Q. Please provide all full credit rating reports from DBRS, Moody's and Standard and Poors' for Newfoundland Hydro for 2008 to the present.

A. Please refer to the following DBRS ratings reports:

a. December 2008: PUB-Nalcor-213, Attachment 1;
b. March 2010: PUB-Nalcor-213, Attachment 2;
c. August 2011: PUB-Nalcor-213, Attachment 3;
d. July 2012: PUB-Nalcor-213, Attachment 4;
e. November 2012: PUB-Nalcor-213, Attachment 5;
f. August 2013: PUB-Nalcor-213, Attachment 6;
g. August 2014: PUB-Nalcor-213, Attachment 7;
h. September 2015: PUB-Nalcor-213, Attachment 8;
i. October 2016: PUB-Nalcor-213, Attachment 9;
j. December 2017: PUB-Nalcor-213, Attachment 10; and
k. March 2019: PUB-Nalcor-213, Attachment 11.

Standard and Poors' and Moody's do not provide credit rating reports for Hydro.

Rating Report

Report Date:
December 11, 2008

Previous Report:
November 16, 2007

Insight beyond the rating.

Newfoundland and Labrador Hydro

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The Company
Newfoundland and Labrador Hydro, a Crown corporation of the Province of Newfoundland and Labrador, generates and transmits electricity in Newfoundland and Labrador. The Company sells approximately 50% of its available supply to an investor-owned electricity distributor, Newfoundland Power Inc. (Newfoundland Power), and distributes the remainder to the Province's larger industrial companies and its own distribution customers across the province.

Recent Actions
October 22, 2008
Upgraded to "A"

December 21, 2007
Trend Changed to Positive (Long-Term Rating)

Authorized Paper Limit (Order-In-Council Limit)
$300 million

Rating

Debt	Rating	Rating Action	Trend
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	Confirmed	Stable
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A	Upgraded	Stable

Rating Update

DBRS upgraded the Guaranteed Long-Term Debt rating of Newfoundland and Labrador Hydro (Hydro or the Company), to "A" from A (low) on October 22, 2008. The trend was also changed to Stable from Positive. The Guaranteed Short-Term Debt rating was confirmed at R-1 (low), with a Stable trend.

The ratings of Hydro, as listed above, are a flow-through of the ratings of the Province of Newfoundland and Labrador (the Province), which unconditionally guarantees the Company's debt. The unconditional guarantee extends to principal, interest and, where applicable, sinking fund payments, relating to the Company's promissory notes, debentures and long-term loans.

In October 2007, the Government of Newfoundland and Labrador (the Government) proclaimed legislation (the Energy Corporation Act) to create a new provincial energy corporation (EnergyCorp) to begin operations in January 2008. EnergyCorp is the holding company that will oversee both the regulated and unregulated activities of the corporate group. Additionally, in June 2008, the Government proclaimed the *Hydro Corporation Act, 2007*, which made Hydro a subsidiary of EnergyCorp. It is still the intent to transfer the ownership of Churchill Falls (Labrador) Corporation Limited (Churchill Falls), Lower Churchill Falls Development Corporation (LCDC) and Gull Island Power Company Limited (GIPCo) to EnergyCorp, which is likely to take place in 2009. Full control of EnergyCorp remains with the Province and both EnergyCorp and Hydro are agents of the Crown (see Current Simplified Corporate Structure on page 3). (Continued on page 2.)

Rating Considerations

Strengths
(1) Debt is held or guaranteed by the Province
(2) Improved regulatory environment
(3) Rate Stabilization Plan provides some protection against changes in fuel prices, hydrology and load
(4) Minimal competition

Challenges
(1) Cash flows are sensitive to hydrological conditions and oil prices
(2) Constrained financial profile
(3) Environmental issues related to thermal output

Financial Information

	For the year ended December 31				
	2007	2006	2005	2004	2003
EBIT interest coverage (times)	1.52	1.39	1.46	1.44	1.22
EBITDA interest coverage (times)	1.89	1.73	1.80	1.76	1.53
% net debt in capital structure (1)	64.3%	69.6%	73.5%	74.7%	75.5%
Cash flow/total net debt (1)	8.9%	7.1%	7.3%	6.5%	5.1%
Cash flow/capital expenditures (times)	1.34	1.65	2.48	2.68	1.16
EBIT	141.6	130.7	135.6	129.5	105.9
Net income (bef. extras.) ($ millions)	81.6	70.0	71.9	67.2	44.0
Operating cash flow ($ millions) (2)	109.2	92.7	103.0	93.9	75.2

(1) Debt is net of sinking fund assets. (2) Before rate stabilization plan.

Newfoundland and Labrador Hydro

Report Date:
December 11, 2008

Rating Update (Continued from page 1.)

Improvement in the Company's financial profile in 2007 stems from the continued suspension of dividend payments during 2007, changes that allow for faster recovery of Rate Stabilization Plan (RSP) balances and stronger earnings as a result of the impact of new electricity rates implemented in early 2007 and the re-negotiated recall agreement with Hydro-Québec, which allowed for increased power sales. Leverage improved further, to 64.3% from 69.3% in 2006 as the Company's stronger earnings and suspension of dividends have continued to allow it to record a free cash flow surplus in 2007.

The Province in its 2008-2009 budget announced that it intends to inject $100 million in equity into Hydro to improve the Company's financial profile. Hydro would reduce its level of debt by repaying outstanding short-term promissory notes.

Although Hydro's financial profile has improved in F2007, DBRS expects a material negative impact on Hydro's credit metrics in 2009, due to the transfer of ownership of Churchill Falls and the assignment of the recall agreement with Hydro-Québec to EnergyCorp. This will not have an impact on Hydro's ratings since they are a flow-through of the Province's ratings. All of Hydro's debt is fully and unconditionally guaranteed by the Province.

Rating Considerations

Strengths
(1) The Company's debt is unconditionally guaranteed by the Province. As a result, the ratings of Hydro are a flow-through of the provincial government's rating.

(2) A number of the decisions made by the Board of Commissioners of Public Utilities (PUB) since 2002 (when Hydro received the decisions on its first full rate base application) have provided a more certain operating environment for Hydro and have improved the stability of the Company's cash flows. Among the most significant changes are those made to the price of fuel used in base rates and to the RSP, whereby new balances will be recovered over the following 12-month period. Even more significant is the fact that Hydro is recovering in advance any forecast increase in fuel prices through the fuel rider.

(3) The RSP provides for the deferral of cost variances resulting from changes in fuel prices relative to the base price, levels of precipitation and load. Hydro has been recovering its RSP balances since 1986. All balances accumulated prior to March 31, 2003, are now recovered from customers. The recovery period for industrial customers ended on December 31, 2007, and the recovery for utility customers on June 30, 2008. As of December 31, 2007, $12.1 million still remained to be recovered. Any subsequent balances accumulated in the RSP, including financing charges, are recovered over the following 12-month period. This shorter recovery period should improve Hydro's financial flexibility and cash flow stability over the longer term in an environment of fluctuating fuel prices. Furthermore, all RSP balances attract interest and a fuel rider is calculated annually based on the forecast fuel price and is added to or subtracted from rates.

(4) Geographic isolation and the lack of availability of natural gas minimize competitive pressures for the Company; however, the former also greatly limits its power export potential except as it may arise from the Lower Churchill Falls project.

Challenges
(1) Annual cash flows are sensitive to water levels and oil prices given the Company's generation base (about 78% of electricity produced is hydroelectric-based and 22% is thermal-based). The cost of fuel included in rates of $55.38/bbl for 2008 should reduce the volatility of cash flows relative to the past four years. Furthermore, changes made to the RSP will also continue to smooth earnings. Exposure to changes in fuel prices is primarily mitigated through the operation of the RSP. Oil price fluctuations that result in oil costs higher than the cost per barrel (as approved in the most recent cost of service on which rates are based), are deferred and collected from ratepayers through subsequent automatic rate adjustments. While this may result in working capital requirements, it eliminates any uncertainty as to recovery.

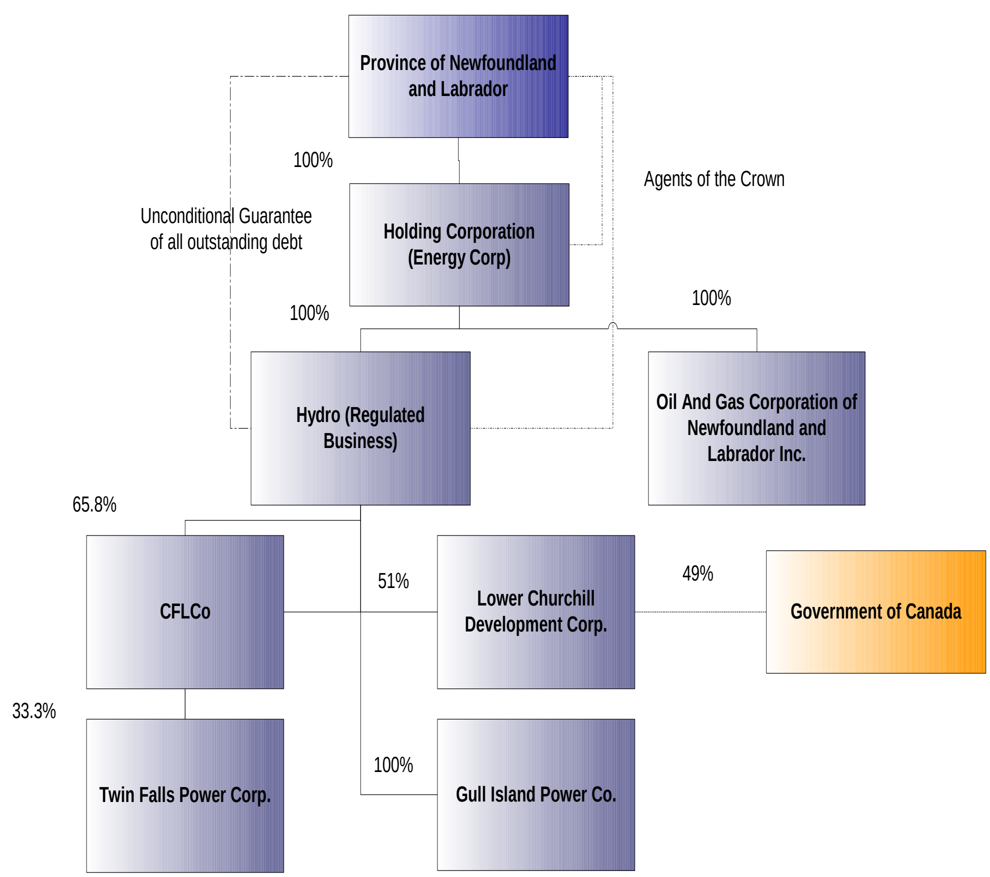
Newfoundland and Labrador Hydro

Report Date:
December 11, 2008

(2) Hydro's credit metrics will be materially impacted as a result of the transfer of ownership of Churchill Falls to EnergyCorp. DBRS estimates that going forward, cash flow-to-total debt could decline to approximately 5% from 9.1% at December 31, 2007. EBIT interest coverage could decline to approximately 1.2x from 1.52x. Leverage will likely increase to approximately 80% from 64.3%, all else remaining the same. Furthermore, the return on equity (ROE) of 4.47% for Hydro is very low in comparison with similar regulated utilities in Canada. As such, cash flow and coverage ratios for the Company will be lower than similarly regulated utilities. These expected lower levels of credit ratios are not a major concern as Hydro's debt is guaranteed by the Province. However, the benefits of the revised RSP help offset the lower approved returns. In addition, in the past the Province collected dividends from Hydro even when the Company's financial profile was negatively affected; however, on March 1, 2006, the Province highlighted its commitment to support the Company by making a decision to reinvest the dividends back into the Company. The Province committed to suspend dividends indefinitely with the goal of improving Hydro's financial profile. Furthermore, the re-elected Conservative government and the Province's solid fiscal position should continue to aid in improving Hydro's financial profile over the near term.

(3) A significant percentage of the Company's electricity is thermal-based and is fuelled by Bunker C fuel, which has a high sulphur content. The Company may have to deal with the environmental issues related to the sulphur content, which could result in increased costs and/or capital expenditures. However, while environmental issues do exist for Hydro, sulphur content was reduced from 2% to 1% in 2006 and the cost increases are recovered from customers through the RSP.

Current Simplified Corporate Structure

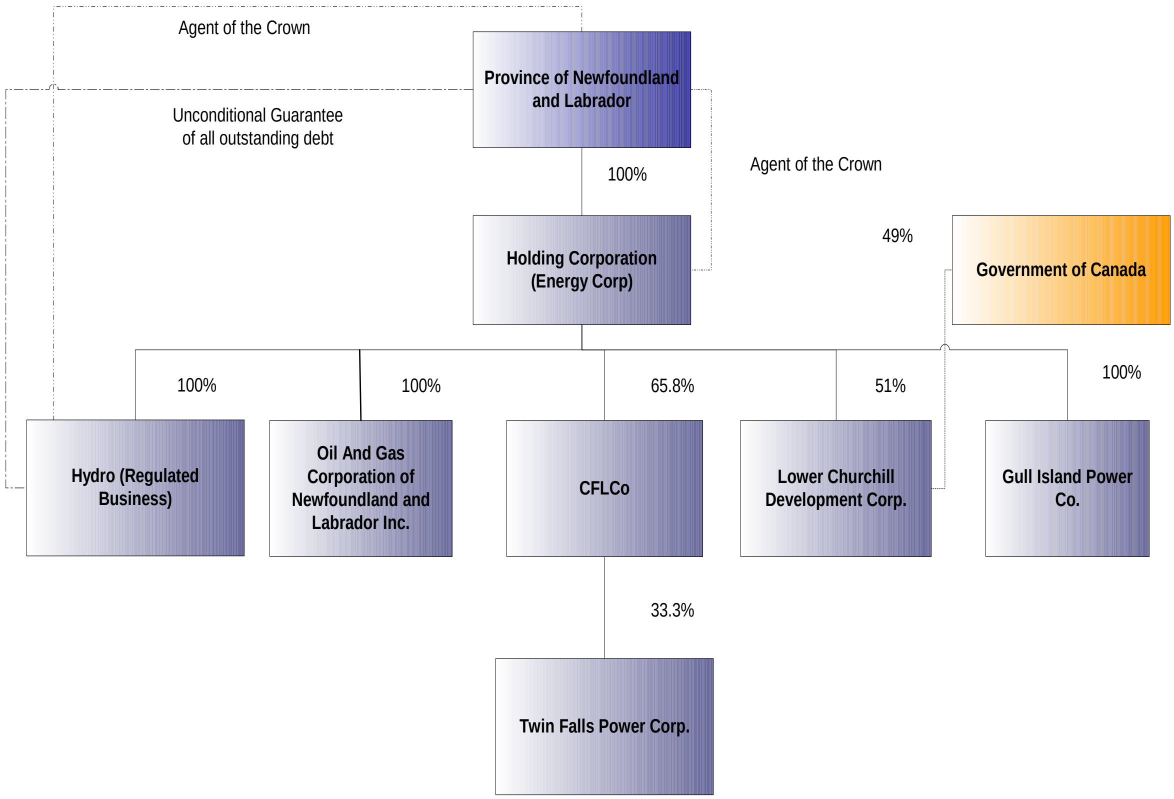


DBRS

Newfoundland and Labrador Hydro

Report Date:
December 11, 2008

Future Simplified Corporate Structure



Earnings And Outlook

($ millions)	For the year ended December 31 2007	2006	2005	2004	2003
Revenues	499.2	473.9	406.5	393.0	360.6
EBITDA	180.0	167.3	171.1	163.3	139.0
EBIT	141.6	130.7	135.6	129.5	105.9
Gross interest expense	102.3	107.1	106.9	107.2	106.1
Net interest expense	85.1	87.1	85.1	81.9	78.2
Net income before equity income & extras.	56.5	43.6	50.5	47.6	27.7
Net income before extraordinary items	81.6	70.0	71.9	67.2	44.0
Net income	81.6	70.0	71.9	67.2	21.7
Return on average equity (before extras.)	13.04%	12.95%	14.41%	13.93%	9.09%

Summary

EBIT and net income has consistently trended upward since 2003. The increase in earnings is due primarily to higher revenues and lower expenses, largely as a result of increased hydro generation.

In 2007, hydroelectric production was down from 2006, and this drove up expenses since high-cost thermal generation had to be relied on to meet demand. However, these higher expenses have been primarily offset by recoveries made under the RSP.

Earnings were positively affected by increased revenues, recoveries of RSP balances and a rate increase that took effect on January 1, 2007.

In 2007, electricity demand increased by 1% as a result of favourable weather conditions that increased demand for electricity space heating. Sales to Newfoundland Power, industrial and rural customers increased as a result of colder weather. However, revenues from industrial customers declined due to an 18.3% rate reduction that took effect on January 1, 2007.

Tempering the increased revenues were higher fuel expenses in 2007. Thermal generation increased by 62%, because thermal production in 2006 was exceptionally low as a result of higher water levels in the hydro reservoirs, favourable weather conditions and a reduction in load due to closure of a major industrial customer in late 2005. Overall, 2007 total fuel expense remained at approximately the same level as in 2006 after accounting for the effects of the rate stabilization activity.

Net interest expense decreased modestly, by $5.3 million to $100.4 million in 2007. The decline can be mainly attributed to decreased debt balances, which led to reduced interest expense and guarantee fees. Short-term debt balances were lower primarily as a result of continued suspension of dividend payments which resulted in higher internal cash generation.

Outlook

Although Hydro's financial profile improved in F2007, DBRS expects a material negative impact on Hydro's credit metrics in 2009 due to the transfer of ownership of Churchill Falls and the recall agreement with Hydro-Québec to EnergyCorp.

Hydro's earnings profile will be challenged by the low approved ROE of 4.47% and the relatively high-targeted regulated capital structure of 80% debt-to-20% equity combined with modest growth in the rate base. However, the Province is supporting an improvement in Hydro's financial profile by foregoing dividends and guarantee fees. Furthermore, Hydro's capital structure will improve with the anticipated $100 million equity injection the Province projected in its 2008 budget.

Overall, Hydro's financial profile is expected to remain weaker than comparable investor-owned utilities and many government-owned utilities; however, the decline in metrics to the anticipated levels would not impact Hydro's ratings since they are a flow-through of the Province's ratings.

DBRS

Newfoundland and Labrador Hydro

Report Date:
December 11, 2008

Financial Profile and Outlook

($ millions)	For the year ended December 30				
Cash Flow Statement (non-consolidated)	2007	2006	2005	2004	2003
EBITDA	180.0	167.3	171.1	163.3	139.0
Net income (before non-recurring)	81.6	70.0	71.9	67.2	44.0
Depreciation & amortization	39.1	37.5	39.4	37.3	37.1
Other non-cash adjustments	(11.5)	(14.8)	(8.3)	(10.6)	(5.9)
Cash Flow From Operations	109.2	92.7	103.0	93.9	75.2
Common dividends	0.0	(2.6)	(55.8)	(50.6)	(41.1)
Capital expenditures (net of contrib.)	(81.7)	(56.3)	(41.5)	(35.0)	(64.6)
Gross Free Cash Flow before W/C Changes	27.5	33.8	5.7	8.3	(30.5)
Changes in working capital	(3.3)	40.1	3.1	(11.2)	(3.3)
Rate stabilization adjustment	39.7	17.4	44.0	18.6	(30.9)
Free Cash Flow	63.9	91.3	52.8	15.7	(64.7)
Other investments	(18.4)	(19.9)	(25.9)	(22.1)	(22.8)
Change in debt	(52.6)	(67.1)	(24.7)	4.7	85.9
Net Change in Cash	(7.1)	4.3	2.2	(1.7)	(1.6)
Total net debt (1)	1,223	1,314	1,403	1,448	1,463
% net debt in capital structure (1)	64.3%	69.6%	73.5%	74.7%	75.5%
EBIT interest coverage (times)	1.52	1.39	1.46	1.44	1.22
Cash flow/total net debt (1)	8.9%	7.1%	7.3%	6.5%	5.1%

(1) Debt is net of sinking fund assets.

Summary

Stronger earnings, decreased dividends and lower capital expenditures over the medium term have resulted in positive free cash flow since 2004. Hydro has witnessed positive net free cash flow as a result of the rate stabilization adjustment.

The changes in Other Investments were primarily a result of a decrease in sinking funds and in deferred charges.

Due to the suspension of common dividends and improved earnings, the Company’s debt-to-capital ratio improved to just over 64% from approximately 70% in 2006.

Outlook

Due to the anticipated transfer of ownership of Churchill Falls to EnergyCorp, DBRS estimates that cash flow from operations will remain sufficient to fund the Company’s slightly increased capital investment program. However, cash flow-to-debt will decline to approximately 5% from 9.1% and EBIT interest coverage to 1.2x from 1.5x. The suspension of dividends, waiver of guarantee fee and the $100 million equity injection from the Province will help improve Hydro’s financial profile as well as maintain positive free cash flow.

Additionally, recent changes to the RSP to allow for a more timely recovery of balances will improve Hydro’s financial flexibility through lower debt levels and reduced liquidity requirements.

Long-Term Debt Maturities and Bank Lines

As at December 31, 2007:

(Includes term debt maturities and sinking fund requirements over the next five years for Hydro only.)

($ millions)	2008	2009	2010	2011	2012
	208.3*	8.3	8.2	8.2	8.2

* The maturity has been repaid with promissory notes, which in turn will be repaid in part with proceeds from the Province's $100 million equity injection.

Summary

Promissory notes, debentures and long-term loans are unsecured and unconditionally guaranteed as to principal and interest and where applicable, sinking fund payments by the Province. The Province charges Hydro a guarantee fee of 1% annually on the total guaranteed debt (net of sinking funds) outstanding as of the preceding December 31.

In an effort to support Hydro's credit profile, the Province has foregone payment of the guarantee fee in the near term. The Company has a $50 million unsecured operating line of credit with a commercial bank, which provides coverage for overdrafts on Hydro's bank accounts.

Hydro has a $300 million short-term promissory note program, guaranteed by the Province, that it uses for its daily funding requirements. As of December 31, 2007, the Company had $7 million of promissory notes outstanding. Given that the $208.3 million maturity was refinanced with promissory notes, DBRS currently estimates the outstanding amount of promissory notes at approximately $200 million (assuming some repayment with cash flow).

Regulation

Hydro is regulated by the Board of Commissioners of Public Utilities (PUB).

- Hydro is regulated based on a return on rate base model.
- Hydro has an RSP that provides for the deferral of cost variances resulting from changes in fuel prices relative to the base price, levels of precipitation and load.
  - The RSP also allows Hydro to smooth out the rate increases required to recover the cost variances.
- In December 2003, the PUB approved changes to the recovery mechanism of the RSP.
  - All balances accumulated prior to March 31, 2003, were recovered from customers. The recovery period for industrial customers ended on December 31, 2007, and the recovery for utility customers ended on June 30, 2008. As of December 31, 2007, $12.1 million remained to be recovered.
  - Any new RSP balances that accumulate related to fuel cost variations from forecast starting January 1, 2004, will be recovered over the following one-year period.
  - Any new RSP balances that accumulate relating to variations in hydrology relative to forecast starting January 1, 2004, will be recovered at a rate of 25% of the outstanding balance at year-end, including the weighted average cost of capital on the balance.
- On January 1, 2005, the phase-in of the demand and energy rate (DER) for sales of power and energy to Newfoundland Power began.
  - The goal of the DER is to provide an incentive to Newfoundland Power to reduce its peak demand costs through load management, retail rate design or other appropriate means.
  - Newfoundland Power will be billed on its highest actual demand requirements from the winter season. The highest actual demand will be adjusted for weather conditions, which will tend to reduce the forecast risk to the Company.
  - The billing demand rate to Newfoundland Power has decreased to $4.00/KW/month effective January 1, 2007.
- On August 3, 2006, Hydro filed its General Rate Application (GRA) with the PUB, which was formally approved in April 2007. Key decisions rendered by the PUB include:
  - An allowed ROE of 4.47% for the purpose of establishing the return on rate base.

- Hydro forecast of 2007 average rate base of $1.489 billion and return on rate base of 7.44%, within a range of 7.29% to 7.59%.
- The fuel expense will be updated to reflect a monthly average price for No. 6 fuel in 2007 of $55.38/bbl.
- No change was made to Hydro's short-term target debt-to-equity ratio of 80/20 for regulated operations, which is well above the leverage of comparable investor-owned utilities.
- A negotiated settlement at the most recent rate hearing avoided any significant rate increases.
- Automatic rate adjustments made as a result of the operation of the RSP resulted in wholesale rates to Newfoundland Power decreasing by an average of 3.9%, which ultimately resulted in a 2.9% drop in retail rates, effective July 1, 2007.

• The following rate changes took effect on January 1, 2008:
  - Interim approval granted to freeze industrial rates.
  - Labrador Interconnected Rural Rates increased between 0.7% and 9.2% for all customer types.
  - For the Island Interconnected and Isolated Rural Rates, an average rate increase of 2.8% based upon the 2008 rates approved for Newfoundland Power.
  - On July 1, 2008, Hydro implemented a 8.6% increase in the rate stabilization adjustment component of rates charged to Newfoundland Power and a 5.9% average rate increase to Island Interconnected and Isolated Rural (non-government) customers.

• In August 2008, Hydro filed a new 20-Year Capital Plan with the PUB, outlining an estimated $1.2 billion investment in the provincial electricity system. Hydro submitted its 20-Year Capital Plan along with its annual 2009 Capital Budget application. Key capital initiatives for 2009 include $283,000 in upgrades to the Labrador City distribution system to initiate a three-year estimated investment of $10 million to handle the expected future growth in the area; $2.8 million investment in the Bay d'Espoir Hydroelectric Generating Station; and a $2.5 million investment to upgrade distribution systems throughout the Province.

Company Profile

Description of Operations

• Hydro is a Crown corporation owned by EnergyCorp, which is in turn 100% owned by the Province of Newfoundland and Labrador.
• Hydro is the dominant generation and transmission electric power company in the Province. In addition, Hydro directly serves residential, commercial and industrial distribution customers in more rural service areas of Newfoundland and throughout Labrador.
• Hydro supplies over 80% of the Province's electrical energy. It sells approximately 50% of its available supply to an investor-owned electricity distributor, Newfoundland Power, which is wholly owned by Fortis Inc. Hydro's remaining power deliveries are directed to five large industrial companies, short-term exports of unused recall in Labrador to Hydro-Québec and its own distribution customers across the Province.
• Hydro has installed generating capacity of 1,708 MW consisting of nine hydroelectric plants, one oil-fired plant, four gas turbines, two wind turbines and twenty-five diesel plants (958 MW hydroelectric, 640 MW thermal (oil), 54 MW wind and 56 MW diesel).
• In addition, Hydro has long-term supply contracts with independent power producers in the Province, amounting to approximately 123 MW.

Newfoundland and Labrador Hydro

Report Date:
December 11, 2008

The Province of Newfoundland and Labrador

Excerpt from DBRS report dated October 28, 2008

DBRS has upgraded the Long-Term Debt rating of the Province of Newfoundland and Labrador (Newfoundland or the Province) to "A" from A (low) and the trend has been changed to Stable from Positive. The Short-Term Debt rating has been confirmed at R-1 (low) with a Stable trend. The rating upgrade reflects the progress the Province has made in improving its credit profile over the last three years through fiscal discipline, debt reduction and improved liquidity.

DBRS had changed the trend on the Long-Term Debt rating to Positive on December 21, 2007; since then, the Province has continued to manage prudently, which has helped reduce debt and enhance its financial flexibility. Based on preliminary results, a DBRS-adjusted surplus of $1.3 billion was posted in 2007-08, greatly exceeding the budget forecast as Newfoundland benefited from strong commodity prices, providing a boost to royalty revenues, while keeping spending in check. For 2008-09, a surplus of $291 million is budgeted despite growing spending pressures from health and labour groups, supported by ample resource revenues. DBRS notes that while the recent sharp downturn in oil prices introduces uncertainty in the fiscal outlook, the Province's conservative oil price assumption (US$87 per barrel), the recent depreciation of the Canadian dollar and the fact that oil prices were well above budget throughout the first six months of the fiscal year should help ensure that fiscal targets can still be achieved.

Preliminary results point to a decline in debt-to-GDP to 33.4% in 2007-08 from 36.7% the year before. This is a remarkable improvement from more than 80% in the late 1990s and has been in large part due to the Province's improved fiscal situation and federal payments under the Atlantic Accord. Based on the budget forecast, improvement in the debt-to-GDP ratio is expected to continue in 2008-09, approaching 31% as a result of further reductions in debt combined with economic growth. Although a drop in oil production and softening commodity prices will significantly dampen the momentum in 2008, the private-sector consensus is still calling for 0.4% growth compared with the budget expectation of a 2.0% decline in real GDP. A moderate rebound is expected for 2009, driven by additional oil production and further progress being made on large capital developments, although the rapid deterioration in global economic conditions maintains uncertainty in the outlook.

Despite near-term challenges, DBRS notes that the Province has accumulated a reasonable cushion to sustain a slowdown in resource activity, including another sizeable surplus foreseen next year. Nevertheless, further improvement in Newfoundland's ratings will likely depend on the Province's ability to turn its newly developed resource wealth into sustainable economic growth and maintain fiscal discipline.

Newfoundland and Labrador Hydro

Report Date:
December 11, 2008

Newfoundland and Labrador Hydro
(Non-Consolidated)

Balance Sheet

($ millions)	As at December 31				As at December 31		
Assets	2007	2006	2005	**Liabilities and Equity**	2007	2006	2005
Cash + equivalents	0.0	5.7	0.8	Accts. pay + accr'ds	119.6	105.9	82.3
Receivables	69.1	59.4	57.2	Promissory notes	15.0	65.4	156.8
Rate stabilization acct.	12.1	45.3	41.8	L.t.d. due in one year	208.3	8.3	208.4
Fuel, supplies + prepaids	61.7	46.5	53.2	**Current Liabilities**	342.9	179.6	447.5
Current assets	142.9	156.9	153.0	Long-term debt	1,151.1	1,357.4	1,123.1
Fixed assets	1,469.4	1,427.5	1,410.3	Rate Stabilization Plan	15.5	16.6	11.4
Investments	353.2	340.9	324.1	Employee future benefits	39.8	35.5	32.3
Rate stabilization acct.	0.0	17.8	63.3	Shareholders' equity	677.7	574.3	506.9
Sinking funds	151.8	117.1	85.8				
Def'd charges & Long-term receivables	109.7	103.2	84.7				
Total	2,227.0	2,163.4	2,121.2	**Total**	2,227.0	2,163.4	2,121.2

Ratio Analysis	For the year ended December 31					
Liquidity Ratios	2007	2006	2005	2004	2003	2002
Current ratio	0.42	0.87	0.34	0.58	0.49	0.37
Accumulated depreciation/gross fixed assets	28.2%	27.1%	26.1%	23.7%	24.5%	23.8%
Cash flow/total net debt (1)	8.9%	7.1%	7.3%	6.5%	5.1%	6.0%
Total net debt/EBITDA (1)	6.79	7.85	8.20	8.87	10.53	9.39
Cash flow/capital expenditures	1.34	1.65	2.48	2.68	1.16	0.78
Cash flow-dividends/capital expenditures	1.34	1.60	1.14	1.24	0.53	-0.42
% net debt in capital structure (1)	64.3%	69.6%	73.5%	74.7%	75.5%	73.9%
Average coupon on long-term debt	7.12%	7.12%	7.28%	7.27%	7.27%	7.42%
Target % equity/capital (regulated)	20.0%	20.0%	20.0%	20.0%	20.0%	17.0%
Common dividend payout (before non-recurring)	0.0%	3.7%	77.6%	75.3%	93.4%	220.7%
Coverage Ratios (2)						
EBIT interest coverage	1.52	1.39	1.46	1.44	1.22	1.38
EBITDA interest coverage	1.89	1.73	1.80	1.76	1.53	1.70
Fixed-charges coverage	1.52	1.39	1.46	1.44	1.22	1.38
Earnings Quality/Operating Efficiency						
Power purchases/revenues	8.5%	9.0%	9.8%	10.2%	8.4%	5.7%
Fuel costs/revenues	31.9%	32.6%	20.8%	21.1%	23.5%	21.0%
Operating margin	28.4%	27.6%	33.4%	33.0%	29.4%	33.7%
Net margin (before non-recurring)	16.3%	14.8%	17.7%	17.1%	12.2%	16.7%
Return on avg. equity (before non-recurring)	13.0%	12.9%	14.4%	13.9%	9.1%	11.0%
Profit returned to gov't (before non-recurring) (3)	13.8%	19.8%	81.3%	79.7%	95.0%	199.7%
GWh sold/employee	9.8	9.6	10.3	10.5	9.7	9.1
Self Generation – Cost Structure (4) (cents per net generated kWh sold) (Tables may not add due to rounding.)						
OM&A	1.95	1.61	1.56	1.50	1.50	1.61
Fuel	2.97	2.62	1.37	1.36	1.37	1.24
Variable costs	4.93	4.23	2.93	2.86	2.87	2.85
Gov't levies	0.24	0.24	0.23	0.24	0.22	0.21
Net interest expense	1.65	1.51	1.39	1.35	1.33	1.37
Total cash costs	6.82	5.97	4.56	4.45	4.43	4.43
Non-cash financial charges	-0.06	-0.03	-0.02	-0.01	-0.07	-0.07
Depreciation	0.72	0.62	0.57	0.55	0.54	0.53
Total costs	7.48	6.56	5.11	4.99	4.90	4.89
Purchased power (cents per gross kWh purchased)	1.49	1.51	1.42	1.52	1.19	0.78

(1) Debt is net of sinking fund assets.

(2) Before capitalized interest, AFUDC, and debt amortizations.

(3) Includes all taxes, guarantee fees, and dividends.

(4) Note: costs used are NLH's total costs and not just those related to generation. Internally generated energy less energy used and lost (excluding power purchases). Transmission losses apportioned relative to total energy supplied.

Debt-related ratios not directly comparable to periods before 1996 due to a change in accounting policies.

Newfoundland and Labrador Hydro

Report Date:
December 11, 2008

Operating Statistics	For the year ended December 31				
Electricity Sold – Breakdown	2007	2006	2005	2004	2003
Utilities (mainly Nfld L+P)	4,991	4,617	4,664	4,709	4,642
Rural	890	834	859	886	878
Industrial	1,136	1,145	1,685	1,842	1,711
Exports	1,489	1,483	1,422	1,456	1,439
Total (GWh sold)	8,506	8,079	8,630	8,893	8,670
Energy sales growth	5.3%	-6.4%	-3.0%	2.6%	0.4%
Generating Capacity (MW)					
Hydroelectric	958	939	939	939	939
Thermal (Oil)	640	640	640	640	640
Diesel	56	55	56	57	57
Installed capacity (MW)	1,654	1,634	1,635	1,636	1,636
Electricity Generated (GWh) – hydroelectric	4,689	4,802	4,770	4,726	4,321
Electricity Generated (GWh) – thermal	1,243	729	1,320	1,641	1,950
Electricity Generated (GWh) – diesel	44	42	43	46	45
Gross energy generated – GWh	5,976	5,573	6,133	6,413	6,316
Plus: purchases	2,862	2,838	2,829	2,812	2,640
Energy generated + purchased	8,838	8,411	8,962	9,225	8,956
Less: transmission losses + internal use	332	332	332	332	290
Total – GWh sold	8,506	8,079	8,630	8,893	8,666
Energy lost + used/energy gen. + purch.	3.8%	3.9%	3.7%	3.6%	3.2%
Maximum primary peak demand	1,323	1,310	1,361	1,405	1,402
Peak demand/available capacity	80.0%	80.2%	83.2%	85.9%	85.7%

Newfoundland and Labrador Hydro

Report Date:
December 11, 2008

Rating

Debt	Rating	Rating Action	Trend
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	Confirmed	Stable
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A	Upgraded	Stable

Rating History

	Current	2007	2006	2005	2004	2003
Guaranteed Short-Term Debt	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-2 (high)	R-2 (high)
Guaranteed Long-Term Debt	A	A (low)	A (low)	BBB (high)	BBB	BBB

Rating History

- Province of Newfoundland and Labrador Rating Report, October 28, 2008.
- Province of Newfoundland and Labrador Rating Report, August 1, 2007.
- DBRS Comments on Newfoundland and Labrador Hydro, June 6, 2007.

