# Hydro-Québec Trust for Management of Nuclear Fuel Waste

Financial Statements
**December 31, 2017**

March 28, 2018

## 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 statement of financial position as at December 31, 2017 and the statements of income and comprehensive income, changes in net assets and cash flows for the year then ended, 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 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 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.

We believe that the audit evidence we have obtained 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, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A125110

# Hydro-Québec Trust for Management of Nuclear Fuel Waste

Statement of Financial Position

**As at December 31, 2017**

| | Note | 2017 $ | 2016 $ |
|---|---|---|---|
| **Assets** | | | |
| **Short-term assets** | | | |
| Cash | | 60,371 | 78,998 |
| Short-term investments | 4 | - | 51,779,104 |
| | | 60,371 | 51,858,102 |
| **Investments** | 4 | 147,061,916 | 89,740,187 |
| | | 147,122,287 | 141,598,289 |
| **Liabilities** | | | |
| Accounts and other payables | | 17,589 | 16,499 |
| **Net assets** | | 147,104,698 | 141,581,790 |

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

# Hydro-Québec Trust for Management of Nuclear Fuel Waste

Statement of Income and Comprehensive Income

**For the year ended December 31, 2017**

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Investment income** | | |
| Interest on zero-coupon obligations | 5,239,207 | 5,689,766 |
| Interest | 7,155 | - |
| | 5,246,362 | 5,689,766 |
| **Expenses** | | |
| Professional fees | 14,607 | 14,125 |
| Custodial fees | 39,753 | 37,062 |
| | 54,360 | 51,187 |
| **Net income and comprehensive income** | 5,192,002 | 5,638,579 |

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

# Hydro-Québec Trust for Management of Nuclear Fuel Waste

Statement of Changes in Net Assets

**For the year ended December 31, 2017**

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Net assets – Beginning of year** | 141,581,790 | 130,800,396 |
| Net income | 5,192,002 | 5,638,579 |
| Contributions | 330,906 | 5,142,815 |
| **Net assets – End of year** | 147,104,698 | 141,581,790 |

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

# Hydro-Québec Trust for Management of Nuclear Fuel Waste

Statement of Cash Flows

**For the year ended December 31, 2017**

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Operating activities** | | |
| Net income | 5,192,002 | 5,638,579 |
| Adjustment to reconcile net income to cash flows from operating activities | | |
| Interest on zero-coupon obligations | (5,239,207) | (5,689,766) |
| Interest received on investment | 8,860,795 | - |
| Change in non-cash working capital | | |
| Accounts and other payables | 1,090 | 710 |
| | 8,814,680 | (50,477) |
| **Investing activities** | | |
| Acquisition of investments | (52,523,418) | (5,084,697) |
| Maturity of investment | 43,359,205 | - |
| | (9,164,213) | (5,084,697) |
| **Financing activities** | | |
| Contributions | 330,906 | 5,142,815 |
| **Net change in cash** | (18,627) | 7,641 |
| **Cash – Beginning of year** | 78,998 | 71,357 |
| **Cash – End of year** | 60,371 | 78,998 |

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

## 1 Description of the Trust

Under the *Nuclear Fuel Waste Act* (NFWA) which come into force in 2002, the owners of nuclear fuel waste in Canada were required to set up a management organization, the Nuclear Waste Management Organization, and each of them was required to establish a trust fund to finance the cost of long-term management of its nuclear fuel waste. Hydro-Québec established the Hydro-Québec Trust for Management of Nuclear Fuel Waste (the "Trust"), of which Hydro-Québec is the primary beneficiary.

In April 2009, the Government of Canada approved a formula for financing the costs of the approach adopted for long-term nuclear fuel waste management. The amounts deposited in the trust funds can only be used to finance the implementation of this approach. To fulfill its financial responsibilities, Hydro-Québec has made all payments required under the NFWA.

The trustee of the Trust is RBC Investor Services Trust. The address of the Trustee's registered office is 1 Place Ville Marie, 5th Floor, East Wing, Montréal, Quebec, Canada H3B 1Z3. The financial statements were approved by the Trustee on March 28, 2018.

## 2 Significant accounting policies

### Basis of presentation

The financial statements of the Trust have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

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

### 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 for similar instruments.

Cash is classified as a held-for-trading financial asset and accounted for at fair value. Cash includes cash on hand with original maturities of three months or less.

Accounts and other payables are classified as other financial liabilities and accounted for at cost, which approximates fair value due to their short-term maturities.

**Investment income**

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

**Income tax**

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

## 3 Future change in accounting policy

**Standard issued but not yet effective**

Financial instruments

In July 2014, the IASB finalized and issued IFRS 9, *Financial Instruments*, to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 deals with the classification and measurement of financial assets and liabilities. The new standard introduces a model for classification and measurement of financial assets, a single, forward-looking “expected loss” impairment model and a substantially reformed approach to hedge accounting. Most of the classification and measurement of financial liabilities requirements of IAS 39 have been included in IFRS 9. IFRS 9 is effective retrospectively for annual periods beginning on or after January 1, 2018. It will not have a significant impact on the Trust’s financial statements.

## 4 Investments

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Amortized cost $** | **Fair value $** | **Amortized cost $** | **Fair value $** |
| Zero-coupon bonds | | | | |
| **Short-term investments** | | | | |
| Hydro-Québec, face value of $52,220,000 and effective interest rate of 3.0%, matured April 15, 2017 | - | - | 51,779,104 | 52,087,179 |
| **Investments** | | | | |
| Hydro-Québec, face value of $53,728,000 and effective interest rate of 1.13%, maturing April 29, 2017 | 52,930,308 | 52,563,727 | - | - |
| Hydro-Québec, face value of $65,160,000 and effective interest rate of 4.49%, maturing April 15, 2022 | 53,866,357 | 59,372,875 | 51,526,671 | 59,251,348 |
| Hydro-Québec, face value of $65,450,000 and effective interest rate of 5.30%, maturing April 15, 2027 | 40,265,251 | 51,407,114 | 38,213,516 | 49,824,716 |
| | 147,061,916 | 163,343,716 | 89,740,187 | 109,076,064 |

## 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. As at December 31, 2017, the Trust limited its exposure to credit risk by investing in Hydro-Québec bonds. Hydro-Québec is a related party and a Government of Quebec Crown corporation.