' from 'BBB' on June 19, 2007.

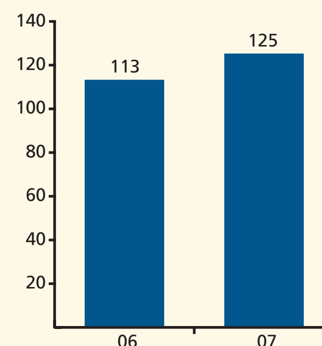
Outlook: TGI's allowed ROE for 2008 has been set at 8.62 per cent, up from 8.37 per cent in 2007. TGVI's allowed ROE for 2008 has been set at 9.32 per cent, up from 9.07 per cent in 2007.

A summary of the forecast gross capital expenditures for 2008 for the Terasen Gas companies is provided under the heading "Capital Program".

Regulated Electric Utilities – Canadian

Regulated Electric Utilities – Canadian earnings during 2007 were $125 million (2006 – $113 million), which represented approximately 61 per cent (2006 – 83 per cent) of the Corporation's total regulated earnings. Regulated Electric Utilities – Canadian assets were $4.2 billion as at December 31, 2007 (December 31, 2006 – $3.9 billion), which represented approximately 44 per cent of the Corporation's total regulated assets as at December 31, 2007 (December 31, 2006 – 82 per cent).

Regulated Electric Utilities – Canadian Earnings *($ millions)*



FortisAlberta

Financial Highlights

Years Ended December 31st	2007	2006	Variance
Energy Deliveries *(GWh)*	**15,378**	14,851	527
($ millions)			
Revenue	**270**	251	19
Operating Expenses	**122**	115	7
Amortization	**75**	69	6
Finance Charges	**36**	30	6
Corporate Tax Recovery	**(11)**	(5)	(6)
Earnings	**48**	42	6

Earnings: FortisAlberta's earnings in 2007 were $6 million higher than last year, primarily due to higher revenue associated with customer growth, and increased corporate income tax recovery, partially offset by higher operating expenses, amortization costs and finance charges.

Energy Deliveries: Energy deliveries increased 527 gigawatt hours ("GWh"), or 3.5 per cent, year over year due to increased energy demand related to customer growth. The Company added approximately 18,000 customers during the year, bringing the total number of customers at FortisAlberta to more than 448,000.

Revenue: Revenue in 2007 was $19 million higher than last year due to an increase of $11 million resulting from customer growth and the 0.7 per cent increase in distribution rates billed to customers, effective January 1, 2007; an increase of $3 million resulting from differences in the impact of various distribution revenue deferrals; increased franchise fee revenue of $1 million; higher net transmission revenue of $1 million largely related to increased energy deliveries, number of customers and Alberta Electric System Operator ("AESO") billing and deferral adjustments; and increased miscellaneous revenue of $3 million. The increase in miscellaneous revenue was primarily due to penalties associated with early termination of distribution service by customers, increased third-party contract work and interest earned on AESO Charges Deferral Accounts.

Expenses: Operating expenses in 2007 were $7 million higher than last year, primarily due to higher labour, employee-benefit and contracted manpower costs and material purchases, partially offset by increased amounts charged to capital projects.

Amortization costs in 2007 were $6 million higher than last year, due to an increase in capital assets driven by load growth, and upgrades and replacements of assets within the Company's service territory, partially offset by amortization of increased customer contributions.

Finance charges in 2007 were $6 million higher than last year, primarily due to increased debt levels to finance capital spending. On January 3, 2007, FortisAlberta issued $110 million 4.99% senior unsecured debentures, maturing January 3, 2047. On April 21, 2006, FortisAlberta issued $100 million 5.40% senior unsecured debentures, maturing April 21, 2036. The net proceeds of the debenture issues were largely used to repay existing credit-facility borrowings that were incurred primarily to fund capital expenditures.

Corporate tax recovery in 2007 was $6 million higher than last year, primarily due to a future income tax recovery in 2007 resulting from the reduction of AESO deferral amounts upon which future income tax is calculated, partially offset by higher current income taxes resulting from a decrease in deductions taken for income tax purposes compared to amounts taken for accounting purposes in 2007 as compared to 2006.

Outlook: FortisAlberta's allowed ROE for 2008 has been set at 8.75 per cent, up from 8.51 per cent in 2007. In February 2008, FortisAlberta received regulatory approval of the Negotiated Settlement Agreement ("NSA") pertaining to the Company's 2008 and 2009 electricity rates. The approved NSA provides for distribution rate increases of 6.8 per cent, effective January 1, 2008, and 7.3 per cent, effective January 1, 2009.

A summary of FortisAlberta's forecast gross capital expenditures for 2008 is provided under the heading "Capital Program".

FortisBC

Financial Highlights

Years Ended December 31st	2007	2006	Variance
Electricity Sales *(GWh)*	**3,091**	3,038	53
($ millions)			
Revenue	**229**	216	13
Energy Supply Costs	**67**	68	(1)
Operating Expenses	**69**	63	6
Amortization	**31**	28	3
Finance Charges	**26**	23	3
Corporate Taxes	**5**	7	(2)
Earnings	**31**	27	4

Earnings: FortisBC's earnings in 2007 were $4 million higher than last year, driven by increased electricity rates, higher electricity sales and lower energy supply costs and corporate taxes, partially offset by increased operating expenses, amortization costs and finance charges.

Electricity Sales: Electricity sales increased 53 GWh, or 1.7 per cent, year over year. The favourable impact on electricity sales of a reduction in the estimate of electricity system losses and growth in the number of customers in the residential and general service sectors more than offset the impact of reduced industrial loads associated with a plant optimization by a significant industrial customer. During the first quarter of 2007, an analysis of electricity system losses resulted in a reduction of the estimate of system losses, effective January 1, 2007. The reduction in the system losses reflects efficiency improvements arising from the Company's ongoing capital program of upgrading and replacing generation and T&D systems, as well as the refinement of the process for estimating system losses.

Revenue: Revenue in 2007 was $13 million higher than last year, primarily due to a 1.2 per cent increase in electricity rates, effective January 1, 2007; an incremental 2.1 per cent increase in electricity rates, effective April 1, 2007, including the accrual during the first quarter of 2007 of the 2.1 per cent increase in electricity rates to be collected from customers in 2008; higher revenue contributions from non-regulated operating, maintenance and management services; increased electricity sales for the year due to the reasons described above; and a decrease in performance-based rate-setting ("PBR") incentive adjustments owing to customers.

Expenses: Energy supply costs in 2007 were $1 million lower than last year. Despite having a higher proportion of purchased energy versus energy generated from Company-owned hydroelectric generating plants during 2007, energy supply costs decreased due to lower average power purchase prices.

Operating expenses in 2007 were $6 million higher than last year. The increase was driven by higher operating expenses associated with non-regulated operating, maintenance and management services; general inflationary cost increases; higher labour costs; an increase in the allowance for doubtful accounts associated with forestry-sector customers; and increased property taxes. The increase in operating expenses was partially offset by lower wheeling and water fees and the impact of increased capitalized overhead costs.

Amortization costs in 2007 were $3 million higher than last year, due to an increase in the capital assets of FortisBC related to its capital spending program.

Finance charges in 2007 were $3 million higher than last year, driven by increased borrowings to finance the Company's capital spending program. On July 4, 2007, FortisBC issued $105 million 5.90% senior unsecured debentures, maturing July 4, 2047. The net proceeds of the debenture issue were used largely to repay existing credit-facility borrowings that were incurred primarily to fund capital expenditures.

On June 21, 2007, Moody's Investors Service upgraded the credit rating on FortisBC's senior unsecured debt to 'Baa2, Stable Outlook' from 'Baa3, Stable Outlook'.

Corporate taxes in 2007 were $2 million lower than last year, primarily due to higher deductions taken for corporate income tax purposes compared to amounts taken for accounting purposes, partially offset by higher earnings before corporate taxes.

Outlook: FortisBC's allowed ROE for 2008 has been set at 9.02 per cent, up from 8.77 per cent in 2007. In December 2007, FortisBC received regulatory approval of the NSA pertaining to the Company's 2008 electricity rates, resulting in an increase in electricity rates of 2.9 per cent effective January 1, 2008.

In the second half of 2008, the Company intends on filing with the BCUC a 2009 and 2010 Capital Plan and a 2009 Revenue Requirements Application.

A summary of FortisBC's forecast gross capital expenditures for 2008 is provided under the heading "Capital Program".

Newfoundland Power

Financial Highlights

Years Ended December 31st	2007	2006	Variance
Electricity Sales *(GWh)*	**5,093**	4,995	98
($ millions)			
Revenue	**490**	421	69
Energy Supply Costs	**327**	256	71
Operating Expenses	**53**	54	(1)
Amortization	**34**	33	1
Finance Charges	**33**	33	–
Corporate Taxes	**12**	14	(2)
Non-Controlling Interest	**1**	1	–
Earnings	**30**	30	–

Earnings: Newfoundland Power's 2007 earnings of $30 million were comparable to last year. The impact of increased electricity sales was largely offset by the impact of reduced electricity rates due to a reduction in the allowed ROE for 2007.

Electricity Sales: Electricity sales increased 98 GWh, or 2.0 per cent, year over year, primarily due to customer growth and an increase in average consumption.

Revenue: Revenue in 2007 was $69 million higher than last year. The increase was primarily due to the flow through of higher purchased power costs from Newfoundland Hydro, effective January 1, 2007, and increased electricity sales, partially offset by a decrease in electricity rates, effective January 1, 2007, due to a lower allowed ROE for 2007.

Expenses: Energy supply costs in 2007 were $71 million higher than last year, primarily due to the flow through of higher purchased power costs from Newfoundland Hydro, effective January 1, 2007, and increased electricity sales.

Operating expenses in 2007 were $1 million lower than last year. The decrease was primarily due to lower pension costs, reflecting improved returns on higher levels of plan assets attributable to pension funding, and the conclusion, in March 2007, of the amortization of retirement allowances associated with a 2005 Early Retirement Program. The decrease in operating expenses was partially offset by higher labour costs, reflecting both normal wage increases and costs incurred to repair major storm damage to certain distribution systems in December 2007.

Amortization costs in 2007 were $1 million higher than last year, primarily due to the continued investment in capital assets.

Finance charges in 2007 were comparable to last year. On August 17, 2007, Newfoundland Power issued $70 million 5.901% first mortgage sinking fund bonds, maturing August 17, 2037. The net proceeds were used to repay existing credit-facility borrowings, incurred principally to fund capital expenditures, and to retire $31.5 million of maturing 11.875% bonds.

Corporate taxes in 2007 were $2 million lower than last year. The decrease reflected lower earnings before corporate taxes and higher deductions taken for corporate income tax purposes compared to deductions taken for accounting purposes. The higher tax deductions largely related to increased capital cost allowance driven by capital expenditures associated with the Company's Rattling Brook hydroelectric plant during 2007.

Outlook: Newfoundland Power's allowed ROE for 2008 has been set at 8.95 per cent, up from 8.60 per cent in 2007. In December 2007, Newfoundland Power received regulatory approval of the NSA pertaining to 2008 electricity rates, resulting in an average increase in electricity rates of 2.8 per cent effective January 1, 2008.

As a result of a new purchased-power rate structure, effective January 1, 2007, Newfoundland Power paid more, on average, for each kilowatt hour ("kWh") of purchased power in the winter months and less, on average, for each kWh of purchased power in the summer months in 2007 compared to 2006. For 2007, quarterly earnings were not impacted by this change as the Company recorded purchased power based on the forecast annual unit cost per kWh with quarterly variances deferred to a regulatory deferral account. Beginning on January 1, 2008, this regulated account is no longer in effect. As a result, quarterly earnings in 2008 will reflect a seasonal shift from that experienced in 2007. Earnings are expected to be lower in the first and fourth quarters and higher in the second and third quarters compared to the same periods in 2007.

A summary of Newfoundland Power's forecast gross capital expenditures for 2008 is provided under the heading "Capital Program".

Other Canadian Electric Utilities [(1)]

Financial Highlights

Years Ended December 31st	2007	2006	Variance
Electricity Sales *(GWh)*			
Maritime Electric	**1,035**	999	36
FortisOntario	**1,174**	1,169	5
Total	**2,209**	2,168	41
($ millions)			
Revenue	**263**	252	11
Energy Supply Costs	**174**	171	3
Operating Expenses	**29**	28	1
Amortization	**17**	15	2
Finance Charges	**17**	15	2
Corporate Taxes	**10**	9	1
Earnings	**16**	14	2

[(1)] Includes Maritime Electric and FortisOntario

Earnings: Earnings from Other Canadian Electric Utilities in 2007 were $2 million higher than last year, driven by a one-time $3 million ($2 million after-tax) gain at FortisOntario, related to a refund received as ordered by the regulator associated with an interconnection arrangement, and increased electricity sales and basic electricity rates, partially offset by higher operating expenses, amortization costs and finance charges.

Electricity Sales: Electricity sales increased 41 GWh, or 1.9 per cent, year over year. The increase was driven by higher average consumption due to cooler-than-normal weather conditions experienced on PEI and in Ontario and an increase in the number of customers at Maritime Electric, partially offset by the impact of the loss of a major industrial customer and a temporary shutdown of operations of an industrial customer in Ontario.

Revenue: Revenue in 2007 was $11 million higher than last year, primarily due to increased electricity sales; the $3 million refund received at FortisOntario; a 3.35 per cent increase in basic electricity rates at Maritime Electric, effective July 1, 2006; the impact of an increase in rates at FortisOntario associated with the flow through to customers of higher energy supply costs; and increases in basic distribution rates at FortisOntario in May 2006 and May 2007.

Expenses: Energy supply costs in 2007 were $3 million higher than last year, driven by increased market energy prices paid at FortisOntario and increased electricity sales. At Maritime Electric, actual energy supply costs above or below the regulator-approved amount of 6.73 cents per kWh are deferred for future recovery from, or refund to, customers over a 12-month rolling period.

Operating expenses in 2007 were $1 million higher than last year, driven by costs associated with an early retirement program at FortisOntario and higher insurance, regulatory and legal costs.

Amortization costs in 2007 were $2 million higher than last year, primarily due to continued investment in capital assets.

Finance charges in 2007 were $2 million higher than last year, due to borrowings required to finance capital spending and higher energy supply costs at Maritime Electric.

Corporate taxes in 2007 were $1 million higher than last year, driven by higher earnings before corporate taxes, partially offset by higher deductions taken for corporate income tax purposes compared to deductions taken for accounting purposes.

Outlook: Maritime Electric's maximum allowed ROE for 2008 has been set at 10.00 per cent compared to 10.25 per cent in 2007. In January 2008, the Island Regulatory and Appeals Commission ("IRAC") approved a 1.8 per cent increase in basic customer rates, effective April 1, 2008.

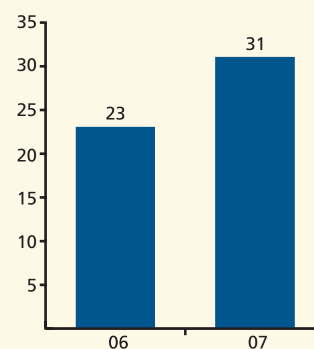
FortisOntario's allowed ROE for 2008 is 9.00 per cent, unchanged from 2007. In 2006, the Ontario Energy Board ("OEB") announced its multi-year electricity distribution rate-setting plan for the years 2007 through 2010. The plan maintains the current cost of capital and introduces an inflation measure coupled with a productivity factor for rate-setting purposes. Over the three-year period, distributors will be required, in three tranches, to submit a full cost-of-service application, which will result in the rebasing of distribution rates. In late 2008, Canadian Niagara Power is expecting to file for rate rebasing for 2009.

A summary of forecast gross capital expenditures for the Other Canadian Electric Utilities for 2008 is provided under the heading "Capital Program".

Regulated Electric Utilities – Caribbean

Earnings' contribution from Regulated Electric Utilities – Caribbean during 2007 was $31 million (2006 – $23 million), which represented approximately 15 per cent (2006 – 17 per cent) of the Corporation's total regulated earnings. Regulated Electric Utilities – Caribbean assets were $778 million as at December 31, 2007 (December 31, 2006 – $828 million), which represented approximately 8 per cent of the Corporation's total regulated assets as at December 31, 2007 (December 31, 2006 – 18 per cent).

Regulated Electric Utilities – Caribbean Earnings *($ millions)*



Regulated Electric Utilities – Caribbean[1]

Financial Highlights

Years Ended December 31st	2007	2006[2]	Variance
Average US:CDN Exchange Rate[3]	**1.07**	1.13	(0.06)
Electricity Sales *(GWh)*			
Belize Electricity	**382**	360	22
Caribbean Utilities	**527**	485 [4]	42
Fortis Turks and Caicos	**145**	125 [4]	20
Total	**1,054**	970	84
($ millions)			
Revenue	**307**	101	206
Equity Income	**–**	10	(10)
Energy Supply Costs	**169**	57	112
Operating Expenses	**49**	13	36
Amortization	**28**	7	21
Finance Charges	**15**	5	10
Corporate Taxes	**2**	2	–
Non-Controlling Interest	**13**	4	9
Earnings	**31**	23	8

(1) Includes Belize Electricity, in which Fortis holds a 70.1 per cent controlling interest; Caribbean Utilities, in which Fortis holds an approximate 54 per cent controlling interest; and wholly owned Fortis Turks and Caicos.

(2) Revenue and expenses for the 12 months ended December 31, 2006 do not include revenue and expenses related to Caribbean Utilities, as this utility was not consolidated in the financial statements of Fortis during this period. Revenue and expenses for the 12 months ended December 31, 2006 include revenue and expenses related to Fortis Turks and Caicos from August 28, 2006, the date of acquisition by Fortis. In 2006, equity income related to the Corporation's previous approximate 37 per cent investment interest in Caribbean Utilities accounted for on an equity basis.

(3) The reporting currency of Belize Electricity is the Belizean dollar, which is pegged to the US dollar at BZ$2.00 = US$1.00. The reporting currency of Caribbean Utilities is the Cayman Island dollar, which is pegged to the US dollar at CI$0.84 = US$1.00. The reporting currency of Fortis Turks and Caicos is the US dollar.

(4) Full year sales as reported by the utility.

On November 7, 2006, Fortis acquired an additional approximate 16 per cent interest in Caribbean Utilities and now owns approximately 54 per cent of the Company. Caribbean Utilities' balance sheet as at November 7, 2006 was consolidated in the December 31, 2006 balance sheet of Fortis. Beginning with the first quarter of 2007, Fortis has been consolidating Caribbean Utilities' financial statements on a two-month lag. During 2006, the statement of earnings of Fortis reflected the Corporation's previous approximate 37 per cent interest in Caribbean Utilities accounted for on an equity basis on a two-month lag. Caribbean Utilities has an April 30th fiscal year end and, therefore, the data presented above for 2007 and 2006 includes financial results for Caribbean Utilities for the 12-month periods ended October 31st.

Earnings: Earnings' contribution from Regulated Electric Utilities – Caribbean in 2007 was $8 million higher than last year. The increase was driven by the first full year of earnings' contribution from Fortis Turks and Caicos, and higher electricity sales and lower finance charges at Belize Electricity, partially offset by the unfavourable impact of foreign currency translation. The impact of the increased investment in Caribbean Utilities to approximately 54 per cent was offset by the impact of lower earnings reported at Caribbean Utilities driven by a charge associated with the disposal of steam-turbine assets and higher operating expenses. The charge on disposal of the steam-turbine assets reduced earnings of Fortis by approximately $2 million in 2007. Earnings' contribution from Regulated Electric Utilities – Caribbean was tempered by the $2 million unfavourable impact of foreign exchange associated with translation of foreign currency-denominated earnings, due to strengthening of the Canadian dollar against the US dollar. During 2007, the contribution to earnings by Caribbean Utilities, Belize Electricity and Fortis Turks and Caicos was $9 million, $12 million and $10 million, respectively.

Electricity Sales: Total electricity sales reported by Regulated Electric Utilities – Caribbean increased 84 GWh, or 8.7 per cent, year over year. The increase was primarily due to higher demand, driven by customer growth, as strong local economies fuelled new residential and commercial construction. Growth in electricity sales reported at Fortis Turks and Caicos was led by large hotels; however, the rate applicable to this customer class is the lowest of all customer classes of Fortis Turks and Caicos. Significant projects

under construction on the Turks and Caicos Islands include a US$68 million expansion of the Beaches Resort & Spa; the Seven Stars Luxury resort; the 255,870-square foot Emerald Point Condominium and Resort; and the 220,440-square foot Alexandra Resort and Residences. Commercial growth on Grand Cayman is being led by new developments, including the 60,000-square foot Bank of Butterfield building, expected to come on line in early 2008, and the 160,000-square foot Governor's Square shopping and office centre, the 89,000-square foot Caribbean Club condominium complex and the 500,000-square foot phase-one of Camana Bay, each of which came on line during 2007.

Revenue: In addition to the impact of consolidating Caribbean Utilities' financial results during 2007, revenue increased year over year due to the impact of the first full year of ownership of Fortis Turks and Caicos, electricity sales growth at Belize Electricity and Fortis Turks and Caicos, and a 3.7 per cent increase in the value-added component of customer rates, effective July 1, 2007, at Belize Electricity. The increase was partially offset by the impact of foreign currency translation.

Expenses: The increase in expenses in 2007 over 2006 was significantly impacted by the consolidation of Caribbean Utilities' financial results during 2007 and the impact of the first full year of ownership of Fortis Turks and Caicos, partially offset by the impact of foreign currency translation.

Operating expenses and amortization costs at Belize Electricity increased year over year, due to higher employee costs, new customer service and revenue loss reduction initiatives, and general increases in the cost of goods and services. Amortization costs increased due to continued investment in capital assets. Finance charges at Belize Electricity were lower than last year due to lower debt balances. In June 2006, proceeds from a share offering at Belize Electricity were used to repay certain trade payables and inter-company loans, and drawings on overdraft facilities incurred primarily to finance the high cost of power and fuel.

Operating expenses reported at Fortis Turks and Caicos in 2007 increased over last year, due to the impact of increased activity associated with a high-growth environment.

Caribbean Utilities' operating expenses consolidated in the financial results of the Corporation during 2007 were higher than operating expenses reported by Caribbean Utilities in 2006, driven by higher generation and T&D maintenance costs, and by operating expenses during the second quarter of 2006 being reduced by a $1.4 million (US$1.2 million) gain on disposal of assets associated with an insurance settlement. Additionally, during the first quarter of 2007, Regulated Electric Utilities – Caribbean operating expenses included a $4.4 million (US$3.7 million) charge on the disposal of Caribbean Utilities' steam-turbine assets. Caribbean Utilities' amortization costs consolidated in the financial results of the Corporation during 2007 were higher than amortization costs reported by Caribbean Utilities during 2006, due to continued investment in capital assets, including the addition of a new 16-MW diesel-fired generating unit commissioned in June 2007. The generating unit increased Caribbean Utilities' total installed generating capacity to approximately 137 MW.

Caribbean Utilities closed the US$30 million first tranche of a US$40 million 5.65% senior unsecured note offering in June 2007 and closed the second tranche of US$10 million in November 2007. The senior unsecured notes are due June 1, 2022. The proceeds from the debt offering were used to repay debt and to finance capital expenditures.

During 2007, Fortis Turks and Caicos commissioned an additional 7 MW of owned generating capacity, bringing the combined generating capacity at Fortis Turks and Caicos to 48 MW at the end of the year. In May 2007, Fortis Turks and Caicos purchased four additional generating units with a combined capacity of 13 MW, which are expected to be installed and commissioned during 2008 and 2009. The additional capacity is intended to keep pace with strong customer growth.

Outlook: Strong electricity sales growth experienced by the Regulated Electric Utilities – Caribbean segment during 2007 is expected to continue in 2008.

During the first half of 2008, the Government of the Cayman Islands is expected to issue a new generation licence, initially to be granted for up to 25 years, and, under new arrangements, a new exclusive 20-year T&D licence to Caribbean Utilities. Under the proposed new licences, customer rates will be set using an initial targeted ROA of 10 per cent, down from 15 per cent as permitted under the existing licence. Additional information on the impact of the proposed new licences is provided under the heading "Regulatory Highlights".

Electricity rates at Belize Electricity have been approved for the period from July 1, 2007 through June 30, 2008. While the value-added component of electricity rates has increased, average electricity rates remain unchanged.

A summary of forecast gross capital expenditures for the Regulated Electric Utilities – Caribbean segment for 2008 is provided under the heading "Capital Program".

NON-REGULATED

Non-Regulated – Fortis Generation

Fortis Generation consists of the Corporation's investment in non-regulated generation assets. The following table provides a summary of the Corporation's non-regulated generation assets by location.

	Plants	Capacity *(MW)*
Belize	2	32
Ontario	8	88
Central Newfoundland	2	36
British Columbia	1	16
Upper New York State	4	23
Total	**17**	**195**

Financial Highlights

Years Ended December 31st	**2007**	2006	Variance
Energy Sales *(GWh)*			
Belize	**167**	178	(11)
Ontario	**707**	722	(15)
Central Newfoundland	**137**	168	(31)
British Columbia	**34**	30	4
Upper New York State	**77**	105	(28)
Total	**1,122**	1,203	(81)
($ millions)			
Revenue	**75**	80	(5)
Energy Supply Costs	**8**	6	2
Operating Expenses	**14**	15	(1)
Amortization	**10**	11	(1)
Finance Charges	**10**	10	–
Corporate Taxes	**8**	8	–
Non-Controlling Interest	**1**	3	(2)
Earnings	**24**	27	(3)

Earnings: Earnings from Non-Regulated – Fortis Generation in 2007 were $3 million lower than last year. The decrease was primarily due to decreased production due to lower rainfall, partially offset by higher average wholesale energy prices in Ontario and decreased operating expenses.

Energy Sales: Energy sales decreased 81 GWh, or 6.7 per cent, year over year. The decrease was primarily due to lower production as a result of lower rainfall in most of the operating regions; however, rainfall in 2006 was generally above normal levels. Production in Belize in 2007 and 2006 was above expected levels based on historical average rainfall. The decrease in energy sales was partially offset by the impact of a full year of operations of the Dolgeville plant in Upper New York State in 2007 compared to nine months of operation in 2006 as a result of a disruption of water supply due to flooding during that year.

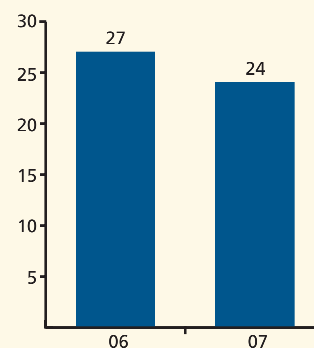
Revenue: Revenue in 2007 was $5 million lower than last year, driven by decreased production, partially offset by higher average wholesale energy prices in Ontario and the flow through of increased energy supply-related costs in central Newfoundland.

The average wholesale energy price per MWh in Ontario during 2007 was $47.81 compared to $46.38 last year. The increase in average wholesale energy prices in Ontario resulted in an increase in revenue in 2007 of approximately $1 million compared to last year.

Expenses: Operating expenses in 2007 were $1 million lower than last year, driven by the receipt of insurance proceeds in 2007 associated with costs expensed late in 2006 related to the flood at the Dolgeville plant and the reallocation of costs from non-regulated Ontario generation operations to regulated Ontario electricity operations.

Outlook: Construction of the 18-MW hydroelectric generating facility at Vaca on the Macal River in Belize commenced during 2007. The facility is expected to come into service late in 2009. Earnings' contribution from the Vaca facility is expected to partially offset a loss of earnings upon the expiration, in 2009, of the Niagara Exchange Agreement associated with the Rankine Generating Station in Ontario.

Non-Regulated – Fortis Generation Earnings *($ millions)*



Further information on the Vaca hydroelectric facility and a summary of forecast non-regulated utility capital expenditures for 2008 is provided under the heading "Capital Program".

Non-Regulated – Fortis Properties

Fortis Properties consists of the Corporation's investment in non-regulated commercial real estate and hotel assets.

Financial Highlights

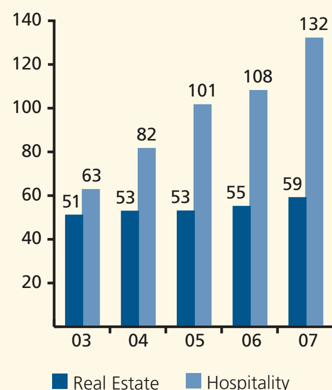
Years Ended December 31st

($ millions)	**2007**	2006	Variance
Real Estate Revenue	**59**	55	4
Hospitality Revenue	**132**	108	24
Total Revenue	**191**	163	28
Operating Expenses	**123**	105	18
Amortization	**14**	12	2
Finance Charges	**24**	21	3
Gain on Sale of Property	**–**	(2)	2
Corporate Taxes	**6**	8	(2)
Earnings	**24**	19	5

Earnings: Fortis Properties' earnings in 2007 were $5 million higher than last year. Excluding a $4 million favourable corporate tax adjustment in 2007 and excluding $3 million associated with a favourable corporate tax adjustment and a gain on the sale of Days Inn Sydney in 2006, earnings in 2007 were $4 million higher than last year, driven by expanded hospitality operations in western Canada.

On August 1, 2007, Fortis Properties purchased the Delta Regina in Saskatchewan for approximately $50 million, including acquisition costs. Delta Regina is comprised of 274 hotel rooms, the Saskatchewan Trade and Convention Centre, 52,000 square feet of Class A commercial office space and a parking garage. On November 1, 2006, Fortis Properties purchased four hotels in Alberta and British Columbia for approximately $52 million, including acquisition costs and assumed debt, increasing hospitality operations by 454 rooms.

Revenue: Real estate revenue in 2007 was $4 million higher than last year, due to the expanded Blue Cross Centre in Moncton, revenue from the Delta Regina associated with real estate operations and growth experienced in all operating regions of the Company. The occupancy rate of the Real Estate Division was 96.8 per cent as at December 31, 2007, up from 94.9 per cent as at December 31, 2006, due to additional leasing in all operating regions of the Company.



Hospitality revenue in 2007 was $24 million higher than last year, $23 million of which was due to growth in the Company's hospitality operations in western Canada, $1 million of which was due to increased revenue earned from the expanded Ontario hotels and $1 million of which was due to increased revenue earned from the Company's hospitality operations in Atlantic Canada. The increases were partially offset by the impact of the elimination of revenue following the sale of Days Inn Sydney in June 2006.

Revenue per available room ("REVPAR") in 2007 was $79.31 compared to $72.67 in 2006. The increase in REVPAR was primarily attributable to the addition of the four hotels in western Canada acquired on November 1, 2006 and the Delta Regina acquired on August 1, 2007.

Expenses: Operating expenses in 2007 were $18 million higher than last year. The increase was primarily due to expanded operations and general inflationary cost pressures driven by the Company's hospitality operations in western Canada and the expanded Ontario hotels and Blue Cross Centre. The increase was partially offset by the elimination of operating expenses following the sale of Days Inn Sydney in June 2006.

Finance charges in 2007 were $3 million higher than last year, primarily due to financings associated with the four hotels in western Canada acquired on November 1, 2006 and the Delta Regina acquired on August 1, 2007.

Corporate taxes in 2007 were $2 million lower than last year. Corporate taxes during 2007 were reduced by a $4 million favourable adjustment resulting from enacted future federal income tax rate reductions. Corporate taxes during 2006 were reduced by approximately $2 million, also the result of future federal income tax rate reductions.

Outlook: Fortis Properties' Real Estate Division operates primarily in Atlantic Canada, with the majority of its properties located in large regional markets that contain a broad economic base. The buildings are occupied by a diversified tenant base characterized by long-term leases with staggered maturity dates to reduce the risk of vacancy exposure. There is a continued focus in this Division on a strategy of early tenant renewals.

Fortis Properties' Hospitality Division currently operates in eight Canadian provinces. The hospitality industry is impacted by economic factors such as fluctuating energy costs and increasing municipal taxes. Increased supply of hotel rooms in many of the markets in which the Hospitality Division operates has created competitive challenges in recent years and will continue to do so in 2008. The Hospitality Division operates in the mid-to-upper market which targets a large customer base, allowing the Company to reduce exposure to risk associated with a specific market segment.

Corporate and Other [1]

Financial Highlights

Years Ended December 31st

($ millions)	2007	2006	Variance
Total Revenue	**22**	9	13
Operating Expenses	**13**	11	2
Amortization	**6**	3	3
Finance Charges [2]	**70**	41	29
Foreign Exchange Gain	**–**	(2)	2
Corporate Tax Recovery	**(12)**	(11)	(1)
Preference Share Dividends	**6**	2	4
Net Corporate and Other Expenses	**(61)**	(35)	(26)

[1] Includes non-regulated Terasen corporate-related activities and financial results of CWLP from May 17, 2007, the date of acquisition

[2] Includes dividends on preference shares classified as long-term liabilities

The Corporate and Other segment captures expense and revenue items not specifically related to any other reportable segment. Included in this segment are finance charges including interest on debt incurred directly by Fortis and Terasen Inc. and dividends on preference shares classified as long-term liabilities; foreign exchange gains or losses; dividends on preference shares classified as equity; other corporate expenses, including Fortis and Terasen corporate operating costs, net of recoveries from subsidiaries; interest and miscellaneous revenues; and corporate income taxes. Also included in the Corporate and Other segment are the financial results of CWLP. CWLP is a non-regulated shared-service business in which Terasen holds a 30 per cent interest. CWLP operates in partnership with Enbridge Inc. and provides customer service, meter reading, billing, credit, support and collection services to the Terasen Gas companies and several smaller third parties. CWLP's financial results are recorded using the proportionate consolidation method of accounting.

Net corporate and other expenses in 2007 were $26 million higher than last year, driven by Terasen acquisition-related finance charges.

Revenue in 2007 was $13 million higher than last year. The increase was primarily due to the inclusion of revenue from CWLP of $8 million from the date of acquisition and higher inter-company interest revenue due to increased inter-company lending.

Operating expenses in 2007 were $2 million higher than last year; however, operating expenses last year included $1.7 million in business development costs. Excluding this item, operating expenses in 2007 were almost $4 million higher than last year, driven largely by Terasen corporate and CWLP operating expenses.

The increase in finance charges year over year was driven by Terasen acquisition-related finance charges of approximately $25 million from the date of acquisition; increased credit-facility borrowings in support of general corporate activities; and interest on US$40 million of unsecured subordinated convertible debentures issued in November 2006 to fund, in part, the increased investment in Caribbean Utilities. The increase was partially offset by the impact of lower foreign exchange translation associated with US dollar-denominated interest payments.

An approximate $2 million ($1.7 million after-tax) foreign exchange translation gain on unhedged corporate US dollar-denominated debt was recorded in 2006. There was no similar foreign exchange translation gain during 2007, as all corporate US dollar-denominated debt has been designated as a hedge against the Corporation's US dollar-denominated foreign net investments. During 2007, all foreign exchange translation gains and losses on corporate US dollar-denominated debt in effective hedging relationships were recorded in other comprehensive income.

Corporate tax recovery in 2007 was $1 million higher than last year, due to the impact of higher tax-deductible corporate expenses, partially offset by the impact of lower enacted future federal income tax rates on future income tax assets.

The increase in preference share dividends year over year was associated with the First Preference Shares, Series F issued on September 28, 2006.

In September 2007, Fortis privately placed US$200 million 6.60% senior unsecured notes, due September 2037. The net proceeds were used to refinance existing credit-facility indebtedness associated with the Terasen acquisition and for general corporate purposes.

Regulatory Highlights

The nature of regulation and summary of material regulatory decisions and applications associated with each of the Corporation's regulated gas and electric utilities are summarized as follows:

Nature of Regulation

Regulated Utility	Regulatory Authority	Allowed Common Equity *(%)*	Allowed Returns *(%)* 2006	2007	2008	Supportive Features Future or Historical Test Year Used to Set Rates
				ROE		COS[1]/ROE
						PBR mechanism through 2009:
TGI	BCUC	35	8.80	8.37	8.62	TGI: 50/50 sharing of earnings above or below the allowed ROE.
TGVI	BCUC	40	9.50	9.07	9.32	TGVI: 100 per cent retention of earnings from lower-than-forecasted operating and maintenance costs but no relief from increased operating and maintenance costs. ROE automatic adjustment formula tied to long-term Canada bond yields Future Test Year
FortisBC	BCUC	40	9.20	8.77	9.02	COS/ROE PBR mechanism through 2008, with option to continue in 2009 – 50/50 sharing of earnings above or below the allowed ROE up to an achieved ROE that is 200 basis points above or below the allowed ROE – excess to deferral account ROE automatic adjustment formula tied to long-term Canada bond yields Future Test Year
FortisAlberta	Alberta Energy and Utilities Board ("AEUB") (to December 31, 2007) Alberta Utilities Commission ("AUC") (effective January 1, 2008)	37	8.93	8.51	8.75	COS/ROE ROE automatic adjustment formula tied to long-term Canada bond yields Future Test Year
Newfoundland Power	Newfoundland and Labrador Board of Commissioners of Public Utilities ("PUB")	45	9.24 +/– 50 bps	8.60 +/– 50 bps	8.95 +/– 50 bps	COS/ROE ROE automatic adjustment formula tied to long-term Canada bond yields Future Test Year
Maritime Electric	IRAC	40	10.25	10.25	10.00	COS/ROE Future Test Year
FortisOntario	OEB (Canadian Niagara Power) Franchise Agreement (Cornwall Electric)	50	9.00	9.00	9.00	Canadian Niagara Power – COS/ROE Cornwall Electric – Price cap with commodity cost flow through Historical Test Year
				ROA		Four-year COS/ROA agreements with market-based returns
Belize Electricity	Public Utilities Commission ("PUC")	N/A	10.00 – 15.00	10.00 – 15.00	10.00 – 15.00	Future Test Year
Caribbean Utilities	Electricity Regulatory Authority (effective 2008 under proposed new licences)	N/A	15.00	15.00	10.00[2]	COS/ROA Price-cap adjustment mechanism tied to consumer price indices (effective 2008 under proposed new 20-year licences) Historical Test Year
Fortis Turks and Caicos	Utilities make annual filings with the Energy Commission	N/A	17.50	17.50	17.50	COS/ROA Future Test Year

(1) Cost of service (2) As per proposed new licences

Material Regulatory Decisions and Applications

Regulated Utility	Summary Description
TGI and TGVI	• March 2007, BCUC approval of extension of PBR mechanisms through 2009 for both TGI and TGVI. • November 2007, TGVI received conditional BCUC approval for the construction of a 1.5 billion-cubic foot liquefied natural gas ("LNG") storage facility on Vancouver Island for a total estimated cost of between $175 million and $200 million. • BCUC approval of various rates at TGI, including those for mid-stream and delivery for residential customers in several service areas, effective January 1, 2008. Increased mid-stream costs are flowed through to customers without markup. The approved rates also reflect the impact of an increase in the allowed ROE for 2008 to 8.62 per cent.
FortisBC	• December 2006, BCUC approval of a 1.2 per cent increase in customer rates, effective January 1, 2007. • March 2007, BCUC order changing the treatment of financing costs associated with large capital projects during the period of construction. Result was an additional 2.1 per cent increase in 2007 customer rates, effective April 1, 2007. The impact of the increase in electricity rates relating to the period January 1, 2007 through March 31, 2007 will be recovered in 2008 customer rates. The amount to be recovered was accrued in the first quarter of 2007. • Preliminary 2008 Revenue Requirements Application filed on October 1, 2007 and updated by FortisBC on November 1, 2007. • December 2007, BCUC approval of an NSA associated with 2008 revenue requirements resulting in a rate increase of 2.9 per cent, effective January 1, 2008. The rate increase was primarily the result of the Company's extensive capital investment program and higher power purchase costs due to ongoing customer growth and increased electricity demand. Rates for 2008 reflect an allowed ROE of 9.02 per cent. • BCUC-approved NSA included updated 2007 gross capital expenditures of approximately $147 million for 2007 and $132 million for 2008. • FortisBC intends on filing a 2009 and 2010 Capital Plan and a 2009 Revenue Requirements Application with the BCUC in the second half of 2008.
FortisAlberta	• June 2006, AEUB-approved 2006/2007 NSA associated with 2006/2007 revenue requirements, providing for a 0.7 per cent distribution rate increase, effective January 1, 2007. • AEUB initially approved 2007 distribution revenue requirements based on an allowed ROE of 8.93 per cent. The ROE was reduced to 8.51 per cent, effective January 1, 2007, due to the impact of lower long-term Canada bond yields on the automatic adjustment formula used to calculate the allowed ROE. As a result of the lower allowed ROE, FortisAlberta will refund to customers in 2008 rates approximately $1 million of revenue collected in base rates in 2007. • June 2007, AEUB approval to sell amounts in annual AESO Charges Deferral Account. In September 2007, approximately $28 million of the 2006 AESO Charges Deferral Account was sold to a Canadian chartered bank for cash consideration of approximately $27 million and a receivable of approximately $1 million, due February 15, 2009. In December 2007, approximately $37 million of the 2007 AESO Charges Deferral Account was sold to a Canadian chartered bank for cash consideration of approximately $36 million and a receivable of approximately $1 million, due February 15, 2010. • June 2007, filing of 2008/2009 revenue requirements requesting an increase in base distribution rates of 8.5 per cent, effective January 1, 2008, and 9.0 per cent, effective January 1, 2009. • November 2007, filing of an NSA associated with 2008/2009 revenue requirements. • December 2007, regulatory approval of interim distribution rates, effective January 1, 2008. • February 2008, regulatory approval of NSA associated with 2008/2009 revenue requirements resulting in distribution rate increases of 6.8 per cent, effective January 1, 2008, and 7.3 per cent, effective January 1, 2009. The approved NSA includes forecast gross capital expenditures of approximately $264 million for 2008 and $296 million for 2009, primarily to meet customer growth and improve system reliability. The 2008 revenue requirements included in the 2008/2009 NSA were determined using the 2007 ROE of 8.51 per cent. The impact of the increase in the ROE for 2008 to 8.75 per cent is subject to deferral-account treatment and, as such, will be recognized as earned and is expected to be collected in future customer rates. • Effective January 1, 2008, FortisAlberta is regulated by the AUC due to the separation of the AEUB into two separate regulatory bodies.
Newfoundland Power	• December 2006, PUB approval, on an interim basis, of an average 0.07 per cent increase in customer electricity rates, effective January 1, 2007. The increase was due to a change in the flow through of costs from Newfoundland Hydro, driven by increased purchased power costs and the resulting change in the wholesale purchased power rate, partially offset by the impact of a reduction in Newfoundland Power's allowed ROE to 8.60 per cent, effective January 1, 2007. There was no impact on Newfoundland Power's earnings in 2007 due to the change in the flow through of costs from Newfoundland Hydro. In April 2007, the PUB ordered the final approval of the average 0.07 per cent increase in customer electricity rates, effective January 1, 2007. • December 2006, PUB approval of an application requesting amortization of $2.7 million of unrecognized 2005 unbilled revenue as revenue in 2007 to offset the 2007 income tax impact of changing to the accrual method for revenue recognition, the deferred recovery of capital asset amortization of $5.8 million similar to 2006 and the deferred recovery of $1.8 million associated with the cost of replacement energy required to be purchased while the Company's Rattling Brook hydroelectric generating facility is being refurbished.