Note:
All figures are in Canadian dollars unless otherwise noted.

Rating Report

Report Date:
March 5, 2010

Previous Report:
December 10, 2008

Insight beyond the rating.

Newfoundland and Labrador Hydro

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The Company

Newfoundland and Labrador Hydro, a Crown corporation of the Province of Newfoundland and Labrador, generates and transmits electricity in Newfoundland and Labrador. The Company sells approximately 50% of its available supply to an investor-owned electricity distributor, Newfoundland Power Inc. (Newfoundland Power), and distributes the remainder to the Province's larger industrial companies and its own distribution customers across the province.

Recent Actions

June 4, 2009
Confirmed

Rating

Debt	Rating	Trend
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	Stable
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A	Stable

Rating Update

The guaranteed debt ratings of Newfoundland and Labrador Hydro (Hydro or the Company) are a flow-through of the ratings of the Province of Newfoundland and Labrador (the Province; see DBRS's report on the Province dated June 10, 2009), which unconditionally guarantees all of Hydro's outstanding debt. The unconditional guarantee extends to principal, interest and, where applicable, sinking fund payments, relating to the Company's promissory notes, debentures and long-term loans.

In October 2007, the Government of Newfoundland and Labrador (the Government) proclaimed legislation (the Energy Corporation Act) to create a new provincial energy corporation (EnergyCorp – renamed in 2009 to Nalcor Energy (Nalcor)) to begin operations in January 2008. Nalcor is the holding company that oversees both the regulated and unregulated activities of the corporate group. Additionally, in June 2008, the Government proclaimed the *Hydro Corporation Act, 2007*, which made Hydro a subsidiary of Nalcor. The intended transfer of the ownership of Churchill Falls (Labrador) Corporation Limited (Churchill Falls), Lower Churchill Falls Development Corporation (LCDC) and Gull Island Power Company Limited (GIPCo) to Nalcor, has been deferred as a result of other business, financing and regulatory issues which have taken higher priority. Full control of Nalcor remains with the Province and both Nalcor and Hydro are agents of the Crown (see Current Simplified Corporate Structure on page 3). (Rating Update continued on page 2.)

Rating Considerations

Strengths
(1) Debt is guaranteed by the Province
(2) Supportive regulatory environment
(3) Rate Stabilization Plan provides some protection against changes in fuel prices, hydrology and load
(4) Minimal competition

Challenges
(1) Cash flows are sensitive to hydrological conditions and oil prices
(2) Constrained financial profile
(3) Environmental issues related to thermal output

Financial Information

	For the year ended December 31				
	2008	2007	2006	2005	2004
EBIT interest coverage (times)	1.63	1.52	1.39	1.46	1.44
EBITDA interest coverage (times)	2.04	1.89	1.73	1.80	1.76
% net debt in capital structure (1)	65.9%	64.3%	69.6%	73.5%	74.7%
Cash flow/total net debt (1)	10.4%	8.9%	7.1%	7.3%	6.5%
Cash flow/capital expenditures (times)	1.41	1.34	1.65	2.48	2.68
EBIT	147.4	141.6	130.7	135.6	129.5
Net income (bef. extras.) ($ millions)	89.5	81.6	70.0	71.9	67.2
Operating cash flow ($ millions) (2)	121.0	109.2	92.7	103.0	93.9

(1) Debt is net of sinking fund assets. (2) Before rate stabilization plan.

Rating Update (Continued from page 1.)

Improvement in the Company's financial profile since 2004 has been supported in recent years by the suspension of dividend payments during 2008, a change that allows for faster recovery of Rate Stabilization Plan (RSP) balances, stronger earnings as a result of the impact of new electricity rates implemented in early 2007 and the renegotiated recall agreement with Hydro-Québec, which allowed for increased power sales. Leverage on a non-consolidated basis increased slightly, to 65.9% from 64.3% in 2007, as the Company's transfer of assets and retained earnings to Nalcor reduced shareholders' equity, which more than offset a decline in total debt outstanding.

Hydro's financial profile has improved since 2004 and DBRS anticipates that this will continue with the deferral of the transfer of Hydro's non-regulated assets to Nalcor.

Rating Considerations

Strengths
(1) The Company's debt is unconditionally guaranteed by the Province. As a result, the ratings of Hydro are a flow-through of the Province's rating.

(2) A number of the decisions made by the Board of Commissioners of Public Utilities (PUB) since 2002 (when Hydro received the decisions on its first full rate base application) have provided a more certain operating environment for Hydro and have improved the stability of the Company's cash flows. Among the most significant changes are those made to the price of fuel used in base rates and to the RSP, whereby new balances will be recovered over the following 12-month period. Even more significant is the fact that Hydro is recovering in advance any forecast increase in fuel prices through the fuel rider.

(3) The RSP provides for the deferral of cost variances resulting from changes in fuel prices relative to the base price, levels of precipitation and load. Hydro has been recovering its RSP balances since 1986. All balances accumulated prior to March 31, 2003, are now recovered from customers. The recovery period for industrial customers ended on December 31, 2007, and the recovery for utility customers on June 30, 2008. Any subsequent balances accumulated in the RSP, including financing charges, are recovered over the following 12-month period. This shorter recovery period should improve Hydro's financial flexibility and cash flow stability over the longer term in an environment of fluctuating fuel prices. Furthermore, all RSP balances attract interest and a fuel rider is calculated annually based on the forecast fuel price and is added to or subtracted from rates.

(4) Geographic isolation and the lack of availability of natural gas minimize competitive pressures for the Company.

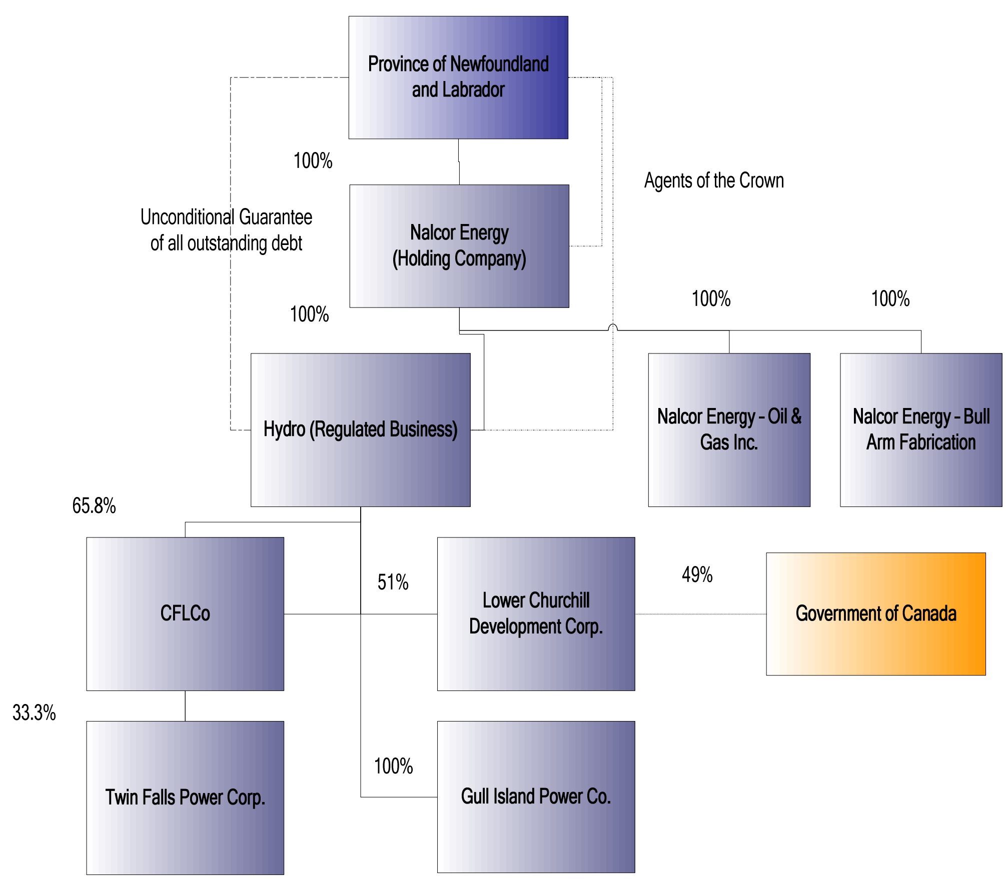
Challenges
(1) Annual cash flows are sensitive to water levels and oil prices given the Company's generation base (about 82% of electricity produced is hydroelectric-based and 18% is thermal-based); however, the cost of fuel is included in rates and has reduced the volatility of cash flows relative to prior years. Furthermore, changes made to the RSP will continue to smooth earnings. Exposure to changes in fuel prices is primarily mitigated through the operation of the RSP. Oil price fluctuations that result in oil costs higher than the cost per barrel (as approved in the most recent cost of service decision on which rates are based) are deferred and collected from ratepayers through subsequent automatic rate adjustments. While this may result in working capital requirements, it eliminates any uncertainty as to recovery.

(2) Hydro's return on equity (ROE) of 4.47% is very low in comparison with similarly regulated utilities in Canada. As such, cash flow and coverage ratios for the Company continue to be impacted until this low rate of return is restored to a level similar to that recently given to the other utility in the Province, Newfoundland Power Inc. (Newfoundland Power). The Province has directed the PUB to equalize Hydro's ROE with that of Newfoundland Power when it files its next general rate application (GRA) and for each subsequent GRA. In the past, the Province collected dividends from Hydro even when the Company's financial profile was

negatively affected; however, on March 1, 2006, the Province highlighted its commitment to support the Company by making a decision to reinvest the dividends back into the Company. Since Hydro is now a subsidiary of Nalcor, if dividends are paid, they are paid to Nalcor. During 2008, no dividends were declared, but beginning in 2009, Hydro's dividend policy was altered such that all monies earned by Hydro from non-regulated activities are paid to Nalcor, resulting in over $40 million in dividends paid during 2009. Hydro's financial profile is supported by its limits on dividends of regulated earnings. Its dividend policy states that dividends are declared annually based on the required maintenance of a regulated capital structure not to exceed 75% debt-to-debt plus equity.

(3) A significant percentage of the Company's electricity is thermal-based and is fuelled by Bunker C fuel, which has high sulphur content. While future environmental regulations are uncertain at this time, they could result in increased costs and/or capital expenditures. However, while environmental issues do exist for Hydro, sulphur content was reduced from 1% to 0.7% in 2009 and the cost increases are recovered from customers through the RSP.

Current Simplified Corporate Structure



Earnings And Outlook

($ millions)	2008	2007	2006	2005	2004
	For the year ended December 31				
Revenues	500.5	499.2	473.9	463.0	427.2
EBITDA	187.8	180.0	167.3	171.1	163.3
EBIT	147.4	141.6	130.7	135.6	129.5
Gross interest expense	98.3	102.3	107.1	106.9	107.2
Net interest expense	78.7	85.1	87.1	85.1	81.9
Net income before equity income & extras.	68.7	56.5	43.6	50.5	47.6
Net income before extraordinary items	89.5	81.6	70.0	71.9	67.2
Net income	86.8	81.6	70.0	71.9	67.2
Return on average equity (before extras.)	14.03%	13.04%	12.95%	14.41%	13.93%

Summary

EBIT and net income have trended upward since 2004. Customer rates were set in 2007 re-establishing earnings. Net earnings increased primarily due to the waiver of the debt guarantee fee in 2008. Fuel prices and customer load variations are stabilized in the RSP plan and recovered from or refunded to customers in future rates resulting in reduced earnings volatility.

In 2008, hydroelectric production was modestly higher relative to 2007. Although generation from thermal sources declined, higher commodity prices drove up expenses related to purchased fuel. However, these higher fuel expenses were primarily offset by recoveries made under the RSP.

Tempering the increased revenues were higher fuel expenses in 2008. Although thermal generation decreased by 13% due to improved hydro production, overall, 2008 fuel expenses increased due to higher fuel prices after accounting for the effects of the rate stabilization activity.

Net interest expense decreased modestly, by $6.4 million to $78.7 million in 2008. The decline can be attributed to decreased debt balances and lower borrowing costs in addition to suspension of the debt guarantee fee.

Outlook

Hydro’s financial profile has improved since 2004 and DBRS anticipates that this will continue with the deferral of the transfer of Hydro’s non-regulated assets to Nalcor. However, Hydro’s earnings profile will continue to be challenged by the low approved ROE of 4.47% and the relatively high targeted regulated capital structure of 75% debt to 25% equity combined with modest growth in the rate base. The Province has supported Hydro’s financial profile by the $100 million equity injection in 2009 and the foregoing of dividends and guarantee fees in 2008 and 2009. Additionally, the Province has announced a recent government directive to the PUB effective at Hydro's next GRA and for each subsequent GRA, Hydro is to be allowed a rate of return on equity equal to that approved for Newfoundland Power. The increase in ROE should help improve Hydro’s earnings and overall financial profile.

Overall, Hydro’s financial profile is expected to remain weaker than comparable investor-owned utilities and many government-owned utilities.

DBRS

Newfoundland and Labrador Hydro

Report Date:
March 5, 2010

Financial Profile and Outlook

($ millions)	For the year ended December 31				
Cash Flow Statement (non-consolidated)	2008	2007	2006	2005	2004
EBITDA	187.8	180.0	167.3	171.1	163.3
Net income (before non-recurring)	89.5	81.6	70.0	71.9	67.2
Depreciation & amortization	40.9	39.1	37.5	39.4	37.3
Other non-cash adjustments	(9.4)	(11.5)	(14.8)	(8.3)	(10.6)
Cash Flow From Operations	121.0	109.2	92.7	103.0	93.9
Common dividends	0.0	0.0	(2.6)	(55.8)	(50.6)
Capital expenditures (net of contrib.)	(85.8)	(81.7)	(56.3)	(41.5)	(35.0)
Gross Free Cash Flow before W/C Changes	35.2	27.5	33.8	5.7	8.3
Changes in working capital	(3.1)	(2.0)	40.1	3.1	(11.2)
Rate stabilization adjustment	33.7	38.4	17.4	44.0	18.6
Free Cash Flow	65.8	63.9	91.3	52.8	15.7
Other investments	(17.4)	(18.4)	(19.9)	(25.9)	(22.1)
Change in debt	(44.9)	(52.6)	(67.1)	(24.7)	4.7
Net Change in Cash	3.5	(7.1)	4.3	2.2	(1.7)
Total net debt (1)	1,158	1,223	1,314	1,403	1,448
% net debt in capital structure (1)	65.9%	64.3%	69.6%	73.5%	74.7%
EBIT interest coverage (times)	1.63	1.52	1.39	1.46	1.44
Cash flow/total net debt (1)	10.4%	8.9%	7.1%	7.3%	6.5%

(1) Debt is net of sinking fund assets.

Summary

Stronger earnings have resulted in positive free cash flow since 2004. Hydro has generated positive net free cash flow as a result of the rate stabilization adjustment.

The changes in Other Investments were primarily a result of decreases in sinking funds and deferred charges.

Outlook

With the deferral of the transfer of Hydro's non-regulated assets to Nalcor, DBRS estimates that cash flow from operations will remain sufficient to fund the Company's slightly increased capital investment program and credit metrics will remain consistent with 2008 levels.

Additionally, the RSP will continue to provide for a more timely recovery of balances, which have improved Hydro's financial flexibility through lower debt levels and reduced liquidity requirements.

Long-Term Debt Maturities and Bank Lines

As at December 31, 2008:

(Includes term debt maturities and sinking fund requirements for Hydro only)

($ millions)	2009	2010	2011	2012	2013	2014*	Thereafter
	8.2	8.2	8.2	8.2	8.2	133.2	972.2

* Includes $125 million of Notes to be repaid from the sinking fund reserve.

Summary

Promissory notes, debentures and long-term loans are unsecured and unconditionally guaranteed as to principal and interest and where applicable, sinking fund payments by the Province. The Province charges Hydro a guarantee fee of 1% annually on the total guaranteed debt (net of sinking funds) outstanding as of the preceding December 31. In an effort to support Hydro's credit profile, the Province did not collect payment of the guarantee fee in 2008 and 2009.

Hydro has a $300 million short-term promissory note program, guaranteed by the Province, that it uses for its daily funding requirements. As of December 31, 2008, the Company had $168 million of promissory notes outstanding.

The Company has a $50 million unsecured operating line of credit with a commercial bank, which is used primarily to backstop the Company's short- term promissory note program and to support letters of credit. At year-end 2008, no amounts were outstanding on the operating line; however, two letters of credit were outstanding which reduced overall availability of the facility by $7.5 million.

Regulation

Hydro is regulated by the Board of Commissioners of Public Utilities (PUB).

- Hydro is regulated based on a return on rate base model.
- Hydro has an RSP that provides for the deferral of cost variances resulting from changes in fuel prices relative to the base price, levels of precipitation and load.
  – The RSP also allows Hydro to smooth out the rate increases required to recover the cost variances.
- In December 2003, the PUB approved changes to the recovery mechanism of the RSP.
  – RSP balances that accumulate related to fuel cost variations from forecast will be recovered over the following one-year period.
  – RSP balances that accumulate relating to variations in hydrology relative to forecast will be recovered at a rate of 25% of the outstanding balance at year-end, including the weighted average cost of capital on the balance.
- On January 1, 2005, the demand and energy rate (DER) for sales of power and energy to Newfoundland Power began.
  – The DER provides an incentive to Newfoundland Power to reduce its peak demand costs through load management, retail rate design or other appropriate means.
  – Newfoundland Power is be billed on its highest actual demand requirements from the winter season. The highest actual demand will be adjusted for weather conditions, which will tend to reduce the forecast risk to the Company.
- On August 3, 2006, Hydro filed its GRA with the PUB, which was formally approved in April 2007. Key decisions rendered by the PUB include:
  – An allowed ROE of 4.47% for the purpose of establishing the return on rate base.
  – The Province has directed the PUB to equalize Hydro's ROE with that of Newfoundland Power when it files its next GRA and for each subsequent GRA.
  – Hydro forecast of 2009 average rate base of $1.489 billion and return on rate base midpoint of 7.44% of a range of 7.29% to 7.59%.
  – The average cost per barrel of No. 6 fuel during 2009 was $52.51. This compares to the average cost per barrel per Hydro's last cost of service of $55.47, with the difference booked to the RSP as a payable to customers. This is offset by a fuel rider that incorporates an estimated fuel cost for the 2009/10 year of $75.95.
  – No change was made to Hydro's short-term target debt-to-equity ratio of 80/20 for regulated operations, which is well above the leverage of comparable investor-owned utilities. However, Hydro has modified this target internally to a regulated debt-to-equity ratio of 75/25. The Province has directed the PUB to allow Hydro latitude to increase its equity component to a level similar to Newfoundland Power.
  – A negotiated settlement at the most recent rate hearing avoided any significant rate increases.
- The following rate changes took effect on January 1, 2010:
  – Labrador West Rural rates increased between 4.6% and 9.2% for residential, small business and streetlight customers.
  – Hydro implemented a 3.5% average increase in the rates charged to Island Interconnected and Isolated Rural (non-government) customers, as a result of a Newfoundland Power rate increase.
- On July 1, 2008, Hydro implemented a 8.6% increase in the rate stabilization adjustment component of rates charged to Newfoundland Power and a 5.9% average rate increase to Island Interconnected and Isolated Rural (non-government) customers.

- In August 2008, Hydro filed a new 20-year Capital Plan with the PUB, outlining an estimated $1.2 billion investment in the provincial electricity system. Hydro submitted its 20-year Capital Plan along with its annual 2009 Capital Budget application. Key capital initiatives include upgrades to the Labrador City distribution system to initiate a three-year estimated investment of $10 million to handle the expected future growth in the area; $2.8 million investment in the Bay d'Espoir Hydroelectric Generating Station; and a $2.5 million investment to upgrade distribution systems throughout the Province.
- The Company filed its 2010 Capital Budget with the PUB and has since received approval for a 2010 Capital Budget of $52.78 million and, among other things, the PUB determined that the rate base for the year ending December 31, 2008 is $1.49 billion.

Company Profile

Description of Operations

- Hydro is a Crown corporation owned by Nalcor Energy, which is in turn 100% owned by the Province of Newfoundland and Labrador.
- Hydro is the dominant generation and transmission electric power company in the Province. In addition, Hydro directly serves residential, commercial and industrial distribution customers in more rural service areas of Newfoundland and throughout Labrador.
- Hydro supplies over 80% of the Province's electrical energy. It sells approximately 50% of its available supply to an investor-owned electricity distributor, Newfoundland Power, which is wholly owned by Fortis Inc. Hydro's remaining power deliveries are directed to its own distribution customers across the Province as well to five large industrial companies. Short-term exports of unused recall in Labrador are sold other parties via the energy-trading branch.
- Hydro has installed generating capacity of 1,637 MW consisting of Hydraulic (939 MW), Thermal (640 MW) and Diesel (58 MW). NLH does not own wind assets but rather purchases power from wind producers.
- In addition, Hydro has long-term supply contracts with independent power producers in the Province, amounting to approximately 121 MW.

The Province of Newfoundland and Labrador

Excerpt from DBRS report dated June 10, 2009

DBRS has confirmed the long- and short-term debt ratings of the Province of Newfoundland and Labrador (Newfoundland or the Province) at "A" and R-1 (low), respectively. The trend on both ratings is Stable. Significantly lower revenues along with increased pension expenses will negatively impact the Province's fiscal performance this year, putting an end to four consecutive years of surpluses. However, the fiscal discipline demonstrated in recent years, strong liquidity position and efforts to reduce debt continue to provide solid support to the credit profile.

For 2009-10, the budget points to a DBRS-adjusted deficit of $1.0 billion, following a larger-than-expected surplus of $2.3 billion in 2008-09. Total revenues are expected to fall considerably from the previous year, due to the impact of lower commodity prices on royalty revenues and the absence of 2005 Atlantic Accord proceeds, the balance of which were recognized in 2008-09 as a result of the Province no longer being an equalization recipient. At the same time, spending for key health and education programs will continue to grow at a solid pace, with a large portion of the spending increase used to address the latest round of public sector labour agreements. In an effort to provide some fiscal stimulus, gross capital expenditures are budgeted to hit a historical peak of almost $1.1 billion, well above the prior five-year average of $400 million.

Based on preliminary results, debt-to-GDP fell for the seventh consecutive year to 28.9% in 2008-09, from 30.7% the year prior. This represents a lower debt burden than what was expected at DBRS's last review, and constitutes a sharp improvement from the peak of 83% reached in the mid-1990s, although this trend will temporarily reverse through the current recession. For 2009-10, debt is expected to rise by 2.0%, pointing to a debt-to-GDP ratio of about 41%, according to provincial estimates. However, the latest private-sector GDP forecasts suggest that the deterioration in this ratio may be much less pronounced than budgeted, with leverage possibly remaining below 35% of GDP. In 2009, the private-sector forecast points to a decline in real GDP of 2.5%, compared to a conservative 7.7% contraction assumed in the budget. Forestry and mining production have been affected by the downturn in commodity prices, while oil production will fall due to the depletion of reserves at existing oil fields. However, large capital projects such as the Long Harbour nickel processing facility and the White Rose oilfield expansion will help cushion the impact of the economic downturn.

While not insignificant, Newfoundland's current fiscal pressures are viewed as temporary by DBRS, and not an indication of softening fiscal discipline. The budget projects a quick return to balance by 2011-12, provided that commodity prices rebound and large investment projects gain momentum. As such, financial metrics should return to a range supportive of the credit profile. Should the recovery take longer to materialize and revenues fail to rebound as notably as anticipated, DBRS would expect the Province to exercise spending restraint to curb growth in debt, as has been the case in the recent past.

Newfoundland and Labrador Hydro

Report Date:
March 5, 2010

Newfoundland and Labrador Hydro

(Non-Consolidated)

Balance Sheet

($ millions)	As at December 31				As at December 31		
Assets	2008	2007	2006	**Liabilities and Equity**	2008	2007	2006
Cash + equivalents	0.1	0.0	5.7	Accts. pay + accr'ds	102.9	119.6	105.9
Receivables	69.4	69.1	59.4	Promissory notes	167.6	15.0	65.4
Rate stabilization acct.	5.0	17.2	45.3	L.t.d. due in one year	8.3	208.3	8.3
Fuel, supplies + prepaids	44.2	61.7	46.5	**Current Liabilities**	278.8	342.9	179.6
Current assets	118.7	148.0	156.9	Long-term debt	1,146.4	1,151.1	1,357.4
Fixed assets	1,354.3	1,469.4	1,427.5	Rate Stabilization Plan	31.5	15.5	16.6
Investments	359.8	353.2	340.9	Employee future benefits	41.9	39.8	35.5
Rate stabilization acct.	0.0	0.0	17.8	Shareholders' equity	598.1	677.7	574.3
Sinking funds	163.9	151.8	117.1				
Def'd charges & Long-term receivables	100.0	104.6	103.2				
Total	2,096.7	2,227.0	2,163.4	**Total**	2,096.7	2,227.0	2,163.4

Ratio Analysis	For the year ended December 31				
Liquidity Ratios	2008	2007	2006	2005	2004
Current ratio	0.43	0.43	0.87	0.34	0.58
Accumulated depreciation/gross fixed assets	29.5%	28.2%	27.1%	26.1%	23.7%
Cash flow/total net debt (1)	10.4%	8.9%	7.1%	7.3%	6.5%
Total net debt/EBITDA (1)	6.17	6.79	7.85	8.20	8.87
Cash flow/capital expenditures	1.41	1.34	1.65	2.48	2.68
Cash flow-dividends/capital expenditures	1.41	1.34	1.60	1.14	1.24
% net debt in capital structure (1)	65.9%	64.3%	69.6%	73.5%	74.7%
Average coupon on long-term debt	7.12%	7.12%	7.12%	7.28%	7.27%
Target % equity/capital (regulated)	20.0%	20.0%	20.0%	20.0%	20.0%
Common dividend payout (before non-recurring)	0.0%	0.0%	3.7%	77.6%	75.3%
Coverage Ratios (2)					
EBIT interest coverage	1.63	1.52	1.39	1.46	1.44
EBITDA interest coverage	2.04	1.89	1.73	1.80	1.76
Fixed-charges coverage	1.63	1.52	1.39	1.46	1.44
Earnings Quality / Operating Efficiency					
Power purchases/revenues	9.0%	8.5%	9.0%	8.6%	9.4%
Fuel costs/revenues	32.9%	31.9%	32.6%	30.5%	27.5%
Operating margin	29.5%	28.4%	27.6%	29.3%	30.3%
Net margin (before non-recurring)	17.9%	16.3%	14.8%	15.5%	15.7%
Return on avg. equity (before non-recurring)	14.0%	13.0%	12.9%	14.4%	13.9%
Profit returned to gov't (before non-recurring) (3)	0.0%	13.8%	19.8%	81.3%	79.7%
GWh sold/employee	9.7	9.8	9.6	10.3	10.5
Self Generation – Cost Structure (4) (cents per net generated kWh sold)					
OM&A	1.82	1.82	1.78	1.64	1.48
Fuel	2.91	2.77	2.89	2.39	1.90
Variable costs	4.73	4.58	4.67	4.03	3.38
Gov't levies	n/a	0.23	0.26	0.24	0.24
Net interest expense	1.51	1.54	1.66	1.46	1.33
Total cash costs	6.24	6.35	6.60	5.73	4.95
Non-cash financial charges	(0.12)	(0.06)	(0.03)	(0.02)	(0.01)
Depreciation	0.71	0.67	0.68	0.60	0.55
Total costs	6.83	6.96	7.25	6.31	5.49
Purchased power (cents per gross kWh purchased)	1.57	1.49	1.51	1.42	1.52

(1) Debt is net of sinking fund assets.
(2) Before capitalized interest, AFUDC, and debt amortizations.
(3) Includes all taxes, guarantee fees, and dividends.
(4) Note: costs used are NLH's total costs and not just those related to generation.
Internally generated energy less energy used and lost (excluding power purchases).
Transmission losses apportioned relative to total energy supplied.

Newfoundland and Labrador Hydro

Report Date:
March 5, 2010

Operating Statistics

	For the year ended December 31				
Electricity Sold – Breakdown	2008	2007	2006	2005	2004
Utilities (mainly Nfld L+P)	4,960	4,991	4,617	4,664	4,709
Rural	909	890	834	859	886
Industrial	1,124	1,136	1,145	1,685	1,842
Exports	1,393	1,489	1,483	1,422	1,456
Total (GWh sold)	8,386	8,506	8,079	8,630	8,893
Energy sales growth	-1.4%	5.3%	-6.4%	-3.0%	2.6%
Generating Capacity (MW)	-13.1%	66.9%			
Hydroelectric	958	958	939	939	939
Thermal (Oil)	640	640	640	640	640
Diesel	56	56	55	56	57
Installed capacity (MW)	1,654	1,654	1,634	1,635	1,636
Electricity Generated (GWh) – hydroelectric	4,771	4,689	4,802	4,770	4,726
Electricity Generated (GWh) – thermal	1,071	1,243	729	1,320	1,641
Electricity Generated (GWh) – diesel	47	44	42	43	46
Gross energy generated – GWh	5,889	5,976	5,573	6,133	6,413
Plus: purchases	2,829	2,862	2,838	2,829	2,812
Energy generated + purchased	8,718	8,838	8,411	8,962	9,225
Less: transmission losses + internal use	332	332	332	332	332
Total – GWh sold	8,386	8,506	8,079	8,630	8,893
Energy lost + used/energy gen. + purch.	3.8%	3.8%	3.9%	3.7%	3.6%
Maximum primary peak demand	1,323	1,323	1,310	1,361	1,405
Peak demand/available capacity	80.0%	80.0%	80.2%	83.2%	85.9%

Newfoundland and Labrador Hydro

Report Date:
March 5, 2010

Rating

Debt	Rating	Trend
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	Stable
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A	Stable

Rating History

	Current	2009	2008	2007	2006	2005
Guaranteed Short-Term Debt	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Guaranteed Long-Term Debt	A	A	A (low)	A (low)	A (low)	BBB (high)

Rating History

- Province of Newfoundland and Labrador Rating Report, June 10, 2009.

Note:
All figures are in Canadian dollars unless otherwise noted.

DBRS

Insight beyond the rating.

Rating Report

Report Date:
August 25, 2011

Previous Report:
March 5, 2010

Newfoundland and Labrador Hydro

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The Company

Newfoundland and Labrador Hydro, a Crown corporation of the Province of Newfoundland and Labrador (the Province), generates and transmits electricity in the Province. It sells approximately 50% of its available supply to an investor-owned electricity distributor, Newfoundland Power Inc., and distributes the remainder to the Province's larger industrial companies and its own distribution customers across the Province.

Recent Actions

November 16, 2010
Confirmed

Rating

Debt	Rating	Rating Action	Trend
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	Confirmed	Stable
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A	Confirmed	Stable

Rating Update

DBRS has confirmed the Guaranteed Long-Term and Short-Term Debt ratings of Newfoundland and Labrador Hydro (Hydro or the Company) at "A" and R-1 (low), respectively. The trend on both ratings is Stable. The debt ratings are a flow-through of the ratings of the Province of Newfoundland and Labrador (the Province; see DBRS's report on the Province dated July 26, 2011), which unconditionally guarantees all of Hydro's outstanding debt. The unconditional guarantee extends to principal, interest and, where applicable, sinking fund payments relating to the Company's promissory notes, debentures and long-term loans.

In November 2010, the Province and the Province of Nova Scotia (Nova Scotia) announced an agreement to develop the hydroelectric generation potential of the lower Churchill River in Labrador. The project will include the construction of an 824-megawatt generating station at Muskrat Falls and three transmission systems. Successful completion of the project, expected by the Province to be in 2017, will allow lower Churchill power to be used on the island of Newfoundland and in Nova Scotia, with surplus energy available for sale to the other Atlantic provinces and the New England states. In total, the estimated $6.2 billion cost (excluding financing costs) will be borne $4.4 billion by Hydro's parent Nalcor Energy (Nalcor), and $1.8 billion by Emera Inc. The Company will contract for a portion of Muskrat Falls' generating output, and some of the transmission capacity. DBRS noted in its rating report on the Province that the lower Churchill project introduces an element of uncertainty into the outlook. The Province is responsible for financing $4.4 billion of the $6.2 billion project. It is not clear how the Province intends to fund its portion and there are numerous financing options and scenarios that could be employed, including a guarantee from the federal government. However, if the Province elects to fund a large portion of the cost with taxpayer-supported debt, the current rating could come under pressure. DBRS notes that on August 19, 2011, the Government of Canada and the Government of Newfoundland and Labrador and the Government of Nova Scotia announced a Memorandum of Agreement whereby the Government of Canada will provide or purchase a loan guarantee for the lower Churchill River Hydroelectricity projects. Final terms of this Agreement will be released at a later date. (Continued on page 2.)

Rating Considerations

Strengths

(1) Debt is guaranteed by the Province
(2) Supportive regulatory environment
(3) Rate Stabilization Plan (RSP) provides some protection against changes in fuel prices, hydrology and load
(4) Minimal competition

Challenges

(1) Cash flows are sensitive to hydrological conditions and oil prices
(2) Constrained financial profile
(3) Environmental issues related to thermal output

Financial Information

	For the year ended December 31				
	2010	2009	2008	2007	2006
EBIT interest coverage (times)	1.64	1.60	1.63	1.52	1.39
EBITDA interest coverage (times)	2.08	2.03	2.04	1.89	1.73
% net debt in capital structure (1)	56.5%	57.2%	65.9%	64.3%	69.6%
Cash flow/total net debt (1)	12.0%	10.4%	9.5%	8.5%	7.1%
Cash flow/capital expenditures (times)	2.02	1.87	1.28	1.28	1.65
EBIT	146.8	138.0	147.4	141.6	130.7
Net income (bef. extras.) ($ millions)	86.3	65.7	89.5	81.6	70.0
Operating cash flow ($ millions) (2)	112.3	101.1	109.5	104.3	92.7

(1) Debt is net of sinking fund assets. (2) Before rate stabilization plan.

DBRS

Newfoundland and Labrador Hydro

Report Date:
August 25, 2011

Rating Update (Continued from page 1.)

In June 2011, Hydro was issued an order approving a rate increase for its Island Interconnected customers and Isolated Rural (Island) customers that resulted in estimated increases of approximately 7.15% and 7.40%, respectively, in monthly bills.

In 2009, Hydro was granted the ability to earn a rate of return equal to the rate approved from time to time by the Board of Commissioners of Public Utilities (PUB) for the investor-owned electricity distributor, Newfoundland Power Inc. (Newfoundland Power). However, Hydro will continue to earn a return on rate base equal to 4.47% for the purpose of determining its cost of capital until it receives the new higher return on equity (ROE) when it files its next General Rate Application (GRA).

Improvement in the Company's financial profile since 2006 has been supported in recent years by the temporary suspension of dividend payments in 2007 and 2008, a change that allows for faster recovery of Rate Stabilization Plan (RSP) balances; by stronger earnings as a result of the impact of new electricity rates implemented in early 2007; and by recall and transmission booking agreements which allow for increased power sales. Hydro's financial profile has improved since 2006 and DBRS anticipates that this will continue with the deferral of the transfer of Hydro's non-regulated assets to Nalcor.

Rating Considerations

Strengths

(1) The Company's debt is unconditionally guaranteed by the Province. As a result, the ratings of Hydro are a flow-through of the Province's rating.

(2) A number of the decisions made by the PUB since 2002 (when Hydro received the decisions on its first full GRA) have provided a more certain operating environment for Hydro and have improved the stability of the Company's cash flow. Among the most significant changes are those made to the price of fuel used in base rates and to the RSP, whereby new balances will be recovered over the following 12-month period. Even more significant is the fact that Hydro is recovering in advance any forecast increase in fuel prices through the fuel rider.

