Transforming our service.

Manitoba Hydro-Electric Board 67th Annual Report
For the year ended March 31, 2018

Manitoba Hydro

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Cover photo: Construction of the Bipole III Transmission Reliability Project.

Letter of Transmittal

July 27, 2018

Honourable Cliff Cullen

Minister of Crown Services
Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Minister,

I present the 67th Annual Report of the Manitoba Hydro-Electric Board, together with the financial statements for the fiscal year ended March 31, 2018.

Respectfully submitted,

Marina R. James, MBA
Chair, Manitoba Hydro-Electric Board

Our service area in km²

650 000

Total debt

$19.2 billion

Total assets

$25.2 billion

Number of natural gas customers

281 990

Kilometres of distribution lines

75 500

Kilometres of transmission lines

12 400

*this total previously included 66-kilovolt lines that are now included in total distribution kilometres.

Kilometres of natural gas lines

10 329

Number of Indigenous employees

1 026

Number of communities with natural gas service

132

Number of electricity customers

580 262

Total electricity capability

5 648
megawatts

Total number of full-time employees

5 998*

*See page 107 for definition of full-time employees

Sunset in Grand Rapids, Manitoba

Corporate Profile

Manitoba Hydro is a provincial Crown Corporation and one of the largest integrated electricity and natural gas distribution utilities in Canada. We are a leader in providing renewable energy and clean-burning natural gas. Our award-winning demand side management programs help Manitoba residents and businesses conserve energy and lower their energy costs.

We also trade electricity within four wholesale markets in the Midwestern United States and Canada. Nearly all of the electricity Manitoba Hydro produces each year is renewable hydro power generated using the province's abundant water resources. Our export of electricity helps to keep our rates in Manitoba lower than they would otherwise be and displaces greenhouse emissions in markets where fossil fuels are used for electricity production.

Mission

We create value for Manitobans by meeting our customers' expectations for the delivery of safe, reliable energy services at a fair price.

Strategic Priorities

- Restore financial sustainability
- Deliver an excellent customer experience
- Engage employees in our transformation
- Respect and support Indigenous peoples in all aspects of our business

Foundational Principles

- Safety
- Respectful engagement with communities and stakeholders
- Environmental leadership
- Respect for each other

President & CEO's Letter to Customers

Transforming our service

Every day our customers use our products and services. Even when they are at rest, energy powers their homes, and the businesses and services they rely on. Over 580,000 Manitoba customers rely on us for electricity, and over 280,000 for natural gas service. We recognize and appreciate that Manitobans depend on us to meet their critical energy requirements.

Providing safe, reliable and economic service to our customers is at the core of everything we do. Over the past year, we continued to make the needed investments in our system to ensure a reliable supply of energy and also took steps to address the financial impacts of this sizable investment.

We maintain our strong focus on completing our major capital projects, including the Bipole III Transmission Reliability Project, the Keeyask Generating Station and the Manitoba-Minnesota Transmission Project. As we execute on approved projects, we focus on safety, efficiency, quality, schedule and cost.

We are now projecting our overall debt to grow to about $25 billion in the next five years as we complete major projects such as the Bipole III Transmission Reliability Project and the Keeyask Generating Station and work to rebuild aging parts of our system that are failing, such as wood poles and substations. This level of debt increases the potential financial exposure from risks facing the corporation and is a concern for both the corporation and our customers who may be exposed to higher rate increases in the event of rising interest rates, a prolonged drought or a major system failure.

We've taken a balanced approach to addressing this financial risk that includes management restructuring and a 15 per cent workforce reduction, pursuit of additional sales of surplus electricity outside of Manitoba and regulatory filings with the Manitoba Public Utilities Board (PUB) seeking annual electricity rate increases.

A voluntary departure program offered last spring saw over 800 employees opt to leave the corporation by the end of January 2018, which will result in substantial and sustainable savings. While achieving cost savings, we remain committed to keeping safety at the fore of all we do; efficiencies will not come at the cost of safety to our staff or the public.

Further opportunities are being developed to reduce our operating and maintenance costs – most recently through our Strategic Sourcing Initiative. Annually, we spend approximately $750 million procuring goods and services for our operations – through strategic procurement initiatives we estimate annual recurring savings of $36 million will be realized over the next three years. This approach is an acceleration of the work already begun in our Supply Chain Management Performance Enhancement Program initiated in 2015, which has resulted in accumulated realized savings totaling approximately $22 million to the end of this fiscal year.

Reducing costs is only one part of our work to restore financial stability. We continue to seek export sales and are in active discussions to lengthen contract arrangements and negotiate new export sales of benefit to our organization and our Manitoba customers. Manitoba Hydro's renewable, virtually emission-free hydro power continues to be viewed favourably by our export customers.

We will also continue to be disciplined stewards of capital in determining how and where we make necessary re-investments in an aging electricity system. We are improving our tools and strategies to continuously improve our decision making in asset management.

Rate increases are also part of our balanced approach. In 2017, we submitted a General Rate Application (GRA) to the Manitoba Public Utilities Board (PUB) which has the authority to review and set electricity rates in Manitoba. We requested they confirm a previous 3.36 per cent rate increase approved on an interim basis in 2016; as well as a 7.9 per cent increase effective August 1, 2017, and an additional 7.9 per cent increase effective April 1, 2018. On May 1, 2018 the PUB confirmed the 3.36 per cent increase effective August 1, 2016. They also confirmed a 3.36 per cent increase effective August 1, 2017 and approved a 3.6 per cent average rate increase effective June 1, 2018 — substantially less than requested.

We will work closely with the newly appointed Manitoba Hydro-Electric Board (MHEB) to understand the fuller implications of the PUB decision and determine the right approach going forward to establish a long term, sustainable financial plan.

We maintain our strong focus on completing our major capital projects, including the Bipole III Transmission Reliability Project, the Keeyask Generating Station and the Manitoba-Minnesota Transmission Project (MMTP). As we execute on approved projects, we focus on safety, efficiency, quality, schedule and cost.

To that end, I am pleased to report that Bipole III is nearing completion and is expected to come into service as planned in July 2018. The transmission line is fully constructed, connected to both the Riel and Keewatinohk Converter Stations and is undergoing final testing and integration with the rest of the Manitoba Hydro system. Once in operation, Bipole III will strengthen our reliability, reducing our reliance on Bipole I and II. It will also serve as our link to transport the energy generated from the Keeyask Project to Southern Manitoba and export markets.

To remain an industry leader, Manitoba Hydro must continue to modernize and enhance our customer experience.

Construction of the Keeyask Generating Station is now more than halfway complete. It is impressive to see what has been achieved so far both on the ground and with respect to its outstanding performance on employment targets, safety record and environmental performance.

Keeyask currently remains on track to meet its control budget of $8.7 billion and scheduled in-service date of August 2021 for Unit 1. However, with four years of construction still ahead, there are many risks that could impact the project. To effectively manage these risks to cost and schedule, our entire project team is actively working to find efficiencies while pushing ahead to meet our production goals with the same dedication to safety, the environment and quality.

Through our Keeyask and Wuskwatim partnerships with First Nations communities, our organization took important steps in strengthening relationships with Indigenous peoples. These efforts enable us to address historical issues and work with our partners to create employment and business opportunities. The Keeyask Project has seen success on both these fronts. The value of Direct Negotiated Contracts (DNC's) with partner First Nation businesses for infrastructure and generating station construction meets and exceeds the value committed in the Joint Keeyask Development Agreement (JKDA).

Keeyask has also far exceeded the Keeyask Cree Nation (KCN) employment target set in the JKDA for the entire construction phase. Employment of Manitobans, Indigenous persons and members from the partner First Nations communities on the project also remains strong. From project commencement to the end of March 2018, of the 16,317 total hires, 71 per cent are from Manitoba; 44 per cent have self-declared as being Indigenous; and 22 per cent are from our KCN partner communities. Beyond the legacy of clean, renewable energy the Keeyask Project will create, it has already created a legacy of skills and opportunities for individuals in our province.

Manitoba Hydro is well advanced in the regulatory process for licensing of our MMTP. In October, 2017 following the provincial regulatory process and hearing, the Clean Environment Commission (CEC) issued their report recommending that a Provincial Environment Act Licence be issued. A Federal regulatory review process is underway with the National Energy Board holding public hearings in June 2018. Manitoba Hydro's current schedule, assuming the required licences are issued this fall, calls for construction to start on MMTP in late 2018.

We continue to invest in renewal of our aging infrastructure to further secure our service and ensure public safety. This includes initiatives such as our ongoing attention to the 1.1 million wood poles that carry our distribution lines and power to customers throughout the province. More than half the poles in our province are over 30 years old. Annually, we inspect and treat more than 60,000 power distribution poles in order to extend their life and save on replacement costs.

We're also making great progress addressing our electrical system capacity in Winnipeg. We are on track to meet our targets of fewer than 20 per cent of our stations being overloaded by the year 2020 and fewer than five per cent by 2030. The new Adelaide station, which opened in September 2017, is indicative of our efforts and provides much needed capacity in our downtown core. The 66-kilovolt (kV), gas-insulated facility features state-of-the-art technology to make our electrical grid more reliable. The station can be expanded as load increases and the construction of Adelaide permits the decommissioning of obsolete equipment in our King Street station.

In our last fiscal year, we successfully completed the Slave Falls Creek spillway conversion. At nearly 90 years old, the spillway showed signs of deterioration and leakage that posed a safety risk. Construction of the project began in January and was completed in October, on schedule and under budget.

Early 2018 brought the Manitoba provincial government's proclamation of The Efficiency Manitoba Act, which launched a new stand-alone Crown Corporation tasked to deliver electric and natural gas demand side management (DSM) programs and services. For more than a quarter century, Manitoba Hydro's Power Smart* programs have been a very visible, valued part of our service offering to customers. As we prepare to retire that brand and transfer that function to Efficiency Manitoba, it creates a new opportunity to take a close look at our organization from our customers' perspectives to understand their needs and how best to meet their expectations and drive efficiencies.

There's no question, service preferences are changing. More and more customers are seeking simpler, more convenient interactions often through online channels.

To remain an industry leader, Manitoba Hydro must continue to modernize and enhance our customer experience. In 2017-2018, we completed the consolidation of 36 district offices and closure of cash counters. Since 2007, we have seen a steady decline in customer transactions at rural district offices and a corresponding shift to using larger customer service centres or completing bill payments online or by phone.

We have always been focused on serving our customers and providing for their energy needs now and into the future. Our focus is now intensified on taking that service to a higher level.

For customers, the consolidation enables us to apply our resources towards innovative technologies. This includes the recent enhancement of our web-based service tools. In 2017, we launched a new service outage page that includes a map updated every 15 minutes with outage details, a tabulated list of current outages, and a link to our real-time Twitter feed for more information. Customers can also report outages directly from this page. This is only a start, as we review the many ways customers interact with our organization and think about how to make these points of contact better. We have always been focused on serving our customers and providing for their energy needs now and into the future. Our focus is now intensified on taking that service to a higher level.

*Manitoba Hydro is a licensee of the Trademark and Official Mark.

Five new members, including a new chair, were appointed to the MHEB by the Government of Manitoba in March 2018. I want to extend my thanks to our previous chair and board members who worked hard during their time with the MHEB to provide valuable guidance and support to the corporation. Manitoba Hydro's executive management team looks forward to working closely with chair, Marina R. James and the other newly appointed members of the MHEB who assume the very important role of providing strategic governance and oversight for Manitoba Hydro.

I'd like to close by acknowledging and sincerely thanking all Manitoba Hydro employees, who have proven their resilience and ongoing dedication to the corporation and our customers through a year of significant challenges and changes. In the end, our people build our energy systems and serve our customers. They are diverse, skilled, experienced, committed and the key strength that ensures Manitoba Hydro will continue to deliver safe, reliable and cost effective energy to Manitobans. It's a privilege to work with them.

Kelvin Shepherd, P.Eng
President and Chief Executive Officer
Manitoba Hydro

Report on Performance — 2017-18 Highlights

- Erected the final of 3,076 towers on the 1,384 kilometre Bipole III transmission line; valve halls at both the Riel Station and Keewatinohk Converter Station energized to 500,000 volts.
- First of seven draft tube liners installed at the Keeyask Project; achieved critical milestones of enclosure of the powerhouse service bay and units 1, 2&3; and completion of concrete work on the spillway.
- The Manitoba Clean Environment Commission recommended an Environment Act Licence be granted for our Manitoba-Minnesota Transmission Project (MMTP) – a 500,000 volt transmission line in southeastern Manitoba.
- Completed the conversion of the Slave Falls Creek spillway structure to a non-overflow dam on schedule and under budget at a final cost of $12.8 million versus the projected $17.5 million.
- Opened Adelaide Station, a 66,000-volt substation that strengthens the reliability of our electrical grid in Winnipeg and strengthens our ability to meet growing energy demands in our downtown core.
- Opened our new compressed natural gas station near Winnipeg, which allows our corporation to respond rapidly to natural gas outages.
- Switched almost 69,000 street lights to new energy-efficient Light Emitting Diode (LED) lights under the six-year Power Smart* LED Roadway Lighting Conversion Program launched in 2014 – making us more than halfway through the program target to convert over 130,000 street lights in the province by 2021.
- The Affordable Energy Program (AEP) commemorated the completion of upgrades to 20,000 homes that have helped our customers reduce their consumption by approximately 28 gigawatt hours of electricity and 9.3 million cubic metres of gas.
- Received two ENERGY STAR Canada Awards – Provincial Utility of the Year and Promotional Campaign of the Year.
- Named as one of our country's top employers for the eighth consecutive year by Canada's Top Employers Project.

