NEWFOUNDLAND AND LABRADOR HYDRO
A NALCOR ENERGY COMPANY

Consolidated Financial Statements
December 31, 2015

newfoundland labrador hydro
a nalcor energy company

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March 22, 2016

Honourable Siobhan Coady
Minister of Natural Resources
Government of Newfoundland and Labrador
50 Elizabeth Avenue, 7th Floor
P. O. Box 8700
St. John's, NL A1B 4J6

Dear Minister Coady:

Pursuant to Section 33 of the Hydro Corporation Act, 2007, please find attached the audited Consolidated Financial Statements of Newfoundland Labrador Hydro (Hydro) for the year ended December 31, 2015.

A detailed account of Hydro's activities during the year ended December 31, 2015 is included in the Nalcor Energy 2015 Business and Financial Report.

Regards,

Ken Marshall, Chair
Board of Directors

Attachment

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Newfoundland and Labrador Hydro, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Newfoundland and Labrador Hydro as at December 31, 2015, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
March 11, 2016

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 (millions of Canadian dollars)	Notes	**2015**	2014 (Note 29)
ASSETS			
Current assets			
Cash and cash equivalents	5	**40.1**	25.4
Short-term investments		**-**	3.3
Trade and other receivables	6	**108.6**	105.0
Inventories	7	**77.9**	97.1
Prepayments		**5.8**	5.8
Derivative assets	23	**1.9**	2.7
Deferred assets	8	**61.2**	-
Total current assets		**295.5**	239.3
Non-current assets			
Property, plant and equipment	9	**2,108.6**	2,029.9
Intangible assets	10	**7.1**	8.0
Other long-term assets	12	**273.8**	262.9
Investment in joint arrangement		**1.2**	1.5
Total assets		**2,686.2**	2,541.6
Regulatory deferrals	11	**144.3**	124.2
Total assets and regulatory deferrals		**2,830.5**	2,665.8
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	14	**97.0**	53.0
Trade and other payables	13	**133.3**	151.3
Current portion of long-term debt	14	**233.4**	8.4
Deferred credits		**0.4**	0.7
Current portion of deferred contributions	16	**1.1**	0.8
Derivative liabilities	15,23	**61.2**	0.2
Total current liabilities		**526.4**	214.4
Non-current liabilities			
Long-term debt	14	**1,007.0**	1,239.3
Deferred contributions	16	**11.6**	11.4
Decommissioning liabilities	17	**28.8**	28.0
Long-term payables		**-**	0.7
Employee benefits liability	18	**120.5**	127.7
Total liabilities		**1,694.3**	1,621.5
Shareholder’s equity			
Share capital	19	**22.5**	22.5
Shareholder contributions	19	**118.7**	118.6
Reserves		**10.6**	(4.8)
Retained earnings		**654.4**	655.9
Total equity		**806.2**	792.2
Total liabilities and equity		**2,500.5**	2,413.7
Regulatory deferrals	11	**330.0**	252.1
Total liabilities, equity and regulatory deferrals		**2,830.5**	2,665.8

Commitments and contingencies (Note 25)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

For the year ended December 31 (millions of Canadian dollars)	Notes	**2015**	2014
			(Note 29)
Energy sales		**760.7**	691.2
Other revenue		**13.7**	7.8
Revenue		**774.4**	699.0
Fuels		**192.8**	268.1
Power purchased		**99.5**	68.3
Operating costs	20	**224.9**	211.3
Depreciation and amortization	9,10	**78.9**	69.8
Net finance (income) expense	21	**72.7**	69.6
Other (income) expense	22	**2.6**	5.6
Profit for the year from operations		**103.0**	6.3
Share of loss (profit) of joint arrangement		**0.3**	(0.4)
Profit, before regulatory adjustments		**102.7**	6.7
Regulatory adjustments	11	**59.5**	(66.3)
Profit for the year		**43.2**	73.0
Other comprehensive income for the year		**15.4**	0.7
Total comprehensive income for the year		**58.6**	73.7

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian dollars)	Note	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2015		**22.5**	**118.6**	**41.3**	**(46.1)**	**655.9**	**792.2**
Profit for the year		**-**	**-**	**-**	**-**	**43.2**	**43.2**
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments[1]		**-**	**-**	**10.1**	**-**	**-**	**10.1**
Actuarial gain on employee benefits liability	**18**	**-**	**-**	**-**	**13.6**	**-**	**13.6**
Net change in fair value of financial instruments reclassified to profit or loss		**-**	**-**	**(10.0)**	**-**	**-**	**(10.0)**
Regulatory adjustment		**-**	**-**	**-**	**1.7**	**-**	**1.7**
Total comprehensive income for the year		**-**	**-**	**0.1**	**15.3**	**43.2**	**58.6**
Shareholder contributions	**19**	**-**	**0.1**	**-**	**-**	**-**	**0.1**
Dividends	**19**	**-**	**-**	**-**	**-**	**(44.7)**	**(44.7)**
Balance at December 31, 2015		**22.5**	**118.7**	**41.4**	**(30.8)**	**654.4**	**806.2**
Balance at January 1, 2014		22.5	118.4	24.9	(30.4)	625.7	761.1
Profit for the year		-	-	-	-	73.0	73.0
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments[1]		-	-	27.4	-	-	27.4
Actuarial loss on employee benefits liability	18	-	-	-	(15.7)	-	(15.7)
Net change in fair value of financial instruments reclassified to profit or loss		-	-	(11.0)	-	-	(11.0)
Total comprehensive income (loss) for the year		-	-	16.4	(15.7)	73.0	73.7
Shareholder contributions	19	-	0.2	-	-	-	0.2
Dividends	19	-	-	-	-	(42.8)	(42.8)
Balance at December 31, 2014		22.5	118.6	41.3	(46.1)	655.9	792.2

[1] Subsequently reclassified to profit or loss on derecognition

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of Canadian dollars)	Notes	**2015**	2014
Cash provided from (used in)			(Note 29)
Operating activities			
Profit for the year		**43.2**	73.0
Adjusted for items not involving a cash flow:			
Depreciation and amortization	9, 10	**78.9**	69.8
Amortization of deferred contributions	16	**(0.9)**	(0.8)
Accretion	21	**1.3**	1.3
Employee benefits		**7.0**	6.5
Regulatory adjustments	11	**57.8**	(66.3)
Loss (gain) on disposal of property, plant and equipment	22	**4.3**	(0.6)
Share of loss (profit) of joint arrangement		**0.3**	(0.4)
Other		**(11.1)**	(1.8)
		180.8	80.7
Changes in non-cash working capital balances	27	**2.9**	(6.1)
Net cash provided from operating activities		**183.7**	74.6
Investing activities			
Additions to property, plant and equipment	9	**(161.1)**	(240.0)
Additions to intangible assets	10	**(1.6)**	(2.7)
Decrease (increase) in short-term investments		**3.3**	(3.3)
(Increase) decrease in sinking funds	12	**(8.1)**	101.0
Additions to reserve fund		**-**	(0.3)
Withdrawal from reserve fund		**3.3**	16.4
Proceeds on disposal of property, plant and equipment		**0.8**	3.3
Changes in non-cash working capital balances	27	**(5.3)**	14.4
Net cash used in investing activities		**(168.7)**	(111.2)
Financing activities			
Issuance/retirement of long-term debt		**-**	72.4
Dividends paid to Nalcor Energy	19	**(44.7)**	(42.8)
Increase in short-term borrowings	14	**44.0**	12.0
Decrease in long-term receivables	12	**-**	1.4
Decrease in long-term payable	19	**(0.8)**	(0.9)
Increase in shareholder contributions	19	**0.1**	0.2
Increase in deferred contributions	16	**1.4**	1.7
Decrease in deferred credits		**(0.3)**	-
Net cash provided from financing activities		**(0.3)**	44.0
Net increase in cash and cash equivalents		**14.7**	7.4
Cash and cash equivalents, beginning of year		**25.4**	18.0
Cash and cash equivalents, end of year		**40.1**	25.4

Supplementary cash flow information (Note 27)

See accompanying notes

1. DESCRIPTION OF BUSINESS

Newfoundland and Labrador Hydro (Hydro or the Company) is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province). The principal activity of Hydro is the generation, transmission and sale of electricity. Hydro's operations include both regulated and non-regulated activities. Hydro's head office is located in St. John's, Newfoundland and Labrador. Hydro is a 100% owned subsidiary of Nalcor Energy (Nalcor).

Hydro holds interests in the following entities:

A 65.8% interest in Churchill Falls (Labrador) Corporation Limited (Churchill Falls). Churchill Falls is incorporated under the laws of Canada and owns and operates a hydroelectric generating plant and related transmission facilities situated in Labrador which has a rated capacity of 5,428 megawatts (MW).

A 51.0% interest in Lower Churchill Development Corporation (LCDC), an inactive subsidiary. LCDC is incorporated under the laws of Newfoundland and Labrador and was established with the objective of developing all or part of the hydroelectric potential of the Lower Churchill River.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These annual audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Hydro has adopted accounting policies which are based on the IFRS applicable as at December 31, 2015, and includes individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee and the Standing Interpretations Committee.

These annual audited consolidated financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss (FVTPL) and available-for-sale (AFS) financial assets which have been measured at fair value. The annual audited consolidated financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest million, except when otherwise noted. The annual audited consolidated financial statements were approved by Hydro's Board of Directors (the Board) on March 7, 2016.

2.2 Basis of Consolidation

The annual audited consolidated financial statements include the financial statements of Hydro, its subsidiary company, LCDC, and its share of investments in a joint operation and a joint arrangement. Intercompany transactions and balances have been eliminated upon consolidation.

Effective June 18, 1999, Hydro, Churchill Falls, and Hydro-Québec entered into a Shareholders' Agreement (the Shareholders' Agreement) which provided, among other matters, that certain of the strategic operating, financing and investing policies of Churchill Falls be subject to approval jointly by representatives of Hydro and Hydro-Québec on the Board of Directors of Churchill Falls. Although Hydro holds a 65.8% ownership interest, the agreement changed the nature of the relationship between Hydro and Hydro-Québec, with respect to Churchill Falls, from that of majority and minority shareholders, respectively, to that of a joint operation. Accordingly, Hydro has recognized its share of assets, liabilities and profit or loss in relation to its interest in Churchill Falls subsequent to the effective date of the Shareholders' Agreement.

Churchill Falls holds 33.33% of the equity share capital of Twin Falls Power Corporation Limited (Twin Falls). This investment is accounted for using the equity method.