(3) The RSP provides for the deferral of cost variances resulting from changes in fuel prices relative to the base price, levels of precipitation and load. Hydro has been recovering its RSP balances since 1986. All balances accumulated prior to March 31, 2003, are now recovered from customers. Any subsequent balances accumulated in the RSP, including financing charges, are recovered over the following 12-month period. This shorter recovery period should improve Hydro's financial flexibility and cash flow stability over the longer term in an environment of fluctuating fuel prices. Furthermore, all RSP balances attract interest, and a fuel rider, calculated annually based on the forecast fuel price, is added to or subtracted from rates.

(4) Geographic isolation and the lack of availability of natural gas minimize competitive pressures for the Company.

Challenges

(1) Annual cash flows are sensitive to water levels and oil prices given the Company's generation base (about 82% of electricity produced is hydroelectric-based and 18% is thermal-based); however, the cost of fuel is included in the rates and has reduced the volatility of cash flow relative to prior years. Furthermore, changes made to the RSP will continue to smooth earnings. Exposure to changes in fuel prices is primarily mitigated through the operation of the RSP. Oil price fluctuations that result in oil costs higher than the cost per barrel (as approved in the most recent cost-of-service decision on which rates are based) are deferred and collected from ratepayers through subsequent automatic rate adjustments. While this may result in working capital requirements, it eliminates any uncertainty about recovery.

Newfoundland and Labrador Hydro

Report Date:
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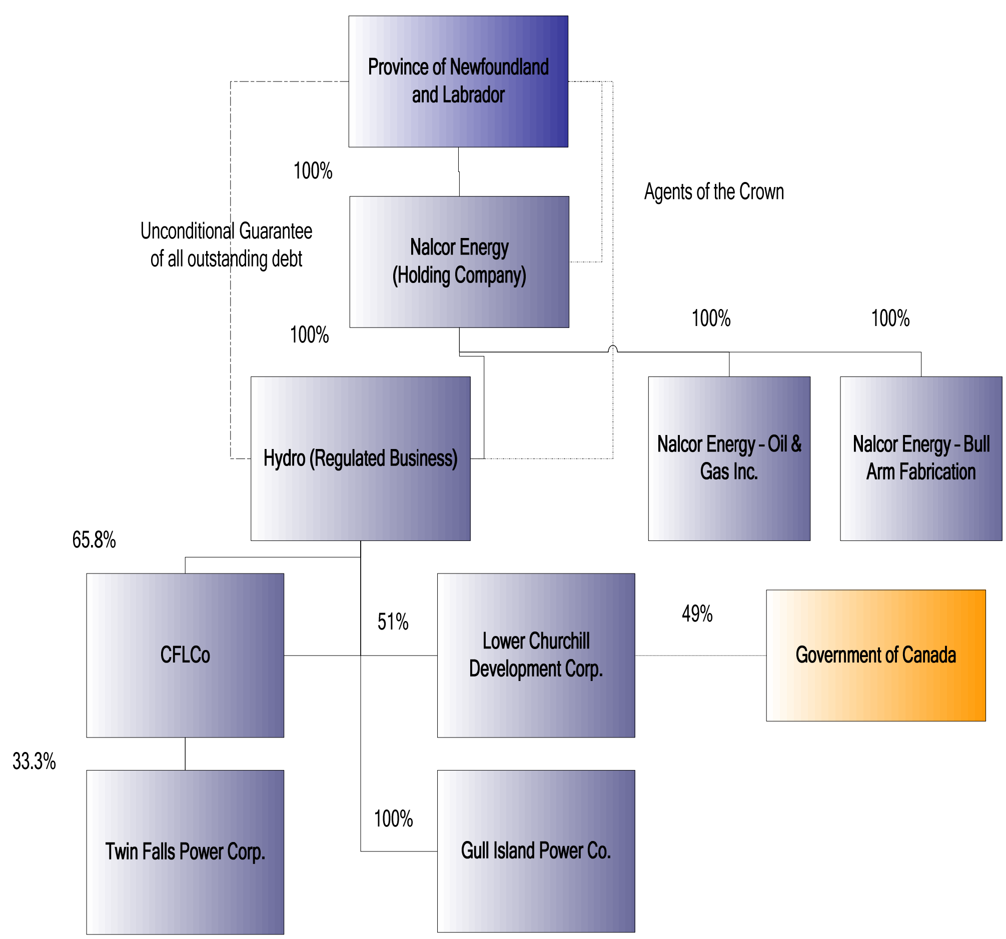
(2) Hydro's ROE of 4.47% is very low in comparison with similarly regulated utilities in Canada, depressing regulated utility earnings. As such, cash flow and coverage ratios for the Company will continue to be affected until this low rate of return is restored to a level similar to that provided to the other utility in the Province, Newfoundland Power. The Province has directed the PUB to equalize Hydro's ROE with that of Newfoundland Power when it files its next GRA and for each subsequent GRA. In the past, the Province collected dividends from Hydro even when the Company's financial profile was negatively affected; however, the Province highlighted its commitment to support the Company by making a decision to forgo the dividends in 2007 and 2008. Since Hydro is now a subsidiary of Nalcor, if dividends are paid, they are paid to Nalcor. Beginning in 2009, Hydro's dividend policy was altered such that all monies earned by Hydro from non-regulated activities are paid to Nalcor as well as amounts paid for maintaining its capital structure, resulting in $44.5 million and $92.4 million in dividends paid during 2009 and 2010, respectively. These amounts highlight the large portion of income that the Company derives from non-regulated, non-utility operations.

(3) A significant percentage of the Company's electricity is thermal-based, fuelled by bunker C fuel, which has a high sulphur content. While future environmental regulations are uncertain, they could result in increased costs and/or capital expenditures. However, while environmental issues do exist for Hydro, sulphur content was reduced from 1% to 0.7% in 2009, which will reduce the plants sulphur emissions by 30% (i.e., 30% per barrel of oil burned in a given year) and the cost increases are recovered from customers through the RSP.

Current Simplified Corporate Structure



DBRS

Newfoundland and Labrador Hydro

Report Date:
August 25, 2011

Earnings And Outlook

Non-Consolidated ($ millions)	For the year ended December 31 2010	2009	2008	2007	2006
Revenues	502.4	506.7	500.5	499.2	473.9
EBITDA	190.6	179.7	187.8	180.0	167.3
EBIT	146.8	138.0	147.4	141.6	130.7
Gross interest expense	99.5	96.7	98.3	102.3	107.1
Net interest expense	87.3	84.1	78.7	85.1	87.1
Net income before equity income & extras.	59.5	53.9	68.7	56.5	43.6
Net income before extraordinary items	86.3	65.7	89.5	81.6	70.0
Net income	83.7	66.4	86.8	81.6	70.0
Return on average equity (before extras.)	11.93%	9.93%	14.03%	13.04%	12.95%

Summary

Hydro continues to witness a modestly improving trend in EBIT and net income. Earnings increased over the years as a result of higher customer rates. For the year ending December 31, 2010, energy sales were slightly lower than in 2009 because of warmer weather conditions and lower overall consumption from industrial customers. However, expenses were lower during the same period, mainly lower fuel costs and purchased power. Fuel prices and customer load variations are stabilized in the RSP plan and recovered from or refunded to customers in future rates, resulting in less earnings volatility.

Hydro benefited greatly from its 65.8% ownership in Churchill Falls, with its equity in net income for the year doubling from 2009 to $16.6 million. The increased earnings at Churchill Falls are primarily an increase in electricity sales to Hydro-Québec and an increase in the Guaranteed Winter Availability Contract (GWAC).

Hydroelectric production in 2010 was modestly higher than in 2009; however, it was significantly lower than previous years because of reduced demand. Although generation from thermal sources declined, higher commodity prices drove up expenses related to purchased fuel. However, these higher fuel expenses were primarily offset by recoveries made under the RSP.

Hydro’s net interest expense increased modestly as a result of increased interest expenses accumulating on an increasing RSP balance owing to customers. The increase was partially offset by the continued suspension of the debt guarantee fee.

Outlook

Hydro’s financial profile has improved since 2006 and DBRS anticipates that this will continue with the deferral of the transfer of Hydro’s non-regulated assets to Nalcor. However, Hydro’s earnings profile will continue to be challenged by the low approved ROE of 4.47% and the relatively high targeted regulated capital structure of 75% debt-to-25% equity, combined with modest growth in the rate base. The Province has supported Hydro’s financial profile by the $100 million equity injection in 2009 and by forgoing dividends in 2007 and 2008, and guarantee fees since 2008. Additionally, effective for Hydro’s next GRA and for each subsequent GRA, Hydro is to be allowed a rate of ROE equal to that approved for Newfoundland Power. The increase in ROE should help improve Hydro’s earnings and overall financial profile.

DBRS

Newfoundland and Labrador Hydro

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Financial Profile and Outlook

($ millions)	For the year ended December 31				
Cash Flow Statement (non-consolidated)	2010	2009	2008	2007	2006
EBITDA	190.6	179.7	187.8	180.0	167.3
Net income (before non-recurring)	86.3	65.7	89.5	81.6	70.0
Depreciation & amortization	44.2	42.1	37.5	37.5	37.5
Other non-cash adjustments	(18.2)	(6.7)	(17.5)	(14.8)	(14.8)
Cash Flow From Operations	112.3	101.1	109.5	104.3	92.7
Common dividends	(92.4)	(44.5)	0.0	0.0	(2.6)
Capital expenditures (net of contrib.)	(55.5)	(54.1)	(85.8)	(81.7)	(56.3)
Gross Free Cash Flow before W/C Changes	(35.6)	2.5	23.7	22.6	33.8
Changes in working capital	74.5	93.4	(3.1)	(2.0)	40.1
Rate stabilization adjustment	0.0	0.0	33.7	38.4	17.4
Free Cash Flow	38.9	95.9	54.3	59.0	91.3
Other investments	(11.9)	(40.8)	(17.4)	(18.4)	(19.9)
Change in debt	0.0	(163.1)	(44.9)	(52.6)	(67.1)
Net Change in Cash	27.0	(108.0)	(8.0)	(12.0)	4.3
Total net debt (1)	937	970	1,158	1,223	1,314
% net debt in capital structure (1)	56.5%	57.2%	65.9%	64.3%	69.6%
EBIT interest coverage (times)	1.64	1.60	1.63	1.52	1.39
Cash flow/total net debt (1)	12.0%	10.4%	9.5%	8.5%	7.1%

(1) Debt is net of sinking fund assets.

Summary

Hydro continues to demonstrate positive earnings, which have resulted in positive free cash flow since 2006. Hydro has generated positive net free cash flow as a result of the rate stabilization adjustment and higher amortization. The changes in other investments were primarily a result of increases in sinking funds and a decrease in short-term investments.

Outlook

With the deferral of the transfer of Hydro's non-regulated assets to Nalcor, DBRS estimates that cash flow from operations will remain sufficient to fund the Company's slightly increased capital investment program and credit metrics will remain consistent with 2008 levels. Additionally, the RSP will continue to provide for a more timely recovery of balances, which have improved Hydro's financial flexibility through lower debt levels and reduced liquidity requirements. Hydro's financial profile is supported by its limits on dividends of regulated earnings. Its dividend policy states that dividends are declared annually based on the required maintenance of a regulated capital structure that does not exceed 75% debt-to-debt plus equity.

Capital spending is projected to increase over the medium term. In December 2010, the PUB approved a 2011 capital budget of $55 million. Additionally, a capital budget application was filed with the PUB outlining Hydro's 2012-2016 capital spending forecast. The proposed figures are $87.8 million, $121.3 million, $151.6 million, $155.2 million and $146.9 million for the period 2012-2016, respectively. A ruling from the PUB is expected in fall/winter 2011.

Long-Term Debt Maturities and Bank Lines

(As at December 31, 2010)

($ millions)	**2011**	**2012**	**2013**	**2014***	**2015**	**Thereafter**
	8.2	8.2	8.2	8.2	133.2	970.7

Note: Includes term debt maturities and sinking fund requirements for Hydro only.
* Includes $125 million of Notes to be repaid from the sinking fund reserve.

Summary

Promissory notes, debentures and long-term loans are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments by the Province. The Province charges Hydro a guarantee fee of 1% annually on the total guaranteed debt (net of sinking funds) outstanding as of the preceding December 31. In an effort to support Hydro's credit profile, the Province did not collect payment of the guarantee fee in 2009 and 2010.

Hydro has a $300 million short-term promissory note program, guaranteed by the Province, that it uses for its daily funding requirements. As of December 31, 2010, the Company had no amounts outstanding.

The Company has a $50 million unsecured operating line of credit with a commercial bank that is used primarily to backstop the Company's short-term promissory note program and to support letters of credit. At year-end 2010, no amounts were outstanding on the operating line of credit; however, 24 letters of credit were outstanding, which reduced overall availability of the facility by $18.9 million.

Regulation

Hydro is regulated by the PUB.

- Hydro is regulated based on a return on rate base model.
- Hydro has an RSP that provides for the deferral of cost variances resulting from changes in fuel prices relative to the base price, levels of precipitation and load.
  - The RSP also allows Hydro to smooth out the rate increases required to recover the cost variances.
- In December 2003, the PUB approved changes to the recovery mechanism of the RSP.
  - RSP balances that accumulate related to fuel cost variations from those forecast will be recovered over the following one-year period.
  - RSP balances that accumulate relating to variations in hydrology relative to forecast will be recovered at a rate of 25% of the outstanding balance at year-end, including the weighted-average cost of capital on the balance.
- On January 1, 2005, the demand and energy rate (DER) for sales of power and energy to Newfoundland Power began.
  - The DER provides an incentive to Newfoundland Power to reduce its peak demand costs through load management, retail rate design or other appropriate means.
  - Newfoundland Power is being billed on its highest actual demand requirements from the winter season. The highest actual demand will be adjusted for weather conditions, which tends to reduce the forecast risk to the Company.
- On August 3, 2006, Hydro filed its GRA with the PUB, which was formally approved in April 2007. Key decisions rendered by the PUB include the following:
  - An allowed ROE of 4.47% for the purpose of establishing the return on rate base.
  - The Province has directed the PUB to equalize Hydro's ROE with that of Newfoundland Power when it files its next GRA and for each subsequent GRA.
  - Hydro forecast a 2009 average rate base of $1.489 billion and a return on rate base of 7.44%, the midpoint in the range of 7.29% to 7.59%.
  - The average cost per barrel of No. 6 fuel during 2010 was $73.9. The average cost per barrel according to Hydro's last cost of service was $55.47, with the difference booked to the RSP as a receivable from customers. This is offset by a fuel rider that incorporates an estimated fuel cost for the 2010-2011 year of $83.85/bbl.
  - No change was made to Hydro's short-term target debt-to-equity ratio of 80/20 for regulated operations, which is well above the leverage of comparable investor-owned utilities. However, Hydro has modified

this target internally to a regulated debt-to-equity ratio of 75/25. The Province has directed the PUB to allow Hydro latitude to increase its equity component to a level similar to that of Newfoundland Power.
- A negotiated settlement at the most recent rate hearing avoided any significant rate increases.

- The following rate changes took effect on July 1, 2011:
  - In June 2011, Hydro was issued an order approving a rate increase for Island Interconnected customers and Isolated Rural (Island) customers that resulted in estimated increases of approximately 7.15% and 7.40%, respectively, in their monthly bills.
  - The rate increases are a result of the annual operation of the retail RSP.
  - In August 2010, Hydro filed its 2011 Capital Budget, requesting approval of its 2011 Capital Budget of $65,058,000; however, on November 2, 2010, Hydro filed a revised application requesting that the board make an order approving its Capital Budget of $60,241,000. The board ordered that Hydro's Capital Budget amount be $55,046,000.
  - As part of the board's order, the rate base for the year ending December 31, 2009, is fixed at $1,473,477,000.

Company Profile

Description of Operations

- Hydro is a Crown corporation owned by Nalcor Energy, which is in turn 100% owned by the Province of Newfoundland and Labrador.
- Hydro is the dominant electric generation and transmission power company in the Province. In addition, Hydro directly serves residential, commercial and industrial distribution customers in more rural service areas of Newfoundland and throughout Labrador.
- Hydro supplies more than 80% of the Province's electrical energy. It sells approximately 62% of its available supply to an investor-owned electricity distributor, Newfoundland Power, which is wholly owned by Fortis Inc. Hydro's remaining power deliveries are directed to its own distribution customers across the Province as well to five large industrial companies. Short-term exports of unused recall in Labrador are sold to other parties via the energy-trading branch.
- Hydro has installed generating capacity of 1,637 megawatts (MW), consisting of hydraulic (939 MW), thermal (640 MW) and diesel (58 MW). Hydro does not own wind assets but rather purchases power from wind producers.
- In addition, Hydro has long-term supply contracts with independent power producers in the Province, amounting to approximately 121 MW.
- If Lower Churchill proceeds, the Company via a power purchase agreement (PPA), will be the off-taker for a portion of Muskrat Falls' generating output, and some of the transmission capacity.

The Province of Newfoundland and Labrador

Excerpt from DBRS report dated July 26, 2011

DBRS has confirmed the long- and short-term debt ratings of the Province of Newfoundland and Labrador (Newfoundland or the Province) at "A" and R-1 (low), respectively. The trend on both ratings is Stable. The Province's fiscal position has improved somewhat since the last DBRS rating update. However, weakening revenues, especially from federal transfers, will create challenges in the near term. Development of the lower Churchill River hydroelectric project in Labrador could also increase debt levels, depending on the financing structure adopted, but the project does present opportunities over the longer term.

For the fiscal year ending March 31, 2011, the Province recorded a surplus of $485 million based on preliminary results, or a $2 million surplus on a DBRS-adjusted basis after recognizing capital expenditures as incurred, rather than as amortized; this represents a substantial improvement over the $699 million DRBS-adjusted deficit that had been expected. Unlike some previous years in which better-than-expected fiscal performance was attributable exclusively to royalties from offshore oil coming in higher than projected, the improved performance was more broadly based, with increased taxation revenues also contributing to year-end results. The recent trend of sizable expenditure growth continued in 2010-11, with spending up 6.5%,

DBRS

Newfoundland and Labrador Hydro

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driven by health, education and capital expenditure. The Province maintained a sizable capital program and increased program spending, despite already robust private sector capital investment and strong economic indicators.

A DBRS-adjusted deficit of $459 million is forecast for the current fiscal year as revenue is expected to decline across almost all sources while expenditures continue to climb at a pace of 4.0%. The Province is budgeting for as-reported deficits of $496 million in 2012-13 and $310 million in 2013-14.

Declining revenues, specifically lower oil royalties (caused by lower production levels) and federal transfers associated with the Atlantic Accord, are largely to blame for the expected negative results. The Province expects to return to balance in 2014-15 on the strength of own-source revenue growth.

In economic terms, the Province continues to post growth numbers that rank first in the country on many indicators. Real GDP growth for 2010 is estimated at 5.6%, with a forecast of 3.0% growth in 2011. Solid growth in personal income and disposable income has powered retail sales. Construction activity, driven by large projects, government infrastructure spending and housing starts at a 30-year high remained robust. Employment grew by 3.3% in 2010 and the Province has now more than recouped all jobs lost during the recession.

For 2012, the Province is forecasting moderate real growth of 0.2%, or 1.4% in nominal GDP. The Province expects growth in real GDP to average 1.1%, or 3.4% nominal, over the five years to 2015. The main drivers are expected to be consumption and investment related to large capital projects. These numbers are somewhat volatile and are heavily influenced by the timing of expenditures on large projects and the vagaries of oil production and prices. The lower Churchill project, while potentially presenting challenges in the near term, will have an immediate economic impact when work ramps up in 2012; the project has the potential to have a lasting influence on the Province's economy by providing a substantial and sustainable source of export revenue.

Provincial DBRS-adjusted debt has remained stable at around $9.0 billion for a number of years. Newfoundland has not issued new net debt since 2007 and has no plans to issue in the immediate future. Despite the paying down of market debt, the debt burden has remained essentially constant as unfunded pension liabilities continue to grow, standing at an estimated $2.7 billion as of March 31, 2011. With the debt level remaining steady, the debt-to-GDP ratio has become almost exclusively a function of nominal GDP growth. The ratio spiked to 35.9% in 2009-10 as declining oil prices pushed nominal GDP down by more than 21%. With robust nominal growth of 18.8% estimated for 2010, the indicator has fallen to 30.5%.

While Newfoundland's current debt and fiscal profile are appropriate for the rating, the lower Churchill project introduces an element of uncertainty into the outlook. The Province is responsible for financing $4.4 billion of the $6.2 billion project. It is not clear how the Province intends to fund its portion and there are numerous financing options and scenarios that could be employed, including a guarantee from the federal government. However, if the Provinces elects to fund a large portion of the cost with taxpayer-supported debt, the current rating could come under pressure.

A provincial election is scheduled for October of this year. This will be the first opportunity the electorate has had to go to the polls since the resignation of the popular former premier Danny Williams in December 2010. Recent polls indicate that the governing Progressive Conservative party has maintained a substantial lead in popularity under the leadership of Premier Kathy Dunderdale.

Newfoundland and Labrador Hydro

Report Date:
August 25, 2011

Newfoundland and Labrador Hydro

Balance Sheet

($ millions)	As at December 31				As at December 31		
Assets	2010	2009	2008	**Liabilities and Equity**	2010	2009	2008
Cash + equivalents	46.7	30.9	0.0	Accts. pay + accr'ds	136.3	103.1	102.9
Receivables	70.3	69.8	69.4	Promissory notes	0.0	0.0	167.6
Rate stabilization acct.	3.8	4.8	5.0	L.t.d. due in one year	8.2	8.2	8.3
Fuel, supplies + prepaids	57.7	57.2	44.2	Other	130.7		
Current assets	178.5	162.7	118.6	**Current Liabilities**	275.2	111.3	278.8
Fixed assets	1,386.1	1,364.2	1,354.3	Long-term debt	1,136.7	1,141.6	1,146.4
Investments	384.3	367.7	359.8	Rate Stabilization Plan	40.9	32.8	31.5
Rate stabilization acct.	0.0	0.0	0.0	Employee future benefits	48.4	44.0	41.9
Sinking funds	208.4	179.6	163.9	other	25	114	
Def'd charges & Long-term receivables	91.3	94.5	100.0	Shareholders' equity	722.1	725.1	598.1
Total	2,248.6	2,168.7	2,096.6	**Total**	2,248.6	2,168.7	2,096.7

Ratio Analysis	For the year ended December 31				
Liquidity Ratios	2010	2009	2008	2007	2006
Current ratio	0.65	0.81	0.43	0.43	0.87
Accumulated depreciation/gross fixed assets	29.4%	29.5%	29.5%	28.2%	27.1%
Cash flow/total net debt (1)	12.0%	10.4%	9.5%	8.5%	7.1%
Total net debt/EBITDA (1)	4.91	5.40	6.17	6.79	7.85
Cash flow/capital expenditures	2.02	1.87	1.28	1.28	1.65
Cash flow-dividends/capital expenditures	0.36	1.05	1.28	1.28	1.60
% net debt in capital structure (1)	56.5%	57.2%	65.9%	64.3%	69.6%
Average coupon on long-term debt	7.38%	7.38%	7.12%	7.12%	7.12%
Target % equity/capital (regulated)	20.0%	20.0%	20.0%	20.0%	20.0%
Common dividend payout (before non-recurring)	107.1%	67.7%	0.0%	0.0%	3.7%
Coverage Ratios (2)					
EBIT interest coverage	1.64	1.60	1.63	1.52	1.39
EBITDA interest coverage	2.08	2.03	2.04	1.89	1.73
Fixed-charges coverage	1.64	1.60	1.63	1.52	1.39
Earnings Quality/Operating Efficiency					
Power purchases/revenues	9.6%	10.1%	9.0%	8.5%	9.0%
Fuel costs/revenues	27.9%	30.6%	32.9%	31.9%	32.6%
Operating margin	29.2%	27.2%	29.5%	28.4%	27.6%
Net margin (before non-recurring)	17.2%	13.0%	17.9%	16.3%	14.8%
Return on avg. equity (before non-recurring)	11.9%	9.9%	14.0%	13.0%	12.9%
Profit returned to gov't (before non-recurring) (3)	107.1%	67.7%	0.0%	13.8%	19.8%
GWh sold/employee	0.0	0.0	9.7	9.8	9.6
Self Generation – Cost Structure (4) (cents per net generated kWh sold)					
OM&A	2.52	2.43	1.82	1.82	1.78
Fuel	2.87	3.12	2.91	2.77	2.89
Variable costs	5.39	5.55	4.73	4.58	4.67
Gov't levies	0.00	0.00	0.00	0.23	0.26
Net interest expense	1.71	1.61	1.51	1.54	1.66
Total cash costs	7.10	7.16	6.24	6.35	6.60
Non-cash financial charges	0.08	0.08	(0.12)	(0.06)	(0.03)
Depreciation	0.90	0.84	0.71	0.67	0.68
Total costs	8.07	8.07	6.83	6.96	7.25
Purchased power (cents per gross kWh purchased)	1.45	1.80	1.57	1.49	1.51

(1) Debt is net of sinking fund assets.
(2) Before capitalized interest, AFUDC, and debt amortizations.
(3) Includes all taxes, guarantee fees, and dividends.
(4) Note: costs used are NLH's total costs and not just those related to generation.
Internally generated energy less energy used and lost (excluding power purchases).
Transmission losses apportioned relative to total energy supplied.
Debt-related ratios not directly comparable to periods before 1996 due to a change in accounting policies.

Newfoundland and Labrador Hydro

Report Date:
August 25, 2011

Operating Statistics	For the year ended December 31				
Electricity Sold – Breakdown	2010	2009	2008	2007	2006
Utilities (mainly Nfld L+P)	5,016	5,108	4,960	4,991	4,617
Rural	884	931	909	890	834
Industrial	729	576	1,124	1,136	1,145
Exports	1,457	1,575	1,393	1,489	1,483
Total (GWh sold)	8,086	8,190	8,386	8,506	8,079
Energy sales growth	-1.3%	-2.3%	-1.4%	5.3%	-6.4%
Generating Capacity (MW)					
Hydroelectric	939	939	939	939	939
Thermal (Oil)	640	640	640	640	640
Diesel	56	56	56	56	56
Installed capacity (MW)	1,635	1,635	1,635	1,635	1,635
Electricity Generated (GWh) – hydroelectric	4,274	4,200	4,772	4,689	4,802
Electricity Generated (GWh) – thermal	792	930	1,071	1,243	729
Electricity Generated (GWh) – diesel	43	46	47	44	42
Gross energy generated – GWh	5,109	5,176	5,890	5,976	5,573
Plus: purchases	3,339	3,330	2,828	2,862	2,838
Energy generated + purchased	8,448	8,506	8,718	8,838	8,411
Less: transmission losses + internal use	362	316	332	332	332
Total – GWh sold	8,086	8,190	8,386	8,506	8,079
Energy lost + used/energy gen. + purch.	4.3%	3.7%	3.8%	3.8%	3.9%
Maximum primary peak demand	1,305	1,390	1,323	1,323	1,310
Peak demand/available capacity	79.8%	85.0%	80.9%	80.9%	80.1%

Newfoundland and Labrador Hydro

Report Date:
August 25, 2011

Rating

Debt	Rating	Trend
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	Stable
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A	Stable

Rating History

	Current	2010	2009	2008	2007	2006
Guaranteed Short-Term Debt	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Guaranteed Long-Term Debt	A	A	A	A	A (low)	A (low)

Rating History

- Province of Newfoundland and Labrador Rating Report, July 26, 2011

Note:
All figures are in Canadian dollars unless otherwise noted.

Rating Report

Report Date:
July 12, 2012

Previous Report:
August 25, 2011

Insight beyond the rating.

Newfoundland and Labrador Hydro

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The Company
Newfoundland and Labrador Hydro, a Crown corporation of the Province of Newfoundland and Labrador (the Province), generates and transmits electricity in the Province.

Recent Actions
August 25, 2011
Confirmed

Rating

Debt	Rating	Trend
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	Stable
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A	Stable

Rating Update

The credit ratings of Newfoundland and Labrador Hydro (Hydro or the Company) are a flow-through of the ratings of the Province of Newfoundland and Labrador (the Province; see DBRS's report on the Province dated July 26, 2011), which unconditionally guarantees all of Hydro's outstanding debt. The unconditional guarantee extends to principal, interest and, where applicable, sinking fund payments relating to the Company's promissory notes, debentures and long-term loans.

As outlined in Hydro's long-term asset management program (LTAMP), the Company is undergoing a period of substantial capital expenditures (capex) to maintain its generation and transmission assets. This calls for an increase in debt levels, leading to higher leverage. However, interest coverage is expected to remain relatively stable as earnings grow to reflect a higher rate base. Following Hydro's next general rated application (GRA), which is expected in 2012, the Board of Commissioners of Public Utilities (PUB) will set Hydro's deemed return on equity (ROE) equal to that of Newfoundland Power (rated "A" by DBRS), which is set at 8.80%. The increased ROE is expected to help improve Hydro's earnings and overall financial profile. Operating cash flow remained relatively stable at approximately $145 million in 2011 (versus $142 million in 2010). Capital expenditures have remained high over the past five years, well above historic depreciation levels, as the Company continues to spend on maintenance. Capex is expected to remain above historical levels in the medium to long term, reaching around $150 million in 2014. Dividends declared were approximately 89.8% of Hydro's earnings in 2011, which are used to maintain its regulated debt-to-capital structure. The Company generated negative free cash flow of approximately $21 million in 2011. Free cash flow deficits were funded through cash on hand. DBRS anticipates that going forward free cash flow deficits will be funded through a combination of internally generated cash and the appropriate mix of short and long-term debt.

Rating Considerations

Strengths
(1) Debt is guaranteed by the Province
(2) Reasonable regulatory environment
(3) Minimal competition

Challenges
(1) Increased levels of planned capital expenditure
(2) Sensitive to weather
(3) Environmental issues related to sulphur

Financial Information

Newfoundland and Labrador Hydro (Consolidated)	IFRS	IFRS	MIX	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
	3 mos to Mar. 31		12 mos to Mar. 31	For the year ended Dec. 31				
(CA$ millions where applicable)	2012	2011	2012	2011	2010	2009	2008	2007
EBIT gross interest coverage (times)	1.92	1.80	1.88	1.85	1.91	1.64	1.70	1.60
Total debt in capital structure (1)	46.3%	50.1%	46.3%	47.1%	50.1%	52.5%	60.9%	60.2%
Cash flow/Total debt (1)	15.8%	14.1%	15.9%	16.3%	15.1%	12.2%	12.3%	10.6%
(Cash flow-dividends)/Capex (times)	4.55	0.01	1.12	0.76	0.75	1.34	1.61	1.55
Net income before non-recurring items	43	36	93	87	85	67	92	83
Cash flow from operations	37	33	150	145	142	122	146	134

(1) Debt is net of sinking fund assets.

Rating Consideration Details

Strengths

(1) **Debt is guaranteed by the Province:** The Province unconditionally guarantees Hydro's debt. As a result, the ratings of Hydro are a flow-through of the Province's rating.

(2) **Reasonable regulatory environment:** The regulatory environment has contributed to a generally stable financial profile ever since 2002. Following the next GRA, which is expected in 2012, Hydro's ROE will be in line with that of Newfoundland Power, which is currently 8.80%.

(3) **Minimal competition:** Geographic isolation and the lack of availability of natural gas minimize competitive pressures for the Company.

Challenges

(1) **Increased levels of planned capital expenditure:** Potential significant capex above historical depreciation levels is expected to put pressure on Hydro's financial and credit profile in the near to medium term.

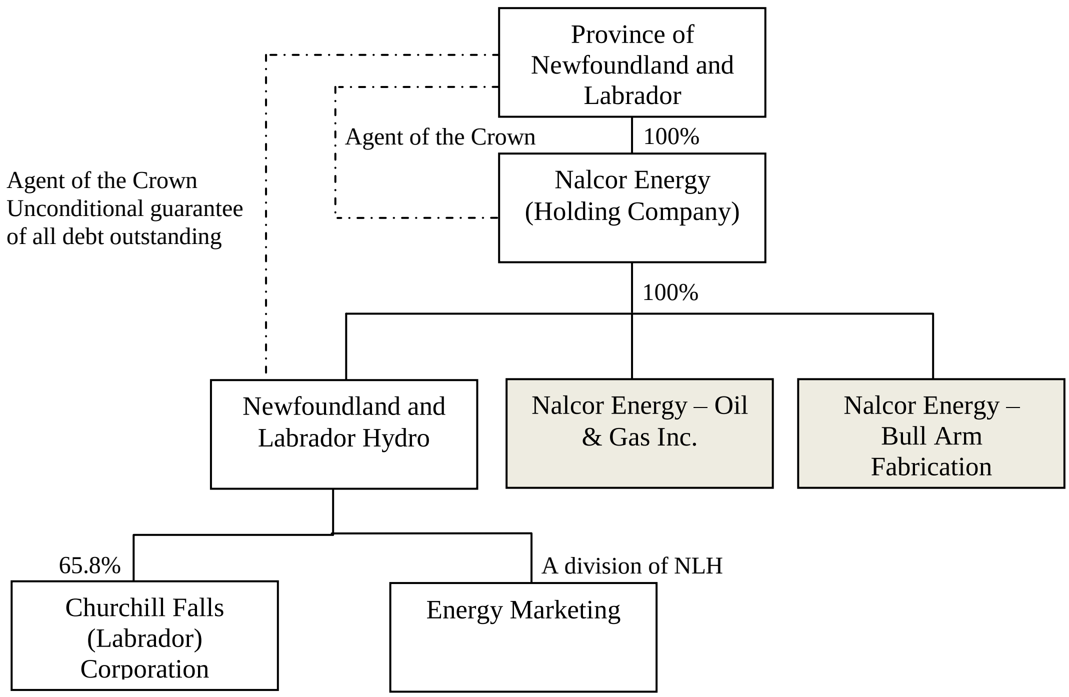
(2) **Sensitive to weather:** Demand for hydro is correlated with the weather, which has a direct impact on annual earnings and cash flows.

(3) **Environmental issues related to sulphur:** Approximately 14% percent of the Company's electricity is thermal-based, fuelled by bunker C fuel, which has high sulphur content. While future environmental regulations are uncertain, this could result in increased costs and/or capital expenditures. In 2011, the plant's sulphur emissions were reduced by 30% from levels in 2008, primarily as a result of lower sulphur content fuel and production requirements. The majority of the sulphur emissions are expected to be eliminated following the closure of the Holyrood plant once the Lower Churchill Project comes online.

Newfoundland and Labrador Hydro

Report Date:
July 12, 2012

Simplified Corporate Structure



Company Profile

- Hydro is a Crown corporation owned by Nalcor Energy, which is in turn 100% owned by the Province.
- Hydro is the dominant electric generation and transmission power company in the Province. It also directly serves residential, commercial and industrial distribution customers in more rural service areas.
- Hydro supplies more than 86% of the Province's electrical energy. In 2011, it sold approximately 59% of its available supply to an investor-owned electricity distributor, Newfoundland Power, which is wholly owned by Fortis Inc. Hydro's remaining power deliveries are directed to its own distribution customers across the Province as well as five large industrial companies. Short-term exports of unused recall power from Churchill Falls are sold to other parties via the energy-marketing division.
- Hydro's regulated operations has installed generating capacity of 1,627 megawatts (MW), consisting of hydroelectric (939 MW), thermal (632 MW) and diesel (55 MW) power.
- Churchill Falls has installed generating capacity of 5,428 MW and a power contract with Hydro-Quebec for the majority of the electricity generated from this facility (approximately 30 terawatt hours until 2041)
- The Company has long-term supply contracts and power purchase arrangements with non-utility power producers in the Province, amounting to approximately 180 MW.
- Upon completion of the Lower Churchill project, the Company will be the off-taker for a portion of Muskrat Falls' generating output and some of its transmission capacity via a power purchase agreement (PPA).