The finished Slave Falls Creek spillway structure

Major projects update

Bipole III Transmission Reliability Project

The Bipole III Transmission Reliability Project is nearing completion and will come into service in July 2018. When complete, Bipole III will strengthen the reliability and security of the province's energy supply by creating an alternate connection to deliver electricity from northern generating stations to customers in southern Manitoba.

This year saw the Bipole III transmission line fully constructed, and connected to both the Riel and Keewatinohk Converter Stations. Construction at the converter stations is nearly complete.

The first two of Riel Station's four synchronous condensers – 360,000-kilogram machines that rotate at 1,200 revolutions per minute and help stabilize Hydro's system – went into service this April 2018. Focus is now on completing the remaining work for the synchronous condensers at the Riel Converter Station, commissioning and a trial operation period as Bipole III is integrated into the Manitoba Hydro system.

When completed, the Bipole III Project will add 2,000 megawatts (MW) to Manitoba Hydro's high-voltage direct current transmission capacity.

July 2018 – projected in-service date
$5.04 billion – total estimated cost
$4.2 billion – total spent to March 31, 2018
3,235 – active hires as of March 31, 2018

- **77 per cent** – Manitoba residents
- **28 per cent** – Indigenous persons

Construction at the Keewatinohk Converter Station

Keeyask Generating Station

The Keeyask Project is a 695-MW hydroelectric generating station being developed in partnership between Manitoba Hydro and four Manitoba First Nations – Tataskweyak Cree Nation, War Lake First Nation, York Factory First Nation and Fox Lake Cree Nation.

When completed in 2021/22, the Keeyask Generating Station will provide a new source of electricity needed to maintain a reliable supply for Manitoba.

Keeyask is a massive, complex project and aggressive targets were set for the 2017 construction season. This resulted in a significant improvement in production across the project compared to the previous year. Work achieved included completion of the concrete work for the spillway structure; sizeable progress on the earth structures (dam and dykes); and enclosure of the service bay and powerhouse units 1, 2 and 3. Installation of the gates and guides, as well as the tower, bridge and hoists, was started which will enable the diversion of water through the spillway in 2018.

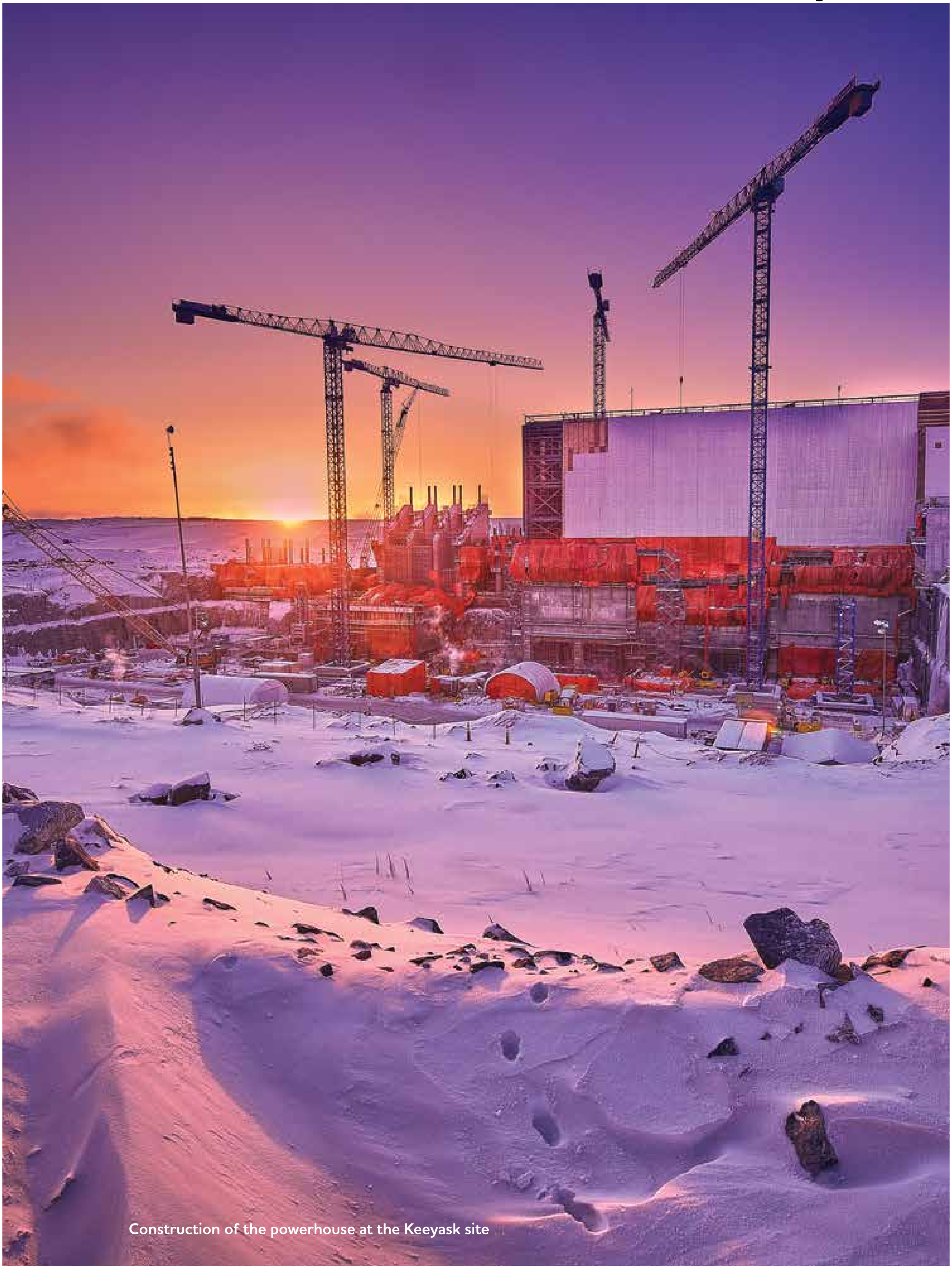
The project remains strong on safety, environmental protection and partner community participation. Since 2014, there has been a steady, continuous improvement of the project safety record.

Keeyask Cree Nation (KCN) and Indigenous employment targets outlined in the Joint Keeyask Development Agreement have also been exceeded. A milestone of two million KCN labour hours and four million Indigenous hours worked on the Keeyask Project was reached in July 2017.

The project continues to push to achieve its production goals, and be diligent at minimizing costs and capitalizing on cost-saving opportunities to meet the in-service date and budget.

August 2021 – project in-service date
$8.7 billion – total estimated cost
$4.51 billion – spent to March 31, 2018
16,137 total hires to the project

- **71 per cent** Manitoba residents
- **45 per cent** Indigenous persons


Construction of the powerhouse at the Keeyask site

SAFETY

Promoting safety is one of Manitoba Hydro's foundational principles. We are committed to continuously improving safety performance and focusing on strategies to instill a safety and health culture in all corporate activities.

MEASURE	TARGET	PERFORMANCE
Accident severity rate (days per 200 000 hrs worked)	<12	13.83
Accident frequency rate (accidents per 200 000 hrs worked)	<0.60	1.35
Serious incidents	0	6

DELIVER AN EXCELLENT CUSTOMER EXPERIENCE

While continuing to deliver safe, reliable energy at a fair price, we are working to enhance our customer experience.

MEASURE	TARGET	PERFORMANCE
System average interruption duration (minutes per year)	<116	131.9
System average interruption frequency (outages per year)	<1.4	1.45
Customer satisfaction	>8.2/10	8.0

RESTORE FINANCIAL SUSTAINABILITY

In order for us to maintain and grow our business as well as manage our operating risks, a strong financial position is a necessity. We are committed to carefully managing costs and utilizing resources efficiently and effectively to fulfill our mandate and provide maximum value to our stakeholders and customers.

MEASURE	TARGET	PERFORMANCE
Debt:equity ratio	75:25	85:15
Interest coverage	1.80	1.50
Capital coverage	1.20	0.50

WORKFORCE MANAGEMENT & INDIGENOUS RELATIONS

A highly skilled and motivated workforce that reflects the demographics of Manitoba is critical to our success. Engaging impacted Indigenous communities in a positive way is vital to enhancing working relationships. We continue to place emphasis on addressing the adverse effects of our operations and fostering respect and support of Indigenous peoples in all aspects of our business.

MEASURE	TARGET	PERFORMANCE
Indigenous – province-wide workforce	18%	19.4%
Indigenous – northern workforce	47%	48.8%
Persons with disabilities	6%	8.2%
Visible minorities	9%	9.2%

ENVIRONMENTAL LEADERSHIP

Protecting the environment is an integral part of everything we do. Manitoba Hydro integrates environmentally responsible practices into all aspects of our business. Environmental protection is carried out with dedication to monitoring programs, climate change initiatives and environmental research and development.

MEASURE	TARGET	PERFORMANCE
Renewable electricity generated in Manitoba	≥99%	99.73%
Total annual GHG emissions	≤520 kt	104 kt
Repeat environmental audit findings	0 repeat findings	0

DEMAND SIDE MANAGEMENT

Demand side management plays a key role in meeting Manitoba's future energy needs in a sustainable manner as the province's population and economy continues to grow. Our efforts assist customers in using energy more efficiently and result in overall lower energy bills.

MEASURE	TARGET	PERFORMANCE
Annual incremental electric energy saved	310 GWh	417 GWh
Electric capacity saved annually	238 MW	257 MW
Natural gas energy saved annually	9.4 million cubic metres	6.6 million cubic metres

Corporate Integrity Program

Manitoba Hydro encourages employees and others to speak up on matters of concern without fear of reprisal through its Integrity Program. All disclosures under the Integrity Program are protected by strict rules of confidentiality.

Below is a summary of all disclosures received during 2017-18 which allege wrongdoing as defined in The Public Interest Disclosure (Whistleblower Protection) Act:

Total number of disclosures received:	0
Number of disclosures ongoing from 2017-18	2
Number of disclosures acted upon:	2
Number of disclosures not acted upon:	0
Number of investigations commenced/continued:	2
Number of disclosures verified:	0
Number of disclosures not verified:	0
Number of disclosures carried forward to 2018-19:	2

Manitoba Hydro-Electric Board

Appearing from left to right: Michael Moore, Vice-Chair; Lisa Meeches, Marina R. James, Chair; Wade Linden, Melanie McKague, Cliff Graydon.

Manitoba Hydro Senior Officers

Appearing from left to right:

Shane Mailey, P. Eng
Vice-President,
Transmission

Bryan Luce
Vice-President,
Human Resources
& Corporate Services

Jeffrey Betker, B.A., B.Comm (Hons), MBA
Vice President, Indigenous Relations

Kelvin Shepherd, P. Eng
President and Chief Executive
Officer

Lorne Midford, P. Eng
Vice-President,
Generation & Wholesale

Siobhan Vinish
Vice-President,
Marketing & Customer Service

Ken Tennenhouse, LL. B
General Counsel &
Corporate Secretary

Jamie McCallum
Chief Finance & Strategy Officer

Financial Review

Management's Discussion and Analysis

Consolidated Financial Statements

The following Management's Discussion and Analysis (MD&A) provides comments on the financial results of Manitoba Hydro (the corporation) for the year ended March 31, 2018 with comparative information where applicable. The MD&A also provides an assessment of corporate risks and contains forward-looking statements regarding conditions and events which may affect financial performance in the future. Such forward-looking statements are subject to a number of uncertainties which are likely to cause actual results to differ from those anticipated. For context, the MD&A should be read in conjunction with the consolidated financial statements and notes. The fiscal 2018 financial information discussed below has been prepared in accordance with International Financial Reporting Standards (IFRS).

Summary of Consolidated Results

Consolidated Statement of Income

Manitoba Hydro's consolidated net income from electricity and natural gas operations for the fiscal year ended March 31, 2018 was $37 million compared to $71 million in the previous fiscal year. Net income decreased by $34 million primarily as a result of restructuring charges driven by the implementation of a significant cost reduction program. The cost reduction program includes a multi-year plan to achieve a 900 person staff reduction already substantially achieved primarily through the implementation of a Voluntary Departure Program (VDP) launched in April 2017. The number of executives was reduced by 30%, and overall the corporation reduced its management staff by 26%. In addition to position reductions, Manitoba Hydro has committed to achieve procurement savings through supply chain management initiatives.