2.3 Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents consist of amounts on deposit with a Schedule 1 Canadian Chartered bank, as well as highly liquid investments with maturities of three months or less. Investments with maturities greater than three months and less than twelve months are classified as short-term investments. Cash and cash equivalents are measured at cost, which approximates fair value, while short-term investments are measured at fair value.

2.4 Trade and Other Receivables

Trade and other receivables are classified as loans and receivables and are measured at amortized cost using the effective interest method.

2.5 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring the inventories and bringing them to their existing condition and location. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.6 Property, Plant and Equipment

Items of property, plant and equipment are recognized using the cost model and thus are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Hydro's accounting policy outlined in Note 2.8. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation. When significant parts of property, plant and equipment are required to be replaced at intervals, Hydro recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized in profit or loss as incurred. Property, plant and equipment is not revalued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

<u>Hydro</u>

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Generation plant	
Hydroelectric	45 to 100 years
Thermal	35 to 65 years
Diesel	25 to 55 years
Transmission	
Lines	30 to 65 years
Terminal stations	40 to 55 years
Distribution system	30 to 55 years
Other assets	5 to 55 years

Hydroelectric generation plant includes the powerhouse, turbines, governors and generators, as well as water conveying and control structures, including dams, dikes, tailrace, penstock and intake structures. Thermal generation plant is comprised of the powerhouse, turbines and generators, boilers, oil storage tanks, stacks, and auxiliary systems. Diesel generation plant includes the buildings, engines, generators, switchgear, fuel storage and transfer systems, dikes and liners and cooling systems.

Transmission lines include the support structures, foundations and insulators associated with lines at voltages of 230, 138 and 69 kilovolt (kV). Terminal station assets are used to step up voltages of electricity and to step down voltages for distribution. Distribution system assets include poles, transformers, insulators, and conductors. Other assets include telecontrol, buildings, vehicles, furniture, tools and equipment.

Churchill Falls

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Hydroelectric generation plant	45 to 100 years
Transmission and terminals	30 to 65 years
Service facilities and other	5 to 45 years

Hydro and Churchill Falls assets' residual values, useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. The carrying value of property, plant and equipment is reviewed for impairment whenever events indicate that the carrying amounts of those assets may not be recoverable.

2.7 Intangible Assets

Intangible assets that are expected to generate future economic benefit and are measurable, including computer software costs, costs of technical services and studies are capitalized as intangible assets in accordance with IAS 38.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. The estimated useful life and amortization method are reviewed at the end of each year with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Feasibility studies	5 to 20 years
Computer software	10 years

2.8 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in the Consolidated Statement of Profit and Comprehensive Income in the period in which they are incurred.

2.9 Impairment of Non-Financial Assets

At the end of each reporting period, Hydro reviews the carrying amounts of its non-financial assets, to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Where it is not possible to estimate the recoverable amount of an individual asset, Hydro estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the Consolidated Statement of Profit and Comprehensive Income.

2.10 Investment in Joint Arrangement

A joint arrangement is an arrangement of which two or more parties have joint control. Control exists when Hydro has the power, directly or indirectly, to govern the financial and operating policies of another entity, so as to obtain benefits from its activities. A joint arrangement is either classified as a joint operation or a joint venture based on the rights of the parties involved.

Hydro accounts for its investment in Churchill Falls by recognizing its share of assets, liabilities and profit or loss in relation to its interest in the joint operation.

Hydro's joint operation, Churchill Falls, holds 33.33% of the equity share capital of Twin Falls and is a party with other shareholders in a participation agreement which gives Churchill Falls joint control of Twin Falls. This investment is accounted for using the equity method. Under the equity method, the interest in the joint venture is carried in the Statement of Financial Position at cost plus post acquisition changes in Churchill Falls' share of net assets of the joint venture. The Statement of Profit and Comprehensive Income reflects the share of the profit or loss of the joint venture.

2.11 Employee Benefits Liability

(i) Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. Contributions by Hydro to this plan are recognized as an expense when employees have rendered service entitling them to the contributions. Liabilities associated with this plan are held with the Province.

(ii) Other Benefits

Hydro provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement.

The cost of providing these benefits is determined using the projected unit credit method, with actuarial valuations being completed every three years and extrapolated at the end of each reporting period based on service and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains and losses on Hydro's defined benefit obligation are recognized in reserves in the period in which they occur. Past service costs are recognized in operating costs as incurred. Pursuant to Order No. P.U. 36 (2015), Hydro recognizes the amortization of employee future benefit actuarial gains and losses in the Consolidated Statement of Profit and Comprehensive Income as a regulatory adjustment.

The retirement benefit obligation recognized in the Statement of Financial Position represents the present value of the defined benefit obligation.

2.12 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Hydro has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Consolidated Statement of Financial Position date using the current discount rate.

2.13 Decommissioning, Restoration and Environmental Liabilities

Legal and constructive obligations associated with the retirement of property, plant and equipment are recorded as liabilities when those obligations are incurred and are measured as the present value of the expected costs to settle the liability, discounted at a rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to net finance (income) expense. The carrying amount of decommissioning, restoration and environmental liabilities is reviewed annually with changes in the estimates of timing or amount of cash flows added to or deducted from the cost of the related asset or expensed in the Consolidated Statement of Profit and Comprehensive Income if the liability is short-term in nature.

2.14 Revenue Recognition

Revenue from the sale of energy is recognized when Hydro has transferred the significant risks and rewards of ownership to the buyer, recovery of the consideration is probable and the amount of revenue can be reliably measured. Sales within the Province are primarily at rates approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB), whereas export sales and sales to certain major industrial customers are either at rates under the terms of the applicable contracts, or at market rates.

Churchill Falls provides energy to two primary customers: Hydro-Québec and Hydro.
A power contract with Hydro-Québec dated May 12, 1969 (the Power Contract) provides for the sale of a significant amount of the energy from Churchill Falls. The Power Contract has a 40-year term ending in 2016, which is followed by a Renewed Power Contract with Hydro-Québec for an additional 25 years. The rate is predetermined in the Power Contract and is presently 2.5426 mills per kWh. The rate during the term of the Renewed Power Contract is 2.0 mills per kWh.

Churchill Falls also recognizes revenue from Hydro-Québec under a Guaranteed Winter Availability Contract (GWAC) through 2041. The GWAC was signed with Hydro-Québec in 1998 and provides for the sale of 682 MW of guaranteed seasonal availability to Hydro-Québec during the months of November through March in each of the remaining years until 2041.

The value of differences between energy delivered and the Annual Energy Base (AEB), as defined in the Power Contract, is tracked over a four-year period and then either recovered from or refunded to Hydro-Québec over the subsequent four-year period, unless the balance is less than $1.0 million in which case it is recovered or refunded immediately. These long-term receivables or long-term payables are subject to interest at 7% per annum (2014 - 7%).

Under the Power Contract and Renewed Power Contract, Churchill Falls has the right to recall 300 MW (Recall Power). All of the Recall Power is sold by Churchill Falls to Hydro. Churchill Falls also provides an additional 225 MW to Hydro.

2.15 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lessor accounting

Amounts due from lessees under finance leases are recognized as receivables at the amount of Hydro's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on Hydro's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Lessee accounting

Assets held under finance leases are initially recognized as assets of Hydro at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Consolidated Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with Hydro's general policy on borrowing costs (Note 2.8). Contingent rental costs are recognized as operating costs in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.16 Net Finance (Income) Expense

For all financial instruments measured at amortized cost and interest bearing financial assets classified as AFS, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

2.17 Foreign Currencies

Transactions in currencies other than Hydro's functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of transaction, approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses not included in regulatory deferrals are recorded in the Consolidated Statement of Profit and Comprehensive Income as other (income) expense.

2.18 Income Taxes

Hydro is exempt from paying income taxes under Section 149(1) (d.2) of the Income Tax Act.

2.19 Financial Instruments

Financial assets and financial liabilities are recognized in the Consolidated Statement of Financial Position when Hydro becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement is based on classification. Financial instruments are classified into the following specified categories: financial assets at FVTPL, AFS financial assets, loans and receivables, held-to-maturity investments, financial liabilities at FVTPL, financial instruments used for hedging and other financial liabilities. The classification depends on the nature and purpose of the financial instruments and is determined at the time of initial recognition.

Classification of Financial Instruments
Hydro has classified each of its financial instruments into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity investments, AFS financial assets, financial instruments used for hedging and other financial liabilities.

Cash and cash equivalents	Loans and receivables
Short-term investments	AFS financial assets
Trade and other receivables	Loans and receivables
Derivative instruments	At FVTPL and financial instruments used for hedging
Reserve fund	AFS financial assets
Sinking funds – investments in same Hydro issue	Held-to-maturity investments
Sinking funds – other investments	AFS financial assets
Long-term receivables	Loans and receivables
Trade and other payables	Other financial liabilities
Short-term borrowings	Other financial liabilities
Long-term debt	Other financial liabilities
Long-term payables	Other financial liabilities

(i) Effective Interest Method
The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income or expense is recognized on an effective interest basis for financial instruments other than those financial assets and liabilities classified at FVTPL.

Financial Assets

(ii) Financial Assets at FVTPL
Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that Hydro manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with Hydro's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in other (income) expense. The net gain or loss incorporates any dividends or interest earned.

(iii) Loans and Receivables
Trade receivables, loans and other receivables with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(iv) Held-to-Maturity Investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that Hydro has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

(v) AFS Financial Assets
AFS financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the previous categories. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the fair value reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss.

Financial Liabilities and Equity Instruments

(vi) Financial Liabilities at FVTPL
A financial liability may be classified as at FVTPL if the contracted liability contains one or more embedded derivatives, and if the embedded derivative significantly modified the cash flows or if the embedded derivative is not closely related to the host liability. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising from re-measurement recognized in profit or loss.

(vii) Other Financial Liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

(viii) Derivative Instruments and Financial Instruments Used for Hedging
Derivative instruments are utilized by Hydro to manage risk. Hydro's policy is not to utilize derivative instruments for speculative purposes. Derivatives are initially measured at fair value at the date the derivative contracts are entered into and are subsequently measured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging relationship.

2.20 Derecognition of Financial Instruments
Hydro derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Hydro neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, its retained interest in the asset and any associated liability for amounts it may have to pay is recognized. If Hydro retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognizes the collateralized borrowing for the proceeds received. Hydro derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire.