Newfoundland and Labrador Hydro

Report Date:
July 12, 2012

Earnings and Outlook

Consolidated (CA$ millions where applicable)	IFRS 3 mos to Mar. 31 2012	IFRS 3 mos to Mar. 31 2011	MIX 12 mos to Mar. 31 2012	CGAAP For the year ended Dec. 31 2011	CGAAP 2010	CGAAP 2009	CGAAP 2008	CGAAP 2007
Net revenues	86	82	404	400	395	364	366	377
EBITDA	55	51	229	225	232	205	224	221
EBIT	43	41	170	167	175	151	171	170
Gross interest expense	23	23	91	91	92	92	100	106
Net interest expense	22	22	89	89	91	91	91	100
Net income before equity income & non-recur.	24	21	90	87	85	67	92	83
Net income before non-recurring items	43	36	93	87	85	67	92	83
Reported net income	45	48	86	89	84	66	87	82
Return on equity	21.3%	19.9%	11.9%	11.8%	11.7%	10.1%	14.4%	13.1%

2011 Summary

- Hydro’s earnings are generated primarily from its regulated electricity business.
- In 2011, Hydro’s earnings increased slightly to $87 million from $85 million in 2010, largely as a result of colder winter weather and increased load growth.

2012 Outlook

- Earnings in 2012 are expected to improve because of an average rate increase of 6.6%.
- DBRS expects earnings to be partially offset by depressed 2012 U.S. Northeast electricity market prices, driven by low natural gas prices, and the NB Power contract for recall power that expired in March 2012.
- Earnings volatility will continue to be managed through stabilizing the fuel prices and customer load variations in the rate stabilization plan and recovering from or refunding it to customers in future rates.

DBRS

Newfoundland and Labrador Hydro

Report Date:
July 12, 2012

Financial Profile and Outlook

	IFRS	IFRS	MIX	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Consolidated	**3 mos to Mar. 31**		**12 mos to Mar. 31**		**For the year ended Dec. 31**			
(CA$ millions where applicable)	**2012**	**2011**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
Net income before non-recurring items	43	36	93	87	85	67	92	83
Depreciation & amortization	12	11	59	58	56	55	53	51
Deferred income taxes and other	(17)	(14)	(3)	1	0	0	1	0
Cash flow from operations	37	33	150	145	142	122	146	134
Dividends paid	(8)	(33)	(53)	(78)	(92)	(45)	0	0
Capital expenditures	(7)	(9)	(87)	(89)	(65)	(58)	(90)	(87)
Free cash flow (bef. working cap. changes)	23	(9)	10	(21)	(16)	20	55	47
Changes in non-cash work. cap. items	(78)	(32)	(58)	(12)	46	11	(2)	4
Rate stabilization adjustment	3	12	5	14	42	74	34	38
Net free cash flow	(52)	(28)	(43)	(19)	71	105	87	90
Acquisitions & long-term investments	0	0	0	0	0	0	0	0
Short-term investments	0	9	(7)	2	25	(23)	(3)	0
Proceeds on asset sales	0	0	5	5	1	1	1	1
Net equity change	0	0	0	0	0	0	0	0
Net debt change	48	0	48	0	(29)	(164)	(52)	(65)
Other	(6)	(1)	(31)	(26)	(27)	95	(33)	(31)
Change in cash	(11)	(20)	(28)	(37)	40	14	0	(5)
Total debt (1)	943	934	943	893	937	1,000	1,186	1,261
Cash and equivalents	0	37	0	25	65	50	15	19
Total debt in capital structure (1)	46.3%	50.1%	46.3%	47.1%	50.1%	52.5%	60.9%	60.2%
Cash flow/Total debt (1)	15.8%	14.1%	15.9%	16.3%	15.1%	12.2%	12.3%	10.6%
EBIT interest coverage (times)	1.92	1.80	1.88	1.85	1.91	1.64	1.70	1.60
Dividend payout ratio	17.8%	91.1%	56.5%	89.8%	109.1%	66.5%	0.0%	0.0%

(1) Debt is net of sinking fund assets.

2011 Summary

- The Company's credit metrics have improved slightly over the past three years, largely as a result of decreasing debt levels.
- Operating cash flow increased modestly in 2011 to approximately $145 million from $142 million in 2010, primarily driven by colder winter weather and increased load growth.
- Capex over the past five years has been well above historical depreciation levels, as the Company continues to spend on maintenance and growth projects.
- Dividends were approximately 89.8% of Hydro's net income in 2011. Dividends paid represent both non-regulated earnings related to the sale of recall power and the maintenance of the target capital structure.
- The Company generated negative free cash flow of approximately $21 million in 2011. Free cash flow deficits were funded by cash on hand.

2012 Outlook

- Hydro expects to spend well above its historical depreciation level going forward on capex (more than $100 million on average per annum).
  - The capex will be used to maintain its transmission and generation assets through its long-term asset management program.
- The Company expects to fund the capex spending through internally generated operating cash flow and debt.
- DBRS expects the Company's leverage to increase in the medium term; however, interest coverage is expected to remain relatively stable as earnings grow to reflect a higher rate base.

Long-Term Debt Maturities and Bank Lines

- Promissory notes, debentures and long-term loans are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments by the Province. The Province charges a guarantee fee of 0.25% and 0.5% annually on obligations with maturities less than or equal to 10 years and greater than 10 years, respectively (net of sinking funds), outstanding as of the preceding December 31.
- Hydro has a $300 million short-term promissory note program, guaranteed by the Province, that it uses for its daily funding requirements. As at March 31, 2012, the Company had $48 million (at par) outstanding.
- The Company has a $50 million unsecured operating line of credit with a commercial bank that is used primarily to backstop the Company's short-term promissory note program and to support letters of credit. At March 31, 2012, $3.8 million was outstanding on the operating line of credit; however, 24 letters of credit were outstanding, which collectively reduced available credit by $22.7 million.

(As at March 31, 2012)

(CA$ millions)	**2012**	**2013**	**2014***	**2015**	**Thereafter**	**Total**
	8.2	8.2	8.2	133.2	970.7	1,128.5
	1%	1%	1%	12%	86%	100%

Note: Includes term debt maturities and sinking fund requirements for Hydro only.
* Includes $125 million of Notes to be repaid from the sinking fund reserve.

- The debt maturity profile is well spread out, with 12% of total debt coming due in 2015.
- Hydro expects to refinance upcoming maturities or issue new debt at more favourable interest rates in the near-term.

Regulation

- Hydro is regulated by the PUB base on a return on rate base model.
- Hydro has an RSP that provides for the deferral of cost variances resulting from changes in fuel prices relative to the base price, levels of precipitation and load.
  - Accumulate balances related to fuel cost variations will be recovered over the following one-year period.
  - Accumulate balances related to variations in hydrology will be recovered at a rate of 25% of the outstanding balance at year-end, including the weighted-average cost of capital on the balance.
  - The RSP allows Hydro to smooth out the rate increases required to recover the cost variances.
- On January 1, 2005, the demand and energy rate (DER) for the sale of power, which bills according to highest actual demand requirements from the winter season, to Newfoundland Power began. This provides an incentive to Newfoundland Power to reduce its peak demand cost.
- Hydro has an allowed ROE of 4.47% based on the decision from the 2006 GRA.
- At the next GRA, which is expected in 2012, the PUB will equalize Hydro's ROE with Newfoundland Power's ROE, which is currently 8.80%.
- Hydro's has an internal target debt-to-equity ratio of 75:25 for regulated operations. Effective after the next rate application, Hydro is also entitled to have equity in its capital structure up to the same amount as Newfoundland Power (currently 45% equity with 55% debt). However, Hydro expects to maintain its target of 75% debt.
- The PUB approved a $77 million capital budget for 2012.
- Effective July 1, 2012, Hydro was issued an order approving an overall average rate increase of approximately 6.60% in electricity rates.

DBRS

Newfoundland and Labrador Hydro

Report Date:
July 12, 2012

Newfoundland and Labrador Hydro (Consolidated)

Balance Sheet (CA$ millions)	IFRS Mar. 31 2012	CGAAP Dec. 31 2011	CGAAP Dec. 31 2010		IFRS Mar. 31 2012	CGAAP Dec. 31 2011	CGAAP Dec. 31 2010
Assets				**Liabilities & Equity**			
Cash & equivalents	0	25	65	S.T. borrowings	52	0	0
Accounts receivable	85	96	81	Accounts payable	67	121	123
Inventories	81	64	63	Current portion L.T.D.	8	8	8
Prepaid expenses & other	6	6	9	Other current liab.	18	170	148
Total Current Assets	172	191	217	**Total Current Liab.**	145	299	279
Net fixed assets	1,419	1,760	1,722	Long-term debt	1,130	1,132	1,137
Investments & others	414	111	131	Deferred income taxes	0	0	0
Sinking funds	247	247	208	Other L.T. liab.	129	124	140
				Shareholders' equity	848	754	723
Total Assets	2,252	2,309	2,279	**Total Liab. & SE**	2,252	2,309	2,279

Consolidated Balance Sheet & Liquidity & Capital Ratios	IFRS 3 mos to Mar. 31 2012	IFRS 3 mos to Mar. 31 2011	MIX 12 mos to Mar. 31 2012	CGAAP For the year ended Dec. 31 2011	CGAAP 2010	CGAAP 2009	CGAAP 2008	CGAAP 2007
Current ratio	1.18	0.82	1.18	0.64	0.78	0.87	0.53	0.53
Total debt in capital structure (1)	46.3%	50.1%	46.3%	47.1%	50.1%	52.5%	60.9%	60.2%
Cash flow/Total debt (1)	15.8%	14.1%	15.9%	16.3%	15.1%	12.2%	12.3%	10.6%
(Cash flow-dividends)/Capex (times)	4.55	0.01	1.12	0.76	0.75	1.34	1.61	1.55
Dividend payout ratio	17.8%	91.1%	56.5%	89.8%	109.1%	66.5%	0.0%	0.0%
Coverage Ratios (times)								
EBIT interest coverage	1.92	1.80	1.88	1.85	1.91	1.64	1.70	1.60
EBITDA interest coverage	2.44	2.27	2.53	2.49	2.53	2.23	2.23	2.08
Fixed-charge coverage	2.87	2.58	2.02	1.94	1.91	1.72	1.82	1.72
Operating Efficiency								
Power purchases/ revenues	9.7%	7.9%	9.2%	8.7%	7.7%	8.3%	7.2%	6.7%
Fuel costs/ revenues	53.1%	40.7%	29.5%	25.7%	24.2%	27.4%	28.8%	27.7%
Profitability Ratios								
EBITDA margin	64.3%	62.7%	56.7%	56.3%	58.7%	56.4%	61.2%	58.5%
EBIT margin	50.5%	49.5%	42.1%	41.9%	44.4%	41.4%	46.7%	45.1%
Profit margin	49.6%	43.9%	23.2%	21.7%	21.5%	18.4%	25.2%	21.9%
Return on equity	21.3%	19.9%	11.9%	11.8%	11.7%	10.1%	14.4%	13.1%
Return on capital	13.2%	12.5%	9.3%	9.4%	9.3%	8.2%	9.0%	8.8%

(1) Debt is net of sinking fund assets.

DBRS

Newfoundland and Labrador Hydro

Report Date:
July 12, 2012

Operating Statistics	For the year ended December 31				
Electricity Sold – Breakdown	**2011**	**2010**	**2009**	**2008**	**2007**
Utilities (Newfoundland Power)	5,317	5,016	5,108	4,960	4,991
Rural	949	884	931	909	888
Industrial	491	729	576	1,124	1,136
Exports	1,594	1,457	1,575	1,393	1,489
Total (GWh sold)	8,351	8,086	8,190	8,386	8,504
Energy sales growth	3.3%	-1.3%	-2.3%	-1.4%	5.3%
Generating Capacity (MW)					
Hydroelectric	939	939	939	939	939
Thermal (Oil)	632	640	640	640	640
Diesel	55	58	58	56	56
Installed capacity (MW)	1,626	1,637	1,637	1,635	1,635
Electricity Generated (GWh) – hydroelectric	4,512	4,274	4,200	4,772	4,689
Electricity Generated (GWh) – thermal	873	792	930	1,071	1,243
Electricity Generated (GWh) – diesel	47	43	46	47	43
Gross energy generated – GWh	5,432	5,109	5,176	5,890	5,975
Plus: purchases	3,305	3,339	3,330	2,852	2,853
Energy generated + purchased	8,737	8,448	8,506	8,742	8,828
Less: transmission losses + internal use	386	362	316	332	332
Total – GWh sold	8,351	8,086	8,190	8,410	8,496
Energy lost/energy gen + purch.	4.4%	4.3%	3.7%	3.8%	3.8%
Maximum Island Interconnected peak demand	1,399	1,305	1,390	1,323	1,323
Peak Island Interconnected demand/available capacity	86.0%	79.7%	84.9%	80.9%	80.9%

DBRS

Newfoundland and Labrador Hydro

Report Date:
July 12, 2012

Rating

Debt	Rating	Trend
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	Stable
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A	Stable

Rating History

	Current	2011	2010	2009	2008	2007
Guaranteed Short-Term Debt	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Guaranteed Long-Term Debt	A	A	A	A	A	A (low)

Note:
All figures are in Canadian dollars unless otherwise noted.

Rating Report

Report Date:
November 12, 2012

Previous Report:
August 10, 2012

Insight beyond the rating.

Newfoundland and Labrador Hydro

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The Company

Newfoundland and Labrador Hydro, a Crown corporation of the Province of Newfoundland and Labrador (the Province), generates and transmits electricity in the Province.

Recent Actions

August 10, 2012
Confirmed

Rating

Debt	Rating	Trend
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	Stable
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A	Stable

Rating Update

On August 10, 2012, DBRS confirmed the guaranteed long-term and short-term debt ratings of Newfoundland and Labrador Hydro (Hydro or the Company) at "A" and R-1 (low), respectively. The trend on both ratings is Stable. The debt ratings are a flow-through of the ratings of the Province of Newfoundland and Labrador (the Province; see DBRS's report on the Province dated August 10, 2012), which unconditionally guarantees all of Hydro's outstanding debt. The unconditional guarantee extends to principal, interest and, where applicable, sinking fund payments relating to the Company's promissory notes, debentures and long-term loans.

As outlined in Hydro's long-term asset management program (LTAMP), the Company is undergoing a period of substantial capital expenditures (capex) to maintain its generation and transmission assets. This calls for an increase in debt levels, leading to higher leverage. However, interest coverage is expected to remain relatively stable as earnings grow to reflect a higher rate base. Following Hydro's next general rate application (GRA), which is expected to be filed by the end of 2012, the Board of Commissioners of Public Utilities (PUB) will set Hydro's deemed return on equity (ROE) equal to that of Newfoundland Power Inc. (rated "A" by DBRS), which is set at 8.80%. The increased ROE is expected to help improve Hydro's earnings and overall financial profile. Operating cash flow decreased to approximately $60 million for the six months ended June 30, 2012 (H1 2012), from $65 million in H1 2011 due to lower revenue from the Company's energy marketing segment, which was negatively impacted by the low natural gas price environment. Capital expenditures have remained high over the past five years, well above historical depreciation levels, as the Company continues to spend on maintenance. Capex is expected to remain above historical levels in the medium to long term, reaching approximately $150 million in 2014. Dividends declared were approximately 23% of Hydro's earnings in H1 2012, which represented the non-regulated earnings. The Company was able to fund dividends and capex spending with its internally generated cash flow in H1 2012. DBRS anticipates that, going forward, free cash flow deficits will be funded through a combination of internally generated cash and the appropriate mix of short and long-term debt.

Rating Considerations

Strengths
(1) Debt is guaranteed by the Province
(2) Reasonable regulatory environment
(3) Minimal competition

Challenges
(1) Increased levels of planned capital expenditure
(2) Sensitive to weather
(3) Environmental issues related to sulphur

Financial Information

Newfoundland and Labrador Hydro (Consolidated) (CA$ millions where applicable)	IFRS 6 mos to Jun. 30 2012	IFRS 6 mos to Jun. 30 2011	MIX 12 mos to Jun. 30 2012	CGAAP For the year ended Dec. 31 2011	CGAAP 2010	CGAAP 2009	CGAAP 2008	CGAAP 2007
EBIT gross interest coverage (times)	1.41	1.78	1.67	1.85	1.91	1.64	1.70	1.60
Total debt in capital structure (1)	45.0%	49.8%	45.0%	47.1%	50.1%	52.5%	60.9%	60.2%
Cash flow/Total debt (1)	13.2%	14.0%	15.5%	16.3%	15.1%	12.2%	12.3%	10.6%
(Cash flow-dividends)/Capex (times)	1.81	0.89	1.03	0.76	0.75	1.34	1.61	1.55
Net income before non-recurring items	51	54	84	87	85	67	92	83
Cash flow from operations	60	65	141	145	142	122	146	134

(1) Debt is net of sinking fund assets.

Newfoundland and Labrador Hydro

Report Date:
November 12, 2012

Rating Considerations Details

Strengths

(1) **Debt is guaranteed by the Province.** The Province unconditionally guarantees Hydro's debt. As a result, the ratings of Hydro are a flow-through of the Province's rating.

(2) **Reasonable regulatory environment.** The regulatory environment has contributed to a generally stable financial profile ever since 2002. Following the next GRA application, which is expected to be filed by the end of 2012, Hydro's ROE will be in line with that of Newfoundland Power Inc., which is currently 8.80%.

(3) **Minimal competition.** Geographic isolation and the lack of availability of natural gas minimize competitive pressures for the Company.

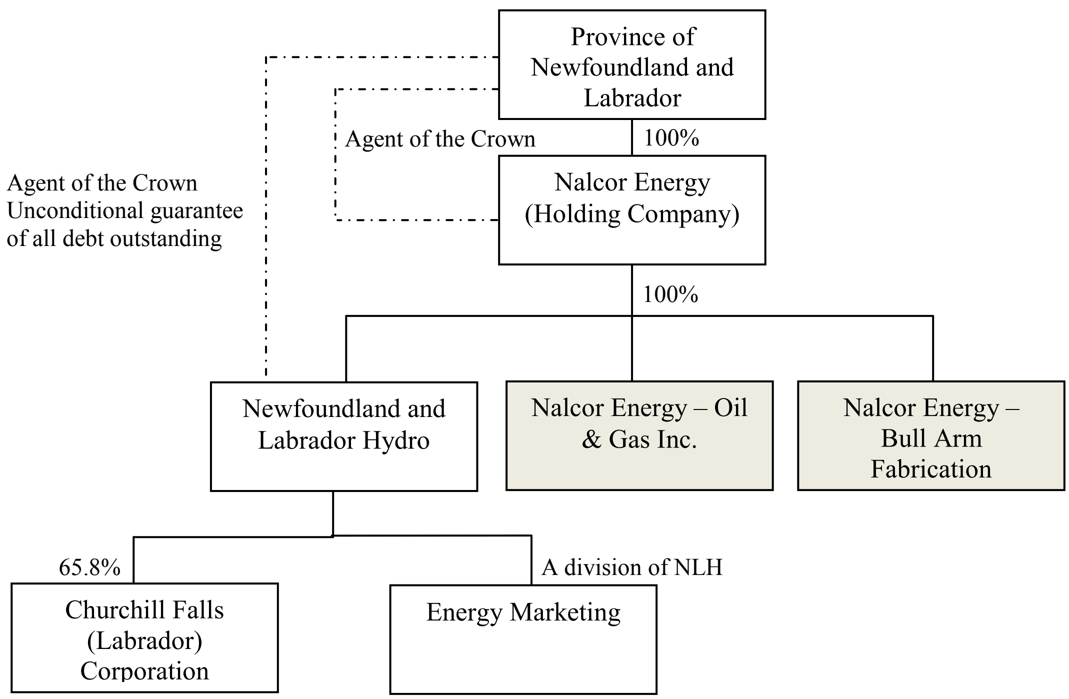
Challenges

(1) **Increased levels of planned capital expenditure.** Potential significant capex above historical depreciation levels may put pressure on Hydro's financial and credit profile in the near to medium term.

(2) **Sensitive to weather.** Demand for Hydro is correlated with the weather, which has a direct impact on annual earnings and cash flows.

(3) **Environmental issues related to sulphur.** Approximately 14% of the Company's electricity is thermal-based, fuelled by bunker C fuel, which has high sulphur content. While future environmental regulations are uncertain, this could result in increased costs and/or capex. In 2011, the plant's sulphur emissions were reduced by 30% from levels in 2008, primarily as a result of lower sulphur content fuel and production requirements. The majority of the sulphur emissions are expected to be eliminated following the closure of the Holyrood plant once the Lower Churchill Project comes online.

Simplified Corporate Structure



Company Profile

- Hydro is a Crown corporation owned by Nalcor Energy, which is in turn 100% owned by the Province.
- Hydro is the dominant electric generation and transmission power company in the Province. It also directly serves residential, commercial and industrial distribution customers in more rural service areas.
- Hydro supplies more than 86% of the Province's electrical energy. In 2011, it sold approximately 59% of its available supply to an investor-owned electricity distributor, Newfoundland Power Inc., which is wholly owned by Fortis Inc. Hydro's remaining power deliveries are directed to its own distribution customers across the Province as well as five large industrial companies. Short-term exports of unused recall power from Churchill Falls are sold to other parties via the energy-marketing division.
- Hydro's regulated operations have installed generating capacity of 1,627 megawatts (MW), consisting of hydroelectric (939 MW), thermal (632 MW) and diesel (55 MW) power.
- Churchill Falls has installed generating capacity of 5,428 MW and a power contract with Hydro-Québec for the majority of the electricity generated from this facility (approximately 30 terawatt hours until 2041).
- The Company has long-term supply contracts and power purchase arrangements with non-utility power producers in the Province, amounting to approximately 180 MW.
- Upon completion of the Lower Churchill project, the Company will be the off-taker for a portion of Muskrat Falls' generating output and some of its transmission capacity via a power purchase agreement (PPA).

DBRS

Newfoundland and Labrador Hydro

Report Date:
November 12, 2012

Earnings and Outlook

Consolidated	IFRS	IFRS	MIX	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
	6 mos to Jun. 30		12 mos to Jun. 30	For the year ended Dec. 31				
(CA$ millions where applicable)	2012	2011	2012	2011	2010	2009	2008	2007
Net sales	154	166	388	400	395	364	366	377
EBITDA	87	102	211	225	232	205	224	221
EBIT	64	80	151	167	175	151	171	170
Gross interest expense	45	45	91	91	92	92	100	106
Net interest expense	44	45	89	89	91	91	91	100
Net income before equity income & non-recur.	34	41	80	87	85	67	92	83
Net income before non-recurring items	51	54	84	87	85	67	92	83
Reported net income	54	69	74	89	84	66	87	82
Return on equity	13.0%	15.6%	10.9%	12.4%	12.1%	10.4%	14.8%	13.3%

2011 Summary

- Hydro's earnings are generated primarily from its regulated electricity business.
- In 2011, Hydro's earnings increased slightly to $87 million from $85 million in 2010, largely as a result of colder winter weather and increased load growth.

2012 Outlook

- Earnings in H1 2012 were lower than H1 2011 due to lower export sales that were negatively affected by low natural gas prices.
- Earnings in 2012 are expected to improve because of an average rate increase of 6.6%.
- DBRS expects earnings to be partially offset by depressed 2012 U.S. Northeast electricity market prices, driven by low natural gas prices, and the NB Power contract for recall power that expired in March 2012.
- Earnings volatility will continue to be managed through stabilizing the fuel prices and customer load variations in the rate stabilization plan and recovering from or refunding it to customers in future rates.

Newfoundland and Labrador Hydro

Report Date:
November 12, 2012

Financial Profile and Outlook

Consolidated (CA$ millions where applicable)	IFRS 6 mos to Jun. 30 2012	IFRS 6 mos to Jun. 30 2011	MIX 12 mos to Jun. 30 2012	CGAAP For the year ended Dec. 31 2011	CGAAP 2010	CGAAP 2009	CGAAP 2008	CGAAP 2007
Net income before non-recurring items	51	54	84	87	85	67	92	83
Depreciation & amortization	24	22	60	58	56	55	53	51
Deferred income taxes and other	(15)	(11)	(3)	1	0	0	1	0
Cash flow from operations	60	65	141	145	142	122	146	134
Dividends paid	(12)	(46)	(44)	(78)	(92)	(45)	0	0
Capital expenditures	(27)	(21)	(94)	(89)	(65)	(58)	(90)	(87)
Free cash flow (bef. working cap. changes)	22	(2)	3	(21)	(16)	20	55	47
Changes in non-cash work. cap. items	(43)	(12)	(42)	(12)	46	11	(2)	4
Rate stabilization/Regulatory adjustments	4	16	2	14	42	74	34	38
Net free cash flow	(17)	2	(38)	(19)	71	105	87	90
Acquisitions & long-term investments	0	0	0	0	0	0	0	0
Short-term investments	0	6	(4)	2	25	(23)	(3)	0
Proceeds on asset sales	0	0	5	5	1	1	1	1
Net equity change	0	0	0	0	0	0	0	0
Net debt change	24	0	24	0	(29)	(164)	(52)	(65)
Other	(9)	(4)	(31)	(26)	(27)	95	(33)	(31)
Change in cash	(2)	4	(43)	(37)	40	14	0	(5)
Total debt (1)	908	925	908	893	937	1,000	1,186	1,261
Cash and equivalents	5	67	5	25	65	50	15	19
Total debt in capital structure (1)	45.0%	49.8%	45.0%	47.1%	50.1%	52.5%	60.9%	60.2%
Cash flow/Total debt (1)	13.2%	14.0%	15.5%	16.3%	15.1%	12.2%	12.3%	10.6%
EBIT interest coverage (times)	1.41	1.78	1.67	1.85	1.91	1.64	1.70	1.60
Dividend payout ratio	23.2%	84.8%	52.6%	89.8%	109.1%	66.5%	0.0%	0.0%

(1) Debt is net of sinking fund assets.

2011 Summary

- The Company's credit metrics have improved slightly over the past three years, largely as a result of decreasing debt levels.
- Operating cash flow increased modestly in 2011 to approximately $145 million from $142 million in 2010, primarily driven by colder winter weather and increased load growth.
- Capex over the past five years has been well above historical depreciation levels, as the Company continues to spend on maintenance and growth projects.
- Dividends were approximately 89.8% of Hydro's net income in 2011. Dividends paid represent both non-regulated earnings related to the sale of recall power and the maintenance of the target capital structure.
- The Company generated negative free cash flow of approximately $21 million in 2011. Free cash flow deficits were funded by cash on hand.

2012 Outlook

- Free cash flow in H1 2012 was approximately $24 million higher than H1 2011 due to lower dividends. As a result, the Company was able to fund dividends and capex in H1 2012 with internally generated funds.
- Hydro expects to spend well above its historical depreciation level going forward on capex (more than $100 million on average per annum).
  - The capex will be used to maintain its transmission and generation assets through its long-term asset management program.
- The Company expects to fund the capex spending through internally generated operating cash flow and debt.
- DBRS expects the Company's leverage to increase in the medium term; however, interest coverage is expected to remain relatively stable as earnings grow to reflect a higher rate base.

Long-Term Debt Maturities and Bank Lines

- Promissory notes, debentures and long-term loans are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments by the Province. The Province charges a guarantee fee of 0.25% and 0.5% annually on obligations with maturities less than or equal to ten years and greater than ten years, respectively (net of sinking funds), outstanding as of the preceding December 31.
- Hydro has a $300 million short-term promissory note program, guaranteed by the Province, which it uses for its daily funding requirements. As at June 30, 2012, the Company had $24 million (at par) outstanding.
- The Company has a $50 million unsecured operating line of credit with a commercial bank that is used primarily to backstop the Company's short-term promissory note program and to support letters of credit. At June 30, 2012, there was no amount outstanding on the operating line of credit; however, 24 letters of credit were outstanding, which collectively reduced available credit by $18.9 million.

(As at June 30, 2012)

(CA$ millions)	2012	2013	2014*	2015	Thereafter	Total
	5.8	8.2	8.2	133.2	970.7	1,126.1
	1%	1%	1%	12%	86%	100%

Note: Includes term debt maturities and sinking fund requirements for Hydro only.
* Includes $125 million of Notes to be repaid from the sinking fund reserve.

- The debt maturity profile is well spread out, with 12% of total debt coming due in 2015.
- Hydro expects to refinance upcoming maturities or issue new debt at more favourable interest rates in the near term.

Regulation

- Hydro is regulated by the PUB base on a return on rate base model.
- Hydro has a rate stabilization plan (RSP) that provides for the deferral of cost variances resulting from changes in fuel prices relative to the base price, levels of precipitation and load.
  - Accumulate balances related to fuel cost variations will be recovered over the following one-year period.
  - Accumulate balances related to variations in hydrology will be recovered at a rate of 25% of the outstanding balance at year-end, including the weighted-average cost of capital on the balance.
  - The RSP allows Hydro to smooth out the rate increases required to recover the cost variances.
- On January 1, 2005, the demand and energy rate (DER) for the sale of power, which bills according to highest actual demand requirements from the winter season, to Newfoundland Power Inc. began. This provides an incentive to Newfoundland Power Inc. to reduce its peak demand cost.
- Hydro has an allowed ROE of 4.47% based on the decision from the 2006 GRA.
- At the next GRA, which is expected in 2012, the PUB will equalize Hydro's ROE with Newfoundland Power Inc.'s ROE, which is currently 8.80%.
- Hydro has an internal target debt-to-equity ratio of 75:25 for regulated operations. Effective after the next rate application, Hydro is also entitled to have equity in its capital structure up to the same amount as Newfoundland Power Inc. (currently 45% equity with 55% debt). However, Hydro expects to maintain its target of 75% debt.
- The PUB approved a $77 million capital budget for 2012.
- Effective July 1, 2012, Hydro was issued an order approving an overall average rate increase of approximately 6.60% in electricity rates.

Newfoundland and Labrador Hydro

Report Date:
November 12, 2012

Newfoundland and Labrador Hydro (Consolidated)

Balance Sheet	IFRS	CGAAP	CGAAP		IFRS	CGAAP	CGAAP
(CA$ millions)	Jun. 30	Dec. 31	Dec. 31		Jun. 30	Dec. 31	Dec. 31
Assets	2012	2011	2010	**Liabilities & Equity**	2012	2011	2010
Cash & equivalents	5	25	65	S.T. borrowings	24	0	0
Accounts receivable	49	96	81	Accounts payable	52	121	123
Inventories	80	64	63	Current portion L.T.D.	8	8	8
Regulatory assets	0	3	4	Regulatory liabilities	0	138	119
Prepaid expenses & other	4	3	5	Other current liab.	33	32	29
Total Current Assets	137	191	217	**Total Current Liab.**	117	299	279
Net fixed assets	1,427	1,760	1,722	Long-term debt	1,129	1,132	1,137
Sinking funds	253	247	208	Provisions	113	84	69
Regulatory assets	0	64	66	Regulatory liabilities	0	33	41
Investments & others	412	47	65	Other L.T. liab.	14	6	30
				Shareholders' equity	856	754	723
Total Assets	2,229	2,309	2,279	**Total Liab. & SE**	2,229	2,309	2,279

Consolidated	IFRS	IFRS	MIX	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Balance Sheet &	6 mos to Jun. 30		12 mos to Jun. 30		For the year ended Dec. 31			
Liquidity & Capital Ratios	2012	2011	2012	2011	2010	2009	2008	2007
Current ratio	1.17	0.79	1.17	0.64	0.78	0.87	0.53	0.53
Total debt in capital structure (1)	45.0%	49.8%	45.0%	47.1%	50.1%	52.5%	60.9%	60.2%
Cash flow/Total debt (1)	13.2%	14.0%	15.5%	16.3%	15.1%	12.2%	12.3%	10.6%
(Cash flow-dividends)/Capex (times)	1.81	0.89	1.03	0.76	0.75	1.34	1.61	1.55
Dividend payout ratio	23.2%	84.8%	52.6%	89.8%	109.1%	66.5%	0.0%	0.0%
Coverage Ratios (times)								
EBIT interest coverage	1.41	1.78	1.67	1.85	1.91	1.64	1.70	1.60
EBITDA interest coverage	1.93	2.25	2.33	2.49	2.53	2.23	2.23	2.08
Fixed-charges coverage	2.10	2.18	1.90	1.94	1.91	1.72	1.82	1.72
Operating Efficiency								
Power purchases/ revenues	11.3%	8.0%	10.3%	8.7%	7.7%	8.3%	7.2%	6.7%
Fuel costs/ revenues	43.4%	31.2%	31.4%	25.7%	24.2%	27.4%	28.8%	27.7%
Profitability Ratios								
EBITDA margin	56.8%	61.5%	54.3%	56.3%	58.7%	56.4%	61.2%	58.5%
EBIT margin	41.4%	48.5%	38.9%	41.9%	44.4%	41.4%	46.7%	45.1%
Profit margin	33.0%	32.6%	21.6%	21.7%	21.5%	18.4%	25.2%	21.9%
Return on equity	13.0%	15.6%	10.9%	12.4%	12.1%	10.4%	14.8%	13.3%
Return on capital	9.8%	10.7%	9.0%	9.5%	9.4%	8.3%	9.1%	8.8%

(1) Debt is net of sinking fund assets.

DBRS

Newfoundland and Labrador Hydro

Report Date:
November 12, 2012

Operating Statistics	For the year ended December 31				
Electricity Sold – Breakdown	**2011**	**2010**	**2009**	**2008**	**2007**
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Total (GWh sold)	8,351	8,086	8,190	8,386	8,504
Energy sales growth	3.3%	(1.3%)	(2.3%)	(1.4%)	5.3%
Generating Capacity (MW)					
Hydroelectric	939	939	939	939	939
Thermal (Oil)	632	640	640	640	640
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Installed capacity (MW)	1,626	1,637	1,637	1,635	1,635
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Plus: purchases	3,305	3,339	3,330	2,852	2,853
Energy generated + purchased	8,737	8,448	8,506	8,742	8,828
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Energy lost/energy gen + purch.	4.4%	4.3%	3.7%	3.8%	3.8%
Maximum Island Interconnected peak demand	1,399	1,305	1,390	1,323	1,323
Peak Island Interconnected demand/available capacity	86.0%	79.7%	84.9%	80.9%	80.9%

Newfoundland and Labrador Hydro

Report Date:
November 12, 2012

Rating

Debt	**Rating**	**Trend**
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	Stable
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A	Stable

Rating History

	Current	**2011**	**2010**	**2009**	**2008**	**2007**
Guaranteed Short-Term Debt	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Guaranteed Long-Term Debt	A	A	A	A	A	A (low)

Note:
All figures are in Canadian dollars unless otherwise noted.

Newfoundland and Labrador Hydro

Rating

Debt	Rating	Trend
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	Stable
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A	Stable

Rating Update

The debt ratings of Newfoundland and Labrador Hydro (Hydro or the Company) are a flow-through of the ratings of the Province of Newfoundland and Labrador (the Province; see DBRS's report on the Province dated August 10, 2012), which unconditionally guarantees all of Hydro's outstanding debt. The unconditional guarantee extends to principal, interest and, where applicable, sinking fund payments relating to the Company's promissory notes, debentures and long-term loans.

As outlined in Hydro's long-term asset management program, the Company is undergoing a period of substantial capital expenditures (capex) to maintain its generation and transmission assets. This calls for an increase in debt levels, leading to higher leverage. However, interest coverage is expected to remain relatively stable as earnings grow to reflect a higher rate base. Hydro filed a general rate application (GRA) with the Board of Commissioners of Public Utilities (PUB) in July 2013, requesting new rates effective January 1, 2014. Once approved by the PUB, new rates will reflect a return on equity (ROE) of 8.80%, which is equal to that of Newfoundland Power Inc. (rated "A"). The increased ROE is expected to help improve Hydro's earnings and overall financial profile. Operating cash flow decreased modestly in 2012, mainly driven by higher fuel and purchase power costs, as well as lower wholesale electricity prices. Capex has remained high over the past five years, well above historical depreciation levels, as the Company continues to spend on maintenance and growth projects. Capex is expected to remain above historical levels in the medium to long term, reaching approximately $194 million in 2015. Dividends declared were approximately 44.4% of Hydro's earnings in 2012. As a result, the Company experienced a free cash flow deficit that was funded with internally generated cash flow and incremental debt. DBRS anticipates that, going forward, free cash flow deficits will be funded through a combination of internally generated cash and the appropriate mix of short- and long-term debt.