Excluding restructuring expenses, Manitoba Hydro would have reported net income of $87 million in 2017-18, an improvement of $33 million over the prior year excluding a $20 million gain on sale of property and a $3 million restructuring charge. The improvement was mostly attributable to higher domestic electricity revenue resulting from colder weather and customer growth along with a reduction in operating and administrative expenses as a result of the cost reduction program. These improvements were partially offset by lower extraprovincial revenues (net of power purchased and water rental expenses) due to lower hydraulic generation.

The following table provides results on the two primary operating segments of Manitoba Hydro as well as the consolidated results.

	Electric		Natural Gas		Consolidated*		
	2018	2017	**2018**	2017	**2018**	2017	Change
			millions of dollars				
Revenues							
Manitoba	**1 494**	1 467	**346**	345	**1 893**	1 867	26
Extraprovincial	**437**	460	**-**	-	**437**	460	(23)
	1 931	1 927	**346**	345	**2 330**	2 327	3
Expenses	**2 393**	1 952	**346**	330	**2 780**	2 323	457
Net income (loss) before net movement in regulatory balances	**(462)**	(25)	**-**	15	**(450)**	4	(454)
Net movement in regulatory balances	**472**	66	**7**	(11)	**479**	55	424
Net income (loss)	**10**	41	**7**	4	**29**	59	(30)
Net income (loss) attributable to:							
Manitoba Hydro	**18**	53	**7**	4	**37**	71	(34)
Non-controlling interests	(8)	(12)	**-**	-	(8)	(12)	4
	10	41	**7**	4	**29**	59	(30)
Total assets and regulatory debits	**24 540**	21 733	**752**	721	**25 169**	22 338	2 831
Retained earnings	**2 767**	2 749	**76**	69	**2 936**	2 899	37
Financial Ratios							
Debt: equity					**85:15**	84:16	
Interest coverage					**1.50**	1.54	
Capital coverage					**0.50**	1.48	

*Includes other segments and eliminations

Consolidated net income attributable to Manitoba Hydro of $37 million for the 2018 fiscal year was comprised of net income of $18 million in the electric segment, net income of $7 million in the natural gas segment, net income of $10 million from subsidiaries and a $2 million net income related to adjustments required on consolidation to harmonize accounting policies between electric and natural gas operations related to the gas meter exchange program.

Consolidated net income for 2017-18 was $84 million lower than the budgeted net income of $121 million which was primarily due to the Public Utilities Board's (PUB) decision to deny the corporation's request for a 7.9% interim rate increase as at August 1, 2017. The PUB did approve a 3.36% interim electricity rate increase August 1, 2017 but directed that the entire increase be added to the previously established Bipole III deferral account. Also contributing to the lower than forecasted net income was a continuation of weaker than planned opportunity prices in the export market and higher financing costs.

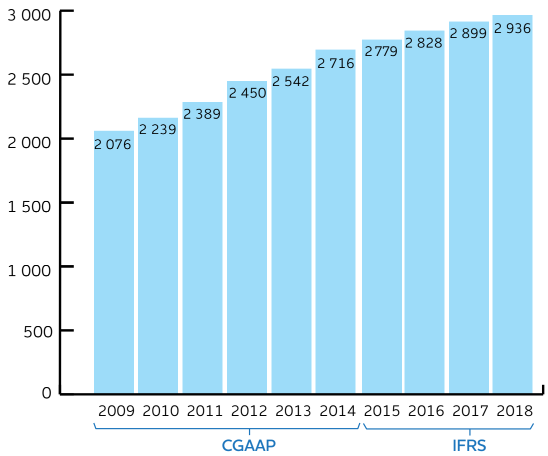
Financial Targets

Manitoba Hydro has three primary financial targets which are used to assess the financial strength of the corporation. The first is to maintain a minimum equity ratio of 25%, a measure of the portion of assets that are financed by internally generated funds rather than debt. The second is an interest coverage ratio which considers earnings before interest, depreciation and amortization adjusted for net movement impacts with a minimum target of greater than 1.80 that measures the ability to meet interest payment obligations with cash flow. The third is to maintain a capital coverage ratio of greater than 1.20 which is a measure of the ability of cash flow from operations to fund sustaining capital expenditures.

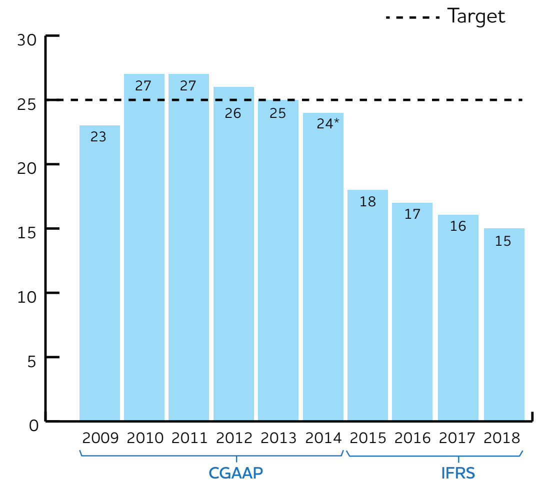
Consolidated net income of $37 million contributed to the corporation's retained earnings of $2 936 million at March 31, 2018. The equity ratio of 15% is lower than the 25% target. The decline in the equity ratio since 2011 is primarily due to higher debt levels to fund significant investment in major new generation and transmission facilities, transitional adjustments upon adoption of IFRS and significantly lower levels of net income as compared to earlier years. The interest coverage ratio of 1.50 was below the target level of 1.80 primarily due to lower levels of net income. The capital coverage ratio of 0.50 was below the target level of 1.20 primarily due to a decline in cash flow as a result of higher payments to vendors.

The capital coverage ratio has certain limitations particularly during periods of significant capital investment which Manitoba Hydro is currently undertaking. The 2017 level of 1.48 was positively impacted by a $364 million increase in accounts payable and accrued liabilities which was driven mostly by a significant payment accrual on the Bipole III Reliability project. In turn, in 2018, payment was made with respect to the accrual thereby contributing to a $339 million reduction in accounts payable and accrued liabilities thereby reducing cash flow and the capital coverage ratio.

Retained Earnings
For the year ended March 31
millions of dollars

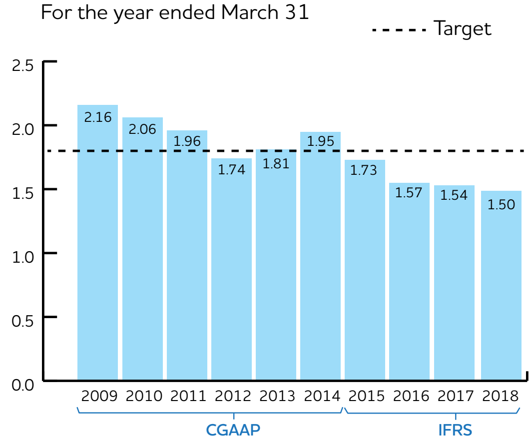


Equity Ratio
For the year ended March 31

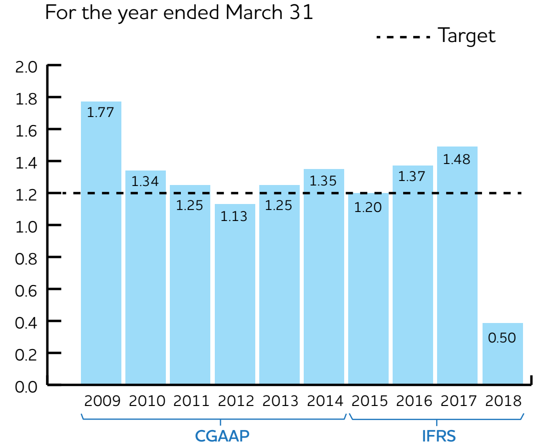


* On transition to IFRS on April 1, 2014, retained earnings was adjusted to $2 643 which reduced the equity ratio to 21%.

Interest Coverage Ratio
For the year ended March 31



Capital Coverage Ratio
For the year ended March 31



Subsequent to year-end, on May 1, 2018 the PUB issued Order 59/18 in respect of Manitoba Hydro's 2017-18 and 2018-19 electric rate application. The PUB denied Manitoba Hydro's request for a 7.9% rate increase as of April 1, 2018 and awarded a 3.6% average rate increase to be effective June 1, 2018. In its Order, the PUB signalled it no longer acknowledges the validity of the 25% equity ratio for the purposes of rate-setting and will not consider pacing to achieve such a ratio until at least after the 2023-24 fiscal year when the Keeyask Generating Station project is fully in service.

The PUB has ordered a technical conference on the establishment of a minimum retained earnings or similar test to provide guidance in setting consumer rates. Manitoba Hydro expects to obtain further clarity on PUB expectations with respect to financial targets and will need to incorporate these into future financial plans and rate applications.

Consolidated Statement of Financial Position

The following table provides a summary of Manitoba Hydro's consolidated statement of financial position.

	2018	2017	increase/ (decrease)
	millions of dollars		
Current assets	**1 221**	1 262	(41)
Property, plant and equipment	**21 979**	19 757	2 222
Non-current assets	**925**	753	172
Total assets	**24 125**	21 772	2 353
Regulatory deferral balances	**1 044**	566	478
Total assets and regulatory deferral balances	**25 169**	22 338	2 831

	2018	2017	increase/ (decrease)
Current liabilities	**2 080**	1 631	449
Long-term debt	**18 200**	16 102	2 098
Non-current liabilities	**2 360**	2 168	192
Total liabilities	**22 640**	19 901	2 739
Equity	**2 453**	2 360	93
Total liabilities and equity	**25 093**	22 261	2 832
Regulatory deferral balances	**76**	77	(1)
Total liabilities, equity and regulatory deferral balances	**25 169**	22 338	2 831

Significant changes are explained below:

Current assets decreased $41 million primarily as a result of lower advances to the general civil contractor for the construction of the Keeyask Generating Station partially offset by increased receivables from customers as a result of colder winter weather and the impact of the electric rate increase August 1, 2017.

Property, plant and equipment increased by $2 222 million for capital expenditures for the development of major new generation and transmission facilities as well as additions, improvements and replacement of existing infrastructure.

Non-current assets increased by $172 million primarily due to the investment in the Great Northern Transmission Line (GNTL), advances made to Keeyask partners and easements associated with the Bipole III Reliability project.

Current liabilities increased by $449 million due to an increase in the current portion of long-term debt partially offset by a decrease in payables related to major capital projects. Long-term debt increased by $2 098 million to fund the investment in these major projects. Non-current liabilities increased by $192 million due to an increase in revenue set aside in the Bipole III deferral account and higher future employee benefit obligations due to actuarial losses on the pension liability associated with the reduction in the discount rate and the VDP.

Regulatory deferral balances increased primarily due to the transfer of the construction in progress balance of $379 million related to the Conawapa Generating Station as a result of the corporation's decision to discontinue further development of the station at this time. In addition, there was an increase in the annual investment in demand side management (DSM) programs as well as higher losses on the disposition of assets.

Consolidated Statement of Cash Flow

Manitoba Hydro's primary sources of liquidity and capital are funds generated from operations and debt financing through the Province of Manitoba. These sources are used for multiple purposes including investment in generation, transmission and distribution facilities, to fund operating and maintenance activities and to service long-term debt.

The following table provides a summary of Manitoba Hydro's consolidated statement of cash flows.

	2018	2017	change
		millions of dollars	
Cash and cash equivalents, beginning of year	**646**	955	(309)
Cash (used for) provided by operating activities	**(94)**	623	(717)
Cash used for investing activities	**(2 764)**	(2 787)	23
Cash provided by financing activities	**2 854**	1 855	999
Cash and cash equivalents, end of year	**642**	646	(4)

Cash from operating activities includes cash receipts from customers, cash paid to suppliers and employees as well as interest payments.

Cash used for operations in 2017-18 was $94 million, a decrease of $717 million from the cash provided in the previous year. The change reflects the significant reduction in the unusually high payable balances at March 31, 2017 related to the Bipole III Reliability project.

The corporation's electric and natural gas segments are capital intensive in nature and require continued investment in infrastructure to construct new generation, transmission and distribution facilities, increase capacity of existing facilities and maintain and improve service, reliability, safety and environmental performance.

Cash flow used in investing activities in 2017-18 was $2 764 million, compared to $2 787 million in 2016-17. The decrease was primarily due to additional contributions set aside in the Bipole III deferral partially offset by increased investment in GNTL and a change in the purchased gas variance account (PGVA) associated with the lower collection of prior period gas commodity costs from customers and increased commodity purchases.

Manitoba Hydro's authority to issue debt is provided through *The Loan Act*, which is approved each year and grants borrowing authority to meet the corporation's new debt financing requirements. *The Manitoba Hydro Act* grants the corporation the power to issue short-term promissory notes in the name of the Manitoba Hydro-Electric Board (MHEB) up to an aggregate sum of $500 million of principal outstanding at any one time. As at March 31, 2018 the corporation had $50 million outstanding on its short-term programs. Authority to refinance any maturing long-term debt is provided through *The Financial Administration Act*. The majority of Manitoba Hydro's long-term debt is obtained through advances from the Province of Manitoba.