Material Regulatory Decisions and Applications (cont'd)

Regulated Utility	Summary Description
Newfoundland Power (cont'd)	• September 2007, PUB approval of 2008 Capital Budget totalling approximately $51 million. • December 2007, PUB approval of NSA associated with 2008 General Rate Application resulting in an average 2.8 per cent increase in customer rates, effective January 1, 2008. The rate increase is largely driven by higher amortization costs. The rate increase reflects an allowed ROE of 8.95 per cent for 2008. • PUB approval of the NSA will also result in, among other things: (i) the amortization of $7.2 million in 2008 and $4.6 million in each of 2009 and 2010 of the remaining $16.4 million balance of the original December 2005 unbilled revenue liability; (ii) amortization of approximately $3.9 million in each of 2008, 2009 and 2010 of previously deferred amortization expense; (iii) amortization over a period of three to five years of certain deferred regulatory balances; (iv) for 2008 through 2010, the deferral of variations in purchased power expense caused by differences in the actual unit cost of energy and the unit cost reflected in customer rates to be recovered from, or refunded to, customers through operation of the Company's rate stabilization account.
Maritime Electric	• October 2007, IRAC approval of 2008 gross capital expenditures of approximately $19 million. • October 2007, filing for customer rates for the period April 1, 2008 through March 31, 2009, requesting an increase in basic electricity rates of 1.8 per cent. • January 2008, IRAC approval, as filed, of a 1.8 per cent increase in basic electricity rates, effective April 1, 2008, and approval of a maximum allowed ROE of 10.00 per cent for 2008.
FortisOntario	• April 2007, OEB approval of an average 0.9 per cent increase in electricity distribution rates, effective May 1, 2007, for operations in each of Fort Erie, Port Colborne and Gananoque. Increase determined using OEB's incentive rate mechanism, comprised of a 1.9 per cent increase for inflation, partially offset by a 1 per cent decrease for a productivity adjustment. • July 2007, OEB approval for the recovery in customer rates, as requested, of approximately $2 million in extraordinary costs incurred as a result of the snowstorm in October 2006. The extraordinary costs, which had been previously deferred, are being recovered mostly over a period of two years, beginning September 2007.
Belize Electricity	• June 2007, PUC Final Decision on tariffs for the period July 1, 2007 to June 30, 2008 approving changes to tariffs for certain customer classes while maintaining the average electricity rate at BZ44.1 cents per kWh. • Final Decision reflected many recommendations provided by an independent expert who was appointed by the PUC, subsequent to the objection by Belize Electricity and the Government of Belize of the PUC's Initial Decision on the Tariff Application. • Belize Electricity objected to and appealed the Final Decision associated with adjustments for cost of power, commercial loss targets and penalties associated with reliability targets. • In December 2007, amendments to the *Electricity (Tariffs, Charges and Quality of Services Standards) By-Laws* (Belize) affecting the tariff-setting process at Belize Electricity were enacted. The result is a simplified tariff-setting methodology allowing for improved rate stabilization. The amendments settled outstanding matters related to the PUC's June 2007 Final Decision on tariffs, effective July 1, 2007. • The overall average electricity rate of BZ44.1 cents per kWh remains in effect for the period July 1, 2007 to June 30, 2008. The recovery of the cost of power component of rates remained at BZ25.3 cents per kWh, while the value-added component of rates increased BZ0.6 cents per kWh to BZ16.8 cents per kWh and the component of rates associated with the recovery of rate stabilization accounts decreased BZ0.6 cents per kWh to BZ2.0 cents per kWh.
Caribbean Utilities	• Under its existing licence, Caribbean Utilities was entitled to a 4.5 per cent rate increase, effective August 1, 2007, primarily due to the cost associated with the write-down of the steam-turbine assets, increased operating costs and investment in capital assets. • Basic rate increase not implemented August 1, 2007, due to freezing of basic electricity rates during the period that the Hurricane Ivan cost-recovery surcharge ("CRS") is effective. • An AIP was reached with the Government of the Cayman Islands in December 2007 on the terms of a new generation licence, initially to be granted for up to 25 years, and, under new arrangements, a new exclusive 20-year T&D licence. The terms of the AIP include competition for future generating capacity and the general promotion of renewable resources. The new licences are expected to be issued in the first half of 2008. • Effective January 1, 2008, as a result of the AIP, basic customer rates were reduced by 3.25 per cent, the CRS was removed and a fuel-duty rebate funded by the Government of the Cayman Islands was implemented for residential customers consuming less than 1,500 kWh monthly, resulting in average monthly savings to residential customers of approximately 15 per cent. The 3.25 per cent reduction in basic rates will reduce annual revenue by approximately US$2 million. Additionally, Caribbean Utilities has forgone US$2.6 million of revenue in 2008 as a result of the early elimination of the CRS. Following the initial basic rate reduction, customer rates will be frozen until May 31, 2009 and will be subject to annual review thereafter. • The AIP will see the replacement of the current allowed ROA of 15 per cent with a rate cap and adjustment mechanism based on published consumer price indices. Customer rates will now be set using an initial targeted ROA of 10 per cent beginning in 2008.

Consolidated Financial Position

The following table outlines the significant changes in the consolidated balance sheets of Fortis between December 31, 2007 and December 31, 2006. The significant changes in the consolidated balance sheets associated with the consolidation of Terasen as at December 31, 2007 are itemized separately below.

Significant Changes in the Consolidated Balance Sheets between December 31, 2007 and December 31, 2006

($ millions)	Increase due to Terasen	Other Increase/ (Decrease)	Explanation
Cash	18	(1)	The other decrease in cash was not significant.
Accounts receivable	349	–	Included in the change associated with Terasen was a $129 million increase in accounts receivable from the date of acquisition as a result of a seasonal increase in sales.
Regulatory assets – current and long-term	146	(5)	The other decrease in regulatory assets was driven by the sale of the majority of FortisAlberta's 2006 AESO Charges Deferral Account, partially offset by an increase in energy costs deferred at Maritime Electric, due to higher energy prices, and the deferral of other post-employment benefit ("OPEB") costs at Newfoundland Power in excess of that expensed under the cash method of accounting. Included in the change associated with Terasen was a $50 million increase in regulatory assets from the date of acquisition, driven by an increase in the fair market value of the gas commodity swap contracts that is deferred in a rate stabilization account.
Inventories of gas, materials and supplies	203	(3)	The other decrease in materials and supplies was not significant. Included in the change associated with Terasen was a $108 million increase in inventories of gas, materials and supplies from the date of acquisition, as a result of the typical seasonal injection of gas into storage.
Deferred charges and other assets	27	(22)	The other decrease in deferred charges and other assets was driven by the reclassification of $21 million of deferred financing costs and $11 million of unamortized deferred losses associated with a previously cancelled forward interest rate swap contract to long-term debt and accumulated other comprehensive loss, respectively, upon adoption of new accounting standards for Financial Instruments, Hedges and Comprehensive Income on January 1, 2007. The decrease was partially offset by an increase in accrued pension assets.
Future income tax assets – long-term	18	12	The other increase in future income tax assets primarily related to the tax impact of costs associated with the issuance of Common Shares upon the conversion of Subscription Receipts on May 17, 2007.
Utility capital assets	2,841	306	The other increase in utility capital assets primarily related to $670 million invested in electricity systems, partially offset by customer contributions, amortization for the 12-month period and the impact of foreign exchange on the translation of US dollar-denominated utility capital assets. Included in the change associated with Terasen was a $73 million net increase in utility capital assets from the date of acquisition, due to capital spending, less amortization for the period.
Income producing properties	–	50	The increase in income producing properties primarily related to the acquisition of the Delta Regina by Fortis Properties on August 1, 2007.
Intangibles, net of amortization	9	(4)	The other decrease in intangibles was not significant. The change in intangibles associated with Terasen primarily related to the fair value of customer contracts at CWLP recorded on acquisition as part of the purchase price allocation, less amortization for the period.
Goodwill	907	(24)	The other decrease in goodwill primarily related to the impact of foreign exchange on the translation of US dollar-denominated goodwill amounts.
Short-term borrowings	376	1	The other increase in short-term borrowings was not significant. Included in the change associated with Terasen was a $100 million increase in short-term borrowings from the date of acquisition, largely driven by seasonality of operations including the impact of increased gas inventories.

Significant Changes in the Consolidated Balance Sheets between December 31, 2007 and December 31, 2006 (cont'd)

($ millions)	Increase due to Terasen	Other Increase/ (Decrease)	Explanation
Accounts payable and accrued charges	409	51	The other increase in accounts payable and accrued charges primarily related to an increase in the amounts owing by FortisAlberta to the AESO for transmission costs and flow through of customer receipts, in addition to the impact of increased capital spending. Included in the change associated with Terasen was a $120 million increase in accounts payable and accrued charges from the date of acquisition, driven by an increase in the fair market value of the gas commodity swap contracts and the timing of payments.
Dividends payable	–	21	The increase in dividends payable was driven by increased Common Shares outstanding associated with the issuance of 5.17 million Common Shares in January 2007 and the issuance of 44.3 million Common Shares in May 2007, upon the completion of the acquisition of Terasen. The increase was also due to a 4-cent increase in the declared quarterly dividend.
Income taxes payable	27	3	The other increase in income taxes payable was not significant. Income taxes payable at Terasen decreased $37 million from $64 million as at the date of acquisition.
Deferred credits	170	12	The other increase in deferred credits was primarily due to an increase in the OPEB liability at Newfoundland Power.
Regulatory liabilities – current and long-term	32	1	The other increase in regulatory liabilities was not significant.
Long-term debt and capital lease obligations (including current portion)	2,077	339	The other increase in long-term debt and capital lease obligations was driven by the issuance of long-term debt and increased net committed credit-facility borrowings. The increase was partially offset by the impact of the early repayment of a US$28.5 million term loan at BECOL; the conversion of US$9 million of the Corporation's 6.75% and 5.5% unsecured subordinated convertible debentures; regular debt repayments; the reclassification of $21 million in deferred financing costs, net of amortization during the period, from deferred charges and other assets, upon adoption of new accounting standards for Financial Instruments, Hedges and Comprehensive Income on January 1, 2007; and the impact of foreign exchange upon the translation of US dollar-denominated debt. The issuance of long-term debt, primarily to repay committed credit-facility borrowings and finance capital expenditures, was comprised of a $110 million senior unsecured debenture offering by FortisAlberta, a $70 million first mortgage sinking fund bond issue by Newfoundland Power, a $105 million senior unsecured debenture offering by FortisBC, and a US$40 million unsecured note issue by Caribbean Utilities. In addition, US$200 million senior unsecured notes were issued by the Corporation, primarily to refinance existing indebtedness associated with the Terasen acquisition and for general corporate purposes. TGI also issued $250 million in unsecured debentures to repay $250 million in long-term debt that matured in October 2007. The net $25 million increase in committed credit-facility borrowings was driven by net drawings of $124 million by the Corporation, partially offset by net reductions of $76 million by FortisAlberta, $2 million by Newfoundland Power and $21 million by FortisBC.
Non-controlling interest	–	(15)	The decrease in non-controlling interest primarily related to the impact of foreign exchange on the translation of US dollar-denominated non-controlling interest amounts.
Shareholders' equity	–	1,325	The increase in shareholders' equity primarily related to the $1.12 billion, net of after-tax expenses, issuance of Common Shares, upon the conversion of Subscription Receipts, to substantially finance the net cash purchase price of Terasen; the $146 million, net of after-tax expenses, issuance of Common Shares in January 2007, combined with net earnings reported for the year, less common share dividends. The increase was partially offset by an increase in accumulated other comprehensive loss driven by the impact of foreign exchange on the translation of the Corporation's net investments in foreign subsidiaries, and a $5 million transitional adjustment to opening accumulated other comprehensive loss upon adoption of new accounting standards for Financial Instruments, Hedges and Comprehensive Income on January 1, 2007.

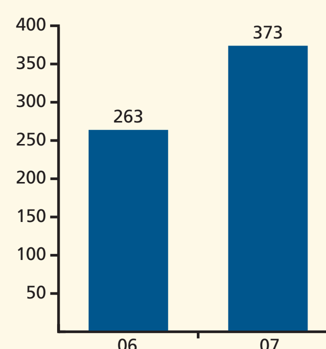
Liquidity

The following table outlines the summary of cash flows.

Years Ended December 31st *($ millions)*	2007	2006	Variance
Cash, beginning of year	**41**	33	8
Cash provided by (used in)			
Operating activities	**373**	263	110
Investing activities	**(2,033)**	(634)	(1,399)
Financing activities	**1,680**	379	1,301
Foreign currency impact on cash balances	**(3)**	–	(3)
Cash, end of year	**58**	41	17

Operating Activities: Cash flow from operating activities, after working capital adjustments, in 2007 was $110 million higher than last year. The increase was driven by FortisAlberta, Caribbean Utilities and FortisBC, partially offset by cash used in operating activities at the Terasen Gas companies. The increase in cash from operating activities at FortisAlberta was driven by the sale of amounts in the Company's AESO Charges Deferral Account; the impact of corporate tax refunds received during 2007 compared to corporate taxes paid during 2006; the positive impact of changes in other regulatory deferral accounts; and the timing of accounts receivable and accounts payable. The increase at FortisBC was driven by the timing of accounts receivable and accounts payable. Cash used in operating activities at the Terasen Gas companies was driven by the build-up of gas inventories and accounts receivable from customers from the date of acquisition, due to seasonality of the business, combined with the timing of payment of corporate income taxes. The increase in cash flow from operating activities associated with Caribbean Utilities was the result of the Corporation consolidating the financial results of Caribbean Utilities on a two-month lag basis beginning with the first quarter of 2007, due to increasing its investment to an approximate 54 per cent controlling interest in November 2006. During 2006, Caribbean Utilities was accounted for on an equity basis on a two-month lag.

Cash Flow from Operating Activities
($ millions)



Investing Activities: Cash used in investing activities in 2007 was approximately $1.4 billion higher than last year, primarily due to the acquisition of Terasen on May 17, 2007 for $3.7 billion, including assumed debt of approximately $2.4 billion. This acquisition resulted in a cash payment, including acquisition costs, of approximately $1.25 billion, net of cash acquired. On August 1, 2007, Fortis Properties acquired the Delta Regina for a net cash purchase price of approximately $50 million. Business acquisition activity during 2006 included the acquisition of Fortis Turks and Caicos in August 2006 for a net cash purchase price of approximately $76 million; the acquisition of an additional approximate 16 per cent ownership interest in Caribbean Utilities for a net cash purchase price of approximately $53 million; and the acquisition by Fortis Properties of four hotels in Alberta and British Columbia for a net cash purchase price of approximately $40 million. Cash used in investing activities also increased year over year due to significantly higher utility capital expenditures.

Gross utility capital expenditures in 2007 were $790 million, $307 million higher than last year. The increase was primarily due to capital expenditures incurred at the Terasen Gas companies, Fortis Turks and Caicos and Caribbean Utilities; increased capital spending at FortisAlberta and FortisBC; and the commencement of the construction of the 18-MW hydroelectric generating facility at Vaca on the Macal River in Belize during the second quarter of 2007. Gross utility capital expenditures also increased due to the refurbishment of the Rattling Brook hydroelectric generating facility at Newfoundland Power during 2007.

Contributions received in aid of construction in 2007 were $19 million higher than last year, primarily related to the Terasen Gas companies, as well as increased utility capital expenditures at FortisAlberta and FortisBC.

Financing Activities: Cash provided from financing activities in 2007 was $1.68 billion, approximately $1.3 billion higher than last year.

Proceeds from net short-term borrowings of $103 million during 2007 were driven by net drawings by Terasen, Maritime Electric, Fortis Inc., Fortis Turks and Caicos, and Caribbean Utilities of $100 million, $11 million, $6 million, $5 million and $5 million, respectively, partially offset by the repayment of $22 million of net short-term borrowings by FortisBC with partial proceeds from its $105 million debenture issue in July 2007.

Proceeds from long-term debt, net of issue costs, for 2007 compared to 2006 are summarized as follows:

Years Ended December 31st

($ millions)	**2007**	2006	Variance
Borrowings under committed credit facilities:			
FortisAlberta	**105**	136	(31)
FortisBC	**19**	21	(2)
Newfoundland Power	**62**	19	43
Corporate	**417**	136	281
	603	312	291
Long-term debt issuances, net of costs:			
TGI	**250** [(1)]	–	250
FortisAlberta	**110** [(2)]	100 [(3)]	10
FortisBC	**104** [(4)]	–	104
Newfoundland Power	**70** [(5)]	–	70
Caribbean Utilities	**48** [(6)] [(7)]	–	48
Corporate	**209** [(8)]	45 [(9)]	164
Other	**6**	12	(6)
	797	157	640
Total	**1,400**	469	931

[(1)] Issued October 2007, 6.00% Unsecured Medium-Term Note Debentures, due October 2037
[(2)] Issued January 2007, 4.99% Senior Unsecured Debentures, due January 2047
[(3)] Issued April 2006, 5.40% Senior Unsecured Debentures, due April 2036
[(4)] Issued July 2007, 5.90% Senior Unsecured Debentures, due July 2047
[(5)] Issued August 2007, 5.901% First Mortgage Sinking Fund Bonds, due August 2037
[(6)] Issued November 2007, US$10 million 5.65% Senior Unsecured Notes, due June 2022
[(7)] Issued June 2007, US$30 million 5.65% Senior Unsecured Notes, due June 2022
[(8)] Issued September 2007, US$200 million 6.60% Senior Unsecured Notes, due September 2037
[(9)] Issued November 2006, US$40 million 5.50% Unsecured Subordinated Convertible Debentures, due November 2016

Borrowings under committed credit facilities by FortisAlberta, FortisBC and Newfoundland Power during 2007 and 2006 were primarily in support of their respective capital expenditure programs.

Borrowings by the Corporation under its committed credit facility in 2007 were used primarily to fund, on an interim basis, the remaining cash purchase price of Terasen, including certain acquisition costs; to fund Common Share issuance costs; to repay certain debt assumed upon the acquisition of Terasen; to finance a significant portion of the cash purchase price of the Delta Regina in August 2007; and in support of general corporate activities. Borrowings by the Corporation under its committed credit facilities in 2006 were used primarily to finance, in part, the acquisition by Fortis Properties of four hotels in Alberta and British Columbia in November 2006; to finance, in part, the acquisition of the additional 16 per cent ownership interest in Caribbean Utilities in November 2006; to fund the August 2006 acquisition of Fortis Turks and Caicos; to fund an equity requirement of one of the Corporation's western electric utilities; and for general corporate activities.

Net proceeds from the Corporation's US$200 million unsecured notes issued in September 2007 were used to repay existing indebtedness previously borrowed under the Corporation's committed credit facility associated with the Terasen acquisition and for general corporate purposes. Net proceeds from the Corporation's US$40 million unsecured convertible debentures in 2006 were

used to fund, in part, the acquisition of the additional approximate 16 per cent ownership interest in Caribbean Utilities. Most of the net proceeds from long-term debt issuances at FortisAlberta, FortisBC and Newfoundland Power during 2007 and 2006 were used to repay indebtedness previously borrowed under respective committed credit facilities and for general corporate purposes. Net proceeds from Caribbean Utilities' US$40 million unsecured notes in 2007 were used to repay debt and to finance capital expenditures. The proceeds from the issuance of $250 million unsecured debentures at TGI in October 2007 were used to refinance $250 million of existing debt that matured in October 2007.

Repayments of long-term debt and capital lease obligations for 2007 compared to 2006 are summarized as follows:

Years Ended December 31st *($ millions)*	**2007**	2006	Variance
Repayment of committed credit-facility borrowings:			
FortisAlberta	**181**	97	84
FortisBC	**40**	–	40
Newfoundland Power	**64**	–	64
Corporate	**293**	72	221
	578	169	409
Repayment of long-term debt and capital lease obligations:			
TGI	**250**	–	250
Newfoundland Power	**36**	–	36
BECOL	**28**	–	28
Other	**49**	28	21
	363	28	335
Total	**941**	197	744

The repayment of committed credit-facility borrowings by FortisAlberta, FortisBC and Newfoundland Power during 2007 and 2006 was financed with partial proceeds from various long-term debt issuances, in addition to proceeds from the sale of FortisAlberta's 2006 AESO Charges Deferral Account. During 2007, the net repayment of committed credit-facility borrowings by the Corporation was financed with partial proceeds from a 5.17 million Common Share issue in January 2007 and the US$200 million unsecured notes issued in September 2007. During 2006, the net repayment of committed credit-facility borrowings by the Corporation was financed with partial proceeds from a $125 million ($121 million net of costs) preference share offering in September 2006. The repayment of maturing long-term debt by TGI in October 2007 was financed with proceeds from the issuance of the $250 million 6.00% unsecured debentures. The repayment of maturing long-term debt by Newfoundland Power in 2007 was financed with partial proceeds from the Company's $70 million 5.901% first mortgage sinking fund bonds issued in August 2007. In November 2007, the term loan at BECOL was repaid in full.

Net proceeds associated with the issuance of Common Shares under the Corporation's share purchase and stock option plans in 2007 were $23 million compared to $15 million last year. Additionally, on May 17, 2007, the Corporation publicly issued 44.3 million Common Shares for gross proceeds of approximately $1.15 billion ($1.1 billion net of costs) upon conversion of Subscription Receipts that were initially issued in March 2007, to finance a significant portion of the net cash purchase price of Terasen. In January 2007, 5.17 million Common Shares were publicly issued for gross proceeds of approximately $150 million ($143 million net of costs). A significant portion of the net proceeds from the Common Share issue in January 2007 was used to repay approximately $84 million of existing indebtedness incurred under the Corporation's committed credit facilities. The remainder of the net proceeds was utilized to fund equity requirements of the Corporation's regulated electric utilities in western Canada, in support of their respective capital expenditure programs, and for general corporate purposes.

Common share dividends were $128 million for 2007, up $55 million from last year. The increase was due to an increase in the number of Common Shares outstanding, primarily due to the issuance of Common Shares pursuant to the Terasen acquisition and the issuance of 5.17 million Common Shares in January 2007, and a higher dividend per common share compared to 2006.

The $4 million increase in preference share dividends year over year related to the preference shares that were issued in September 2006.

Contractual Obligations: Consolidated contractual obligations over the next five years and for periods thereafter, as at December 31, 2007, are outlined in the following table.

($ millions)	**Total**	≤ 1 year	>1–3 years	4–5 years	> 5 years
Long-term debt [(1)]	**5,057**	433	412	623	3,589
Brilliant Terminal Station ("BTS") [(2)]	**66**	3	5	5	53
Gas purchase contract obligations [(3)]	**537**	515	22	–	–
Power purchase obligations					
FortisBC [(4)]	**2,856**	40	74	76	2,666
FortisOntario [(5)]	**286**	21	43	45	177
Maritime Electric [(6)]	**7**	7	–	–	–
Belize Electricity [(7)]	**15**	2	2	2	9
Capital cost [(8)]	**402**	14	34	39	315
Joint-use asset and shared service agreements [(9)]	**66**	4	8	6	48
Office lease – FortisBC [(10)]	**20**	1	2	2	15
Operating lease obligations [(11)]	**176**	20	33	30	93
Other	**25**	6	10	9	–
Total	**9,513**	1,066	645	837	6,965

(1) In prior years, TGVI received non-interest bearing repayable loans from the federal and provincial governments of $50 million and $25 million, respectively, in connection with the construction and operation of the Vancouver Island natural gas pipeline. As approved by the BCUC, these loans have been recorded as government grants and have reduced the amounts reported for utility capital assets. The government loans are repayable in any fiscal year prior to 2012 under certain circumstances and subject to the ability of TGVI to obtain non-government subordinated debt financing on reasonable commercial terms. As the loans are repaid and replaced with non-government loans, utility capital assets and long-term debt will increase in accordance with TGVI's approved capital structure, as will TGVI's rate base, which is used in determining customer rates. The repayment criteria were met in 2007 and TGVI is expected to make an approximate $6 million repayment on the loans in 2008. As at December 31, 2007, the outstanding balance of the repayable government loans was $67 million with approximately $6 million classified as current portion of long-term debt. Repayments of the government loans beyond 2009 are not included in the contractual obligations table above as the amount and timing of the repayments are dependent upon annual BCUC approval of the recovery of TGVI's revenue deficiency deferral account and the ability of TGVI to replace the government loans with non-government subordinated debt financing on reasonable commercial terms.

(2) On July 15, 2003, FortisBC began operating the BTS under an agreement, the term of which expires in 2056 (unless the Company has earlier terminated the agreement by exercising its right, at any time after the anniversary date of the agreement in 2029, to give 36 months' notice of termination). The BTS is jointly owned by CPC/CBT and is used by the Company on its own behalf and on behalf of CPC/CBT. The agreement provides that FortisBC will pay CPC/CBT a charge related to the recovery of the capital cost of the BTS and related operating costs.

(3) Gas purchase contract obligations relate to various gas purchase contracts at the Terasen Gas companies. These obligations are based on market prices that vary with gas commodity indices. The amounts disclosed reflect index prices that were in effect as at December 31, 2007.

(4) Power purchase obligations for FortisBC include the Brilliant Power Purchase Agreement (the "BPPA") as well as the Power Purchase Agreement with BC Hydro. On May 3, 1996, an Order was granted by the BCUC approving a 60-year BPPA for the output of the Brilliant hydroelectric generating plant located near Castlegar, British Columbia. The BPPA requires payments based on the operation and maintenance costs and a return on capital for the plant in exchange for the specified natural flow take-or-pay amounts of power. The BPPA includes a market-related price adjustment after 30 years of the 60-year term. The Power Purchase Agreement with BC Hydro, which expires in 2013, provides for any amount of supply up to a maximum of 200 MW, but includes a take-or-pay provision based on a five-year rolling nomination of the capacity requirements.

(5) Power purchase obligations for FortisOntario primarily include a long-term take-or-pay contract between Cornwall Electric and Hydro-Québec Energy Marketing for the supply of electricity and capacity. The contract provides approximately 237 GWh of energy per year and up to 45 MW of capacity at any one time. The contract, which expires on December 31, 2019, provides approximately one-third of Cornwall Electric's load. Cornwall Electric also has a two-year contract in place with Hydro-Québec Energy Marketing which expires on June 30, 2008. This take-or-pay contract provides energy on an as-needed basis but charges for 100 MW of capacity at $0.14 million per month.

(6) Maritime Electric has one take-or-pay contract with New Brunswick Power ("NB Power") for the purchase of either capacity or energy. This contract totals approximately $7 million through March 31, 2008.

(7) Power purchase obligations for Belize Electricity include a 15-year power purchase agreement between Belize Electricity and Hydro Maya Limited, which commenced in February 2007, for the supply of 3 MW of capacity and a two-year power purchase agreement between Belize Electricity and Comisión Federal de Electricidad of Mexico, expiring in August 2008, for the supply of 15 MW of firm energy. Belize Electricity has also signed a 15-year power purchase agreement with Belize Cogeneration Energy Limited ("Belcogen"), which is scheduled to commence in mid-2009, that provides for the supply of approximately 14 MW of capacity. Belcogen has not yet commenced construction of the related bagasse-fired electric generating facility; therefore, the obligation related to the power purchase agreement with Belcogen has not been included in the Corporation's contractual obligations.

(8) Maritime Electric has entitlement to approximately 6.7 per cent of the output from the NB Power Dalhousie Generating Station and approximately 4.7 per cent from the NB Power Point Lepreau Generating Station for the life of each unit. As part of its participation agreement, Maritime Electric is required to pay its share of the capital costs of these units.

(9) FortisAlberta and an Alberta transmission service provider have entered into an agreement in consideration for joint attachments of distribution facilities to the transmission system. The expiry terms of this agreement state that the agreement remains in effect until the Company no longer has attachments to the transmission facilities. Due to the unlimited term of this contract, the calculation of future payments after 2012 includes payments to the end of 20 years. However, the payments under this agreement may continue for an indefinite period of time. FortisAlberta and an Alberta transmission service provider have also entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The service agreements have minimum expiry terms of five years from September 1, 2005 and are subject to extensions based on mutually agreeable terms.

(10) Under a sale-leaseback agreement, on September 29, 1993, FortisBC began leasing its Trail, British Columbia office building for a term of 30 years. The terms of the agreement grant FortisBC repurchase options at approximately year 20 and year 28 of the lease term.

(11) Operating lease obligations include certain office, warehouse, natural gas T&D asset, vehicle and equipment leases and the lease of electricity distribution assets of Port Colborne Hydro Inc.

Capital Resources

The Corporation's principal business of regulated gas and electric distribution utilities requires ongoing access to capital to allow it to fund the maintenance and expansion of infrastructure. To help ensure access to capital, the Corporation targets a long-term capital structure containing approximately 40 per cent equity, including preference shares, and 60 per cent debt and investment-grade credit ratings. The capital structure of Fortis is presented in the following table.

	December 31, 2007		December 31, 2006	
	($ millions)	*(%)*	*($ millions)*	*(%)*
Total debt and capital lease obligations (net of cash)[1]	**5,476**	**64.3**	2,700	61.1
Preference shares[2]	**442**	**5.2**	442	10.0
Common shareholders' equity	**2,601**	**30.5**	1,276	28.9
Total	**8,519**	**100.0**	4,418	100.0

(1) Includes long-term debt, including current portion, and short-term borrowings, net of cash

(2) Includes preference shares classified as both long-term liabilities and equity

Management Discussion and Analysis

The change in the capital structure in 2007 was driven by the issuance of 5.17 million Common Shares in January 2007, for net after-tax proceeds of approximately $146 million; the issuance of 44.3 million Common Shares in May 2007, for net after-tax proceeds of $1.12 billion; the $2.4 billion of consolidated debt assumed upon the acquisition of Terasen; additional debt incurred to partially finance the net cash purchase price of Terasen; and debt incurred at the subsidiaries in support of their capital expenditure programs. The capital structure was also impacted by net earnings applicable to common shares, less common share dividends, of $65 million during 2007 and an increase in accumulated other comprehensive loss of $37 million during 2007.

Effective June 19, 2007, S&P raised the long-term corporate credit rating of Fortis to 'A–' from 'BBB+' and the unsecured debt credit rating of Fortis to 'A–' from 'BBB'. The credit rating upgrades reflect the improved diversity of Fortis resulting from the acquisition of Terasen; the stand-alone operations and the financial separation of each of the regulated subsidiaries of Fortis; management's commitment to maintaining low levels of debt at the holding company level; the continued focus of Fortis on pursuing acquisitions of stable regulated utilities; and the success of FortisAlberta and FortisBC in executing their large capital expenditure programs.

The Corporation's credit ratings are as follows:

S&P	A– (long-term corporate and unsecured debt credit rating)
DBRS	BBB(high) (unsecured debt credit rating)

Capital Program: The Corporation's principal businesses of regulated gas and electricity distribution are capital intensive. Capital investment in infrastructure is required to ensure continued and enhanced performance, reliability and safety of the gas and electricity systems and to meet customer growth. All costs considered to be maintenance and repairs are expensed as incurred. Costs related to replacements, upgrades and betterments of capital assets are capitalized as incurred. During 2007, approximately $87 million in maintenance and repairs was expensed compared to approximately $59 million during 2006. The increase year over year was driven by the inclusion of the Terasen Gas companies in the Corporation's financial results from May 17, 2007, the date of acquisition; the impact of the consolidation of Caribbean Utilities' financial results during 2007; and the first full year of ownership of Fortis Turks and Caicos.

During 2007, actual gross consolidated utility capital expenditures of Fortis were $790 million, which exceeded the estimate of $610 million, as disclosed at December 31, 2006, by $180 million. The increase was driven by the Terasen Gas companies and FortisAlberta. The Terasen Gas companies spent approximately $120 million from the date of acquisition. The increase in capital spending at FortisAlberta was driven by load growth and inflation and was included in FortisAlberta's 2008/2009 revenue requirements application.

A summary of gross utility capital expenditures for 2007 by segment and asset category is provided in the following table.

Gross Utility Capital Expenditures

Year Ended December 31, 2007

($ millions)	Terasen Gas Companies[1]	Fortis Alberta[1][2]	Fortis BC[1]	Newfoundland Power[1]	Other Regulated Utilities – Canadian[1]	**Total Regulated Utilities – Canadian**	**Regulated Utilities – Caribbean**	**Non-Regulated**	**Total[3]**
Generation	–	–	21	20	3	**44**	**33**	**17**	**94**
Transmission	50	–	67	5	5	**127**	**9**	**–**	**136**
Distribution	62	202	38	39	27	**368**	**43**	**1**	**412**
Facilities, equipment, vehicles and other	5	63	14	4	2	**88**	**19**	**4**	**111**
Information technology	3	20	7	4	1	**35**	**2**	**–**	**37**
Total	**120**	**285**	**147**	**72**	**38**	**662**	**106**	**22**	**790**

[1] Gross utility capital expenditures include removal and site restoration expenditures which are permissible in rate base.
[2] Excludes payments of $2 million made to the AESO for investment in transmission facilities
[3] Includes expenditures associated with assets under construction

Gross consolidated utility capital expenditures for 2008 are expected to be approximately $890 million. Planned capital expenditures are based on detailed forecasts of customer demand, weather, and cost of labour and materials, as well as other factors which could change and cause actual expenditures to differ from forecasts.

A summary of forecast gross utility capital expenditures for 2008 by segment and asset category is provided in the following table.

Forecast Gross Utility Capital Expenditures

Year Ending December 31, 2008

($ millions)	Terasen Gas Companies[(1)]	Fortis Alberta[(2)]	Fortis BC[(1)]	Newfoundland Power[(1)]	Other Regulated Utilities – Canadian[(1)]	**Total Regulated Utilities – Canadian**	**Regulated Utilities – Caribbean**	**Non-Regulated**	**Total[(3)]**
Generation	–	–	17	4	3	**24**	**25**	**32**	**81**
Transmission	107	–	75	6	6	**194**	**13**	**–**	**207**
Distribution	125	196	31	36	24	**412**	**55**	**1**	**468**
Facilities, equipment, vehicles and other	5	51	8	3	2	**69**	**7**	**15**	**91**
Information technology	13	17	5	4	3	**42**	**1**	**–**	**43**
Total	**250**	**264**	**136**	**53**	**38**	**741**	**101**	**48**	**890**

(1) Gross utility capital expenditures include removal and site restoration expenditures which are permissible in rate base.

(2) Excludes forecast payments of $22 million to be made to the AESO for investment in transmission facilities

(3) Includes expenditures associated with assets under construction

The percentage breakdown of 2007-actual and 2008-forecast gross utility capital expenditures among growth, sustaining and other is as follows:

Year Ended December 31st

(%)	**Actual 2007**	Forecast 2008
Growth	**46**	50
Sustaining[(1)]	**35**	35
Other[(2)]	**19**	15
Total	**100**	100

(1) Capital expenditures required to ensure continued and enhanced performance, reliability and safety of generation and T&D assets

(2) Related to facilities, equipment, vehicles, information technology systems and other assets

Significant utility capital expenditure projects are summarized in the table below.

($ millions) Utility	Nature of project	Actual 2007	Forecast 2008	Costs to complete after 2008	Expected year to complete
Terasen Gas Companies	LNG storage facility – Vancouver Island	**–**	50	125–150	2011
	Squamish-to-Whistler pipeline	**16** (1)	11	1	2008/2009
	Texada Island Compressor Station	**10** (1)	–	–	2007
	Replacement of the Vancouver low-pressure system	**5** (1)	6	–	2008
FortisAlberta	New operations facility in Airdrie	**21**	8	–	2008
	Automated Meter Infrastructure ("AMI") technology	**7**	24	80	2010
FortisBC	New/upgraded substations and associated transmission lines	**49**	13	–	2008
	Generation asset Upgrade and Life-Extension Program	**20**	16	46	2011
Newfoundland Power	Rattling Brook hydroelectric generating plant refurbishment	**17**	–	–	2007
Caribbean Utilities	New 16-MW diesel-fired generating unit	**20**	–	–	2007
Non-Regulated – Fortis Generation	18-MW Vaca hydroelectric generating facility in Belize	**14**	30	13	2009

(1) Capital expenditures are from May 17, 2007, the date of acquisition

During 2008, TGVI is expected to spend $50 million on the construction of a new 1.5 billion-cubic foot LNG storage facility on Vancouver Island to meet current and future gas demands. The facility is expected to be completed by 2011 for a total cost of approximately $175 million to $200 million. It will allow more efficient use of TGI's existing pipeline systems and result in improved reliability and security of supply during planned or unplanned system interruptions or in times of high demand. In November 2007, TGVI received conditional BCUC approval for the construction of the facility. Construction is expected to begin in April 2008 with the facility coming into service by late 2011. During 2007, approximately $16 million was spent on the extension of TGI's pipeline system to Whistler through the construction of a 50-kilometre pipeline lateral from Squamish to Whistler. The extension is required in conjunction with the conversion of TGWI's piped propane system to natural gas. The total capital cost of the project is estimated at approximately $40 million, including amounts incurred prior to 2007 and amounts recorded in regulatory deferral accounts associated with the pipeline conversion.

Approximately 405,000 customer sites at FortisAlberta will have their conventional meters replaced by new AMI technology. AMI technology will allow for remote collection of meter data and result in more accurate reporting of customer consumption to retailers, based on actual rather than estimated usage. This technology change will improve billing accuracy, increase customer satisfaction, reduce customer inquiries and significantly reduce the operating cost of the current manual meter-reading practice. In 2008, FortisAlberta is expected to spend $24 million on AMI technology, which is expected to be fully implemented by 2010 at an estimated capital cost of approximately $111 million over the four-year period.

During 2007, work commenced at FortisBC on a number of new substations, substation upgrades and associated transmission lines. Total capital expenditures associated with these projects was $49 million in 2007, with $13 million expected to be incurred in 2008.

Since 1998, FortisBC's hydroelectric generating facilities have been subject to an Upgrade and Life-Extension Program which is forecast to conclude in 2011. Approximately $20 million was spent on this Program in 2007, with an additional $62 million expected to be incurred from 2008 through 2011.

In May 2007, BECOL received all major approvals for the construction of an estimated $57 million (US$53 million) 18-MW hydroelectric generating facility at Vaca on the Macal River in Belize. In 2008, BECOL is expected to spend $30 million (US$28 million) on the construction of this generating facility. Belize Electricity has signed a 50-year power purchase agreement with BECOL for the purchase of energy to be generated by the Vaca facility, which is expected to commence operations late in 2009. The facility is being constructed downstream from the Chalillo and Mollejon hydroelectric generating facilities and is expected to increase average annual energy production from the Macal River by approximately 80 GWh to 240 GWh. Assuming normal hydrology, the facility is expected to be immediately accretive to earnings per common share of Fortis when it comes into service late in 2009.

During 2007, capital expenditures associated with income producing properties totalled approximately $13 million. In addition, Fortis Properties purchased the Delta Regina for approximately $50 million. Fortis Properties expects to spend approximately $11 million in capital projects in 2008.

Fortis expects gross electric utility capital expenditures of more than $3 billion over the next five years will be driven by FortisAlberta, FortisBC, and the Corporation's regulated and non-regulated electric utility operations in the Caribbean. Fortis expects gross gas utility capital expenditures over the next five years to exceed $1 billion.

The cash required to complete the planned capital programs is expected to be derived from a combination of long-term and short-term borrowings, internally generated funds and the issuance of common shares and preference shares. Fortis does not anticipate any difficulties accessing the required capital on reasonable market terms.

Cash Flows: The Corporation's ability to service debt obligations and pay dividends on its common shares and preference shares is dependent on the financial results of the operating subsidiaries and the related cash payments from these subsidiaries. Certain regulated subsidiaries may be subject to restrictions which may limit their ability to distribute cash to Fortis.