Rating Considerations

Strengths
(1) Debt is guaranteed by the Province
(2) Reasonable regulatory environment
(3) Minimal competition

Challenges
(1) Increased levels of planned capital expenditure
(2) Sensitivity to weather
(3) Environmental issues related to sulphur

Financial Information

Newfoundland and Labrador Hydro	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
(Consolidated)			**For the year ended Dec. 31**		
(CA$ millions where applicable)	**2012**	**2011**	**2010**	**2009**	**2008**
EBIT gross interest coverage (times)	1.67	1.86	1.91	1.64	1.70
Total debt in capital structure (1)	46.8%	47.1%	50.1%	52.5%	60.9%
Cash flow/Total debt (1)	14.7%	16.9%	15.1%	12.2%	12.3%
(Cash flow-dividends)/Capex (times)	0.98	0.83	0.75	1.34	1.61
Net income before non-recurring items	68	90	85	67	92
Cash flow from operations	136	151	142	122	146

(1) Debt is net of sinking fund assets.

Rating Considerations Details

Strengths
(1) **Debt is guaranteed by the Province.** The Province unconditionally guarantees Hydro's debt. As a result, the ratings of Hydro are a flow-through of the Province's rating.

(2) **Reasonable regulatory environment.** The regulatory environment has contributed to a generally stable financial profile since 2002. In July 2013, Hydro filed its GRA with the PUB for rates effective January 1, 2014. Once approved, new rates will reflect an ROE of 8.80%, which is equal to that of Newfoundland Power Inc.

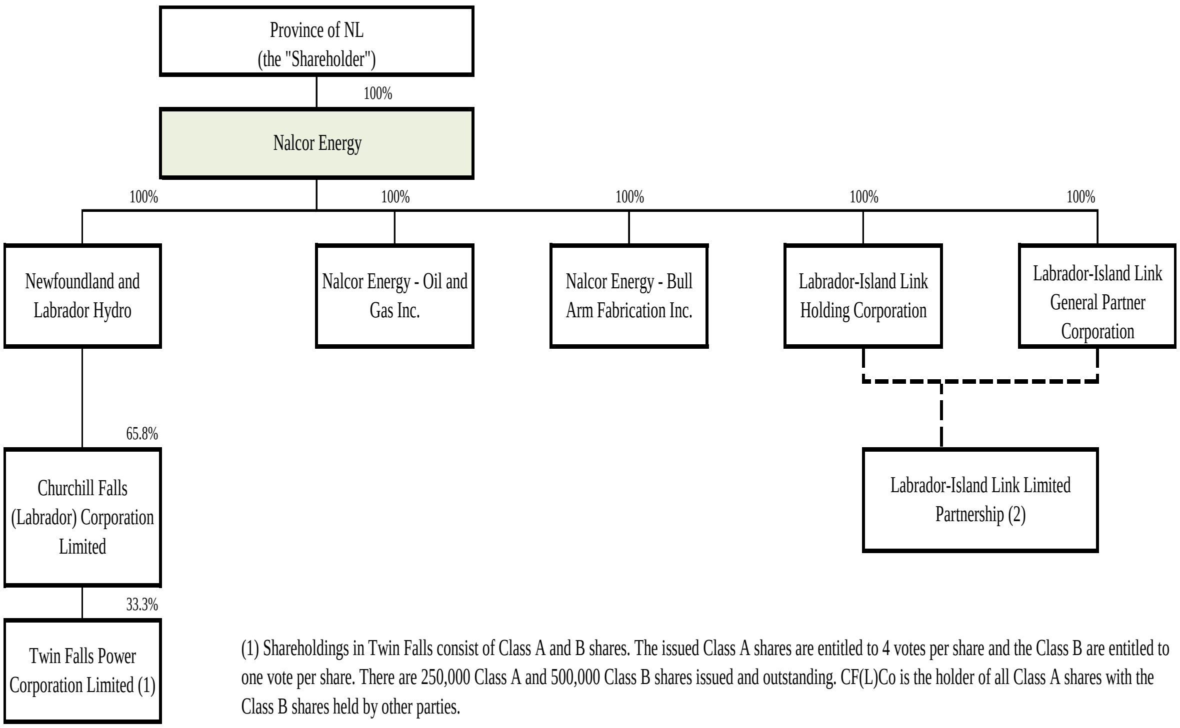
(3) **Minimal competition.** Geographic isolation and the lack of availability of natural gas minimize competitive pressures for the Company.

Challenges
(1) **Increased levels of planned capital expenditure.** Potential significant capex above historical depreciation levels may put pressure on Hydro's financial and credit profile in the near to medium term.

(2) **Sensitivity to weather.** Demand for Hydro is correlated with the weather, which has a direct impact on annual earnings and cash flows.

(3) **Environmental issues related to sulphur.** Approximately 15% of the Company's electricity in 2012 was thermal based, fuelled by bunker C fuel, which has high sulphur content. While future environmental regulations are uncertain, this could result in increased costs and/or capex. In 2011, the plant's sulphur emissions were reduced by 30% from levels in 2008, primarily as a result of lower sulphur content fuel and production requirements. The majority of the sulphur emissions are expected to be eliminated following the closure of the Holyrood plant once the Muskrat Falls Project comes on line.

Simplified Corporate Structure



(1) Shareholdings in Twin Falls consist of Class A and B shares. The issued Class A shares are entitled to 4 votes per share and the Class B are entitled to one vote per share. There are 250,000 Class A and 500,000 Class B shares issued and outstanding. CF(L)Co is the holder of all Class A shares with the Class B shares held by other parties.

(2) LIL Holdco currently holds 65.1% while Emera holds 34.9% interest of the limited partnership in the LIL LP.

Company Profile

- Hydro is a Crown corporation owned by Nalcor Energy, which is in turn 100% owned by the Province.
- Hydro is the dominant electric generation and transmission power company in the Province. It also directly serves residential, commercial and industrial distribution customers in more rural service areas.
- Hydro supplies over 90% of the Province's electrical energy. In 2012, it sold approximately 77% of its available supply to an investor-owned electricity distributor, Newfoundland Power Inc., which is wholly owned by Fortis Inc. Hydro's remaining power deliveries are directed to its own distribution customers across the Province as well as five large industrial companies. Short-term exports of unused recall power from Churchill Falls are sold to other parties via the energy-marketing division.
- Hydro's regulated operations have installed generating capacity of 1,626 megawatts (MW), consisting of hydroelectric (939 MW), thermal (617 MW) and diesel (52 MW) power.
- Churchill Falls has installed generating capacity of 5,428 MW and a power contract with Hydro-Québec (rated A (high)) for the majority of the electricity generated from this facility (approximately 30 terawatt hours until 2041).
- The Company has long-term supply contracts and power purchase arrangements with non-utility power producers in the Province, amounting to approximately 180 MW.
- Upon completion of the Lower Churchill project, the Company will be the off-taker for a portion of Muskrat Falls' generating output and some of its transmission capacity via a power purchase agreement.

Earnings and Outlook

Consolidated (CA$ millions where applicable)	CGAAP 2012	CGAAP 2011	CGAAP 2010	CGAAP 2009	CGAAP 2008
	For the year ended Dec. 31				
Net sales	392	398	395	364	366
EBITDA	211	224	232	205	224
EBIT	151	168	175	151	171
Gross interest expense	91	91	92	92	100
Net interest expense	88	89	91	91	91
Net income before equity income & non-recur.	68	90	85	67	92
Net income before non-recurring items	68	90	85	67	92
Reported net income	64	91	84	66	87
Return on equity	9.4%	12.7%	12.1%	10.4%	14.8%

2012 Summary

- Hydro's earnings are generated primarily from its regulated electricity business.
- Earnings before non-recurring items were lower in 2012 due mainly to higher fuel and power purchase costs in addition to a decrease in energy marketing earnings, as a result of lower natural gas prices.

2013 Outlook

- Earnings in 2013 are expected to improve modestly as natural gas prices have begun to recover from historic lows.
- Earnings volatility will continue to be managed through stabilizing the fuel prices and customer load variations in the rate stabilization plan and recovering from or refunding it to customers in future rates.

Financial Profile and Outlook

	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Consolidated			**For the year ended Dec. 31**		
(CA$ millions where applicable)	**2012**	**2011**	**2010**	**2009**	**2008**
Net income before non-recurring items	68	90	85	67	92
Depreciation & amortization	60	55	56	55	53
Deferred income taxes and other	7	6	0	0	1
Cash flow from operations	136	151	142	122	146
Dividends paid	(30)	(78)	(92)	(45)	0
Capital expenditures	(108)	(88)	(65)	(58)	(90)
Free cash flow (bef. working cap. changes)	(2)	(15)	(16)	20	55
Changes in non-cash work. cap. items	(63)	(18)	46	11	(2)
Rate stabilization/Regulatory adjustments	33	14	42	74	34
Net free cash flow	(33)	(19)	71	105	87
Acquisitions & long-term investments	0	0	0	0	0
Short-term investments	9	2	25	(23)	(3)
Proceeds on asset sales	4	5	1	1	1
Net equity change	0	0	0	0	0
Net debt change	52	0	(29)	(164)	(52)
Other	(36)	(26)	(27)	95	(33)
Change in cash	(4)	(37)	40	14	0
Total debt (1)	923	893	937	1,000	1,186
Cash and equivalents	12	25	65	50	15
Total debt in capital structure (1)	46.8%	47.1%	50.1%	52.5%	60.9%
Cash flow/Total debt (1)	14.7%	16.9%	15.1%	12.2%	12.3%
EBIT interest coverage (times)	1.67	1.86	1.91	1.64	1.70
Dividend payout ratio	44.4%	87.1%	109.1%	66.5%	0.0%

(1) Debt is net of sinking fund assets.

2012 Summary

- The Company's credit metrics declined modestly in 2012 due to weaker earnings, but remained reasonable for the current rating category.
- Operating cash flow decreased slightly in 2012, primarily driven by higher fuel and purchase power costs as well as lower wholesale electricity prices.
- Capex over the past five years has been well above historical depreciation levels, as the Company continues to spend on maintenance and growth projects.
- Dividends were approximately 44.4% of net income in 2012, down from 87.1% in 2011. Dividends paid represent both non-regulated earnings related to the sale of recall power and the maintenance of the target capital structure.
- The Company generated negative free cash flow of approximately $33 million in 2012. Free cash flow deficits were funded by incremental debt and cash on hand.

2013 Outlook

- Hydro expects to spend well above its historical depreciation level going forward on capex (more than $100 million on average per annum).
  - The capex will be used to maintain its transmission and generation assets through its long-term asset management program.
- The Company expects to fund the capex spending through internally generated operating cash flow and debt.
- DBRS expects the Company's credit metrics to continue to remain within the current rating category.

Long-Term Debt Maturities and Bank Lines

- Promissory notes, debentures and long-term loans are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments by the Province. The Province charges a guarantee fee of 0.25% and 0.5% annually on obligations with maturities less than or equal to ten years and greater than ten years, respectively (net of sinking funds), outstanding as of the preceding December 31.
- Hydro has a $300 million short-term promissory note program, guaranteed by the Province, which it uses for its daily funding requirements. As at December 31, 2012, the Company had $52 million (at par) outstanding.
- The Company has a $50 million unsecured operating line of credit with a commercial bank that is used primarily to backstop the Company's short-term promissory note program and to support letters of credit. At December 31, 2012, there was no amount outstanding on the operating line of credit; however, 24 letters of credit were outstanding, which collectively reduced available credit by $18.9 million.

(As at December 31, 2012)

(CA$ millions)	2013	2014*	2015	2016	2017	Thereafter	Total
	8	125	-	225	150	625.90	1,134
	1%	11%	0%	20%	13%	55%	100%

Includes term debt maturities and sinking fund requirements for Hydro only.

* Includes $125 million of Notes to be repaid from the sinking fund reserve.

- The debt maturity profile is well spread out, with 12% of total debt coming due prior to 2015.
- Hydro expects to refinance upcoming maturities or issue new debt at more favourable interest rates in the near term.

Regulation

- Hydro is regulated by the PUB base on a return on rate base model.
- Hydro has a rate stabilization plan (RSP) that provides for the deferral of cost variances resulting from changes in fuel prices relative to the base price, levels of precipitation and load.
  - Accumulate balances related to fuel cost variations will be recovered over the following one-year period.
  - Accumulate balances related to variations in hydrology will be recovered at a rate of 25% of the outstanding balance at year-end, including the weighted-average cost of capital on the balance.
  - The RSP allows Hydro to smooth out the rate increases required to recover the cost variances.
- On January 1, 2005, the demand and energy rate for the sale of power, which bills according to highest actual demand requirements from the winter season, to Newfoundland Power Inc. began. This provides an incentive to Newfoundland Power Inc. to reduce its peak demand cost.
- Hydro has an allowed ROE of 4.47% based on the decision from the 2006 GRA.
- Hydro filed a GRA with the PUB in July 2013, requesting new rates effective January 1, 2014. Once approved by the PUB, new rates will reflect an ROE of 8.80%, which is equal to that of Newfoundland Power Inc.
- Hydro has an internal target debt-to-equity ratio of 75:25 for regulated operations. After approval of the GRA filed in July 2013, Hydro will be entitled to have equity in its capital structure up to the same amount as Newfoundland Power Inc. (currently 45% equity with 55% debt). However, Hydro expects to maintain its target of 75% debt.
- The PUB approved a $62.7 million capital budget for 2013.
- Effective July 1, 2013, Hydro was issued an order approving an overall average rate increase of approximately 3.00% in electricity rates.

Newfoundland and Labrador Hydro (Consolidated)

Balance Sheet	CGAAP	CGAAP	CGAAP		CGAAP	CGAAP	CGAAP
(CA$ millions)	Dec. 31	Dec. 31	Dec. 31		Dec. 31	Dec. 31	Dec. 31
Assets	2012	2011	2010	**Liabilities & Equity**	2012	2011	2010
Cash & equivalents	12	25	65	S.T. borrowings	52	0	0
Accounts receivable	102	96	81	Accounts payable	92	150	123
Inventories	62	64	63	Current portion L.T.D.	8	8	8
Regulatory assets	2	3	4	Regulatory liabilities	169	138	119
Prepaid expenses & other	4	3	5	Other current liab.	2	4	29
Total Current Assets	**183**	**191**	**217**	**Total Current Liab.**	**324**	**299**	**279**
Net fixed assets	1,806	1,761	1,722	Long-term debt	1,126	1,132	1,137
Sinking funds	263	247	208	Provisions	94	83	69
Regulatory assets	63	64	66	Regulatory liabilities	33	33	41
Investments & others	52	47	65	Other L.T. liab.	3	6	30
				Shareholders' equity	787	756	723
Total Assets	**2,366**	**2,310**	**2,279**	**Total Liab. & SE**	**2,366**	**2,310**	**2,279**

Consolidated	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Balance Sheet &		**For the year ended Dec. 31**			
Liquidity & Capital Ratios	**2012**	**2011**	**2010**	**2009**	**2008**
Current ratio	0.56	0.64	0.78	0.87	0.53
Total debt in capital structure (1)	46.8%	47.1%	50.1%	52.5%	60.9%
Cash flow/Total debt (1)	14.7%	16.9%	15.1%	12.2%	12.3%
(Cash flow-dividends)/Capex (times)	0.98	0.83	0.75	1.34	1.61
Dividend payout ratio	44.4%	87.1%	109.1%	66.5%	0.0%
Coverage Ratios (times)					
EBIT interest coverage	1.67	1.86	1.91	1.64	1.70
EBITDA interest coverage	2.33	2.47	2.53	2.23	2.23
Fixed-charges coverage	1.72	1.97	1.91	1.72	1.82
Operating Efficiency					
Power purchases/ revenues	10.4%	9.0%	7.7%	8.3%	7.2%
Fuel costs/ revenues	31.1%	26.5%	24.2%	27.4%	28.8%
Profitability Ratios					
EBITDA margin	53.9%	56.1%	58.7%	56.4%	61.2%
EBIT margin	38.5%	42.2%	44.4%	41.4%	46.7%
Profit margin	17.4%	22.5%	21.5%	18.4%	25.2%
Return on equity	9.4%	12.7%	12.1%	10.4%	14.8%
Return on capital	8.3%	9.7%	9.4%	8.3%	9.1%

(1) Debt is net of sinking fund assets.

Operating Statistics	For the year ended December 31				
Electricity Sold – Breakdown	**2012**	**2011**	**2010**	**2009**	**2008**
Utilities (Newfoundland Power)	5,359	5,317	5,016	5,108	4,960
Rural	998	949	884	931	909
Industrial	607	491	729	576	1,124
Exports	1,559	1,594	1,457	1,575	1,393
Total (GWh sold)	8,523	8,351	8,086	8,190	8,386
Energy sales growth	2.1%	3.3%	-1.3%	-2.3%	-1.4%
Generating Capacity (MW)					
Hydroelectric	939	939	939	939	939
Thermal (Oil)	617	632	640	640	640
Diesel	52	55	58	58	56
Installed capacity (MW)	1,608	1,626	1,637	1,637	1,635
Electricity Generated (GWh) – hydroelectric	4,595	4,512	4,274	4,200	4,772
Electricity Generated (GWh) – thermal	851	873	792	930	1,071
Electricity Generated (GWh) – diesel	46	47	43	46	47
Gross energy generated – GWh	5,492	5,432	5,109	5,176	5,890
Plus: purchases	3,395	3,305	3,339	3,330	2,852
Energy generated + purchased	8,887	8,737	8,448	8,506	8,742
Less: transmission losses + internal use	364	386	362	316	332
Total – GWh sold	8,523	8,351	8,086	8,190	8,410
Energy lost/energy gen + purch.	4.1%	4.4%	4.3%	3.7%	3.8%
Maximum Island Interconnected peak demand	1,385	1,399	1,305	1,390	1,323
Peak Island Interconnected demand/available capacity	86.1%	86.0%	79.7%	84.9%	80.9%

Rating

Debt	Rating	Trend
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	Stable
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A	Stable

Rating History

	Current	2012	2011	2010	2009	2008
Guaranteed Short-Term Debt	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Guaranteed Long-Term Debt	A	A	A	A	A	A

Note:
All figures are in Canadian dollars unless otherwise noted.

Newfoundland and Labrador Hydro

Rating

Debt	Rating	Trend
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	Stable
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A	Stable

Rating Update

The debt ratings of Newfoundland and Labrador Hydro (Hydro or the Company) are a flow-through of the ratings of the Province of Newfoundland and Labrador (the Province; rated "A" and R-1 (low) with Stable trends; see DBRS's report on the Province dated December 4, 2013), which unconditionally guarantees all of Hydro's outstanding debt. The unconditional guarantee extends to principal, interest and, where applicable, sinking fund payments relating to the Company's promissory notes, debentures and long-term loans.

Hydro requires significant external financing as it undergoes a period of elevated capital expenditures (capex) to upgrade and replace aging infrastructure, maintain service reliability and expand the system to meet load growth. The Company is forecasted to have capex of approximately $322 million in 2014 and its long-term asset management plan calls for an additional $1.1 billion of investments from 2015 to 2019. This projected capex is significantly above the historical depreciation level of around $70 million per year and will require substantial external funding. Major projects for the Company include (1) the purchase and installation of a 120 megawatt (MW) gas turbine at the Holyrood Thermal Generating Station (Holyrood; approximately $119 million), (2) the construction of the Labrador West Transmission Line (approximately $291 million), and (3) the construction of a transmission line from Bay d'Espoir to the Avalon Peninsula (approximately $343 million).

Hydro expects to generate higher earnings and cash flow, driven by both a higher rate base and improved regulatory parameters (following the approval of its general rate application (GRA) for new rates effective January 1, 2014, by the Board of Commissioners of Public Utilities (PUB)). The application remains on file with the PUB, but due to significant delays in the GRA process, new rates have yet to be implemented in 2014. Hydro is preparing to file an update in fall 2014 to request for additional revenue based on updated 2014–2015 test years. Once approved, the new rates will reflect a return on equity (ROE) of 8.80%, an increase from 4.47% in 2013, and equal to that of Newfoundland Power Inc. (rated "A"). The higher ROE is expected to increase annual earnings and cash flow by approximately $20 million, which will be used to partially finance the capital programs, with the balance to be funded through the issuance of debt. The Company has forecasted approximately $1.2 billion of additional debt in the next five years in order to fund the planned capex. However, these debt issuances, which will be guaranteed by the Province, will not have a material impact on the Company's credit profile.

Rating Considerations

Strengths
(1) Debt is guaranteed by the Province
(2) Reasonable regulatory environment
(3) Minimal competition

Challenges
(1) Increased levels of planned capital expenditure
(2) Sensitivity to weather
(3) Environmental issues related to sulphur

Financial Information

Newfoundland and Labrador Hydro Consolidated	12 mos Mar. 31	For the year ended Dec. 31				
(CA$ millions where applicable)	2014	2013	2012	2011	2010	2009
Total debt (1)	936	902	923	893	937	1,000
Total debt in capital structure (1)	46.5%	46.1%	46.8%	47.1%	50.1%	52.5%
Cash flow/Total debt (1)	13.3%	14.2%	15.0%	16.9%	15.1%	12.2%
EBIT gross interest coverage (times)	1.58	1.60	1.66	1.86	1.91	1.64
Net income before non-recurring items	42	53	68	90	85	67
Cash flow from operations	125	128	138	151	142	122

(1) Debt is net of sinking fund assets.

Rating Considerations Details

Strengths

(1) **Debt is guaranteed by the Province.** The Province unconditionally guarantees Hydro's debt in exchange for an annual guarantee fee of 0.25% on obligations with maturities less than or equal to ten years, and 0.5% on obligations with maturities greater than ten years (net of sinking funds), outstanding as of the preceding December 31. As a result, the ratings of Hydro are a flow-through of the Province's ratings.

(2) **Reasonable regulatory environment.** The regulatory environment has contributed to a generally stable financial profile since 2002. The Province issued an Order in Council in 2009 for Hydro to earn a ROE equal to that of Newfoundland Power Inc., effective at its next GRA. Hydro filed its GRA with the PUB in July 2013 for rates effective January 1, 2014. The application remains on file with the PUB, but due to significant delays in the GRA process, new rates have yet to be implemented in 2014. Hydro is preparing to file an update in fall 2014 to request for additional revenue based on updated 2014–2015 test years. Once approved, the new rates will reflect a ROE of 8.80%.

(3) **Minimal competition.** Geographic isolation and the lack of availability of natural gas minimize competitive pressures for the Company.

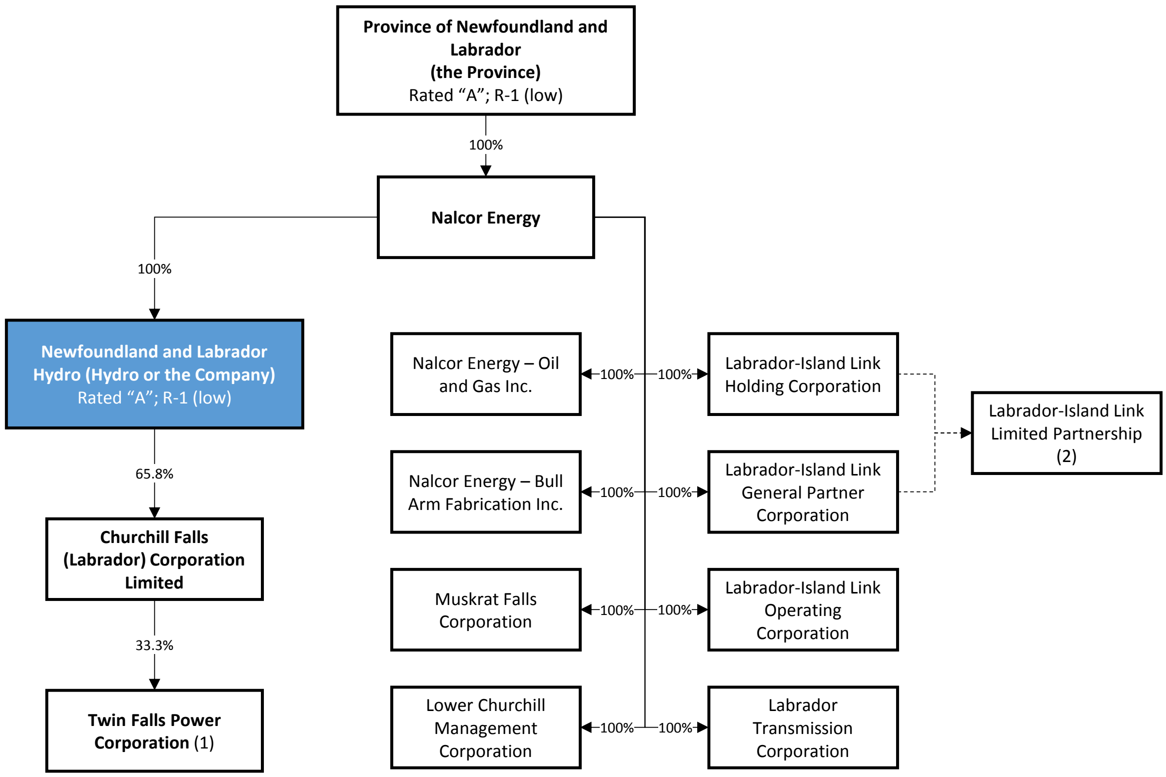
Challenges

(1) **Increased levels of planned capital expenditure.** Hydro has significant planned capex over the medium term, including approximately $322 million for 2014. The Company plans to fund capital spending through internally generated cash flows and by issuing debt. The higher debt levels will likely pressure Hydro's financial profile for the medium term. This will be slightly mitigated by the higher cash flows and earnings for the Company after the GRA is approved.

(2) **Sensitivity to weather.** Demand for Hydro is correlated with the weather, which has a direct impact on annual earnings and cash flows.

(3) **Environmental issues related to sulphur.** Approximately 17% of the Company's electricity in 2013 was thermal based, fuelled by bunker C fuel, which has high sulphur content. While future environmental regulations are uncertain, this could result in increased costs and/or capex. In 2013, sulphur emissions were 32% lower than levels in 2008. The majority of the sulphur emissions are expected to be eliminated following the closure of Holyrood once the Muskrat Falls Project comes on line.

Simplified Corporate Structure



(1) Shareholdings in Twin Falls Power Corporation consist of Class A and B shares. The issued Class A shares are entitled to four votes per share and the Class B are entitled to one vote per share. There are 250,000 Class A and 500,000 Class B shares issued and outstanding. Churchill Falls (Labrador) Corporation Limited is the holder of all Class A shares with the Class B shares held by other parties.

(2) Labrador-Island Link Holding Corporation currently holds 65.1% while Emera Inc. holds 34.9% interest of the limited partnership in Labrador-Island Link Limited Partnership.

Company Profile

- Hydro is a Crown corporation owned by Nalcor Energy, which is in turn 100% owned by the Province.
- Hydro is the dominant electric generation and transmission power company in the Province. It also directly serves residential, commercial and industrial distribution customers in more rural service areas.
- Hydro supplies over 90% of the Province's electrical energy. In 2013, it sold approximately 78% of its available supply to an investor-owned electricity distributor, Newfoundland Power Inc., which is wholly owned by Fortis Inc. Hydro's remaining power deliveries are directed to its own distribution customers across the Province as well as six large industrial companies. Short-term exports of unused recall power from Churchill Falls (300 MW) are sold to other parties via the energy-marketing division.
- Hydro's regulated operations have installed generating capacity of 1,609 MW, consisting of hydroelectric (939 MW), thermal (617 MW) and diesel (53 MW) power.
- Churchill Falls has installed generating capacity of 5,428 MW and a power contract with Hydro-Québec (rated A (high)) for the majority of the electricity generated from this facility (approximately 30 terawatt hours until 2041).
- The Company has long-term supply contracts and power purchase arrangements with non-utility power producers in the Province, amounting to approximately 189 MW.
- Upon completion of the Lower Churchill project, the Company will be the off-taker for a portion of Muskrat Falls' generating output and some of its transmission capacity via power purchase agreements.

Earnings and Outlook

Consolidated	**12 mos Mar. 31**	**For the year ended Dec. 31**				
(CA$ millions where applicable)	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Net sales	398	400	392	398	395	364
EBITDA	210	211	211	224	232	205
EBIT	143	145	150	168	175	151
Gross interest expense	91	91	91	91	92	92
Net income before non-recurring items	42	53	68	90	85	67
Reported net income	43	54	64	91	84	66
Return on equity	5.5%	7.1%	9.3%	12.7%	12.1%	10.4%
DBRS Adjusted Segment EBIT						
Hydro Regulated	85	96	112	112	94	102
Churchill Falls	17	20	19	13	25	12
Energy Marketing	44	32	19	46	52	34

2013 Summary

- Hydro's earnings are generated primarily from its regulated electricity generation, transmission and distribution business.
- Earnings in 2013 and 2012 are lower than in 2011 due to (1) higher fuel cost for Holyrood over the past two years, (2) greater power purchase costs, and (3) increasing operating costs.
- Earnings before non-recurring items decreased in 2013 partly due to higher fuel cost from increased consumption and higher depreciation and amortization from a larger asset base.
- This was slightly offset by an increase in electricity sales from higher load growth in the regulated segment and higher electricity prices, due to the colder weather, for the energy marketing segment.

2014 Summary/Outlook

- Earnings for the 12 months ended March 31, 2014 (LTM 2014), decreased due to lower earnings from the regulated segment and from Churchill Falls. Income from electricity sales in the Province decreased due to a large increase in fuel and purchase power costs.
- Earnings in 2014 are expected to benefit from higher rates in the regulated segment and from higher expected electricity prices as natural gas prices begin to recover from historic lows.
- Earnings volatility will continue to be managed through stabilizing the fuel prices and customer load variations in the RSP (Rate Stabilization Plan) by recovering from or refunding to customers in future rates.

Financial Profile and Outlook

Consolidated (CA$ millions where applicable)	12 mos Mar. 31 2014	For the year ended Dec. 31 2013	2012	2011	2010	2009
Net income before non-recurring items	42	53	68	90	85	67
Depreciation & amortization	67	66	60	55	56	55
Deferred income taxes and other	15	9	10	6	0	0
Cash flow from operations	125	128	138	151	142	122
Dividends paid	(43)	(39)	(30)	(78)	(92)	(45)
Capital expenditures	(116)	(113)	(108)	(88)	(65)	(58)
Free cash flow (bef. working cap. changes)	(34)	(24)	0	(15)	(16)	20
Changes in non-cash work. cap. items	(26)	11	(63)	(18)	46	11
Rate stabilization/Regulatory adjustments	30	56	30	14	42	74
Net free cash flow	(30)	43	(33)	(19)	71	105
Acquisitions & investments	2	(0)	9	2	25	(23)
Proceeds on asset sales	4	4	4	5	1	1
Net equity change	2	2	0	0	1	100
Net debt change	43	(11)	52	0	(29)	(164)
Increase in sinking fund	(25)	(28)	(26)	(25)	(23)	(22)
Other investing and financing	(3)	(3)	(10)	(1)	(5)	17
Change in cash	(7)	7	(4)	(37)	40	14
Total debt (1)	936	902	923	893	937	1,000
Cash and equivalents	19	19	12	25	65	50
Total debt in capital structure (1)	46.5%	46.1%	46.8%	47.1%	50.1%	52.5%
Cash flow/Total debt (1)	13.3%	14.2%	15.0%	16.9%	15.1%	12.2%
EBIT interest coverage (times)	1.58	1.60	1.66	1.86	1.91	1.64
Dividend payout ratio	101.4%	72.8%	44.8%	87.1%	109.1%	66.5%

(1) Debt is net of sinking fund assets.

2013 Summary

- The Company's key financial ratios remained reasonable in 2013.
- Operating cash flow decreased slightly in 2013 due to lower earnings for the year.
- Capex continued to remain elevated as the Company invested in upgrading its aging asset base and replacing existing infrastructure.
- Hydro's dividend policy is (1) based on maintaining the regulated segment's target capital structure at 75% debt, and (2) paying out excess cash from the sale of recall power for the non-regulated segments.
- The Company generated a positive net free cash flow in 2013, benefiting from the recovery of balances in the RSP. This was used to repay a portion of the outstanding promissory notes and for sinking fund payments.

2014 Summary/Outlook

- Hydro's key financial ratios remained stable in LTM 2014.
- The Company's capex and dividends remained in line with 2013 levels.
- Operating cash flow is expected to improve following the approval of the higher ROE in the current GRA.
- Hydro is forecasted to have capex of approximately $322 million for 2014. This amount includes around $269 million for the regulated segment, with (1) $98 million representing the 2014 capital budget as approved by the PUB in December 2013, (2) $36 million for the Labrador West Transmission Project, as ordered by the Province in February 2014, and (3) $119 million for the purchase and installation of a 120 MW gas turbine at Holyrood, as approved by the PUB in May 2014. An additional $14 million represents supplemental capex that has yet to be approved by the PUB.
- The Company expects to fund the capex spending through internally generated operating cash flow and debt. Dividends are expected to be restricted for the medium-term as the Company undergoes this period of significant capex.

Long-Term Debt Maturities and Bank Lines

- Promissory notes, debentures and long-term loans are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments by the Province. The Province charges a guarantee fee of 0.25% and 0.5% annually on obligations with maturities less than or equal to ten years and greater than ten years, respectively (net of sinking funds), outstanding as of the preceding December 31.
- Hydro has a $300 million short-term promissory note program, guaranteed by the Province, which it uses for its daily funding requirements. As at December 31, 2013, the Company had $41 million (at par) outstanding.
- The Company has a $50 million unsecured operating credit facility with a commercial bank that is used primarily to backstop the Company's short-term promissory note program and to support letters of credit. At December 31, 2013, there was no amount outstanding on the operating line of credit; however, one letters of credit was outstanding, which reduced available credit by $0.3 million.

(As at December 31, 2013)

(CA$ millions)	2014*	2015	2016	2017*	2018	Thereafter	Total
	125	-	225	150	-	725	1,225
	10%	0%	18%	12%	0%	59%	100%

Note: Includes term debt maturities and sinking fund requirmenets for Hydro only.

*Includes $275 million of Notes to be repaid from the sinking fund reserve.

- The debt maturity profile is well distributed, with only 10% of total debt coming due prior to 2016.

Regulation

- Hydro is regulated by the PUB based on a return on rate base model.
- Hydro has a RSP that provides for the deferral of cost variances resulting from changes in fuel prices relative to the base price, levels of precipitation and load.
  - Accumulated balances related to fuel cost variations will be recovered over the following one-year period.
  - Accumulated balances related to variations in hydrology will be recovered at a rate of 25% of the outstanding balance at year-end, including the weighted-average cost of capital on the balance.
  - The RSP allows Hydro to smooth out the rate increases required to recover the cost variances.
- The 2006 GRA established a return on rate base of 7.44% based on an allowed ROE of 4.47%.
- Hydro filed a GRA with the PUB in July 2013, requesting new rates effective January 1, 2014. The application remains on file with the PUB, but due to significant delays in the GRA process, new rates have yet to be implemented in 2014. Hydro is preparing to file an update in fall 2014 to request for additional revenue based on updated 2014–2015 test years.
- Once approved by the PUB, new rates will reflect an ROE of 8.80%, which is equal to that of Newfoundland Power Inc. Hydro has applied for a return on rate base of 7.83% and rate base of $1,564.1 million.
- Hydro has an internal target debt-to-equity ratio of 75:25 for regulated operations. After approval of the GRA filed in July 2013, Hydro will be entitled to have equity in its capital structure up to the same amount as Newfoundland Power Inc. (currently 45% equity with 55% debt). However, Hydro expects to maintain its target of 75% debt.
- In November 2013, Hydro filed an application for interim rates effective January 1, 2014. An amended interim rate application was dismissed by the PUB in April 2014 as the PUB found that Hydro had not filed an application with supporting evidence setting out a comprehensive, unambiguous set of proposals. The Company submitted a second application for interim rates in May 2014.
- The PUB approved a $97.8 million capital budget for 2014. The PUB additionally approved $119 million for the purchase and installation of a 120 MW gas turbine at Holyrood in May 2014.
- Hydro filed its 2015 Capital Budget Application in August 2014 requesting approval for $79.9 million in capex.
- Effective July 1, 2014, Hydro was issued an order approving an overall average rate increase of approximately 2.00% in electricity rates.