The primary use of the long-term borrowing program is to provide debt financing for investment in new generation and transmission and, if needed, to fund continuing operations. The primary use of the short-term borrowing program is to safeguard the corporation from liquidity risk by providing a credit facility to support the corporation's temporary cash requirements. Both long and short-term borrowings are unconditionally guaranteed as to principal and interest by the Province of Manitoba (except for mitigation bonds issued by the MHEB).

Cash provided by financing activities in 2017-18 was $2 854 million, compared to $1 855 million in 2016-17 and is comprised primarily of proceeds from long-term debt through advances from the Province. Proceeds from financing arranged by the corporation amount to $3 400 million compared to $2 186 million in the previous year. Current year proceeds were used to fund new capital requirements and to refinance long-term debt maturing during the year. The corporation issued debt at a weighted average rate of 2.67% during 2017-18 (excluding the provincial debt guarantee fee) reflecting in part a decision to issue relatively shorter term maturity debt to take advantage of attractive market conditions.

Electric Segment

The electric segment is responsible for the generation, transmission and distribution of electrical energy adequate for the needs of the Province of Manitoba and engages in wholesale power related transactions in order to assist in providing a reliable and dependable supply of power to Manitoba and to minimize the net costs to Manitoba customers. The electric segment includes Manitoba Hydro's ownership interests in the Wuskwatim Power Limited Partnership (WPLP), the Keeyask Hydropower Limited Partnership (KHLP) and a subsidiary formed to participate in the development of a new transmission line to the United States. Manitoba Hydro provides electric service to 509 465 residential and 70 797 commercial and industrial customers in Manitoba.

Net income attributable to Manitoba Hydro in the electric segment was $18 million in 2017-18 compared to net income of $53 million in the previous fiscal year. Without restructuring charges, net income in the electric segment would have been $65 million compared to $36 million in 2016-17 (excluding restructuring charges and the gain on sale of land).

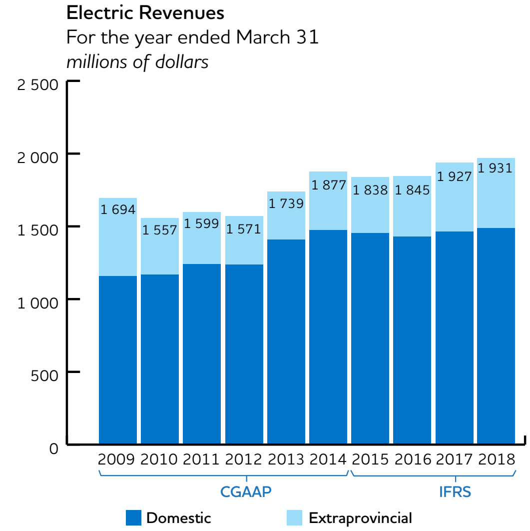
Electric Revenues

Domestic revenue includes the sale of electricity to residential, commercial and industrial customers in Manitoba and other miscellaneous revenues. Residential customers are comprised of all housing types including apartment blocks, seasonal cottages and farm houses. Commercial customers are comprised of small and medium establishments including retail outlets, schools, universities and hospitals. Industrial customers are comprised of large establishments who own their own transformation and are primarily engaged in mining and/or manufacturing activities. Revenues are impacted by weather, electricity rates, customer growth and energy usage. Other revenue in the electric segment includes amortization of customer contributions, provision of services on customer owned plant, gains on the sale of property and net rental revenue between Manitoba Hydro and other telecom and cable providers.

Extraprovincial revenue includes revenues from Canadian and U.S. export sales as well as revenues from other related export market activities such as arbitrage opportunities between wholesale energy markets, transmission credits and the sale of renewable energy certificates. Canadian and U.S. sales include both dependable and opportunity sales. Dependable sales are export contracts sourced from Manitoba Hydro's hydraulic energy available during lowest water conditions, are typically negotiated at least one year in advance and have duration of greater than six months. Opportunity sales are based on excess energy, are generally over shorter periods and are transacted primarily in markets operated by an independent system operator such as the Midcontinent Independent System Operator (MISO). Opportunity sales are also negotiated directly with a purchasing party. Extraprovincial sales are impacted by changes in water flow conditions, export prices, foreign exchange rates and domestic usage. Extraprovincial sales volumes are dependent on the availability of surplus generation that requires favourable water flow conditions and the availability of transmission to export markets.

Total electric revenues were $1 931 million, an increase of $4 million or 0.2% from the previous year. This was the result of an increase of $27 million in domestic revenues partly offset by a $23 million decrease in extraprovincial revenues. Increases in domestic revenues are the result of colder winter weather and growth in the number of customers. Lower extraprovincial revenues were primarily due to lower U.S. opportunity sales volumes resulting from lower generation as well as U.S. transmission line outages partially offset by slightly higher export prices.

The breakdown of electric revenues is as follows:



Electric Revenues and kWh Sales

For the year ended March 31

	2018	2017	% change	**2018**	2017	% change
	millions of dollars			*millions of kWh*		
Domestic						
Electricity sales						
Residential	**616**	582	5.8	**7 636**	7 250	5.3
Commercial	**508**	496	2.4	**7 041**	6 873	2.4
Industrial	**340**	341	(0.3)	**7 828**	7 843	(0.2)
	1 464	1 419	3.2	**22 505**	21 966	2.5
Other revenue	**30**	48	(37.5)			
Domestic revenue	**1 494**	1 467	1.8	**22 505**	21 966	2.5
Extraprovincial						
Dependable	**260**	248	4.8	**3 361**	3 310	1.5
Opportunity	**168**	202	(16.8)	**6 087**	7 962	(23.5)
Other	**9**	10	(10.0)			
Extraprovincial revenue	**437**	460	(5.0)	**9 448**	11 272	(16.2)
	1 931	1 927	0.2	**31 953**	33 238	(3.9)

Revenues from electricity sales in Manitoba totaled $1 464 million in 2017-18, an increase of $45 million from the previous year. Electricity consumption in Manitoba was 22 505 million kilowatt-hours, 539 million kilowatt-hours higher than the previous year. The increase in consumption was mainly due to colder winter weather and an increase in the number of customers in all customer classes.

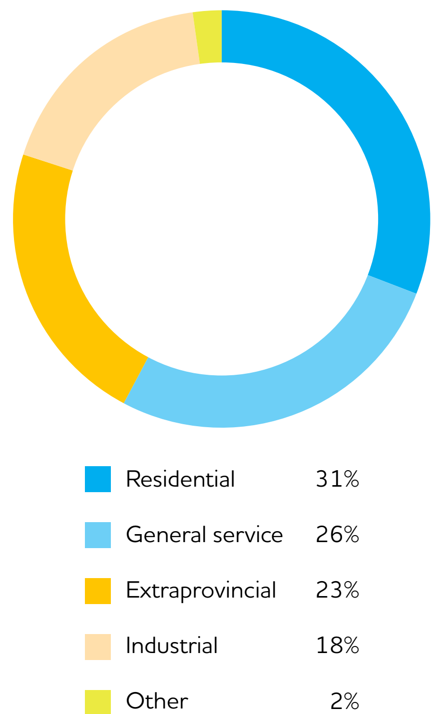
Revenues from sales to residential customers for 2017-18 amounted to $616 million, an increase of $34 million or 5.8% from the previous year. The increase was primarily attributable to colder winter weather and customer growth of 6 298 customers to 509 465, an increase of 1.3% compared to the previous year.

Revenues from commercial customers amounted to $508 million in 2017-18, an increase of $12 million or 2.4% from the previous year. The increase was mainly attributable to colder winter weather and customer growth of 515 customers to 70 409.

Revenues from industrial customers amounted to $340 million, a decrease of $1 million or 0.3% from the previous year. The decrease was mainly attributable to lower customer usage partially offset by customer growth of 11 customers to 388.

Other revenues amounted to $30 million, a decrease of $18 million or 37.5% from the previous year. The decrease was mainly the result of gains on the sale of property which occurred in the prior year.

Electric Revenues
For the year ended March 31, 2018



Extraprovincial revenues totaled $437 million in 2017-18, a decrease of $23 million from the previous year. The decrease reflects lower U.S. opportunity sales volumes due to U.S. transmission line outages and lower generation as well as unfavourable foreign exchange impacts from the strengthening Canadian dollar partially offset by higher export prices primarily on dependable and contract sales. Opportunity volumes were down 1 875 GWh or 24% compared to the prior year. Of the total extraprovincial revenues, $396 million or 91% was derived from the U.S. market, $38 million or 8% was from sales to Canadian markets and $3 million or 1% was related to arbitrage opportunities between wholesale energy markets.

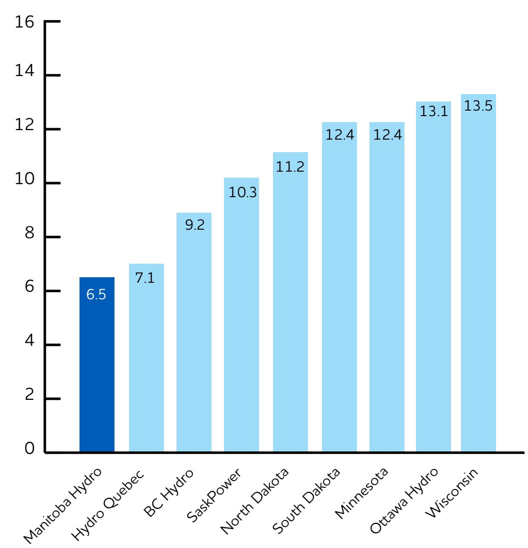
Electric Rates

The PUB issued Order 59/18 on May 1, 2018, which directed that the 3.36% electricity rate increases previously approved on an interim basis effective August 1, 2016 and August 1, 2017 both be approved as final. The PUB had directed that these increases be added to the previously established deferred revenue account to mitigate rate increases when the Bipole III Reliability project comes into service. During the 2017-18 fiscal year $152 million was set aside for this purpose. At the end of fiscal 2018, the balance in this deferral account totaled $348 million, which reflects the total of the set aside increases of 1.5% approved by the PUB effective May 1, 2013, 0.75% effective May 1, 2014, 2.15% effective August 1, 2015 and the above noted 3.36% effective August 1, 2016 and a further 3.36% effective August 1, 2017.

In Order 59/18, the PUB denied the corporation's request for a 7.9% across-the-board rate increase effective April 1, 2018 but approved a 3.6% average rate increase to be recovered in consumers' rates effective June 1, 2018.

Manitoba Hydro's domestic electricity rates continue to be among the lowest overall in North America. This is illustrated in the accompanying chart which was excerpted from utilities' annual reports and United States Department of Energy and Edison Electric Institute publications.

Average Retail Price of Electricity
cents/kWh (Cdn)



Electric Expenses

Electric expenses totaled $2 393 million for 2017-18, an increase of $441 million or 22.6% over the previous year. Excluding the transfer of the construction in progress balance related to the Conawapa Generating Station of $379 million (which is offset in net movement in regulatory balances), electric expenses increased $62 million. The increase in expenses was mainly the result of an increase in other expenses primarily attributable to restructuring charges driven by the implementation of a significant cost reduction program.

The breakdown of electric expenses is as follows:

Electric Expenses
For the year ended March 31

	2018	2017	% change
	millions of dollars		
Finance expense	**601**	608	(1.2)
Operating and administrative	**517**	536	(3.5)
Depreciation and amortization	**402**	375	7.2
Water rentals and assessments	**126**	131	(3.8)
Fuel and power purchased	**130**	132	(1.5)
Capital and other taxes	**130**	119	9.2
Other expenses	**502**	60	736.7
Corporate allocation	**8**	8	-
Finance income	**(23)**	(17)	35.3
	2 393	1 952	22.6

Finance expense includes interest on short and long-term borrowings and the provincial debt guarantee fee paid to the Province of Manitoba, foreign exchange gains and losses, accretion expense on provisions and other long-term liabilities, partially offset by interest capitalized for those qualifying assets under construction. Finance expense is impacted by borrowing requirements for capital investment, interest rates on borrowings and the capitalization of interest.

Finance expense totaled $601 million in 2017-18, a decrease of $7 million or 1.0% from the previous year. The decrease was primarily due to higher capitalization of financing costs driven by interest being capitalized at the weighted average rate whereas the actual rate on new borrowings during the year was lower. This was partially offset by higher foreign exchange losses on U.S. cash balances resulting from the strengthening Canadian dollar.

Operating and administrative expenses are comprised primarily of labour and benefits, materials, contracted services and overhead costs associated with operating, maintaining and administering the facilities and programs of the corporation and providing services to customers.

In 2017-18, operating and administrative expenses for electric operations amounted to $517 million, a decrease of $19 million, or 3.5% compared to 2016-17. The decrease in operating and administrative expenses is primarily attributable to a reduction in employee related expenditures resulting from the corporate restructuring initiative partially offset by an increase in uncollectible accounts.