As at December 31, 2007, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2.2 billion, of which $1.1 billion was unused. The following summary outlines the credit facilities of the Corporation and its subsidiaries.

Credit Facilities

($ millions)	Corporate and Other	Regulated Utilities	Fortis Properties	**Total as at December 31, 2007**	Total as at December 31, 2006
Total credit facilities	715	1,506	13	**2,234**	952
Credit facilities utilized					
Short-term borrowings	(6)	(468)	(1)	**(475)**	(98)
Long-term debt	(208)	(322)	–	**(530)**	(235)
Letters of credit outstanding	(55)	(103)	(1)	**(159)**	(72)
Credit facilities available	446	613	11	**1,070**	547

At December 31, 2007 and December 31, 2006, certain borrowings under the Corporation's and subsidiaries' credit facilities have been classified as long-term debt. These borrowings are under long-term committed credit facilities and management's intention is to refinance these borrowings with long-term permanent financing during future periods.

Significant changes in total credit facilities from December 31, 2006 to December 31, 2007 are described as follows.

Corporate and Other

At December 31, 2007, Terasen Inc. had a $100 million unsecured committed revolving credit facility, maturing in May 2009. This credit facility was reduced from $180 million in July 2007 and is available for general corporate purposes. Letters of credit outstanding of $55 million at Terasen Inc., related to its previously owned petroleum transportation business, are secured by a letter of credit from the former parent company.

On May 14, 2007, Fortis cancelled its $50 million unsecured revolving committed credit facility and renegotiated and amended its $250 million unsecured committed credit facility, extending the maturity date to May 2012 and increasing the amount available to $500 million with the ability, at the Corporation's option, to increase the credit facility to an aggregate of $600 million. During the fourth quarter of 2007, the Corporation increased the amount of its credit facility to $600 million in accordance with the terms thereof.

Regulated Utilities

At December 31, 2007, TGI had a $500 million unsecured committed revolving credit facility. In August 2007, the facility was renegotiated and extended with similar terms and matures in August 2012. At December 31, 2007, TGVI had a $350 million unsecured committed revolving credit facility, maturing in January 2011. These facilities are utilized to finance working capital requirements and capital expenditures, and for general corporate purposes. TGVI also had a $20 million subordinated unsecured committed non-revolving credit facility, maturing in January 2013. This facility can only be utilized for refinancing any annual repayments on non-interest bearing government loans.

In May 2007, FortisAlberta terminated one of its $10 million unsecured demand credit facilities and extended the maturity date of its $200 million unsecured committed credit facility to May 2012 from May 2010.

In May 2007, FortisBC renegotiated and amended its $150 million unsecured committed revolving credit facility, reallocating the amounts available between the 364-day portion of the facility and the three-year portion of the facility, and extending the maturity date of the three-year facility to May 2010 from May 2008. Additionally, the Company has the option to increase the credit facility to an aggregate of $200 million, subject to bank approval.

On November 27, 2006, Caribbean Utilities renegotiated its credit facilities, increasing its capital expenditures line of credit from US$13 million to US$19 million, including amounts available for letters of credit, and increasing each of its US$5 million operating line of credit and US$5 million catastrophe standby loan to US$7.5 million.

Off-Balance Sheet Arrangements

As at December 31, 2007, the Corporation had no off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity or the availability of, or requirements for, capital resources.

Business Risk Management

The following is a summary of the Corporation's significant business risks.

Regulation: The Corporation's key business risk is regulation. Each of the Corporation's regulated utilities is subject to some form of regulation which can impact future revenues and earnings. Management at each operating utility is responsible for working closely with regulators and local governments to ensure both compliance with existing regulations and the proactive management of regulatory issues.

Approximately 90 per cent of the Corporation's operating revenue and equity income was derived from regulated utility operations in 2007 (2006 – 84 per cent), while approximately 81 per cent of the Corporation's operating earnings were derived from regulated utility operations in 2007 (2006 – 75 per cent). These regulated operations, the Terasen Gas companies, FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric, FortisOntario, Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos, are subject to the normal uncertainties faced by regulated entities. These uncertainties include approvals by the respective regulatory authorities of gas and electricity rates that permit a reasonable opportunity to recover, on a timely basis, the estimated costs of providing services, including a fair rate of return on rate base. The ability of the utilities to recover the actual costs of providing services and to earn the approved rates of return depends on achieving the forecasts established in the rate-setting processes. Upgrades of existing gas and electricity systems and facilities and the addition of new infrastructure and facilities require the approval of the regulatory authorities either through the approval of capital expenditure plans or through regulatory approval of revenue requirements for the purpose of setting rates, which include the impact of capital expenditures on rate base and/or cost of service. There is no assurance that capital projects perceived as required or completed by the Corporation's regulated utilities will be approved or that conditions to such approvals will not be imposed. Capital cost overruns subject to such approvals might not be recoverable.

Rate applications that establish revenue requirements may be subject to negotiated settlement procedures, as well as pursued through public hearing processes. There can be no assurance that rate orders issued will permit the Corporation's utilities to recover all costs actually incurred and to earn the expected rates of return. A failure to obtain acceptable rate orders may adversely affect the business carried on by the utilities, the undertaking or timing of proposed capital projects, ratings assigned by rating agencies, the issuance and sale of securities, and other matters which may, in turn, negatively affect the Corporation's results of operations or financial position.

Although Fortis considers the regulatory frameworks in each of the jurisdictions to be fair and balanced, uncertainties do exist at the present time. Regulatory frameworks in Alberta and Ontario have undergone significant changes since the deregulation of electricity generation and the introduction of retail competition. The regulations and market rules in these jurisdictions which govern the competitive wholesale and retail electricity markets are relatively new and there may be significant changes in these regulations and

market rules that could adversely affect the ability of FortisAlberta and FortisOntario to recover costs or to earn reasonable returns on capital. As these companies and their applicable regulators work through the regulatory processes, it is expected that there will be more certainty in evolving regulatory frameworks and environments.

Although all of the Corporation's regulated utilities currently operate under traditional cost of service and/or rate of return on rate base methodologies, PBR and other rate-setting mechanisms, such as automatic rate of return formulas, are also being employed to varying degrees.

TGI, TGVI and FortisBC are regulated by the BCUC and are subject to approved PBR mechanisms. The PBR mechanisms at TGI and TGVI have been extended through 2009. The PBR mechanism at FortisBC runs through 2008, with an option to extend the term through 2009. The PBR mechanisms provide the utilities an opportunity to earn returns in excess of the allowed ROEs determined by the BCUC. Upon expiry of the PBR mechanisms, there is no certainty as to whether new PBR mechanisms will be entered into or the particular terms of any such PBR mechanisms.

Integration of Terasen and Management of Expanding Operations: Fortis continues to integrate Terasen within the Fortis Group. As a result of the acquisition, significant demands may be placed on the managerial, operational and financial personnel and systems of the Corporation. No assurance can be given that the Corporation's systems, procedures and controls will be adequate to support the expansion of the Corporation's operations resulting from the acquisition. The Corporation's future operating results will be affected by the ability of its officers and key employees to manage changing business conditions and to implement and improve its operational and financial controls and reporting systems.

Operating and Maintenance Risks: Terasen is exposed to various operational risks, such as pipeline leaks; accidental damage to, or fatigue cracks in mains and service lines; corrosion in pipes; pipeline or equipment failure; other issues that can lead to outages and/or leaks; and any other accidents involving natural gas, which could result in significant operational and environmental liability. The business of electricity distribution is also subject to operational risks including the potential to cause fires, mainly as a result of equipment failure, falling trees and lightning strikes. The facilities of the operating subsidiaries are also exposed to the effects of severe weather conditions and other acts of nature. In addition, many of these facilities are located in remote areas, which may make access difficult for repair of damage due to weather conditions and other acts of nature. The Terasen Gas companies and FortisBC operate facilities in a terrain with a risk of loss or damage from earthquakes, forest fires, floods, washouts, landslides, avalanches and similar acts of nature. The Corporation and its operating subsidiaries have insurance which provides coverage for business interruption, liability and property damage, although the coverage offered by this insurance is limited. In the event of a large uninsured loss caused by severe weather conditions or other natural disasters, application will be made to the respective regulatory authority for the recovery of these costs through higher rates to offset any loss. However, there can be no assurance that the regulatory authorities would approve any such application in whole or in part.

The Corporation's gas and electricity systems require maintenance, improvement and replacement. Accordingly, to ensure the continued performance of the physical assets, the operating subsidiaries determine expenditures that must be made to maintain and replace the assets. If the systems are not able to be maintained, service disruptions and increased costs may be experienced. The inability to obtain regulatory approval to reflect in rates the capital expenditures which the operating subsidiaries believe are necessary to maintain, improve and replace their assets; the failure by the operating subsidiaries to properly implement or complete approved capital expenditure programs; or the occurrence of significant unforeseen equipment failures despite maintenance programs could have a material adverse effect on the Corporation.

Natural Gas Prices: At times in the past, the price of natural gas has been only marginally lower than the comparable price for electricity for residential customers in British Columbia, especially on Vancouver Island. There is no assurance that natural gas will continue to maintain a competitive price advantage in the future. If natural gas pricing becomes uncompetitive with electricity pricing, the ability of the Terasen Gas companies to add new customers could be impaired, and existing customers could reduce their consumption of natural gas or eliminate its usage altogether as furnaces, water heaters and other appliances are replaced. This may result in higher rates and, in an extreme case, could ultimately lead to an inability to fully recover the cost of service of the Terasen Gas companies in rates charged to customers. The ability of the Terasen Gas companies to add new customers and sales volumes could also be affected by lower prices of other competitive energy sources, as some commercial and industrial customers have the ability to

switch to an alternative fuel. The Terasen Gas companies employ a number of tools to reduce exposure to natural gas price volatility. These tools include purchasing gas for storage and adopting hedging strategies to reduce price volatility and ensure, to the extent possible, that natural gas commodity costs remain competitive with electricity rates. Activities related to the hedging of gas prices are currently approved by the BCUC and gains or losses effectively accrue entirely to customers. The operation of BCUC-approved rate stabilization accounts therefore serves to mitigate the effect on earnings of natural gas cost volatility. Future BCUC determinations could materially impact the ability of the Terasen Gas companies to recover the future cost of natural gas delivered to customers.

Natural Gas Supply: The Terasen Gas companies are dependent on a limited number of pipeline and storage providers, particularly in the Vancouver, Fraser Valley and Vancouver Island service areas where the majority of the natural gas distribution customers of the Terasen Gas companies are located. As a result, regional market prices have been higher from time to time than prices elsewhere in North America as a result of insufficient seasonal and peak storage and pipeline capacity to serve the increasing demand for natural gas in British Columbia. In addition, the Terasen Gas companies are dependent on a single-source transmission pipeline. In the event of a prolonged service disruption of the Spectra Pipeline System, residential customers of the Terasen Gas companies could experience outages, thereby affecting revenues and incurring costs to safely relight customers.

Economic Conditions: Typical of utilities, the general economic conditions of the Corporation's service territories influence energy sales. Gas and electricity sales are influenced by economic factors such as changes in employment levels, personal disposable income, energy prices and housing starts. A general and extended decline in the economy in the Corporation's service territories would be expected to have the effect of reducing demand for gas and electricity over time. Such reduced demand could negatively impact revenue. However, the regulated nature of utility operations helps to reduce the impact that economic downturns may have on the Corporation's earnings. A prolonged downturn in the economy in the Corporation's service territories could adversely affect the business, results of operations and financial condition of the Corporation, despite the possibility of regulatory-approved means of compensating for reduced demand.

Fortis also holds investments in both commercial real estate and hotel properties. The hotel properties, in particular, are subject to operating risks associated with industry fluctuations. The high quality of the real estate and hotel assets and commitment to productivity improvements reduce the exposure to industry fluctuations. Fortis Properties' real estate investments are anchored by high-quality tenants with long-term leases. Exposure to lease expiries averages approximately 10 per cent per annum over the next five years. Approximately 58 per cent of Fortis Properties' operating income was derived from hotel investments in 2007 (2006 – 52 per cent). Management believes that, based on the geographic diversity of its Hospitality Division with locations in Atlantic Canada, Ontario, Manitoba, Saskatchewan, Alberta and British Columbia, the Company is not exposed to a significant reduction in revenues. A 5 per cent decrease in revenues from the Hospitality Division would decrease basic earnings per common share of Fortis by approximately 1 cent.

Weather and Seasonality: The physical assets of the Corporation and its operating subsidiaries are exposed to the effects of severe weather conditions and other acts of nature. Although the physical assets have been constructed and are operated and maintained to withstand severe weather, there is no assurance that they will successfully do so in all circumstances. At Newfoundland Power, exposure to climatic factors is addressed by the operation of a weather normalization reserve, a regulatory mechanism approved by the PUB. The operation of this reserve mitigates year-to-year volatility in earnings that would otherwise be caused by variations in weather conditions. At TGI, a BCUC-approved rate stabilization account serves to mitigate the effect on earnings of volume volatility, caused principally by weather, by allowing TGI to accumulate the margin impact of variations in the actual-versus-forecast gas volumes consumed by customers.

At the Terasen Gas companies, weather has a significant impact on distribution volume, as a major portion of the gas distributed by the Terasen Gas companies is ultimately used for space heating. Because of gas-consumption patterns, the Terasen Gas companies normally generate quarterly earnings that vary by season and may not be an indicator of annual earnings. Virtually all of the earnings of the Terasen Gas companies are generated in the first and fourth quarters.

Despite preparation for severe weather, extraordinary conditions (such as Hurricane Ivan in September 2004) and other natural disasters will always remain a risk to utilities. Upon acquiring controlling interest in Caribbean Utilities and upon the acquisition of Fortis Turks and Caicos, the Corporation's exposure to risks from natural disasters in the Caribbean region increased. The Corporation uses a centralized insurance management function to create a higher level of insurance expertise and to reduce its liability exposure.

The assets and earnings of Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos are subject to hurricane risk. Similar to other Fortis utilities, these companies manage weather risks through insurance on generation assets, business-interruption insurance and self-insurance on T&D assets. In Belize, the PUC provides for recovery of certain costs arising from hurricanes through a surcharge on electricity rates, thereby mitigating the financial impact to Belize Electricity.

Earnings from non-regulated generation assets are sensitive to rainfall levels but the geographic diversity of the Corporation's generation assets mitigates the risk associated with rainfall levels.

Interest Rates: Generally, allowed returns for regulated utilities in North America are exposed to changes in the general level of long-term interest rates. Earnings of such regulated utilities are exposed to changes in long-term interest rates associated with rate-setting mechanisms. The rate of return is either directly impacted through automatic adjustment mechanisms or indirectly through regulatory determinations of what constitutes an appropriate rate of return on investment. Automatic adjustment mechanisms currently apply to the Terasen Gas companies, FortisAlberta, FortisBC and Newfoundland Power. Due to an increase in long-term Canada bond yields during 2007 and the operation of the automatic adjustment mechanisms, the allowed ROE at each of the above utilities has been reset. The 2007 allowed ROEs for the Corporation's four largest utilities, TGI, FortisAlberta, FortisBC and Newfoundland Power, were 8.37 per cent, 8.51 per cent, 8.77 per cent and 8.60 per cent, respectively. Effective January 1, 2008, the allowed ROEs for TGI, FortisAlberta, FortisBC and Newfoundland Power have increased to 8.62 per cent, 8.75 per cent, 9.02 per cent and 8.95 per cent, respectively. A significant decline in long-term interest rates could adversely affect the Corporation's ability to earn a reasonable ROE which, in turn, could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation and its operating subsidiaries are also exposed to interest rate risk associated with short-term borrowings and floating rate debt. As described under the heading "Derivatives Instruments and Hedging", the Corporation and its operating subsidiaries may enter into interest rate swaps to help reduce this risk. Approximately 74 per cent of the Corporation's long-term debt facilities and capital lease obligations have maturities beyond five years. The following table outlines the nature of the Corporation's consolidated debt at December 31, 2007.

Total Debt

at December 31, 2007	*($ millions)*	*(%)*
Short-term borrowings	**475**	**8.6**
Utilized variable-rate credit facilities classified as long-term	**530**	**9.6**
Variable-rate long-term debt and capital lease obligations (including current portion)	**14**	**0.2**
Fixed-rate long-term debt and capital lease obligations (including current portion)	**4,515**	**81.6**
Total	**5,534**	**100**

The Terasen Gas companies use a BCUC-approved interest rate deferral account to absorb interest rate fluctuations, thereby effectively fixing the rate of interest on short-term and variable-rate credit-facility borrowings.

Derivative Instruments and Hedging: From time to time, the Corporation and its subsidiaries hedge exposures to fluctuations in interest rates and natural gas prices through the use of derivative financial instruments. Derivative financial instruments, such as interest rate swap contracts and natural gas commodity swaps and options, are used only to manage risk and are not used for trading purposes. All derivative financial instruments must be measured at fair value, with changes in fair value being recorded in earnings. If a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in earnings. At rate-regulated utilities, any difference between the amount recognized upon a change in the fair value of a derivative financial instrument, whether or not in a qualifying hedging relationship, and the amount recovered from customers in current rates is subject to regulatory deferral treatment to be recovered from, or refunded to, customers in future rates.

The Corporation's earnings from its foreign investments are exposed to changes in the US dollar to Canadian dollar exchange rate. The Corporation has effectively decreased its exposure to foreign currency exchange rate fluctuations associated with earnings from its foreign net investments through the use of US dollar borrowings.

It is expected that a 4-cent change in the value of the US dollar would have an approximate 1-cent impact on basic earnings per common share of Fortis in 2008.

Fortis has also designated its corporate-held US dollar-denominated long-term debt as a hedge of the foreign currency exchange risk related to its net investments in US dollar-denominated self-sustaining foreign operations. This hedge allows unrealized gains and losses on the translation of the US dollar-denominated long-term debt to be offset against unrealized foreign currency exchange gains and losses on the foreign net investments. The unrealized foreign currency exchange gains and losses on US dollar-denominated long-term debt and foreign net investments are recognized in other comprehensive income. As at December 31, 2007, approximately US$50 million in foreign net investments remained available to be hedged.

Management will continue to hedge future exchange rate fluctuations related to its foreign net investments and US dollar earnings streams, where possible, through the use of future US dollar borrowings and will monitor the exposure of Fortis to foreign currency fluctuations on a regular basis.

Risks Related to TGVI: TGVI is a franchise under development in the price-competitive service area of Vancouver Island, with a customer base and revenue that is insufficient to meet the Company's current cost of service and to recover revenue deficiencies from prior years. Recovery of accumulated revenue deficiencies from prior years puts gas at a cost disadvantage relative to electricity. To assist with competitive rates during franchise development, the Vancouver Island Natural Gas Pipeline Agreement ("VINGPA") provides royalty revenues from the Government of British Columbia which currently cover approximately 20 per cent of the current cost of service. These revenues are due to expire at the end of 2011, after which time TGVI's customers will be required to absorb the full commodity cost of gas and the recovery of any remaining accumulated revenue deficiencies. When VINGPA expires in 2011, the remaining $67 million non-interest bearing senior government debt, which is currently treated as a government contribution against rate base, will be required to be fully repaid. As this debt is repaid, the cost of the higher rate base will increase the cost of service and customer rates, making gas less competitive with electricity on Vancouver Island.

Capital Resources: The Corporation's financial position could be adversely affected if it or its operating subsidiaries fail to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. Funds generated from operations after payment of expected expenses (including interest payments on any outstanding debt) will not be sufficient to fund the repayment of all outstanding liabilities when due as well as anticipated capital expenditures. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the results of operations and financial position of the Corporation and its subsidiaries, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions. There can be no assurance that sufficient capital will be available on acceptable terms to fund such capital expenditures and to repay existing debt.

Generally, the Corporation and its regulated utilities are subject to financial risk associated with changes in the credit ratings assigned to them by credit rating agencies. A change in the credit ratings could potentially affect access to various sources of capital and increase or decrease the Corporation's finance charges.

Environment: The Corporation and its operating subsidiaries are subject to numerous laws, regulations and guidelines governing the generation, management, storage, transportation, recycling and disposal of hazardous substances and other waste materials and otherwise relating to the protection of the environment and health and safety. The costs arising from compliance with such laws, regulations and guidelines may be material to the Corporation. The process of obtaining environmental, health and safety regulatory approvals, including any necessary environmental assessments, can be lengthy, contentious and expensive. Environmental damage and other costs could potentially arise due to a variety of events, including severe weather, human error or misconduct, and equipment failure. However, there can be no assurance that such costs will be recoverable through customer rates at the regulated utilities and, if substantial, unrecovered costs may have a material adverse effect on the business, results of operations and financial condition of the Corporation.

Insurance: While the Corporation and its operating subsidiaries maintain insurance, a significant portion of the Corporation's regulated electric utilities' T&D assets are not covered under insurance, as is customary in North America, as the cost of the coverage is not considered economical. Insurance is subject to coverage limits as well as time-sensitive claims discovery and reporting provisions and there can be no assurance that the types of liabilities that may be incurred by the Corporation and its operating subsidiaries will be covered by insurance. The Corporation's regulated utilities would likely apply to their respective regulatory authorities to recover the loss (or liability) through increased customer rates. However, there can be no assurance that regulatory authorities would approve any such application in whole or in part. Any major damage to the physical assets of the Corporation and its operating subsidiaries could result in repair costs and customer claims that are substantial in amount and which could have an adverse effect on the Corporation's business, results of operations and financial condition.

It is anticipated that such insurance coverages will be maintained. However, there can be no assurance that the Corporation and its operating subsidiaries will be able to obtain or maintain adequate insurance in the future at rates considered reasonable or that insurance will continue to be available on terms as favourable as the existing arrangements.

Licences and Permits: The acquisition, ownership and operation of gas and electric utilities and assets require numerous licences, permits, approvals and certificates from various levels of government and government agencies. The Corporation's regulated utilities and non-regulated generation operations may not be able to obtain or maintain all required regulatory approvals. If there is a delay in obtaining any required regulatory approval, or if there is a failure to obtain or maintain any required approval or to comply with any applicable law, regulation or condition of an approval, the operation of the assets and the sale of gas and electricity could be prevented or become subject to additional costs, any of which could have a material adverse effect on the Corporation.

Energy Prices and Cessation of the Niagara Exchange Agreement: The Corporation's primary exposure to changes in energy prices relates to its non-regulated energy sales in Ontario. Energy is sold to the Independent Electricity System Operator at market prices. The sensitivity of the Corporation's earnings to each $1 per MWh change in the annual average wholesale market price of electricity in Ontario is expected to be approximately $0.4 million. Non-regulated energy sales in Ontario largely relate to a power-for-water exchange agreement, known as the Niagara Exchange Agreement, associated with the Rankine Generating Station. In accordance with this agreement, FortisOntario's water entitlement on the Niagara River will not be renewed, effective May 1, 2009. During 2007, earnings' contribution associated with the Niagara Exchange Agreement was approximately $15 million. This earnings' contribution will cease effective May 1, 2009. To a lesser degree, the Corporation is also exposed to changes in energy prices related to energy sales from its non-regulated generation assets in Upper New York State. All energy produced by these assets is sold to National Grid at market prices. Energy from the Corporation's non-regulated generation assets in Belize, central Newfoundland and British Columbia is sold under medium- and long-term fixed-price contracts.

The regulated utilities of Fortis flow through gas, energy and fuel costs to customers in their respective gas and electricity rates.

Loss of Service Area: FortisAlberta serves a number of direct customers that reside within various municipalities throughout its service areas. From time to time, municipal governments in Alberta give consideration to creating their own electric distribution utilities by purchasing the assets of FortisAlberta that are located within their municipal boundaries. Upon the termination of its franchise agreement, a municipality has the right, subject to AUC approval, to purchase FortisAlberta's assets within its municipal boundaries pursuant to the *Municipal Government Act* (Alberta). Under the *Hydro and Electric Energy Act* (Alberta), if a municipality that owns an electric utility expands its boundaries, it can acquire FortisAlberta's assets in the annexed area. In such circumstances, the *Hydro and Electric Energy Act* (Alberta) provides for compensation, including payment for FortisAlberta's assets on the basis of replacement cost less depreciation. Given the historical growth of Alberta and its municipalities, FortisAlberta may be affected by transactions of this type.

The consequence to FortisAlberta of a municipality purchasing its distribution assets would be an erosion of the Company's rate base, which would reduce the capital upon which FortisAlberta could earn a regulated return. No transactions are currently initiated pursuant to the *Municipal Government Act* (Alberta). However, upon expiration of franchise agreements, there is a risk that municipalities will opt to purchase the distribution assets existing within their boundaries, the loss of which could have a material adverse effect on the financial condition and results of operations of FortisAlberta.

First Nations Lands: The Terasen Gas companies and FortisBC provide service to customers on First Nations lands and maintain gas and electric distribution facilities on lands that are subject to land claims by various First Nations. A treaty negotiation process involving various First Nations and the Government of British Columbia is underway, but the basis upon which settlements might be reached in the service areas of the Terasen Gas companies and FortisBC is not clear. Furthermore, not all First Nations are participating in the process. To date, the policy of the Government of British Columbia has been to endeavour to structure settlements without prejudicing existing rights held by third parties such as the Terasen Gas companies and FortisBC. However, there can be no certainty that the settlement process will not adversely affect the business of the Terasen Gas companies and FortisBC. In addition, FortisAlberta has distribution assets on First Nations lands with access permits to these lands held by FortisAlberta's predecessor, TransAlta Utilities Corporation. In order for FortisAlberta to acquire these access permits, both the Department of Indian and Northern Affairs Canada and the individual Band councils must grant approval. FortisAlberta may not be able to acquire the access permits from TransAlta Utilities Corporation and may be unable to negotiate land-usage agreements with property owners or, if negotiated, such agreements may be on terms that are less than favourable to FortisAlberta and, therefore, may have a material adverse effect on the business of FortisAlberta.

Counterparty Risk: The Terasen Gas companies are exposed to credit risk in the event of non-performance by counterparties to derivative financial instruments, including natural gas commodity swaps and options. The Terasen Gas companies are also exposed to significant credit risk on physical off-system sales. Because the Terasen Gas companies deal with high credit-quality institutions, in accordance with established credit-approval practices, the Terasen Gas companies do not expect any counterparties to fail to meet their obligations. FortisAlberta is exposed to credit risk associated with sales to retailers. Significantly all of FortisAlberta's distribution-service billings are to a relatively small group of retailers. As required under regulation, FortisAlberta minimizes its credit exposure associated with retailer billings by obtaining from the retailer a cash deposit, bond, letter of credit, an investment-grade credit rating from a major rating agency or by having the retailer obtain a financial guarantee from an entity with an investment-grade credit rating.

Labour Relations: Approximately 59 per cent of the employees of the Corporation's operating subsidiaries are members of labour unions or associations which have entered into collective bargaining agreements with the operating subsidiaries. The provisions of such collective bargaining agreements affect the flexibility and efficiency of the businesses carried out by the subsidiaries. The Corporation considers the relationships of its subsidiaries with its labour unions and associations to be satisfactory but there can be no assurance that current relations will continue in future negotiations or that the terms under the present collective bargaining agreements will be renewed. The inability to maintain or to renew the collective bargaining agreements on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes that are not provided for in approved rate orders at the regulated utilities and which could have a material adverse effect on the results of operations, cash flow and earnings of the Corporation.

The organized employees of TGI are represented by the Canadian Office and Professional Employees Union, Local 378, which ratified a new five-year collective agreement with TGI expiring in March 2012, ending limited job action that began on September 23, 2007, and by the International Brotherhood of Electrical Workers ("IBEW"), Local 213, under a collective agreement expiring on March 31, 2011.

On December 31, 2007, the collective agreement between FortisAlberta and the United Utility Workers Association ("UUWA"), Local 200, was due to expire. On December 13, 2007, FortisAlberta reached a tentative three-year collective agreement with UUWA, Local 200, which was ratified by the membership in February 2008.

On November 30, 2007, the collective agreement between Fortis Properties and the Communications, Energy and Paperworkers Union, Local 651, representing employees at the Delta Regina, expired. Negotiations with the union commenced in January 2008.

On January 31, 2008, the collective agreement between FortisBC and IBEW, Local 213, was due to expire. FortisBC and IBEW, Local 213, reached a Memorandum of Agreement which was ratified in December 2007, extending the collective agreement for one year to January 31, 2009.

In September 2008, two collective agreements governing Newfoundland Power's unionized employees represented by IBEW, Local 1620, are due to expire. In December 2008, the collective agreement governing Maritime Electric's unionized employees represented by IBEW, Local 1432, is also due to expire.

Human Resources: The ability of Fortis to deliver superior operating performance in a cost-effective manner is dependent on the ability of its operating subsidiaries to attract, develop and retain skilled workforces. Like other utilities across Canada and the Caribbean, Fortis utilities are faced with demographic challenges relating to trades, technical staff and engineers. The growing size of the Corporation and an increasingly competitive job market present ongoing recruitment challenges. The Corporation's significant consolidated capital expenditure program over the next several years will present challenges in ensuring the Corporation's utilities have the qualified workforce necessary to complete the capital work initiatives. In particular, Alberta has a highly competitive job market where the demand for certain job skills exceeds the supply, making it difficult to attract new employees.

Liquidity Risk: Earnings from Belize Electricity are denominated in Belizean dollars, earnings from Caribbean Utilities are denominated in Cayman Island dollars and earnings from FortisUS Energy, BECOL and Fortis Turks and Caicos are denominated in US dollars. As at December 31, 2007, the Cayman Island dollar and the Belizean dollar were pegged to the US dollar at CI$0.84 = US$1.00 and BZ$2.00 = US$1.00, respectively. Foreign earnings derived in currencies other than the US dollar must be converted into US dollars before repatriation, presenting temporary liquidity risks. Due to the small size and cyclical nature of the economy in Belize, conversion of local currency into US dollars may be subject to restrictions from time to time.

Changes in Accounting Standards

The nature of and impact on Fortis of adopting the new Canadian Institute of Chartered Accountants ("CICA") accounting standards for Financial Instruments, Hedges and Comprehensive Income, effective January 1, 2007, is described in detail in Notes 2, 16 and 24 to the 2007 Fortis Inc. Annual Consolidated Financial Statements. The most significant impacts of adopting the new standards were: (i) the reallocation of $21 million of deferred financing costs from deferred charges and other assets to long-term debt; (ii) the reporting of a Statement of Comprehensive Income; (iii) the recording, in other comprehensive loss, of unrecognized foreign currency translation gains and losses on US dollar-denominated debt that is hedging the Corporation's net investments in self-sustaining foreign operations; (iv) the reallocation of $51 million of unrealized foreign currency translation losses on net investments in self-sustaining foreign operations from the foreign currency translation adjustment account in shareholders' equity to accumulated other comprehensive loss; (v) the reallocation of an $11 million ($7 million after-tax) unamortized loss balance relating to a previously cancelled interest rate swap agreement from deferred charges and other assets, and the reallocation of a $3 million ($2 million after-tax) unamortized gain balance relating to a previously cancelled US dollar forward currency swap agreement from deferred credits, to accumulated other comprehensive loss; and (vi) the recording of opening fair value and subsequent changes in fair value of the Corporation's interest rate swap contracts in effective hedging relationships in accumulated other comprehensive loss and other comprehensive loss, respectively. The adoption of the accounting standards did not have a material impact on the Corporation's 2007 consolidated statement of earnings.

Also as disclosed in Note 2 to the 2007 Fortis Inc. Annual Consolidated Financial Statements, Fortis adopted the revised standard for accounting changes, effective January 1, 2007. This new standard had no impact on the Corporation's consolidated financial statements for the year ended December 31, 2007, except for the disclosures provided in Note 3 to the 2007 Fortis Inc. Annual Consolidated Financial Statements.

Future Accounting Pronouncements

International Financial Reporting Standards ("IFRS"): In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. The transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Corporation for its year ended December 31, 2010. While Fortis has begun assessing the adoption of IFRS for 2011, the financial reporting impact on the Corporation of the transition to IFRS cannot be reasonably estimated at this time.

Rate-Regulated Operations: In March 2007, the AcSB issued an Exposure Draft on rate-regulated operations that proposed: (i) the temporary exemption in Section 1100, *Generally Accepted Accounting Principles*, of the CICA Handbook, providing relief to entities subject to rate regulation from the requirement to apply the Section to the recognition and measurement of assets and liabilities arising from rate regulation be removed; (ii) the explicit guidance for rate-regulated operations provided in Section 1600, *Consolidated Financial Statements*, Section 3061, *Property, Plant and Equipment*, Section 3465, *Income Taxes*, and Section 3475, *Disposal of Long-Lived Assets and Discontinued Operations*, be removed; and (iii) Accounting Guideline 19, *Disclosures by Entities Subject to Rate Regulation* ("AcG-19"), be retained as is.

In August 2007, the AcSB issued a Decision Summary on the Exposure Draft that supported the removal of the temporary exemption in Section 1100, *Generally Accepted Accounting Principles*, and the amendment to Section 3465, *Income Taxes*, to recognize future income tax liabilities and assets as well as offsetting regulatory assets and liabilities at entities subject to rate regulation. Both changes will apply prospectively for fiscal years beginning on or after January 1, 2009. The AcSB also decided that the current guidance for rate-regulated operations pertaining to property, plant and equipment, disposal of long-lived assets and discontinued operations, and consolidated financial statements be maintained, and that the existing AcG-19 will not be withdrawn from the Handbook but that the guidance will be updated as a result of the other changes. The AcSB also decided that the final Background Information and Basis for Conclusions associated with its rate-regulation project would not express any views of the AcSB regarding the status of US Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*, as "another source of GAAP" within the Canadian GAAP hierarchy.

Effective January 1, 2009, the impact on Fortis of the amendment to Section 3465, *Income Taxes*, will be the recognition of future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future gas and electricity rates. Currently, the Terasen Gas companies, FortisAlberta, FortisBC and Newfoundland Power use the taxes-payable method of accounting for income taxes. The effect on the Corporation's consolidated financial statements, if it had adopted amended Section 3465, *Income Taxes*, as at December 31, 2007, would have been an increase in future tax assets and future tax liabilities of $54 million and $489 million, respectively, and a corresponding increase in regulatory liabilities and regulatory assets of $54 million and $489 million, respectively. Included in the amounts are the future income tax effects of the subsequent settlement of the related regulatory assets and liabilities through customer rates, and the separate disclosure of future income tax assets and liabilities that are currently not recognized. Fortis is continuing to assess and monitor any additional implications on its financial reporting related to accounting for rate-regulated operations.

Inventories: In March 2007, the AcSB approved the new Section 3031, *Inventories*, effective for fiscal years beginning on or after January 1, 2008. The new standard requires inventories to be measured at the lower of cost or net realizable value; disallows the use of a last-in, first-out inventory-costing methodology; and requires that, when circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write-down is to be reversed. This new standard is not expected to have a material impact on the Corporation's earnings, cash flow or financial position.

Capital Disclosures: As a result of new Section 1535, *Capital Disclosures*, Fortis will be required to include additional information in the Notes to the financial statements about its capital and the manner in which it is managed. This additional disclosure includes quantitative and qualitative information regarding an entity's objectives, policies and processes for managing capital. This Section is applicable to Fortis for the fiscal year beginning on January 1, 2008.

Disclosure and Presentation of Financial Instruments: New accounting recommendations for disclosure and presentation of financial instruments, Sections 3862 and 3863, are effective for the Corporation beginning on January 1, 2008. The new recommendations require disclosures of both qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of risks from financial instruments to which the Corporation is exposed.

Financial Instruments

The carrying values of financial instruments included in current assets, current liabilities, deferred charges and other assets, and deferred credits in the consolidated balance sheets of Fortis approximate their fair value, reflecting the short-term maturity, normal trade credit terms and/or nature of these instruments. The fair value of long-term debt is calculated by discounting the future cash flow of each debt instrument at the estimated yield to maturity for the same or similar issues at the balance sheet date, or by using available quoted market prices. Since the Corporation does not intend to settle the long-term debt prior to maturity, the fair value estimate does not represent an actual liability and, therefore, does not include exchange or settlement costs. The fair value of the Corporation's preference shares is determined using quoted market prices.

The carrying and fair values of the Corporation's long-term debt and preference shares as at December 31st were as follows.

	2007 [1]		2006	
($ millions)	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt	**5,023**	**5,635**	2,614	2,940
Preference shares, classified as debt [2]	**320**	**346**	320	355

[1] Includes long-term debt of Terasen from May 17, 2007, the date of acquisition

[2] Preference shares classified as equity do not meet the definition of a financial instrument; however, the estimated fair value of the Corporation's $122 million of preference shares classified as equity was $107 million at December 31, 2007 (December 31, 2006 – $129 million).

The Corporation hedges exposures to fluctuations in interest rates and natural gas commodity prices through the use of derivative financial instruments. The following table indicates the valuation of derivative financial instruments as at December 31st.

	2007[1]				2006	
Liability	**Term to Maturity** *(years)*	**Number of Swaps**	**Carrying Value** *($ millions)*	**Estimated Fair Value** *($ millions)*	Carrying Value *($ millions)*	Estimated Fair Value *($ millions)*
Interest Rate Swaps	**1 to 3**	**4**	**–**	**–**	–	(1)
Natural Gas Commodity Swaps and Options	**Up to 3**	**244**	**(79)**	**(79)**	–	–

[1] Includes derivative financial instruments of the Terasen Gas companies from May 17, 2007, the date of acquisition

Two of the four interest rate swaps are held by Fortis Properties and are designated as hedges of the cash flow risk related to floating-rate long-term debt. The effective portion of changes in the value of the interest rate swaps at Fortis Properties is recorded in other comprehensive income. The remaining interest rate swaps and all of the natural gas commodity swaps and options are held by the Terasen Gas companies. The interest rate swaps are designated as hedges of cash flow risk related to floating-rate debt instruments. The natural gas commodity swaps and options are used to fix the effective purchase price of natural gas, as the majority of the natural gas supply contracts have floating, rather than fixed, prices. At the Terasen Gas companies, changes in the fair value of the interest rate swaps and the natural gas commodity swaps and options are deferred as a regulatory asset or liability, subject to regulatory approval, for recovery from, or refund to, customers in future rates. The fair values of the swaps and options were recorded in accounts payable as at December 31, 2007.

The interest rate swaps are valued at the present value of future cash flows based on published forward future interest rate curves. The fair values of the natural gas commodity swaps and options reflect the estimated amount that the Corporation would have to pay if forced to settle all outstanding contracts at year end.

The fair value of the Corporation's financial instruments, including derivatives, reflects a point-in-time estimate based on relevant market information about the instruments. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment and, therefore, may not be relevant in predicting the Corporation's future earnings or cash flows.

Critical Accounting Estimates

The preparation of the Corporation's consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances.

Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period they become known. The Corporation's critical accounting estimates are discussed below.

Regulation: Generally, the accounting policies of the Corporation's regulated utilities are subject to examination and approval by the respective regulatory authorities. These accounting policies may differ from those used by entities not subject to rate regulation. The timing of the recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using Canadian GAAP for entities not subject to rate regulation. Regulatory assets and regulatory liabilities arise as a result of the rate-setting process at the regulated utilities and have been recorded based on previous, existing or expected regulatory orders or decisions. Certain estimates are necessary since the regulatory environments in which the Corporation's regulated utilities operate often require amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. The final amounts approved by the regulatory authorities for deferral as regulatory assets and regulatory liabilities and the approved recovery or settlement periods may differ from those originally expected. Any resulting adjustments to original estimates are reported in earnings in the period in which they become known. As at December 31, 2007, Fortis recorded $312 million in current and long-term regulatory assets (December 31, 2006 – $171 million) and $392 million in current and long-term regulatory liabilities (December 31, 2006 – $359 million). The increase in regulatory assets year over year was

largely associated with BCUC-approved rate stabilization accounts at the Terasen Gas companies. The nature of the Corporation's regulatory assets and liabilities is described in Note 4 to the 2007 Fortis Inc. Annual Consolidated Financial Statements.

Capital Asset Amortization: Amortization, by its nature, is an estimate based primarily on the useful life of assets. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at December 31, 2007, the Corporation's consolidated utility and income producing properties were $7.2 billion, or approximately 70 per cent of total consolidated assets, compared to consolidated utility and income producing properties of $4.0 billion, or approximately 74 per cent of total consolidated assets, as at December 31, 2006. The increase in capital assets was primarily associated with the Terasen Gas companies. Amortization expense for 2007 was $273 million compared to $178 million for 2006. Changes in amortization rates can have a significant impact on the Corporation's amortization expense.

As part of the customer rate-setting process at the Corporation's regulated utilities, appropriate amortization rates are approved by the respective regulatory authorities. As required by the respective regulators, amortization rates at FortisAlberta, FortisBC, Newfoundland Power and Maritime Electric include an amount to provide for future removal and site restoration costs, net of salvage proceeds, over the life of the assets. Actual costs, net of salvage proceeds, are recorded against the provision when incurred. The accrual of the estimated costs is included with amortization expense and the provision balance is recorded as a long-term regulatory liability. The estimate of the future removal and site restoration costs, net of salvage proceeds, is based on historical experience and future expected cost trends. The balance of this regulatory liability at December 31, 2007 was $319 million (December 31, 2006 – $307 million). The amount of future removal and site restoration costs provided for and reported in amortization expense during 2007 was $33 million (2006 – $30 million).