2.21 Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the borrower, more probable than not, entering into bankruptcy or financial re-organization.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Hydro's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

2.22 Government Grants

Government grants are recognized when there is reasonable assurance that Hydro will comply with the associated conditions and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which Hydro recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Hydro should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the Statements of Financial Position and transferred to the Consolidated Statement of Profit and Comprehensive Income on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Hydro with no future related costs are recognized in the Consolidated Statement of Profit and Comprehensive Income in the period in which they become receivable.

2.23 Regulatory Deferrals

Hydro’s revenues from its electrical sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service (COS) methodology. The allowed rate of return on rate base is 7.4% (2014 - 7.4%) +/- 15 basis points. Hydro applies various accounting policies that differ from enterprises that do not operate in a rate regulated environment. Generally, these policies result in the deferral and amortization of costs or credits which are expected to be recovered or refunded in future rates. In the absence of rate regulation, these amounts would be included in the determination of profit or loss in the year the amounts are incurred. The effects of rate regulation on the annual audited consolidated financial statements are disclosed in Note 11.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the annual audited consolidated financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ materially from these estimates, including changes as a result of future decisions made by the PUB. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or future periods.

3.1 Use of Judgments

(i) Property, Plant and Equipment

Hydro’s accounting policy relating to property, plant and equipment is described in Note 2.6. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Hydro’s property, plant and equipment.

(ii) Revenue

Management exercises judgment in estimating the value of electricity consumed by retail customers in the period, but billed subsequent to the end of the reporting period. Specifically, this involves an estimate of consumption for each retail customer, based on the customer’s past consumption history.

When recognizing deferrals and related amortization of costs or credits in Hydro Regulated, Management assumes that such costs or credits will be recovered or refunded through customer rates in future years. Recovery of some of these deferrals is subject to a future PUB order. As such, there is a risk that some or all of the regulatory deferrals will not be approved by the PUB which could have a material impact on Hydro Regulated’s profit or loss in the year the order is received.

(iii) Determination of Cash Generating Units (GGUs)

Hydro’s accounting policy relating to impairment of non-financial assets is described in Note 2.9. In applying this policy, Hydro groups assets into the smallest identifiable group for which cash flows are largely independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

(iv) Discount Rates

Certain of Hydro's financial liabilities are discounted using discount rates that are subject to Management's judgement.

(v) Consolidation of Joint Arrangements
Management exercises judgment when applying the criteria outlined in IFRS 11 to determine whether joint arrangements constitute joint ventures or joint operations. Management has determined that its interest in Churchill Falls is considered a joint operation and its interest in Twin Falls is considered a joint venture.

3.2 Use of Estimates

(i) Property, Plant and Equipment
Amounts recorded for depreciation are based on the useful lives of Hydro's assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by Hydro. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

(ii) Intangible Assets
Amounts recorded for amortization are based on the useful lives of Hydro's assets. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of amortization recorded.

(iii) Decommissioning Liabilities
Hydro recognizes a liability for the fair value of the future expenditures required to settle obligations associated with the retirement of property, plant and equipment. Decommissioning liabilities are recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. Accretion of decommissioning liabilities is included in the Consolidated Statement of Profit and Comprehensive Income through net finance (income) expense. Differences between the recorded decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the settlement period.

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

(v) Revenue
In the absence of a signed agreement with Hydro-Québec relating to the Annual Energy Base (AEB), Churchill Falls continues to apply the terms of the previous agreement which expired August 31, 2012. Management continues to work to negotiate terms of a new agreement.

3.3 Use of Assumptions

Deferred Assets and Derivative Liabilities
Effective October 1, 2015, Hydro entered into a power purchase agreement (PPA) with Nalcor Energy Marketing Corporation (Energy Marketing) which allows for the purchase of available recapture energy from Hydro for resale by Energy Marketing in export markets or through agreements with counterparties. Additionally, the PPA allows for the use of Hydro's transmission service rights by Energy Marketing to deliver electricity, through rights which are provided to Hydro pursuant to a Transmission Service Agreement with Hydro-Québec dated April 1, 2009. The PPA can be terminated with notice at the end of an operating year.

Fair values relating to Hydro's financial instruments and derivatives that have been classified as Level 3, have been determined using inputs for the assets or liabilities that are not readily observable. Certain of these fair values are classified as Level 3 as the transactions do not occur in an active market, or the terms extend beyond the period for which a quoted price is available.

Hydro's PPA that is accounted for as a derivative instrument, where Hydro determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability, nor based on a valuation technique that uses only data from observable markets, then the derivative transactions are initially measured at fair value and the expected difference is deferred. Subsequently, the deferred difference is recognized in other comprehensive income (loss)on an appropriate basis over the life of the related derivative instrument but not later than when the valuation is wholly supported by observable market data or the transaction is completed.

Hydro has elected to defer the difference between the fair value of the derivative liabilities upon initial recognition and the transaction price of the derivatives related to the PPA with Energy Marketing, and to amortize the deferred asset on a straight-line basis over its effective term (Note 8). These methods, when compared with alternatives, were determined by Management to more accurately reflect the nature and substance of the transactions.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

Hydro has not applied the following new and revised IFRS that have been issued but are not yet effective:

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[1]
Amendments to IAS 1	Disclosure Initiative[1]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization[1]
IFRS 9	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers[2]
IFRS 16	Leases[3]

[1]Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.
[2]Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
[3]Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

4.1 Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles of accounting for business combinations in IFRS 3 and other standards (i.e. IAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

Management does not anticipate that the application of these amendments to IFRS 11 will have a material impact on Hydro's annual audited consolidated financial statements.

4.2 Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. Management does not anticipate that the application of these amendments to IAS 1 will have a material impact on Hydro's annual audited consolidated financial statements.

4.3 Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to IAS 16 prohibit entities from using revenue-based depreciation methods for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

(a) When the intangible asset is expressed as a measure of revenue, or
(b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently, the Company uses the straight-line method for depreciation and amortization of its property, plant and equipment, and intangible assets respectively.

Management believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefit inherent in the respective assets and accordingly does not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on Hydro's annual audited consolidated financial statements.

4.4 IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

(a) impairment requirements for financial assets; and
(b) limited amendments to the classification and measurement requirements by introducing a fair value through other comprehensive income (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt instruments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at FVTPL, IFRS 9 requires that the amount of change in the fair value of the financial liability attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Management anticipates that the application of IFRS 9 in the future may have a material impact on the amounts reported and disclosures made in Hydro's annual audited consolidated financial statements; however, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until Management performs a detailed review.

4.5 IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a five-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Management anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in Hydro's annual audited consolidated financial statements; however, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until Management performs a detailed review.

4.6 IFRS 16 Leases

On January 13, 2016, the IASB issued IFRS 16 which provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretive guidance. Significant changes were made to lessee accounting with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 is effective January 1, 2019 with earlier application permitted for companies that have also adopted IFRS 15 Revenue from Contracts with Customers.

Management anticipates that the application of IFRS 16 in the future may have a material impact on the amounts reported and disclosures made in Hydro's annual audited consolidated financial statements; however, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until Management performs a detailed review.

5. CASH AND CASH EQUIVALENTS

As at December 31 (millions of Canadian dollars)	**2015**	2014
Cash	**40.1**	20.5
Cash equivalents	**-**	4.9
	40.1	25.4

The effective interest rate on cash equivalents and short-term investments at December 31, 2015 were 1.23% (December 31, 2014 ranged from 1.21% to 1.23%) per annum.

6. TRADE AND OTHER RECEIVABLES

As at December 31 (millions of Canadian dollars)	**2015**	2014
Trade receivables	**97.2**	89.7
Due from related parties	**16.7**	15.0
Other receivables	**7.3**	11.5
Allowance for doubtful accounts	**(12.6)**	(11.2)
	108.6	105.0

As at December 31 (millions of Canadian dollars)	**2015**	2014
0-60 days	**105.1**	104.0
60+ days	**3.5**	1.0
	108.6	105.0

As at December 31 (millions of Canadian dollars)	**2015**	2014
Allowance for doubtful accounts, beginning of year	**(11.2)**	(9.4)
Amounts provided for during the year	**(1.5)**	(1.9)
Amounts written off as uncollectable	**0.1**	0.1
Allowance for doubtful accounts, end of year	**(12.6)**	(11.2)

7. INVENTORIES

As at December 31 (millions of Canadian dollars)	**2015**	2014
No. 6 fuel	**26.4**	49.4
Material and other	**41.1**	36.9
Diesel fuel	**4.2**	4.4
Other fuel	**3.9**	4.1
Construction aggregates	**2.3**	2.3
	77.9	97.1

The cost of inventories recognized as an expense during the year is $199.3 million (2014 - $275.3 million) and is included in operating costs and fuels.

8. DEFERRED ASSET

The deferred asset represents Hydro's asset related to the PPA with Energy Marketing. The deferred asset is amortized on a straight-line basis over the effective term, being one calendar year, of the related derivative liability. The aggregate difference yet to be recognized in profit or loss at the beginning and end of the year and a reconciliation of the changes of the balance during the year are as follows:

As at December 31 (millions of Canadian dollars)	**2015**	2014
Deferred asset, beginning of year	**-**	-
Additions	**74.9**	-
Amortization	**(13.7)**	-
Deferred asset, end of year	**61.2**	-

9. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Other	Construction in Progress	Total
Cost					
Balance at January 1, 2014	1,477.2	654.9	189.3	22.4	2,343.8
Additions	0.4	(0.1)	-	239.7	240.0
Disposals	(2.1)	(1.8)	(1.3)	-	(5.2)
Transfers	48.2	57.3	16.4	(121.7)	0.2
Decommissioning liabilities and revisions	2.2	0.1	-	-	2.3
Balance at December 31, 2014	1,525.9	710.4	204.4	140.4	2,581.1
Additions	**(0.2)**	**-**	**-**	**161.3**	**161.1**
Disposals	**(3.0)**	**(3.1)**	**(3.4)**	**(0.2)**	**(9.7)**
Transfers	**178.1**	**58.0**	**21.2**	**(257.3)**	**-**
Decommissioning liabilities and revisions	**0.5**	**(0.3)**	**-**	**-**	**0.2**
Balance at December 31, 2015	**1,701.3**	**765.0**	**222.2**	**44.2**	**2,732.7**
Depreciation					
Balance at January 1, 2014	333.3	98.6	53.2	-	485.1
Depreciation	38.1	18.9	11.4	-	68.4
Disposals	(1.2)	(0.4)	(0.9)	-	(2.5)
Transfers	(0.4)	0.5	0.1	-	0.2
Balance at December 31, 2014	369.8	117.6	63.8	-	551.2
Depreciation	**44.1**	**21.6**	**11.8**	**-**	**77.5**
Disposals	**(1.5)**	**(0.8)**	**(2.3)**	**-**	**(4.6)**
Transfers	**-**	**-**	**-**	**-**	**-**
Balance at December 31, 2015	**412.4**	**138.4**	**73.3**	**-**	**624.1**
Carrying value					
Balance at January 1, 2014	1,143.9	556.3	136.1	22.4	1,858.7
Balance at December 31, 2014	1,156.1	592.8	140.6	140.4	2,029.9
Balance at December 31, 2015	**1,288.9**	**626.6**	**148.9**	**44.2**	**2,108.6**

