Hydro-Québec Trust for Management of Nuclear Fuel Waste

Financial Statements
December 31, 2011 and 2010
(expressed in Canadian dollars)

pwc

March 22, 2012

Independent Auditor's Report

To the Trustee of
Hydro-Québec Trust for Management of Nuclear Fuel Waste

We have audited the accompanying financial statements of Hydro-Québec Trust for Management of Nuclear Fuel Waste, which comprise the statements of financial position as at December 31, 2011 and 2010 and January 1, 2010 and the statements of income and comprehensive income, changes in net assets and cash flows for the years ended December 31, 2011 and 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hydro-Québec Trust for Management of Nuclear Fuel Waste as at December 31, 2011 and 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 and in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

[1] Chartered accountant auditor permit No. 21280

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Statements of Financial Position

(expressed in Canadian dollars)

	Note	As at December 31, 2011 $	As at December 31, 2010 $	As at January 1, 2010 $
Assets				
Cash		38,562	75,733	98,288
Investments	4	80,160,897	69,499,588	59,585,898
		80,199,459	69,575,321	59,684,186
Liabilities				
Legal and other fees payable		15,500	12,782	10,112
Net assets		80,183,959	69,562,539	59,674,074

The accompanying notes are an integral part of these financial statements.

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Statements of Income and Comprehensive Income

For the years ended December 31,

(expressed in Canadian dollars)

	2011 $	2010 $
Investment income		
Interest	3,726,154	3,220,403
Expenses		
Legal and other fees	40,315	35,453
Net income and comprehensive income	3,685,839	3,184,950

The accompanying notes are an integral part of these financial statements.

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Statements of Changes in Net Assets

For the years ended December 31,

(expressed in Canadian dollars)

	Note	2011 $	2010 $
Net assets – Beginning of year		69,562,539	59,674,074
Net income		3,685,839	3,184,950
Contributions	6	6,935,581	6,703,515
Net assets – End of year		80,183,959	69,562,539

The accompanying notes are an integral part of these financial statements.

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Statements of Cash Flows

For the years ended December 31,

(expressed in Canadian dollars)

	Note	2011 $	2010 $
Operating activities			
Net income		3,685,839	3,184,950
Adjustment for			
Accretion of zero-coupon bonds		(3,726,154)	(3,220,403)
Change in non-cash working capital			
Legal and other fees payable		2,718	2,669
		(37,597)	(32,784)
Investing activities			
Acquisition of investments		(6,935,155)	(6,693,286)
		(6,935,155)	(6,693,286)
Financing activities			
Contributions	6	6,935,581	6,703,515
		6,935,581	6,703,515
Decrease in cash during the year		(37,171)	(22,555)
Cash – Beginning of year		75,733	98,288
Cash – End of year		38,562	75,733

The accompanying notes are an integral part of these financial statements.

(expressed in Canadian dollars)

1 Description of the Trust

The Act respecting the long-term management of nuclear fuel waste (the “Nuclear Fuel Waste Act” or “NFWA”) came into effect on November 15, 2002. As required under the NFWA, Canadian nuclear energy companies established by incorporation the Nuclear Waste Management Organization (“NWMO”), whose purpose was to propose to the Government of Canada approaches to the long-term management of nuclear fuel waste.

The NFWA also required nuclear energy companies to set up a trust fund with a financial institution to finance the costs involved in the long-term management of their nuclear fuel waste.

In November 2005, the NWMO submitted its study to the Government of Canada and recommended a formula which was adopted in June 2007.

In October 2007, the NWMO members adopted the agreement providing a formula for financing the costs inherent in the long-term management of members’ nuclear fuel waste. This formula, approved by Natural Resources Canada in April 2009, is used to determine each member’s share in keeping with the number of its irradiated nuclear fuel bundles produced as of a given date. It also takes into account the date on which each member plans to ship the fuel bundles to the future national waste disposal site.

Hydro-Québec established the Hydro-Québec Trust for Management of Nuclear Fuel Waste (the “Trust”); the NWMO and Hydro-Québec are the beneficiaries.

The sums deposited in the Trust can only be used to finance the implementation of the approach prescribed by the Government of Canada. To fulfill its financial responsibilities, Hydro-Québec has made all payments required by the NFWA.

The trustee of the trust is RBC Dexia Investor Services Trust. The address of the Trust’s registered office is 1 Place Ville Marie, Montréal, Quebec, Canada. The financial statements were approved on March 22, 2012.

2 Significant accounting policies

Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). These are the first financial statements of the Trust prepared in accordance with IFRS. Details of the effect of the transition are provided in note 7 – First-time adoption of IFRS.

The functional and presentation currency of the financial statements is the Canadian dollar.

(expressed in Canadian dollars)

Cash

Cash includes cash on hand and other short-term highly liquid investments with original maturities of three months or less.

Investment income

Income earned from investments recognized in net income, represents the accretion of zero-coupon bonds, calculated using the effective interest rate method.

Financial instruments

Financial instruments, on initial recognition, must be measured at their fair value. Their valuation during subsequent periods and the accounting of fluctuations in their fair value, if necessary, depend on the category in which they are classified: financial assets and financial liabilities classified as held for trading, held-to-maturity investments, loans and receivables, available for sale or other financial liabilities.