The amortization periods used and the associated rates are reviewed on an ongoing basis to ensure they continue to be appropriate. From time to time, third-party depreciation studies are performed at the regulated utilities. Based on the results of these depreciation studies, the impact of any over or under amortization as a result of actual experience differing from that expected and provided for in previous amortization rates is generally reflected in future amortization rates and amortization expense, when the differences are refunded or collected in customer rates.

Capitalized Overhead: As required by their respective regulators, the Terasen Gas companies, FortisBC, Newfoundland Power, Maritime Electric, FortisOntario and Belize Electricity capitalize overhead costs which are not directly attributable to specific capital assets, but which relate to the overall capital expenditure program. These general expenses capitalized ("GEC") are allocated over constructed capital assets and amortized over their estimated service lives. The methodology for calculating and allocating these general expenses to utility capital assets is established by the respective regulators. In 2007, GEC totalled $40 million (2006 – $18 million). Any change in the methodology of calculating and allocating general overhead costs to utility capital assets could have a significant impact on the amount recorded as operating expenses and utility capital assets.

Goodwill Impairment Assessments: Goodwill represents the excess, at the dates of acquisition, of the purchase price over the fair value of the net amounts assigned to individual assets acquired and liabilities assumed relating to business acquisitions. Goodwill is carried at initial cost, less any previous amortization and write-down for impairment. The Corporation is required to perform an annual impairment test and at such time any event occurs or if circumstances change that would indicate that the fair value of a reporting unit was below its carrying value. In July of each year, the Corporation reviews for impairment of goodwill, which is based on current information and fair market value assessments of the reporting units being reviewed. Fair market value is determined using net present value financial models and management's assumption of future profitability of the reporting units. There was no impairment provision required on $1.54 billion in goodwill recorded on the Corporation's balance sheet as at December 31, 2007. The net increase in goodwill during 2007 was due to the acquisition of Terasen.

Employee Future Benefits: The Corporation's defined benefit pension plans and OPEB plans are subject to judgments utilized in the actuarial determination of the expense and related obligation. The main assumptions utilized by management in determining pension expense and obligations were the discount rate for the accrued benefit obligation and the expected long-term rate of return on plan assets. Other assumptions applied were average rate of compensation increase, average remaining service life of the active employee group, and employee and retiree mortality rates. Except for the assumptions of the expected long-term rate of return on plan assets and average rate of compensation increase, the above assumptions were also utilized by management in determining OPEB plan expense and obligations. Assumptions were also made regarding the health-care cost trend increase. FortisAlberta and Newfoundland Power record the cost of pension and/or OPEB plan expense on a cash basis. Therefore, changes in assumptions do not impact earnings

of those subsidiaries. As at December 31, 2007, the Corporation had a consolidated accrued benefit asset of $120 million (December 31, 2006 – $93 million) and a consolidated accrued benefit liability of $150 million (December 31, 2006 – $63 million). During 2007, the Corporation recorded consolidated net benefit expense of $26 million (2006 – $20 million).

The following table reflects the sensitivities associated with a 0.5 per cent increase and a 0.5 per cent decrease in the expected long-term rate of return on plan assets and discount rate on 2007 net benefit expense and the accrued benefit pension asset and liability recorded in the Corporation's consolidated financial statements, as well as the impact on the benefit obligation. The sensitivity analysis applies to the Corporation's Regulated Gas Utilities and Regulated Electric Utilities.

Sensitivity Analysis of Changes in Rate of Return on Plan Assets and Discount Rate
Year Ended December 31, 2007

	Net benefit expense		**Accrued benefit asset**		**Accrued benefit liability**		**Benefit obligation**	
($ millions)	**Regulated Gas Utilities**	**Regulated Electric Utilities**	**Regulated Gas Utilities**	**Regulated Electric Utilities**	**Regulated Gas Utilities**	**Regulated Electric Utilities**	**Regulated Gas Utilities**	**Regulated Electric Utilities**
Impact of increasing the rate of return assumption by 0.5 per cent	(1)	(2)	1	2	–	–	–	–
Impact of decreasing the rate of return assumption by 0.5 per cent	1	2	(1)	(2)	–	–	–	–
Impact of increasing the discount rate assumption by 0.5 per cent	(2)	(3)	–	2	(1)	(1)	(27)	(32)
Impact of decreasing the discount rate assumption by 0.5 per cent	3	3	(2)	(2)	1	1	23	35

Asset-Retirement Obligations ("AROs"): In measuring the fair value of AROs, the Corporation is required to make reasonable estimates concerning the method of settlement and settlement dates associated with the legally obligated asset-retirement costs. While the Corporation has AROs associated with hydroelectric generating facilities, interconnection facilities, wholesale energy supply agreements, removal of certain distribution system assets from rights of way at the end of the life of the systems and the remediation of certain leased land, there were no amounts recorded as at December 31, 2007 and 2006. The nature, amount and timing of costs associated with land and environmental remediation and/or removal of assets cannot be reasonably estimated at this time as the hydroelectric generation facilities are reasonably expected to operate in perpetuity due to the nature of their operation; applicable licences, permits, interconnection facilities agreements and wholesale energy supply agreements are reasonably expected to be renewed or extended indefinitely to maintain the integrity of the related assets and to ensure the continued provision of service to customers; and the land-lease agreement at Maritime Electric is expected to be renewed indefinitely. In the event that environmental issues are identified, hydroelectric generating facilities are decommissioned or the applicable licences, permits, agreements or leases are terminated, AROs will be recorded at that time provided the costs can be reasonably estimated.

Revenue Recognition: All of the Corporation's regulated utilities, except for Belize Electricity, recognize revenue on an accrual basis. As required by the PUC, Belize Electricity recognizes electricity revenue on a billed basis. Prior to January 1, 2006, Newfoundland Power also recognized electricity revenue on a billed basis. Effective January 1, 2006, Newfoundland Power adopted, on a prospective basis, the accrual method for recognizing revenue as approved by the PUB. Recording revenue on an accrual basis requires use of estimates and assumptions. Customer bills are issued throughout the month based on meter readings that establish gas and electricity consumption by customers since the last meter reading. The unbilled revenue accrual for the period is based on estimated gas and electricity sales to customers for the period since the last meter reading at the rates approved by the respective regulatory authorities. The development of the gas and electricity sales estimates requires analysis of consumption on a historical basis in relation to key inputs such as the current price of gas and electricity, population growth, economic activity, weather conditions and system losses. The estimation process for accrued unbilled gas and electricity consumption will result in adjustments of gas and electricity revenue in the periods they become known when actual results differ from the estimates. As at December 31, 2007, the amount of accrued unbilled

revenue recorded in accounts receivable was approximately $309 million (December 31, 2006 – $132 million) on annual consolidated operating revenues of $2.72 billion (2006 – $1.46 billion).

Contingencies: Fortis is subject to various legal proceedings and claims that arise in the ordinary course of business operations. Management believes that the amount of liability, if any, from these actions would not have a material effect on the Corporation's financial position or results of operations.

The following describes the nature of the Corporation's contingent liabilities.

Terasen

On March 26, 2007, the Minister of Small Business and Revenue and Minister Responsible for Regulatory Reform (the "Minister") in British Columbia issued a decision in respect of the appeal by TGI of an assessment of additional British Columbia Social Service Tax in the amount of approximately $37 million associated with the Southern Crossing Pipeline, which was completed in 2000. The Minister has reduced the assessment to $7 million, including interest, which has been paid in full to avoid accruing further interest and recorded as a long-term regulatory deferral asset. On June 22, 2007, TGI filed an appeal of the assessment with the B.C. Supreme Court.

A non-regulated subsidiary of Terasen received Notices of Assessment from Canada Revenue Agency ("CRA") for additional taxes related to the taxation years 1999 through 2003. The exposure has been fully provided for in the consolidated financial statements. Terasen has begun the appeal process associated with the assessments.

FortisAlberta

On March 24, 2006, Her Majesty the Queen in Right of Alberta (the "Crown") filed a statement of claim in the Court of Queen's Bench of Alberta in the Judicial District of Edmonton against FortisAlberta. The Crown's claim is that the Company is responsible for a fire that occurred in October 2003 in an area of the Province of Alberta commonly referred to as Poll Haven Community Pasture. The Crown is seeking approximately $3 million in firefighting and suppression costs and approximately $2 million in timber losses, as well as interest and other costs. FortisAlberta and the Crown have exchanged several investigation and expert reports. Both the factual evidence and expert opinion received to date lead management to believe that FortisAlberta is not responsible for the cause of the fire and has no liability for the damages. However, FortisAlberta has not made any definitive assessment of potential liability, and the outcome with regard to the Company's liability for the claims made by the Crown is indeterminable. No amount, therefore, has been accrued in the consolidated financial statements.

FortisBC

The B.C. Ministry of Forests has alleged breaches of the Forest Practices Code and negligence relating to a forest fire near Vaseux Lake and has filed and served a writ and statement of claim against FortisBC. In addition, the Company has been served with two filed writs and statements of claim by private landowners in relation to the same matter. The Company is currently communicating with its insurers and has filed a statement of defence in relation to all of the actions. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

Maritime Electric

In April 2006, CRA reassessed Maritime Electric's 1997–2004 taxation years. The reassessment encompasses the Company's tax treatment, specifically the Company's timing of deductions, with respect to: (i) the energy cost adjustment mechanism amounts in the 2001–2004 taxation years; (ii) customer rebate adjustments in the 2001–2003 taxation years; and (iii) the Company's payment of approximately $6 million on January 2, 2001 associated with a settlement with NB Power regarding the $450 million write-down of the Point Lepreau Nuclear Generating Station in 1998. Maritime Electric believes it has reported its tax position appropriately in all respects and has filed a Notice of Objection with the Chief of Appeals at CRA. Should the Company be unsuccessful in defending all aspects of the reassessment, the Company would be required to pay approximately $13 million in taxes and accrued interest. As at December 31, 2007, Maritime Electric has provided for this amount through future and current income taxes payable. The provisions of the *Income Tax Act* (Canada) require the Company to deposit one-half of the assessment under objection with CRA. The amount currently on deposit with CRA arising from the reassessment is approximately $6 million.

FortisUS Energy

Legal proceedings were initiated against FortisUS Energy by the Village of Philadelphia (the "Village"), New York. The Village claimed that FortisUS Energy should honour a series of current and future payments set out in an agreement between the Village and a former owner of the hydroelectric site, located in the municipality of the Village, now owned by FortisUS Energy, totalling approximately $7 million (US$7 million). The First American Title Insurance Company is defending the action on behalf of FortisUS Energy. A Memorandum Decision and Order was filed by the State of New York Supreme Court of Jefferson County on December 21, 2006 granting summary judgment to FortisUS Energy dismissing the action by the Village. An appeal of the summary judgment dismissal of the claim filed by the Village in January 2007 was heard by the Appellate Division, Fourth Judicial Department of the Supreme Court of the State of New York in December 2007. The Appellate Division delivered its Memorandum and Order on February 1, 2008 modifying the initial decision by dismissing the Village's appeal regarding its main claim, but reinstating a secondary cause of action dismissed by the summary judgment order. Further appeals to the New York State Court of Appeal may be forthcoming. Management believes that potential further legal actions by the Village will not be successful and, therefore, no provision has been made in the consolidated financial statements.

Selected Annual Financial Information

The following table sets forth the annual financial information for the years ended December 31, 2007, 2006 and 2005. The financial information has been prepared in Canadian dollars and in accordance with Canadian GAAP and as required by utility regulators. The timing of the recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using Canadian GAAP for non-regulated entities.

Years Ended December 31st *($ millions, except per share amounts)*	**2007** [1]	2006	2005
Revenue and equity income	**2,718**	1,472	1,441
Net earnings	**199**	149	137
Net earnings applicable to common shares	**193**	147	137
Total assets	**10,273**	5,441	4,597
Long-term debt and capital lease obligations (net of current portion)	**4,623**	2,558	2,136
Preference shares [2]	**442**	442	320
Common shareholders' equity	**2,601**	1,276	1,213
Basic earnings per common share	**1.40**	1.42	1.35
Diluted earnings per common share	**1.32**	1.37	1.24
Dividends declared per common share	**0.88**	0.70	0.61
Dividends declared per First Preference Share, Series C	**1.3625**	1.3625	1.3625
Dividends declared per First Preference Share, Series D	**–**	–	0.03 [3]
Dividends declared per First Preference Share, Series E	**1.2250**	1.2250	1.2250
Dividends declared per First Preference Share, Series F [4]	**1.2250**	0.5211	–

(1) Financial results for 2007 were significantly impacted by the acquisition of Terasen on May 17, 2007.

(2) Includes preference shares classified as equity and as long-term debt

(3) The First Preference Shares, Series D were redeemed in September 2005.

(4) 5,000,000 First Preference Shares, Series F were issued on September 28, 2006 at $25.00 per share for net after-tax proceeds of $122 million and are entitled to receive cumulative dividends in the amount of $1.2250 per share per annum.

2007/2006 – Revenue, including equity income, increased 84.6 per cent over 2006. The increase was driven by contributions from the Terasen Gas companies, from the date of acquisition, and the impact of consolidating the Corporation's approximate 54 per cent controlling ownership in Caribbean Utilities during 2007 compared to recording the Corporation's 37 per cent interest in Caribbean Utilities during 2006 on an equity basis. Net earnings applicable to common shares grew 31.3 per cent over 2006, attributable to the acquisition of Terasen in May 2007, the first full year of ownership of Fortis Turks and Caicos, significant investment in electrical infrastructure at FortisAlberta and FortisBC, stronger performance at Fortis Properties and lower effective corporate taxes. The growth in total assets and increase in long-term debt in 2007 was driven by assets acquired and debt assumed upon the acquisition of Terasen in May 2007. The remaining increase in assets and long-term debt was primarily due to the Corporation's continued investment in electricity systems, driven by the capital expenditure programs at FortisAlberta and FortisBC and the acquisition of the Delta Regina, partially offset by the impact of foreign exchange associated with translation of foreign currency-denominated assets and liabilities. Common shareholders' equity more than doubled during 2007, driven by the issuance of approximately $1.15 billion in common equity required to fund a significant portion of the net cash purchase price of Terasen. Basic earnings per common share decreased 1.4 per cent from 2006. The seasonality of earnings of the Terasen Gas companies combined with the impact of the $1.15 billion common share issue diluted basic earnings per common share by 7 cents in 2007.

2006/2005 – Revenue, including equity income, increased 2.1 per cent over 2005. However, revenue at FortisAlberta in 2005 included approximately $20 million largely related to the resolution of tax-related matters pertaining to prior years and the finalization of load settlement amounts and billing adjustments. The increase in revenue was largely driven by electricity sales growth at FortisAlberta and FortisBC, increased electricity rates at FortisBC and Belize Electricity and four months of revenue contribution from Fortis Turks and Caicos, partially offset by lower average wholesale energy prices in Ontario. Equity income from Caribbean Utilities was approximately $2 million lower than in 2005, but equity income during 2005 included a $1 million positive adjustment related to a change in Caribbean Utilities' accounting practice for recognizing unbilled revenue. Net earnings applicable to common shares in 2006 grew 7.3 per cent over 2005; however, earnings in 2005 included the $8 million after-tax Ontario Settlement gain. Growth in earnings in 2006 was primarily driven by strong electricity sales growth at FortisAlberta and FortisBC; lower corporate income taxes at FortisAlberta; improved non-regulated hydroelectric generation in Belize; earnings growth at Fortis Properties; the overall 11 per cent increase in electricity rates at Belize Electricity, effective July 1, 2005; and four months of earnings' contribution from Fortis Turks and Caicos. The increase was partially offset by lower average wholesale energy prices in Ontario and higher corporate costs. The growth in total assets and increase in long-term debt in 2006 was primarily associated with the extensive capital expenditure programs at FortisAlberta and FortisBC; the acquisition of an additional approximate 16 per cent ownership interest in Caribbean Utilities; the assumption of long-term debt upon consolidating the Corporation's resulting controlling ownership interest in Caribbean Utilities; and the acquisition of Fortis Turks and Caicos and four hotels in western Canada and the assumption of related long-term debt. The Corporation also issued $122 million in preference shares in 2006, the proceeds of which were primarily used to repay borrowings under the Corporation's committed credit facilities incurred, in part, to fund the acquisition of Fortis Turks and Caicos, and to fund equity injections into FortisAlberta and FortisBC in support of their extensive capital expenditure programs.

The Corporation's dividend payout ratio was 58.6 per cent in 2007 compared to 47.2 per cent in 2006. On June 1, 2007, Fortis increased its quarterly common share dividend paid to 21 cents from 19 cents. Commencing with the first quarter dividend paid on March 1, 2008, Fortis increased its quarterly common share dividend 19 per cent to 25 cents per common share from 21 cents.

Quarterly Results

The following table sets forth unaudited quarterly information for each of the eight quarters ended March 31, 2006 through December 31, 2007. The quarterly information has been prepared in Canadian dollars and obtained from the Corporation's interim unaudited consolidated financial statements which, in the opinion of management, have been prepared in accordance with Canadian GAAP and as required by utility regulators. The timing of the recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using Canadian GAAP for non-regulated entities. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Summary of Quarterly Results
(Unaudited)

Quarter Ended	Revenue and Equity Income *($ millions)*	Net Earnings Applicable to Common Shares *($ millions)*	Earnings per Common Share Basic *($)*	Earnings per Common Share Diluted *($)*
December 31, 2007	1,018	79	0.51	0.49
September 30, 2007	651	31	0.20	0.20
June 30, 2007	566	41	0.31	0.27
March 31, 2007	483	42	0.38	0.35
December 31, 2006	393	34	0.33	0.32
September 30, 2006	342	39	0.37	0.36
June 30, 2006	346	38	0.37	0.35
March 31, 2006	391	36	0.35	0.34

A summary of the past eight quarters reflects the Corporation's continued organic growth, growth from acquisitions, as well as the seasonality associated with its businesses. Interim results will fluctuate due to the seasonal nature of gas and electricity demand and water flows, as well as the timing and recognition of regulatory decisions. Given the diversified group of companies, seasonality may vary. Financial results from May 17, 2007 were impacted by the acquisition of Terasen. Virtually all of the earnings of the Terasen Gas companies are generated in the first and fourth quarters. Financial results from November 1, 2006 were impacted by the acquisition of four hotels in western Canada. Financial results from August 28, 2006 were impacted by the acquisition of Fortis Turks and Caicos, while earnings from January 1, 2007 were impacted by the consolidation of a controlling interest in Caribbean Utilities. The Corporation's interest in Caribbean Utilities was previously accounted for on an equity basis.

December 2007/December 2006 – Net earnings applicable to common shares were $79 million, or $0.51 per common share, for the fourth quarter of 2007, compared to earnings of $34 million, or $0.33 per common share, for the fourth quarter of 2006. The increase in earnings and earnings per common share was driven by contributions from the Terasen Gas companies, including a $7 million after-tax gain on the sale of surplus land, partially offset by increased corporate costs driven by Terasen acquisition-related finance charges.

September 2007/September 2006 – Net earnings applicable to common shares were $31 million, or $0.20 per common share, for the third quarter of 2007, compared to earnings of $39 million, or $0.37 per common share, for the third quarter of 2006. A $1.15 billion Common Share issue in May 2007 to fund a significant portion of the net cash purchase price of Terasen, combined with the seasonality of earnings of the Terasen Gas companies, diluted earnings per common share for the third quarter of 2007. Increased earnings' contribution from FortisAlberta, driven by customer growth and higher corporate income tax recoveries; increased earnings' contribution from Fortis Turks and Caicos, acquired in August 2006; and growth at Fortis Properties from expanded hospitality operations in western Canada were more than offset by higher finance charges associated with acquisitions, losses at the Terasen Gas companies due to seasonality of operations and lower non-regulated hydroelectric production due to lower rainfall.

June 2007/June 2006 – Net earnings applicable to common shares were $41 million, or $0.31 per common share, for the second quarter of 2007, compared to earnings of $38 million, or $0.37 per common share, for the second quarter of 2006. The $1.15 billion Common Share issue, combined with the seasonality of earnings of the Terasen Gas companies, diluted earnings per common share for the second quarter of 2007. The increase in overall earnings was driven by customer growth and increased energy deliveries at FortisAlberta; rate increases and electricity sales growth at FortisBC; and earnings' contribution from Fortis Turks and Caicos, acquired in August 2006, and the Terasen Gas companies, acquired in May 2007. The increase was partially offset by higher acquisition-related finance charges, the impact of decreased non-regulated hydroelectric production and lower earnings at Fortis Properties. However, earnings at Fortis Properties during the second quarter of 2006 were favourably impacted by $3 million associated with the sale of Days Inn Sydney and the reduction of future income tax liabilities.

March 2007/March 2006 – Net earnings applicable to common shares were $42 million, or $0.38 per common share, for the first quarter of 2007, up $6 million from earnings of $36 million, or $0.35 per common share, for the first quarter of 2006. Excluding the Corporation's $2 million share of a charge associated with the disposal of steam-turbine assets at Caribbean Utilities during the first quarter of 2007, earnings were $8 million higher than for the first quarter of 2006. The increase was primarily due to electricity sales growth and lower corporate income taxes at FortisAlberta, increased non-regulated hydroelectric production in Belize, earnings' contribution from Fortis Turks and Caicos, and electricity sales growth and lower finance charges at Belize Electricity.

The impact of increased earnings on earnings per common share was partially offset by the dilution created by the approximate $150 million issuance of 5.17 million Common Shares on January 18, 2007.

Management's Evaluation of Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure Controls and Procedures

The President and Chief Executive Officer ("CEO") and the Vice President, Finance and Chief Financial Officer ("CFO") of Fortis, together with management, have established and maintained disclosure controls and procedures for the Corporation in order to provide reasonable assurance that material information relating to the Corporation is made known to them in a timely manner, particularly during the period in which the annual filings are being prepared. The CEO and CFO, together with management, have evaluated the effectiveness of the Corporation's disclosure controls and procedures as of December 31, 2007 and, based on that evaluation, have concluded that these controls and procedures are effective in providing such reasonable assurance.

Internal Controls over Financial Reporting

The CEO and the CFO of Fortis, together with management, are also responsible for the design of internal controls over financial reporting within the Corporation in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The CEO and CFO of Fortis, together with management, have evaluated the design of the Corporation's internal controls over financial reporting as of December 31, 2007 and, based on that evaluation, have concluded that the design of the controls is effective to provide such reasonable assurance.

There has been no change in the Corporation's internal controls over financial reporting during the fourth quarter of 2007 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

Subsequent Event

On February 15, 2008, TGVI closed a $250 million 6.05% unsecured debenture offering, maturing on February 15, 2038. The net proceeds of the debenture offering were used to repay existing credit-facility borrowings.

Outlook

The Corporation's principal business of regulated gas and electric distribution utilities is capital intensive. Over the next five years, the Corporation's consolidated utility capital program is expected to exceed $4 billion. Most of its more than $3 billion gross electric utility capital expenditures over the next five years will be driven by FortisAlberta, FortisBC and the Corporation's regulated and non-regulated electric utility operations in the Caribbean. Gross gas utility capital expenditures are expected to exceed $1 billion. The Corporation's capital program should drive growth in earnings and dividends.

The Corporation continues to integrate Terasen within the Fortis Group. The addition of the gas distribution business doubled the Corporation's investment in regulated rate base assets to approximately $6.3 billion. The Corporation is pursuing acquisitions for profitable growth, focusing on opportunities to acquire regulated natural gas and electric utilities in Canada, the United States and the Caribbean. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy.

Outstanding Share Data

At March 13, 2008, the Corporation had issued and outstanding 156,753,899 Common Shares; 5,000,000 First Preference Shares, Series C; 7,993,500 First Preference Shares, Series E and 5,000,000 First Preference Shares, Series F. As at December 31, 2007, the number of Common Shares that would be issued upon conversion of share options, convertible debt and First Preference Shares, Series C and First Preference Shares, Series E is described in Notes 10, 13, 14 and 15 to the 2007 Fortis Inc. Annual Consolidated Financial Statements.

Additional information, including the Fortis 2007 Annual Information Form and Management Information Circular, is available on SEDAR at www.sedar.com and on the Corporation's website at www.fortisinc.com.

Financials

Management's Report

The accompanying Consolidated Financial Statements of Fortis Inc. and all information in the 2007 Annual Report have been prepared by management, who are responsible for the integrity of the information presented including the amounts that must, of necessity, be based on estimates and informed judgments. These Consolidated Financial Statements were prepared in accordance with accounting principles generally accepted in Canada. Financial information contained elsewhere in the 2007 Annual Report is consistent with that in the Consolidated Financial Statements.

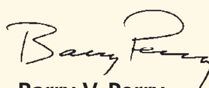
In meeting its responsibility for the reliability and integrity of the Consolidated Financial Statements, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure transactions are properly authorized and recorded, assets are safeguarded and liabilities are recognized. The systems of the Corporation and its subsidiaries focus on the need for training of qualified and professional staff and the effective communication of management guidelines and policies. The effectiveness of the internal controls of Fortis Inc. is evaluated on an ongoing basis.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit Committee which is composed entirely of outside independent directors. The Audit Committee oversees the external audit of the Corporation's Annual Consolidated Financial Statements and the accounting and financial reporting and disclosure processes and policies of the Corporation. The Audit Committee meets with management, the shareholders' auditors and the internal auditor to discuss the results of the audit, the adequacy of the internal accounting controls and the quality and integrity of financial reporting. The Corporation's Annual Consolidated Financial Statements are reviewed by the Audit Committee with each of management and the shareholders' auditors before the statements are recommended to the Board of Directors for approval. The shareholders' auditors have full and free access to the Audit Committee.

The Audit Committee has the duty to review the adoption of, and changes in, accounting principles and practices which have a material effect on the Corporation's Consolidated Financial Statements and to review and report to the Board of Directors on policies relating to the accounting and financial reporting and disclosure processes. The Audit Committee has the duty to review financial reports requiring Board of Directors' approval prior to the submission to securities commissions or other regulatory authorities, to assess and review management judgments material to reported financial information and to review shareholders' auditors' independence and auditors' fees.

The December 31, 2007 Consolidated Financial Statements and Management Discussion and Analysis contained in the 2007 Annual Report were reviewed by the Audit Committee and, on their recommendation, were approved by the Board of Directors of Fortis Inc. Ernst & Young, LLP, independent auditors appointed by the shareholders of Fortis Inc. upon recommendation of the Audit Committee, have performed an audit of the 2007 Consolidated Financial Statements and their report follows.

H. Stanley Marshall
President and Chief Executive Officer



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

St. John's, Canada

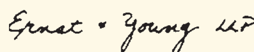
Auditors' Report

To the Shareholders of Fortis Inc.

We have audited the consolidated balance sheets of Fortis Inc. as at December 31, 2007 and 2006 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



St. John's, Canada,
February 1, 2008

Chartered Accountants

Consolidated Balance Sheets

FORTIS INC.

(Incorporated under the laws of the Province of Newfoundland and Labrador)

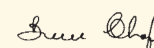
As at December 31 (in millions)

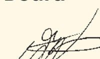
ASSETS	**2007**	2006
Current assets		
Cash and cash equivalents	**$ 58**	$ 41
Accounts receivable	**635**	286
Prepaid expenses	**19**	14
Regulatory assets *(Note 4)*	**119**	31
Inventories of gas, materials and supplies	**233**	33
	1,064	405
Deferred charges and other assets *(Note 5)*	**179**	174
Regulatory assets *(Note 4)*	**193**	140
Future income taxes *(Note 19)*	**37**	7
Utility capital assets *(Note 6)*	**6,722**	3,575
Income producing properties *(Note 7)*	**519**	469
Intangibles, net of amortization *(Note 2)*	**15**	10
Goodwill *(Note 8)*	**1,544**	661
	$ 10,273	$ 5,441
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings *(Note 9)*	**$ 475**	$ 98
Accounts payable and accrued charges	**793**	333
Dividends payable	**43**	22
Income taxes payable	**30**	–
Regulatory liabilities *(Note 4)*	**20**	19
Current installments of long-term debt and capital lease obligations *(Note 10)*	**436**	85
Future income taxes *(Note 19)*	**7**	1
	1,804	558
Deferred credits *(Note 11)*	**261**	79
Regulatory liabilities *(Note 4)*	**372**	340
Future income taxes *(Note 19)*	**55**	58
Long-term debt and capital lease obligations *(Note 10)*	**4,623**	2,558
Non-controlling interest *(Note 12)*	**115**	130
Preference shares *(Note 13 (i) and (ii))*	**320**	320
	7,550	4,043
Shareholders' equity		
Common shares *(Note 14)*	**2,126**	829
Preference shares *(Note 13 (iii))*	**122**	122
Contributed surplus	**6**	5
Equity portion of convertible debentures *(Note 10)*	**6**	7
Accumulated other comprehensive loss *(Note 16)*	**(88)**	(51)
Retained earnings	**551**	486
	2,723	1,398
	$ 10,273	$ 5,441

Commitments *(Note 25)*
Contingent Liabilities *(Note 26)*

See accompanying Notes to Consolidated Financial Statements

Approved on Behalf of the Board


Bruce Chafe,
Director


David G. Norris,
Director

Financials

Consolidated Statements of Earnings

FORTIS INC.

For the years ended December 31 (in millions, except per share amounts)	2007	2006
Operating Revenues	$ 2,718	$ 1,462
Equity Income	–	10
	2,718	1,472
Expenses		
Energy supply costs	1,287	540
Operating	617	399
Amortization	273	178
	2,177	1,117
Operating Income	541	355
Finance charges *(Note 17)*	299	168
Gain on sale of property *(Note 18)*	(8)	(2)
	291	166
Earnings Before Corporate Taxes and Non-Controlling Interest	250	189
Corporate taxes *(Note 19)*	36	32
Net Earnings Before Non-Controlling Interest	214	157
Non-controlling interest	15	8
Net Earnings	199	149
Preference share dividends	6	2
Net Earnings Applicable to Common Shares	$ 193	$ 147
Earnings Per Common Share *(Note 14)*		
Basic	$ 1.40	$ 1.42
Diluted	$ 1.32	$ 1.37

See accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Retained Earnings

FORTIS INC.

For the years ended December 31 (in millions)	2007	2006
Balance at Beginning of Year	$ 486	$ 412
Net Earnings Applicable to Common Shares	193	147
	679	559
Dividends on Common Shares	(128)	(73)
Balance at End of Year	$ 551	$ 486

See accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

FORTIS INC.

For the years ended December 31 (in millions)	2007	2006
Net Earnings	$ 199	$ 149
Unrealized foreign currency translation losses	(70)	(30)
Gains (losses) on hedges of net investments in self-sustaining foreign operations	48	(6)
Corporate (taxes) recovery	(9)	1
Change in Unrealized Foreign Currency Translation Losses, Net of Hedging Activities and Tax *(Note 16)*	(31)	(35)
Comprehensive Income	$ 168	$ 114

See accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

FORTIS INC.

For the years ended December 31 (in millions)	**2007**	2006
Operating Activities		
Net earnings	**$ 199**	$ 149
Items not Affecting Cash		
Amortization – capital assets, net of contributions in aid of construction	**261**	168
Amortization – intangibles	**5**	4
Amortization – other	**7**	6
Future income taxes *(Note 19)*	**–**	10
Accrued employee future benefits	**(2)**	(3)
Non-controlling interest	**15**	8
Gain on sale of property *(Note 18)*	**(8)**	(2)
Other	**2**	(4)
Change in long-term regulatory assets and liabilities	**11**	(30)
Increase in corporate income tax deposit	**–**	(6)
	490	300
Change in non-cash operating working capital	**(117)**	(37)
	373	263
Investing Activities		
Change in deferred charges, other assets and deferred credits	**(4)**	(25)
Utility capital expenditures	**(790)**	(483)
Contributions in aid of construction	**73**	54
Income producing property capital expenditures	**(13)**	(17)
Proceeds on sale of capital assets	**4**	8
Business acquisitions, net of cash acquired *(Note 21)*	**(1,303)**	(169)
Increase in investments	**–**	(2)
	(2,033)	(634)
Financing Activities		
Change in short-term borrowings	**103**	38
Proceeds from long-term debt, net of issue costs	**1,400**	469
Repayments of long-term debt and capital lease obligations	**(941)**	(197)
Advances (to) from non-controlling interest	**(3)**	10
Issue of common shares, net of costs	**1,267**	15
Issue of preference shares, net of costs	**–**	121
Dividends		
Common shares	**(128)**	(73)
Preference shares	**(6)**	(2)
Subsidiary dividends paid to non-controlling interest	**(12)**	(2)
	1,680	379
Effect of exchange rate changes on cash and cash equivalents	**(3)**	–
Change in Cash and Cash Equivalents	**17**	8
Cash and Cash Equivalents, Beginning of Year	**41**	33
Cash and Cash Equivalents, End of Year	**$ 58**	$ 41

Supplementary Information to Consolidated Statements of Cash Flows *(Note 23)*

See accompanying Notes to Consolidated Financial Statements

December 31, 2007 and 2006

1. Description of the Business

Nature of Operations

Fortis Inc. ("Fortis" or the "Corporation") is principally an international distribution utility holding company. Fortis segments its utility operations by franchise area and, depending on regulatory requirements, by the nature of the assets. Fortis also holds investments in non-regulated generation, and commercial real estate and hotels, which are treated as two separate segments. The Corporation's operating segments allow senior management to evaluate the operational performance and assess the overall contribution of each segment to the Corporation's long-term objectives. Each operating segment operates as an autonomous unit, assumes profit and loss responsibility and is accountable for its own resource allocation.

The following summary describes the operations included in each of the Corporation's reportable segments.

Regulated Utilities

The following summary describes the Corporation's interests in regulated gas and electric utilities in Canada and the Caribbean by utility:

Regulated Gas Utilities – Canadian

Terasen Gas Companies: Includes Terasen Gas Inc. ("TGI"), Terasen Gas (Vancouver Island) Inc. ("TGVI") and Terasen Gas (Whistler) Inc. ("TGWI"), which Fortis acquired through the acquisition of Terasen Inc. ("Terasen") on May 17, 2007.

TGI is the largest distributor of natural gas in British Columbia, serving approximately 825,000 residential, commercial and industrial customers in a service area that extends from Vancouver to the Fraser Valley and the interior of British Columbia.

TGVI owns and operates the natural gas transmission pipeline from the Greater Vancouver area across the Georgia Strait to Vancouver Island and the distribution system on Vancouver Island and along the Sunshine Coast of British Columbia, serving approximately 91,200 residential, commercial and industrial customers.

In addition to providing transmission and distribution services to customers, TGI and TGVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from northeastern British Columbia and, through TGI's Southern Crossing Pipeline, from Alberta.

TGWI owns and operates the propane distribution system in Whistler, British Columbia, providing service to approximately 2,400 residential and commercial customers.

Regulated Electric Utilities – Canadian

a. *FortisAlberta:* FortisAlberta owns and operates the electricity distribution system in a substantial portion of southern and central Alberta, serving over 448,000 customers.

b. *FortisBC:* Includes FortisBC Inc., an integrated electric utility operating in the southern interior of British Columbia, serving approximately 154,000 customers. FortisBC Inc. owns four hydroelectric generating plants with a combined capacity of 223 megawatts ("MW"). During 2007, the entitlement capacity and energy output for a number of FortisBC Inc.'s hydroelectric generating units were optimized as a result of past turbine and generator upgrade projects. Entitlement capacity was rebalanced from 235 MW to 223 MW and energy output increased by 11,000 MW hours as a result of negotiated adjustments to the Canal Plant Agreement with BC Hydro.

   Included with the FortisBC component of the Regulated Electric Utilities – Canadian segment are the operating, maintenance and management services relating to the 450-MW Waneta hydroelectric generating facility owned by Teck Cominco Metals Ltd., the 149-MW Brilliant Hydroelectric Plant owned by Columbia Power Corporation and the Columbia Basin Trust ("CPC/CBT"), the 185-MW Arrow Lakes Hydroelectric Plant owned by CPC/CBT and the distribution system owned by the City of Kelowna. FortisBC's assets also include the regulated electric utility formerly operated as Princeton Light and Power Company, Limited.

c. *Newfoundland Power:* Newfoundland Power is the principal distributor of electricity in Newfoundland, serving approximately 232,000 customers. Newfoundland Power has an installed generating capacity of 139 MW, of which 96 MW is hydroelectric generation.

d. *Maritime Electric:* Maritime Electric is the principal distributor of electricity on Prince Edward Island, serving approximately 72,000 customers. Maritime Electric also maintains on-Island generating facilities with a combined capacity of 150 MW.

e. *FortisOntario:* FortisOntario provides integrated electric utility service to approximately 52,000 customers in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. FortisOntario operations include Canadian Niagara Power Inc. ("Canadian Niagara Power") and Cornwall Street Railway, Light and Power Company, Limited ("Cornwall Electric"). Included in Canadian Niagara Power's accounts is the operation of the electricity distribution business of Port Colborne Hydro Inc., which has been leased from the City of Port Colborne under a 10-year lease agreement that expires in April 2012. FortisOntario also owns a 10 per cent interest in each of Westario Power Holdings Inc. and Rideau St. Lawrence Holdings Inc., two regional electric distribution companies formed in 2000, serving more than 27,000 customers.

Regulated Electric Utilities – Caribbean

a. *Belize Electricity:* Belize Electricity is the principal distributor of electricity in Belize, Central America, serving approximately 73,000 customers. The Company has an installed generating capacity of 36 MW. Fortis holds a 70.1 per cent controlling interest in Belize Electricity.

b. *Caribbean Utilities:* Caribbean Utilities is the sole provider of electricity on Grand Cayman, Cayman Islands, serving more than 23,000 customers. The Company has an installed generating capacity of 137 MW. On November 7, 2006, Fortis acquired an additional approximate 16 per cent ownership interest in Caribbean Utilities and now owns approximately 54 per cent of the Company. Caribbean Utilities is a public company traded on the Toronto Stock Exchange (TSX:CUP.U) and has an April 30th fiscal year end. Caribbean Utilities' balance sheet as at November 7, 2006 was consolidated in the December 31, 2006 balance sheet of Fortis. Beginning with the first quarter of 2007, Fortis has been consolidating Caribbean Utilities' financial statements on a two-month lag basis and, accordingly, has consolidated Caribbean Utilities' October 31, 2007 balance sheet, and statements of earnings and cash flows for the 12-month period ended October 31, 2007 with the Corporation's December 31, 2007 Consolidated Financial Statements. During 2006, the statement of earnings of Fortis reflected the Corporation's previous approximate 37 per cent ownership interest in Caribbean Utilities, accounted for on an equity basis, on a two-month lag.

c. *P.P.C. Limited ("PPC") and Atlantic Equipment & Power (Turks and Caicos) Ltd. ("Atlantic") (collectively referred to as Fortis Turks and Caicos):* Fortis Turks and Caicos is the principal distributor of electricity on the Turks and Caicos Islands, serving more than 8,700 customers. The Company has a combined diesel-fired generating capacity of 48 MW. Fortis Turks and Caicos was acquired by Fortis, through a wholly owned subsidiary, on August 28, 2006.

Non-Regulated – Fortis Generation

a. *Belize:* Operations consist of the 25-MW Mollejon and 7-MW Chalillo hydroelectric generating facilities in Belize. All of the electricity output is sold to Belize Electricity under a 50-year power purchase agreement expiring in 2055. Hydroelectric generation operations in Belize are conducted through the Corporation's wholly owned indirect subsidiary, Belize Electric Company Limited ("BECOL"), under a Franchise Agreement with the Government of Belize.

b. *Ontario:* Includes 75 MW of water-right entitlement associated with the Niagara Exchange Agreement ("NEA"), a 5-MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW. Non-regulated generation operations in Ontario are conducted through FortisOntario Inc. and Fortis Properties. On January 1, 2006, the former FortisOntario Generation Corporation was amalgamated with CNE Energy Inc. and, effective January 1, 2007, CNE Energy Inc. was amalgamated with Fortis Properties.

c. *Central Newfoundland:* Through the Exploits River Hydro Partnership ("Exploits Partnership"), a partnership between the Corporation, through its wholly owned subsidiary Fortis Properties, and Abitibi-Consolidated Corporation of Canada ("Abitibi-Consolidated"), 36 MW of additional capacity was developed and installed at two of Abitibi-Consolidated's hydroelectric generating plants in central Newfoundland. Since the amalgamation of CNE Energy Inc. with Fortis Properties on January 1, 2007, Fortis Properties has held directly a 51 per cent interest in the Exploits Partnership and Abitibi-Consolidated holds the remaining 49 per cent interest. The Exploits Partnership sells its output to Newfoundland and Labrador Hydro Corporation under a 30-year power purchase agreement expiring in 2033.

December 31, 2007 and 2006

1. Description of the Business (cont'd)

Non-Regulated – Fortis Generation (cont'd)

d. *British Columbia:* Includes the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. This plant sells its entire output to BC Hydro under a long-term contract expiring in 2013. Hydroelectric generation operations in British Columbia are conducted through the Walden Power Partnership ("WPP"), a wholly owned partnership of FortisBC Inc.

e. *Upper New York State:* Includes the operations of four hydroelectric generating stations in Upper New York State, with a combined capacity of approximately 23 MW, operating under licences from the US Federal Energy Regulatory Commission. Hydroelectric generation operations in Upper New York State are conducted through the Corporation's indirect wholly owned subsidiary, FortisUS Energy Corporation ("FortisUS Energy").

Non-Regulated – Fortis Properties

Fortis Properties owns and operates 19 hotels with more than 3,500 rooms in eight Canadian provinces and approximately 2.8 million square feet of commercial real estate primarily in Atlantic Canada.