10. INTANGIBLE ASSETS

(millions of Canadian dollars)	Computer Software	Feasibility Studies	Total
Cost			
Balance at January 1, 2014	6.3	1.8	8.1
Additions	2.7	-	2.7
Balance at December 31, 2014	9.0	1.8	10.8
Additions	**1.6**	**-**	**1.6**
Disposals	**(1.1)**	**-**	**(1.1)**
Balance at December 31, 2015	**9.5**	**1.8**	**11.3**
Amortization			
Balance at January 1, 2014	0.8	0.6	1.4
Amortization	1.0	0.4	1.4
Balance at December 31, 2014	1.8	1.0	2.8
Amortization	**1.2**	**0.2**	**1.4**
Balance at December 31, 2015	**3.0**	**1.2**	**4.2**
Carrying value			
Balance at January 1, 2014	5.5	1.2	6.7
Balance at December 31, 2014	7.2	0.8	8.0
Balance at December 31, 2015	**6.5**	**0.6**	**7.1**

11. REGULATORY DEFERRALS

	January 1 2015	Regulatory activity	December 31 2015	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals				
Foreign exchange losses	58.4	(2.2)	56.2	26.0
Foreign exchange on fuel	0.3	0.4	0.7	n/a
Deferred lease costs	3.7	1.4	5.1	n/a
2014 cost deferral	45.9	(7.3)	38.6	n/a
2015 cost deferral	-	27.8	27.8	n/a
Fuel supply deferral	9.6	-	9.6	n/a
Deferred energy conservation costs	6.3	-	6.3	n/a
	124.2	20.1	144.3	
Regulatory liability deferrals				
Rate stabilization plan (RSP)	(246.0)	(78.6)	(324.6)	n/a
Insurance amortization and proceeds	(5.6)	0.6	(5.0)	n/a
Deferred purchased power savings	(0.5)	0.1	(0.4)	11.50
	(252.1)	(77.9)	(330.0)	

11.1 Regulatory Adjustments Recorded in the Consolidated Statement of Profit and Comprehensive Income

For the year ended December 31 (millions of Canadian dollars)	**2015**	2014
RSP amortization	**27.6**	41.2
Rural rate adjustment	**4.1**	9.1
RSP fuel deferral	**25.2**	(76.1)
RSP interest	**21.7**	18.0
Total RSP activity	**78.6**	(7.8)
2014 cost deferral	**7.3**	(45.9)
2015 cost deferral	**(27.8)**	-
Fuel supply deferral	**-**	(9.6)
Amortization of deferred foreign exchange losses	**2.2**	2.1
Deferred foreign exchange on fuel	**(0.4)**	(0.3)
Deferred energy conservation	**-**	(2.4)
Deferred purchased power savings	**(0.1)**	-
Employee benefits actuarial loss	**1.7**	-
Insurance amortization and proceeds	**(0.6)**	1.3
Deferred lease costs	**(1.4)**	(3.7)
	59.5	(66.3)

The following section describes Hydro's regulatory deferrals which will be, or are expected to be, reflected in customer rates in future periods and have been established through the rate setting process. In the absence of rate regulation, these amounts would be reflected in operating results in the year and profit for 2015 would have increased by $59.5 million (2014 - $66.3 million decrease).

11.2 Rate Stabilization Plan (RSP)

In 1986, the PUB ordered Hydro to implement an RSP which primarily provides for the deferral of fuel expense variances resulting from changes in fuel prices, hydrology and load and associated interest. Additionally, the RSP also includes costs associated with the island interconnected and isolated systems. Adjustments required in utility rates to cover the amortization of the balance are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

During 2015, Hydro recorded a net increase in regulatory liabilities of $78.6 million (2014 - decrease of $7.8 million) resulting in an RSP ending balance for 2015 of $324.6 million (2014 - $246.0 million). Included in the balance is $126.9 million (2014 - $75.6 million) which is to be refunded in the following year, with the exception of hydraulic variations, which will be refunded at a rate of 25% of the outstanding balance at December 31, 2016. The remaining portion of the RSP balance totaling $197.7 million (2014 - $170.4 million) has been set aside with $133.4 million (2014 - $124.0 million) to be refunded to Newfoundland Power's retail customers, $61.2 million (2014 - $35.5 million) subject to a future ruling of the PUB and $3.1 million (2014 - $10.9 million) to be used to phase in Island Industrial rate increases. Pursuant to Board Order No. P.U. 17 (2015), the balance designated to phase in Island Industrial rate increases was also used to settle the Island Industrial 2014 closing balance of $6.8 million.

11.3 Deferred Foreign Exchange Losses

In 2002, the PUB ordered Hydro to defer realized foreign exchange losses related to the issuance of Swiss Franc and Japanese Yen denominated debt and amortize the balance over a 40-year period. Accordingly, these costs were recognized as a regulatory asset. During 2015, the amortization of $2.2 million (2014 - $2.1 million) reduced regulatory assets.

11.4 Deferred Foreign Exchange Losses

In 2002, the PUB ordered Hydro to defer realized foreign exchange losses related to the issuance of Swiss Franc and Japanese Yen denominated debt and amortize the balance over a 40-year period. Accordingly, these costs were recognized as a regulatory asset. During 2015, the amortization of $2.2 million (2014 - $2.1 million) reduced regulatory assets.

11.5 Deferred Energy Conservation

The PUB has historically approved the deferral of costs associated with an electrical conservation program for residential, industrial, and commercial sectors. In 2015, Hydro recognized $nil (2014 - $2.4 million) in the deferred energy conservation costs regulatory asset. As per Order No. P.U. 36 (2015) Hydro deferred $1.2 million of 2015 deferred energy conservation costs as a part of the $2.2 million Settlement Agreement adjustments in the 2015 cost deferral.

11.6 Deferred Foreign Exchange on Fuel

Hydro purchases a significant amount of fuel for the Holyrood Thermal Generating Station (HTGS) in USD. The RSP allows Hydro to defer variances in fuel prices (including foreign exchange fluctuations). During 2015, Hydro recognized foreign exchange losses on fuel purchases of $0.4 million (2014 - $0.3 million) in regulatory assets.

11.7 Insurance Amortization and Proceeds

Pursuant to Order No. P.U. 13 (2012), Hydro records net insurance proceeds against capital costs and amortizes the balance over the life of the asset. Under IFRS, Hydro is required to recognize the insurance proceeds and corresponding amortization in regulatory liabilities. During 2015, Hydro recorded a decrease to regulatory liabilities resulting from amortization of $0.6 million (2014 - $0.5 million) related to the assets and insurance proceeds of $nil (2014 - $1.8 million).

11.8 Deferred Lease Costs

Pursuant to Order No. P.U. 38 (2013), Hydro deferred lease costs associated with a 16 MW diesel plant and other necessary infrastructure to ensure black start capability at the HTGS. In 2015, Hydro recognized $1.4 million (2014 - $3.7 million) in regulatory assets. Recovery of this balance is subject to a future PUB Order.

11.9 Fuel Supply Deferral

Pursuant to Order No. P.U. 56 (2014), Hydro received approval in 2014 to defer $9.6 million as a regulatory asset in additional capacity related supply costs incurred during the three months ended March 31, 2014. There was no activity in 2015. Recovery of this balance is subject to a future PUB Order.

11.10 2014 Cost Deferral

As per Order No. P.U. 58 (2014), Hydro received approval in 2014 to defer $45.9 million in relation to Hydro's proposed 2014 revenue requirement. In 2015, Hydro decreased this regulatory asset by $7.3 million to recognize an allowance for cost reductions that Hydro has agreed will not be included in the original deferral amount. These reductions include the revenue requirement associated with a delay of placing capital assets in service in 2014, repairs to HTGS Unit 1 and corresponding replacement power, a reduction in asset retirement obligations costs and common service costs received as an administration fee. Recovery of the remaining 2014 cost deferral is subject to a future PUB Order.

11.11 2015 Cost Deferral

As per Order No. P.U. 36 (2015), Hydro received approval to defer $30.2 million in relation to Hydro's proposed 2015 net income deficiency. This approval included a revenue deficiency due to delayed rates of $19.6 million, RSP Interest of $7.6 million, Settlement Agreement adjustments of $2.2 million, and a General Rate Application (GRA) Hearing Deferral of $0.8 million. Accordingly, these costs have been recognized as a regulatory asset. Hydro decreased the regulatory asset by $2.4 million to recognize an allowance for cost reductions that Hydro has agreed will not be included in the 2015 net income deficiency. The reductions include a revenue requirement associated with the repairs to HTGS Unit 1, a 2015 fuel inventory adjustment and a reduction of common service costs recorded as an administration fee. Recovery of the 2015 cost deferral is subject to a future PUB Order.

11.12 Employee Benefits Actuarial Loss

Pursuant to Order No. P.U. 36 (2015), Hydro recognizes the amortization of employee future benefit actuarial gains and losses in profit or loss. During 2015, Hydro recorded $1.7 million (2014 - $nil) of employee future benefits losses as a regulatory adjustment. In the absence of rate regulation, IFRS would require Hydro to include employee future benefits actuarial gains and losses in other comprehensive income. As a result, during 2015 Hydro also recorded a decrease of $1.7 million (2014 - $nil) to other comprehensive income to recognize the amount that was reclassified to profit or loss.

12. OTHER LONG-TERM ASSETS

As at December 31 (millions of Canadian dollars)		**2015**	2014
Long-term receivables	(a)	**0.3**	0.3
Reserve fund	(b)	**30.9**	34.2
Sinking funds	(c)	**242.6**	228.4
		273.8	262.9

(a) The balance of $0.3 million (2014 - $0.3 million) includes the non-current portion of receivables associated with customer payment plans and the long-term portion of employee purchase programs.

(b) In 2007, pursuant to the terms of the Shareholders' Agreement, Churchill Falls commenced the creation of a $75.0 million segregated reserve fund to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. Churchill Falls invested $17.0 million in each of 2007, 2008 and 2009 and $8.0 million in each of 2010, 2011 and 2012. In October 2014, $23.4 million was withdrawn to fund a portion of 2014 capital expenditures. In December 2015, $5.0 million was withdrawn to fund a portion of 2015 capital expenditures. As per the terms of the Shareholders' Agreement, these funds will be replaced over a five year period beginning in 2017.