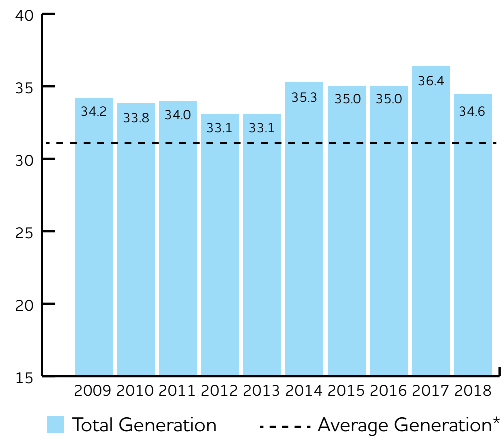
Depreciation and amortization includes depreciation of property, plant and equipment and amortization of intangible assets as well as any gains or losses on disposal of assets.

Depreciation and amortization expense amounted to $402 million in 2017-18, an increase of $27 million or 7.2% from the previous year. The increase was mainly attributable to new additions to plant and equipment coming into service including the Adelaide and St. Vital stations. The Adelaide station was built to address safety, operating and maintenance concerns with the King Street station which was built in the early 1900's and supplies approximately one third of the distribution load in the downtown area. With the construction of the Adelaide station, the King Street station will be decommissioned. The St. Vital station addresses load requirements in southeast Winnipeg that could no longer be managed by the existing station.

Water rentals and assessments includes water rentals paid to the Province of Manitoba for the use of water resources in the operation of the corporation's hydraulic generating stations and assessments paid to various regulatory and market organizations.

Water rentals and assessments amounted to $126 million in 2017-18 as compared to $131 million in the prior year. The decrease reflects lower hydraulic generation in 2017-18 compared to the previous year which had above average water flows. Hydraulic generation amounted to 34.6 billion kilowatt-hours in 2017-18 compared to 36.4 billion kilowatt-hours in the previous year which is a decrease of 5%. Fiscal 2017-18 reflected the 14th consecutive year of water flows above long-term average. Over the past 110 years the next longest period of above average water flow conditions was five years.

Hydraulic Generation
For the year ended March 31
billions of kWh



* Average hydraulic generation is based on historic river flows since 1912 and the current hydroelectric generation fleet

Fuel and power purchased includes fuel for the thermal generating stations and remote diesel sites, purchased electrical energy from external Canadian and U.S. suppliers, wind power purchased from the independently-owned St. Leon and St. Joseph wind farms and transmission charges. Fuel and power purchases are impacted by weather, market prices for electricity and water flow conditions. If water conditions are low, electricity purchases are necessary to meet the energy requirements of Manitobans. Manitoba Hydro has experienced higher than average hydraulic generation over the past several years largely as a result of favourable water supply conditions reducing the requirement to purchase power.

Fuel and power purchased was $130 million in 2017-18, a decrease of $2 million or 1.5% from 2016-17. The decrease was primarily due to lower transmission charges as a result of redirecting transmission to lower cost nodes as well as lower prices partially offset by higher purchased volumes due to lower generation.

Capital and other taxes includes payments to the Province of Manitoba for capital and payroll tax and to municipalities within the Province of Manitoba for property taxes.

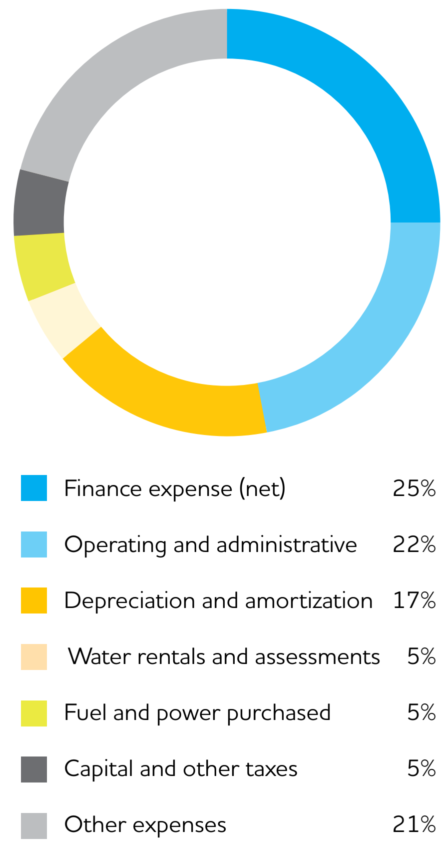
Capital and other taxes amounted to $130 million in 2017-18, an increase of $11 million or 9.2% compared to the previous year. The change was primarily due to increased capital taxes as a result of higher debt levels related to additional capital investment in projects such as Keeyask and Bipole III.

Other expenses include expenditures associated with DSM programs designed to reduce overall energy consumption and assist customers in managing their energy costs as well as other miscellaneous expenditures. The majority of other expenses are removed from the statement of income, deferred and subsequently amortized through net movement in regulatory balances.

In 2017-18, other expenses also includes the transfer of the construction in progress balance related to the Conawapa Generating Station of $379 million as a result of the corporation's decision to discontinue further development of the station. As part of the corporation's 2017-18 electric General Rate Application, Manitoba Hydro requested and received approval by the PUB for the recognition of the costs of Conawapa in a regulatory deferral balance and subsequent amortization over a 30 year period. No amortization was recognized in 2017-18.

Excluding the Conawapa transfer, other expenses amounted to $123 million in 2017-18, an increase of $63 million or 105% compared to the previous year. The increase was primarily due to $47 million in restructuring charges driven by the implementation of a significant cost reduction program as well as higher spending on DSM programs such as LED Roadway Lighting Conversion, Commercial Lighting and Solar Technologies. Electric DSM expenditures for the year totaled $64 million, an increase of $13 million over 2016-17.

Electric Expenses
For the year ended March 31, 2018



Electric Net Movement in Regulatory Balances

The corporation's financial results were prepared using the interim standard IFRS 14 *Regulatory Deferral Accounts* which allows Manitoba Hydro to continue to recognize regulated balances for financial reporting purposes. This results in the deferral of costs and recoveries that under IFRS would otherwise be recorded as expenses or income in the current accounting period. The deferred amounts are expected to be either recovered or refunded through future rate adjustments.

The net movement in regulatory balances captures the timing differences between financial reporting under IFRS and those amounts approved by the PUB for rate-setting purposes. The change in the net movement in regulatory balances of $406 million was primarily due to the Conawapa transfer, higher DSM expenditures and increased losses on disposal of property, plant and equipment.

Electric Capital Expenditures

The electric capital expenditure program relates to investments in major new generation and transmission facilities, as well as additions, improvements and replacement of existing infrastructure.

Expenditures for capital construction totaled $2 924 million in 2017-18 compared to $2 892 million during the previous fiscal year. This includes $2 463 million for the development of new major generation and transmission facilities, an increase of $101 million when compared to 2016-17. Current year expenditures include $1 244 million (2017 - $904 million) for the Keeyask Generating Station and $1 137 million (2017 - $1 373 million) for the Bipole III Reliability project. Amounts include the capitalized interest associated with construction in progress.

The Bipole III Reliability project is nearing completion and will come into service in July 2018. When complete, Bipole III will strengthen reliability of Manitoba Hydro's electricity supply by reducing dependency on existing high voltage direct current transmission lines and the Dorsey Converter Station which are relied upon to deliver over 70% of the electricity produced in Manitoba. The Bipole III Reliability project includes a 1 384 kilometre, 500 kilovolt (kV) transmission line with two converter stations. The two new converter stations, the Keewatinohk Converter Station and the Riel Converter Station, will provide additional capacity to existing Bipole I and II HVDC transmission systems. The project also provides additional capacity for delivery of hydroelectric generation to southern Manitoba.

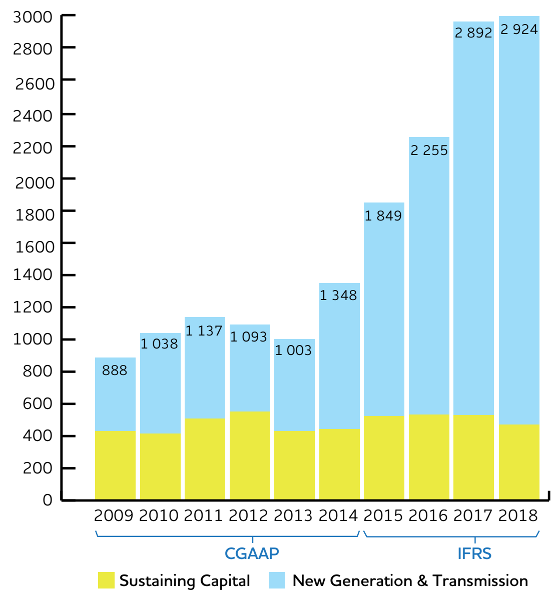
The construction of the Bipole III 500 kV transmission line was completed and turned over for commissioning on March 31, 2018 whereas construction of the Bipole III converter stations is near completion. At March 31, 2018, life to date expenditures for the Bipole III Reliability project totaled $4 289 million including capitalized interest.

The Keeyask Generating Station will be a source of renewable energy, providing approximately 695 megawatts of capacity and producing an average of 4 400 gigawatt hours of electricity each year. The renewable hydroelectric energy produced will be integrated into the corporation's electric system to maintain a reliable supply for Manitoba with surplus energy available for export until necessary to meet domestic requirements.

During the 2018 fiscal year, almost 90 000 m^3 of concrete was placed on the powerhouse, intake, tailrace, service bay and spillway. At the end of March 2018, approximately half of the total volume of concrete required for the Keeyask Project has been placed. Key milestones were achieved on schedule during the year and the project is on track to divert the Nelson River through the spillway in the summer of 2018. The Keeyask Project is forecasting to meet the control budget of $8.7 billion and have a first unit in-service in advance of the control schedule of August 2021. This will require improvement in the performance of the general civil contractor and no materialization of major risks. At March 31, 2018, total expenditures for Keeyask generation and related transmission amounted to $4 508 million including capitalized interest.

Capital expenditures required for additions, improvements and replacement of existing infrastructure amounted to $461 million, a decrease of $69 million compared to the previous fiscal year. The reduction was primarily attributable to the distribution system, related to large station projects such as Adelaide and St. Vital stations coming to completion. In addition, expenditures declined in 2017-18 due to a decrease in resource availability as a result of a reassignment of resources to focus on the Bipole III Reliability project and the impacts of the VDP.

Electric Capital Expenditures
For the year ended March 31
millions of dollars



Current year expenditures include investments in urban and rural distribution development such as the new McPhillips station and the refurbished St. Vital station required to address increasing customer load. In addition, transmission capacity enhancements such as the Lake Winnipeg east system improvements were necessary to accommodate regional load growth and system expansion. Manitoba Hydro is also investing in the replacement and refurbishment of existing assets to address degradation and obsolescence given that many of the corporation's assets were installed several decades ago.

Wuskwatim Power Limited Partnership

The WPLP owns and operates the Wuskwatim Generating Station and related works, excluding the transmission facilities. The WPLP has two limited partners, Manitoba Hydro and Taskinigahp Power Corporation (TPC), which is owned beneficially by Nisichawayasihk Cree Nation, and a General Partner which is a wholly-owned subsidiary of Manitoba Hydro.

The WPLP reported a net loss for 2017-18 of $25 million which is consistent with expectations. This is compared to a net loss of $36 million in 2016-17. Manitoba Hydro's 67% share of the loss was $17 million (2017 - $24 million) and TPC's 33% share of the loss was $8 million (2017 - $12 million).

Keeyask Hydropower Limited Partnership

The KHLP was formed to carry on the business of developing, owning and operating the Keeyask Generating Station and related works excluding the transmission facilities but including all dams, dikes, channels, excavations and roads. Manitoba Hydro, Cree Nation Partners (owned beneficially by Tataskweyak Cree Nation and War Lake), FCLN Keeyask Investments Inc. (owned beneficially by Fox Lake) and York Factory First Nation Limited Partnership (owned beneficially by York Factory) are limited partners of KHLP. The General Partner is a wholly-owned subsidiary of Manitoba Hydro. The KHLP will have no impact on the statement of income until the generating station goes into service.

Natural Gas Segment

Centra Gas Manitoba Inc. (Centra) is a wholly-owned subsidiary of Manitoba Hydro. Centra distributes natural gas to 255 868 residential and 26 122 commercial and industrial customers in Manitoba.

The net income in the natural gas segment was $7 million in 2017-18 compared to net income of $4 million in the previous fiscal year. The increase in net income over the previous year was primarily attributable to colder winter weather partially offset by lower rates and restructuring costs. The decrease in rates is a result of the PUB directing Centra to revert the non-gas components of rates to levels approved in Order 46/10.

Natural Gas Revenues and Cost of Gas

For the natural gas segment, customer classes are distinguished based on the level of annual consumption and include residential, large and small general service, large commercial and industrial as well as interruptible and transportation service. Interruptible customers may have service interrupted periodically upon notice in exchange for a reduced rate. Transportation service customers purchase their own gas commodity and pay only for the delivery of natural gas.