Corporate and Other

The Corporate and Other segment captures expense and revenue items not specifically related to any other reportable segment. Included in this segment are finance charges including interest on debt incurred directly by Fortis and Terasen Inc. and dividends on preference shares classified as long-term liabilities; foreign exchange gains or losses; dividends on preference shares classified as equity; other corporate expenses, including Fortis and Terasen corporate operating costs, net of recoveries from subsidiaries; interest and miscellaneous revenues; and corporate income taxes. Also included in the Corporate and Other segment are the financial results of CustomerWorks Limited Partnership ("CWLP"). CWLP is a non-regulated shared-services business in which Terasen holds a 30 per cent interest. CWLP operates in partnership with Enbridge Inc. and provides customer service contact, meter reading, billing, credit, support and collection services to the Terasen Gas companies and several smaller third parties. CWLP's financial results are recorded using the proportionate consolidation method of accounting. Terasen was acquired by Fortis on May 17, 2007.

2. Summary of Significant Accounting Policies

These Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), including selected accounting treatments that differ from those used by entities not subject to rate regulation. The timing of the recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using Canadian GAAP for entities not subject to rate regulation. These differences are described in Note 2, under the headings "Regulation", "Utility Capital Assets", "Employee Future Benefits", "Income Taxes" and "Revenue Recognition", and in Note 4.

All amounts presented are in Canadian dollars unless otherwise stated.

Regulation

Terasen Gas Companies and FortisBC
The Terasen Gas companies and FortisBC are regulated by the British Columbia Utilities Commission ("BCUC"). The BCUC administers acts and regulations pursuant to the *Utilities Commission Act* (British Columbia), covering such matters as tariffs, rates, construction, operations, financing and accounting. TGI, TGVI and FortisBC operate under both cost-of-service regulation and performance-based rate-setting ("PBR") methodologies as administered by the BCUC. The BCUC uses a future test year in the establishment of rates for the utilities and, pursuant to this method, forecasts the volume of gas that will be sold and transported for TGI and TGVI, together with all the costs of the utilities, and provides a rate of return on a deemed capital structure applied to approved rate base assets. Rates are fixed to permit the utilities to collect all of their costs, including the allowed rate of return on common shareholders' equity ("ROE").

Under the PBR mechanism, TGI and customers equally share in achieved earnings above or below the allowed ROE. When TGI's earned ROE is greater than 200 basis points above the allowed ROE for two consecutive years, the PBR mechanism may be reviewed. Under the PBR mechanism, TGVI is permitted to retain 100 per cent of earnings derived from lower-than-forecasted controllable operating and maintenance expenses; however, TGVI is not provided any relief from increased controllable operating and maintenance expenses. The PBR agreements at TGI and TGVI have been extended until 2009. During 2006, the BCUC approved a PBR agreement for FortisBC with a term from 2006 to 2008, with an option to extend the term to 2009. Under the PBR agreement, FortisBC and customers equally share achieved earnings above or below the allowed ROE up to an achieved ROE that is 200 basis points above or below the allowed ROE. Any excess is subject to deferral treatment. FortisBC's portion of the PBR incentive is subject to the Company meeting certain performance standards and BCUC approval.

TGI's allowed ROE was 8.37 per cent for 2007 (2006 – 8.80 per cent) on a deemed capital structure of 35 per cent equity. TGVI's allowed ROE was 9.07 per cent for 2007 (2006 – 9.50 per cent) on a deemed capital structure of 40 per cent equity. FortisBC's allowed ROE was 8.77 per cent for 2007 (2006 – 9.20 per cent) on a deemed capital structure of 40 per cent equity. The allowed ROE at each of TGI, TGVI and FortisBC is adjusted annually through the operation of an automatic adjustment formula to adjust for forecast changes in long-term Canada bond yields. TGI, TGVI and FortisBC apply for tariff revenue based on estimated cost of service. Once the tariff is approved, it is not adjusted as a result of actual cost of service being different from that which was estimated, other than for certain prescribed costs that are eligible for deferral account treatment and operation of the PBR mechanisms.

FortisAlberta

FortisAlberta is regulated by the Alberta Utilities Commission ("AUC"), pursuant to the *Electric Utilities Act* (Alberta), the *Public Utilities Board Act* (Alberta) and the *Hydro and Electric Energy Act* (Alberta). The AUC administers these acts and regulations, covering such matters as tariffs, rates, construction, operations and financing. Prior to January 1, 2008, the Alberta Energy and Utilities Board ("AEUB") was the chief provincial regulator of the Alberta energy industry. Effective January 1, 2008, the *Alberta Utilities Commission Act* separated the AEUB into two separate regulatory bodies: the Energy Resource and Conservation Board and the AUC. Any use herein of the term "AUC" will refer to the AEUB prior to January 1, 2008 and the AUC subsequently.

FortisAlberta operates under cost-of-service regulation as prescribed by the AUC. The AUC uses a future test year in the establishment of rates associated with the distribution business and, pursuant to this method, rate orders issued by the AUC establish the Company's revenue requirements, being those revenues required to recover approved costs associated with the distribution business and provide a rate of return on a deemed capital structure applied to approved rate base assets. FortisAlberta's allowed ROE was 8.51 per cent for 2007 (2006 – 8.93 per cent) on a deemed capital structure of 37 per cent equity. FortisAlberta's allowed ROE is adjusted annually through the operation of an automatic adjustment formula to adjust for forecast changes in long-term Canada bond yields.

The Company applies for tariff revenue based on estimated cost of service. Once the tariff is approved, it is not adjusted as a result of actual cost of service being different from that which was estimated, other than for certain prescribed costs that are eligible for deferral account treatment.

Newfoundland Power

Newfoundland Power is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities ("PUB") under the *Public Utilities Act* (Newfoundland and Labrador). The *Public Utilities Act* (Newfoundland and Labrador) provides for the PUB's general supervision of the Company's utility operation and requires the PUB to approve, among other things, customer rates, capital expenditures and the issuance of securities of Newfoundland Power. Newfoundland Power operates under cost-of-service regulation as administered by the PUB. The PUB uses a future test year in the establishment of rates for the utility and, pursuant to this method, the determination of the forecast rate of return on approved rate base and deemed capital structure, together with the forecast of all reasonable and prudent costs, establishes the revenue requirement upon which Newfoundland Power's customer rates are determined. In between test years, Newfoundland Power's allowed ROE is adjusted annually through the operation of an automatic adjustment formula to adjust for forecast changes in long-term Canada bond yields. Newfoundland Power's allowed ROE for 2007 was 8.60 per cent (2006 – 9.24 per cent) on a deemed capital structure of 45 per cent equity. The Company applies for tariff revenue based on estimated cost of service. Once the tariff is approved, it is not adjusted as a result of actual cost of service being different from that which was estimated, other than for certain prescribed costs that are eligible for deferral account treatment.

December 31, 2007 and 2006

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

Regulation (cont'd)

Maritime Electric

Maritime Electric operates under a traditional cost-of-service regulatory model as prescribed by the Island Regulatory and Appeals Commission ("IRAC") under the provisions of the *Electric Power Act* (Prince Edward Island). The IRAC uses a future test year in the establishment of rates for the utility and, pursuant to this method, rate orders are based on estimated costs and provide an approved rate of return on a deemed capital structure applied to approved rate base assets. Maritime Electric's allowed ROE was 10.25 per cent for 2007 (2006 – 10.25 per cent) on a deemed capital structure of 40 per cent equity. Maritime Electric applies for tariff revenue based on estimated cost of service. Once the tariff is approved, it is not adjusted as a result of actual cost of service being different from that which was estimated, other than for certain prescribed costs that are eligible for deferral account treatment.

FortisOntario

Canadian Niagara Power and Cornwall Electric operate under the *Electricity Act* (Ontario) and the *Ontario Energy Board Act* (Ontario) as administered by the Ontario Energy Board ("OEB"). Canadian Niagara Power operates under cost-of-service regulation and earnings are regulated on the basis of rate of return on rate base, plus a recovery of allowable distribution costs. The electricity distribution rates are based upon costs associated with a historical test year, 2004, using a deemed capital structure of 50 per cent equity. FortisOntario's allowed ROE was 9.0 per cent for 2007 (2006 – 9.0 per cent).

Cornwall Electric is exempt from many aspects of the above Acts and is also subject to a 35-year Franchise Agreement with the City of Cornwall, dated July 31, 1998. The rate-setting mechanism is subject to a price cap with commodity cost flow through. The base revenue requirement is adjusted annually for inflation, load growth and customer growth.

Belize Electricity

Belize Electricity is regulated by the Public Utilities Commission ("PUC") under the terms of the *Electricity Act* (Belize), the *Electricity (Tariffs, Charges and Quality of Service Standards) By-Laws* (Belize) and the *Public Utilities Commission Act* (Belize). The primary duty of the PUC is to ensure that the services rendered by the Company are satisfactory and that the charges imposed in respect of those services are fair and reasonable. The PUC oversees the rates that may be charged in respect of utility services and the standards that must be maintained in relation to such services and uses a future test year to set rates. In addition, the PUC is responsible for the award of licences and for monitoring and enforcing compliance with licences' conditions. Basic electricity rates for Belize Electricity are comprised of two components. The first component is value-added delivery ("VAD") and the second is the cost of fuel and purchased power ("COP"), including the variable cost of generation, which is a flow through in customer rates. The VAD component of the tariff allows the Company to recover its operating expenses, transmission and distribution expenses, taxes and amortization, and allowed rate of return on rate base assets ("ROA") in the range of 10 per cent to 15 per cent. The VAD component of the tariff is normally reviewed every four years, while the COP component and any rate stabilization account ("RSA") recovery are reviewed at each annual rate proceeding and at Threshold Event Review Proceedings, which can occur when the deferrals of COP into the RSA exceed $1.5 million (BZ$3 million).

Effective for the full (four-year) tariff period beginning July 1, 2007, if the achieved ROA at the end of the full tariff period is below 10 per cent or above 15 per cent, rates are adjusted over the course of the next full tariff period.

Caribbean Utilities

Caribbean Utilities generates and distributes electricity in its exclusive licence area of Grand Cayman, Cayman Islands, under a licence from the Government of the Cayman Islands (the "Government"), originally dated May 10, 1966, amended November 1, 1979 and renewed for a further 25 years on January 17, 1986 (collectively, the "Licence"). The Licence allows for subscribers' tariffs to be adjusted annually to provide Caribbean Utilities with an allowed ROA of 15 per cent, as defined in the Licence.

An agreement in principle ("AIP") was reached with the Government in December 2007 on the terms of a new generation licence, initially to be granted for up to 25 years, and, under new arrangements, a new exclusive 20-year transmission and distribution licence for Caribbean Utilities. The new licences are expected to be issued in the first half of 2008, with impact on customer rates effective January 1, 2008. The AIP will see the replacement of the current allowed ROA of 15 per cent with a rate cap and adjustment mechanism ("RCAM") based on published consumer price indices. Customer rates will now be set using an initial targeted ROA of 10 per cent. The AIP details the role of the Electric Regulatory Authority which will oversee all licences, establish and enforce licence standards, review the RCAM and annually approve capital expenditures.

Fortis Turks and Caicos

Fortis Turks and Caicos provides electricity to Providenciales, North Caicos and Middle Caicos through PPC and provides electricity to South Caicos through Atlantic for terms of 50 years under licences dated October 1987 and November 1986 (collectively, the "Agreements"), respectively. Among other matters, these Agreements describe how electricity rates are to be set by the Government of the Turks and Caicos Islands, using a future test year, in order to provide Fortis Turks and Caicos with an ROA of 17.5 per cent (the "Allowable Operating Profit") based on a calculated rate base, and including interest on the amounts by which actual operating profits fall short of Allowable Operating Profits on a cumulative basis (the "cumulative shortfall").

Fortis Turks and Caicos makes annual submissions to the Government of the Turks and Caicos Islands calculating the amount of the Allowable Operating Profit and the cumulative shortfall. The submissions for 2007 calculated the Allowable Operating Profit for 2007 to be $12 million (US$12 million) and the cumulative shortfall at December 31, 2007 to be $8 million (US$8 million). Fortis Turks and Caicos has a legal right under the Agreements to request an increase in electricity rates to begin to recover the cumulative shortfalls. The recovery would, however, be dependent on future sales volumes and expenses.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term deposits with maturities of three months or less from the date of acquisition.

Inventories of Gas, Materials and Supplies

Inventories of gas in storage are valued at weighted-average cost. Materials and supplies are valued at the lower of average cost and market value, determined on the basis of estimated net realizable value.

Deferred Charges and Credits and Other Assets

Deferred charges and credits and other assets include deferred pension costs, accrued pension obligations, Alberta Electric System Operator ("AESO") contributions, deferred recoverable and project costs, deferred gains on sale of natural gas transmission and distribution assets, deferred payments, energy management loans, a corporate income tax deposit, an investment held at Fortis Properties as collateral for a loan, customer deposits, investments, long-term receivables, lease costs and other deferred charges and credits. AESO contributions represent payments to the AESO by FortisAlberta for investment in transmission facilities that are needed for reliability or contingency planning in accordance with AESO Terms and Conditions of Service. These assets are recovered in customer rates through AUC-approved amortization rates. Deferred recoverable costs are amortized over the estimated remaining useful lives of the projects. Project costs are deferred until a capital project has been identified, at which time the costs are transferred to utility capital assets or income producing properties. Energy management loans range in terms from one year to 10 years and are deferred until they are recovered from customers. The corporate income tax deposit relates to Maritime Electric's tax reassessment (Note 26). Other deferred charges and assets are recorded at cost and are amortized over the estimated period of future benefit.

As a result of adopting Section 3855, *Financial Instruments – Recognition and Measurement*, deferred financing costs of $21 million, as at January 1, 2007, relating to long-term debt were reclassified from deferred charges and other assets to long-term debt on the balance sheet (Note 5).

As at January 1, 2007, in accordance with the transitional provisions of Section 3865, *Hedges*, unamortized deferred gain and loss balances related to previously cancelled swap agreements were reclassified to accumulated other comprehensive loss (Note 16). An unamortized loss balance of $11 million ($7 million after-tax), as at January 1, 2007, related to a previously cancelled interest rate swap agreement, was reclassified from deferred charges and other assets (Note 5), and an unamortized gain balance of $3 million ($2 million after-tax), as at January 1, 2007, related to a previously cancelled US dollar forward-currency swap agreement, was reclassified from deferred credits (Note 11).

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

Utility Capital Assets

Utility capital assets of Newfoundland Power are stated at values approved by the PUB as at June 30, 1966 with subsequent additions at cost. Utility capital assets of Caribbean Utilities are stated on the basis of appraised values at November 30, 1984 with subsequent additions at cost. Utility capital assets of Fortis Turks and Caicos are stated at appraised values at September 18, 1986. Subsequent additions are at cost except for the distribution systems on Middle, North and South Caicos, transferred by the Government of the Turks and Caicos Islands to Fortis Turks and Caicos by agreements dated November 29, 1986 and October 8, 1987 for US$2.00, in aggregate, as valued in the books of the companies. Utility capital assets of all other utility operations are stated at cost.

Contributions in aid of construction represent the cost of utility capital assets contributed by customers and governments. These contributions are recorded as a reduction in the cost of utility capital assets and are being reduced annually by an amount equal to the charge for amortization provided on the related assets.

As required by their respective regulators, amortization expense at FortisAlberta, FortisBC, Newfoundland Power and Maritime Electric includes an amount allowed for regulatory purposes to provide for future removal and site restoration costs, net of salvage proceeds. The amount provided for in amortization expense is recorded as a long-term regulatory liability. Actual removal and site restoration costs, net of salvage proceeds, are recorded against the regulatory liability when incurred. At December 31, 2007, the long-term regulatory liability for future removal and site restoration costs was $319 million (December 31, 2006 – $307 million) (Note 4 *(xiv)*). The Terasen Gas companies record actual removal and site restoration costs, net of salvage proceeds, against accumulated amortization. In the absence of a current depreciation study approved by its regulator, a reasonable estimate of any regulatory asset or liability associated with future removal and site restoration costs for the Terasen Gas companies cannot be made as at December 31, 2007. FortisOntario, Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos record removal and site restoration costs in earnings when incurred and these costs did not have a material impact on the Corporation's 2007 and 2006 earnings.

Upon retirement or disposal of utility capital assets, the capital cost of the assets is charged to accumulated amortization by the Terasen Gas companies, FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric and Belize Electricity, as required by their respective regulators, with no loss, if any, reflected in earnings. It is expected that any loss charged to accumulated amortization will be reflected in future amortization expense when it is collected in customer gas and electricity rates. At FortisOntario, Caribbean Utilities and Fortis Turks and Caicos, any remaining net book value, less salvage proceeds, upon retirement or disposal of utility capital assets, is recorded immediately in earnings.

In the absence of rate regulation, any loss on the retirement or disposal of utility capital assets at the Terasen Gas companies, FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric and Belize Electricity would be recognized in the current period. The loss charged to accumulated amortization in 2007 was approximately $22 million (2006 – $22 million).

Maintenance and repairs of utility capital assets are charged to earnings in the period incurred while replacements and betterments are capitalized.

As required by their respective regulators, the Terasen Gas companies, FortisBC, Newfoundland Power, Maritime Electric, FortisOntario and Belize Electricity capitalize overhead costs that are not directly attributable to specific utility capital assets, but which relate to the overall capital expenditure program. The methodology for calculating and allocating capitalized general overhead costs to utility capital assets is established by the respective regulators. In the absence of rate regulation, only those overhead costs directly attributable to construction activity would be capitalized. The general expenses capitalized ("GEC") are allocated over constructed capital assets and amortized over their estimated service lives. In 2007, GEC totalled $40 million (2006 – $18 million).

The Terasen Gas companies, FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric and Belize Electricity, as required by their respective regulators, include an equity component in the allowance for funds used during construction ("AFUDC") that is included in the cost of utility capital assets. Since AFUDC includes both an interest component and an equity component, it exceeds the amount allowed to be capitalized in similar circumstances by entities not subject to rate regulation. AFUDC is deducted from finance charges, and AFUDC capitalized during 2007 was $8 million (2006 – $4 million) (Note 17), including an equity component of $3 million (2006 – $2 million). AFUDC is charged to operations through amortization expense over the estimated service lives of the applicable utility capital assets.

FortisAlberta maintains a regulatory tax basis adjustment account, which represents the excess of the deemed tax basis of the Company's utility capital assets for regulatory rate-making purposes as compared to the Company's tax basis for income tax purposes. The regulatory tax basis adjustment is being amortized over the estimated service lives of the Company's utility capital assets by an offset against the provision for amortization. The regulatory tax basis adjustment is recorded as a reduction in utility capital assets. During 2007, amortization expense was reduced by $5 million (2006 – $5 million) for the amortization of the regulatory tax basis adjustment.

Utility capital assets are being amortized using the straight-line method based on the estimated service lives of the capital assets. Amortization rates range from 0.4 per cent to 33.0 per cent. The composite rate of amortization before reduction for amortization of contributions in aid of construction for 2007 was 3.6 per cent (2006 – 4.2 per cent).

The service life ranges and average remaining service life of the Corporation's distribution, transmission and generation assets as at December 31st were as follows.

	2007		2006	
	Service Life Ranges (Years)	**Average Remaining Service Life (Years)**	**Service Life Ranges (Years)**	**Average Remaining Service Life (Years)**
Distribution				
Gas	**10–100**	**33**	–	–
Electric	**10–75**	**28**	10–75	27
Transmission				
Gas	**10–50**	**38**	–	–
Electric	**10–75**	**34**	10–75	30
Generation	**5–75**	**32**	5–75	31

Income Producing Properties

Income producing properties of Fortis Properties, which include office buildings, shopping malls, hotels, land and related equipment and tenant inducements, are recorded at cost. Buildings are being amortized using the straight-line method over an estimated useful life of 60 years. Fortis Properties amortizes tenant inducements over the initial terms of the leases to which they relate, except where a write-down is required to reflect a permanent impairment. The lease terms vary to a maximum of 20 years. Equipment is recorded at cost and is amortized on a straight-line basis over a range of two years to 25 years.

Maintenance and repairs of income producing properties are charged to earnings in the period incurred while replacements and betterments are capitalized.

Intangibles

Intangibles include the estimated fair value of water rights associated with the Rankine Generating Station in Ontario and intangibles associated with the acquisition of Terasen. The water rights are being amortized using the straight-line method over the estimated life of the asset to April 30, 2009. Effective May 1, 2009, in accordance with the NEA, FortisOntario's water entitlement on the Niagara River associated with the Rankine Generating Station will not be renewed and earnings' contribution associated with the NEA will cease.

Upon the acquisition of Terasen, $10 million was assigned as the value associated with customer contracts at CWLP. The intangible is being amortized using the straight-line method over the remaining term of the contracts to December 31, 2011. Approximately $1 million was assigned to the Terasen trade-name associated with non-regulated activities and is not subject to amortization. As at December 31, 2007, the net book value of intangibles was $15 million (net of accumulated amortization of $21 million) (2006 – $10 million (net of accumulated amortization of $15 million)).

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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

Impairment of Long-Lived Assets

The Corporation reviews the valuation of utility capital assets, income producing properties, intangible assets with finite lives, deferred charges and other assets when events or changes in circumstances may indicate that the asset's carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposition. An impairment loss, calculated as the difference between the asset's carrying value and its fair value, which is determined using present value techniques, is recognized in earnings in the period it is identified. There was no impact on the financial statements as a result of asset-impairments for the years ended December 31, 2007 and 2006.

The process for asset-impairment testing differs for non-regulated generation assets compared to regulated utility assets. Since each non-regulated generating facility provides an individual cash inflow stream, such an asset is tested individually and an impairment is recorded if the future cash inflows are no longer sufficient to recover the economic value of the generating facility. Asset-impairment testing at the regulated utilities is carried out at the enterprise level to determine if assets are impaired. The recovery of a regulated asset's economic value, including a fair return on capital, is provided through customer gas and electricity rates approved by the respective regulatory authorities. The cash inflows for regulated enterprises are not asset specific but are pooled for the entire regulated enterprise.

Investments

Portfolio investments are accounted for on the cost basis. Declines in value considered to be other than temporary are recorded in the period in which such determinations are made.

Goodwill

Goodwill represents the excess, at the dates of acquisition, of the purchase price over the fair value of the net amounts assigned to individual assets acquired and liabilities assumed relating to business acquisitions. Goodwill is carried at initial cost less any previous amortization and any write-down for impairment. The Corporation is required to perform an annual impairment test and any impairment provision is charged to earnings. In addition to the annual impairment test, the Corporation also performs an impairment test if any event occurs, or if circumstances change, that would indicate that the fair value of a reporting unit was below its carrying value. No goodwill impairment provision has been determined for the years ended December 31, 2007 and 2006.

Employee Future Benefits

Defined Benefit and Defined Contribution Pension Plans
The Corporation and its subsidiaries each maintain one or a combination of defined benefit pension plans, defined contribution pension plans and group Registered Retirement Savings Plans ("RRSPs") for its employees. The costs of the defined contribution pension plans and RRSPs are expensed as incurred. The accrued benefit obligation and the value of pension costs of the defined benefit pension plans are actuarially determined using the projected benefits method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.

With the exception of Terasen and Newfoundland Power, pension plan assets are valued at fair value. At Terasen and Newfoundland Power, plan assets are valued using the market-related value, where investment returns in excess of or below expected returns are recognized in the asset value over a period of three years. The excess of any cumulative net actuarial gain (loss) over 10 per cent of the greater of the benefit obligation and the fair value of plan assets (the market-related value of plan assets at Terasen and Newfoundland Power), at the beginning of the fiscal year, along with unamortized past service costs, are deferred and amortized over the average remaining service period of active employees.

On January 1, 2000, Newfoundland Power prospectively applied Section 3461 of the Canadian Institute of Chartered Accountants' ("CICA") Handbook. The Company is amortizing the resulting transitional obligation on a straight-line basis over 18 years, the expected average remaining service period of the plan members at that time.

As approved by the regulator, the cost of defined benefit pension plans at FortisAlberta is being recovered in customer rates based on the cash payments made.

Any difference between the expense recognized under Canadian GAAP and that recovered from customers in current rates for defined benefit and defined contribution pension plans, which is expected to be recovered, or refunded, in future customer rates, is subject to deferral treatment (Note 4 *(ix)* and *(xvi)*).

Other Post-Employment Benefit ("OPEB") Plans

The Corporation, Terasen, FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric and FortisOntario also offer other non-pension post-employment benefits through defined benefit plans, including certain health and dental coverage, for qualifying members.

Additionally, the Corporation, Terasen, FortisAlberta, Newfoundland Power and Maritime Electric provide retirement allowances and supplemental retirement plans for certain of its executive employees. The accrued benefit obligation and the value of the costs associated with these OPEB plans are actuarially determined using the projected benefits method prorated on service and best-estimate assumptions. The excess of any cumulative net actuarial gain (loss) over 10 per cent of the benefit obligation, at the beginning of the fiscal year, along with unamortized past service costs, are deferred and amortized over the average remaining service period of active employees.

As approved by the respective regulators, the costs of OPEB plans at FortisAlberta and Newfoundland Power are recovered in customer rates based on the cash payments made, with the exception of retirement allowances arising from Newfoundland Power's 2005 Early Retirement Program. The costs of supplemental pension plans at FortisAlberta are also recovered in customer rates based on the cash payments made.

Any difference between the expense recognized under Canadian GAAP and that recovered from customers in current rates for OPEB and supplemental pension plans, which is expected to be recovered, or refunded, in future customer rates, is subject to deferral treatment (Note 4 *(iii)*).

Stock-Based Compensation

The Corporation records compensation expense upon the issuance of stock options granted under the Corporation's 2002 Stock Option Plan ("2002 Plan") and 2006 Stock Option Plan ("2006 Plan") (Note 15). Compensation expense is measured at the date of grant using the Black-Scholes fair value option pricing model and is amortized over the four-year vesting period of the options granted. The offsetting entry is an increase to contributed surplus for an amount equal to the annual compensation expense related to the issuance of stock options. Upon exercise, the proceeds of the options are credited to capital stock at the option price and the fair value of the options, as previously recorded, is reclassified from contributed surplus to capital stock. An exercise of options below the current market price has a dilutive effect on capital stock and shareholders' equity.

The Corporation also records compensation expense associated with its Directors' Deferred Share Unit ("DSU") and Restricted Share Unit ("RSU") Plans using the fair value method, recognizing compensation expense over the vesting period on a straight-line basis. The fair value of the DSU and RSU liabilities is based on the Corporation's Common Share close price at the end of each reporting period.

Foreign Currency Translation

The assets and liabilities of foreign operations, all of which are self-sustaining, are translated at the exchange rate in effect at the balance sheet dates. The exchange rate in effect at December 31, 2007 was US$1.00 = CDN$0.99 (December 31, 2006 – US$1.00 = CDN$1.17). The resulting unrealized translation gains and losses are accumulated as a separate component of shareholders' equity within accumulated other comprehensive income (loss) and the current period change is recorded in the statement of comprehensive income (loss). Revenue and expense items are translated at the average exchange rate in effect during the period.

Foreign exchange translation gains and losses on foreign currency-denominated long-term debt that is designated as an effective hedge of foreign net investments are recorded separately in the statement of comprehensive income (loss).

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing on the balance sheet date. Revenue and expense items denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing on the transaction date. Gains and losses on translation are included in the statement of earnings.

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

Financial Instruments

Effective January 1, 2007, the Corporation adopted Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3861, *Financial Instruments – Disclosure and Presentation*.

The Corporation designates its financial instruments into one of the following five categories: (i) held for trading, (ii) available for sale, (iii) held to maturity, (iv) loans and receivables, or (v) other financial liabilities. All financial instruments are initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in earnings and other comprehensive income (loss), respectively. All other financial instruments are subsequently measured at amortized cost.

All derivative financial instruments, including derivative features embedded in financial instruments or other contracts that are not considered closely related to the host financial instrument or contract, are generally classified as held for trading and, therefore, must be measured at fair value with changes in fair value recorded in earnings. If a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income (loss). Any change in fair value relating to the ineffective portion is recorded immediately in earnings. At the rate-regulated utilities, any difference between the amount recognized upon a change in the fair value of a derivative financial instrument, whether or not in a qualifying hedging relationship, and the amount recovered from customers in current rates is subject to regulatory deferral treatment to be recovered from, or refunded to, customers in future rates (Note 4).

Currently, the Corporation limits the use of derivative financial instruments to those that qualify as hedges, as discussed under "Hedging Relationships".

The Corporation has selected January 1, 2003 as the transition date for recognizing embedded derivatives and, therefore, recognizes as separate assets and liabilities only those derivatives embedded in hybrid instruments issued, acquired or substantially modified on or after January 1, 2003. While some of the Corporation's long-term debt contracts have prepayment options that qualify as embedded derivatives to be separately recorded, none have been recorded, as they are immaterial to the Corporation's results of operations and financial position.

The Corporation's policy is to recognize transaction costs associated with financial assets and liabilities, that are classified as other than held for trading, as an adjustment to the cost of those financial assets and liabilities recorded on the balance sheet. These transaction costs are amortized into earnings using the effective interest rate method over the life of the related financial instrument.

Hedging Relationships

Effective January 1, 2007, the Corporation adopted Section 3865, *Hedges*.

At December 31, 2007, the Corporation's hedging relationships consisted of interest rate swap contracts, natural gas commodity swap and option contracts, and US dollar borrowings. Derivative financial instruments are used only to manage risk and are not used for trading purposes.

Fortis Properties and the Terasen Gas companies have designated their interest rate swap contracts as hedges of the cash flow risk related to floating-rate debt. The interest rate swap contracts are valued at the present value of future cash flows based on published forward future interest rate curves. The fair value and subsequent changes in fair value of Fortis Properties' interest rate swap contracts that are in effective hedging relationships are recorded in other comprehensive income (loss). Any changes in the fair value of the interest rate swaps of the Terasen Gas companies, whether or not in a qualifying hedging relationship, are deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates, as permitted by the regulator.

The majority of the natural gas supply contracts at the Terasen Gas companies have floating, rather than fixed, prices and natural gas commodity swaps and options are used, therefore, to fix the effective purchase price of natural gas. As at December 31, 2007, none of the natural gas commodity swaps and options were designated as hedges of the natural gas supply contracts. However, any changes in the fair value of the natural gas commodity swaps and options, whether or not in a qualifying hedging relationship, are deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates, as permitted by the regulator. The fair values of the natural gas commodity swaps and options reflect the estimated amounts that the Terasen Gas companies would pay to terminate the contracts as at December 31, 2007.

The Corporation's foreign net investments are exposed to changes in the US dollar exchange rate and the Corporation has reduced its exposure to foreign currency exchange rate fluctuations on a substantial portion of its foreign net investments through the use of US dollar borrowings. The Corporation has designated its US dollar-denominated long-term debt as a hedge of the foreign currency exchange risk related to its net investments in US dollar-denominated self-sustaining foreign operations. In the hedge of net investments in self-sustaining foreign operations, the unrealized gains and losses on the translation of the US dollar-denominated long-term debt serve to offset unrealized foreign currency exchange gains and losses on foreign net investments. The unrealized foreign currency exchange gains and losses on the US dollar-denominated long-term debt and the foreign net investments are recognized in other comprehensive income (loss).

Income Taxes

Except as described below for the Terasen Gas companies, FortisAlberta, FortisBC and Newfoundland Power, the Corporation and its subsidiaries follow the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The future income tax assets and liabilities are measured using the enacted and substantively enacted tax rates and laws that will be in effect when the differences are expected to be recovered or settled. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in earnings in the period that the change occurs. Current income tax expense (recovery) is recognized for the estimated income taxes payable (receivable) in the current year.

The Terasen Gas companies, FortisAlberta, FortisBC and Newfoundland Power follow the taxes-payable method of accounting for income taxes, as prescribed by their respective regulator. Under this methodology, current customer rates do not include the recovery of future income taxes related to certain temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes, as these taxes are expected to be collected in customer rates when they become payable.

Entities not subject to rate regulation generally recognize future income tax assets and liabilities for temporary differences between the tax and accounting basis of all assets and liabilities. In the absence of rate regulation, future income tax assets and liabilities are recorded and the Corporation's future income tax liabilities and future income tax assets would have increased by approximately $344 million and $29 million, respectively, at December 31, 2007 (December 31, 2006 – $127 million and $56 million, respectively).

Belize Electricity is subject to corporate tax; however, it is capped at 1.75 per cent of gross revenues. Caribbean Utilities and Fortis Turks and Caicos are not subject to income tax as they operate in tax-free jurisdictions. BECOL is not subject to income tax as it was granted tax-exempt status by the Government of Belize for the term of the 50-year power purchase agreement.

The Corporation does not provide for income taxes on undistributed earnings of foreign subsidiaries that are not expected to be repatriated in the foreseeable future.

Revenue Recognition

Revenue at the Corporation's regulated utilities is recognized in a manner approved by each utility's regulatory authority. Revenue at the regulated utilities is billed at rates approved by the applicable regulatory authorities and is generally bundled to include service associated with generation, transmission and distribution, except at FortisAlberta and FortisOntario.

Transmission is the conveyance of gas at high pressures (generally at 2,070 kilopascals ("kPa") and higher) and electricity at high voltages (generally at 69 kilovolts ("kV") and higher). Distribution is the conveyance of gas at lower pressures (generally below 2,070 kPa) and electricity at lower voltages (generally below 69 kV). Distribution networks convey gas and electricity from transmission systems to end-use customers.

As required by the respective regulatory authorities, revenue from the sale of gas and electricity by the Terasen Gas companies, FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric, FortisOntario, Caribbean Utilities and Fortis Turks and Caicos is recognized on the accrual basis. Gas and electricity is metered upon delivery to customers and is recognized as revenue using approved rates when consumed. Meters are read periodically and bills are issued to customers based on these readings. At the end of each period, a certain amount of consumed gas and electricity will not have been billed. Gas and electricity that is consumed but not yet billed to customers is estimated and accrued as revenue at each period end.

As required by the PUC, revenue from the sale of electricity by Belize Electricity is recognized as monthly billings are rendered to customers. In the absence of rate regulation, revenue would be recorded on an accrual basis. The difference between recognizing revenue on a billed versus an accrual basis is recorded on the balance sheet as a regulatory liability (Note 4 *(xv)*).

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

Revenue Recognition (cont'd)

FortisAlberta reports revenues and expenses related to transmission services on a net basis in other revenue. At the Corporation's other regulated utilities, transmission revenues and expenses are recorded on a gross basis. As stipulated by the AUC, FortisAlberta is required to arrange and pay for transmission service with AESO and collect transmission revenue from its customers, which is done through invoicing the customers' retailers through FortisAlberta's transmission component of its AUC-approved rates. FortisAlberta is solely a distribution company and, as such, does not operate or provide any transmission or generation services. The Company is a conduit for the flow through of transmission costs to end-use customers, as the transmission provider does not have a direct relationship with these customers. The rates collected are based on forecasted transmission expenses and, for certain elements of the transmission costs, FortisAlberta is subject to the risk of actual expenses being different from the forecast revenue relating to transmission services. All other differences are subject to deferral treatment and are either collected, or refunded, in future customer rates (Note 4 *(v)*).

FortisOntario's regulated operations are primarily comprised of the operations of Cornwall Electric and Canadian Niagara Power. Electricity rates at Cornwall Electric are bundled due to the nature of the Franchise Agreement with the City of Cornwall. Electricity rates at Canadian Niagara Power are not bundled. At Canadian Niagara Power, the cost of power and transmission are a flow through to customers and these costs, and revenue associated with the recovery of these costs, are tracked and recorded separately. This treatment is consistent with other regulated utilities in Ontario as required under OEB regulation. The amount of transmission revenue tracked separately at Canadian Niagara Power is not significant in relation to the consolidated revenue of Fortis.

All of the Corporation's non-regulated generating operations record revenue on an accrual basis and revenue is recognized on delivery of output at rates fixed under contract or based on observed market prices as stipulated in contractual arrangements. Generally, production from the Corporation's generating stations is metered at or near month end and production data is used to record revenue earned.

Hospitality revenue is recognized when services are provided. Real estate revenue is derived from leasing retail and office space to tenants for varying periods of time. Revenue is recorded in the month that it is earned at rates in accordance with lease agreements. The leases are primarily of a net nature, with tenants paying basic rental plus a pro rata share of certain defined overhead expenses. Certain retail tenants pay additional rent based on a percentage of the tenant's sales. Expenses recovered from tenants are recorded as revenue.

The escalation of lease rates included in long-term leases is recorded in earnings using the straight-line method over the term of the lease.

Asset-Retirement Obligations ("AROs")

AROs are recorded as a liability at fair value, with a corresponding increase to utility capital assets and income producing properties. The Corporation recognizes AROs in the periods in which they are incurred if a reasonable estimate of a fair value can be determined.

The Corporation has AROs associated with hydroelectric generating facilities, and with interconnection facilities and wholesale energy supply agreements. While each of the foregoing will have legal AROs, including land and environmental remediation and/or removal of assets, the final date and cost of remediation and/or removal of the related assets cannot be reasonably determined at this time.

No significant environmental issues have been identified to date in respect of the Corporation's hydroelectric generating facilities. These facilities are reasonably expected to operate in perpetuity due to the nature of their operation. The licences, permits, interconnection facilities agreements and wholesale energy supply agreements are reasonably expected to be renewed or extended indefinitely to maintain the integrity of the assets and to ensure the continued provision of electricity service to customers. In the event that environmental issues are identified, hydroelectric generating facilities are decommissioned or the applicable licences, permits or agreements are terminated, AROs will be recorded at that time provided the costs can be reasonably estimated.

The Corporation also has AROs associated with the removal of certain electricity distribution system assets from rights of way at the end of the life of the system. As it is expected that the system will be in service indefinitely, an estimate of the fair value of removal costs cannot be reasonably determined at this time.

The Corporation has determined that an ARO exists regarding the remediation of leased land on which a pumphouse is currently situated at Maritime Electric. The pumphouse is integral to the Company's operations and it is reasonably expected that the land-lease agreement will be renewed indefinitely; therefore, an estimate of fair value of remediation costs cannot be reasonably determined at this time. An ARO associated with land remediation will be recorded when the lease is terminated at the request of the lessor and the costs are reasonably estimable.

On April 1, 2006, Fortis retroactively adopted Emerging Issues Committee Abstract EIC 159, *Conditional Asset-Retirement Obligations* ("EIC 159"). EIC 159 requires an entity to recognize a liability for the fair value of an ARO even though the timing and/or method of settlement are conditional on future events. While conditional AROs have been identified, no amounts have been recorded as they are immaterial to the Corporation's results of operations and financial position.

Accounting Changes

Effective January 1, 2007, the Corporation adopted the revised Section 1506, *Accounting Changes*, relating to changes in accounting policies, changes in accounting estimates, and errors.

Under revised Section 1506, voluntary changes in accounting policies are made only if they result in the financial statements providing reliable and more relevant information. Additional disclosure is required when the Corporation has not applied a new primary source of Canadian GAAP that has been issued but is not yet effective, as well as when changes in accounting estimates and errors occur. Adoption of this revised standard had no impact on the Corporation's 2007 Consolidated Financial Statements except for the disclosures provided in Note 3.

Use of Accounting Estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates are necessary since the regulatory environments in which the Corporation's utilities operate often require amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they become known.

3. Future Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. The transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Corporation for its year ended December 31, 2010. While Fortis has begun assessing the adoption of IFRS for 2011, the financial reporting impact on the Corporation of the transition to IFRS cannot be reasonably estimated at this time.

Rate-Regulated Operations

In August 2007, the AcSB issued a Decision Summary that supported the removal of the temporary exemption in Section 1100, *Generally Accepted Accounting Principles*, of the CICA Handbook, providing relief to entities subject to rate regulation from the requirement to apply the Section to the recognition and measurement of assets and liabilities arising from rate regulation. The AcSB also amended Section 3465, *Income Taxes*, to recognize future income tax liabilities and assets as well as offsetting regulatory assets and liabilities at entities subject to rate regulation. Both changes will apply prospectively for the Corporation beginning on January 1, 2009. The AcSB also decided that the current guidance for rate-regulated operations pertaining to property, plant and equipment, disposal of long-lived assets and discontinued operations, and consolidated financial statements be maintained, and that the existing Accounting Guideline 19, *Disclosures by Entities Subject to Rate Regulation*, will not be withdrawn from the Handbook but that the guidance will be updated as a result of the other changes. The AcSB also decided that the final Background Information and Basis for Conclusions associated with its rate-regulation project would not express any views of the AcSB regarding the status of US Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*, as "another source of GAAP" within the Canadian GAAP hierarchy.

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3. Future Accounting Pronouncements (cont'd)

Rate-Regulated Operations (cont'd)

Effective January 1, 2009, the impact on Fortis of the amendment to Section 3465, *Income Taxes*, will be the recognition of future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future gas and electricity rates. Currently, the Terasen Gas companies, FortisAlberta, FortisBC and Newfoundland Power use the taxes-payable method of accounting for income taxes. The effect on the Corporation's Consolidated Financial Statements, if it had adopted amended Section 3465, *Income Taxes*, as at December 31, 2007, would have been an increase in future tax assets and future tax liabilities of $54 million and $489 million, respectively, and a corresponding increase in regulatory liabilities and regulatory assets of $54 million and $489 million, respectively. Included in the amounts are the future income tax effects of the subsequent settlement of the related regulatory assets and liabilities through customer rates, and the separate disclosure of future income tax assets and liabilities that are currently not recognized. Fortis is continuing to assess and monitor any additional implications on its financial reporting related to accounting for rate-regulated operations.