Investments are classified as held-to-maturity investments and are accounted for at the amount required to be paid, less, when material, a discount to reduce the investments to fair value. Subsequently, investments are measured at amortized cost using the effective interest rate method. The fair value of zero coupon bonds is discounted using the prevailing market rates of interest, at that time, for similar instruments.

Cash was classified as a held-for-trading financial asset and accounted for at fair value. Legal and other fees payable are classified as other financial liabilities and accounted for at cost, which approximates fair value due to their short-term maturities.

Income tax

The Trust is exempt from income tax in accordance with paragraph 149(1)(z.2) of Bill C-10, Income Tax Amendments Act. As a result, the Trust has not provided for any income tax in these financial statements.

(expressed in Canadian dollars)

3 Changes in accounting policies

Standards not yet effective

Financial instruments

In November 2009, the IASB released IFRS 9, Financial Instruments, which is the first part of a three-part project to replace International Accounting Standard ("IAS") 39, Financial Instruments: Recognition and Measurement. IFRS 9 addresses classification and measurement of financial assets and liabilities. It replaces the multiple category and measurement models for debt instruments of IAS 39 with a new mixed measurement model having two categories: amortized cost and fair value through profit or loss. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted. The Trust is currently evaluating the impact of the standard on its financial statements.

Fair value measurement

In May 2011, the IASB released IFRS 13, Fair Value Measurement. IFRS 13 will improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The standard is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Trust is currently evaluating the impact of the standard on its financial statements.

4 Investments

	2011		2010		As at January 1, 2010	
	Amortized cost $	Fair value $	Amortized cost $	Fair value $	Amortized cost $	Fair value $
Zero-coupon bonds						
Hydro-Québec, face value of $27,000,000, effective interest rate of 4.22%, maturing April 15, 2017	21,702,165	24,413,000	20,823,948	21,859,200	19,981,270	20,246,400
Hydro-Québec, face value of $49,200,000 effective interest rate of 5.26%, maturing April 15, 2022	29,045,114	35,915,225	27,594,589	30,506,952	19,624,484	20,705,000
Hydro-Québec, face value of $65,450,000 (2010 – $50,500,000), effective interest rate of 5.03% (2010 – 5.51%), maturing April 15, 2027	29,413,618	38,922,411	21,081,051	23,975,885	19,980,144	20,067,210
	80,160,897	99,250,636	69,499,588	76,342,037	59,585,898	61,018,610

(expressed in Canadian dollars)

5 Financial instruments

Investment objective

The objective of the Trust is to finance the costs involved in the long-term management of Hydro-Québec's nuclear fuel waste. In addition to bonds issued by public bodies, the Trust may invest in corporate bonds and notes, equities and derivatives.

Financial risk management

The Trust's financial instruments consist of zero-coupon bonds. The Trust is exposed to risks associated with its investment strategies and the markets in which it invests.

a) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values or cash flows of financial instruments.

The Trust is not exposed to risk from changes in fair value or future cash flows because it holds investments in zero-coupon bonds accounted for at amortized cost. Changes in interest rates, therefore, had no impact on net income.

b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause financial loss to the other party. The Trust is exposed to credit risk mainly through its concentration of investments. As at December 31, 2011, the Trust limited its exposure to credit risk by investing in Hydro-Québec bonds, which is a related party. Hydro-Québec is a Government of Quebec Crown corporation.

(expressed in Canadian dollars)

6 Contributions

Contributions by Hydro-Québec were as follows:

Initial contribution – 2002	20,000,000
Annual contributions:	
2003	4,000,000
2004	4,000,000
2005	4,000,000
2006	4,000,000
2007	4,000,000
2008	4,000,000
2009	8,496,311
2010	6,703,515
2011	6,935,581
	66,135,407

7 First-time adoption of IFRS

IFRS 1, *First-time Adoption of International Financial Reporting Standards*, establishes requirements for the recognition and presentation of the disclosures concerning the transition from Canadian generally accepted accounting principles ("GAAP") to IFRS. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

Optional exemptions

In accordance with IFRS 1, comparative figures have been restated. Exemptions were not applied by the Trust.

Explanatory notes

A statement of cash flows is required under IFRS.

(expressed in Canadian dollars)

Reconciliation of financial position as previously reported under Canadian GAAP to IFRS

	As at December 31, 2010			As at January 1, 2010		
	Canadian GAAP $	Adjustment $	IFRS $	Canadian GAAP $	Adjustment $	IFRS $
Assets						
Cash	75,733	-	75,733	98,288	-	98,288
Investments	69,499,588	-	69,499,588	59,585,898	-	59,585,898
Total assets	69,575,321	-	69,575,321	59,684,186	-	59,684,186
Liabilities						
Legal and other fees payable	12,782	-	12,782	10,112	-	10,112
Net assets	69,562,539	-	69,562,539	59,674,074	-	59,674,074

Reconciliation of net income as previously reported under Canadian GAAP to IFRS

	For the year ended December 31, 2010		
	Canadian GAAP $	Adjustment $	IFRS $
Investment income			
Interest	3,220,403	-	3,220,403
Expenses			
Legal and other fees	35,453	-	35,453
Net income and comprehensive income	3,184,950	-	3,184,950