Revenues from the sale and distribution of natural gas during 2017-18 were $344 million, an increase of $1 million from the previous year. The slight increase in revenue is primarily due to colder weather and customer growth partially offset by lower weighted average cost of gas (WACOG) charged to customers. Natural gas deliveries were 2 048 million cubic metres in 2017-18 compared to 1 986 million cubic metres in 2016-17.

As directed by the PUB, $3.8 million of revenue from 2017-18 was set aside to continue a program targeted to low-income customers and qualifying seniors on fixed incomes to assist in the replacement of low efficiency furnaces with high efficiency furnaces. At March 31, 2018, there is a remaining balance of $25 million in the Furnace Replacement Program.

The breakdown of natural gas revenue is as follows:

Natural Gas Revenues and Deliveries

For the year ended March 31

	2018	2017	% change	**2018**	2017	% change
	millions of dollars			*millions of cubic metres*		
Residential	**174**	172	1.2	**579**	524	10.5
Large general service	**104**	106	(1.9)	**545**	501	8.8
Large commercial & industrial	**28**	27	3.7	**189**	161	17.4
Small general service	**27**	26	3.8	**107**	95	12.6
Interruptible	**6**	6	-	**46**	44	4.5
Transportation service and other	**5**	6	(16.7)	**582**	661	(12.0)
Revenue	**344**	343	0.3	**2 048**	1 986	3.1

The actual cost of gas purchased is comprised of all expenses incurred in the procurement and delivery of natural gas to the Manitoba marketplace, including commodity supply, transportation and storage costs either from Western Canada or U.S. sources.

Centra purchased 817 million cubic metres of natural gas based on monthly Alberta indexed pricing, 274 million cubic metres under daily Alberta indexed pricing and 291 million cubic metres from a number of other supply sources. Centra also delivered natural gas on behalf of brokers to 8 063 (2017 – 10 701) customers receiving natural gas under Direct Purchase arrangements.

Cost of Gas Sold

For the year ended March 31

	2018	2017	change
	millions of dollars		
Cost of gas sold			
Purchased costs	**196**	183	13
PGVA	(3)	16	(19)
WACOG	**193**	199	(6)

The cost of gas purchased during 2017-18 was $196 million, an increase of $13 million from the previous year. This increase was the result of higher purchased volumes due to colder weather partially offset by slightly lower prices. The differences between the cost of gas embedded in customer rates (WACOG) and the actual cost of gas purchased are accumulated in the PGVAs, which ensures that only the actual cost of gas, no more or less, is ultimately passed on to customers. Any differences in these accounts are either refunded to, or collected from customers in future rates.

For income statement purposes the actual cost of gas purchased is adjusted in the net movement in regulatory balances for the impact of the PGVA accounts. For 2017-18, the total of actual cost of gas purchased combined with the PGVA adjustment is $193 million compared to $199 million for 2016-17.

The resulting gross margin after considering the net movement in PGVAs is $150 million for 2017-18 compared to $144 million for 2016-17, which is an increase of $6 million due to colder winter weather and customer growth partially offset by lower rates.

Natural Gas Rates

In accordance with Centra's quarterly rate-setting methodology, annualized rates for natural gas supplied to residential customers changed during 2017-18 as follows:

- May 1, 2017 — 3.1% decrease
- August 1, 2017 — 2.8% decrease
- November 1, 2017 — 2.7% decrease
- February 1, 2018 — 2.1% decrease

The change in natural gas rates reflects the fluctuations in pricing for natural gas purchased by Centra.

Natural gas prices have been declining since 2009 and the average bill is low relative to 10 years ago. Manitoba Hydro's natural gas customers have benefited as a result. The total annual natural gas bill for a typical residential customer in Manitoba in 2017-18 was 33% lower than in 2007-08.

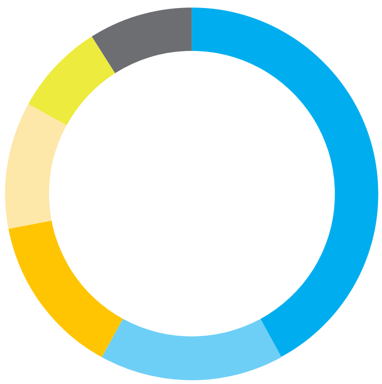
In addition, the PUB directed a general rate decrease of approximately 1.2% effective August 1, 2017 which reflects the reversion of the non-gas costs of operating Centra to levels approved by the PUB in 2010.

Centra offers a fixed rate service for primary natural gas supply which allows customers to fix their natural gas rates for terms of up to five years. The fixed rate service is offered to residential and commercial customers. At March 31, 2018 there were 73 customers (2017 – 99 customers) on Centra's fixed rate service. Total natural gas deliveries under this service were 1.2 million cubic metres (2017 – 0.7 million cubic metres).

Natural Gas Expenses

Expenses attributable to the natural gas operations, excluding cost of gas sold amounted to $150 million in 2017-18, which was $3 million higher than the previous year primarily attributable to restructuring charges of $3 million. In addition, there were increases of $2 million in finance expenses and $1 million in depreciation and amortization partially offset by a decrease of $2 million in operating and administrative expenses.

Natural Gas Expenses
For the year ended March 31, 2018



Natural Gas Expenses

For the year ended March 31

	2018	2017	% change
	millions of dollars		
Operating and administrative	**63**	65	(3.1)
Finance expense	**21**	19	10.5
Depreciation and amortization	**24**	23	4.3
Capital and other taxes	**16**	16	-
Other expenses	**14**	12	16.7
Corporate allocation	**12**	12	-
	150	147	2.0

Natural Gas Net Movement in Regulatory Balances

The natural gas net movement in regulatory balances captures the timing differences between financial reporting under IFRS and those amounts approved by the PUB for rate-setting purposes. The change in the net movement in regulatory balances of $18 million was primarily the result of the change in the PGVA balance due to lower collection of prior gas costs from customers and increased commodity purchases, partially offset by transportation costs.

Natural Gas Capital Expenditures

The capital expenditure program relates to new business, system improvement and other expenditures to meet the needs of natural gas customers. Capital expenditures in the natural gas sector were $37 million in 2017-18 compared to $59 million in the previous fiscal year. The decrease is primarily due to the Winnipeg Northwest project which was completed in 2016-17. The Winnipeg Northwest project provides additional capacity as well as a second gas supply to communities north of Winnipeg and offers operational flexibility to the Winnipeg natural gas network to permit pipeline inspection activities. This project was the single largest natural gas project (approximately $30 million) since a major expansion in the mid-1990's.

Other Segment

In addition to Centra, Manitoba Hydro has the following wholly-owned subsidiaries involved in energy-related business enterprises:

Manitoba Hydro International Ltd. (MHI) provides professional consulting, operations, maintenance and project management services to energy sectors world-wide, either exclusively or through partnerships. MHI also provides research and development services and products to the electrical power system industry.

Manitoba Hydro Utility Services Ltd. (MHUS) provides meter reading and related services to Manitoba Hydro, Centra and other utilities.

Manitoba Hydro also owns Minell Pipelines Ltd. (Minell) and Teshmont LP Holdings Ltd. (Teshmont).

The following table provides a summary of the financial results of the subsidiary companies excluding Centra for the fiscal year ended March 31, 2018 compared to the previous fiscal year. The results of Minell and Teshmont are included in Other in the table below:

Other Segment
For the year ended March 31

	MHI		MHUS		Other		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
				millions of dollars				
Revenues	**58.9**	59.7	**4.8**	4.7	**1.0**	1.1	**64.7**	65.5
Expenses	**48.8**	48.5	**5.4**	5.1	**0.4**	0.6	**54.6**	54.2
Net income (loss)	**10.1**	11.2	**(0.6)**	(0.4)	**0.6**	0.5	**10.1**	11.3

Risk Management

Manitoba Hydro faces a number of risks in the fulfillment of its mission and mandate. The corporation has a relatively low tolerance for risk due to its monopoly responsibility to ensure the provision of reliable energy services to Manitobans. However, Manitoba Hydro must balance the costs of risk management and mitigation with impacts on rates. As such, some risks can and should be accepted and to a prescribed degree in order to maximize value for stakeholders. These risks are managed through a systematic, proactive and integrated process which is designed to balance the objectives of:

- identifying threats that affect the achievement of the corporation's mandate and objectives;
- implementing measures that mitigate risk to reasonable levels at a reasonable cost;
- taking action to minimize the consequences of negative occurrences; and
- prudentially capturing opportunities to provide benefits to all stakeholders.

Most of Manitoba Hydro's risk management efforts are focused on reducing the likelihood of occurrence of negative events. However, the corporation also has plans in place to reduce the consequences should a negative event occur. These plans are under continual assessment. In addition, all safety and reliability risks are managed through strict adherence to design, construction and operating standards and practices together with extensive public education and employee training programs. A comprehensive Emergency Management Program is also in place to ensure an effective and coordinated response to possible emergencies or disasters.

The financial and operational risks associated with the management of an integrated utility are significant. These risks include:

- the impacts of weather on supply and demand;
- changing customer expectations and behavior;
- impact of water flow conditions on generation of hydraulic energy;
- regulatory approval of increases to electricity and natural gas rates;
- export price and market uncertainties including access, transmission and contractual relationships;
- availability and cost of debt necessary to fund the business;
- skilled labour availability and costs;
- cost of completion of in-flight capital programs;
- aging infrastructure maintenance and replacement;
- accelerated technological change.

Manitoba Hydro manages these risks through an integrated control framework. Manitoba Hydro's strategy is to further augment its risk management and mitigation of negative occurrences through achieving and maintaining of an adequate level of financial reserves through prudent liquidity management and a less indebted balance sheet.

Manitoba Hydro has identified the following risks as being of most critical attention and focus over the next 12 months or longer. Each reflect elevated levels of likelihood, high consequences even after any mitigation initiatives and a current status that is outside of the corporation's assessed risk tolerance for each.

RISK FACTOR	LIKELIHOOD	CONSEQUENCE	TOLERANCE	RISK RATING
Completion of major capital projects– further slippage on construction costs and schedule have significant financial impacts as well as impacts to Indigenous and customer relationships, reputation and standing with certain stakeholders.	High	High	Low	Yellow
Interest rates – in a period of unprecedented capital borrowing requirements, Manitoba Hydro has an elevated sensitivity to rising interest rates.	Medium	High	Medium	Green
Implementing electricity rate increases – PUB acceptance of rate increases sufficient to generate adequate levels of income and cash flow to manage Manitoba Hydro indebtedness.	Medium	High	Medium	Yellow
Meeting financial targets & maintaining credit standing – maintain self-supporting status and the ability to access low cost debt.	High	High	Medium	Yellow
Aging infrastructure – Manitoba Hydro is in the process of implementing enhanced asset management tools to determine the optimal level of investment and prioritize projects to sustain existing infrastructure and address capacity constraints; may need to reassess investment levels.	Medium	Medium	Medium	Yellow

Yellow = some emerging issues to be monitored and additional action required to bring the risk back to within established tolerance.
Green = risk is under control and no additional action required.

The most significant risks facing Manitoba Hydro are those rated as high consequence due to the potential magnitude of impact on the corporation's ability to achieve its mandate and strategic goals. Manitoba Hydro has significant processes and safeguards in place to minimize the probability of these risks presenting. These risks are quantified in the following table:

RISK	POTENTIAL FINANCIAL IMPACT	TOLERANCE/RATING
Infrastructure Prolonged loss of supply	> $2 billion	Low
Drought Water Supply Variation/Drought	> $1.4 billion for a 5 year drought commencing in 2018-19	Low
Loss of export market access	> 25% of electricity revenue	Low

Outlook

Manitoba Hydro expects its net income for 2018-19 to be marginally higher than what was experienced in 2017-18 factoring in the 3.6% rate increase approved by the PUB effective June 1, 2018 and assuming current water conditions and normal weather.

The corporation's earnings can fluctuate significantly due to various non-controllable factors such as the amount of water inflows, weather, domestic load requirements particularly related to the usage of a handful of very large industrial users, market prices for electricity and interest rates. The impact on earnings with respect to water inflows is particularly sensitive to spring and summer precipitation amounts. The net income outlook for 2018-19 assumes the continuation of current export market conditions, normal precipitation for the remainder of the year and normal winter weather.

On May 1, 2018 the PUB issued Order 59/18 which directed a 3.6% average increase to consumer rates effective June 1, 2018. In addition, the PUB has directed that Manitoba Hydro participate in a technical conference the PUB will convene to consider the establishment of a minimum retained earnings or other similar test to provide guidance on consumer rate setting. In Order 59/18 the PUB has signaled that, at least for the time being, the regulator does not support rate setting aimed at progressing toward Manitoba Hydro's long held financial targets particularly the 75:25 debt: equity ratio. When coupled with the potential implementation of rules-based regulation focusing on maintenance of minimum retained earnings, Manitoba Hydro is concerned with respect to its ability to abate debt growth and potential uncertainty in the profile of future rate increases. The technical conference is an important next step for Manitoba Hydro to work with the PUB to achieve clarity on longer term financial targets that will be supported by regular rate increases. The timing of Manitoba Hydro's next General Rate Application is also uncertain as, in addition to the technical conference, the PUB has directed Manitoba Hydro to complete a number of other matters before it can proceed with its next rate request.