Newfoundland and Labrador Hydro (Consolidated)

(CA$ millions)	Mar. 31	Dec. 31	Dec. 31		Mar. 31	Dec. 31	Dec. 31
Assets	2014	2013	2012	**Liabilities & Equity**	2014	2013	2012
Cash & equivalents	19	19	12	S.T. borrowings	83	41	52
Accounts receivable	110	104	102	Accounts payable	90	118	92
Inventories	89	75	62	Current portion L.T.D.	81	82	8
Regulatory assets	2	2	2	Regulatory liabilities	184	214	169
Prepaid expenses & other	78	70	4	Other current liab.	7	2	2
Total Current Assets	**298**	**271**	**183**	**Total Current Liab.**	**444**	**457**	**324**
Net fixed assets	1,844	1,845	1,806	Long-term debt	1,046	1,047	1,126
Sinking funds	204	202	263	Provisions	102	100	94
Regulatory assets	63	62	63	Regulatory liabilities	69	40	33
Investments & others	54	52	52	Other L.T. liab.	1	2	3
				Shareholders' equity	801	787	787
Total Assets	**2,463**	**2,432**	**2,366**	**Total Liab. & SE**	**2,463**	**2,432**	**2,366**

Balance Sheet & Liquidity & Capital Ratios (Consolidated)	**12 mos Mar. 31 2014**	**For the year ended Dec. 31 2013**	**2012**	**2011**	**2010**	**2009**
Current ratio	0.67	0.59	0.56	0.64	0.78	0.87
Total debt in capital structure (1)	46.5%	46.1%	46.8%	47.1%	50.1%	52.5%
Cash flow/Total debt (1)	13.3%	14.2%	15.0%	16.9%	15.1%	12.2%
(Cash flow-dividends)/Capex (times)	0.70	0.79	1.00	0.83	0.75	1.34
Dividend payout ratio	101.4%	72.8%	44.8%	87.1%	109.1%	66.5%
Coverage Ratios (times)						
EBIT interest coverage	1.58	1.60	1.66	1.86	1.91	1.64
EBITDA interest coverage	2.32	2.33	2.33	2.47	2.53	2.23
Fixed-charges coverage	1.58	1.60	1.66	1.86	1.91	1.64
Operating Efficiency						
Power purchases/Revenues	10.7%	10.2%	10.4%	9.0%	7.7%	8.3%
Fuel costs/Revenues	34.5%	30.9%	31.2%	26.5%	24.2%	27.4%
Profitability Ratios						
EBITDA margin	52.8%	52.8%	53.8%	56.1%	58.7%	56.4%
EBIT margin	35.9%	36.3%	38.4%	42.2%	44.4%	41.4%
Profit margin	10.6%	13.4%	17.3%	22.5%	21.5%	18.4%
Return on equity	5.5%	7.1%	9.3%	12.7%	12.1%	10.4%
Return on capital	6.7%	7.3%	8.2%	9.7%	9.4%	8.3%

(1) Debt is net of sinking fund assets.

Operating Statistics	For the year ended December 31				
Electricity Sold – Breakdown	**2013**	**2012**	**2011**	**2010**	**2009**
Utilities (Newfoundland Power)	5,606	5,359	5,317	5,016	5,108
Rural	1,017	998	949	884	931
Industrial	555	607	491	729	576
Exports	1,514	1,559	1,594	1,457	1,575
Total (GWh sold)	8,692	8,523	8,351	8,086	8,190
Energy sales growth	2.0%	2.1%	3.3%	-1.3%	-2.3%
Generating Capacity (MW)					
Hydroelectric	939	939	939	939	939
Thermal (Oil)	617	617	632	640	640
Diesel	53	52	55	58	58
Installed capacity (MW)	1,609	1,608	1,626	1,637	1,637
Electricity Generated (GWh) – hydroelectric	4,688	4,595	4,512	4,274	4,200
Electricity Generated (GWh) – thermal	956	851	873	792	930
Electricity Generated (GWh) – diesel	48	46	47	43	46
Gross energy generated – GWh	5,692	5,492	5,432	5,109	5,176
Plus: purchases	3,408	3,395	3,305	3,339	3,330
Energy generated + purchased	9,100	8,887	8,737	8,448	8,506
Less: transmission losses + internal use	408	364	386	362	316
Total – GWh sold	8,692	8,523	8,351	8,086	8,190
Energy lost/energy gen + purch.	4.5%	4.1%	4.4%	4.3%	3.7%
Maximum Island Interconnected peak demand	1,501	1,385	1,399	1,305	1,390
Peak Island Interconnected demand/available capacity	93.3%	86.1%	86.0%	79.7%	84.9%

Rating

Debt	Rating	Trend
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	Stable
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A	Stable

Rating History

	Current	2013	2012	2011	2010	2009
Guaranteed Short-Term Debt	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Guaranteed Long-Term Debt	A	A	A	A	A	A

Note:
All figures are in Canadian dollars unless otherwise noted.

Rating Report

Newfoundland and Labrador Hydro

DBRS

Insight beyond the rating.

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Ratings

Debt	Rating	Trend
Guaranteed Long-Term Debt (bsd. On Prov. Nfld)	A	Stable
Guaranteed Short-Term Debt (bsd. On Prov. Nfld)	R-1 (low)	Stable

Rating Update

DBRS Limited (DBRS) has updated its report on Newfoundland and Labrador Hydro (Hydro or the Company). The ratings assigned to the Company's Guaranteed Long-Term Debt and Guaranteed Short-Term Debt are a flow-through of the ratings of the Province of Newfoundland and Labrador (the Province; rated "A" and R-1 (low) with Stable trends by DBRS; see DBRS's report on the Province dated November 20, 2014), which unconditionally guarantees all of Hydro's outstanding debt. The unconditional guarantee extends to principal, interest and, where applicable, sinking fund payments relating to the Company's promissory notes, debentures and long-term loans. Please see *DBRS Criteria: Guarantees and Other Forms of Explicit Support* for further detail.

In 2014, Hydro continued to execute on its long-term asset management plans to upgrade and replace aging infrastructure, maintain service reliability and expand the system to meet load growth. The Company had $209 million of capital expenditures (capex) in the year, including $95 million for the purchase and installation of a 100 megawatt (MW) gas turbine at the Holyrood Thermal Generating Station (Holyrood; total capex of approximately $129 million). In its 2016 to 2020 Capital Plan, Hydro plans to invest approximately $873 million over the five-year period, including $291 million on the construction of a transmission line from Bay d'Espoir to the Avalon Peninsula. While capex in 2015 (approximately $136 million) is expected to be lower than in 2014 as a result of a temporary suspension in the $330 million Labrador West Transmission Project, capex is expected to remain significantly above the historical depreciation level of around $70 million per year and will require substantial external funding.

As a result of significant delays in the general rate application (GRA) process initiated in July 2013, Hydro filed an amended application with the Board of Commissioners of Public Utilities (PUB) in November 2014 using 2015 forecast costs. Once approved, the new rates will reflect a return on equity (ROE) of 8.80%, an increase from 4.47% in 2013, which is equal to that of Newfoundland Power Inc. (Newfoundland Power; rated "A" with a Stable trend by DBRS). The higher ROE, as well as increase in the rate base (forecast rate base of $1.8 billion in 2015 versus $1.5 billion in 2013), is expected to result in higher earnings and cash flows to help finance the significant capex, with the balance to be funded through the issuance of debt. The Company has forecast approximately $700 million of additional debt in the next four years in order to fund the planned capex. However, these debt issuances, which will be guaranteed by the Province, will not have a material impact on the Company's credit profile.

Financial Information

Consolidated	12 mos. to June 30	For the year ended Dec. 31				
(CA$ millions where applicable)	2015	2014	2013	2012	2011	2010
Total debt 1	1,036	1,072	902	923	893	937
Cash flow/Total debt 1	13.6%	13.7%	14.0%	15.0%	16.9%	15.1%
Total debt in capital structure 1	50.0%	51.2%	46.7%	46.8%	47.1%	50.1%
EBIT gross interest coverage (times)	1.83	1.87	1.65	1.66	1.86	1.91
Net income before non-recurring items	69	72	56	68	90	85
Cash flow from operations	141	147	126	138	151	142

1 Debt is net of sinking fund assets.

Issuer Description

Newfoundland and Labrador Hydro, a Crown corporation of the Province of Newfoundland and Labrador, generates, transmits and distributes electricity in the Province.

Rating Considerations

Strengths

1. Debt is guaranteed by the Province

The Province unconditionally guarantees Hydro's debt in exchange for an annual guarantee fee of 0.25% on obligations with maturities less than or equal to ten years, and 0.5% on obligations with maturities greater than ten years (net of sinking funds), outstanding as of the preceding December 31. As a result, the ratings of Hydro are a flow-through of the Province's ratings.

2. Reasonable regulatory environment

The regulatory environment has contributed to a generally stable financial profile since 2002. The Province issued an Order in Council in 2009 for Hydro to earn a ROE equal to that of Newfoundland Power, effective at its next GRA. There has, however, been substantial delays in the GRA process — Hydro filed its GRA with the PUB in July 2013 for rates effective January 1, 2014, and subsequently filed an amended GRA in November 2014. Once approved, the new rates will reflect a ROE of 8.80%.While the GRA application remains on file, the PUB has approved (a) interim rates effective July 1, 2015, albeit at a level below the Company's request, and (b) the deferral of 2014 costs to represent the effect of bringing rates in line with 2014 cost levels, although the recovery of this amount will be subject to a future rate order.

3. Minimal competition

Geographic isolation and the lack of availability of natural gas minimize competitive pressures for the Company.

Challenges

1. Increased levels of planned capital expenditure

Hydro has significant planned capex over the medium term, including approximately $180 million for 2015. The Company plans to fund capital spending through internally generated cash flows and by issuing debt. The higher debt levels will likely pressure Hydro's financial profile for the medium term. This will be slightly mitigated by the higher cash flows and earnings for the Company after the GRA is approved.

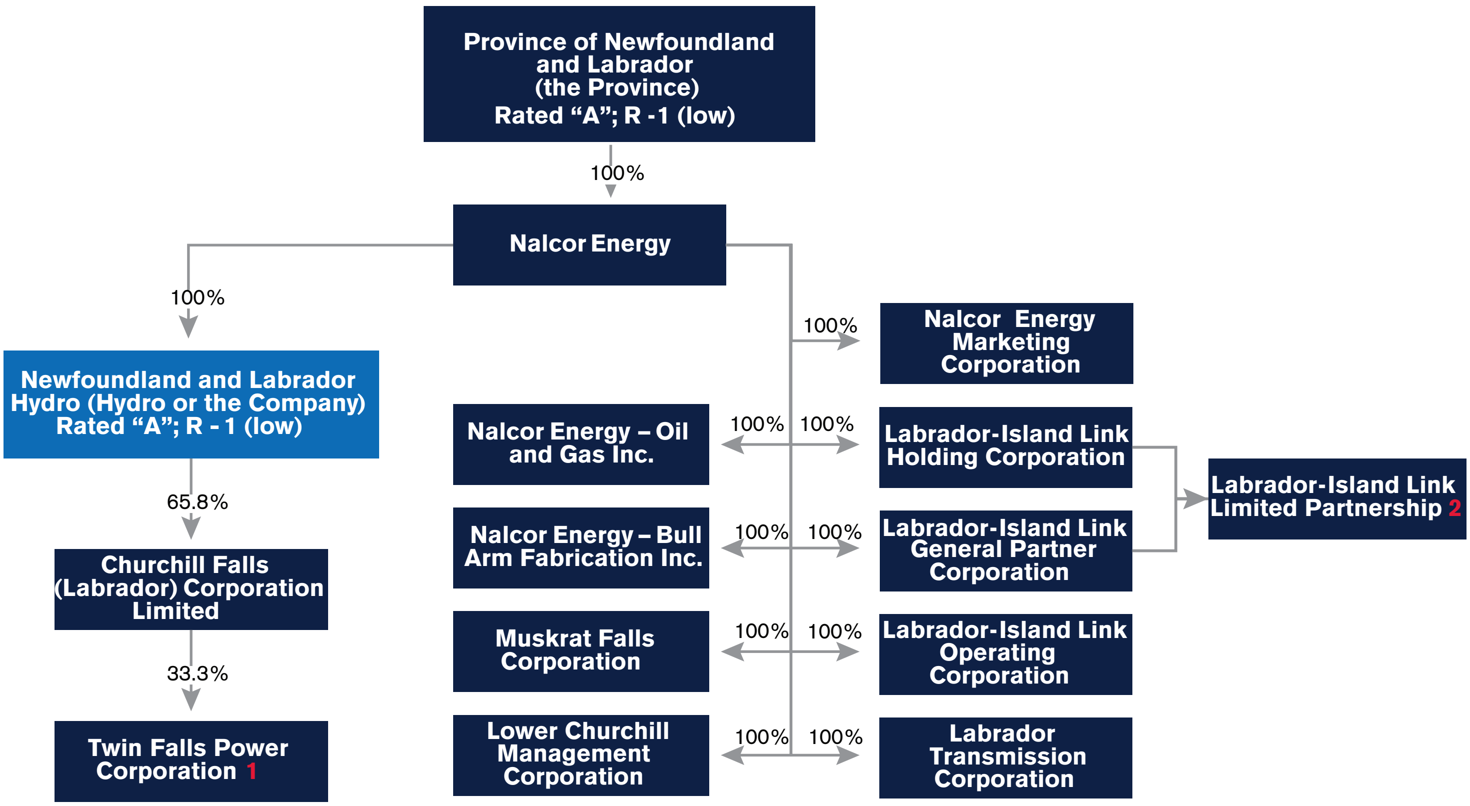
2. Sensitivity to weather

Demand for Hydro is correlated with the weather, which has a direct impact on annual earnings and cash flows.

3. Environmental issues related to sulphur

Approximately 22% of the Company's electricity in 2014 was thermal based, fuelled by bunker C fuel, which has high sulphur content. While future environmental regulations are uncertain, this could result in increased costs and/or capex. While sulphur emissions were higher in 2014 as a result of increased energy production from Holyrood, the majority of the sulphur emissions are expected to be eliminated following the closure of Holyrood once the Muskrat Falls Project comes on line.

Simplified Corporate Structure



1 Shareholdings in Twin Falls Power Corporation consist of Class A and B shares. The issued Class A shares are entitled to four votes per share and the Class B are entitled to one vote per share. There are 250,000 Class A and 500,000 Class B shares issued and outstanding. Churchill Falls (Labrador) Corporation Limited is the holder of all Class A shares with the Class B sharesheld by other parties.
2 Labrador-Island Link Holding Corporation currently holds 65.0% while Emera Inc. holds 35.0% interest of the limited partnership in Labrador-Island Link Limited Partnership.

Company Profile

- Hydro is a Crown corporation owned by Nalcor Energy, which is in turn 100% owned by the Province.
- Hydro is the dominant electric generation and transmission power company in the Province. It also directly serves residential, commercial and industrial distribution customers in more rural service areas.
- Hydro supplies over 90% of the Province's electrical energy. In 2014, it sold approximately 78% of its available supply to an investor-owned electricity distributor, Newfoundland Power, which is wholly owned by Fortis Inc. (rated A (low) with a Stable trend by DBRS). Hydro's remaining power deliveries are directed to its own distribution customers across the Province as well as six large industrial companies. Short-term exports of unused recall power from Churchill Falls (300 MW) are sold to other parties via the energy-marketing division.
- Hydro's regulated operations have installed generating capacity of 1,637 MW, consisting of hydroelectric (956 MW), thermal (617 MW) and diesel (64 MW) power.
- Churchill Falls has installed generating capacity of 5,428 MW and a power contract with Hydro-Québec (rated A (high) with a Stable trend by DBRS) for the majority of the electricity generated from this facility (approximately 30 terawatt hours until 2041).
- The Company has long-term supply contracts and power purchase arrangements with non-utility power producers in the Province.
- Upon completion of the Lower Churchill project, the Company will be the off-taker for a portion of Muskrat Falls' generating output and some of its transmission capacity via power purchase agreements.

Earnings and Outlook

Consolidated	12 mos. to June 30	For the year ended Dec. 31				
(CA$ millions where applicable)	2015	2014	2013	2012	2011	2010
Net sales	448	444	399	392	398	395
EBITDA	224	230	213	211	224	232
EBIT	151	160	149	150	168	175
Gross interest expense	83	86	91	91	91	92
Net income before non-recurring items	69	72	56	68	90	85
Reported net income	72	73	57	64	91	84
Return on equity	8.8%	9.3%	7.4%	9.3%	12.7%	12.1%
DBRS Adjusted Segment EBIT						
Hydro Regulated	103	108	98	112	112	94
Churchill Falls	31	18	22	19	13	25
Energy Marketing	22	38	32	19	46	52

2014 Summary

- Hydro's earnings are generated primarily from its regulated electricity generation, transmission and distribution business.
- Earnings increased in 2014 largely because of the PUB approving the deferral of $45.9 million of costs, representing the effect of bringing rates in line with 2014 cost levels, and the deferral of $9.6 million in capacity supply costs related to the January 2014 power interruption. However, the recovery of these amounts will be subject to a future PUB order.
- Earnings for the Energy Marketing segment also increased because of higher export market prices in the first half of the year, as a result of a colder winter in the Northeast United States. This was slightly offset by higher power purchases and increased operating costs to implement the moving of energy trading operations in-house in 2015.
- The Churchill Falls segment saw a moderate decrease in earnings due to lower energy deliveries to Hydro-Québec as a result of reduced load requests, and higher depreciation as a result of the increase in investments on fixed assets.

2015 Summary/Outlook

- Earnings in the 12 months ended June 30, 2015 (LTM 2015), decreased moderately due to higher operating costs from increases in salaries and maintenance work, and higher depreciation as a result of the growing asset base. This was partially offset by lower interest costs as Hydro refinanced its 2014 long-term debt maturity at lower interest rates.
- While earnings contributed by Churchill Falls increased due to additional energy sales from the former Twinco Block to Hydro and higher guaranteed winter availability contract revenues from Hydro-Québec, earnings from the Energy Marketing segment decreased due to lower export market prices.
- Earnings in 2015 are expected to benefit from the higher interim rates approved by the PUB effective July 1, 2015. However, as a result of the later implementation of the interim rates as opposed to the requested date of March 1, 2015, the Company has forecast a deficiency in profit of $44 million for 2015. Hydro has applied for 2015 cost deferral of $20 million in order to recover approximately 70% of the forecasted 2015 profit deficiency. An adverse decision on the 2015 cost deferral application, ongoing GRA process and the prudence review could have a negative impact on earnings.
- Earnings volatility will continue to be managed through stabilizing the fuel prices and customer load variations in the Rate Stabilization Plan (RSP) by recovering from or refunding to customers in future rates.

Financial Profile and Outlook

Consolidated	12 mos. to June 30	For the year ended Dec. 31				
(CA$ millions where applicable)	2015	2014	2013	2012	2011	2010
Net income before non-recurring items	69	72	56	68	90	85
Depreciation & amortization	73	70	64	60	55	56
Deferred income taxes and other	(1)	5	6	10	6	0
Cash flow from operations	**141**	**147**	**126**	**138**	**151**	**142**
Dividends paid	(37)	(43)	(39)	(30)	(78)	(92)
Capital expenditures	(214)	(243)	(119)	(108)	(88)	(65)
Free cash flow (bef. working cap. changes)	**(110)**	**(139)**	**(32)**	**0**	**(15)**	**(16)**
Changes in non-cash work. cap. items	(3)	8	11	(63)	(18)	46
Rate stabilization/Regulatory adjustments	11	(66)	57	30	14	42
Net free cash flow	**(102)**	**(197)**	**36**	**(33)**	**(19)**	**71**
Acquisitions & investments	(6)	(3)	0	9	2	25
Proceeds on asset sales	3	3	9	4	5	1
Net equity change	0	0	2	0	0	1
Net debt change	121	84	(11)	52	0	(29)
Increase/Decrease in sinking fund	(15)	101	(28)	(26)	(25)	(23)
Other investing and financing	17	18	(1)	(10)	(1)	(5)
Change in cash	**19**	**7**	**6**	**(4)**	**(37)**	**40**
Total debt 1	1,036	1,072	902	923	893	937
Cash and equivalents	51	29	18	12	25	65
Cash flow/Total debt 1	13.6%	13.7%	14.0%	15.0%	16.9%	15.1%
Total debt in capital structure 1	50.0%	51.2%	46.7%	46.8%	47.1%	50.1%
EBIT interest coverage (times)	1.83	1.87	1.65	1.66	1.86	1.91
Dividend payout ratio	53.2%	59.1%	69.5%	44.8%	87.1%	109.1%

1 Debt is net of sinking fund assets.

2014 Summary

- Hydro's cash flow-to-debt and debt-to-capital ratios saw modest deteriorations in 2014 as a result of the higher debt load. However, the Company's key financial ratios continued to remain reasonable.
- Cash flow from operations increased largely due to the higher earnings in the year.
- Capex increased significantly in 2014 as the Company invested approximately $123 million on generation assets, including $95 million on the supply and installation of a 100 MW combustion turbine generator at Holyrood, $76 million on transmission and rural operations and $33 million for Churchill Falls.
- Hydro's dividend policy is (1) based on maintaining the regulated segment's target capital structure at 75% debt and (2) paying out excess cash from the sale of recall power for the non-regulated segments.
- The Company generated a significant net free cash flow deficit in 2014 due to higher capex. The Company funded this deficit by issuing $200 million of debentures.
- Hydro also repaid $124.8 million of its $125 million Series V debentures largely from the sinking fund reserve.

2015 Summary/Outlook

- Hydro's key financial ratios remained stable in LTM 2015.
- Operating cash flow is expected to improve following the approval of higher interim rates by the PUB effective July 1, 2015.
- Hydro is forecast to have capex of approximately $136 million for 2015. This amount includes around $127 million for the regulated segment, with (1) $77 million representing the 2015 capital budget as approved by the PUB in December 2014 and (2) $35 million to complete the installation of the turbine at Holyrood.
- The Company expects to fund the capex through internally generated operating cash flow and debt. Dividends are expected to be restricted for the medium term as the Company undergoes this period of significant capex.

Long-Term Debt Maturities and Bank Lines

- Promissory notes, debentures and long-term loans are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments by the Province. The Province charges a guarantee fee of 0.25% and 0.5% annually on obligations with maturities less than or equal to ten years and greater than ten years, respectively (net of sinking funds), outstanding as of the preceding December 31.
- Hydro has a $300 million short-term promissory note program, guaranteed by the Province, which it uses for its daily funding requirements. As at June 30, 2015, the Company had $28 million (at par) outstanding.
- The Company has a $50 million unsecured operating credit facility with a commercial bank that is used primarily to backstop the Company's short-term promissory note program and to support letters of credit. At June 30, 2015, there was no amount outstanding on the operating line of credit; however, one letter of credit was outstanding, which reduced available credit by $0.3 million.

(As at June 30, 2015)

(CA$ millions)	2015	2016	2017 *	2018	2019	Thereafter	Total
	0	225	150	0	0	862	1,237
	0%	18%	12%	0%	0%	70%	100%

Note: Includes term debt maturities and sinking fund requirmenets for Hydro only.
*Includes $150 million of Notes to be repaid from the sinking fund reserve.

- The debt maturity profile is well distributed, with 18% and 12% of total debt due in 2016 and 2017, respectively.

Regulation

- Hydro is regulated by the PUB based on a return on rate base model under cost of service regulation.
- Hydro has a RSP that provides for the deferral of cost variances resulting from changes in fuel prices relative to the base price, levels of precipitation and load.
  - Accumulated balances related to fuel cost variations will be recovered over the following one-year period.
  - Accumulated balances related to variations in hydrology will be recovered at a rate of 25% of the outstanding balance at year-end, including the weighted-average cost of capital on the balance.
  - The RSP allows Hydro to smooth out the rate increases required to recover the cost variances.
- The 2006 GRA established a return on rate base of 7.44% based on an allowed ROE of 4.47%.
- Hydro filed a GRA with the PUB in July 2013, requesting new rates effective January 1, 2014. Due to significant delays in the GRA process, Hydro filed an amended GRA in November 2014 based on 2014 and 2015 test years.
- Once approved by the PUB, new rates will reflect an ROE of 8.80%, which is equal to that of Newfoundland Power. Hydro has applied for a return on rate base of 7.12% and rate base of $1,692.6 million for 2014, and a return on rate base of 6.82% and rate base of $1,802 million for 2015.
- Hydro has an internal target debt-to-equity ratio of 75:25 for regulated operations. After approval of the amended GRA, Hydro will be entitled to have equity in its capital structure up to the same amount as Newfoundland Power (currently 45% equity with 55% debt). However, Hydro expects to maintain its target of 75% debt.
- In November 2014, Hydro filed an application to create a 2014 cost deferral account in order to segregate $45.9 million related to its proposed 2014 revenue requirement. The PUB approved the creation of the deferral account in December 2014 but recovery of the amount will be subject to a future rate order.
- On January 28, 2015, Hydro filed an application with the PUB for interim rates effective March 1, 2015. The PUB approved certain aspects of the application for rates effective July 1, 2015. The Company has forecast a deficiency of approximately $44 million in profit for 2015 largely as a result of the later implementation date. As a result, Hydro filed an application for 2015 cost deferral of $20 million in July 2015.
- The PUB approved a $76.8 million capital budget for 2015 in December 2014. Hydro also filed its 2016 Capital Budget Application in July 2015 requesting approval for $184 million in capex.
- In January 2015, the PUB began conducting a prudence review of certain Hydro expenditures. The outcome of the review, which will be made by the PUB as part of the GRA, will determine whether the associated costs will be recoverable from customers.

Newfoundland and Labrador Hydro

(CA$ millions)	As at June 30 2015	As at December 31 2014	2013
Assets			
Cash & equivalents	51	29	18
Accounts receivable	73	105	104
Inventories	76	97	75
Prepaid expenses & other	13	9	70
Total Current Assets	**213**	**239**	**267**
Net fixed assets	2,069	2,038	1,865
Sinking funds	238	228	202
Regulatory assets	124	124	64
Investments & others	28	36	53
Total Assets	**2,672**	**2,666**	**2,452**

	As at June 30 2015	As at December 31 2014	2013
Liabilities & Equity			
S.T. borrowings	28	53	41
Accounts payable	112	151	118
Current portion L.T.D.	8	8	82
Other current liab.	2	2	2
Total Current Liab.	**150**	**214**	**243**
Long-term debt	1,237	1,239	1,047
Provisions	160	156	130
Regulatory liabilities	328	252	259
Other L.T. liab.	12	12	12
Shareholders' equity	796	792	761
Total Liab. & SE	**2,682**	**2,666**	**2,452**

Balance Sheet & Liquidity & Capital Ratios (Consolidated)	12 mos. to June 30	For the year ended Dec. 31				
	2015	2014	2013	2012	2011	2010
Current ratio	1.42	1.12	1.10	0.56	0.64	0.78
Total debt in capital structure 1	50.0%	51.2%	46.7%	46.8%	47.1%	50.1%
Cash flow/Total debt 1	13.6%	13.7%	14.0%	15.0%	16.9%	15.1%
(Cash flow-dividends)/Capex (times)	0.49	0.43	0.73	1.00	0.83	0.75
Dividend payout ratio	53.2%	59.1%	69.5%	44.8%	87.1%	109.1%
Coverage Ratios (times)						
EBIT interest coverage	1.83	1.87	1.65	1.66	1.86	1.91
EBITDA interest coverage	2.72	2.69	2.36	2.33	2.47	2.53
Fixed-charges coverage	1.83	1.87	1.65	1.66	1.86	1.91
Operating Efficiency						
Power purchases/Revenues	9.0%	9.8%	10.2%	10.4%	9.0%	7.7%
Fuel costs/Revenues	30.7%	38.6%	30.9%	31.2%	26.5%	24.2%
Profitability Ratios						
EBITDA margin	50.0%	51.8%	53.4%	53.8%	56.1%	58.7%
EBIT margin	33.7%	36.1%	37.3%	38.4%	42.2%	44.4%
Profit margin	15.3%	16.3%	14.0%	17.3%	22.5%	21.5%
Return on equity	8.8%	9.3%	7.4%	9.3%	12.7%	12.1%
Return on capital	7.3%	7.6%	7.5%	8.2%	9.7%	9.4%

1 Debt is net of sinking fund assets.

Operating Statistics	For the year ended Dec. 31				
Electricity sold – breakdown	**2014**	**2013**	**2012**	**2011**	**2010**
Utilities (Newfoundland Power)	5,852	5,606	5,359	5,317	5,016
Rural	1,089	1,017	998	949	884
Industrial	519	555	607	491	729
Exports	1,545	1,514	1,559	1,594	1,457
Total (GWh sold)	**9,005**	**8,692**	**8,523**	**8,351**	**8,086**
Energy sales growth	3.6%	2.0%	2.1%	3.3%	-1.3%
Generating capacity (MW)					
Hydroelectric	956	939	939	939	939
Thermal (Oil)	617	617	617	632	640
Diesel	64	53	52	55	58
Installed capacity	**1,637**	**1,609**	**1,608**	**1,626**	**1,637**
Electricity generated and purchased (GWh)					
Electricity Generated – hydroelectric	4,658	4,688	4,595	4,512	4,274
Electricity Generated – thermal	1,316	956	851	873	792
Electricity Generated – diesel	54	49	45	49	43
Gross energy generated	**6,028**	**5,693**	**5,491**	**5,434**	**5,109**
Plus: purchases	3,339	3,408	3,395	3,305	3,339
Energy generated + purchased	**9,367**	**9,101**	**8,886**	**8,739**	**8,448**
Less: transmission losses + internal use	362	408	364	386	362
Total sales	**9,005**	**8,693**	**8,522**	**8,353**	**8,086**
Energy lost/energy gen + purch.	3.9%	4.5%	4.1%	4.4%	4.3%
Maximum Island Interconnected peak demand	1,535	1,501	1,385	1,399	1,305
Peak Island Interconnected demand/available capacity	93.8%	93.3%	86.1%	86.0%	79.7%

Rating History

	Current	2014	2013	2012	2011	2010
Guaranteed Long-Term Debt (bsd. On Prov. Nfld)	A	A	A	A	A	A
Guaranteed Short-Term Debt (bsd. On Prov. Nfld)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Previous Action

- Confirmed, November 20, 2014.

Related Research

- Newfoundland and Labrador, Province of: Rating Report, November 20, 2014.

Previous Report

- Newfoundland and Labrador Hydro, Rating Report, August 27, 2014.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on **www.dbrs.com**.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

Rating Report

Newfoundland and Labrador Hydro

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DBRS

Insight beyond the rating.

Ratings

Debt	Rating	Trend
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A (low)	Stable
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	Stable

Rating Update

DBRS Limited (DBRS) has updated its report on Newfoundland and Labrador Hydro (Hydro or the Company). The ratings assigned to the Company's Guaranteed Long-Term Debt and Guaranteed Short-Term Debt are a flow-through of the ratings of the Province of Newfoundland and Labrador (the Province; rated A (low) and R-1 (low) with Stable trends by DBRS; see DBRS's press release on the Province dated April 15, 2016), which unconditionally guarantees all of Hydro's outstanding debt. The unconditional guarantee extends to principal, interest and, where applicable, sinking fund payments relating to the Company's promissory notes, debentures and long-term loans. Please see *DBRS Criteria: Guarantees and Other Forms of Support* for further detail. DBRS views Hydro as self-supporting as it is able to fund its own operations and service its debt.

Hydro continued to execute on its large capital expenditures (capex) program in 2015, spending approximately $163 million for the year. Although this was substantially lower than in 2014, following the installation of a 100 megawatt (MW) gas turbine at Holyrood Thermal Generating Station (Holyrood), capex is expected to ramp up in 2016 (forecast of $263 million) with the beginning of construction on a transmission line from Bay d'Espoir to Western Avalon (total capex of approximately $292 million). Furthermore, in its 2017 to 2021 capital plan submitted to the Board of Commissioners of Public Utilities (PUB), the Company plans to invest an average of $194 million over the five-year period, significantly higher than historical levels. As a result, the high capex is expected to result in a weakening in Hydro's key financial ratios for the near-term. DBRS notes, however, that leverage at the consolidated level remains reasonable, allowing for some financial flexibility during this period of significant capex. Additionally, with the decision for the general rate application (GRA) expected by the end of the year, the rate increase should result in higher earnings and cash flows for the Company going forward to help fund its capex program.

DBRS remains concerned with the potential for a large increase in electricity rates for the Province when the Muskrat Falls project, currently under construction by Nalcor Energy (100% owner of Hydro, and is in turn 100% owned by the Province), comes on line in 2019/2020. While it is currently uncertain how the cost of the project will be recovered from the Company's customers, should the potential upward pressure on rates affect the Company's ability to pass on costs, this could result in deterioration in Hydro's key financial ratios.

Financial Information

Newfoundland and Labrador Hydro

Consolidated	12 mos. to June 30	For the year ended December 31				
(CAD millions where applicable)	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Total debt 1	1,018	1,095	1,072	902	923	893
Cash flow/Total debt 1	12.4%	11.2%	13.7%	14.2%	15.0%	16.9%
Total debt in capital structure 1	48.3%	51.1%	51.2%	46.1%	46.8%	47.1%
EBIT gross interest coverage (times)	1.67	1.63	1.89	1.60	1.66	1.86
Net income before non-recurring items	48	50	75	53	68	90
Cash flow from operations	126	123	147	128	138	151

1 Debt is net of sinking fund assets.

Issuer Description

Newfoundland and Labrador Hydro, a Crown corporation of the Province of Newfoundland and Labrador, generates, transmits and distributes electricity in the Province.

Rating Considerations

Strengths

1. Debt is guaranteed by the Province
The Province unconditionally guarantees Hydro's debt in exchange for an annual guarantee fee of 0.25% on obligations with maturities less than or equal to ten years and 0.5% on obligations with maturities greater than ten years (net of sinking funds), outstanding as of the preceding December 31. As a result, the ratings of Hydro are a flow-through of the Province's ratings.

2. Reasonable regulatory environment
The regulatory environment has contributed to a generally stable financial profile since 2002. The Province issued an Order in Council in 2009 for Hydro to earn a return on equity (ROE) equal to that of Newfoundland Power, effective at its next GRA. There have, however, been substantial delays in the GRA process — Hydro filed its GRA with the PUB in July 2013 for rates effective January 1, 2014, and subsequently filed an amended GRA in November 2014. Once approved, the new rates will reflect a ROE of 8.50%. While the GRA application remains on file, the PUB has approved (a) interim rates effective July 1, 2015, albeit at a level below the Company's request, and (b) the deferral of 2014 and 2015 costs to represent the effect of bringing rates in line with 2014 and 2015 cost levels, although the recovery of this amount will be subject to a future rate order.

3. Minimal competition
Geographic isolation and the lack of availability of natural gas minimize competitive pressures for the Company.