This reserve fund must remain in place until the end of the Shareholders' Agreement in 2041. Any amounts removed to fund capital expenditures must be replenished in accordance with the terms and conditions of the Shareholders' Agreement. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada and Schedule 1 and 2 Canadian Chartered Banks.

The reserve fund consists of the following:

As at December 31 (millions of Canadian dollars)	**2015**	2014
Reserve fund, beginning of year	**34.2**	50.5
Principal withdrawals	**(3.3)**	(15.4)
Earnings withdrawn	**-**	(1.0)
Net discount	**0.1**	0.3
Mark-to-market adjustment	**(0.1)**	(0.2)
Fair value of reserve fund	**30.9**	34.2

(c) As at December 31, 2015, sinking funds include $242.6 million (2014 - $228.4 million) related to repayment of Hydro's long-term debt. Sinking fund investments consist of bonds, debentures, promissory notes and coupons issued by, or guaranteed by, the Government of Canada, provincial governments or Schedule 1 banks, and have maturity dates ranging from 2017 to 2033.

Hydro debentures, which are intended to be held to maturity, are deducted from debt while all other sinking fund investments are shown separately on the Consolidated Statement of Financial Position as assets. Annual contributions to the various sinking funds are in accordance with bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 1.22% to 9.12% (2014 - 1.52% to 9.12%).

The sinking funds consist of the following:

As at December 31 (millions of Canadian dollars)	**2015**	2014
Sinking funds, beginning of year	**228.4**	267.6
Contributions	**8.1**	8.3
Earnings	**5.4**	11.0
Disposals	**-**	(74.2)
Mark-to-market adjustment	**0.7**	16.5
Gain on sale of investments	**-**	(0.8)
Sinking funds, end of year	**242.6**	228.4

Sinking fund instalments due for the next five years are as follows:

(millions of Canadian dollars)	2016	2017	2018	2019	2020
Sinking fund instalments	8.1	6.7	6.7	6.7	6.7

13. TRADE AND OTHER PAYABLES

As at December 31 (millions of Canadian dollars)	**2015**	2014
Trade payables	**78.7**	97.6
Accrued interest payable	**28.8**	28.8
Payables due to related parties	**9.9**	5.7
Other payables	**15.9**	19.2
	133.3	151.3

As at December 31, 2015 trade and other payables included balances of $0.3 million (2014 - $13.8 million) denominated in USD.

14. DEBT

14.1 Short-term Borrowings

Hydro maintains a $50.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and as at December 31, 2015, there were no amounts drawn on this facility (2014 - $nil). Borrowings in CAD may take the form of Prime Rate Advances, BAs, and letters of credit, with interest calculated at the Prime Rate or prevailing Government BA fee. Borrowings in USD may take the form of Base Rate Advances, LIBOR Advances and letters of credit. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate. Hydro has issued one irrevocable letter of credit, for $0.3 million, as a performance guarantee in relation to the Department of Fisheries and Oceans Fish Habitat Compensation Program.

In addition, Hydro utilized promissory notes to fulfil its short-term funding requirements. As at December 31, 2015, there was $97.0 million in short-term borrowings outstanding (2014 - $53.0 million).

Churchill Falls maintains a $10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and as at December 31, 2015, there were no amounts drawn on this facility (2014 - $nil). Borrowings in CAD may take the form of Prime Rate Advances, BAs, or letters of credit, with interest calculated at the Prime Rate or prevailing Government BA fee. Borrowings in USD may take the form of Base Rate Advances. The facility also provides coverage for overdrafts on Churchill Falls bank accounts, with interest calculated at the Prime Rate. Churchill Falls has issued three irrevocable letters of credit, totaling $2.0 million, to ensure satisfactory management of its waste management and compliance with a certificate of approval for the transportation of special hazardous wastes granted by the Department of Environment and Conservation.

14.2 Long-term Debt

The following table represents the value of long-term debt measured at amortized cost:

As at December 31 (millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**2015**	2014
Hydro						
V*	0.3	10.50	1989	2014	**0.3**	0.3
X*	150.0	10.25	1992	2017	**149.8**	149.7
Y*	300.0	8.40	1996	2026	**294.7**	294.3
AB*	300.0	6.65	2001	2031	**305.7**	305.9
AD*	125.0	5.70	2003	2033	**123.8**	123.7
AE	225.0	4.30	2006	2016	**224.8**	224.6
AF	200.0	3.60	2014	2045	**197.1**	197.1
Total debentures	1,300.3				**1,296.2**	1,295.6
Less: Sinking fund investments in own debentures					**55.8**	47.9
					1,240.4	1,247.7
Less: payments due within one year					**233.4**	8.4
Total debentures					**1,007.0**	1,239.3

*Sinking funds have been established for these issues.

Hydro's promissory notes and debentures are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments, by the Province. The Province charges Hydro a guarantee fee of 25 basis points annually on the total debt (net of sinking funds) with a remaining term to maturity of less than 10 years and 50 basis points annually on total debt (net of sinking funds) with a remaining term to maturity greater than 10 years. The fee for the year ended December 31, 2015 was $4.5 million (2014 - $3.7 million).

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

(millions of Canadian dollars)	2016	2017	2018	2019	2020
Long-term debt repayment	225.3	150.0	-	-	-

15. DERIVATIVE LIABILITIES

The derivative liability relates to the PPA with Energy Marketing and represents the future value provided to Energy Marketing through the contract. The components of the change are as follows:

As at December 31 (millions of Canadian dollars)	PPA Derivative Liability	Other Derivative Liability	Total
Additions, net of disposals	-	0.4	0.4
Fair value changes recorded in profit (loss)	-	(0.2)	(0.2)
Balance, December 31, 2014	-	0.2	0.2
Additions, net of disposals	**74.9**	**-**	**74.9**
Fair value changes recorded in profit (loss)	**(13.7)**	**(0.2)**	**(13.9)**
Balance, December 31, 2015	**61.2**	**-**	**61.2**

16. DEFERRED CONTRIBUTIONS

Hydro has received contributions in aid of construction of property, plant and equipment. These contributions are deferred and amortized to other revenue over the life of the related item of property, plant and equipment.

As at December 31 (millions of Canadian dollars)	**2015**	2014
Deferred contributions, beginning of year	**12.2**	11.3
Additions	**1.4**	1.7
Amortization	**(0.9)**	(0.8)
Deferred contributions, end of year	**12.7**	12.2
Less: current portion	**(1.1)**	(0.8)
	11.6	11.4

17. DECOMMISSIONING LIABILITIES

Hydro has recognized liabilities associated with the retirement of portions of the HTGS and the disposal of Polychlorinated Biphenyls (PCBs).

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities for the years ended December 31, 2015 and December 31, 2014 are as follows:

As at December 31 (millions of Canadian dollars)	**2015**	2014
Decommissioning liabilities, beginning of year	**28.0**	24.8
Liabilities settled	**(0.1)**	(0.1)
Accretion	**0.7**	1.0
Revisions	**0.2**	2.3
Decommissioning liabilities, end of year	**28.8**	28.0

The total estimated undiscounted cash flows required to settle the HTGS obligations as at December 31, 2015 are $32.1 million (2014 - $32.1 million). Payments to settle the liability are expected to occur between 2020 and 2024. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at Hydro's credit adjusted risk free rate of 2.3% (2014 - 2.6%). Hydro has recorded $27.0 million (2014 - $25.8 million) related to HTGS obligations.

The total estimated undiscounted cash flows required to settle the PCB obligations as at December 31, 2015 are $2.0 million (2014 - $2.6 million). Payments to settle the liability are expected to occur between 2016 and 2025. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at Hydro's and Churchill Falls' credit adjusted risk free rates of 2.6% to 3.8% (2014 - 2.8% to 4.6%). Hydro and Churchill Falls have recorded $1.8 million (2014 - $2.2 million) related to PCB obligations.

A significant number of Hydro's assets include generation plants, transmission assets and distribution systems. These assets can continue to run indefinitely with ongoing maintenance activities. As it is expected that Hydro's assets will be used for an indefinite period, no removal date can be determined and, consequently, a reasonable estimate of the fair value of any related decommissioning liability cannot be determined at this time. If it becomes possible to estimate the fair value of the cost of removing assets that Hydro is required to remove, a decommissioning liability for those assets will be recognized at that time.

18. EMPLOYEE BENEFITS LIABILITY

18.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of $9.2 million (2014 - $6.2 million) are expensed as incurred.

18.2 Other Benefits

Hydro provides group life insurance and health care benefits on a cost-shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. In 2015, cash payments to beneficiaries for its unfunded other employee future benefits were $2.9 million (2014 - $2.4 million). An actuarial valuation was performed as at December 31, 2015.

As at December 31 (millions of Canadian dollars)	**2015**	2014
Accrued benefit obligation, beginning of year	**127.7**	105.5
Current service cost	**4.4**	3.5
Interest cost	**5.5**	5.4
Benefits paid	**(2.9)**	(2.4)
Actuarial (gain) loss	**(13.6)**	15.7
Transfer to Energy Marketing	**(0.6)**	-
Balance, end of year	**120.5**	127.7

When an employee transfers to a related party, the associated accrued benefit obligation is allocated to each respective party based on years of service.

For the year ended December 31 (millions of Canadian dollars)	**2015**	2014
Component of benefit cost		
Current service cost	**4.4**	3.5
Interest cost	**5.5**	5.4
Total benefit expense for the year	**9.9**	8.9

The significant actuarial assumptions used in measuring the accrued benefit obligations and benefit expenses are as follows:

	2015	2014
Discount rate - benefit cost	**4.20%**	5.00%
Discount rate - accrued benefit obligation	**4.10%**	4.20%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2015	2014
Initial health care expense trend rate	**6.00%**	6.00%
Cost trend decline to	**4.50%**	4.50%
Year that rate reaches the rate it is assumed to remain at	**2025**	2020

A 1% change in assumed health care trend rates would have had the following effects:

Increase (millions of Canadian dollars)	**2015**	2014
Current service and interest cost	**2.4**	2.0
Accrued benefit obligation	**22.7**	27.4

Decrease (millions of Canadian dollars)	**2015**	2014
Current service and interest cost	**(1.7)**	(1.5)
Accrued benefit obligation	**(17.1)**	(20.6)

19. SHAREHOLDER'S EQUITY

19.1 Share Capital

As at December 31 (millions of Canadian dollars)	**2015**	2014
Common shares of par value of $1 each		
Authorized - 25,000,000		
Issued, paid and outstanding - 22,503,902	**22.5**	22.5

19.2 Shareholder Contributions

As at December 31 (millions of Canadian dollars)	**2015**	2014
Total shareholder contributions	**118.7**	118.6

On February 3, 2010, the Province established the Churchill Falls (Labrador) Corporation Trust (the Trust) with Churchill Falls as the beneficiary. The purpose of this Trust is to fund the external costs and expenses incurred in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the 1969 Power Contract. During 2015, the Trust contributed capital in the amount of $0.1 million (2014 - $0.2 million).