Management Report

For the year ended March 31, 2018

The accompanying consolidated financial statements have been prepared by management of the Manitoba Hydro-Electric Board (the corporation), who are responsible for the integrity, consistency and reliability of the information presented. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

The preparation of the consolidated financial statements necessarily involves the use of estimates and assumptions based on management's judgments, particularly when transactions affecting the current period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances. The preparation of the consolidated financial statements includes information regarding the estimated impact of future events and transactions. Actual results in the future may differ from the present assessment of this information because future events and circumstances may not occur as expected. The consolidated financial statements have been prepared within reasonable limits of materiality in light of information available up to June 27, 2018.

In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal controls, which is designed to provide reasonable assurance that the corporation's assets are safeguarded and appropriately accounted for, that financial information is relevant, reliable and accurate, and that transactions are properly authorized and executed. The system includes formal policies and procedures as well as the appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function evaluates the effectiveness of these controls and reports its findings to management and the Audit Committee of the Board of Directors.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit Committee, which is comprised of outside and unrelated directors, meets periodically with management, the internal auditors and the external auditors to satisfy itself that each group has properly discharged its responsibility with respect to internal controls and financial reporting. The Audit Committee reviews the consolidated financial statements and management's discussion and analysis and recommends their approval to the Board of Directors. The external auditors have full and open access to the Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of the financial reporting and the effectiveness of the system of internal controls.

The consolidated financial statements were reviewed by the Audit Committee, and on their recommendation, were approved by the Board of Directors. The consolidated financial statements have been examined by KPMG LLP, independent external auditors appointed by the Lieutenant Governor in Council. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements are fairly presented in accordance with International Financial Reporting Standards. The Independent Auditors' Report outlines the scope of their examination and their opinion.

On behalf of management:

Kelvin Shepherd, P. Eng
President & Chief Executive Officer

Jamie McCallum
Chief Finance & Strategy Officer

Winnipeg, Canada
June 27, 2018

Independent Auditors' Report

To the Board of Directors of Manitoba Hydro-Electric Board

We have audited the accompanying consolidated financial statements of Manitoba Hydro-Electric Board, which comprise the consolidated statement of financial position as at March 31, 2018, the consolidated statements of income, cash flows, comprehensive income and changes in equity for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Manitoba Hydro-Electric Board as at March 31, 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Comparative Information

Without modifying our opinion, we draw attention to Note 3(s) to the consolidated financial statements which indicates that certain comparative information in the statement of cash flows presented for the year ended March 31, 2017 has been restated for changes in accounting policies.

The consolidated financial statements of Manitoba Hydro-Electric Board as at and for the year ended March 31, 2017, excluding the restatements described in Note 3(s) to the consolidated financial statements, were audited by another auditor who expressed an unmodified opinion on those financial statements on July 5, 2017.

As part of our audit of the consolidated financial statements as at and for the year ended March 31, 2018 we audited the restatements described in Note 3(s) to the consolidated financial statements that were applied to restate the comparative information in the statement of cash flows presented for the year ended March 31, 2017. In our opinion, the restatements are appropriate and have been properly applied.

We were not engaged to audit, review, or apply any procedures to the March 31, 2017 consolidated financial statements other than with respect to the restatements described in Note 3(s) to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

KPMG LLP

Chartered Professional Accountants

June 27, 2018
Winnipeg, Canada

Consolidated Statement of Income

For the year ended March 31

millions of Canadian dollars

	Notes	2018	2017
Revenues			
Domestic			
Electric		**1 464**	1 419
Gas		**343**	342
Extraprovincial	5	**437**	460
Other	6	**86**	106
		2 330	2 327
Expenses			
Finance expense	7	**641**	645
Operating and administrative	8	**586**	608
Depreciation and amortization	9	**430**	402
Cost of gas sold		**196**	183
Water rentals and assessments		**126**	131
Fuel and power purchased	10	**130**	132
Capital and other taxes	11	**146**	135
Other expenses	12	**548**	104
Finance income		**(23)**	(17)
		2 780	2 323
Net income (loss) before net movement in regulatory balances		**(450)**	4
Net movement in regulatory balances	20	**479**	55
Net Income		**29**	59
Net income (loss) attributable to:			
Manitoba Hydro		**37**	71
Non-controlling interests	29	(8)	(12)
		29	59

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Financial Position

As at March 31

millions of Canadian dollars

	Notes	2018	2017
Assets			
Current Assets			
Cash and cash equivalents	13	**642**	646
Accounts receivable and accrued revenue	14	**428**	385
Prepaid expenses		**39**	123
Inventory	15	**112**	108
		1 221	1 262
Property, Plant and Equipment	16	**21 979**	19 757
Non-Current Assets			
Goodwill		**107**	107
Intangible assets	18	**408**	293
Loans and other receivables	19	**410**	353
		925	753
Total assets before regulatory deferral balance		**24 125**	21 772
Regulatory deferral balance	20	**1 044**	566
Total assets and regulatory deferral balance		**25 169**	22 338

On behalf of the Board of Directors:

Marina R. James
Chair of the Board

Melanie McKague
Chair of the Audit Committee

	Notes	**2018**	2017
Liabilities and Equity			
Current Liabilities			
Current portion of long-term debt	21	**1 000**	336
Accounts payable and accrued liabilities	22	**742**	1 083
Notes payable	23	**50**	-
Other liabilities	24	**162**	98
Accrued interest		**126**	114
		2 080	1 631
Long-Term Debt	21	**18 200**	16 102
Non-Current Liabilities			
Other long-term liabilities	25	**623**	638
Employee future benefits	26	**908**	818
Deferred revenue	27	**769**	642
Provisions	28	**60**	70
		2 360	2 168
Total liabilities		**22 640**	19 901
Equity			
Retained earnings		**2 936**	2 899
Accumulated other comprehensive loss		**(688)**	(709)
Equity attributable to Manitoba Hydro		**2 248**	2 190
Non-controlling interests	29	**205**	170
Total equity		**2 453**	2 360
Total liabilities and equity before regulatory deferral balance		**25 093**	22 261
Regulatory deferral balance	20	**76**	77
Total liabilities, equity and regulatory deferral balance		**25 169**	22 338

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended March 31

millions of Canadian dollars

	Notes	**2018**	2017
Operating Activities			
Net income		**29**	59
Add back:			
Depreciation and amortization	8	**430**	402
Finance expense	7	**641**	645
Net movement impacts on depreciation, amortization and finance expense		**11**	17
Finance income		**(23)**	(17)
Adjustments for non-cash items		**(23)**	(13)
Adjustments for changes in non-cash working capital accounts			
Accounts receivable and accrued revenue		**(43)**	3
Prepaid expenses		**85**	(83)
Accounts payable and accrued liabilities		**(339)**	364
Other		**28**	63
Interest received		**23**	17
Interest paid		**(913)**	(834)
Cash (used for) provided by operating activities		**(94)**	623
Investing Activities			
Additions to property, plant and equipment		**(2 652)**	(2 678)
Additions to intangible assets		**(137)**	(121)
Additions to regulatory deferral balances		**(105)**	(87)
Contributions received		**199**	133
Cash paid to the City of Winnipeg		**(16)**	(16)
Cash paid for mitigation obligations		**(30)**	(21)
Cash paid for major development obligations		**(15)**	(11)
Other		**(8)**	14
Cash used for investing activities		**(2 764)**	(2 787)

	Notes	**2018**	2017
Financing Activities			
Proceeds from long-term debt	21	**3 400**	2 186
Retirement of long-term debt	21	**(582)**	(320)
Repayment from (advances to) external entities		**(58)**	(53)
Proceeds from partnership issuances		**44**	42
Proceeds from short-term borrowings	23	**50**	–
Sinking fund investment withdrawals	17	**165**	146
Sinking fund investment purchases	17	**(165)**	(146)
Cash provided by financing activities		**2 854**	1 855
Net decrease in cash and cash equivalents		**(4)**	(309)
Cash and cash equivalents, beginning of year		**646**	955
Cash and cash equivalents, end of year		**642**	646

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended March 31

millions of Canadian dollars

	2018	2017
Net Income	**29**	59
Other comprehensive income (loss)		
Items that will not be reclassified to income		
Net experience (losses) gains on pensions	**(58)**	94
Items that will be reclassified to income		
Cash flow hedges - unrealized foreign exchange gains (losses) on debt	**57**	(47)
Items that have been reclassified to income		
Cash flow hedges - realized foreign exchange losses on debt	**22**	20
	21	67
Comprehensive Income	**50**	126
Comprehensive income (loss) attributable to:		
Manitoba Hydro	**58**	138
Non-controlling interests	(8)	(12)
	50	126

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

millions of Canadian dollars

	Notes	Retained earnings	Accumulated other comprehensive income (loss)	**Manitoba Hydro**	Non-controlling interests	Total equity
Balance as at April 1, 2016		2 828	(776)	**2 052**	140	2 192
Net income (loss)		71	-	**71**	(12)	59
Other comprehensive income		-	67	**67**	-	67
Comprehensive income (loss)		71	67	**138**	(12)	126
Change in ownership interest	29	-	-	**-**	42	42
Balance as at March 31, 2017		2 899	(709)	**2 190**	170	2 360
Net income (loss)		37	-	**37**	(8)	29
Other comprehensive income		-	21	**21**	-	21
Comprehensive income (loss)		37	21	**58**	(8)	50
Change in ownership interest	29	-	-	**-**	43	43
Balance as at March 31, 2018		**2 936**	**(688)**	**2 248**	**205**	**2 453**

The accompanying notes are an integral part of the consolidated financial statements.

Note 1 Reporting entity

The Manitoba Hydro-Electric Board and the Manitoba Power Commission were amalgamated in 1961 by enactment of *The Manitoba Hydro Act* to form a Crown corporation in the Province of Manitoba named Manitoba Hydro (the corporation). Manitoba Hydro's mandate is to provide for the continuance of a supply of energy adequate for the needs of the Province and to engage in and to promote economy and efficiency in the development, generation, transmission, distribution, supply and end-use of energy. The head office of the corporation is located at 360 Portage Avenue, Winnipeg, Manitoba.

These consolidated financial statements include the accounts of Manitoba Hydro and its wholly-owned subsidiaries including Centra Gas Manitoba Inc. (Centra), Minell Pipelines Ltd. (Minell), Manitoba Hydro International Ltd. (MHI), Manitoba Hydro Utility Services Ltd. (MHUS), Teshmont LP Holdings Ltd. (which has a 40% ownership interest in the Teshmont Consultants Limited Partnership) and 6690271 Manitoba Ltd. (a subsidiary that was formed to participate in the development of a new transmission line in the U.S.). These consolidated financial statements also include Manitoba Hydro's 67% ownership interest in the Wuskwatim Power Limited Partnership (WPLP) and its 75% ownership interest in the Keeyask Hydropower Limited Partnership (KHLP). For purposes of consolidation, all significant intercompany accounts and transactions have been eliminated.

Note 2 Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These consolidated financial statements were approved for issue by the Manitoba Hydro-Electric Board on June 27, 2018.

(b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for the following material items in the consolidated statement of financial position:

- Financial instruments accounted for in accordance with the financial instrument categories defined in Note 3(n)
- Employee future benefits defined in Note 3(k)
- Provisions defined in Note 3(l).

(c) Functional and presentation currency

The consolidated financial statements are presented in millions of Canadian dollars, the functional currency of the corporation.

(d) Use of estimates and judgment

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect amounts reported as assets, liabilities, income and expenses.

Areas of significant management estimates and judgments are outlined in the following summary and significant accounting policies included in Note 3:

- Accrued revenue for domestic electricity and natural gas deliveries not yet billed at year-end and allowance for doubtful accounts (Note 3(b))
- Useful life estimates for depreciable and amortizable assets (Notes 3(g), 16 and 18)
- Determination of cash generating unit as it pertains to impairment testing (Note 3(h) and (j))
- Measurement of accrued liabilities (Note 22)
- Measurement of other long-term liabilities and underlying estimates of future cash flows (Note 25)
- Measurement of employee future benefits and underlying actuarial assumptions (Notes 3(k) and 26)
- Measurement of provisions and underlying estimates of future cash flows (Notes 3(l) and 28)
- Fair value measurement of financial instruments (Notes 3(n) and 30)
- Identification and reporting of operating segments (Note 34).