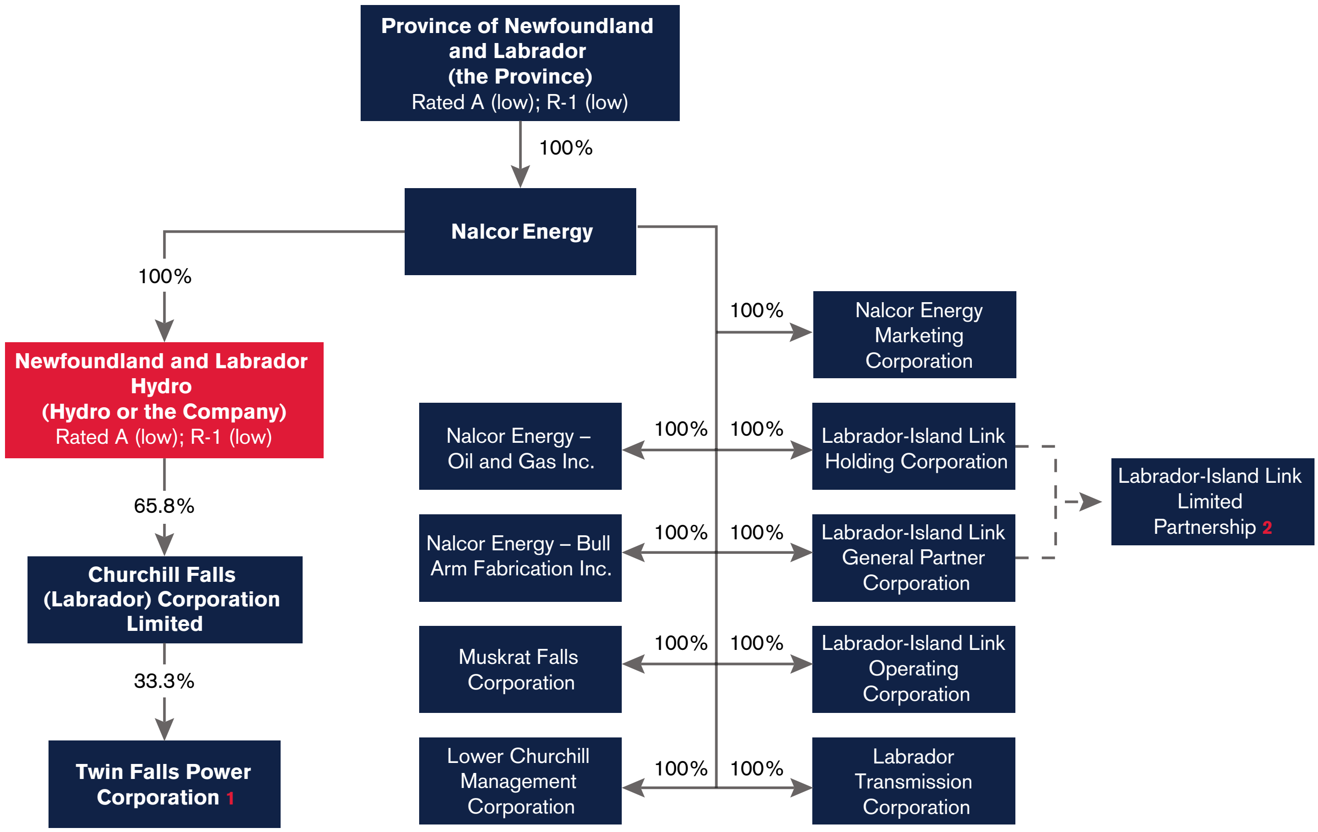
Challenges

1. Increased levels of planned capital expenditure
Hydro has significant planned capex over the medium term, including approximately $263 million for 2019. The Company plans to fund capital spending through internally generated cash flows and by issuing debt. The higher debt levels will likely pressure Hydro's financial profile for the medium term. This will be slightly mitigated by the higher cash flows and earnings for the Company after the GRA is approved.

2. Sensitivity to weather
Demand for Hydro is correlated with the weather, which has a direct impact on annual earnings and cash flows.

3. Pressure on rates from the Muskrat Falls project
The Muskrat Falls project is an 824 MW hydroelectric generating facility being developed by Nalcor Energy. Costs for the project have increased to approximately $11.5 billion from $9.0 billion in September 2015. It is currently uncertain how costs for the project will be recovered from Hydro's customers; however, should upward pressure on rates affect the Company's ability to pass on costs, this would negatively affect its key financial ratios. Additionally, a potential rate shock for customers could affect their ability to pay their electricity bills as well as the electricity throughout, which would be negative for the Company's earnings and cash flows.

Simplified Corporate Structure



1 Shareholdings in Twin Falls Power Corporation consist of Class A and B shares. The issued Class A shares are entitled to four votes per share and the Class B are entitled to one vote per share. There are 250,000 Class A and 500,000 Class B shares issued and outstanding. Churchill Falls (Labrador) Corporation Limited is the holder of all Class A shares with the Class B shares held by other parties.

2 Labrador-Island Link Holding Corporation currently holds 65.0% while Emera Inc. holds 35.0% interest of the limited partnership in Labrador-Island Link Limited Partnership.

Company Profile

- Hydro is a Crown corporation owned by Nalcor Energy, which is in turn 100% owned by the Province.
- Hydro is the dominant electric generation and transmission power company in the Province. It also directly serves residential, commercial and industrial distribution customers in more rural service areas.
- The Company supplies over 90% of the Province's electrical energy. In 2015, it sold approximately 55% of its available supply to an investor-owned electricity distributor, Newfoundland Power, that is wholly owned by Fortis Inc. (rated A (low), Under Review with Negative Implications by DBRS). Hydro's remaining power deliveries are directed to its own distribution customers across the Province as well as six large industrial companies. Short-term exports of unused recall power from Churchill Falls (525 MW) are sold to other parties via the energy-marketing division.
- The Company's regulated operations have installed generating capacity of 1,762 MW, consisting of hydroelectric (956 MW), thermal (741 MW) and diesel (65 MW) power.
- Churchill Falls has installed generating capacity of 5,428 MW and a power contract with Hydro-Québec (rated A (high) with a Stable trend by DBRS) for the majority of the electricity generated from this facility (approximately 30 terawatt hours until 2041).
- Hydro has long-term supply contracts and power purchase arrangements with non-utility power producers in the Province.
- Upon completion of the Lower Churchill project, the Company will be the off-taker for a portion of Muskrat Falls' generating output and some of its transmission capacity via power purchase agreements.

Earnings and Outlook

Consolidated	12 mos. to June 30	For the year ended December 31				
(CAD millions where applicable)	2016	2015	2014	2013	2012	2011
Net sales	439	446	446	400	392	398
EBITDA	224	216	231	211	211	224
EBIT	141	138	162	145	150	168
Gross interest expense	85	85	86	91	91	91
Net income before non-recurring items	48	50	75	53	68	90
Reported net income	48	43	73	54	64	91
Return on equity	5.9%	6.2%	9.7%	7.1%	9.3%	12.7%
DBRS Adjusted Segment EBIT						
Hydro Regulated	97	79	109	98	112	112
Churchill Falls	37	41	18	22	19	13
Energy Marketing	9	20	38	32	19	46

2015 Summary

- Hydro's earnings are generated primarily from its regulated electricity generation, transmission and distribution business.
- Earnings decreased in 2015, largely because of weaker results from the regulated and energy marketing segment.
  - Earnings for the regulated segment decreased largely because of higher fuel costs compared to 2014, as the PUB did not approve for the deferral of diesel and gas turbine fuel for standby generation in excess of the test year amounts. The Company filed an application with the PUB in February 2016 to provide for the recovery of these amounts. The decrease was partly offset by interim rates approved for July 1, 2015.
  - The Energy Marketing segment saw lower earnings because of a decrease in average market prices for the year (USD 25.08/MWh in 2015, versus USD 38.80/MWh in 2014), as well as higher operating costs.
  - This was slightly offset by stronger performance for the Churchill Falls segment following a new power purchase agreement with Hydro effective January 2015, for the sale of up to 225 MW of energy produced by the Churchill Falls Generating Station.

2016 Summary/Outlook

- Earnings for the last 12 months (LTM) 2016 remained in line with 2015.
- While earnings for the regulated segment improved as a result of lower operating costs and the approval of interim rates effective July 1, 2015, this was offset by weaker Energy Marketing segment performance from the settlement of commodity hedges and lower export sales.
- A decision on Hydro's GRA application is expected by the end of 2016, which should help improve earnings going forward.
  - DBRS notes, however, that the PUB identified several disallowances in its prudence review of some of the Company's projects and operations. Hydro expects its 2014 and 2015 revenue requirement to be decreased by approximately $9 million as a result of the review.
- Earnings should also improve if the PUB approves the Company's application for a deferral account for fuel consumed by standby generators.
- Earnings volatility will continue to be managed through stabilizing the fuel prices and customer load variations in the Rate Stabilization Plan (RSP) by recovering from or refunding to customers in future rates.

Financial Profile and Outlook

Consolidated	12 mos. to June 30	For the year ended December 31				
(CAD millions where applicable)	2016	2015	2014	2013	2012	2011
Net income before non-recurring items	48	50	75	53	68	90
Depreciation & amortization	83	79	70	66	60	55
Deferred income taxes and other	(5)	(6)	2	9	10	6
Cash flow from operations	**126**	**123**	**147**	**128**	**138**	**151**
Dividends paid	(29)	(45)	(43)	(39)	(30)	(78)
Capital expenditures	(163)	(163)	(243)	(113)	(108)	(88)
Free cash flow (bef. working cap. changes)	**(65)**	**(84)**	**(139)**	**(24)**	**0**	**(15)**
Changes in non-cash work. cap. items	43	(2)	8	11	(63)	(18)
Rate stabilization/Regulatory adjustments	35	58	(66)	56	30	14
Net free cash flow	**12**	**(29)**	**(197)**	**43**	**(33)**	**(19)**
Acquisitions & investments	5	3	(3)	(0)	9	2
Proceeds on asset sales	1	1	3	4	4	5
Net equity change	0	0	0	2	0	0
Net debt change	6	44	84	(11)	52	0
Increase/Decrease in sinking fund	(8)	(8)	101	(28)	(26)	(25)
Other investing and financing	7	4	18	(3)	(10)	(1)
Change in cash	**23**	**15**	**7**	**7**	**(4)**	**(37)**
Total debt 1	1,018	1,095	1,072	902	923	893
Cash and equivalents	69	40	29	19	12	25
Cash flow/Total debt 1	12.4%	11.2%	13.7%	14.2%	15.0%	16.9%
Total debt in capital structure 1	48.3%	51.1%	51.2%	46.1%	46.8%	47.1%
EBIT interest coverage (times)	1.67	1.63	1.89	1.60	1.66	1.86
Dividend payout ratio	59.3%	89.8%	56.8%	72.8%	44.8%	87.1%

1 Debt is net of sinking fund assets.

2015 Summary

- Hydro's cash flow-to-debt and EBIT interest coverage decreased in 2015, as a result of the weaker earnings for the year. The Company's leverage remained stable for the year. Overall, the Company's key financial ratios continued to remain reasonable.
- Cash flow from operations were lower because of the weaker earnings for the year.
- Capex decreased significantly in 2015, as 2014 included $95 million on the supply and installation of a 100 MW combustion turbine generator at Holyrood.
- Hydro's dividend policy is: (1) based on maintaining the regulated segment's target capital structure at 75% debt and (2) paying out excess cash from the sale of recall power for the non-regulated segments.
- The Company's net free cash flow deficit was funded with short-term promissory notes.

2016 Summary/Outlook

- Hydro's key financial ratios improved modestly in LTM 2016 because of the lower level of debt (net of sinking fund assets).
- The Company has forecast capex of approximately $263 million for 2016. This amount includes around $224 million for the regulated segment, with (1) $183 million representing the 2016 capital budget as approved by the PUB in December 2015 (that includes $75 million for the construction of a transmission line from Bay d'Espoir to Western Avalon) and (2) $18 million for additional work at Holyrood.
- Hydro expects to fund the capex through internally generated operating cash flow and debt. Dividends are expected to be restricted for the medium term as the Company undergoes this period of significant capex.

Long-Term Debt Maturities and Bank Lines

- Promissory notes, debentures and long-term loans are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments by the Province. The Province charges a guarantee fee of 0.25% and 0.5% annually on obligations with maturities less than or equal to ten years and greater than ten years, respectively (net of sinking funds), outstanding as of the preceding December 31.
- Hydro has a $300 million short-term promissory note program, guaranteed by the Province, that it uses for its daily funding requirements. As at June 30, 2016, the Company had $34 million (at par) outstanding.
- Hydro has a $50 million unsecured operating credit facility with a commercial bank that is used primarily to backstop the Company's short-term promissory note program and to support letters of credit. As at June 30, 2016, there was no amount outstanding on the operating line of credit, however, one letter of credit was outstanding that reduced available credit by $0.3 million.

(CAD millions)	2016	2017*	2018	2019	2020	Thereafter	Total
As at June 30, 2016	0	150	0	0	0	1,146	1,296
	0%	12%	0%	0%	0%	88%	100%

Note: Includes term debt maturities and sinking fund requirmenets for Hydro only.
* Includes $150 million of Notes to be repaid from the sinking fund reserve.

- The debt maturity profile is well distributed, with only 12% of total debt due in 2017.

Regulation

- The Company is regulated by the PUB based on a return on rate base model under cost of service regulation.
- Hydro has a RSP that provides for the deferral of cost variances resulting from changes in fuel prices relative to the base price, levels of precipitation and load.
  - Accumulated balances related to fuel cost variations will be recovered over the following one-year period.
  - Accumulated balances related to variations in hydrology will be recovered at a rate of 25% of the outstanding balance at year-end, including the weighted-average cost of capital on the balance.
  - The RSP allows Hydro to smooth out the rate increases required to recover the cost variances.
- The 2006 GRA established a return on rate base of 7.44%, based on an allowed ROE of 4.47%.
- Hydro filed a GRA with the PUB in July 2013, requesting new rates effective January 1, 2014. As a result of significant delays in the GRA process, the Company filed an amended GRA in November 2014, based on 2014 and 2015 test years. A decision on the application is expected by the end of 2016.
- Once approved by the PUB, new rates will reflect an ROE of 8.80%, equal to that of Newfoundland Power. Hydro has applied for a return on rate base of 7.12% and rate base of $1,692.6 million for 2014, and a return on rate base of 6.82% and rate base of $1,802 million for 2015.
  - Newfoundland Power's allowed ROE was subsequently reduced to 8.50% for 2016.
- The Company has an internal target debt-to-equity ratio of 75:25 for regulated operations. After approval of the amended GRA, Hydro will be entitled to have equity in its capital structure up to the same amount as Newfoundland Power (currently 45% equity with 55% debt). However, Hydro expects to maintain its target of 75% debt.
- On January 28, 2015, the Company filed an application with the PUB for interim rates effective March 1, 2015. The PUB approved certain aspects of the application for rates effective July 1, 2015. Hydro has forecast a deficiency of approximately $44 million in profit for 2015, largely as a result of the later implementation date. Consequently, the Company filed an application for 2015 cost deferral of $20 million in July 2015 that was subsequently amended in November 2015 to $60 million.
  - In December 2015, the PUB approved a cost deferral of $30 million for 2015. The deferral of 2015 supply costs related to fuel consumed in combustion turbines and diesel generators was not approved.
  - Hydro filed an application for a deferral account for those fuel types in February 2016.
- The PUB approved a $76.8 million capital budget for 2015 in December 2014. The PUB also approved the Company's capital budget of $184 million in December 2015.
- In January 2015, the PUB began conducting a prudence review of certain Hydro expenditures. The PUB determined that some costs related to projects done by the Company and the 2013, 2014 and 2015 outages were imprudent and the Company will not be allowed to recover them.
  - Hydro filed its compliance application to the PUB in May 2016, reducing its 2014 test year revenue requirement by $6 million and its 2015 test year requirement by $3 million.

Newfoundland and Labrador Hydro (Consolidated)

Balance Sheet	June 30	December 31			June 30	December 31	
(CAD millions)	2016	2015	2014		2016	2015	2014
Assets				**Liabilities & Equity**			
Cash & equivalents	69	40	29	S.T. borrowings	34	97	53
Accounts receivable	63	109	105	Accounts payable	144	133	151
Inventories	77	78	97	Current portion L.T.D.	233	233	8
Prepaid expenses & other	38	69	9	Other current liab.	24	63	2
Total current assets	**246**	**296**	**239**	**Total current liab.**	**435**	**526**	**214**
Net fixed assets	2,135	2,109	2,030	Long-term debt	1,006	1,007	1,239
Sinking funds	256	243	228	Provisions	152	149	156
Regulatory assets	138	144	124	Regulatory liabilities	375	330	252
Investments & others	40	40	44	Other L.T. liab.	12	12	12
				Shareholders' equity	834	806	792
Total assets	**2,816**	**2,831**	**2,666**	**Total liab. & SE**	**2,816**	**2,831**	**2,666**

Balance Sheet & Liquidity & Capital Ratios (Consolidated)	12 mos. to June 30	For the year ended December 31				
	2016	2015	2014	2013	2012	2011
Current ratio	0.57	0.56	1.12	0.59	0.56	0.64
Total debt in capital structure 1	48.3%	51.1%	51.2%	46.1%	46.8%	47.1%
Cash flow/Total debt 1	12.4%	11.2%	13.7%	14.2%	15.0%	16.9%
(Cash flow-dividends)/Capex (times)	0.60	0.48	0.43	0.79	1.00	0.83
Dividend payout ratio	59.3%	89.8%	56.8%	72.8%	44.8%	87.1%
Coverage Ratios (times)						
EBIT interest coverage	1.67	1.63	1.89	1.60	1.66	1.86
EBITDA interest coverage	2.64	2.56	2.71	2.33	2.33	2.47
Fixed-charges coverage	1.67	1.63	1.89	1.60	1.66	1.86
Operating Efficiency						
Power purchases/Revenues	13.1%	13.0%	9.8%	10.2%	10.4%	9.0%
Fuel costs/Revenues	23.1%	25.3%	38.5%	30.9%	31.2%	26.5%
Profitability Ratios						
EBITDA margin	50.9%	48.5%	51.8%	52.8%	53.8%	56.1%
EBIT margin	32.1%	30.8%	36.2%	36.3%	38.4%	42.2%
Profit margin	11.0%	11.2%	16.9%	13.4%	17.3%	22.5%
Return on equity	5.9%	6.2%	9.7%	7.1%	9.3%	12.7%
Return on capital	6.2%	6.2%	7.8%	7.3%	8.2%	9.7%

1 Debt is net of sinking fund assets.

Operating Statistics

Electricity sold – breakdown	2015	2014	2013	2012	2011
	For the year ended December 31				
Utilities (Newfoundland Power)	6,072	5,852	5,606	5,359	5,317
Rural	1,092	1,089	1,017	998	949
Industrial*	2,231	535	559	607	491
Exports	1,645	1,545	1,514	1,559	1,594
Total (GWh sold)	**11,040**	**9,021**	**8,696**	**8,523**	**8,351**
Energy sales growth	22.4%	3.7%	2.0%	2.1%	3.3%
Generating capacity (MW)					
Hydroelectric	956	956	939	939	939
Thermal (Oil)	741	617	617	617	632
Diesel	65	64	53	52	55
Installed capacity	1,762	1,637	1,609	1,608	1,626
Electricity generated and purchased (GWh)					
Electricity Generated – hydroelectric	4,823	4,658	4,688	4,595	4,512
Electricity Generated – thermal	1,500	1,316	956	851	873
Electricity Generated – diesel	52	54	49	45	49
Gross energy generated	**6,375**	**6,028**	**5,693**	**5,491**	**5,434**
Plus: purchases*	5,126	3,339	3,408	3,395	3,305
Energy generated + purchased	**11,501**	**9,367**	**9,101**	**8,886**	**8,739**
Less: transmission losses + internal use	461	346	405	364	386
Total sales	**11,040**	**9,021**	**8,696**	**8,522**	**8,353**
Energy lost/energy gen + purch.	4.0%	3.7%	4.5%	4.1%	4.4%
Maximum Island Interconnected peak demand	1,550	1,535	1,501	1,385	1,399
Peak Island Interconnected demand/available capacity	88.0%	93.8%	93.3%	86.1%	86.0%

* Total purchases and sales for 2015 include the former Twinco Block following the expiration of the Twinco arrangements on December 31, 2014.

Rating History

	Current	2015	2014	2013	2012	2011
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A (low)	A	A	A	A	A
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Previous Action

- Downgraded, April 15, 2016.

Related Research

- Newfoundland and Labrador, Province of: Rating Report: November 19, 2015.

Previous Report

- Newfoundland and Labrador Hydro, Rating Report: September 16, 2015.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on **www.dbrs.com**.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

Rating Report

Newfoundland and Labrador Hydro

DBRS

Insight beyond the rating.

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Ratings

Debt	Rating	Trend
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A (low)	Stable
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	Stable

Rating Update

DBRS Limited (DBRS) updated its report on Newfoundland and Labrador Hydro (Hydro or the Company). The ratings assigned to the Company's Guaranteed Long-Term Debt and Guaranteed Short-Term Debt are a flow-through of the ratings of the Province of Newfoundland and Labrador (the Province; rated A (low) and R-1 (low) with Stable trends by DBRS; see DBRS's press release on the Province dated July 14, 2017), which unconditionally guarantees all of Hydro's outstanding debt. The unconditional guarantee extends to principal, interest and, where applicable, sinking fund payments relating to the Company's promissory notes, debentures and long-term loans. Please see *DBRS Criteria: Guarantees and Other Forms of Support* for further detail. DBRS views Hydro as self-supporting as it is able to fund its own operations and service its debt.

In December 2016, Hydro received a decision on its 2014 and 2015 General Rate Application (GRA) from the Board of Commissioners of Public Utilities (PUB). DBRS viewed the decision as positive for the Company as (1) it removed uncertainty regarding the recovery of revenue deficiencies from 2013 to 2016 and (2) the target return on equity (ROE) of 8.80% for 2014 and 2015 and 8.50% for 2016 was substantially higher than the last approved ROE of 4.47% in 2006. DBRS expects the higher ROE to result in stronger and more stable earnings and cash flows for the Company, especially during this period of significant capital expenditures (capex). Hydro is expected to spend around $346 million of capex for 2017, a significant increase from $248 million in 2016, as the Company continues construction on the Bay d'Espoir to Western Avalon transmission line upgrade (around $213 million in 2017; total cost of $292 million). Capex is expected to remain elevated at around $243 million in 2018, resulting in continued pressure on Hydro's key financial ratios for the near term. However, Hydro's leverage at the consolidated level remains reasonable, allowing for some financial flexibility during this period. DBRS notes the Company filed its 2017 GRA application with the PUB in July 2017 for rates effective 2018 and 2019.

DBRS remains concerned about the potential rate shock once the Muskrat Falls project, which is currently under construction by Nalcor Energy (Nalcor; 100% owner of Hydro, and, in turn, 100% owned by the Province), comes on line in mid-2020. Nalcor expects that by 2022, rates in the Province will increase to 23.3 cents per kilowatt hour (kWh), which is a substantial increase from current rates of around 11.7 cents/kWh. Should the upward pressure on rates affect Hydro's ability to fully pass on costs, or affect ratepayers' ability to pay their electricity bills, this could result in deterioration in Hydro's key financial ratios.

Financial Information

Consolidated	12 mos. to June 30	For the year ended December 31				
(CAD millions where applicable)	2017	2016	2015	2014	2013	2012
Total debt 1	1,418	1,182	1,095	1,072	902	923
Cash flow/Total debt 1	12.6%	11.7%	11.2%	13.7%	14.0%	15.0%
Total debt in capital structure 1	53.7%	50.3%	50.3%	51.2%	46.7%	46.8%
EBIT gross interest coverage (times)	2.28	1.89	1.65	1.89	1.65	1.66
Net income before non-recurring items	99	64	53	75	56	68
Cash flow from operations	179	139	123	147	126	138

1 Debt is net of sinking fund assets.

Issuer Description

Newfoundland and Labrador Hydro, a Crown corporation of the Province of Newfoundland and Labrador, generates, transmits and distributes electricity in the Province.

Rating Considerations

Strengths	Challenges

Strengths

1. Debt is guaranteed by the Province
The Province unconditionally guarantees Hydro's debt in exchange for an annual guarantee fee of 0.25% on obligations with maturities less than or equal to ten years and 0.5% on obligations with maturities greater than ten years (net of sinking funds), outstanding as of the preceding December 31. As a result, the ratings of Hydro are a flow-through of the Province's ratings.

2. Reasonable regulatory environment
Hydro operates in a stable and supportive regulatory environment that is based on cost of service (COS) regulation. The PUB allows for the pass-through of purchased power costs, and a rate stabilization account (RSA) is in place to absorb fluctuations in purchased power costs relating to the cost of fuel oil used to generate electricity.

3. Minimal competition
Geographic isolation and the lack of availability of natural gas minimize competitive pressures for the Company.

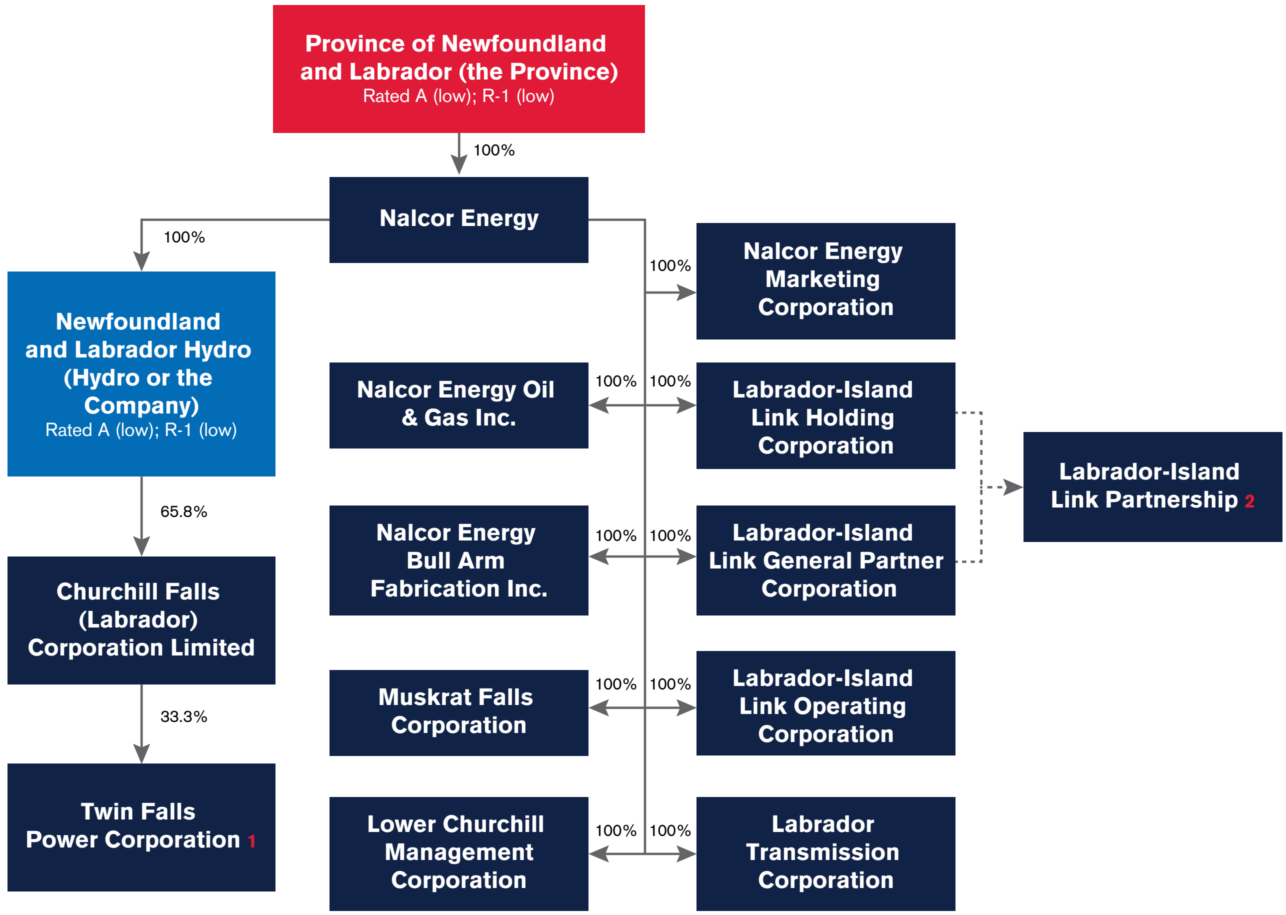
Challenges

1. Increased levels of planned capital expenditure
Hydro has significant planned capex over the medium term, including approximately $243 million for 2018 and $192 million for 2019. The Company plans to fund capital spending through internally generated cash flows and by issuing debt. The higher debt levels will likely pressure Hydro's financial profile for the medium term.

2. Sensitivity to weather
Demand for Hydro is correlated with the weather, which has a direct impact on annual earnings and cash flows.

3. Pressure on rates from the Muskrat Falls project
The Muskrat Falls project is an 824-megawatt (MW) hydroelectric generating facility being developed by Nalcor. Costs for the project have increased to approximately $12.7 billion from $9.0 billion in September 2015. Nalcor has noted that, based on current projections, rates are expected to increase to 23.3 cents/kWh in 2022 (11.7 cents/kWh in 2017). While Nalcor is currently investigating potential rate mitigation measures, a potential rate shock for customers could affect their ability to pay their electricity bills as well as the electricity throughput, which would be negative for the Company's earnings and cash flows. DBRS notes that the Province has directed Nalcor to source $210 million to lower electricity rates starting in 2020–2021.

Simplified Corporate Structure



1 Shareholdings in Twin Falls Power Corporation consist of Class A and B shares. The issued Class A shares are entitled to four votes per share and the Class B are entitled to one vote per share. There are 250,000 Class A and 500,000 Class B shares issued and outstanding. Churchill Falls (Labrador) Corporation Limited is the holder of all Class A shares with the Class B shares held by other parties.

2 As at the end of Q3 2017, Labrador-Island Link Holding Corporation holds full control and 46% of the Limited Partnership Account Interest, while Emera Inc. holds 54% of the Limited Partnership Account Interest.

Company Profile

- Hydro is a Crown corporation owned by Nalcor, which is in turn 100% owned by the Province.
- Hydro is the dominant electric generation and transmission power company in the Province. It also directly serves residential, commercial and industrial distribution customers in more rural service areas.
- The Company supplies over 90% of the Province's electrical energy. In 2016, it sold approximately 54% of its available supply to an investor-owned electricity distributor, Newfoundland Power Inc. (Newfoundland Power; rated "A" with Stable trends by DBRS), which is wholly owned by Fortis Inc (rated BBB (high) with Stable trends by DBRS). Hydro's remaining power deliveries are directed to its own distribution customers across the Province as well as six large industrial companies. Short-term exports of unused recall power from Churchill Falls (525 MW) are sold to other parties via the energy-marketing division.
- The Company's regulated operations have installed generating capacity of 1,763 MW, consisting of hydroelectric (956 MW), thermal (741 MW) and diesel (66 MW) power.
- Churchill Falls has installed generating capacity of 5,428 MW and a power contract with Hydro-Québec (rated A (high) with a Stable trend by DBRS) for the majority of the electricity generated from this facility (approximately 30 terawatt hours until 2041).
- Hydro has long-term supply contracts and power purchase arrangements with non-utility power producers in the Province.
- Upon completion of the Lower Churchill project, the Company will be the off-taker for a portion of Muskrat Falls' generating output and some of its transmission capacity via power purchase agreements.

Earnings and Outlook

Consolidated	12 mos. to June 30	For the year ended December 31				
(CAD millions where applicable)	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
Net sales	476	438	446	446	399	392
EBITDA	275	241	218	231	213	211
EBIT	186	156	139	162	149	150
Gross interest expense	82	82	85	86	91	91
Net income before non-recurring items	99	64	53	75	56	68
Reported net income	86	56	46	73	57	64
Return on equity	11.1%	7.3%	6.5%	9.7%	7.4%	9.3%
DBRS Adjusted Segment EBIT						
Hydro Regulated	159	124	80	109	98	110
Churchill Falls	31	36	41	18	22	19
Energy Marketing	(0)	(2)	20	38	32	19

2016 Summary

- Hydro's earnings are mainly derived from its regulated generation, transmission and distribution business.
- Earnings increased in 2016, driven by stronger results from the regulated segment, offset partly by lower income from Churchill Falls and energy marketing.
  - EBIT from the regulated segment increased due to (1) a full years' contribution from interim rates implemented in July 2015 and (2) lower salary and benefit costs, system maintenance costs and professional services. This was partly offset by increasing depreciation from the higher asset base.
  - EBIT from Churchill Falls decreased due to (1) a 20% decrease in power rates to Hydro-Québec effective September 1, 2016 and (2) higher depreciation expense. This was partly offset by lower operating costs from lower professional fees.
  - Energy marketing's EBIT was negative due to lower average market prices for the year (USD 20.25/megawatt hour (MWh) in 2016 versus USD 25.23/MWh in 2015).
- Interest expense decreased as the Company refinanced its $225 million 4.30% Series AE notes with promissory notes from the Province at an interest rate of 0.90%.
- Reported net income includes $7 million loss on disposal of property, plant and equipment.

2017 Summary/Outlook

- Hydro's earnings increased significantly in the last 12 months ending September 30, 2017 (LTM 2017).
  - Stronger results from the regulated segment were as a result of final customer rates approved by the PUB for 2017. This was partly offset by higher operating costs related to salaries and benefits, system maintenance costs, transportation and regulatory expenses.
- DBRS expects Hydro's earnings to increase in 2017 largely as a result of stronger results from the regulated segment following the approval of final rates effective July 1, 2017.
- Earnings volatility will continue to be managed through stabilizing the fuel prices and customer load variations in the Rate Stabilization Plan (RSP) by recovering from or refunding to customers in future rates.

Financial Profile and Outlook

Consolidated (CAD millions where applicable)	12 mos. to June 30 2017	For the year ended December 31 2016	2015	2014	2013	2012
Net income before non-recurring items	99	64	53	75	56	68
Depreciation & amortization	90	85	79	70	64	60
Deferred income taxes and other	(10)	(10)	(9)	2	6	10
Cash flow from operations	**179**	**139**	**123**	**147**	**126**	**138**
Dividends paid	(10)	(13)	(45)	(43)	(39)	(30)
Capital expenditures	(337)	(248)	(163)	(243)	(119)	(108)
Free cash flow (bef. working cap. changes)	**(168)**	**(122)**	**(85)**	**(139)**	**(32)**	**0**
Changes in non-cash work. cap. items	3	20	(2)	8	11	(63)
Rate stabilization/Regulatory adjustments	(230)	(1)	58	(66)	57	30
Net free cash flow	**(395)**	**(103)**	**(29)**	**(197)**	**36**	**(33)**
Acquisitions & investments	(35)	(34)	3	(3)	0	9
Proceeds on asset sales	1	1	1	3	9	4
Net equity change	0	0	0	0	2	0
Net debt change	411	113	44	84	(11)	52
Increase/Decrease in sinking fund	(8)	(8)	(8)	101	(28)	(26)
Other investing and financing	10	18	4	18	(1)	(10)
Change in cash	**(17)**	**(14)**	**15**	**7**	**6**	**(4)**
Total debt 1	1,418	1,182	1,095	1,072	902	923
Cash and equivalents	54	27	40	29	18	12
Cash flow/Total debt 1	12.6%	11.7%	11.2%	13.7%	14.0%	15.0%
Total debt in capital structure 1	53.7%	50.3%	50.3%	51.2%	46.7%	46.8%
EBIT interest coverage (times)	2.28	1.89	1.65	1.89	1.65	1.66
Dividend payout ratio	10.1%	20.2%	84.3%	56.8%	69.5%	44.8%

1 Debt is net of sinking fund assets.

2016 Summary

- Hydro's cash flow-to-debt and EBIT-interest coverage ratios improved in 2016 as a result of stronger results for the year. The Company's debt-to-capital ratio remained stable. Overall, the Company's key financial ratios remained reasonable.
- The Company's cash flow from operations increased as a result of higher earnings for the year.
- Capex increased significantly, largely due to the construction of a transmission line from Bay d'Espoir to Western Avalon (approximately $61 million spent to the end of 2016; total project cost of approximately $292 million).
- Hydro's dividend policy is (1) based on maintaining the regulated segment's target capital structure at 75% debt and (2) paying out excess cash from the sale of recall power for the non-regulated segments.
- The Company issued $338 million of promissory notes in order to fund its net free cash flow deficit and to repay its $225 million Series AE notes.