19.3 Dividends

For the year ended December 31 (millions of Canadian dollars)	**2015**	2014
Declared during the year		
Final dividend for prior year: $0.12 per share (2014 - $0.15)	**2.7**	3.4
Interim dividend for current year: $1.87 per share (2014 - $1.75)	**42.0**	39.4
	44.7	42.8

20. OPERATING COSTS

For the year ended December 31 (millions of Canadian dollars)	**2015**	2014
Salaries and benefits	**119.3**	110.5
Maintenance and materials	**39.0**	36.8
Transmission rental	**19.9**	20.4
Professional services	**21.7**	19.7
Rental and royalty expense	**5.1**	3.1
Travel and transportation	**7.5**	8.3
Equipment rental	**5.8**	5.8
Other	**6.6**	6.7
	224.9	211.3

21. NET FINANCE (INCOME) EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2015**	2014
Finance income		
Interest on sinking fund	**13.4**	15.8
Interest on reserve fund	**0.9**	1.3
Other interest income	**0.8**	0.5
	15.1	17.6
Finance expense		
Long-term debt	**84.5**	85.5
Debt guarantee fee	**4.5**	3.7
Accretion	**1.3**	1.3
Other	**0.9**	1.5
	91.2	92.0
Interest capitalized during construction	**(3.4)**	(4.8)
	87.8	87.2
Net finance (income) expense	**72.7**	69.6

22. OTHER (INCOME) EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2015**	2014
Mark-to-market of commodity swaps	**0.7**	(2.6)
Settlement of commodity swaps	**(9.2)**	2.2
Mark-to-market of foreign exchange forward contracts	**(0.2)**	-
Financial transmission rights income and amortization	**(0.2)**	(0.1)
Loss (gain) on disposal of property, plant and equipment	**4.3**	(0.6)
Asset disposal costs	**1.8**	5.6
Insurance proceeds	**(0.1)**	(3.0)
Other	**3.1**	(0.3)
Net PPA gains (losses) [(a)]	**-**	-
Foreign exchange loss	**2.4**	4.4
Other (income) expense	**2.6**	5.6

(a) Net PPA (Gains) Losses

The settlement of realized profit represents changes in the value of the derivative based realized sales to the various markets.

For the year ended December 31 (millions of Canadian dollars)	**2015**	2014
PPA gains	**-**	-
Amortization of deferral	**(13.7)**	-
	(13.7)	-
PPA losses		
Settlement of realized profit	**8.5**	-
Mark-to-market of derivative	**5.2**	-
	13.7	-
Net PPA (gains) losses	**-**	-

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

23.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2015 and 2014 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Hydro might receive or incur in actual market transactions.

As a significant number of Hydro's assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of Hydro as a whole.

Establishing Fair Value

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the nature of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 fair value measurements during the years ended December 31, 2015 and 2014.

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
(millions of Canadian dollars)			**2015**		2014
Financial assets					
Derivative assets	**2,3**	**1.9**	**1.9**	2.7	2.7
Sinking funds - investments in same Hydro issue	**2**	**55.8**	**69.9**	47.9	62.3
Sinking funds - other investments	**2**	**242.6**	**242.6**	228.4	228.4
Reserve fund	**2**	**30.9**	**30.9**	34.2	34.2
Long-term receivables	**2**	**0.3**	**0.3**	0.3	0.3
Financial liabilities					
Derivative liabilities	**2,3**	**61.2**	**61.2**	0.2	0.2
Long-term debt (including amount due within one year before sinking funds)	**2**	**1,296.2**	**1,650.0**	1,295.6	1,694.6
Long-term payables*	**2**	**0.3**	**0.3**	0.7	0.8

*At December 31, 2015, the long-term related party payable was reclassified to trade and other payables.

The fair value of cash and cash equivalents, short-term investments, trade and other receivables, short-term borrowings and trade and other payables approximates their carrying values due to their short-term maturity.

The fair values of Level 2 financial instruments are determined using quoted prices in active markets, which in some cases are adjusted for factors specific to the asset or liability. Level 2 derivative instruments are valued based on observable commodity future curves, broker quotes or other publicly available data. Level 2 fair values of other risk management assets and liabilities and long-term debt are determined using observable inputs other than unadjusted quoted prices, such as interest rate yield curves and currency rates.

The following table summarizes quantitative information about the valuation techniques and unobservable inputs used in the fair value measurement of Level 3 financial instruments as at December 31, 2015:

(millions of Canadian dollars)	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative liability (PPA)	61.2	Modelled pricing	Volumes (MWh)	33-41% of available generation

The derivative liability arising under the PPA is designated as a Level 3 instrument as certain forward market prices and related volumes are not readily determinable to estimate a portion of the fair value of the derivative liability. Hence, fair value measurement of this instrument is based upon internal and external pricing and volume estimates. As at December 31, 2015, the effect of using reasonable alternative assumptions for volume inputs to valuation techniques may have resulted in a -$0.9 million to a +$4.0 million change in the carrying value of the power purchase derivative liability.

23.2 Risk Management

Hydro is exposed to certain credit, liquidity and market price risks through its operating, investing and financing activities. Financial risk is managed in accordance with a Board-approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of Hydro's expected future cash flows.

<u>Credit Risk</u>

Hydro's expected future cash flows are exposed to credit risk through its operating activities, primarily due to the potential for non-performance by its customers, and through its financing and investing activities, based on the risk of non-performance by counterparties to its financial instruments. The degree of exposure to credit risk on cash and cash equivalents, short-term investments and derivative assets as well as from the sale of electricity to customers, including the associated accounts receivable, is determined by the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the Consolidated Statement of Financial Position at the reporting date.

Credit risk on cash and cash equivalents is minimal, as Hydro's cash deposits are held by a Schedule 1 Canadian Chartered bank with a rating of A+ (Standard and Poor's).

Credit risk on short-term investments is minimized by limiting holdings to high-quality, investment grade securities issued by Federal and Provincial governments, as well as Bankers' Acceptances and term deposits issued by Schedule 1 Canadian Chartered banks.

Credit exposure on Hydro's sinking funds is limited by restricting the holdings to long-term debt instruments issued by the Government of Canada or any province of Canada, Crown corporations and Schedule 1 Canadian Chartered banks. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the remainder of the sinking funds portfolio:

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	Issuer Credit Rating	Fair Value of Portfolio (%)
	2015		2014	
Provincial Governments	**AA- to AAA**	**0.42%**	AA- to AAA	4.93%
Provincial Governments	**A- to A+**	**44.92%**	A- to A+	41.74%
Provincially owned utilities	**AA- to AAA**	**-**	AA- to AAA	19.70%
Provincially owned utilities	**A- to A+**	**52.05%**	A- to A+	31.39%
Schedule 1 Canadian banks	**A- to A+**	**2.61%**	A- to A+	2.24%
		100.00%		100.00%

Credit exposure on the reserve fund is mitigated by adhering to an investment policy which restricts the holdings to long-term debt instruments issued or guaranteed by the Government of Canada or any province of Canada. Investment in the long-term debt instruments of Canadian banks are also permitted, provided the bank is rated A or higher by Standard and Poor's. With the exception of Government of Canada, holdings of any one issuer are limited to 10% of the total principal amount of the portfolio. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the reserve fund:

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	Issuer Credit Rating	Fair Value of Portfolio (%)
	2015		2014	
Provincial governments	**AA- to AAA**	**3.48%**	AA- to AAA	-
Provincial governments	**A- to A+**	**12.69%**	A- to A+	29.28%
Provincially owned utilities	**AA- to AAA**	**-**	AA- to AAA	2.10%
Provincially owned utilities	**A- to A+**	**12.70%**	A- to A+	9.15%
Schedule 1 and 2 Canadian banks	**AA- to AAA**	**10.17%**	AA- to AAA	9.14%
Schedule 1 Canadian banks	**A- to A+**	**60.96%**	A- to A+	50.33%
		100.00%		100.00%

Credit exposure on derivative assets is limited by the Financial Risk Management Policy, which restricts available counterparties for hedge transactions to Schedule 1 Canadian Chartered Banks, and Federally Chartered US Banks.

Hydro's exposure to credit risk on its energy sales and associated accounts receivable is determined by the credit quality of its customers. Hydro's three largest customers account for 83.9% (2014 – 84.7%) of total energy sales and 71.8% (2014 – 68.8%) of trade and other receivables. Energy sales for the three largest customers include $475.1 million (2014 - $459.3 million) for Regulated Hydro, as well as $81.6 million (2014 - $68.5 million) for Non-Regulated Hydro. Churchill Falls' three largest customers account for 100.0% (2014 – 99.1%) of total energy sales and 89.0% (2014 – 74.9%) of trade and other receivables. Hydro's customers are comprised of rate regulated entities or organizations with investment grade credit ratings.

Liquidity Risk

Hydro is exposed to liquidity risk with respect to its contractual obligations and financial liabilities, including any derivative liabilities related to hedging activities. Liquidity risk management is aimed at ensuring cash is available to meet those obligations as they become due.

Short-term liquidity is mainly provided through cash and cash equivalents on hand, funds from operations and a $300.0 million promissory note program. In addition, Hydro maintains a $50.0 million (2014 - $50.0 million) unsecured demand operating facility with its primary banker in order to meet any requirements beyond those forecasted for a given period. Churchill Falls also maintains a $20.0 million (2014 - $16.0 million) minimum cash balance as well as a $10.0 million (2014 - $10.0 million) unsecured demand operating facility with its banker.

Long-term liquidity risk is managed by the issuance of a portfolio of debentures with maturity dates ranging from 2016 to 2045. Sinking funds have been established for these issues, with the exception of the issues maturing in 2016 and 2045.

For Churchill Falls, long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the Shareholders' Agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls capital expenditure program.