Inventories

Effective January 1, 2008, the Corporation will be adopting the new Section 3031, *Inventories*. The new standard requires inventories to be measured at the lower of cost or net realizable value; disallows the use of a last-in, first-out inventory-costing methodology; and requires that, when circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write-down is to be reversed. This new standard is not expected to have a material impact on the Corporation's earnings, cash flow or financial position.

Capital Disclosures

As a result of new Section 1535, *Capital Disclosures*, Fortis will be required to include additional information in the Notes to the Consolidated Financial Statements about its capital and the manner in which it is managed. This additional disclosure includes quantitative and qualitative information regarding an entity's objectives, policies and processes for managing capital. This Section is applicable to Fortis for the fiscal year beginning on January 1, 2008.

Disclosure and Presentation of Financial Instruments

New accounting recommendations for disclosure and presentation of financial instruments, Sections 3862 and 3863, are effective for the Corporation beginning on January 1, 2008. The new recommendations require disclosures of both qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of risks from financial instruments to which the Corporation is exposed.

4. Regulatory Assets and Liabilities

Regulatory assets and liabilities arise as a result of the rate-setting process at the Corporation's regulated utilities. Regulatory assets represent future revenues associated with certain costs incurred in the current or prior periods that will be or are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that will be or are expected to be refunded to customers through the rate-setting process.

All amounts deferred as regulatory assets and liabilities are subject to regulatory approval. As such, the regulatory authorities could alter the amounts subject to deferral, at which time the change would be reflected in the financial statements. Certain remaining recovery and settlement periods are those expected by management and the actual recovery or settlement periods could differ based on regulatory approval.

Based on previous, existing or expected future regulatory orders or decisions, the Corporation has recorded the following amounts expected to be recovered from, or refunded to, customers in future periods.

Regulatory Assets (in millions)	**2007**	2006	**Remaining recovery period (Years)**
Rate stabilization accounts – Terasen Gas companies *(i)*	**$ 99**	$ –	1–3
Rate stabilization accounts – electric utilities *(ii)*	**55**	44	Various
Regulatory OPEB asset *(iii)*	**44**	36	Various
Income taxes recoverable on OPEB plans *(iv)*	**16**	–	Various
AESO charges deferral *(v)*	**8**	40	2
Deferred capital asset amortization *(vi)*	**12**	6	1–3
Weather normalization account *(vii)*	**11**	12	Not determinable
Residential unbundling *(viii)*	**9**	–	1–3
Deferred pension costs *(ix)*	**8**	9	8
Southern Crossing Pipeline tax reassessment *(x)*	**7**	–	Not determinable
Energy management costs *(xi)*	**6**	6	8
Lease costs *(xii)*	**5**	4	16–28
Other regulatory assets *(xiii)*	**32**	14	1–28
Total regulatory assets	**312**	171	
Less: current portion	**(119)**	(31)	1
Long-term regulatory assets	**$ 193**	$ 140	

Regulatory Liabilities (in millions)	**2007**	2006	**Remaining settlement period (Years)**
Future removal and site restoration provision *(xiv)*	**$ 319**	$ 307	Not determinable
Unbilled revenue liability *(xv)*	**22**	25	Not determinable
Pension deferral *(xvi)*	**6**	4	1–7
PBR incentive liabilities *(xvii)*	**14**	3	1–2
Other regulatory liabilities *(xviii)*	**31**	20	1–5
Total regulatory liabilities	**392**	359	
Less: current portion	**(20)**	(19)	1
Long-term regulatory liabilities	**$ 372**	$ 340	

Description of the Nature of Regulatory Assets and Liabilities

(i) *Rate Stabilization Accounts – Terasen Gas companies*

The rate stabilization accounts at the Terasen Gas companies are amortized and recovered through customer rates as approved by the BCUC. The rate stabilization accounts mitigate the effect on earnings of unpredictable and uncontrollable factors, namely volume volatility, caused principally by weather, and natural gas cost volatility. At TGI, a Revenue Stabilization Adjustment Mechanism ("RSAM") accumulates the margin impact of variations in the actual-versus-forecast gas volumes consumed by residential and commercial customers.

Additionally, a Commodity Cost Reconciliation Account ("CCRA") and Midstream Cost Reconciliation Account ("MCRA") accumulate differences between actual natural gas costs and forecast natural gas costs as recovered in base rates. The MCRA captures the gas cost variances applicable to all sales customers while the CCRA accumulates gas cost variances applicable to all residential customers and certain industrial customers for whom TGI acquires gas supply.

4. Regulatory Assets and Liabilities (cont'd)

Description of the Nature of Regulatory Assets and Liabilities (cont'd)

(i) Rate Stabilization Accounts – Terasen Gas companies (cont'd)

At TGVI, a Gas Cost Variance Account ("GCVA") is used to mitigate the effect on TGVI's earnings of natural gas cost volatility. TGVI also maintains a Revenue Deficiency Deferral Account ("RDDA") to accumulate unrecovered costs of providing service to customers or to draw down such costs where earnings exceed an allowed ROE as set by the BCUC. The RDDA has accumulated the allowed earnings in excess of achieved earnings prior to 2003 and is to be recovered through future rates. During 2007, the RDDA has decreased as achieved earnings have exceeded the allowed ROE.

The RSAM is anticipated to be recovered through rates over a three-year period, with a total balance outstanding at December 31, 2007 of $18 million. The MCRA, CCRA and GCVA accounts are anticipated to be fully recovered within the next fiscal year. Recovery of the rate stabilization accounts is dependent on actual natural gas consumption and recovery amounts approved by the BCUC.

(ii) Rate Stabilization Accounts – Electric Utilities

The rate stabilization accounts associated with the Corporation's regulated electric utilities (Newfoundland Power, Maritime Electric, Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos) are recovered or refunded through customer rates as approved by the respective regulatory authorities. The rate stabilization accounts primarily mitigate the effect on earnings of the variability in the cost of fuel and/or purchased power above or below a forecast or pre-determined level. Additionally, in the case of Belize Electricity, a rate stabilization account is used to defer and recover hurricane damage and recovery expenses from customers. The recovery period of the rate stabilization accounts is variable and is subject to periodic review by the respective regulatory authorities.

On July 1st of each year, the rate charged to Newfoundland Power's customers is recalculated in order to amortize, over the subsequent 12 months, the balance in its rate stabilization account as of December 31st of the previous year. In the absence of rate regulation, the costs deferred to Newfoundland Power's rate stabilization account would continue to be accounted for in a similar manner; however, the amount recovered and the recovery period would not be subject to regulatory approval.

The rate of recovery of the Cost of Power Rate Stabilization Account ("CPRSA") and Hurricane Cost Recovery Rate Stabilization Account ("HCRSA") at Belize Electricity is recalculated on July 1st of each year based on the balance in the CPRSA and HCRSA as of the preceding year end, but may be adjusted at any time as a result of a threshold event.

As at December 31, 2007, $14 million in pre-2004 costs deferred in the Energy Cost Adjustment Mechanism ("ECAM") account at Maritime Electric remained to be amortized. As approved by IRAC, the remaining amount is to be amortized and collected from customers at a rate of $2 million per year over a recovery period of seven years. Annual deferral of energy costs to the ECAM account is recovered from, or refunded to, customers, as approved by IRAC, over a rolling 12-month period.

Except as described for Newfoundland Power, in the absence of rate regulation, the cost of fuel and/or purchased power would be expensed as incurred.

(iii) Regulatory OPEB Asset

At FortisAlberta and Newfoundland Power, and prior to 2005 at FortisBC, the cash cost of providing OPEB plans is being collected in customer rates as permitted by their respective regulators. Effective 2005, as permitted by the BCUC, the recovery from customers of the cost of OPEB plans at FortisBC is based on cash costs plus a partial recovery of the full accrual cost of OPEB plans.

The regulatory OPEB asset represents the deferred portion of the benefit expense at FortisAlberta, FortisBC and Newfoundland Power that is expected to be recovered from customers in future rates. In the absence of rate regulation, the benefit expense would be recognized on an accrual basis as actuarially determined with no deferral of costs recorded on the balance sheet. FortisAlberta and FortisBC's regulatory OPEB assets are not subject to a regulatory return.

(iv) Income Taxes Recoverable on OPEB Plans

At TGI, the regulator allows OPEB costs to be collected in customer gas rates on an accrual basis, rather than on a cash basis, which produces timing differences for income tax purposes. Since TGI accounts for income taxes using the taxes-payable method, the tax effect of this timing difference is deferred as a regulatory asset and will be reduced as cash payments for OPEB plans exceed required accruals and amounts collected in customer gas rates. In the absence of rate regulation, the income tax would not be deferred.

(v) AESO Charges Deferral

FortisAlberta maintains an AESO Charges Deferral Account that represents expenses incurred in excess of revenues collected for various items, such as transmission costs incurred and billed through to customers, that are subject to deferral to be collected in future customer rates. In the event that the amount of revenue collected in rates for these items exceeds actual costs incurred, the excess is deferred as a regulatory liability to be either refunded to customers through a reduction in future rates or recognized when additional costs are incurred. As approved by the AUC, $13 million of the December 31, 2006 AESO Charges Deferral Account balance was collected from customers during 2007. As at December 31, 2007, the balance of the AESO Charges Deferral Account is expected to be collected in customer rates through 2008 and 2009. In the absence of rate regulation, the costs would be expensed as incurred and no deferral treatment would be permitted.

During 2007, FortisAlberta sold approximately $28 million and $38 million of the 2006 and 2007 AESO Charges Deferral Accounts, respectively, to a Canadian chartered bank for proceeds of approximately $28 million and $38 million, respectively. Proceeds included cash consideration of $64 million and receivables of approximately $2 million due in February 2009 and 2010 (Note 5).

(vi) Deferred Capital Asset Amortization

Newfoundland Power deferred the recovery of a $6 million increase in capital asset amortization in each of 2006 and 2007, in accordance with a PUB order. The approximate $12 million balance at December 31, 2007 will be amortized as an increase in operating expenses and included in customer rates equally over the next three years. In the absence of rate regulation, the deferral of the capital asset amortization would not have been recorded.

(vii) Weather Normalization Account

The PUB has ordered the provision of a weather normalization account at Newfoundland Power to adjust for the effect of variations in weather conditions when compared to long-term averages. This reduces Newfoundland Power's year-to-year earnings volatility that would otherwise result from such fluctuations in revenue and purchased power. The balance in the weather normalization account should approach to zero over time because it is based on long-term averages for weather conditions. As ordered by the PUB, approximately $7 million of the weather normalization account is to be amortized equally over 2008 through 2012. In the absence of rate regulation, these fluctuations would be recorded in earnings in the period in which they occurred.

The recovery period of the remaining balance of the weather normalization account is not determinable as it depends on weather conditions in the future.

(viii) Residential Unbundling

Residential unbundling costs are related to costs incurred by TGI to develop a third-party marketer alternative for residential customers to purchase natural gas from suppliers other than TGI. The BCUC approved the deferral of these costs and the recovery of these costs over a three-year period. The balance at December 31, 2007 will be recovered from customers commencing in 2008. In the absence of rate regulation, these costs would have been expensed when incurred.

(ix) Deferred Pension Costs

Deferred pension costs are incremental pension costs arising from Newfoundland Power's 2005 Early Retirement Program that were deferred and are being amortized over a 10-year period that began on April 1, 2005, as ordered by the PUB. In the absence of rate regulation, these costs would have been expensed in 2005.

(x) Southern Crossing Pipeline Tax Reassessment

The Southern Crossing Pipeline tax-reassessment deferral relates to an assessment of additional British Columbia Social Services Tax, for which TGI has filed an appeal. In 2006, the Company made a payment of $10 million pending resolution of the appeal as a good faith payment. During 2007, the assessment was reduced to $7 million and the overpayment was refunded to TGI. Depending on the success of the appeal, TGI will either be refunded the balance or, alternatively, expects to recover the costs from customers in future rates. In the absence of rate regulation, the payment would continue to be recorded as a receivable pending resolution of the appeal. Any final assessed tax upon resolution of the appeal would be expensed in the period it becomes known (Note 26).

4. *Regulatory Assets and Liabilities (cont'd)*

Description of the Nature of Regulatory Assets and Liabilities (cont'd)

(xi) Energy Management Costs

FortisBC provides energy management services to promote energy-efficiency programs to its customers. As required by a BCUC order, the Company has capitalized all related expenditures (except certain defined costs) and is amortizing these expenditures on a straight-line basis at 12.5 per cent per annum. This regulatory asset represents the unamortized balance of the energy management costs, which are expected to be recovered from customers in rates over an average of eight years, based on the terms of the currently approved BCUC order. In the absence of rate regulation, the costs of the energy management services would have been expensed in the period incurred.

(xii) Lease Costs

On July 15, 2003, FortisBC began operating the Brilliant Terminal Station ("BTS") under an agreement, the term of which expires in 2056 (unless the Company has earlier terminated the agreement by exercising its right, at any time after the anniversary date of the agreement in 2029, to give 36 months' notice of termination) (the "BTS Obligation") (Note 10). The agreement provides that FortisBC will pay a charge related to the recovery of the capital cost of the BTS and related operating costs. Costs related to the BTS are not being fully recovered by the Company in current customer rates. The regulatory asset balance represents the deferred portion of the cost of the lease that is expected to be recovered from customers in future rates. In the absence of rate regulation, amortization of the BTS and interest on the BTS Obligation would have been recorded in the period incurred.

Under a sale-leaseback agreement, on September 29, 1993, FortisBC began leasing its Trail, British Columbia office building for a term of 30 years. The terms of the agreement grant FortisBC repurchase options at approximately year 20 and year 28 of the lease term (Note 25). The Company is accounting for the lease as an operating lease. The terms of the agreement require increasing stepped lease payments during the lease term. As ordered by the BCUC, FortisBC recovers the Trail office lease payments from customers and records the lease costs on a cash basis. In the absence of rate regulation, the lease costs would be recorded on a straight-line basis.

The regulatory deferred lease costs are not subject to a regulatory return.

(xiii) Other Regulatory Assets

Other regulatory assets primarily relate to the Terasen Gas companies, FortisAlberta, Newfoundland Power, FortisOntario and Maritime Electric. The balance is comprised of various items each individually less that $5 million. As of December 31, 2007, $22 million of the balance was approved for recovery from customers in future rates, with the remaining balance expected to be approved. The recovery periods range from one to 28 years. As of December 31, 2007, $4 million (2006 – $4 million) of the balance was not subject to a regulatory return.

In the absence of rate regulation, the deferrals would not be permitted.

(xiv) Future Removal and Site Restoration Provision

As required by the respective regulators, this regulatory liability represents amounts collected in customer electricity rates over the life of certain utility capital assets at FortisAlberta, FortisBC, Newfoundland Power and Maritime Electric attributable to removal and site restoration costs that are expected to be incurred in the future. As required by the respective regulators, amortization expense at FortisAlberta, FortisBC, Newfoundland Power and Maritime Electric includes an amount allowed for regulatory purposes to provide for these future removal and site restoration costs, net of salvage proceeds. Actual removal and site restoration costs, net of salvage proceeds, are recorded against the regulatory liability when incurred. The regulatory liability represents the amount of expected future removal and site restoration costs associated with utility capital assets in service as at the balance sheet date, calculated using current amortization rates as approved by the respective regulators. Any difference between actual costs incurred and those assumed in the collected amounts, and any cumulative adjustments resulting from changes to the regulator-approved amortization rates at which these costs are collected, are reflected in this regulatory liability with the offset recorded as an adjustment to accumulated amortization.

During 2007, the amount included in amortization expense associated with the provision for future removal and site restoration costs was $33 million (2006 – $30 million). During 2007, actual removal and site restoration costs, net of salvage proceeds, were $19 million (2006 – $4 million). In the absence of rate regulation, removal and site restoration costs, net of salvage proceeds, would have been recognized in earnings as incurred rather than provided for over the life of the assets through amortization expense.

(xv) *Unbilled Revenue Liability*

Belize Electricity records revenue derived from electricity sales on a billed basis (Note 2). Prior to January 1, 2006, Newfoundland Power also recorded revenue from electricity sales on a billed basis. The difference between revenue recognized on a billed basis and revenue recognized on an accrual basis is recorded on the balance sheet as a regulatory liability. Effective January 1, 2006, Newfoundland Power prospectively changed its revenue recognition policy to the accrual basis, as approved by the PUB. As a result, the $24 million cumulative difference between billed revenue as of December 31, 2005 and revenue that would have been recognized on the accrual basis was recorded as a regulatory liability. As ordered by the PUB, Newfoundland Power amortized $3 million of this regulatory liability in 2007 (2006 – $3 million). The unamortized balance at December 31, 2007 will be amortized as follows: 2008 – approximately $7 million, 2009 and 2010 – approximately $5 million in each year. In the absence of rate regulation, revenue would be recorded on an accrual basis and the deferral of unbilled revenue would not be permitted.

(xvi) *Pension Deferral*

This regulatory liability represents pension surplus at FortisAlberta that has not been reflected in customer rates and will result in a reduction of future customer rates when recognized. When future customer rates are reduced, this liability will be drawn down and reflected as a reduction of pension expense. In the absence of rate regulation, the pension deferral would not be permitted and the amortization of the liability would not have occurred. This regulatory pension deferral is not subject to a regulatory return.

(xvii) *PBR Incentive Liabilities*

TGI and FortisBC's regulatory frameworks include PBR mechanisms that allow for the recovery from, or refund to, customers of a portion of certain increased or decreased costs, as compared to the forecast costs used to set customer rates. The final disposition of amounts deferred as regulatory PBR incentive assets and liabilities is determined by the sharing mechanisms with customers as approved per BCUC orders (Note 2).

TGI's 2007 regulatory PBR incentive liability of $13 million is expected to be refunded to customers through reduced rates beginning in 2009. FortisBC's 2006 regulatory PBR incentive liability of $3 million was approved by the BCUC for settlement in 2007 through a reduction in 2007 electricity revenue, with an offsetting increase in other revenue. Based on the current PBR framework, FortisBC's 2007 regulatory PBR incentive liability of $1 million has been approved by the BCUC for settlement in 2008 through a reduction in 2008 electricity revenue. In the absence of rate regulation, the regulatory PBR incentive amounts would not be recorded.

(xviii) *Other Regulatory Liabilities*

Other regulatory liabilities primarily relate to the Terasen Gas companies, FortisAlberta, Newfoundland Power and Fortis Ontario. The balance is comprised of various items each individually less that $5 million. As of December 31, 2007, $15 million of the balance was approved for refund to future customers or reduction in future rates, with the remaining balance expected to be approved. The recovery periods range from one to five years. As of December 31, 2007, $7 million (2006 – $10 million) of the balance was not subject to a regulatory return.

In the absence of rate regulation, the deferrals would not be permitted.

Financial Statement Effect of Rate Regulation

In the absence of rate regulation and, therefore, in the absence of recording regulatory assets and liabilities as described above, the total impact on the annual consolidated financial statements would have been as follows:

(in millions)	**2007**	2006
Decrease in regulatory assets	**$ (303)**	$ (167)
Decrease in regulatory liabilities	**(392)**	(359)
Decrease in opening retained earnings	**(108)**	(162)
Increase in revenue	**343**	18
Increase (decrease) in energy supply costs	**340**	(15)
Increase in operating expense	**62**	10
Decrease in amortization expense	**(28)**	(25)
Increase in finance charges	**3**	2
(Decrease) increase in corporate taxes	**(15)**	16

December 31, 2007 and 2006

5. Deferred Charges and Other Assets

(in millions)	**2007**	2006
Deferred pension costs *(Note 20)*	**$ 120**	$ 93
AESO contributions	**19**	17
Long-term receivables – TGI (due 2040)	**7**	–
Deferred recoverable and project costs	**7**	10
Energy management loans	**6**	4
Corporate income tax deposit	**6**	6
Investment held as collateral	**3**	3
Investments	**2**	2
Long-term receivable – AESO charges deferral *(Note 4 (v))*	**2**	–
Other deferred charges	**7**	7
Deferred financing costs	**–**	21
Deferred loss on interest rate swap agreement	**–**	11
	$ 179	$ 174

As a result of adopting Section 3855, *Financial Instruments – Recognition and Measurement*, deferred financing costs of $21 million at January 1, 2007 relating to long-term debt have been reclassified from deferred charges and other assets to long-term debt (Note 10).

As of January 1, 2007, in accordance with the transitional provision of Section 3865, *Hedges*, an unamortized deferred loss balance of $11 million, related to a previously cancelled interest rate swap agreement, was reclassified from deferred charges and other assets to accumulated other comprehensive loss (Note 16).

6. Utility Capital Assets

2007 *(in millions)*	**Cost**	**Accumulated Amortization**	**Contributions in Aid of Construction (Net)**	**Regulatory Tax Basis Adjustment (Net)**	**Net Book Value**
Distribution					
Gas	**$ 2,233**	**$ (364)**	**$ (174)**	**$ –**	**$ 1,695**
Electric	**3,536**	**(961)**	**(463)**	**(91)**	**2,021**
Transmission					
Gas	**1,277**	**(286)**	**(102)**	**–**	**889**
Electric	**870**	**(224)**	**–**	**–**	**646**
Generation	**915**	**(240)**	**–**	**–**	**675**
Assets under construction	**155**	**–**	**–**	**–**	**155**
Other	**992**	**(337)**	**(14)**	**–**	**641**
	$ 9,978	**$ (2,412)**	**$ (753)**	**$ (91)**	**$ 6,722**

2006

(in millions)	Cost	Accumulated Amortization	Contributions in Aid of Construction (Net)	Regulatory Tax Basis Adjustment (Net)	Net Book Value
Electric Distribution	$ 3,223	$ (864)	$ (426)	$ (96)	$ 1,837
Electric Transmission	818	(229)	–	–	589
Generation	903	(245)	–	–	658
Assets under construction	130	–	–	–	130
Other	552	(191)	–	–	361
	$ 5,626	$ (1,529)	$ (426)	$ (96)	$ 3,575

Gas distribution assets are those used to transport natural gas at low pressures (generally below 2,070 kPa). These assets include distribution stations, telemetry, distribution pipe for mains and services, meter sets and other related equipment. Electric distribution assets are those used to distribute electricity at lower voltages (generally below 69 kV). These assets include poles, towers and fixtures, low-voltage wires, transformers, overhead and underground conductors, street lighting, meters, metering equipment and other related equipment.

Gas transmission assets are those used to transport natural gas at higher pressures (generally at 2,070 kPa and higher). These assets include transmission stations, telemetry, transmission pipe and other related equipment. Electric transmission assets are those used to transmit electricity at higher voltages (generally at 69 kV and higher). These assets include poles, wires and conductors, substations, support structures and other related equipment.

Generation assets are those used to generate electricity. These assets include hydroelectric and thermal generating stations, gas and combustion turbines, dams, reservoirs and other related equipment.

Other assets include land and land rights, buildings, equipment, vehicles and information technology assets.

The cost of utility capital assets under capital lease at December 31, 2007 was $51 million (2006 – $27 million) and related accumulated amortization was $19 million (2006 – $3 million).

7. Income Producing Properties

2007

(in millions)	**Cost**	**Accumulated Amortization**	**Net Book Value**
Buildings	**$ 469**	**$ (42)**	**$ 427**
Land	**54**	**–**	**54**
Tenant inducements	**22**	**(13)**	**9**
Equipment	**46**	**(18)**	**28**
Construction in progress	**1**	**–**	**1**
	$ 592	**$ (73)**	**$ 519**

2006

(in millions)	Cost	Accumulated Amortization	Net Book Value
Buildings	$ 421	$ (35)	$ 386
Land	51	–	51
Tenant inducements	17	(11)	6
Equipment	40	(15)	25
Construction in progress	1	–	1
	$ 530	$ (61)	$ 469

The cost of income producing property assets under capital lease at December 31, 2007 was $6 million (2006 – $11 million) and related accumulated amortization was $4 million (2006 – $7 million).

December 31, 2007 and 2006

8. Goodwill

(in millions)	**2007**	2006
Balance, beginning of year	**$ 661**	$ 512
Acquisition of Terasen *(Note 21)*	**907**	–
Reversal of restructuring accrual	**(2)**	–
Acquisition of controlling interest in Caribbean Utilities *(Note 21)*	**–**	106
Acquisition of Fortis Turks and Caicos *(Note 21)*	**–**	39
Foreign exchange translation impacts	**(22)**	4
Balance, end of year	**$ 1,544**	$ 661

Goodwill associated with the acquisition of a controlling interest in Caribbean Utilities on November 7, 2006 and the acquisition of Fortis Turks and Caicos on August 28, 2006 is denominated in US dollars as the investment in these companies is held through a wholly owned subsidiary of Fortis with a reporting currency in US dollars. Foreign currency translation impacts in 2007 and 2006 were the result of the translation of US dollar-denominated goodwill and the impact of the movement of the Canadian dollar relative to the US dollar.

9. Credit-Facility Borrowings

The credit facilities of the Corporation and its subsidiaries, as summarized below, bear interest at rates ranging from 4.6 per cent to 6.2 per cent at December 31, 2007 (December 31, 2006 – 4.5 per cent to 6.8 per cent). As at December 31, 2007, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2.2 billion, of which $1.1 billion was unused.

(in millions)	Corporate and Other	Regulated Utilities	Fortis Properties	**Total as at December 31, 2007**	Total as at December 31, 2006
Total credit facilities	$ 715	$ 1,506	$ 13	**$ 2,234**	$ 952
Credit facilities utilized					
Short-term borrowings	(6)	(468)	(1)	**(475)**	(98)
Long-term debt *(Note 10)*	(208)	(322)	–	**(530)**	(235)
Letters of credit outstanding	(55)	(103)	(1)	**(159)**	(72)
Credit facilities available	$ 446	$ 613	$ 11	**$ 1,070**	$ 547

At December 31, 2007 and December 31, 2006, certain borrowings under the Corporation's and subsidiaries' credit facilities have been classified as long-term debt. These borrowings are under long-term committed credit facilities and management's intention is to refinance these borrowings with long-term permanent financing during future periods.

Corporate and Other

At December 31, 2007, Terasen Inc. had a $100 million unsecured committed revolving credit facility, maturing in May 2009 that is available for general corporate purposes. Letters of credit outstanding of $55 million at Terasen Inc., related to its previously owned petroleum transportation business, are secured by a letter of credit from the former parent company.

During 2007, Fortis cancelled its $50 million unsecured revolving committed credit facility, and renegotiated and amended its $250 million unsecured committed credit facility, extending the maturity date to May 2012 and increasing the amount available to $600 million. Fortis also has a $15 million unsecured demand facility.

Regulated Utilities

At December 31, 2007, TGI had a $500 million unsecured committed revolving credit facility maturing in August 2012. At December 31, 2007, TGVI had a $350 million unsecured committed revolving credit facility, maturing in January 2011. These facilities are utilized to finance working capital requirements and capital expenditures, and for general corporate purposes. TGVI also had a $20 million subordinated unsecured committed non-revolving credit facility, maturing in January 2013. This facility can only be utilized for refinancing annual repayments on non-interest bearing government loans.

In May 2007, FortisAlberta terminated one of its $10 million unsecured demand credit facilities, leaving one unsecured demand credit facility of $10 million available to the Company, and the maturity date of FortisAlberta's $200 million unsecured committed credit facility was extended to May 2012 from May 2010. The $200 million facility is utilized to finance capital expenditures and for general corporate purposes, and with the consent of the lenders, the amount of the facility can be increased to $250 million.

In May 2007, FortisBC renegotiated and amended its $150 million unsecured committed revolving credit facility, reallocating the amounts available between the 364-day portion of the facility and the three-year portion of the facility, and extending the maturity date for the three-year facility to May 2010 from May 2008. Additionally, the Company has the option to increase the credit facility to an aggregate of $200 million, subject to bank approval. This facility is utilized to finance capital expenditures and for general corporate purposes. FortisBC also has a $10 million unsecured demand facility.

Newfoundland Power has unsecured credit facilities of $120 million, comprised of a $100 million committed revolving credit facility which matures in January 2009 and a $20 million uncommitted demand facility.

During 2007, Maritime Electric increased its unsecured revolving credit facility to $45 million from $30 million. Maritime Electric also has a $25 million unsecured credit facility maturing in May 2008.

FortisOntario has secured lines of credit totalling $16 million, of which $10 million is authorized solely for letters of credit.

On November 27, 2006, Caribbean Utilities renegotiated its credit facilities, increasing its capital expenditures line of credit from US$13 million to US$19 million, including amounts available for letters of credit, and increasing each of its US$5 million operating line of credit and US$5 million catastrophe standby loan to US$7.5 million.

In November 2007, Fortis Turks and Caicos increased its operating credit facilities to US$5 million from US$2 million and obtained a US$7 million capital expenditure line of credit. Fortis Turks and Caicos also has available a US$9 million emergency standby loan.

Belize Electricity has a BZ$11 million unsecured demand overdraft credit facility.

Fortis Properties

Fortis Properties has a $13 million secured revolving demand facility utilized for general corporate purposes.

December 31, 2007 and 2006

10. Long-Term Debt and Capital Lease Obligations

(in millions)	**2007**	2006
Regulated Utilities		
Terasen Gas companies		
Secured Purchase Money Mortgages:		
11.80% $75 million Series A, due 2015	**$ 75**	$ –
10.30% $200 million Series B, due 2016	**200**	–
Unsecured Debentures:		
10.75% $60 million Series E, due 2009	**60**	–
6.20% $188 million Series 9, due 2008	**188**	–
6.95% $150 million Series 11, due 2029	**150**	–
6.50% $150 million Series 18, due 2034	**150**	–
5.90% $150 million Series 19, due 2035	**150**	–
5.55% $120 million Series 21, due 2036	**120**	–
6.00% $250 million Series 22, due 2037	**250**	–
$6 million repayable Government loan, due 2008	**6**	–
Obligation under capital lease, due 2012	**9**	–
	1,358	–
FortisAlberta		
5.33% $200 million Senior Unsecured Debentures, due 2014	**200**	200
6.22% $200 million Senior Unsecured Debentures, due 2034	**200**	200
5.40% $100 million Senior Unsecured Debentures, due 2036	**100**	100
4.99% $110 million Senior Unsecured Debentures, due 2047	**110**	–
	610	500
FortisBC		
Secured Debentures:		
11.00% $15 million Series E, due 2009	**5**	5
9.65% $15 million Series F, due 2012	**15**	15
8.80% $25 million Series G, due 2023	**25**	25
Unsecured Debentures:		
6.75% $50 million Series J, due 2009	**50**	50
5.48% $140 million Series 04-1, due 2014	**140**	140
8.77% $25 million Series H, due 2016	**25**	25
7.81% $25 million Series I, due 2021	**25**	25
5.60% $100 million Series 05-1, due 2035	**100**	100
5.90% $105 million Series 07-1, due 2047	**105**	–
Obligation under capital lease, due 2032	**26**	27
	516	412

(in millions)	**2007**	2006
Newfoundland Power		
Secured first mortgage sinking fund bonds:		
11.875% $40 million Series AC, due 2007	**–**	32
10.550% $40 million Series AD, due 2014	**31**	32
10.900% $40 million Series AE, due 2016	**34**	34
9.000% $40 million Series AG, due 2020	**35**	35
10.125% $40 million Series AF, due 2022	**34**	34
8.900% $40 million Series AH, due 2026	**36**	36
6.800% $50 million Series AI, due 2028	**46**	46
7.520% $75 million Series AJ, due 2032	**71**	72
5.441% $60 million Series AK, due 2035	**58**	59
5.901% $70 million Series AL, due 2037	**69**	–
	414	380
Maritime Electric		
Secured first mortgage bonds:		
12.000% $15 million, due 2010	**15**	15
11.500% $12 million, due 2016	**12**	12
8.550% $15 million, due 2018	**15**	15
7.570% $15 million, due 2025	**15**	15
8.625% $15 million, due 2027	**15**	15
8.920% $20 million, due 2031	**20**	20
	92	92
FortisOntario		
7.092% $30 million Senior Unsecured Notes, due 2018	**30**	30
7.092% $22 million Senior Unsecured Notes, due 2018	**22**	22
	52	52
Belize Electricity		
Secured:		
5.75% to 8.15% US$14 million RBTT Merchant Bank loan, due 2010 to 2012 (December 31, 2007 – US$6 million)	**6**	9
Unsecured:		
12.00% BZ$27 million Series I Debentures, due 2012 (December 31, 2007 – BZ$17 million)	**8**	10
9.50% BZ$20 million Series II Debentures, due 2021 (December 31, 2007 – BZ$19 million)	**10**	11
10.00% BZ$25 million Series III Debentures, due 2022 (December 31, 2007 – BZ$25 million)	**12**	14
10.00% BZ$6 million Series IV Debentures, due 2027 (December 31, 2007 – BZ$6 million)	**3**	–
8.50% US$16 million Caribbean Development Bank loan, due 2014 (December 31, 2007 – US$7 million)	**7**	9
5.00% Euro$4 million European Investment Bank loan, due 2014 (December 31, 2007 – Euro$4 million)	**3**	3
US$11 million International Bank for Reconstruction and Development loan ("IBRD"), due 2011 (December 31, 2007 – US$3 million)	**3**	5
5.75% US$5 million Toronto Dominion Bank loan, due 2009 (December 31, 2007 – US$1 million)	**1**	3
BZ$10 million Bank of Nova Scotia loan, due 2015 (December 31, 2007 – BZ$9 million)	**4**	3
US$3 million Scotiabank & Trust (Cayman) Limited loan, due 2010 (December 31, 2007 – US$3 million)	**3**	4
	60	71

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

10. Long-Term Debt and Capital Lease Obligations (cont'd)

(in millions)	**2007**	2006
Caribbean Utilities		
Unsecured:		
3.00% US$2 million European Investment Bank Loan #3, due 2009 (December 31, 2007 – US$1 million)	**1**	1
8.47% US$15 million Senior Loan Notes, due 2010 (December 31, 2007 – US$4 million)	**4**	7
6.47% US$25 million Senior Loan Notes, due 2013 (December 31, 2007 – US$15 million)	**15**	20
7.64% US$30 million Senior Loan Notes, due 2014 (December 31, 2007 – US$21 million)	**21**	28
6.67% US$30 million Senior Loan Notes, due 2016 (December 31, 2007 – US$26 million)	**26**	35
5.09% US$40 million Senior Loan Notes, due 2018 (December 31, 2007 – US$40 million)	**40**	47
5.96% US$30 million Senior Loan Notes, due 2020 (December 31, 2007 – US$30 million)	**30**	35
5.65% US$40 million Senior Loan Notes, due 2022 (December 31, 2007 – US$40 million)	**40**	–
	177	173
Fortis Turks and Caicos		
Unsecured:		
5.65% US$5 million First Caribbean International Bank loan, due 2015 (December 31, 2007 – US$3 million)	**3**	6
US$13 million Scotiabank (Turks and Caicos) Ltd. loan, due 2013 to 2016 (December 31, 2007 – US$13 million)	**13**	17
	16	23
Non-Regulated – Fortis Generation		
Secured:		
BECOL		
US$45 million Term loan, due 2011	**–**	33
Exploits Partnership		
7.55% $65 million Term loan, due 2028	**62**	63
Walden Power Partnership		
9.44% $10 million WPP Mortgage, due 2013	**5**	6
	67	102

(in millions)	**2007**	2006
Non-Regulated – Fortis Properties		
Secured:		
6.42% $15 million First mortgage, due 2007	**–**	4
6.85% $5 million First mortgage, due 2007	**–**	5
5.10% $30 million First mortgage, due 2010	**27**	28
5.35% $12 million First mortgage, due 2010	**11**	12
8.15% $21 million First mortgage, due 2010	**15**	15
9.47% $13 million First mortgage, due 2010	**10**	11
7.42% $29 million First mortgage, due 2012	**25**	25
7.77% $23 million First mortgage, due 2012	**20**	21
6.58% $35 million First mortgage, due 2013	**30**	31
7.30% $30 million First mortgage, due 2013	**27**	28
6.42% $16 million First mortgage, due 2014	**15**	15
7.50% $50 million First mortgage, due 2017	**40**	41
7.32% $22 million Senior notes, due 2019	**17**	18
Obligation under capital leases, due 2008 and 2012	**2**	3
Non-revolving credit facilities, due 2009 to 2010	**7**	8
	246	265
Corporate and Other		
Fortis Inc.		
7.40% $100 million Senior Unsecured Debentures, due 2010	**100**	100
6.75% US$10 million Unsecured Subordinated Convertible Debentures, due 2012 (December 31, 2007 – US$6 million)	**6**	11
5.50% US$10 million Unsecured Subordinated Convertible Debentures, due 2013 (December 31, 2007 – US$4 million)	**4**	11
5.74% US$150 million Senior Unsecured Notes, due 2014 (December 31, 2007 – US$150 million)	**149**	175
5.50% US$40 million Unsecured Subordinated Convertible Debentures, due 2016 (December 31, 2007 – US$40 million)	**35**	41
6.60% US$200 million Senior Unsecured Notes, due 2037 (December 31, 2007 – US$200 million)	**198**	–
	492	338
Terasen Inc.		
6.30% $200 million Unsecured Debentures, due 2008	**203**	–
5.56% $125 million Unsecured Debentures, due 2014	**133**	–
8.00% $125 million Capital Securities, due 2040	**126**	–
	462	–
Long-term classification of credit facilities *(Note 9)*	**530**	235
Total long-term debt and capital lease obligations	**5,092**	2,643
Deferred financing costs	**(33)**	–
Less: Current installments of long-term debt and capital lease obligations	**(436)**	(85)
	$ 4,623	$ 2,558

10. Long-Term Debt and Capital Lease Obligations (cont'd)

Regulated Utilities

Terasen Gas companies
The purchase money mortgages are secured equally and rateably by a first fixed and specific mortgage and charge on TGI's coastal division assets. The aggregate principal amount of the purchase money mortgages that may be used is limited to $425 million.

On October 2, 2007, TGI issued $250 million 6.00% medium-term note debentures. The debentures mature on October 2, 2037 and are unsecured. The proceeds were used to repay Series 13 and Series 20 medium-term note debentures of TGI, which matured in 2007.

With the exception of the $250 million 6.00% debentures, the purchase money mortgages and unsecured debentures were assumed by Fortis upon acquisition of the Terasen Gas companies.

FortisAlberta
On January 3, 2007, FortisAlberta issued a $110 million 4.99% senior unsecured debenture offering, maturing on January 3, 2047.

FortisBC
The secured Series E, F and G debentures are collaterized by a fixed and floating first charge on the assets of FortisBC. Sinking fund payments of $0.75 million per year are required for the Series E debentures.

On July 4, 2007, FortisBC issued $105 million 5.90% senior unsecured debentures, maturing on July 4, 2047.

FortisBC has a capital lease obligation with respect to the BTS (Note 4 *(xii)*). Future minimum lease payments associated with this capital lease obligation are approximately $3 million per year over the remaining term of the lease agreement to 2032. The BTS lease obligation bears interest at a composite rate of 8.62 per cent.

Newfoundland Power and Maritime Electric
The Newfoundland Power and Maritime Electric first mortgage bonds are secured by a first fixed and specific charge on the respective utility's capital assets owned or to be acquired and by a floating charge on all other assets.

On August 17, 2007, Newfoundland Power issued $70 million 5.901% first mortgage sinking fund bonds, maturing on August 17, 2037.

Belize Electricity
The RBTT Merchant Bank loan is secured by a debenture over specific assets of the Company.

The Series I, II, III and IV unsecured debentures can be called by Belize Electricity at any time after certain dates until maturity by giving holders not more than 60 days' nor less than 30 days' written notice, and are repayable at the option of the holders at any time on or after certain dates by giving 12 months' written notice to Belize Electricity. Redemption by agreement between Belize Electricity and the debenture holders at any time is also allowed.

The IBRD loan bears interest at 0.50 per cent per annum above the bank's "Cost of Qualified Borrowings" as defined in the loan agreement. The effective rate of interest as of December 31, 2007 was 6.89 per cent per annum (December 31, 2006 – 5.35 per cent). The Bank of Nova Scotia loan bears interest at the prevailing six-month London Interbank Offered Rate ("LIBOR") plus 0.50 per cent per annum. The Scotiabank & Trust (Cayman) Limited loan bears interest at the prevailing six-month LIBOR plus 5.00 per cent per annum.

Caribbean Utilities
During 2007, Caribbean Utilities issued a US$40 million private placement of 5.65% senior unsecured notes due June 1, 2022.

Fortis Turks and Caicos
The Scotiabank (Turks and Caicos) Ltd. debt consists of three loans, bearing interest at a floating rate of 1.00 per cent above LIBOR, a fixed rate of 6.04 per cent per annum and a fixed rate of 6.10 per cent per annum.

Fortis Generation

BECOL
On November 28, 2007, BECOL repaid early the remaining amount on its original US$45 million term loan. The loan bore interest at the prevailing six-month LIBOR plus 4.00 per cent and was secured by agreements covering all its property assets and undertakings.

Exploits Partnership
A first, fixed and specific charge and security interest over all the assets of the Exploits Partnership and assignment of various agreements has been provided as security on the Exploits Partnership non-recourse 25-year amortizing term loan.