2017 Summary/Outlook

- Hydro's key financial ratios all improved in LTM 2017, largely because of the higher earnings and cash flows for the period.
- Cash flow from operations increased significantly, tracking the higher earnings.
- The Company has forecast capex of approximately $346 million for 2017 ($168 million spent as at June 30, 2017). This amount includes around $300 million for the regulated segment, with $271 million representing the 2017 capital budget as approved by the PUB in November 2016 (including $150 million for the Bay d'Espoir to Western Avalon transmission line upgrade).
- Hydro expects to fund the capex through internally generated operating cash flow and debt. Dividends are expected to be restricted for the medium term as the Company undergoes this period of significant capex.

Long-Term Debt Maturities and Bank Lines

- Promissory notes, debentures and long-term loans are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments by the Province. The Province charges a guarantee fee of 0.25% and 0.5% annually on obligations with maturities less than or equal to ten years and greater than ten years, respectively (net of sinking funds), outstanding as of the preceding December 31.
- Hydro has a $300 million short-term promissory note program, guaranteed by the Province, that it uses for its daily funding requirements. As at June 30, 2017, the Company had $163 million (at par) outstanding.
- Hydro has a $200 million committed revolving term credit facility with a commercial bank that is used primarily to backstop the Company's short-term promissory note program and to support letters of credit. The facility matures on July 27, 2019.

(CAD millions)	2017*	2018	2019	2020	2021	Thereafter	Total
As at June 30, 2017	150	0	0	0	0	1,204	**1,355**
	11%	0%	0%	0%	0%	89%	**100%**

Note: Includes term debt maturities and sinking fund requirmenets for Hydro only. * Includes $150 million of Notes to be repaid from the sinking fund reserve.

- The debt maturity profile is well distributed, with only 11% of total debt due in 2017.

Regulation

- The Company is regulated by the PUB based on a return on rate base model under COS regulation.
- Hydro has a RSP that provides for the deferral of cost variances resulting from changes in fuel prices relative to the base price, levels of precipitation and load.
  - Accumulated balances related to fuel cost variations will be recovered over the following one-year period.
  - Accumulated balances related to variations in hydrology will be recovered at a rate of 25% of the outstanding balance at year-end, including the weighted-average cost of capital on the balance.
  - The RSP allows Hydro to smooth out the rate increases required to recover the cost variances.
- The Company has an internal target debt-to-equity ratio of 75:25 for regulated operations.
- Order-in-council 2009-063 provides that Hydro be permitted to have a maximum equity component as well as ROE as was most recently approved for Newfoundland Power.
- Hydro filed a GRA with the PUB in July 2013, requesting new rates effective January 1, 2014. As a result of significant delays in the GRA process, the Company filed an amended GRA in November 2014, based on 2014 and 2015 test years. The PUB issued its decision and orders on the GRA in December 2016, and in May and June 2017, approving:
  - A common equity component not to exceed 45%;
  - Target ROE of 8.8% for 2014 and 2015, and 8.5% for 2016;
  - Average rate base of $1,550 million for 2013;
  - Average rate base of $1,629 million and revenue requirement of $555 million to calculate the 2014 revenue deficiency;
  - Average rate base of $1,785 million and revenue requirement of $567 million for 2015 rate setting purposes;
  - Average rate base of $1,729 million and revenue requirement of $539 million to calculate the 2015 revenue deficiency; and
  - Average rate base of $1,802 million and revenue requirement of $544 million to calculate the 2016 revenue deficiency.
- Hydro filed a GRA with the PUB in July 2017, requesting rates for 2018 and 2019:
  - Target ROE of 8.5% for 2018 and 2019;
  - Average rate base of $2,263 million and revenue requirement of $673 million for 2018;
  - Average rate base of $2,364 million and revenue requirement of $693 million for 2019;
  - An Off-Island Purchase Deferral Account to capture any savings from off-island power purchases, following the expected in-service of the Maritime Link and the Labrador Island Link and Labrador Transmission Assets (LIL and LTA), that offset fuel-related costs that would have been incurred had the energy been supplied from the Holyrood Thermal Generating Station instead, less amounts to be paid by the Company for the use of the LIL and LTA. Hydro has proposed that the balance in this deferral account be set aside to help mitigate rate increases once Muskrat Falls comes in-service; and
  - An automatic adjustment mechanism for the target ROE to reflect any changes to Newfoundland Power's approved ROE.
- The PUB approved a $271 million capital budget for 2017 in November 2016. The PUB also approved supplemental budgets totalling $29 million.
  - Hydro revised its July 2017 PUB filing of its 2018 capital budget of $200 million in October 2017.

Newfoundland and Labrador Hydro (Consolidated)

(CAD millions)	June 30	December 31			June 30	December 31	
Assets	**2017**	**2016**	**2015**	**Liabilities & Equity**	**2017**	**2016**	**2015**
Cash & equivalents	54	27	40	S.T. borrowings	388	435	97
Accounts receivable	75	119	109	Accounts payable	170	174	133
Inventories	88	89	78	Current portion L.T.D.	143	143	233
Prepaid expenses & other	122	137	80	Other current liab.	27	53	63
Total current assets	**338**	**371**	**306**	**Total current liab.**	**729**	**805**	**527**
Net fixed assets	2,402	2,279	2,123	Long-term debt	1,153	872	1,007
Sinking funds	185	192	243	Provisions	121	119	131
Regulatory assets	109	164	144	Regulatory liabilities	117	348	330
Investments & others	50	54	29	Other L.T. liab.	12	13	12
				Shareholders' equity	953	903	838
Total assets	**3,084**	**3,059**	**2,845**	**Total liab. & SE**	**3,084**	**3,059**	**2,845**

Balance Sheet & Liquidity & Capital Ratios (Consolidated)	12 mos. to June 30 **2017**	For the year ended December 31 **2016**	**2015**	**2014**	**2013**	**2012**
Current ratio	0.46	0.46	0.58	1.12	1.10	0.56
Total debt in capital structure 1	53.7%	50.3%	50.3%	51.2%	46.7%	46.8%
Cash flow/Total debt 1	12.6%	11.7%	11.2%	13.7%	14.0%	15.0%
(Cash flow-dividends)/Capex (times)	0.50	0.51	0.48	0.43	0.73	1.00
Dividend payout ratio	10.1%	20.2%	84.3%	56.8%	69.5%	44.8%
Coverage Ratios (times)						
EBIT interest coverage	2.28	1.89	1.65	1.89	1.65	1.66
EBITDA interest coverage	3.36	2.92	2.58	2.71	2.36	2.33
Fixed-charges coverage	2.28	1.89	1.65	1.89	1.65	1.66
Operating Efficiency						
Power purchases/Revenues	13.0%	13.3%	13.0%	9.8%	10.2%	10.4%
Fuel costs/Revenues	25.3%	22.4%	25.3%	38.5%	30.9%	31.2%
Profitability Ratios						
EBITDA margin	57.8%	55.0%	49.0%	51.8%	53.4%	53.8%
EBIT margin	39.2%	35.7%	31.3%	36.2%	37.3%	38.4%
Profit margin	20.9%	14.6%	11.9%	16.9%	14.0%	17.3%
Return on equity	11.1%	7.3%	6.5%	9.7%	7.4%	9.3%
Return on capital	7.4%	6.3%	6.3%	7.8%	7.5%	8.2%

1 Debt is net of sinking fund assets.

Operating Statistics

	For the year ended December 31				
Electricity sold – breakdown	**2016**	**2015**	**2014**	**2013**	**2012**
Utilities (Newfoundland Power)	5,845	6,072	5,852	5,606	5,359
Rural	1,099	1,092	1,089	1,017	998
Industrial *	2,300	2,231	535	559	607
Exports	1,649	1,645	1,545	1,514	1,559
Total (GWh sold)	**10,893**	**11,040**	**9,021**	**8,696**	**8,523**
Energy sales growth	-1.3%	22.4%	3.7%	2.0%	2.1%
Generating capacity (MW)					
Hydroelectric	956	956	956	939	939
Thermal (Oil)	741	741	617	617	617
Diesel	66	65	64	53	52
Installed capacity	**1,763**	**1,762**	**1,637**	**1,609**	**1,608**
Electricity generated and purchased (GWh)					
Electricity Generated – hydroelectric	4,380	4,823	4,658	4,688	4,595
Electricity Generated – thermal	1,740	1,500	1,316	956	851
Electricity Generated – diesel	53	52	54	49	45
Gross energy generated	**6,173**	**6,375**	**6,028**	**5,693**	**5,491**
Plus: purchases*	5,124	5,126	3,339	3,408	3,395
Energy generated + purchased	**11,297**	**11,501**	**9,367**	**9,101**	**8,886**
Less: transmission losses + internal use	404	461	346	405	364
Total sales	**10,893**	**11,040**	**9,021**	**8,696**	**8,522**
Energy lost/energy gen + purch.	3.6%	4.0%	3.7%	4.5%	4.1%
Maximum Island Interconnected peak demand	1,521	1,550	1,535	1,501	1,385
Peak Island Interconnected demand/available capacity	86.3%	88.0%	93.8%	93.3%	86.1%

* Total purchases and sales for 2015 onwards include the former Twinco Block following the expiration of the Twinco arrangements on December 31, 2014.

Rating History

	Current	2016	2015	2014	2013	2012
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A (low)	A (low)	A	A	A	A
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Previous Action

- Confirmed, July 17, 2017.

Related Research

- *Newfoundland and Labrador, Province of*: Rating Report, July 14, 2017.

Previous Report

- Newfoundland and Labrador Hydro: Rating Report, October 4, 2016.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrs.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

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Rating Report

Newfoundland and Labrador Hydro

DBRS

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Insight beyond the rating.

Ratings

Debt	Rating	Trend
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A (low)	Stable
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	Stable

Rating Update

DBRS Limited (DBRS) updated its report on Newfoundland and Labrador Hydro (Hydro or the Company). The ratings assigned to the Company's Guaranteed Long-Term Debt and Guaranteed Short-Term Debt are a flow-through of the ratings of the Province of Newfoundland and Labrador (the Province; rated A (low) and R-1 (low) with Stable trends by DBRS; see DBRS's press release on the Province dated August 23, 2018). Pursuant to the Newfoundland and Labrador *Hydro Corporation Act*, Hydro's Long- and Short-Term Debt are either direct obligations of, or are guaranteed by, the Province. The unconditional guarantee extends to principal, interest and, where applicable, sinking fund payments relating to the Company's promissory notes and debentures, with the exception of Series 1A (which is held by the Province) and the short-term committed credit facility. Please see DBRS's *Rating Canadian Provincial Agents of the Crown* methodology for further detail. DBRS views Hydro as self-supporting as it is able to fund its own operations and service its debt obligations.

In 2017 and for the last 12 months ending September 30, 2018 (LTM 2018), Hydro's key financial ratios weakened as a result of a rising debt load and the timing in approval of its General Rate Application (GRA). The Company has had significant capital expenditures (capex; $386 million in 2017 and approximately $225 million for 2018) over the past few years, which had been primarily funded through debt. As a result, Hydro's leverage has increased to 65.0% at the LTM 2018 from 56.7% in 2016. Additionally, earnings and cash flows decreased in the LTM 2018 as the Company's GRA for rates effective 2018 has not yet been approved by the Board of Commissioners of Public Utilities (PUB); this has led to weaker cash flow-to-debt and EBIT-interest coverage ratios as well. DBRS notes that earnings and cash flows in 2019 may depend on the timing of regulatory decisions. However, with the capex program expected to be more moderate in 2019, increase in debt should be more modest for the year.

DBRS continues to consider the uncertainty with the Muskrat Falls project, an 824-megawatt (MW) hydroelectric generating facility being developed by Nalcor Energy (Nalcor; 100% owner of Hydro and is in turn 100% owned by the Province) as the most significant challenge facing Hydro. Nalcor estimates that by 2021, electricity rates would increase to 22.9 cents per kilowatt hour (kWh), a substantial increase from current rates of 12.3 cents/kWh. DBRS remains concerned about the potential rate shock to ratepayers, which could severely reduce electricity volumes as well as their ability to afford their bills, in turn negatively affecting the Company's earnings and cash flows. In September 2018, the Province issued a *Reference on Rate Mitigation Options and Impacts* for the PUB to examine the Muskrat Falls project, including options on reducing its impact on rates. An interim report was provided to the Province in February 2019, with a final report to be provided by January 31, 2020.

Financial Information

	12 mos. to Sept. 30	For the year ended Dec. 31				
(CAD millions where applicable)	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Total debt 1	1,748	1,668	1,183	1,095	1,072	902
Cash flow/Total debt 1	7.7%	9.8%	11.8%	11.2%	13.7%	14.0%
Total debt in capital structure 1	65.0%	63.6%	56.7%	56.6%	57.5%	54.2%
EBIT gross interest coverage (times)	1.51	1.87	1.88	1.65	1.89	1.65
Net income before non-recurring items	50	77	63	53	75	56
Cash flow from operations	135	164	140	123	147	126

1 Debt is net of sinking fund assets.

Issuer Description

Hydro, a Crown corporation of the Province of Newfoundland and Labrador, generates, transmits and distributes electricity in the Province.

Rating Considerations

Strengths

1. Debt is guaranteed or held by the Province

The Province unconditionally guarantees Hydro's debt, with the exception of Series 1A (which is held by the Province) and the short-term committed credit facility, in exchange for an annual guarantee fee of 0.25% annually on total debt (net of sinking funds) with a remaining term to maturity of less than or equal to ten years and 0.50% annually on total debt (net of sinking funds) with a remaining term to maturity greater than ten years for debt outstanding as of December 31, 2010. For debt issued subsequent to December 31, 2010, the guarantee rate is 0.25% annually on total debt (net of sinking funds) with an original term to maturity of less than or equal to ten years and 0.50% annually on total debt (net of sinking funds) with an original term to maturity greater than ten years. Additionally, beginning December 2017, the Company changed its process to one where the Province issues debt on behalf of Hydro, and lends the proceeds to the Company on a cost-recovery basis. As a result, the ratings of Hydro are a flow-through of the Province's ratings.

2. Reasonable regulatory environment

Hydro operates in a stable and supportive regulatory environment that is based on cost of service (COS) regulation. The PUB allows for a rate stabilization plan (RSP) and Supply Deferral Accounts to absorb fluctuations in costs associated with variations in load, hydrology, certain sources of purchased power, and fuel price.

3. Minimal competition

Geographic isolation and the lack of availability of natural gas minimize competitive pressures for the Company.

Challenges

1. Pressure on rates from the Muskrat Falls project

The Muskrat Falls project is an 824-megawatt (MW) hydroelectric generating facility being developed by Nalcor. Costs for the project have increased to approximately $12.7 billion from $9.0 billion in September 2015. Nalcor has noted that, based on current projections, rates are expected to increase to 22.9 cents/kWh in 2021 (12.3 cents/kWh in 2018). While Nalcor is currently investigating potential rate mitigation measures, a potential rate shock for customers could affect their ability to pay their electricity bills as well as the electricity throughput, which would be negative for the Company's earnings and cash flows. In September 2018, the Province issued a Reference on Rate Mitigation Options and Impacts for the PUB to examine the Muskrat Falls project, including options on reducing its impact on rates. Interim expert results were released in January 2019 and the PUB provided its interim report to the Province in February 2019, with a final report required by January 31, 2020.

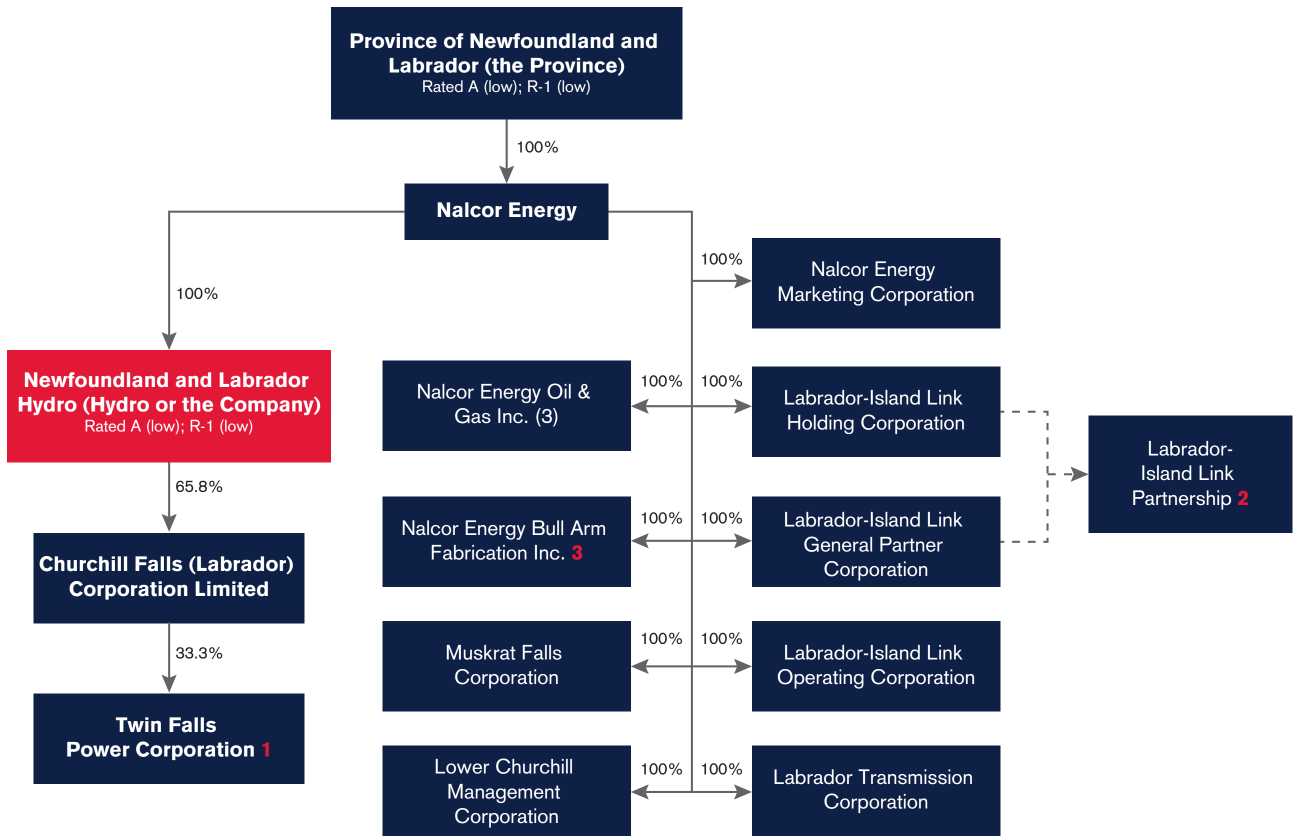
2. Increased levels of planned capital expenditure

Hydro has significant planned capex over the medium term, including approximately $160 million for 2019. The Company plans to fund capital spending through internally generated cash flows and by issuing debt. The higher debt levels will likely pressure Hydro's financial profile for the medium term.

3. Sensitivity to weather

Demand for Hydro is correlated with the weather, which has a direct impact on annual earnings and cash flows.

Simplified Corporate Structure



1 Shareholdings in Twin Falls Power Corporation consist of Class A and B shares. The issued Class A shares are entitled to four votes per share and the Class B are entitled to one vote per share. There are 250,000 Class A and 500,000 Class B shares issued and outstanding. Churchill Falls (Labrador) Corporation Limited is the holder of all Class A shares with the Class B shares held by other parties.
2 As at the end of Q3 2018, Labrador-Island Link Holding Corporation holds full control and 50.5% of the Limited Partnership Account Interest, while Emera Inc. holds 49.5% of the Limited Partnership Account Interest.
3 Effective September 30, 2018, the Offshore Development segment has been classified as a discontinued operation as it is expected to be distributed to the Province within one year.

Company Profile

- Hydro is a Crown corporation owned by Nalcor, which is in turn 100% owned by the Province.
- Hydro is the dominant electric generation and transmission power company in the Province. It also directly serves residential, commercial and industrial distribution customers in more rural service areas.
- The Company supplies over 90% of the Province's electrical energy. In 2017, it sold approximately 54% of its available supply to an investor-owned electricity distributor, Newfoundland Power Inc. (Newfoundland Power; rated "A" with Stable trends by DBRS), which is wholly owned by Fortis Inc. (rated BBB (high) with Stable trends by DBRS). Hydro's remaining power deliveries are directed to its own distribution customers across the Province as well as six large industrial companies. Short-term exports of unused recall and TWIN block power from Churchill Falls (525 MW) are sold to other parties via the energy-marketing division.
- The Company's regulated operations have installed generating capacity of 1,764 MW, consisting of hydroelectric (956 MW), thermal (741 MW) and diesel (67 MW) power.
- Churchill Falls has installed generating capacity of 5,428 MW and a power contract with Hydro-Québec (rated A (high) with a Stable trend by DBRS) for the majority of the electricity generated from this facility (approximately 30 terawatt hours until 2041).
- Hydro has long-term supply contracts and power purchase arrangements with non-utility power producers in the Province.
- Upon completion of the Lower Churchill project, the Company will be the off-taker for a portion of Muskrat Falls' generating output and some of its transmission capacity via power purchase agreements.

Earnings and Outlook

	12 mos. to Sept. 30	For the year ended Dec. 31				
(CAD millions where applicable)	2018	2017	2016	2015	2014	2013
Net sales	434	441	436	446	446	399
EBITDA	232	242	239	218	231	213
EBIT	128	146	154	139	162	149
Gross interest expense	85	78	82	85	86	91
Net income before non-recurring items	50	77	63	53	75	56
Reported net income	35	69	56	46	73	57
Return on equity	5.3%	8.3%	7.2%	6.5%	9.7%	7.4%
DBRS Adjusted Segment EBIT						
Hydro regulated	103	118	123	80	109	98
Churchill Falls	30	30	36	41	18	22
Energy marketing	0	0	0	20	38	32
Non-regulated activities/Other	1	0	(4)	(2)	(2)	(1)

2017 Summary

- Hydro's earnings are mainly derived from its generation, transmission and distribution business.
- While EBITDA in 2017 was stable compared with the previous year, EBIT decreased because of higher depreciation from the growing asset base.
  - EBIT from the regulated segment decreased because of higher operating costs and depreciation.
  - EBIT from Churchill Falls decreased because of a 20% decrease in power rates to Hydro-Québec effective September 1, 2016. This was partly offset by higher volumes sold and higher Guaranteed Winter Availability Contract revenues.
- Gross interest expense decreased following the maturity of the $150 million 10.25% Series X notes. This was partly offset by the issuance of an additional $300 million of 3.60% Series AF notes in January 2017 and an additional $300 million of 3.70% Series 1A notes in December 2017.
- Net income before non-recurring items increased because of the lower gross interest expense and higher capitalized interest.
- Reported net income included an $8 million loss on disposal of property, plant and equipment.

2018 Summary/Outlook

- Hydro's earnings decreased in the LTM 2018.
  - Results from the regulated segment were weaker because of higher operating costs and depreciation.
- DBRS expects Hydro's earnings to be weaker in 2018 as final rates for the most recent GRA have not yet been approved.
  - Additionally, interim rates were approved effective April 1 for Industrial customers and effective July 1 for all remaining customers, rather than on January 1.
- Earnings in 2019 may depend on the timing of regulatory decisions.
  - In December 2018, interim rates were approved by the PUB effective January 1, 2019, for Island Industrial customers.
- Earnings volatility will continue to be managed through stabilizing the fuel prices, hydrology levels, power purchased and customer load variations in the RSP and Supply Deferral Accounts.

Financial Profile and Outlook

	12 mos. to Sept. 30	For the year ended Dec. 31				
(CAD millions where applicable)	2018	2017	2016	2015	2014	2013
Net income before non-recurring items	50	77	63	53	75	56
Depreciation & amortization	93	85	72	79	70	64
Deferred income taxes and other	(8)	2	5	(9)	2	6
Cash Flow from Operations	**135**	**164**	**140**	**123**	**147**	**126**
Dividends paid	(8)	(7)	(13)	(45)	(43)	(39)
Capital expenditures	(269)	(386)	(248)	(163)	(243)	(119)
Free Cash Flow (bef. working cap. changes)	**(142)**	**(229)**	**(121)**	**(85)**	**(139)**	**(32)**
Changes in non-cash work. cap. items	(40)	(32)	19	(2)	8	11
Rate stabilization/Regulatory adjustments	(44)	(223)	(2)	58	(66)	57
Net Free Cash Flow	**(226)**	**(484)**	**(104)**	**(29)**	**(197)**	**36**
Acquisitions & investments	0	(15)	(34)	3	(3)	0
Proceeds on asset sales	0	10	0	1	3	9
Net equity change	0	0	0	0	0	2
Net debt change	218	396	113	44	84	(11)
Increase/Decrease in sinking fund	14	88	(8)	(8)	101	(28)
Other investing and financing	17	17	19	4	18	(1)
Change in Cash	**23**	**12**	**(14)**	**15**	**7**	**6**
Total debt [1]	1,748	1,668	1,183	1,095	1,072	902
Cash and equivalents	55	53	26	40	29	18
Cash flow/Total debt [1]	7.7%	9.8%	11.8%	11.2%	13.7%	14.0%
Total debt in capital structure [1]	65.0%	63.6%	56.7%	56.6%	57.5%	54.2%
EBIT interest coverage (times)	1.51	1.87	1.88	1.65	1.89	1.65
Dividend payout ratio	16.0%	9.1%	20.6%	84.3%	56.8%	69.5%

1 Debt is net of sinking fund assets.

2017 Summary

- Hydro's cash flow-to-debt and debt-to-capital ratios weakened in 2017 because of the higher debt load. The Company's EBIT-interest coverage ratio remained stable because of the retirement of a tranche of debt, and the timing and lower interest rates of the new issuances.
- Cash flow from operations increased, tracking the higher net income for the year.
- Capex increased significantly, largely due to the construction of a transmission line from Bay d'Espoir to Western Avalon (approximately $ 275 million spent to the end of 2017, with $214 million spent in 2017; total project cost of approximately $292 million).
- Hydro's dividend policy is (1) based on maintaining the regulated segment's target capital structure at 75% debt and (2) payment of excess cash from the non-regulated segments.
- The Company repaid $150 million of notes and $66 million of promissory notes during the year. Hydro funded its net free cash flow deficit and debt repayments by issuing $600 million of new notes.

2018 Summary/Outlook

- Hydro's key financial ratios weakened in the LTM 2018 because of the lower earnings and cash flows and higher debt load.
- Cash flow from operations decreased because of the lower earnings for the period.
- The Company had forecast capex of approximately $225 million for 2018 ($144 million spent as at September 30, 2018), largely for the regulated segment.
  - Hydro has forecast capex of approximately $160 million for 2019, including $116 million for the regulated segment.
- Hydro expects to fund the capex through internally generated operating cash flow and debt. Dividends are expected to be restricted for the medium term as the Company undergoes this period of significant capex.

Long-Term Debt Maturities and Bank Lines

- Promissory notes and debentures are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments by the Province, with the exception of Series 1A (which is held by the Province). The Province charges a guarantee fee of 0.25% annually on total debt (net of sinking funds) with a remaining term to maturity of less than or equal to ten years and 0.50% annually on total debt (net of sinking funds) with a remaining term to maturity greater than ten years for debt outstanding as of December 31, 2010. For debt issued subsequent to December 31, 2010, the guarantee rate is 0.25% annually on total debt (net of sinking funds) with an original term to maturity of less than or equal to ten years and 0.50% annually on total debt (net of sinking funds) with an original term to maturity greater than ten years.
  - Beginning December 2017, Hydro's debt issuance process changed, whereby the Province will issue debt on the Company's behalf and lend the proceeds to Hydro on a cost-recovery basis.
- Hydro has a $300 million short-term promissory note program, guaranteed by the Province, that it uses for its daily funding requirements. As at September 30, 2018, the Company had $118 million (at par) outstanding.
- Hydro has a $200 million committed revolving term credit facility with a commercial bank that is used primarily to backstop the Company's short-term promissory note program and to support letters of credit. The facility matures on July 27, 2020.

Long-Term Debt Maturities

(CAD millions)	2018	2019	2020	2021	2022	Thereafter	Total
As at Sept. 30, 2018	0	0	0	0	0	1,846	1,846
	0%	0%	0%	0%	0%	100%	100%

Note: Includes term debt maturities and sinking fund requirmenets for Hydro only.

- The debt maturity profile is well distributed, with no long-term maturities until 2026.

Regulation

- The Company is regulated by the PUB based on a return on rate base model under COS regulation.
- Hydro has an RSP that provides for the deferral of cost variances resulting from changes in fuel prices relative to the base price, levels of precipitation and load.
  - Accumulated balances related to fuel cost variations will be recovered over an approximate period of one year, including the weighted-average cost of capital on the balance.
  - Accumulated balances related to variations in hydrology will be recovered at a rate of 25% of the outstanding balance at year-end, including the weighted-average cost of capital on the balance.
- In 2017, the PUB approved Supply Deferral Accounts to absorb fluctuations in both price and supply of fuel and supply of certain sources of power purchases relative to the COS base price and supply. Future recovery of the deferral accounts will be determined by the PUB.
  - The RSP and Supply Deferral Accounts allow Hydro to smooth out the rate increases required to recover the cost variances.
- The Company has an internal target debt-to-equity ratio of 75:25 for regulated operations.
- Order-in-council 2009-063 provides that Hydro be permitted to have a maximum equity component as well as return on equity (ROE) as was most recently approved for Newfoundland Power.
- Hydro filed a GRA with the PUB in July 2017, requesting rates for 2018 and 2019:
  - Target ROE of 8.5%.
  - For the purposes of calculating the Company's 2018 and 2019 Test Years, subject to change following a final order and Hydro's Compliance Application:
    - Average rate base of $2,244 million, revenue requirement of $579 million and an estimated return on rate base of 5.45% for the 2018 Test Year; and
    - Average rate base of $2,335 million, revenue requirement of $592 million and an estimated return on rate base of 5.45% for the 2019 Test Year.
  - Hydro's proposed revenue requirements for the 2018 and 2019 Test Years include the expected supply and

Regulation (CONTINUED)

corresponding net savings from off-island sources through the Labrador-Island Link, as agreed in the July 2018 settlement agreement.

  – Variances in the supply of power from off-island sources through the Labrador-Island Link have been proposed to the PUB to be included in the revenue deficiency for 2018 and included in a revised definition of the Supply Deferral Accounts in 2019.

– An automatic adjustment mechanism for the target ROE to reflect any changes to Newfoundland Power's approved ROE.

– In March 2018, the PUB approved interim rates for Island Industrial customers effective April 1, 2018. In May 2018, the PUB approved interim rates for all remaining customers effective July 1, 2018. In December 2018, the PUB approved revised interim rates for Island Industrial customers effective January 1, 2019.

- In October 2018, the Province provided directions to the PUB to allow for the creation of a deferral account for any expenses that arise for Hydro from the Labrador-Island Link and the Labrador Transmission Assets.
- The PUB approved a $181 million capital budget for 2018. The PUB also approved supplemental budgets totalling $6.5 million.
- In December 2018, the PUB approved a $116 million capital budget for 2019.
- In December 2018, the PUB approved Hydro's 2014 average rate base of $1,621 million.

Newfoundland and Labrador Hydro

(CAD millions)	Sept. 30	Dec. 31			Sept. 30	Dec. 31	
Assets	**2018**	**2017**	**2016**	**Liabilities & Equity**	**2018**	**2017**	**2016**
Cash & equivalents	55	53	26	S.T. borrowings	118	369	435
Accounts receivable	83	148	119	Accounts payable	137	189	174
Inventories	96	106	89	Current portion L.T.D.	7	7	143
Prepaid expenses & other	19	37	136	Other current liab.	9	32	52
Total Current Assets	**253**	**344**	**370**	**Total Current Liab.**	**271**	**597**	**804**
Net fixed assets	2,619	2,554	2,279	Long-term debt	1,785	1,482	872
Sinking funds	162	190	192	Provisions	129	124	119
Regulatory assets	130	117	164	Regulatory liabilities	67	79	348
Investments & others	41	42	54	Other L.T. liab.	12	12	13
				Shareholders' equity	941	953	903
Total Assets	**3,205**	**3,247**	**3,059**	**Total Liab. & SE**	**3,205**	**3,247**	**3,059**

Balance Sheet & Liquidity & Capital Ratios	12 mos. to Sept. 30	For the year ended Dec. 31				
	2018	2017	2016	2015	2014	2013
Current ratio	0.93	0.58	0.46	0.58	1.12	1.10
Total debt in capital structure 1	65.0%	63.6%	56.7%	56.6%	57.5%	54.2%
Cash flow/Total debt 1	7.7%	9.8%	11.8%	11.2%	13.7%	14.0%
(Cash flow-dividends)/Capex (times)	0.47	0.41	0.51	0.48	0.43	0.73
Dividend payout ratio	16.0%	9.1%	20.6%	84.3%	56.8%	69.5%
Coverage Ratios (times)						
EBIT interest coverage	1.51	1.87	1.88	1.65	1.89	1.65
EBITDA interest coverage	2.73	3.10	2.91	2.58	2.71	2.36
Fixed-charges coverage	1.51	1.87	1.88	1.65	1.89	1.65
Operating Efficiency						
Power purchases/Revenues	14.5%	13.9%	13.3%	13.0%	9.8%	10.2%
Fuel costs/Revenues	28.7%	31.0%	22.5%	25.3%	38.5%	30.9%
Profitability Ratios						
EBITDA margin	53.5%	54.9%	54.8%	49.0%	51.8%	53.4%
EBIT margin	29.5%	33.1%	35.3%	31.3%	36.2%	37.3%
Profit margin	11.5%	17.5%	14.4%	11.9%	16.9%	14.0%
Return on equity	5.3%	8.3%	7.2%	6.5%	9.7%	7.4%
Return on capital	4.7%	5.6%	6.2%	6.3%	7.8%	7.5%

1 Debt is net of sinking fund assets.

Operating Statistics	For the year ended Dec. 31				
Electricity Sold – Breakdown	2017	2016	2015	2014	2013
Utilities (Newfoundland Power)	5,895	5,845	6,072	5,852	5,606
Rural	1,148	1,099	1,092	1,089	1,017
Industrial*	2,386	2,300	2,231	535	559
Exports	1,578	1,649	1,645	1,545	1,514
Total (GWh sold)	**11,007**	**10,893**	**11,040**	**9,021**	**8,696**
Energy sales growth	1.0%	-1.3%	22.4%	3.7%	2.0%
Generating Capacity (MW)					
Hydroelectric	956	956	956	956	939
Thermal (Oil)	741	741	741	617	617
Diesel	67	66	66	64	53
Installed Capacity	**1,764**	**1,763**	**1,763**	**1,637**	**1,609**
Electricity Generated and Purchased (GWh)					
Electricity generated – hydroelectric	4,507	4,380	4,823	4,658	4,688
Electricity generated – thermal	1,725	1,740	1,500	1,316	956
Electricity generated – diesel	50	53	52	54	49
Gross Energy Generated	**6,282**	**6,173**	**6,375**	**6,028**	**5,693**
Plus: purchases*	5,127	5,124	5,126	3,339	3,408
Energy Generated + Purchased	**11,409**	**11,297**	**11,501**	**9,367**	**9,101**
Less: transmission losses + internal use	402	404	461	346	405
Total Sales	**11,007**	**10,893**	**11,040**	**9,021**	**8,696**
Energy lost/energy gen + purch.	3.5%	3.6%	4.0%	3.7%	4.5%
Maximum Island Interconnected peak demand	1,540	1,521	1,550	1,535	1,501
Peak Island Interconnected demand/available capacity	87.3%	86.3%	87.9%	93.8%	93.3%

* Total purchases and sales for 2015 onward include the former Twinco Block following the expiration of the Twinco arrangements on December 31, 2014.

Rating History

	Current	2018	2017	2016	2015	2014
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A (low)	A (low)	A (low)	A (low)	A	A
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Previous Action

- Confirmed, August 23, 2018.

Related Research

- Newfoundland and Labrador, Province of: Rating Report, August 29, 2018.

Previous Report

- Newfoundland and Labrador Hydro: Rating Report, December 18, 2017.

Notes:
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