The following are the contractual maturities of Hydro's financial liabilities, including principal and interest, as at December 31, 2015:

(millions of dollars)	<1 Year	1-3 Years	3-5 years	> 5 Years	Total
Trade and other payables	133.3	-	-	-	133.3
Short-term borrowings	97.0	-	-	-	97.0
Derivative liability	61.2	-	-	-	61.2
Long-term debt	233.4	161.8	13.4	891.7	1,300.3
Interest	82.4	127.1	119.0	611.3	939.8
	607.3	288.9	132.4	1,503.0	2,531.6

Market Risk

In the course of carrying out its operating, financing and investing activities, Hydro is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities. Market price movements to which Hydro has significant exposure include those relating to prevailing interest rates, foreign exchange rates, most notably the USD/CAD, and current commodity prices, most notably the spot prices for diesel fuel, electricity, and No. 6 fuel. These exposures are addressed as part of the Financial Risk Management Policy. As of October 1, 2015, Hydro is no longer exposed to foreign exchange and commodity price risk from export electricity sales pursuant to the PPA.

Interest Rates

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities classified as held for trading or available-for-sale, which includes Hydro's cash and cash equivalents, short-term investments, sinking funds and reserve fund. Expected future cash flows associated with those financial instruments can also be impacted. The impact of a 0.5% change in interest rates on the Consolidated Statement of Profit and Comprehensive Income associated with cash and cash equivalents, short-term borrowings and long-term debt was negligible throughout 2015 due to the short time period to maturity. There was no impact of profit and other comprehensive income associated with long-term debt as all of Hydro's debt has fixed interest rates.

The table below shows the impact of a 0.5% change in interest rates on other comprehensive income associated with the sinking funds and reserve fund at the Consolidated Statement of Financial Position date:

	Other Comprehensive Income	
(millions of dollars)	**0.5% Decrease**	**0.5% Increase**
Interest on sinking fund	11.1	(9.5)
Interest on reserve fund	0.3	(0.2)
	11.4	(9.7)

Foreign Currency and Commodity Exposure

Hydro's primary exposure to both foreign exchange and commodity price risk arises from its purchases of No. 6 fuel for consumption at the HTGS, and USD denominated electricity sales. For the purchase of No. 6 fuel oil, these risks are mitigated through the operation of the RSP. Exposures in USD denominated electricity sales are addressed in accordance with the Board-approved Financial Risk Management Policy. Tactics include the use of forward rate agreements and fixed price commodity swaps.

During 2015, total electricity sales denominated in USD were $33.9 million (2014 - $56.4 million). Effective October 1, 2015, the export sales are recognized in Energy Marketing in accordance with the PPA. In 2015, foreign exchange risk on these sales was mitigated through the use of foreign currency forward contracts, which were entered into by Energy Marketing. Commodity price risk was mitigated by Hydro for 2015, through the use of electricity price commodity swaps. In December of 2014, Hydro entered into a series of 12 electricity price forward contracts with a notional value of $32.5 million USD. The average price of these contracts was USD $43.60 per MWh (On Peak) and USD $30.10 per MWh (Off Peak). During 2015, $9.2 million in realized gains from these derivative contracts were recognized in Hydro's other (income) expense (2014 - $2.2 million loss) and $0.7 million in unrealized losses were recognized in Hydro's other (income) expense (2014 - $2.6 million unrealized gains).

Export electricity sales, both foreign exchange and commodity hedges will be entered into by Energy Marketing in 2016.

24. RELATED PARTY TRANSACTIONS

Hydro enters into various transactions with its parent and other affiliates. These transactions occur in the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Related parties with which Hydro transacts are as follows:

Related Party	Relationship
Nalcor	100.0% shareholder of Hydro
The Province	100.0% shareholder of Nalcor
Churchill Falls	Joint arrangement of Hydro
Twin Falls	Joint venture of Churchill Falls
The Trust	Created by the Province with Churchill Falls as the beneficiary
Nalcor Energy – Bull Arm Fabrication Inc.	Wholly owned subsidiary of Nalcor
Nalcor Energy – Oil and Gas Inc.	Wholly owned subsidiary of Nalcor
PUB	Agency of the Province
Labrador-Island Link Limited Partnership	Partnership in which Nalcor owns 75 Class A Units
Muskrat Falls Corporation (Muskrat Falls)	Wholly owned subsidiary of Nalcor
Lower Churchill Management Corporation	Wholly owned subsidiary of Nalcor
Energy Marketing	Wholly owned subsidiary of Nalcor
LIL Opco	Wholly owned subsidiary of Nalcor

(a) Hydro is required to incur the costs of operations of the PUB as well as the cost of hearings and application costs. During 2015, Hydro incurred $3.9 million (2014 - $3.1 million) in costs related to the PUB and has included $4.0 million (2014 - $2.4 million) in trade and other payables.

(b) As at December 31, 2015, Hydro has a payable to Nalcor of $2.0 million (2014 - $0.9 million), a payable to companies under common control of $7.7 million (2014 - $4.8 million) and a receivable from companies under common control of $16.7 million (2014 - $15.0 million). These payables/receivables consist of various intercompany operating costs and power purchases.

(c) The debt guarantee fee for 2015 was $4.5 million (2014 - $3.7 million). It was paid to the Province on March 31, 2015.

(d) Hydro recognized contributions in aid of construction totaling $0.2 million (2014 - $nil) from the Province related to wind feasibility studies. As at December 31, 2015, $0.4 million (2014 - $0.7 million) has been recorded in deferred credits.

(e) For the year ended December 31, 2015, Hydro recovered $6.3 million (2014 - $5.8 million) of operating costs from related parties representing the provision of administrative services.

(f) For the year ended December 31, 2015, Hydro has purchased $27.8 million (2014 - $27.9 million) of power generated from assets related to Exploits Generation, which are held by the Province. In addition, Hydro operates these assets on behalf of Nalcor and recovered costs in the amount of $19.2 million (2014 - $16.4 million).

(g) For the year ended December 31, 2015, Hydro has intercompany labour expenses of $1.7 million (2014 - $2.9 million).

(h) Hydro received $0.9 million (2014 - $0.9 million) from Nalcor associated with the Upper Churchill Redress Agreement to be used to reduce the electricity accounts of each residential Innu customer in Innu Communities or to Mushuau Innu First Nation.

(i) Hydro recorded $0.4 million (2014 - $0.4 million) as a rate subsidy for rural isolated customers from the Province and $2.0 million (2014 - $1.6 million) as an energy rebate to offset the cost of basic electricity consumption for Labrador rural isolated residential customer under the Northern Strategic Plan. As at December 31, 2015, there is a balance of $0.7 million outstanding in trade and other receivables (2014 - $0.6 million).

(j) Churchill Falls has entered into long-term power contracts with its shareholders for the sale of substantially all of the power produced by the generating plant. During 2015, revenue from Hydro-Québec and Hydro was $109.6 million (2014 - $102.3 million) and $43.6 million (2014 - $6.1 million), respectively.

(k) Under the terms of a lease between Churchill Falls and the Province, and amendments thereto, Churchill Falls is required to pay the Province an annual rental of 8% of the consolidated net profits before income taxes, as defined in the Lease, and an annual royalty of $0.50 per horsepower year generated. At December 31, 2015, $7.8 million (2014 - $4.7 million) was payable to the Province.

(l) As a result of a sub-lease between Churchill Falls and Twin Falls, certain rights were suspended by Churchill Falls effective June 30, 1974 with the result that Churchill Falls was diverting the flow of water from the Twin Falls plant and using the facilities of Twin Falls as required. In consideration for this suspension of rights, Churchill Falls was required to deliver to Twin Falls, during the unexpired term of the sub-lease, horsepower equivalent to the installed horsepower of the Twin Falls plant. Twin Falls was obliged to purchase this power for an amount equal to the average annual cost of operating the Twin Falls plant for the five year period ended March 31, 1974. In addition, Twin Falls was required to pay annually to Churchill Falls a rental amounting to $305,000 and $1.40 per installed horsepower. Twin Falls also paid to Churchill Falls an annual royalty of $0.50 per horsepower year generated, as defined, all calculated as though the power delivered by Churchill Falls to Twin Falls had been generated in the Twin Falls plant. This sub-lease expired December 31, 2014.

(m) Churchill Falls tracks the value of differences between energy delivered and the AEB over a four year period. The difference is then recovered from or refunded to Hydro-Québec over the subsequent four year period.

The long-term payable to Hydro-Québec as at December 31, 2015 is the accumulation of historical and forecasted differences between energy delivered and the AEB during the four year period from September 1, 2008 to August 31, 2012 and the four year period September 1, 2012 to August 31, 2016. The current portion of $1.5 million (2014 - $1.5 million) is included in trade and other payables. The long-term portion is $nil (2014 - $1.1 million) and relates to September 1, 2012 to August 31, 2016.

For the year ended December 31, 2015, net interest expense on the long-term related party payable/receivable was $0.1 million (2014 - $0.3 million).

(n) On February 3, 2010, the Province established the Trust with Churchill Falls as the beneficiary. The purpose of this trust is to fund the external costs and expenses incurred in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the 1969 Power Contract. To date, $4.9 million (2014 - $4.8 million) has been received and $17.0 thousand (2014 - $0.2 million) has been accrued receivable from the Trust.

(o) As at December 31, 2015, Churchill Falls capacity penalty payable was $0.4 million (2014 - $0.4 million). The capacity penalty relates to the supply of power to Hydro-Québec.

24.1 Key Management Personnel Compensation

Compensation for key management personnel, which Hydro defines as its executives who have the primary authority and responsibility for planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include base salaries, performance contract payments, vehicle allowances and contributions to employee benefit plans. Post-employment benefits include contributions to the Province's Public Service Pension Plan.

For the year ended December 31 (millions of Canadian dollars)	**2015**	2014
Salaries and employee benefits	**1.3**	1.5
Post-employment benefits	**0.1**	0.1
	1.4	1.6

25. COMMITMENTS AND CONTINGENCIES

(a) Hydro has received claims instituted by various companies and individuals with respect to power delivery claims and other miscellaneous matters. Although such matters cannot be predicted with certainty, Management believes that Hydro's exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, is not expected to materially affect its financial position.

(b) Outstanding commitments for capital projects total approximately $30.4 million as at December 31, 2015 (2014 - $29.6 million).

(c) Hydro has entered into a number of long-term power purchase agreements as follows:

Type	Rating	Effective Date	Term
Hydroelectric	175 kW	1988	Continual
Hydroelectric	3 MW	1995	25 years
Hydroelectric	4 MW	1998	25 years
Hydroelectric	300 MW	1998	43 years
Cogeneration	15 MW	2003	20 years
Wind	390 kW	2004	15 years
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years
Wind	300 kW	2010	Continual
Wind	225 MW	2015	25.5 years
Hydroelectric	(a)	2015	26 years

(a) Effective October 1, 2015, Hydro entered into a PPA with Energy Marketing which allows for the purchase of available recapture energy from Hydro for resale by Energy Marketing. The PPA can be terminated with notice at the end of an operating year.