Walden Power Partnership
The WPP mortgage is collateralized by a fixed and floating charge over the assets of the WPP.

Fortis Properties

Fortis Properties' first mortgages are collateralized by a fixed and floating charge on specific income producing properties. The senior secured notes are collateralized by a fixed and specific mortgage and a charge on a specific income producing property.

The non-revolving credit facilities at Fortis Properties, bearing interest at Canadian Bankers' Acceptance rates, are collateralized by specific income producing properties. Fortis Properties is party to two interest rate swap contracts maturing on July 28, 2009 and October 15, 2010, respectively, to hedge against interest exposures on the non-revolving credit facilities. The contracts have the effect of fixing the rate of interest on the non-revolving credit facilities at 5.32 per cent and 6.16 per cent, respectively.

Corporate and Other

Fortis Inc.
The 7.40% senior unsecured debentures are redeemable at the option of the Corporation at a price calculated as the greater of the principal amount to be redeemed and an amount equal to the net present value of interest and principal based on the Canada Yield, plus a premium ranging from 0.43 per cent to 0.87 per cent, together with accrued and unpaid interest thereon.

The 6.75% unsecured subordinated convertible debentures are redeemable by the Corporation at par at any time on or after March 12, 2007, and are convertible, at the option of the holder, into the Corporation's Common Shares at $9.11 per share (US$9.19 per share). The debentures are subordinated to all other indebtedness of the Corporation, other than subordinated indebtedness ranking equally to the debentures.

The 5.50% unsecured subordinated convertible debentures, due 2013, are redeemable by the Corporation at par at any time on or after May 20, 2008, and are convertible, at the option of the holder, into the Corporation's Common Shares at $11.87 per share (US$11.97 per share). The debentures are subordinated to all other indebtedness of the Corporation, other than subordinated indebtedness ranking equally to the debentures.

The 5.50% unsecured subordinated convertible debentures, due 2016, are redeemable by the Corporation at par at any time on or after November 7, 2011, and are convertible, at the option of the holder, into the Corporation's Common Shares at $28.86 per share (US$29.11 per share). The debentures are subordinated to all other indebtedness of the Corporation, other than subordinated indebtedness ranking equally to the debentures.

The unsecured subordinated convertible debentures are being accounted for in accordance with their substance and are presented in the financial statements in their component parts. The liability and equity components are classified separately on the balance sheet and are measured at their respective fair values at the time of issue. The equity portion of convertible debentures was $6 million at December 31, 2007 (December 31, 2006 – $7 million).

On September 6, 2007, the Corporation issued US$200 million 6.60% senior unsecured notes, maturing on September 1, 2037.

Terasen Inc.
The 8.00% capital securities were issued on April 19, 2000. Terasen Inc. may elect to defer payment on these securities and settle such deferred payments in either cash or common shares, and has the option to settle principal at maturity through the issuance of common shares. The Company has the right to redeem the securities at the principal amount, together with accrued and unpaid interest, on or after April 19, 2010. The securities are also exchangeable at the option of the holder on or after April 19, 2010 for common shares of the Company at 90 per cent of the market price, subject to the right of the Company to redeem the securities for cash.

The unsecured debentures and capital securities were assumed by Fortis upon acquisition of Terasen Inc.

December 31, 2007 and 2006

10. Long-Term Debt and Capital Lease Obligations (cont'd)

Deferred Financing Costs

As a result of adopting Section 3855, *Financial Instruments – Recognition and Measurement*, deferred financing costs of $21 million as at January 1, 2007 relating to long-term debt were reclassified from deferred charges and other assets to long-term debt and, effective January 1, 2007, any deferred financing costs associated with new debt issuances are now recorded against the debt balances. The deferred financing costs are amortized into earnings using the effective interest rate method over the life of the related debt.

Repayment of Long-Term Debt and Capital Lease Obligations

The consolidated annual requirements to meet principal repayments and maturities in each of the next five years are as follows:

2008	$ 436 million
2009	$ 191 million
2010	$ 215 million
2011	$ 307 million
2012	$ 321 million

11. Deferred Credits

(in millions)	**2007**	2006
OPEB obligations *(Note 20)*	**$ 112**	$ 51
Supplementary defined benefit obligations *(Note 20)*	**38**	12
Deferred gains on sale of natural gas transmission and distribution assets	**50**	–
Deferred payment	**40**	–
Customer deposits	**5**	5
Deferred gain on forward currency swap agreement	**–**	3
Trail lease costs *(Note 4 (xii))*	**2**	2
Other deferred credits	**14**	6
	$ 261	$ 79

The deferred gains on sale of natural gas transmission and distribution assets occurred upon the sale and leaseback of pipeline assets to certain municipalities in 2001, 2002, 2004 and 2005. The pre-tax gains of $71 million on combined cash proceeds of $141 million are being amortized over the 17-year terms of the operating leases that commenced at the time of the sale transactions. These operating lease commitments are included in the table in Note 25.

The deferred payment resulted from Terasen Inc.'s acquisition of TGVI, effective January 1, 2002. The deferred payment has a face value of $52 million but was discounted at May 17, 2007 to its present value. At December 31, 2007, its present value was $40 million. The payment is due on December 31, 2011 or sooner if TGVI realizes revenue from transportation revenue contracts to serve power-generating plants which may be constructed in TGVI's service area. If any part of the deferred payment is paid prior to December 31, 2011, the difference between the payment and the carrying value of the debt will be treated as contingent consideration for the acquisition of TGVI and will be added to the cost of the purchase at that time.

As of January 1, 2007, in accordance with the transitional provision of Section 3865, *Hedges*, an unamortized deferred gain balance of $3 million, related to a previously cancelled forward currency swap agreement, was reclassified from deferred credits to accumulated other comprehensive loss (Note 16).

12. Non-Controlling Interest

(in millions)	**2007**	2006
Caribbean Utilities	**$ 67**	$ 78
Belize Electricity	**38**	42
Exploits Partnership	**3**	3
Preference shares of Newfoundland Power	**7**	7
	$ 115	$ 130

13. Preference Shares

Authorized

(a) an unlimited number of First Preference Shares, without nominal or par value

(b) an unlimited number of Second Preference Shares, without nominal or par value

Issued and Outstanding		**2007**		2006	
	Classification	**Number of Shares**	**Amount *(in millions)***	Number of Shares	Amount *(in millions)*
(i) First Preference Shares, Series C	Debt	**5,000,000**	**$ 123**	5,000,000	$ 123
(ii) First Preference Shares, Series E	Debt	**7,993,500**	**197**	7,993,500	197
Total classified as debt		**12,993,500**	**$ 320**	12,993,500	$ 320
(iii) First Preference Shares, Series F	Equity	**5,000,000**	**$ 122**	5,000,000	$ 122

(i) First Preference Shares, Series C

The First Preference Shares, Series C are entitled to fixed cumulative preferential cash dividends at a rate of $1.3625 per share per annum.

On or after June 1, 2010, the Corporation may, at its option, redeem for cash the First Preference Shares, Series C, in whole at any time or in part from time to time, at $25.75 per share if redeemed before June 1, 2011, at $25.50 per share if redeemed on or after June 1, 2011 but before June 1, 2012, at $25.25 per share if redeemed on or after June 1, 2012 but before June 1, 2013, and at $25.00 per share if redeemed on or after June 1, 2013 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption.

On or after June 1, 2010, the Corporation may, at its option, convert all, or from time to time any part of the outstanding First Preference Shares, Series C into fully paid and freely tradable Common Shares of the Corporation. The number of common shares into which each Preference Share may be so converted will be determined by dividing the then-applicable redemption price per Preference Share, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95 per cent of the then-current market price of the common shares at such time.

On or after September 1, 2013, each First Preference Share, Series C will be convertible at the option of the holder on the first day of September, December, March and June of each year into fully paid and freely tradable common shares determined by dividing $25.00, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95 per cent of the then-current market price of the common shares. If a holder of First Preference Shares, Series C elects to convert any of such shares into common shares, the Corporation can redeem such First Preference Shares, Series C for cash or arrange for the sale of those shares to other purchasers.

As the First Preference Shares, Series C are convertible at the option of the shareholder into a variable number of common shares based on a market-related price of such common shares, they meet the definition of a financial liability and, therefore, are classified as long-term liabilities with associated dividends classified as finance charges.

(ii) First Preference Shares, Series E

The First Preference Shares, Series E are entitled to receive fixed cumulative preferential cash dividends in the amount of $1.2250 per share per annum.

On or after June 1, 2013, the Corporation may, at its option, redeem all, or from time to time any part of, the outstanding First Preference Shares, Series E by the payment in cash of a sum per redeemed share equal to $25.75 if redeemed during the 12 months commencing June 1, 2013, $25.50 if redeemed during the 12 months commencing June 1, 2014, $25.25 if redeemed during the 12 months commencing June 1, 2015, and $25.00 if redeemed on or after June 1, 2016 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption.

On or after June 1, 2013, the Corporation may, at its option, convert all, or from time to time any part of the outstanding First Preference Shares, Series E into fully paid and freely tradable Common Shares of the Corporation. The number of common shares into which each Preference Share may be so converted will be determined by dividing the then-applicable redemption price per First Preference Share, Series E, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95 per cent of the then-current market price of the common shares at such time.

13. *Preference Shares (cont'd)*

(ii) First Preference Shares, Series E (cont'd)

On or after September 1, 2016, each First Preference Share, Series E will be convertible at the option of the holder on the first business day of September, December, March and June of each year, into fully paid and freely tradable common shares determined by dividing $25.00, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of $1.00 and 95 per cent of the then-current market price of the common shares. If a holder of First Preference Shares, Series E elects to convert any of such shares into common shares, the Corporation can redeem such First Preference Shares, Series E for cash or arrange for the sale of those shares to other purchasers.

As the First Preference Shares, Series E are convertible at the option of the shareholder into a variable number of common shares based on a market-related price of such common shares, they meet the definition of a financial liability and, therefore, are classified as long-term liabilities with associated dividends classified as finance charges.

(iii) First Preference Shares, Series F

The First Preference Shares, Series F are entitled to receive fixed cumulative preferential cash dividends in the amount of $1.2250 per share per annum.

On or after December 1, 2011, the Corporation may, at its option, redeem for cash the First Preference Shares, Series F, in whole at any time or in part from time to time, at $26.00 per share if redeemed before December 1, 2012, at $25.75 per share if redeemed on or after December 1, 2012 but before December 1, 2013, at $25.50 per share if redeemed on or after December 1, 2013 but before December 1, 2014, at $25.25 per share if redeemed on or after December 1, 2014 but before December 1, 2015, and at $25.00 per share if redeemed on or after December 1, 2015 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption.

As the First Preference Shares, Series F are not redeemable at the option of the shareholder, they are classified as equity and the associated dividends are deducted on the statement of earnings immediately before arriving at net earnings applicable to common shares.

14. Common Shares

Authorized: an unlimited number of Common Shares without nominal or par value.

Issued and Outstanding	**2007**		2006	
	Number of Shares	**Amount *(in millions)***	Number of Shares	Amount *(in millions)*
Common Shares	**155,521,313**	**$ 2,126**	104,091,542	$ 829

Common Shares issued during the year were as follows:

	2007		2006	
	Number of Shares	**Amount *(in millions)***	Number of Shares	Amount *(in millions)*
Opening balance	**104,091,542**	**$ 829**	103,203,981	$ 813
Public offering	**5,170,000**	**146**	–	–
Public offering – Conversion of Subscription Receipts	**44,275,000**	**1,119**	–	–
Conversion of debentures	**882,626**	**9**	–	–
Consumer Share Purchase Plan	**79,463**	**3**	77,213	2
Dividend Reinvestment Plan	**203,763**	**5**	176,264	5
Employee Share Purchase Plan	**240,578**	**6**	135,502	3
Stock Option Plans	**578,341**	**9**	498,582	6
Ending balance	**155,521,313**	**$ 2,126**	104,091,542	$ 829

On January 18, 2007, Fortis issued 5,170,000 Common Shares for $29.00 per common share. The common share issuance resulted in gross proceeds of approximately $150 million, or approximately $146 million net of after-tax expenses.

During 2007, holders of the Corporation's 6.75% unsecured subordinated convertible debentures converted US$4 million of the US$10 million debentures into 435,490 Common Shares of the Corporation.

During 2007, holders of the Corporation's 5.50% unsecured subordinated convertible debentures converted approximately US$5 million of the US$10 million debentures into 447,136 Common Shares of the Corporation.

On March 15, 2007, to finance a significant portion of the net cash purchase price of Terasen, the Corporation sold 44,275,000 Subscription Receipts at $26.00 each, for gross proceeds of approximately $1.15 billion. Upon closing of the acquisition of Terasen on May 17, 2007, each Subscription Receipt was exchanged, without payment of additional consideration, for one Common Share of Fortis. Each Subscription Receipt holder also received a cash payment of $0.21 per Subscription Receipt, which was an amount equal to the dividend declared per Common Share of Fortis to holders of record as of May 4, 2007. The net proceeds to the Corporation upon conversion of the Subscription Receipts were approximately $1.12 billion, net of after-tax expenses.

At December 31, 2007, 9.9 million Common Shares remained reserved for issuance under the terms of the above-noted share purchase, dividend reinvestment and stock option plans.

At December 31, 2007, Common Shares reserved for issuance under the terms of the Corporation's convertible debentures and Preference Shares were 2.4 million and 26 million, respectively.

As at December 31, 2007, $3 million (December 31, 2006 – $1 million) of common share equity had not been fully paid relating to amounts outstanding under employee share purchase and executive stock option loans.

Earnings per Common Share

The Corporation calculates earnings per common share on the weighted average number of common shares outstanding. The weighted average number of common shares outstanding was 137.6 million and 103.6 million at December 31, 2007 and December 31, 2006, respectively.

Diluted earnings per common share are calculated using the treasury stock method for options and the "if-converted" method for convertible securities.

Earnings per common share are as follows:

	2007			2006		
	Earnings *(in millions)*	**Weighted Average Shares** *(in millions)*	**Earnings per Common Share**	Earnings *(in millions)*	Weighted Average Shares *(in millions)*	Earnings per Common Share
Net earnings applicable to common shares	**$ 193**			$ 147		
Weighted average shares outstanding		**137.6**			103.6	
Basic Earnings per Common Share			**$ 1.40**			$ 1.42
Effect of potential dilutive securities:						
Subscription receipts[(1)]	**–**	**7.8**		–	–	
Stock options	**–**	**1.2**		–	1.2	
Preference shares *(Notes 13 (i) and (ii) and 17)*	**16**	**11.5**		17	14.1	
Convertible debentures	**3**	**2.8**		1	2.0	
	212	**160.9**		165	120.9	
Deduct anti-dilutive impacts:						
Convertible debentures	**(2)**	**(1.4)**		–	–	
Diluted Earnings per Common Share	**$ 210**	**159.5**	**$ 1.32**	$ 165	120.9	$ 1.37

(1) Dilution relating to the period the Subscription Receipts were outstanding from March 15, 2007 to May 16, 2007, prior to their conversion into Common Shares.

15. Stock-Based Compensation Plans

Stock Options

The Corporation is authorized to grant officers and certain key employees of Fortis Inc. and its subsidiaries options to purchase Common Shares of the Corporation. At December 31, 2007, the Corporation had the following stock option plans: 2006 Plan, 2002 Plan and Executive Stock Option Plan. The 2002 Plan was adopted at the Annual and Special General Meeting on May 15, 2002 to ultimately replace the Executive and the former Directors' Stock Option Plans. The Executive Stock Option Plan will cease to exist when all outstanding options are exercised or expire in or before 2011. The 2006 Plan was approved at the May 2, 2006 Annual Meeting at which Special Business was conducted. The 2006 Plan will ultimately replace the 2002 Plan. The 2002 Plan will cease to exist when all outstanding options are exercised or expire in or before 2016. The Corporation has ceased to grant options under the Executive Stock Option Plan and 2002 Plan and all new options are being granted by Fortis Inc. under the 2006 Plan.

Options granted under the 2006 Plan have a maximum term of seven years, which is reduced from ten years under the 2002 Plan, and expire no later than three years after the termination, death or retirement of the optionee. Directors are not eligible to receive grants of options under the 2006 Plan. During 2006, the Corporation replaced the equity component of directors' annual compensation with DSUs.

Number of Options:	**2007**	2006
Options outstanding, beginning of year	**3,550,055**	3,421,876
Granted	**754,800**	626,761
Cancelled	**(34,743)**	–
Exercised	**(578,341)**	(498,582)
Options outstanding, end of year	**3,691,771**	3,550,055
Options vested, end of year	**1,901,811**	1,739,759

Weighted Average Exercise Prices:	**2007**	2006
Options outstanding, beginning of year	**$ 16.11**	$ 14.18
Granted	**27.75**	22.94
Cancelled	**22.43**	–
Exercised	**13.35**	11.45
Options outstanding, end of year	**18.86**	16.11

Details of stock options outstanding and vested as at December 31, 2007 are as follows:

Outstanding			**Vested**		
Number of Options	**Exercise Price**	**Expiry Date**	**Number of Options**	**Exercise Price**	**Expiry Date**
112,422	$ 9.57	2011	112,422	$ 9.57	2011
302,076	$ 12.03	2012	302,076	$ 12.03	2012
527,675	$ 12.81	2013	527,675	$ 12.81	2013
626,382	$ 15.28	2014	457,450	$ 15.28	2014
12,000	$ 15.23	2014	7,000	$ 15.23	2014
33,910	$ 14.55	2014	19,262	$ 14.55	2014
683,742	$ 18.40	2015	316,422	$ 18.40	2015
28,000	$ 18.11	2015	14,000	$ 18.11	2015
31,639	$ 20.82	2015	14,769	$ 20.82	2015
590,621	$ 22.94	2016	130,735	$ 22.94	2016
606,472	$ 28.19	2014	1,901,811		
136,832	$ 25.76	2014			
3,691,771					

The weighted average exercise price of stock options vested as at December 31, 2007 was $14.84.

On May 7, 2007, the Corporation granted 617,968 options on common shares under its 2006 Plan at the five-day volume weighted average trading price immediately preceding the date of grant of $28.19. These options vest evenly over a four-year period on each anniversary of the date of grant. The options expire seven years after the date of grant. The fair market value of each option granted was $4.40 per option.

The fair value was estimated on the date of grant using the Black-Scholes fair value option-pricing model and the following assumptions:

	May 7, 2007
Dividend yield *(%)*	3.06
Expected volatility *(%)*	18.9
Risk-free interest rate *(%)*	4.18
Weighted average expected life *(years)*	4.5

On August 16, 2007, the Corporation granted 136,832 options on common shares under its 2006 Plan at the five-day volume weighted average trading price immediately preceding the date of grant of $25.76. These options vest evenly over a four-year period on each anniversary of the date of grant. The options expire seven years after the date of grant. The fair market value of each option granted was $4.25 per option.

The fair value was estimated on the date of grant using the Black-Scholes fair value option-pricing model and the following assumptions:

	August 16, 2007
Dividend yield *(%)*	3.06
Expected volatility *(%)*	19.6
Risk-free interest rate *(%)*	4.43
Weighted average expected life *(years)*	4.5

The Corporation records compensation expense upon the issuance of stock options granted under its 2002 and 2006 Plans. Using the fair value method, the compensation expense is amortized over the four-year vesting period of the options granted. Under the fair value method, compensation expense associated with stock options was $2 million for the year ended December 31, 2007 (2006 – $2 million).

Directors' DSU Plan

In 2004, the Corporation introduced the Directors' DSU Plan as an optional vehicle for directors to elect to receive credit of their annual retainer to a notional account of DSUs in lieu of cash. Each DSU represents a unit with an underlying value equivalent to the value of the Common Shares of the Corporation. The Corporation may also determine from time to time that special circumstances exist that would reasonably justify the grant of DSUs to a director as compensation in addition to any regular retainer or fee to which the director is entitled. Effective during 2006, directors who are not officers of the Corporation are eligible for grants of DSUs representing the equity portion of directors' annual compensation.

Number of DSUs:	**2007**	2006
DSUs outstanding, beginning of year	**46,959**	24,986
Granted	**20,859**	22,101
Granted – notional dividends reinvested	**1,904**	1,198
DSUs paid out	**–**	(1,326)
DSUs outstanding, end of year	**69,722**	46,959

For the year ended December 31, 2007, expenses of $0.8 million (2006 – $0.8 million) were recorded in relation to the DSU Plan.

December 31, 2007 and 2006

15. Stock-Based Compensation Plans (cont'd)

RSU Plan

In 2004, the Corporation introduced the RSU Plan, which is included as a component of the long-term incentives awarded only to the President and Chief Executive Officer ("CEO") of the Corporation. Each RSU represents a unit with an underlying value equivalent to the value of the Common Shares of the Corporation.

Number of RSUs:	2007	2006
RSUs outstanding, beginning of year	**66,845**	36,855
Granted	**19,570**	28,400
Granted – notional dividends reinvested	**1,883**	1,590
RSUs paid out	**(20,683)**	–
RSUs outstanding, end of year	**67,615**	66,845

In May 2007, RSUs paid out to the President and CEO were 20,683 at $28.01 per RSU, for a total of approximately $0.6 million. The payout was made upon the three-year maturation period in respect of the RSU grant which was made on May 11, 2004, and the President and CEO satisfying the payment criteria.

For the year ended December 31, 2007, expenses of $0.6 million (2006 – $0.7 million) were recorded in relation to the RSU Plan.

16. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss includes unrealized foreign currency translation gains and losses, net of hedging activities, gains and losses on cash flow hedging activities and gains and losses on discontinued cash flow hedging activities, as discussed in Note 2.

	2007			
(in millions)	Opening balance January 1	Transition amount January 1	Net change	**Ending balance December 31**
Unrealized foreign currency translation losses, net of hedging activities	**$ (51)**	**$ –**	**$ (31)**	**$ (82)**
Losses on derivative instruments designated as cash flow hedges, net of tax	**–**	**(1)**	**–**	**(1)**
Net losses on derivative instruments previously discontinued as cash flow hedges, net of tax	**–**	**(5)**	**–**	**(5)**
Accumulated other comprehensive loss	**$ (51)**	**$ (6)**	**$ (31)**	**$ (88)**

	2006		
(in millions)	Opening balance January 1	Net change	Ending balance December 31
Unrealized foreign currency translation losses, net of hedging activities	$ (16)	$ (35)	$ (51)
Accumulated other comprehensive loss	$ (16)	$ (35)	$ (51)

As required, prior periods have not been restated as a result of implementing Section 1530, *Comprehensive Income*, except to reclassify unrealized foreign currency translation losses on net investments in self-sustaining foreign operations, net of hedging activities, of $51 million as at January 1, 2007 from the foreign currency translation adjustment account in shareholders' equity to accumulated other comprehensive loss. As required upon initial application of Section 3855, *Financial Instruments – Recognition and Measurement*, all adjustments to the carrying amount of financial instruments were recognized as an adjustment to the opening balance of accumulated other comprehensive loss. The Corporation was not required to remeasure any assets or liabilities upon adoption of Section 3855; therefore, no adjustments were made to the opening balance of retained earnings.

During 2007, unrealized foreign currency translation losses of $70 million (2006 – gains of $9 million) were recorded in other comprehensive loss related to the Corporation's net investment in US dollar-denominated self-sustaining foreign operations. These unrealized foreign currency translation losses were partially offset by the effective portion of unrealized after-tax gains of $39 million (2006 – after-tax losses of $5 million) related to the translation of US dollar-denominated long-term debt designated as a foreign currency risk hedge. There was no ineffective portion.

On November 7, 2006, the Corporation, through a wholly owned subsidiary, acquired an additional approximate 16 per cent ownership interest in Caribbean Utilities and now holds an approximate 54 per cent controlling interest in the Company. As a result of this acquisition, a foreign currency translation loss of $39 million was reflected in accumulated other comprehensive loss, representing the impact of the appreciation of the Canadian dollar relative to the US dollar between the original share purchase dates and the recording of the net investment in Caribbean Utilities as a self-sustaining foreign operation, effective November 7, 2006.

During 2007, unrealized losses of an immaterial amount were recorded in other comprehensive loss for the effective portion of the change in fair value of the interest rate swap agreements at Fortis Properties and BECOL designated as cash flow hedges, with the offset recorded to deferred credits on the balance sheet. There were no ineffective portions. The amounts recognized are reclassified to finance charges in the periods during which the variability of cash flows of the hedged items affect finance charges. The net loss reclassified to earnings during 2007 was immaterial. In November 2007, BECOL cancelled its interest rate swap agreement upon the early repayment of the related debt.

As at January 1, 2007, in accordance with the transitional provisions of Section 3865, *Hedges*, a net loss of $5 million associated with unamortized deferred gain and loss balances related to previously cancelled swap agreements were reclassified to accumulated other comprehensive loss. An unamortized loss balance of $11 million ($7 million after-tax), as at January 1, 2007, related to a previously cancelled interest rate swap agreement, was reclassified from deferred charges and other assets (Note 5) and an unamortized gain balance of $3 million ($2 million after-tax), as at January 1, 2007, related to a previously cancelled US dollar forward currency swap agreement was reclassified from deferred credits (Note 11). The deferred gain and loss balances are amortized to comprehensive income (loss) on a straight-line basis over the life of the related debt.

17. Finance Charges

(in millions)	**2007**	2006
Interest – Long-term debt and capital lease obligations	**$ 266**	$ 155
– Short-term borrowings	**27**	6
Interest charged to construction *(Note 2)*	**(8)**	(4)
Interest earned	**(4)**	(4)
Unrealized foreign exchange loss (gain) on long-term debt	**1**	(2)
Dividends on preference shares *(Notes 13 (i) and (ii) and 14)*	**17**	17
	$ 299	$ 168

Interest on long-term debt, short-term borrowings and dividends associated with preference shares have been calculated using the effective interest rate method, effective January 1, 2007, in accordance with the adoption of CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*.

18. Gain on Sale of Property

In December 2007, TGI sold surplus land resulting in an $8 million ($7 million after-tax) gain on sale.

In June 2006, Fortis Properties sold the Days Inn Sydney resulting in a $2 million ($1.6 million after-tax) gain on sale.

19. Corporate Taxes

Corporate taxes differ from the amount that would be expected to be generated by applying the enacted Canadian federal and provincial statutory tax rates to earnings before corporate taxes. The following is a reconciliation of the consolidated statutory tax rate to the consolidated effective tax rate:

(%)	**2007**	2006
Statutory tax rate	**35.1**	35.2
Preference share dividends	**2.4**	3.2
Difference between Canadian statutory rates and those applicable to foreign subsidiaries	**(7.1)**	(6.8)
Items capitalized for accounting but expensed for income tax purposes	**(8.3)**	(10.7)
Capital cost allowance and other deductions claimed for income tax purposes over amounts recorded for accounting purposes	**(4.8)**	(1.2)
Impact of reduction in income tax rates on future income taxes	**(2.4)**	(2.4)
Regulatory deferrals at Newfoundland Power	**(1.0)**	–
TGI tax reassessment	**0.9**	–
Maritime Electric tax reassessment	**1.0**	0.9
Pension costs	**(0.7)**	(0.4)
Other	**(0.7)**	(0.9)
Effective tax rate	**14.4**	16.9

The components of the provision for corporate taxes are as follows:

(in millions)	**2007**	2006
Canadian		
Current taxes	**$ 33**	$ 20
Future income taxes	**–**	9
	33	29
Foreign		
Current taxes	**3**	2
Future income taxes	**–**	1
	3	3
Corporate tax expense	**$ 36**	$ 32

Future income taxes are provided for temporary differences. Future income tax assets and liabilities are comprised of the following:

(in millions)	**2007**	2006
Future income tax liability (asset)		
Utility capital assets and income producing properties	**$ 35**	$ 46
ECAM	**10**	5
Other regulatory assets and liabilities	**2**	11
Intangible assets	**2**	3
Tenant inducements	**3**	2
Employee future benefits	**(14)**	(9)
Losses carried forward	**(10)**	(8)
Share issue and debt financing costs	**(16)**	(1)
Unrealized foreign currency translation gains on long-term debt	**8**	2
Other	**5**	1
Net future income tax liability	**$ 25**	$ 52
Current future income tax liability	**$ 7**	$ 1
Long-term future income tax asset	**(37)**	(7)
Long-term future income tax liability	**55**	58
Net future income tax liability	**$ 25**	$ 52

As at December 31, 2007, the Corporation had approximately $49 million (2006 – $24 million) in non-capital and capital losses carried forward, of which $0.2 million (2006 – $0.3 million) in capital losses has not been recognized in the financial statements. The non-capital loss carry forwards expire between 2008 and 2027.

20. Employee Future Benefits

The Corporation and its subsidiaries each maintain one or a combination of defined benefit pension plans, defined contribution pension plans and group RRSPs for its employees. The Corporation, Terasen, FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric and FortisOntario also offer OPEB plans for qualifying employees.

For the defined benefit pension arrangements, the accrued benefit obligation and the market-related value or fair value of plan assets are measured for accounting purposes as at December 31st of each year for the Corporation, Terasen and Newfoundland Power; as at September 30th of each year for FortisAlberta, FortisBC and FortisOntario; and as at April 30th of each year for Caribbean Utilities. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2006 for FortisOntario; as of December 31, 2005 for the Corporation and Newfoundland Power; as of December 31, 2004 for FortisAlberta and FortisBC; and as of April 30, 2006 for Caribbean Utilities. For Terasen, the most recent actuarial valuations of the pension plans for funding purposes were between December 31, 2004 and December 31, 2006. The next required valuations will be, at the latest, three years from the date of the most recent actuarial valuation for each company and those required as at December 31, 2007 are expected to be completed during 2008.

The Corporation's defined benefit pension plan asset allocation was as follows:

Plan assets as at December 31st

(%)	**2007**	2006
Canadian equities	**50**	45
Fixed income	**38**	39
Foreign equities	**8**	15
Real estate	**4**	1
	100	100

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

20. Employee Future Benefits (cont'd)

The following is a breakdown of the Corporation's defined benefit pension plans and their respective funded or unfunded status:

	2007			2006		
(in millions)	**Accrued Benefit Obligation**	**Plan Assets**	**Net Funded (Unfunded)**	Accrued Benefit Obligation	Plan Assets	Net Funded (Unfunded)
Terasen	**$ 254**	**$ 261**	**$ 7**	$ –	$ –	$ –
FortisAlberta	**23**	**20**	**(3)**	21	18	(3)
FortisBC	**122**	**105**	**(17)**	118	95	(23)
Newfoundland Power	**236**	**260**	**24**	239	250	11
FortisOntario	**23**	**21**	**(2)**	25	21	(4)
Caribbean Utilities	**5**	**3**	**(2)**	6	3	(3)
Fortis Inc.	**4**	**4**	**–**	4	3	(1)
Total	**$ 667**	**$ 674**	**$ 7**	$ 413	$ 390	$ (23)

	Defined Benefit Pension Plans Funded		Supplementary Defined Benefit Plans Unfunded		OPEB Plans Unfunded	
(in millions)	**2007**	2006	**2007**	2006	**2007**	2006
Change in accrued benefit obligation						
Balance, beginning of year	**$ 413**	$ 390	**$ 17**	$ 14	**$ 109**	$ 103
Liability associated with acquisitions	**248**	6	**27**	–	**79**	–
Current service costs	**12**	7	**1**	1	**4**	3
Employee contributions	**6**	3	**–**	–	**–**	–
Interest costs	**29**	20	**2**	1	**8**	5
Benefits paid	**(25)**	(19)	**(2)**	–	**(4)**	(4)
Actuarial (gain) loss	**(16)**	2	**(1)**	–	**(8)**	2
Plan amendments	**–**	4	**–**	1	**1**	–
Balance, end of year	**$ 667**	$ 413	**$ 44**	$ 17	**$ 189**	$ 109
Change in value of plan assets						
Balance, beginning of year	**$ 390**	$ 350	**$ –**	$ –	**$ –**	$ –
Assets associated with acquisitions	**256**	3	**–**	–	**–**	–
Actual return on plan assets	**26**	35	**–**	–	**–**	–
Benefits paid	**(25)**	(19)	**(2)**	–	**(4)**	(4)
Employee contributions	**6**	3	**–**	–	**–**	–
Employer contributions	**21**	18	**2**	–	**4**	4
Balance, end of year	**$ 674**	$ 390	**$ –**	$ –	**$ –**	$ –
Funded status						
Surplus (deficit), end of year	**$ 7**	$ (23)	**$ (44)**	$ (17)	**$ (189)**	$ (109)
Unamortized net actuarial loss	**95**	85	**3**	3	**61**	39
Unamortized past service costs	**10**	9	**1**	1	**(2)**	–
Unamortized transitional obligation	**7**	21	**2**	1	**18**	19
Employer contributions after measurement date	**1**	1	**–**	–	**–**	–
Accrued benefit asset (liability), end of year *(Notes 5 and 11)*	**$ 120**	$ 93	**$ (38)**	$ (12)	**$ (112)**	$ (51)

	Defined Benefit Pension Plans Funded		Supplementary Defined Benefit Plans Unfunded		OPEB Plans Unfunded	
(in millions)	**2007**	2006	**2007**	2006	**2007**	2006
Significant assumptions						
Discount rate during year *(%)*	**5.00–5.25**	5.00–5.25	**5.00–5.25**	5.00–5.25	**5.00–5.25**	5.00–5.25
Discount rate as at December 31st *(%)*	**5.25–5.60**	5.00–5.25	**5.25–5.75**	5.25	**5.25–5.75**	5.00–5.25
Expected long-term rate of return on plan assets *(%)*	**6.50–7.50**	6.50–7.50	**–**	–	**–**	–
Rate of compensation increase *(%)*	**3.50–4.25**	3.50–4.00	**3.77–4.25**	3.50–4.00	**3.50–4.25**	3.50–4.00
Health care cost trend increase as at December 31st *(%)*	**–**	–	**–**	–	**4.50–10.00**	4.50–10.00
Expected average remaining service life of active employees *(years)*	**7–13**	7–15	**3–13**	3–15	**10–16**	11–17
Components of net benefit expense						
Current service costs	**$ 12**	$ 7	**$ 1**	$ 1	**$ 4**	$ 3
Interest costs	**29**	20	**2**	1	**8**	5
Actual return on plan assets	**(26)**	(35)	**–**	–	**–**	–
Actuarial (gain) loss	**(16)**	2	**(1)**	–	**(8)**	2
Plan amendments	**–**	–	**–**	–	**1**	–
Costs arising in the year	**(1)**	(6)	**2**	2	**5**	10
Differences between costs arising and costs recognized in the year in respect of:						
Return on plan assets	**(11)**	11	**–**	–	**–**	–
Actuarial gain	**20**	4	**1**	–	**11**	–
Past service costs	**3**	2	**–**	1	**–**	–
Special termination benefits	**1**	–	**–**	–	**–**	–
Transitional obligation and amendments	**1**	2	**–**	–	**2**	2
Regulatory adjustment	**(1)**	(2)	**–**	(1)	**(7)**	(5)
Net benefit expense	**$ 12**	$ 11	**$ 3**	$ 2	**$ 11**	$ 7

For 2007, the effects of changing the health-care cost trend rate by a 1 per cent increase and a 1 per cent decrease are as follows:

(in millions)	**1 per cent increase in rate**	**1 per cent decrease in rate**
Increase (decrease) in accrued benefit obligation	**$ 28**	**$ (23)**
Increase (decrease) in service and interest costs	**$ 2**	**$ (2)**

During 2007, the Corporation expensed $10 million (2006 – $8 million) related to defined contribution pension plans.

21. Business Acquisitions

2007

a. Terasen

On May 17, 2007, Fortis acquired all of the issued and outstanding common shares of Terasen for aggregate consideration of approximately $3.7 billion. The net cash purchase price of approximately $1.25 billion, including acquisition costs, was primarily financed through proceeds from the issuance of common equity, with the remaining $125 million of the cash purchase price being financed, on an interim basis, through drawings on the Corporation's committed credit facility.

21. Business Acquisitions (cont'd)

2007 (cont'd)

a. Terasen (cont'd)

Terasen owns and operates a gas distribution business carried on by TGI, TGVI and TGWI, collectively referred to as the Terasen Gas companies. Terasen is the principal natural gas distributor in British Columbia, serving over 918,000 customers or 96 per cent of gas users in the province.

The acquisition has been accounted for using the purchase method, whereby the consolidated results of Terasen have been included in the consolidated financial statements of Fortis commencing May 17, 2007. The financial results of the Terasen Gas companies have been included in the Regulated Gas Utilities – Canadian segment, while net expenses of non-regulated Terasen corporate-related activities, and Terasen's 30 per cent investment in non-regulated CWLP have been included in the Corporate and Other segment. The Terasen Gas companies are regulated under traditional cost of service. The determination of revenue and earnings is based on regulated rates of return that are applied to historic values which do not change with a change of ownership. Therefore, for substantially all of the individual assets and liabilities associated with the Terasen Gas companies, no fair market value adjustments were recorded as part of the purchase price because all of the economic benefits and obligations associated with them beyond regulated rates of return accrue to the customers. Accordingly, the book value of substantially all of the assets and liabilities of the Terasen Gas companies has been assigned as fair value for the purchase price allocation. Substantially all of the fair market value adjustments, including intangibles, recorded as part of the purchase price allocation related to non-regulated Terasen and its non-regulated investments.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition. The allocation of the purchase price is subject to finalization, with adjustments, if any, to be completed during the second quarter of 2008. The amount of the purchase price assignable to goodwill is entirely associated with the regulated Terasen Gas companies. Approximately $40 million of goodwill is deductible for tax purposes. Of the $11 million in intangible assets, $10 million was assigned as the value associated with customer contracts at CWLP. Approximately $1 million was assigned to the Terasen trade-name associated with non-regulated activities and is not subject to amortization.

(in millions)	**Total**
Fair value assigned to net assets:	
Utility capital assets	**$ 2,768**
Current assets	**355**
Goodwill	**907**
Intangibles	**11**
Long-term regulatory assets	**69**
Other assets	**42**
Current liabilities	**(353)**
Assumed short-term indebtedness	**(275)**
Assumed long-term debt (including current portion)	**(2,077)**
Long-term regulatory liabilities	**(29)**
Other liabilities	**(165)**
	1,253
Cash	**3**
	$ 1,256

b. Delta Regina

On August 1, 2007, Fortis Properties purchased the Delta Regina, comprising the Delta Regina Hotel, the Saskatchewan Trade and Convention Centre, 52,000 square feet of commercial office space and a parking garage in Regina, Saskatchewan for an aggregate cash purchase price of approximately $50 million, including acquisition costs.

The acquisition has been accounted for using the purchase method, whereby the results of operations have been consolidated in the financial statements of Fortis commencing August 1, 2007.

The purchase price allocation to assets, based on their fair values, was as follows:

(in millions)	Total
Fair value assigned to net assets:	
Income producing properties	**$ 50**

2006

a. Caribbean Utilities

On November 7, 2006, Fortis, through a wholly owned subsidiary, acquired an aggregate of 4,113,116 of the outstanding Class A Ordinary Shares of Caribbean Utilities for US$11.89 per share under a private agreement with International Power Holdings Ltd. ("IPHL") and four other vendors affiliated with IPHL. The aggregate purchase price of $56 million (US$49 million), including acquisition costs, was financed through cash consideration from the issuance of US$40 million unsecured subordinated convertible debentures, combined with drawings on the Corporation's credit facilities.

Following this acquisition, Fortis controls Caribbean Utilities by beneficially owning 13,565,511, or approximately 54 per cent, of the outstanding Class A Ordinary Shares of Caribbean Utilities.

The acquisition has been accounted for using the purchase method. Caribbean Utilities' balance sheet as at November 7, 2006 was consolidated in the December 31, 2006 balance sheet of Fortis. Beginning with the first quarter of 2007, Fortis has been consolidating Caribbean Utilities' financial statements on a two-month lag basis and, accordingly, has consolidated Caribbean Utilities' October 31, 2007 balance sheet, and statements of earnings and cash flows for the 12-month period ended October 31, 2007 with the Corporation's December 31, 2007 Consolidated Financial Statements. During 2006, the statement of earnings of Fortis reflected the Corporation's previous approximate 37 per cent ownership interest in Caribbean Utilities, accounted for on an equity basis, on a two-month lag. Caribbean Utilities' financial results are reported in the Corporation's Regulated Electric Utilities – Caribbean segment.

The determination of revenues and earnings of Caribbean Utilities is based on a regulated rate of return that is applied to historic values which do not change with a change of ownership. Therefore, no fair market value adjustments were recorded as part of the purchase price on those net assets included in the defined asset base upon which the Company is permitted to earn a regulated rate of return, as all economic benefits associated with them beyond the regulated rate of return will accrue to customers. The book value of the net assets included in the defined asset base has been assigned as fair value for purchase price allocation. The book value of net assets not included in the defined asset base approximates fair value. Therefore, no fair market value adjustments have been recorded as part of the purchase price associated with these items.

The Corporation has accounted for the acquisition of the controlling interest in Caribbean Utilities as a two-step acquisition for the purpose of purchase price allocation and the assigning of costs to identifiable assets, goodwill and intangible assets, if any.

The total purchase price allocation was as follows:

(in millions)	
Fair value assigned to net assets:	
Utility capital assets	$ 318
Current assets	30
Goodwill	106
Regulatory assets	13
Other assets	2
Current liabilities	(29)
Assumed long-term debt (including current portion)	(178)
Non-controlling interest	(77)
	185
Cash	3
	$ 188

21. Business Acquisitions (cont'd)

2006 (cont'd)

b. Fortis Turks and Caicos

On August 28, 2006, Fortis, through a wholly owned subsidiary, acquired all of the issued and outstanding common shares of PPC and Atlantic (collectively referred to as Fortis Turks and Caicos) for aggregate consideration of approximately $98 million (US$88 million). The purchase price, net of assumed debt and acquisition costs, of $76 million (US$68 million) was initially financed, through cash consideration, by way of drawings on the Corporation's credit facilities that were repaid, in part, with partial proceeds from the issuance of First Preference Shares, Series F of Fortis on September 28, 2006.

The acquisition has been accounted for using the purchase method, whereby the results of operations of Fortis Turks and Caicos have been included in the consolidated financial statements of Fortis in the Regulated Electric Utilities – Caribbean segment, commencing August 28, 2006. The determination of revenues and earnings of Fortis Turks and Caicos is based on a regulated rate of return that is applied to historic values which do not change with a change of ownership. Therefore, no fair market value adjustments were recorded as part of the purchase price on those net assets included in the defined asset base upon which the Company is permitted to earn a regulated rate of return, as all economic benefits associated with them beyond the regulated rate of return will accrue to customers. The book value of the net assets included in the defined asset base has been assigned as fair value for purchase price allocation. The book value of net assets not included in the defined asset base approximates fair value. Therefore, no fair market value adjustments have been recorded as part of the purchase price associated with these items.

The purchase price allocation was as follows:

(in millions)	PPC	Atlantic	Total
Fair value assigned to net assets:			
Utility capital assets	$ 45	$ 1	$ 46
Current assets	18	1	19
Goodwill	39	–	39
Other assets	1	–	1
Current liabilities	(3)	–	(3)
Assumed long-term debt (including current portion)	(22)	–	(22)
Other liabilities	(2)	(2)	(4)
	$ 76	$ –	$ 76

c. Hotels

On November 1, 2006, Fortis Properties purchased assets comprising four hotels in Alberta and British Columbia for an aggregate cash purchase price of approximately $52 million, including assumed debt and acquisition costs. The four hotels were the Holiday Inn Express and Suites, and Best Western, in Medicine Hat, Alberta; Ramada Hotel and Suites in Lethbridge, Alberta; and Holiday Inn Express in Kelowna, British Columbia.

The acquisition has been accounted for using the purchase method, whereby the results of operations of the hotels have been included in the consolidated financial statements of Fortis from the date of acquisition, commencing November 1, 2006.

The purchase price allocation to net assets, based on their fair values, was as follows:

(in millions)	
Fair value assigned to net assets:	
Income producing properties	$ 52
Assumed long-term debt (including current portion)	(12)
	$ 40

22. Segmented Information

Information by reportable segment is as follows:

	REGULATED							NON-REGULATED				
	Gas Utilities	Electric Utilities										
Year ended December 31, 2007 *(in millions)*	Terasen Gas Companies – Canadian(1)	Fortis Alberta	Fortis BC	NF Power	Other Canadian(2)	Total Electric Canadian	Electric Caribbean(3)	Fortis Generation	Fortis Properties	Corporate and Other	Inter-segment eliminations	Consolidated
Operating revenues	**905**	270	229	490	263	**1,252**	**307**	**75**	**191**	**22**	**(34)**	**2,718**
Energy supply costs	**559**	–	67	327	174	**568**	**169**	**8**	**–**	**–**	**(17)**	**1,287**
Operating expenses	**150**	122	69	53	29	**273**	**49**	**14**	**123**	**13**	**(5)**	**617**
Amortization	**58**	75	31	34	17	**157**	**28**	**10**	**14**	**6**	**–**	**273**
Operating income	**138**	73	62	76	43	**254**	**61**	**43**	**54**	**3**	**(12)**	**541**
Finance charges	**80**	36	26	33	17	**112**	**15**	**10**	**24**	**70**	**(12)**	**299**
Gain on sale of property	**(8)**	–	–	–	–	**–**	**–**	**–**	**–**	**–**	**–**	**(8)**
Corporate taxes (recovery)	**16**	(11)	5	12	10	**16**	**2**	**8**	**6**	**(12)**	**–**	**36**
Non-controlling interest	**–**	–	–	1	–	**1**	**13**	**1**	**–**	**–**	**–**	**15**
Net earnings (loss)	**50**	48	31	30	16	**125**	**31**	**24**	**24**	**(55)**	**–**	**199**
Preference share dividends	**–**	–	–	–	–	**–**	**–**	**–**	**–**	**6**	**–**	**6**
Net earnings (loss) applicable to common shares	**50**	48	31	30	16	**125**	**31**	**24**	**24**	**(61)**	**–**	**193**
Goodwill	**907**	227	221	–	63	**511**	**126**	**–**	**–**	**–**	**–**	**1,544**
Identifiable assets	**3,540**	1,294	914	986	484	**3,678**	**652**	**235**	**535**	**108**	**(19)**	**8,729**
Total assets	**4,447**	1,521	1,135	986	547	**4,189**	**778**	**235**	**535**	**108**	**(19)**	**10,273**
Gross capital expenditures	**120**	285	147	72	38	**542**	**106**	**17**	**13**	**5**	**–**	**803**
Year ended December 31, 2006												
Operating revenues	–	251	216	421	252	1,140	101	80	163	9	(31)	1,462
Equity income	–	–	–	–	–	–	10	–	–	–	–	10
Energy supply costs	–	–	68	256	171	495	57	6	–	–	(18)	540
Operating expenses	–	115	63	54	28	260	13	15	105	11	(5)	399
Amortization	–	69	28	33	15	145	7	11	12	3	–	178
Operating income	–	67	57	78	38	240	34	48	46	(5)	(8)	355
Finance charges	–	30	23	33	15	101	5	10	21	39	(8)	168
Gain on sale of property	–	–	–	–	–	–	–	–	(2)	–	–	(2)
Corporate taxes (recovery)	–	(5)	7	14	9	25	2	8	8	(11)	–	32
Non-controlling interest	–	–	–	1	–	1	4	3	–	–	–	8
Net earnings (loss)	–	42	27	30	14	113	23	27	19	(33)	–	149
Preference share dividends	–	–	–	–	–	–	–	–	–	2	–	2
Net earnings (loss) applicable to common shares	–	42	27	30	14	113	23	27	19	(35)	–	147
Goodwill	–	228	221	–	63	512	149	–	–	–	–	661
Identifiable assets	–	1,158	810	929	447	3,344	679	246	486	43	(18)	4,780
Total assets	–	1,386	1,031	929	510	3,856	828	246	486	43	(18)	5,441
Gross capital expenditures	–	243	111	60	37	451	27	3	17	2	–	500

(1) Terasen was acquired on May 17, 2007.
(2) Includes Maritime Electric and FortisOntario
(3) Includes Belize Electricity, Fortis Turks and Caicos, acquired on August 28, 2006, and Caribbean Utilities on Grand Cayman, Cayman Islands

The Corporation has changed the reporting of its operating segments whereby the financial results of Maritime Electric and FortisOntario have now been aggregated into one reportable segment and presented as "Regulated Electric Utilities – Other Canadian". Comparative segmented information has been restated to reflect this change in reporting.

22. Segmented Information (cont'd)

During 2007, the Corporation began reporting a new segment "Regulated Gas Utilities – Canadian" which includes the financial results of the regulated gas distribution business of Terasen, the principal natural gas distributor in British Columbia, acquired by the Corporation on May 17, 2007. Additionally, net expenses of non-regulated Terasen corporate-related activities, and Terasen's 30 per cent ownership interest in CWLP, have been included in the Corporate and Other segment from May 17, 2007.

Inter-segment transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The significant inter-segment transactions primarily related to the sale of energy from Fortis Generation to Belize Electricity and FortisOntario, electricity sales from Newfoundland Power to Fortis Properties and finance charges on inter-segment borrowings. The significant inter-segment transactions during the years ended December 31st were as follows:

(in millions)	**2007**	2006
Sales from Fortis Generation to Belize Electricity	**$ 15**	$ 17
Sales from Fortis Generation to FortisOntario	**1**	1
Sales from Newfoundland Power to Fortis Properties	**4**	3
Inter-segment finance charges on borrowings from:		
Corporate to Regulated Electric Utilities – Canadian	**2**	2
Corporate to Fortis Properties	**8**	5
Fortis Generation to Belize Electricity	**–**	1

23. Supplementary Information to Consolidated Statements of Cash Flows

(in millions)	**2007**	2006
Interest paid	**$ 288**	$ 161
Income taxes paid	**$ 53**	$ 54

24. Financial Instruments

Fair Values

The Corporation has designated its financial instruments as follows:

	December 31, 2007		December 31, 2006	
(in millions)	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Held for trading				
Cash and cash equivalents[1]	**$ 58**	**$ 58**	$ 41	$ 41
Loans and receivables				
Accounts receivable[1][2]	**635**	**635**	286	286
Other receivables due from customers[1][2][3]	**7**	**7**	6	6
Other financial liabilities				
Short-term borrowings[1][2]	**475**	**475**	98	98
Accounts payable and accrued charges[1][2]	**793**	**793**	333	333
Dividends payable[1][2]	**43**	**43**	22	22
Customer deposits[1][2][4]	**5**	**5**	5	5
Long-term debt, including current portion[5][6]	**5,023**	**5,635**	2,614	2,940
Preference shares, classified as debt[5][7]	**320**	**346**	320	355

[1] Due to the nature and/or short-term maturity of these financial instruments, carrying value approximates fair value.

[2] Carrying value approximates amortized cost

[3] Included in deferred charges and other assets on the balance sheet

[4] Included in deferred credits on the balance sheet

[5] Carrying value is measured at amortized cost using the effective interest rate method.

[6] Carrying value at December 31, 2007 is net of unamortized deferred financing costs of $33 million. On January 1, 2007, deferred financing costs were reclassified from deferred charges and other assets in accordance with the transitional provisions of Section 3855.

[7] Preference shares classified as equity are excluded from the requirements of Section 3855; however, the estimated fair value of the Corporation's $122 million of preference shares classified as equity as at December 31, 2007 was $107 million (December 31, 2006 – $129 million).

The carrying values of financial instruments included in current assets, current liabilities, deferred charges and other assets, and deferred credits in the consolidated balance sheets approximate their fair value, reflecting the short-term maturity, normal trade credit terms and/or the nature of these instruments. The fair value of long-term debt is calculated by discounting the future cash flow of each debt instrument at the estimated yield to maturity for the same or similar issues at the balance sheet date, or by using available quoted market prices. Since the Corporation does not intend to settle the long-term debt prior to maturity, the fair value estimate does not represent an actual liability and, therefore, does not include exchange or settlement costs. The fair value of the Corporation's preference shares is determined using quoted market prices.

Risk Management

The Corporation and its subsidiaries hedge exposures to fluctuations in interest rates and natural gas prices through the use of derivative financial instruments. The Corporation does not hold or issue derivative financial instruments for trading purposes. The following table indicates the valuation of derivative financial instruments as at December 31st.

	2007[(1)]				2006	
Liability	**Term to Maturity** *(years)*	**Number of Swaps**	**Carrying Value** *(in millions)*	**Estimated Fair Value** *(in millions)*	Carrying Value *(in millions)*	Estimated Fair Value *(in millions)*
Interest Rate Swaps	**1 to 3**	**4**	**$ –**	**$ –**	$ –	$ (1)
Natural Gas Commodity Swaps and Options	**Up to 3**	**244**	**$ (79)**	**$ (79)**	$ –	$ –

(1) Includes derivative financial instruments of the Terasen Gas companies from May 17, 2007, the date of acquisition

Fortis Properties has designated its interest rate swap agreements as hedges of the cash flow risk related to floating-rate long-term debt. As at January 1, 2007, in accordance with the transitional provisions of Section 3865, the fair value of the interest rate swap agreements of $(1) million was recorded as a derivative financial instrument and grouped with deferred credits on the balance sheet with the offset reflected in accumulated other comprehensive loss (Note 16). The Terasen Gas companies have designated their interest rate swap agreements as hedges of cash flow risk related to floating-rate debt instruments. Any changes in the fair value of these interest rate swaps, whether or not in a qualifying hedging relationship, are deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates. The interest rate swaps are valued at the present value of future cash flows based on published forward future interest rate curves.

The majority of the natural gas supply contracts at the Terasen Gas companies have floating, rather than fixed, prices and natural gas commodity swaps and options are used, therefore, to fix the effective purchase price of natural gas. As at December 31, 2007, none of the natural gas commodity swaps and options were designated as hedges of the natural gas supply contracts. However, any changes in the fair value of the natural gas commodity swaps and options, whether or not in a qualifying hedging relationship, are deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates. The fair values of the natural gas commodity swaps and options reflect the estimated amounts that the Terasen Gas companies would pay to terminate the contracts as at December 31, 2007, and were recorded in accounts payable as at December 31, 2007.

The fair value of the Corporation's financial instruments, including derivatives, reflects a point-in-time estimate based on relevant market information about the instruments. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment and, therefore, may not be relevant in predicting the Corporation's future earnings or cash flows.

The Corporation has exposure to foreign currency exchange rate fluctuations associated with its US dollar-denominated operations. The Corporation may periodically enter into hedges of its foreign currency exposures on its foreign net investments by entering into offsetting forward exchange contracts and through the use of US dollar borrowings.

The Corporation's foreign net investments are exposed to changes in US dollar exchange rates. The Corporation has effectively decreased its exposure to foreign currency exchange rate fluctuations associated with its foreign net investments through the use of US dollar borrowings. As at December 31, 2007, all of the Corporation's US$392 million of long-term debt had been designated as a hedge of a portion of the Corporation's foreign net investments. Foreign currency exchange rate fluctuations associated with the translation of the Corporation's US dollar borrowings designated as hedges are recorded in the statement of comprehensive income (loss). As at December 31, 2007, the Corporation had approximately US$50 million in foreign net investments available to be hedged.

24. Financial Instruments (cont'd)

Interest Rate Risk

Long-term debt is primarily issued at fixed interest rates, thereby minimizing cash flow and interest rate exposure. The Corporation is subject to risks associated with fluctuating interest rates primarily on its short-term and variable-rate credit-facility borrowings. The Corporation designates its interest rate swap contracts as hedges of the underlying debt. Interest expense on the debt is adjusted to include payments made or received under the interest rate swaps.

The Terasen Gas companies use a BCUC-approved interest rate deferral account to absorb interest rate fluctuations, thereby effectively fixing the rate of interest on short-term and variable-rate credit-facility borrowings.

Credit Risk

The Terasen Gas companies are exposed to credit risk in the event of non-performance by counterparties to derivative financial instruments and credit risk on physical off-system sales. Non-performance by the counterparties is not anticipated since these counterparties are high credit quality financial institutions. In addition, the Corporation is exposed to credit risk from customers. However, the Corporation generally has a large and diversified customer base, which minimizes the concentration of this risk. FortisAlberta, however, is exposed to credit risk associated with sales to retailers. Significantly all of FortisAlberta's distribution-service billings are to a relatively small group of retailers. As required under regulation, FortisAlberta minimizes its credit exposure associated with retailer billings by obtaining from the retailer a cash deposit, bond, letter of credit, an investment-grade credit rating from a major rating agency, or by having the retailer obtain a financial guarantee from an entity with an investment-grade credit rating.

Rate Regulation

Certain of the Corporation's regulated utilities have rate stabilization accounts, which are approved by the regulators, to recover excess gas and energy costs over an established benchmark. These accounts minimize the impact of changing gas and energy costs on the financial results of the Corporation.

25. Commitments

(in millions)	**Total**	< 1 year	1–3 years	4–5 years	> 5 years
Gas purchase contract obligations [1]	**$ 537**	$ 515	$ 22	$ –	$ –
Power purchase obligations					
FortisBC [2]	**2,856**	40	74	76	2,666
FortisOntario [3]	**286**	21	43	45	177
Maritime Electric [4]	**7**	7	–	–	–
Belize Electricity [5]	**15**	2	2	2	9
Capital cost [6]	**402**	14	34	39	315
Joint-use asset and shared service agreements [7]	**66**	4	8	6	48
Office lease – FortisBC [8]	**20**	1	2	2	15
Operating lease obligations [9]	**176**	20	33	30	93
Other	**25**	6	10	9	–
Total	**$ 4,390**	$ 630	$ 228	$ 209	$ 3,323

(1) Gas purchase contract obligations relate to various gas purchase contracts at the Terasen Gas companies. These obligations are based on market prices that vary with gas commodity indices. The amounts disclosed reflect index prices that were in effect as at December 31, 2007.

(2) Power purchase obligations of FortisBC include the Brilliant Power Purchase Agreement (the "BPPA") as well as the Power Purchase Agreement with BC Hydro. On May 3, 1996, an Order was granted by the BCUC approving a 60-year BPPA for the output of the Brilliant hydroelectric generating plant located near Castlegar, British Columbia. The BPPA requires payments based on the operation and maintenance costs and a return on capital for the plant in exchange for the specified natural flow take-or-pay amounts of power. The BPPA includes a market-related price adjustment after 30 years of the 60-year term. The Power Purchase Agreement with BC Hydro, which expires in 2013, provides for any amount of supply up to a maximum of 200 MW, but includes a take-or-pay provision based on a five-year rolling nomination of the capacity requirements.

(3) Power purchase obligations for FortisOntario primarily include a long-term take-or-pay contract between Cornwall Electric and Hydro-Québec Energy Marketing for the supply of electricity and capacity. The contract provides approximately 237 GWh of energy per year and up to 45 MW of capacity at any one time. The contract, which expires on December 31, 2019, provides approximately one-third of Cornwall Electric's load. Cornwall Electric also has a two-year contract in place with Hydro-Québec Energy Marketing, which expires on June 30, 2008. This take-or-pay contract provides energy on an as-needed basis but charges for 100 MW of capacity at $0.14 million per month.

(4) Maritime Electric has one take-or-pay contract with New Brunswick Power ("NB Power") for the purchase of either capacity or energy. This contract totals approximately $7 million through March 31, 2008.

(5) Power purchase obligations for Belize Electricity include a 15-year power purchase agreement between Belize Electricity and Hydro Maya Limited, which commenced in February 2007, for the supply of 3 MW of capacity and a two-year power purchase agreement between Belize Electricity and Comisión Federal de Electricidad of Mexico, expiring in August 2008, for the supply of 15 MW of firm energy. Belize Electricity has also signed a 15-year power purchase agreement with Belize Cogeneration Energy Limited ("Belcogen"), which is scheduled to commence in mid-2009, that provides for the supply of approximately 14 MW of capacity. Belcogen has not yet commenced construction of the related bagasse-fired electric generating facility; therefore, the obligation related to the power purchase agreement with Belcogen has not been included in the Corporation's contractual obligations.

(6) Maritime Electric has entitlement to approximately 6.7 per cent of the output from the NB Power Dalhousie Generating Station and approximately 4.7 per cent from the NB Power Point Lepreau Generating Station for the life of each unit. As part of its participation agreement, Maritime Electric is required to pay its share of the capital costs of these units.

(7) FortisAlberta and an Alberta transmission service provider have entered into an agreement in consideration for joint attachments of distribution facilities to the transmission system. The expiry terms of this agreement state that the agreement remains in effect until the Company no longer has attachments to the transmission facilities. Due to the unlimited term of this contract, the calculation of future payments after 2012 includes payments to the end of 20 years. However, the payments under this agreement may continue for an indefinite period of time. FortisAlberta and an Alberta transmission service provider have also entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The service agreements have minimum expiry terms of five years from September 1, 2005 and are subject to extensions based on mutually agreeable terms.

(8) Under a sale-leaseback agreement, on September 29, 1993, FortisBC began leasing its Trail, British Columbia office building for a term of 30 years. The terms of the agreement grant FortisBC repurchase options at approximately year 20 and year 28 of the lease term (Note 4 *(xii)*).

(9) Operating lease obligations include certain office, warehouse, natural gas transmission and distribution asset, vehicle and equipment leases, and the lease of electricity distribution assets of Port Colborne Hydro Inc.

The regulated subsidiaries of the Corporation are obligated to provide service to customers within their respective service territories. These regulated subsidiaries' capital expenditures are largely driven by customer requests or include large capital projects specifically approved by their respective regulators. The consolidated capital program of the Corporation, including non-regulated segments, is forecast to include approximately $901 million in capital expenditures for 2008. This commitment has not been included in the commitments table above.

In prior years, TGVI received non-interest bearing repayable loans from the federal and provincial governments of $50 million and $25 million, respectively, in connection with the construction and operation of the Vancouver Island natural gas pipeline. As approved by the BCUC, these loans have been recorded as government grants and have reduced the amounts reported for utility capital assets. The government loans are repayable in any fiscal year prior to 2012 under certain circumstances and subject to the ability of TGVI to obtain non-government subordinated debt financing on reasonable commercial terms. As the loans are repaid and replaced with non-government loans, utility capital assets and long-term debt will increase in accordance with TGVI's approved capital structure, as will TGVI's rate base, which is used in determining customer rates. The repayment criteria were met in 2007 and TGVI is expected to make an approximate $6 million repayment on the loans in 2008. As at December 31, 2007, the outstanding balance of the repayable government loans was $67 million with approximately $6 million classified as current portion of long-term debt. Repayments of the government loans beyond 2009 are not included in the commitments table above as the amount and timing of the repayments are dependent upon annual BCUC approval of the recovery of TGVI's RDDA and the ability of TGVI to replace the government loans with non-government subordinated debt financing on reasonable commercial terms.

26. Contingent Liabilities

The Corporation and its subsidiaries are subject to various legal proceedings and claims that arise in the ordinary course of business operations. Management believes that the amount of liability, if any, from these actions would not have a material effect on the Corporation's financial position or results of operations.

The following describes the nature of the Corporation's contingent liabilities.

Terasen

On March 26, 2007, the Minister of Small Business and Revenue and Minister Responsible for Regulatory Reform (the "Minister") in British Columbia issued a decision in respect of the appeal by TGI of an assessment of additional British Columbia Social Service Tax in the amount of approximately $37 million associated with the Southern Crossing Pipeline, which was completed in 2000. The Minister has reduced the assessment to $7 million, including interest, which has been paid in full to avoid accruing further interest and recorded as a long-term regulatory deferral asset. On June 22, 2007, TGI filed an appeal of the assessment with the B.C. Supreme Court (Note 4 *(x)*).

A non-regulated subsidiary of Terasen received Notices of Assessment from Canada Revenue Agency ("CRA") for additional taxes related to the taxation years 1999 through 2003. The exposure has been fully provided for in the Consolidated Financial Statements. Terasen has begun the appeal process associated with the assessments.

FortisAlberta

On March 24, 2006, Her Majesty the Queen in Right of Alberta (the "Crown") filed a statement of claim in the Court of Queen's Bench of Alberta in the Judicial District of Edmonton against FortisAlberta. The Crown's claim is that the Company is responsible for a fire that occurred in October 2003 in an area of the Province of Alberta commonly referred to as Poll Haven Community Pasture. The Crown is seeking approximately $3 million in firefighting and suppression costs and approximately $2 million in timber losses, as well as interest and other costs. FortisAlberta and the Crown have exchanged several investigation and expert reports. Both the factual evidence and expert opinion received to date leads management to believe that FortisAlberta is not responsible for the cause of the fire and has no liability for the damages. However, FortisAlberta has not made any definitive assessment of potential liability, and the outcome with regard to the Company's liability for the claims made by the Crown is indeterminable. No amount, therefore, has been accrued in the Consolidated Financial Statements.

FortisBC

The B.C. Ministry of Forests has alleged breaches of the Forest Practices Code and negligence relating to a fire near Vaseux Lake and has filed and served a writ and statement of claim against FortisBC. In addition, the Company has been served with two filed writs and statements of claim by private landowners in relation to the same matter. The Company is currently communicating with its insurers and has filed a statement of defence in relation to all of the actions. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the Consolidated Financial Statements.

Maritime Electric

In April 2006, CRA reassessed Maritime Electric's 1997–2004 taxation years. The reassessment encompasses the Company's tax treatment, specifically the Company's timing of deductions, with respect to: (i) the ECAM in the 2001–2004 taxation years; (ii) customer rebate adjustments in the 2001–2003 taxation years; and (iii) the Company's payment of approximately $6 million on January 2, 2001 associated with a settlement with NB Power regarding its $450 million write-down of the Point Lepreau Nuclear Generating Station in 1998. Maritime Electric believes it has reported its tax position appropriately in all respects and filed a Notice of Objection with the Chief of Appeals at CRA. Should the Company be unsuccessful in defending all aspects of the reassessment, the Company would be required to pay approximately $13 million in taxes and accrued interest. As at December 31, 2007, Maritime Electric has provided for this amount through future and current income taxes payable. The provisions of the *Income Tax Act* (Canada) require the Company to deposit one-half of the assessment under objection with CRA. The amount currently on deposit with CRA arising from the reassessment is approximately $6 million.

FortisUS Energy

Legal proceedings were initiated against FortisUS Energy by the Village of Philadelphia (the "Village"), New York. The Village claimed that FortisUS Energy should honour a series of current and future payments set out in an agreement between the Village and a former owner of the hydroelectric site, located in the municipality of the Village, now owned by FortisUS Energy, totalling approximately $7 million (US$7 million). The First American Title Insurance Company is defending the action on behalf of FortisUS Energy. A Memorandum Decision and Order was filed by the State of New York Supreme Court of Jefferson County on December 21, 2006 granting summary judgment to FortisUS Energy dismissing the action by the Village. An appeal of the summary judgment dismissal of the claim filed by the Village in January 2007 was heard by the Appellate Division, Fourth Judicial Department of the Supreme Court of the State of New York in December 2007. The Appellate Division delivered its Memorandum and Order on February 1, 2008 modifying the initial decision by dismissing the Village's appeal regarding its main claim, but reinstating a secondary cause of action dismissed by the summary judgment order. Further appeals to the New York State Court of Appeal may be forthcoming. Management believes that potential further legal actions by the Village will not be successful and, therefore, no provision has been made in the Consolidated Financial Statements.

27. Subsequent Event

On February 15, 2008, TGVI closed a $250 million 6.05% unsecured debenture offering, maturing on February 15, 2038. The net proceeds of the debenture offering were used to repay existing credit-facility borrowings.

28. Comparative Figures

Certain comparative figures have been reclassified to comply with the current year's classifications.

Historical Financial Summary

Statements of Earnings *(in $ millions)*	**2007**	2006[1]	2005[1]	2004
Revenue, including equity income	**2,718**	1,472	1,441	1,146
Energy supply costs and operating expenses	**1,904**	939	926	766
Amortization	**273**	178	158	114
Finance charges	**299**	168	154	122
Corporate taxes	**36**	32	70	47
Results of discontinued operations, gains on sales and other unusual items	**8**	2	10	–
Non-controlling interest	**15**	8	6	6
Preference share dividends	**6**	2	–	–
Net earnings applicable to common shares	**193**	147	137	91
Balance Sheets *(in $ millions)*				
Current assets	**1,064**	405	299	293
Goodwill	**1,544**	661	512	514
Other long-term assets	**424**	331	471	418
Utility capital assets and income producing properties	**7,241**	4,044	3,315	2,713
Total assets	**10,273**	5,441	4,597	3,938
Current liabilities	**1,804**	558	412	538
Deposits due beyond one year	**–**	–	–	–
Deferred credits, regulatory liabilities and future income taxes	**688**	477	477	138
Long-term debt and capital lease obligations (excluding current portion)	**4,623**	2,558	2,136	1,905
Non-controlling interest	**115**	130	39	37
Preference shares (classified as debt)	**320**	320	320	320
Shareholders' equity	**2,723**	1,398	1,213	1,000
Cash Flows *(in $ millions)*				
Operating activities	**373**	263	304	272
Financing activities	**1,826**	456	224	777
Investing activities	**2,033**	634	467	1,026
Dividends, excluding dividends on preference shares classified as debt	**146**	77	64	51
Financial Statistics				
Return on average common shareholders' equity *(%)*	**9.99**	11.87	12.40	11.28
Capitalization Ratios *(%)* (year end)				
Total debt and capital lease obligations (net of cash)	**64.3**	61.1	58.7	61.4
Preference shares (classified as debt and equity)	**5.2**	10.0	8.6	9.4
Common shareholders' equity	**30.5**	28.9	32.7	29.2
Interest Coverage *(x)*				
Debt	**1.9**	2.2	2.5	2.3
All fixed charges	**1.7**	2.0	2.1	2.0
Total capital expenditures *(in $ millions)*	**803**	500	446	279
Common share data				
Book value per share (year end) *($)*	**16.69**	12.19	11.74	10.45
Average common shares outstanding *(in millions)*	**137.6**	103.6	101.8	84.7
Basic earnings per common share *($)*	**1.40**	1.42	1.35	1.07
Dividends declared per common share *($)*	**0.880**	0.700	0.605	0.548
Dividends paid per common share *($)*	**0.820**	0.670	0.588	0.540
Dividend payout ratio *(%)*	**58.6**	47.2	43.7	50.3
Price earnings ratio *(x)*	**20.7**	21.0	18.0	16.2
Share trading summary				
High price *($)* (TSX)	**30.00**	30.00	25.64	17.75
Low price *($)* (TSX)	**24.50**	20.36	17.00	14.23
Close price *($)* (TSX)	**28.99**	29.77	24.27	17.38
Volume *(in thousands)*	**100,920**	60,094	37,706	29,254

[1] As at December 31, 2006, the regulatory provision for future site removal and restoration costs was reallocated from accumulated amortization to long-term regulatory liabilities, with 2005 comparative figures restated. The effect of this change in presentation at December 31, 2006 was a $306.5 million (December 31, 2005 – $280.9 million) increase in long-term regulatory liabilities and a $306.5 million (December 31, 2005 – $280.9 million) increase in net utility capital assets.

2003	2002	2001	2000	1999	1998	1997
843	715	628	580	505	473	487
579	477	418	418	356	340	341
62	65	62	52	45	42	41
86	74	65	56	46	44	45
38	32	29	17	28	23	29
–	–	4	3	–	4	–
4	4	4	3	1	1	1
–	–	–	–	–	–	–
74	63	54	37	29	27	30
191	180	135	166	93	94	79
65	60	33	36	39	42	45
345	241	172	163	122	121	115
1,563	1,459	1,246	1,056	930	750	747
2,164	1,940	1,586	1,421	1,184	1,007	986
296	334	272	225	230	148	172
–	–	–	–	16	16	20
62	39	32	24	27	22	23
1,031	941	746	678	488	424	386
37	40	36	32	29	8	8
123	–	50	50	50	50	50
615	586	450	412	344	339	327
157	134	94	97	85	69	63
232	261	171	178	67	16	17
308	349	240	241	122	66	54
38	35	30	28	24	24	23
12.30	12.23	12.44	9.73	8.55	8.24	9.43
60.0	65.2	63.9	60.4	59.6	53.4	53.6
6.7	–	3.6	4.3	5.1	6.0	6.2
33.3	34.8	32.5	35.3	35.3	40.6	40.2
2.2	2.3	2.3	2.1	2.3	2.2	2.6
2.1	2.2	2.2	1.9	2.1	2.0	2.0
208	229	149	158	86	65	50
8.82	8.50	7.50	6.97	6.55	6.52	6.40
69.3	65.1	59.5	54.1	52.2	51.5	50.4
1.06	0.97	0.90	0.68	0.56	0.53	0.60
0.525	0.498	0.470	0.460	0.455	0.450	0.443
0.520	0.485	0.468	0.460	0.453	0.450	0.440
48.9	49.9	51.9	67.6	80.8	84.9	73.9
13.9	13.5	13.0	13.2	14.0	18.0	17.6
15.24	13.28	11.89	9.19	9.93	12.03	10.63
11.63	10.76	8.56	6.88	7.29	8.75	7.83
14.73	13.13	11.74	9.00	7.85	9.56	10.50
31,180	21,676	21,460	26,760	9,024	12,356	13,520

Board of Directors

Board of Directors (back row l-r): David G. Norris, Peter E. Case, Harry McWatters, Michael A. Pavey, Frank J. Crothers, Linda L. Inkpen, Roy P. Rideout, (front row l-r): John S. McCallum, H. Stanley Marshall, Bruce Chafe, Geoffrey F. Hyland

Bruce Chafe ∗ ⋆ ⁎ *Chair, Fortis Inc., St. John's, NL*
Mr. Chafe, 71, joined the Fortis Inc. Board in May 1997 and was appointed Chair of the Board in May 2006. He is past Chair of the Audit Committee of the Board. Mr. Chafe retired as a senior partner of Deloitte & Touche LLP after a 36-year career providing audit and corporate advisory services. He has been a Director of Fortis Properties Corporation since 1997. Mr. Chafe has served as Chair of Newfoundland Power Inc. and also as a Director of FortisBC Inc. He is a Director of several private investment firms. Mr. Chafe will be retiring from the Board at the Annual Meeting on May 6, 2008.

Peter E. Case ∗ *Corporate Director, Freelton, ON*
Mr. Case, 53, joined the Fortis Inc. Board in May 2005. After 17 years as a utility and pipeline analyst, he retired in February 2003 as Executive Director, Institutional Equity Research at CIBC World Markets. Prior to that position, he was Managing Director at BMO Nesbitt Burns. Mr. Case has been a Director of FortisOntario Inc. since March 2003.

Frank J. Crothers *Chairman & CEO, Island Corporate Holdings, Nassau, BS*
Mr. Crothers, 63, joined the Fortis Inc. Board in May 2007. Over the past 35 years, Mr. Crothers has served on many public and private sector boards. He served a three-year term as Chairman of CARILEC, the Caribbean Association of Electrical Utilities. Mr. Crothers is the former President of P.P.C. Limited, which was acquired by Fortis Inc. in August 2006. He serves as Vice Chair of the Board of Caribbean Utilities Company, Limited. Mr. Crothers also serves as a Director of Abaco Markets, Templeton Investments, Nunisco Resources Limited, Talon Corporation, Fidelity Merchant Bank & Trust Limited, C.A. Bancorp Inc. and Victory Nickel Inc.

Geoffrey F. Hyland ⁎ *Corporate Director, Caledon, ON*
Mr. Hyland, 63, joined the Fortis Inc. Board in May 2001. He retired as President and CEO of Shawcor Ltd. in June 2005. Mr. Hyland is a Director of FortisOntario Inc. He continues to serve on the Board of ShawCor Ltd. and is a Director of Enerflex Systems Income Fund, SCITI Total Return Trust and Exco Technologies Limited.

Linda L. Inkpen ⋆ *Medical Practitioner, St. John's, NL*
Dr. Inkpen, 60, joined the Fortis Inc. Board in April 1994. She has been a medical practitioner since 1975 and is Chair of the Medical Advisory Committee for the St. John's Hospitals for Eastern Health. Dr. Inkpen is a past President of the College of the North Atlantic. She also served on the Royal Commission on Employment and Unemployment. Dr. Inkpen was appointed Chair of the Board of Fortis Properties Corporation in 2000 and is a past Chair of Newfoundland Power Inc.

H. Stanley Marshall *President and CEO, Fortis Inc., St. John's, NL*
Mr. Marshall, 57, has served on the Fortis Inc. Board since October 1995. He joined Newfoundland Power Inc. in 1979 and was appointed President and CEO of Fortis Inc. in 1996. Mr. Marshall serves on the Boards of all Fortis utilities in western Canada and the Caribbean and the Board of Fortis Properties Corporation. He is also a Director of Toromont Industries Ltd.

John S. McCallum ∗ ⋆ *Professor of Finance, University of Manitoba, Winnipeg, MB*
Mr. McCallum, 64, joined the Fortis Inc. Board in July 2001 and is Chair of the Governance and Nominating Committee of the Board. He was Chairman of Manitoba Hydro from 1991 to 2000 and Policy Advisor to the Federal Minister of Finance from 1984 to 1991. Mr. McCallum is a Director of FortisBC Inc. and FortisAlberta Inc. He also serves as a Director of IGM Financial Inc., Toromont Industries Ltd. and Wawanesa.

Harry McWatters ⋆ *President, Sumac Ridge Estate Wine Group, Summerland, BC*
Mr. McWatters, 62, joined the Fortis Inc. Board in May 2007. He is the founder of Sumac Ridge Estate Wine Group. Mr. McWatters is President of Black Sage Vineyards Ltd., Hawthorne Mountain Vineyards Limited and Okanagan Estate Wine Cellars Ltd. and is responsible for government and industry relations in western Canada for Vincor Canada. He was appointed Chair of the Board of FortisBC Inc. in 2006. Mr. McWatters has been a Director of FortisBC Inc. since 2005 and a Director of Terasen Inc. since November 2007.

David G. Norris ∗ ⁎ *Corporate Director, St. John's, NL*
Mr. Norris, 60, joined the Fortis Inc. Board in May 2005 and was appointed Chair of the Audit Committee of the Board in May 2006. He has been a financial and management consultant since 2001, prior to which he was Executive Vice-President, Finance and Business Development, Fishery Products International Limited. Previously, he held Deputy Minister positions with Department of Finance and Treasury Board, Government of Newfoundland and Labrador. Mr. Norris was appointed Chair of the Board of Newfoundland Power Inc. in 2006. He has been a Director of Newfoundland Power Inc. since 2003 and a Director of Fortis Properties Corporation since 2006.

Michael A. Pavey ⁎ *Corporate Director, Moncton, NB*
Mr. Pavey, 60, joined the Fortis Inc. Board in May 2004. He retired as Executive Vice-President and Chief Financial Officer of Major Drilling Group International Inc. in 2006. Prior to joining Major Drilling in 1999, he held senior executive positions with a major integrated electric utility in western Canada. Mr. Pavey was previously a Director of Maritime Electric Company, Limited.

Roy P. Rideout ⋆ ⁎ *Corporate Director, Halifax, NS*
Mr. Rideout, 60, joined the Fortis Inc. Board in March 2001 and is Chair of the Human Resources Committee of the Board. He retired as Chairman and CEO of Clarke Inc. in October 2002. Prior to 1998, Mr. Rideout served as President of Newfoundland Capital Corporation Limited and held senior executive positions in the Canadian airline industry. He also serves as a Director of the Halifax International Airport Authority and NAV CANADA.

∗ Audit Committee
⋆ Governance and Nominating Committee
⁎ Human Resources Committee

Investor Information

Transfer Agent and Registrar

Computershare Trust Company of Canada ("Computershare") is responsible for the maintenance of shareholder records and the issue, transfer and cancellation of stock certificates. Transfers can be effected at its Halifax, Montreal and Toronto offices. Computershare also distributes dividends and shareholder communications. Inquiries with respect to these matters and corrections to shareholder information should be addressed to the Transfer Agent.

Computershare Trust Company of Canada

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W: www.computershare.com

Direct Deposit of Dividends

Shareholders may obtain automatic electronic deposit of dividends to their designated Canadian financial institutions by contacting the Transfer Agent.

Duplicate Annual Reports

While every effort is made to avoid duplications, some shareholders may receive extra reports as a result of multiple share registrations. Shareholders wishing to consolidate these accounts should contact the Transfer Agent.

Dividend Reinvestment Plan and Consumer Share Purchase Plan

Fortis Inc. offers a Dividend Reinvestment Plan[(1)] and a Consumer Share Purchase Plan[(2)] to Common Shareholders as a convenient method of increasing their investments in Fortis Inc. Participants have dividends plus any optional cash payments (minimum of $100, maximum of $20,000 annually) automatically deposited in the Plans to purchase additional Common Shares. Shares are sold quarterly on March 1, June 1, September 1 and December 1 at the average market price then prevailing on the Toronto Stock Exchange. Inquiries should be directed to the Transfer Agent, Computershare Trust Company of Canada.

(1) *All registered holders of Common Shares who are residents of Canada are eligible to participate in the Dividend Reinvestment Plan. Shareholders residing outside Canada may also participate unless participation is not allowed in that jurisdiction. Residents of the United States, its territories or possessions are not eligible to participate.*

(2) *The Consumer Share Purchase Plan is offered to residents of the provinces of Newfoundland and Labrador and Prince Edward Island.*

Share Listings

The Common Shares; First Preference Shares, Series C; First Preference Shares, Series E; and First Preference Shares, Series F of Fortis Inc. are listed on the Toronto Stock Exchange and trade under the ticker symbols FTS, FTS.PR.C, FTS.PR.E and FTS.PR.F, respectively.

Valuation Day

For capital gains purposes, the valuation day prices are as follows:

December 22, 1971	$ 1.531
February 22, 1994	$ 7.156

Fortis Inc. *Officers (l-r): Ronald McCabe, General Counsel and Corporate Secretary; Stan Marshall, President and CEO; Donna Hynes, Assistant Secretary and Manager, Investor and Public Relations; Barry Perry, VP, Finance and CFO*

Expected Dividend* and Earnings Dates

Dividend Record Dates

May 9, 2008	August 8, 2008
November 7, 2008	February 6, 2009

Dividend Payment Dates

June 1, 2008	September 1, 2008
December 1, 2008	March 1, 2009

Earnings Release Dates

May 1, 2008	August 8, 2008
October 31, 2008	February 5, 2009

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

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Annual Meeting

Tuesday, May 6, 2008
10:30 a.m.
Holiday Inn St. John's
180 Portugal Cove Road
St. John's, NL Canada

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Colour, St. John's, NL
www.colour-nl.ca

Moveable Inc., Toronto, ON

Printer:
The Lowe-Martin Group,
Ottawa, ON

Photography:

Cover: Cam Craig, Surrey, BC

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