Estimated payments due in each of the next five years are as follows:

(millions of dollars)	2016	2017	2018	2019	2020
Power purchases	71.0	72.9	73.8	75.5	77.3

(d) Hydro has issued one irrevocable letter of credit to the Department of Fisheries and Oceans in the amount of $0.3 million as a performance guarantee in relation to the Fish Habitat Compensation Agreement.

(e) Hydro entered into a transmission service agreement with Hydro-Québec TransEnergie which concludes in 2024.

The transmission rental payments for the next five years are estimated to be as follows:

2016	$19.5 million
2017	$19.8 million
2018	$20.0 million
2019	$20.2 million
2020	$20.4 million

(f) Hydro has received Phase I funding, in the amount of $3.0 million, from the Atlantic Canada Opportunities Agency in relation to a wind-hydrogen-diesel research development project in the community of Ramea. In 2014, Hydro and Nalcor entered into a new funding agreement for Phase II of the project for $2.3 million. This funding is repayable in annual installments of $25,000 per commercial implementation of the resulting product. As at December 31, 2015 there have been no commercial implementations.

(g) In 2013, Hydro entered into a Power Purchase Agreement with Muskrat Falls for the purchase of energy and capacity from the Muskrat Falls Plant. The supply period under the agreement is 50 years and commences at the date of commissioning of the Muskrat Falls plant.

(h) In 2013, Hydro entered into the Transmission Funding Agreement (TFA) with Labrador-Island Link Operating Corporation (LIL Opco), in which Hydro has committed to make payments which will be sufficient for LIL Opco to recover all costs associated with rent payments under the LIL Lease and the payment, operating and maintenance costs incurred by LIL Opco. Hydro will be required to begin mandatory payments associated with the TFA upon commissioning of the LIL assets. The term of the TFA is anticipated to continue until the service life of the LIL assets has expired

(i) In 2014, Hydro entered into three Capacity Assistance Agreements, one with Vale Newfoundland & Labrador Limited (Vale) and two with Corner Brook Pulp and Paper Limited (CBPP) for the purchase of relief power up to 15.8 MW, 60 MW and 30 MW, respectively, during the winter period. The supply period defined in the agreements is from December 1 to March 31 for each contract year, concluding March 2018. Payment for services will be dependent on the successful provision of capacity assistance for the winter period by Vale and CBPP.

26. CAPITAL MANAGEMENT

Hydro's principal business requires ongoing access to capital in order to maintain assets to ensure the continued delivery of safe and reliable service to its customers. Therefore, Hydro's primary objective when managing capital is to ensure ready access to capital at a reasonable cost, to minimize its cost of capital within the confines of established risk parameters, and to safeguard Hydro's ability to continue as a going concern.

The capital managed by Hydro is comprised of debt (long-term debentures, promissory notes, bank credit facilities and bank indebtedness) and equity (share capital, shareholder contributions, reserves and retained earnings).

A summary of the capital structure is outlined below:

(millions of dollars)	**2015**		2014	
Debt				
Sinking funds	**(242.6)**		(228.4)	
Short-term borrowings	**97.0**		53.0	
Current portion of long-term debt	**233.4**		8.4	
Long-term debt	**1,007.0**		1,239.3	
	1,094.8	**57.6%**	1,072.3	57.5%
Equity				
Share capital	**22.5**		22.5	
Shareholder contributions	**118.7**		118.6	
Reserves	**10.6**		(4.8)	
Retained earnings	**654.4**		655.9	
	806.2	**42.4%**	792.2	42.5%
Total Debt and Equity	**1,901.0**	**100.0%**	1,864.5	100.0%

26.1 Hydro

Hydro’s approach to capital management encompasses various factors including monitoring the percentage of floating rate debt in the total debt portfolio, the weighted average term to maturity of its overall debt portfolio, its percentage of debt to debt plus equity, and its interest coverage.

For the regulated portion of Hydro’s operations, Management targets a capital structure comprised of 75% debt and 25% equity, a ratio which Management believes to be optimal with respect to its cost of capital. This capital structure is maintained by a combination of dividend policy, shareholder contributions and debt issuance. The issuance of any new debt with a term greater than one year requires prior approval of the PUB.

Legislation stipulates that the total of the short-term loans issued by Hydro and outstanding at any time shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. The current limit is set at $300.0 million and $97.0 is million outstanding as at December 31, 2015 (2014 - $53.0 million). Issuance of short-term borrowings and long-term debt by Hydro is further restricted by Bill C-24, an amendment to the Newfoundland and Labrador Hydro Act of 1975. The Bill effectively limits Hydro’s total borrowings, which includes both short-term borrowings and long-term debt, to $1.6 billion at any point in time.

26.2 Churchill Falls

Churchill Falls’ objective when managing capital is to maintain its ability to continue as a going concern. Churchill Falls’ requirements for capital in the future are expected to increase, coincident with the aging of the plant and related infrastructure and the execution of the long-term asset management plan. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing the level of dividend payments is a key aspect of ensuring the availability of funding to maintain the plant and infrastructure.

At present, the capital position of Churchill Falls is comprised entirely of equity capital (issued capital, shareholder contributions, reserves and retained earnings). The capital structure is adjusted through the amount of dividends paid to shareholders.

27. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (millions of Canadian dollars)	**2015**	2014
Trade and other receivables	**(3.6)**	(1.4)
Prepayments	**-**	(1.3)
Inventories	**19.2**	(21.9)
Trade and other payables	**(18.0)**	32.9
Changes in non-cash working capital balances	**(2.4)**	8.3
Related to:		
Operating activities	**2.9**	(6.1)
Investing activities	**(5.3)**	14.4
	(2.4)	8.3
Interest received	**2.4**	19.8
Interest paid	**85.4**	88.8

28. SEGMENT INFORMATION

Hydro operates in four business segments. Hydro regulated activities encompass sales of electricity to customers within the Province. Churchill Falls operates a hydroelectric generating facility and sells electricity primarily to Hydro-Québec. Energy marketing includes the sale of electricity to markets outside the Province and other non-regulated electricity sales. The designation of segments has been based on a combination of regulatory status and Management accountability. The segments' accounting policies are the same as those previously described in Note 2 of the annual audited consolidated financial statements.

(millions of Canadian dollars)	**Hydro Regulated**	**Churchill Falls***	**Energy Marketing**	**Other**	**Inter-Segment**	**Total**
			2015			
Energy sales	**582.1**	**100.8**	**81.8**	**-**	**(4.0)**	**760.7**
Other revenue	**3.5**	**0.5**	**4.9**	**0.1**	**4.7**	**13.7**
Revenue	**585.6**	**101.3**	**86.7**	**0.1**	**0.7**	**774.4**
Fuels	**192.8**	**-**	**-**	**-**	**-**	**192.8**
Power purchased	**60.7**	**-**	**42.8**	**-**	**(4.0)**	**99.5**
Operating costs	**153.5**	**45.5**	**23.7**	**2.2**	**-**	**224.9**
Depreciation and amortization	**63.8**	**15.1**	**-**	**-**	**-**	**78.9**
Net finance (income) expense	**73.7**	**(1.1)**	**(0.1)**	**0.2**	**-**	**72.7**
Other (income) expense	**10.4**	**1.9**	**(8.9)**	**(0.8)**	**-**	**2.6**
Profit (loss) for the year from operations	**30.7**	**39.9**	**29.2**	**(1.5)**	**4.7**	**103.0**
Share of loss of joint arrangement	**-**	**0.3**	**-**	**-**	**-**	**0.3**
Preferred dividends	**-**	**(4.7)**	**-**	**-**	**4.7**	**-**
Profit (loss) before regulatory adjustments	**30.7**	**44.3**	**29.2**	**(1.5)**	**-**	**102.7**
Regulatory adjustments	**59.5**	**-**	**-**	**-**	**-**	**59.5**
(Loss) profit for the year	**(28.8)**	**44.3**	**29.2**	**(1.5)**	**-**	**43.2**
Capital expenditures	**125.0**	**36.0**	**-**	**0.1**	**-**	**161.1**
Total assets	**2,230.3**	**532.7**	**67.5**	**-**	**-**	**2,830.5**

(millions of Canadian dollars)	Hydro Regulated	Churchill Falls*	Energy Marketing	Other	Inter-Segment	Total
			2014			
Energy sales	549.4	71.9	73.9	-	(4.0)	691.2
Other revenue	4.1	1.0	-	-	2.7	7.8
Revenue	553.5	72.9	73.9	-	(1.3)	699.0
Fuels	268.1	-	-	-	-	268.1
Power purchased	63.8	-	8.5	-	(4.0)	68.3
Operating costs	140.3	41.4	27.3	2.3	-	211.3
Depreciation and amortization	56.0	13.8	-	-	-	69.8
Net finance(income) expense	70.8	(1.2)	-	-	-	69.6
Other (income) expense	3.2	1.8	0.5	0.1	-	5.6
(Loss) profit for the year from operations	(48.7)	17.1	37.6	(2.4)	2.7	6.3
Share of profit of joint arrangement	-	(0.4)	-	-	-	(0.4)
Preferred dividends	-	(2.7)	-	-	2.7	-
(Loss) profit before regulatory adjustments	(48.7)	20.2	37.6	(2.4)	-	6.7
Regulatory adjustments	(66.3)	-	-	-	-	(66.3)
Profit (loss) for the year	17.6	20.2	37.6	(2.4)	-	73.0
Capital expenditures	207.3	32.7	-	-	-	240.0
Total assets	2,159.3	498.2	8.3	-	-	2,665.8

*Includes a 65.8% ownership interest

29. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the basis of presentation adopted during the current reporting period. The changes have been summarized as follows:

(millions of Canadian dollars)	Previously reported	Foreign exchange	Intangible asset	Legal settlement	IOC recovery	**Reclassified balance at December 31, 2014**
Property, plant and equipment	2,037.9	-	(8.0)	-	-	**2,029.9**
Intangible assets	-	-	8.0	-	-	**8.0**
Other revenue	5.9				1.9	**7.8**
Operating costs	210.1	-	-	(0.7)	1.9	**211.3**
Net finance (income) expense	74.0	(4.4)	-	-	-	**69.6**
Other (income) expense	0.5	4.4	-	0.7	-	**5.6**