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Note 3 Significant accounting policies

(a) Regulatory deferral accounts

In January 2014, the International Accounting Standards Board (IASB) issued an interim standard, IFRS 14 *Regulatory Deferral Accounts*, which provides guidance on accounting for the effects of rate regulation under IFRS. This guidance allows entities that conduct rate-regulated activities to continue to recognize regulatory deferral accounts. This interim standard is effective for financial reporting periods beginning on or after January 1, 2016. The corporation has elected to adopt IFRS 14 in its consolidated financial statements. The interim standard is only intended to provide temporary guidance until the IASB completes its comprehensive project on rate-regulated activities. IFRS 14 remains in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB.

Regulatory deferral account balances usually represent timing differences between the recognition of items of income or expenses for regulatory purposes and the recognition of those items for financial reporting purposes. Regulatory deferral account balances arising from rate-regulated activities are recognized and measured separately if they do not meet the criteria to be recognized as an asset or liability in accordance with other standards. The balances recorded as regulatory deferral balances will be recovered or refunded in future rates, based on approvals by the Public Utilities Board of Manitoba (PUB). These amounts would otherwise have been included in the determination of net income in the year they are incurred.

Under rate regulation, the prices charged for the sale of electricity and natural gas within Manitoba are subject to review and approval by the PUB. The rate-setting process is designed such that rates charged to electricity and natural gas customers recover costs incurred by Manitoba Hydro in providing electricity and natural gas service plus a sufficient contribution to retained earnings.

The following regulatory deferral account balances are initially recorded at cost and amortized on a straight-line basis using the specified periods:

Demand side management (DSM) programs	10	years
Site restoration costs	15	years
Deferred taxes	30	years
Acquisition costs	30	years
Regulatory costs	up to 5	years
Ineligible overhead	34	years

The Affordable Energy Fund is amortized to the consolidated statement of income at the same rate as the obligation is drawn down. The purchased gas variance account (PGVA) is recovered or refunded over a period determined by the PUB.

The amortization of the loss on disposal of assets, change in depreciation methodologies from average service life (ASL) to equal life group (ELG), difference in depreciation rate used for gas meters and the impact of the 2014 depreciation study will be determined by the PUB at a future regulatory proceeding.

(b) Revenue recognition

Domestic electricity and natural gas revenues are recognized upon delivery to the customer and charged in accordance with rates approved by the PUB. Unbilled revenues are recorded based on an estimated amount of electricity and natural gas delivered and not yet billed at year-end.

Extraprovincial electricity revenue is recorded upon the delivery of energy or settlement of the financial transaction.

Consulting, technology and maintenance services and other miscellaneous revenue is recognized when services are provided or goods are shipped to the customer. Revenue from fixed price contracts is recognized under the percentage-of-completion method. The percentage of completion is determined by comparing the costs incurred at the consolidated statement of financial position date to the total estimated costs, which include costs incurred plus anticipated costs for completing a contract.

Deferred revenue related to customer contributions is recognized over the life of the related asset for which the contribution was received.

(c) Cost of gas

Natural gas is recorded at purchased cost upon delivery to gas customers.

(d) Finance expense and finance income

Finance expense includes interest on short and long-term borrowings and the provincial debt guarantee fee paid to the Province of Manitoba, foreign exchange gains and losses, the mark to market of foreign exchange forward contracts, accretion expense on provisions and other long-term liabilities, offset by interest capitalized for those qualifying assets under construction. Foreign exchange gains and losses include amounts that had been recognized in other comprehensive income and reclassified from equity to net income in the same periods during which the hedged forecast cash flows (being U.S. export revenues) affect net income. All borrowing costs are recognized using the effective interest rate method. Finance income includes interest earned on loans and advances to external parties and temporary investments.

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(f) Inventory

Materials and supplies, fuel and natural gas inventories are valued at the lower of average cost and net realizable value. Replacement cost is used as management's best estimate of the net realizable value for materials and supplies and fuel inventory.

Materials, supplies, fuel and natural gas are charged to inventory when purchased and not immediately required for use. These inventories are expensed or capitalized when used. Those materials, supplies and fuel purchased for immediate use are expensed directly.

(g) Property, plant and equipment

Property, plant and equipment (PP&E) is recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, contracted services, direct labour and interest applied at the weighted average cost of debt outstanding during the period. Interest is allocated to construction until a capital project becomes operational or a decision is made to abandon, cancel or indefinitely defer construction. Once the transfer to in-service property, plant and equipment is made, interest allocated to construction ceases and depreciation and interest charged to operations commences.

Depreciation is calculated on a straight-line remaining life basis using the ELG procedure. The major components of generating stations are depreciated over the lesser of the remaining life of the major components or the remaining life of the associated generating station.

Generation	4 – 125 years
Transmission lines	10 – 85 years
Substations	15 – 65 years
Distribution systems	10 – 75 years
Other	5 – 100 years

The estimated service lives of the assets are based upon depreciation studies conducted periodically by the corporation. A depreciation study was last completed in 2015.

The net gain or loss on retirement of these assets is charged to depreciation in the period incurred and then removed through net movement in regulatory balances. When the costs of removing an asset from service are incurred to facilitate the installation of a new asset, the costs to remove the asset from service are added to the costs of the new asset. When an asset is retired from service and not replaced with a similar asset, the costs of removing the asset from service are treated similarly to the net gain or loss on retirement of assets.

A reasonable estimate of the present value of the future cash flows required to retire an asset from service is recorded when the recognition criteria for a provision (Note 3(l)(i)) are met. An equivalent amount is added to the carrying cost of the related asset and is amortized over the asset's remaining service life. The discount rate used to measure the cash flows reflects current market assessments of the time value of money and the risks specific to the obligation.

(h) Goodwill

Goodwill represents the amount of the corporation's investments in Centra and Winnipeg Hydro over and above the fair market value of the identified net assets acquired. The goodwill balance is evaluated annually to determine whether any impairment has occurred.

(i) Intangible assets

Intangible assets include computer application development costs, land easements and transmission rights. Intangible assets are recorded at cost less accumulated amortization. The cost of computer application development includes software, direct charges for labour, materials, contracted services and interest during development applied at the weighted average cost of debt outstanding during the period. The corporation's intangible assets have finite useful lives and are amortized over their useful lives on a straight-line basis with the amortization included in depreciation and amortization expense. The expected useful lives are as follows:

Computer application development	5 – 11 years
Land easements	75 years
Transmission rights	1 – 12 years

Transmission rights are amortized over the contractual period of the right plus a one-term renewal. The estimated service lives of computer application development and land easements are based upon depreciation studies conducted periodically by the corporation. A depreciation study was last completed in 2015.

(j) Impairment of non-financial assets

Non-financial assets subject to impairment testing include goodwill, intangible assets and property, plant and equipment. The corporation tests goodwill and material intangible assets under construction at least annually for impairment. Assets subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment test is performed by comparing the carrying amount of the asset or cash generating unit (CGU) to its recoverable amount. The recoverable amount is calculated as the higher of the fair value less costs to sell and the present value of the future cash flows from an asset or CGU. The corporation has determined its CGUs to be at the segment level. This is the lowest level for which there are separately identifiable cash flows as rates for electricity and natural gas revenue are set by the PUB at the segment level. An impairment would be recognized as a charge against operations in the year of impairment if the carrying amount exceeds the recoverable amount.

(k) Employee future benefits

Manitoba Hydro provides future benefits, including pension and other benefits, to both existing and retired employees.

The costs and obligations of defined benefit pension plans and other benefits are determined by an independent actuary using the accrued benefit actuarial cost method and reflect management's best estimate of future compensation increases, service lives and inflation. Pension expense consists of the cost of pension benefits earned during the year and net interest income or expense. Interest income on plan assets is determined by multiplying the fair value of the plan assets by the discount rate used to determine the accrued benefit obligation at the start of the annual reporting period. This considers any changes in the plan assets held during the period as a result of contributions and benefit payments. Interest expense on the accrued benefit obligation is determined by multiplying the accrued benefit obligation by the discount rate used at the start of the annual reporting period.

Experience gains or losses on the asset and actuarial gains or losses on the obligation are recognized in other comprehensive income (OCI) in the period in which they occur. Past service costs, which arise when a change is made to plan benefits, are recognized immediately in profit or loss.

Other future benefits earned by employees include vacation, vested sick leave, severance and retirement health plans. Where applicable, the future costs of these benefits are determined by an independent actuary and reflect management's best estimates.

(l) Provisions

In accordance with International Accounting Standards (IAS) 37 *Provisions, Contingent Liabilities and Contingent Assets*, a provision is required to be recognized where there is a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation, the timing or amount of which are uncertain.

(i) Asset retirement obligations

Asset retirement obligations are estimated by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as a finance expense.

(ii) Affordable Energy Fund

The Affordable Energy Fund was determined based on Provincial Legislation. The timing of disbursements is uncertain due to the unpredictability of future customer participation.

(iii) Mitigation

Provisions arising from Manitoba Hydro's mitigation program are recognized when there is an expectation that expenditures will be incurred to address the adverse effects of past hydroelectric development on Indigenous and other communities. These provisions are based on management's best estimate of the consideration required to settle the obligation. The corporation reviews its estimates of future mitigation expenditures on an ongoing basis.

(iv) Major development

Provisions arising from Manitoba Hydro's major development projects are recognized when there is an expectation that expenditures will be incurred to address project-related adverse effects on Indigenous and other communities. These provisions are based on management's best estimate of the consideration required to settle the obligation. The corporation reviews its estimates of future major development expenditures on an ongoing basis.

(v) Other provisions

Other provisions have been established for obligations discovered, which require recognition in the financial statements due to the likelihood of settlement and the presence of an obligation, either from past events or constructive in nature.

(m) Government grants

Government grants are recognized when there is reasonable assurance they will be received and the corporation will comply with the conditions associated with the grant. Government grants that compensate the corporation for expenses incurred are recognized in profit or loss in the same period in which the expenses are recognized. Grants that compensate the corporation for the cost of an asset are recorded as deferred revenue and recognized in other revenue over the service life of the related asset.

(n) Financial instruments

All financial instruments are measured at fair value on initial recognition as of the trade date. Transaction costs are included in the initial carrying amount of financial instruments except for those financial instruments measured at fair value through profit or loss. Transaction costs directly attributable to the acquisition of financial instruments classified as fair value through profit or loss are expensed as incurred. Measurement in subsequent periods depends on the classification of the instrument. Financial instruments are classified into one of the following categories: loans and receivables, fair value through profit or loss, available-for-sale or other financial liabilities.

Financial instruments classified as loans and receivables and other financial liabilities are carried at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are subsequently measured at fair value with unrealized gains and losses recorded in OCI until the instrument is derecognized or impaired. Financial instruments classified as fair value through profit or loss are subsequently measured at fair value with changes in fair value recognized in the consolidated statement of income in the period in which they arise.

Financial assets classified as loans and receivables are subject to impairment testing at the end of each reporting period. Impairment losses are recorded when there is objective evidence that impairment has occurred due to one or more events such as default or delinquency in interest or principal payments, or significant financial difficulty experienced by the counterparty. Trade receivables that are not assessed for impairment individually are assessed for impairment on a collective basis. Objective evidence of impairment includes the corporation's past historical loss rates applied to groups for which the historical loss rates were observed.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced with substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability is recorded at fair value. The differences in the respective carrying amounts are recognized as gains or losses in net income.

(o) Foreign currency translation

Revenues and expenses resulting from transactions in foreign currencies are translated to Canadian dollar equivalents at exchange rates approximating those in effect at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the reporting date. Translation gains and losses are credited or charged to finance expense in the current period except for long-term debt obligations in hedging relationships with future export revenues. Translation gains and losses for long-term debt obligations in hedging relationships with future export revenues are recorded in OCI until such time that the hedged export revenues are realized, at which time accumulated exchange gains and losses are credited or charged to finance expense.

(p) Derivatives

The corporation does not engage in derivative trading or speculative activities. All derivative instruments are carried at fair value on the consolidated statement of financial position with the exception of those that were entered into for the purpose of physical receipt or delivery in accordance with the corporation's expected normal purchases and sales. Changes in the fair value of derivatives that are not designated in a hedging relationship and do not qualify for the normal purchase and sale exemption are recorded in the consolidated statement of income.

(q) Hedges

The corporation has designated cash flow hedges linking financial instruments to specific assets and forecasted transactions. Long-term cash flow hedges have been established between U.S. long-term debt balances and future U.S. export revenues as well as between U.S. interest payments on dual currency bonds and future U.S. export revenues. The corporation documents the relationship between the hedging instrument and the hedged item and assesses at inception, and on an ongoing basis, the effectiveness of the hedging relationship.

(r) Non-controlling interests

Non-controlling interests represent the outstanding ownership interests attributable to third parties in the corporation's limited partnerships. The portion of the equity not owned by the corporation is reflected as non-controlling interests within the equity section of the consolidated statement of financial position. The portion of the net income or net loss attributable to the parent and non-controlling interests is reported on the consolidated statement of income.

(s) Change in accounting policy

For the year ended March 31, 2018, the corporation elected to present cash flows from operating activities using the indirect method, as compared to the direct method used for the year ended March 31, 2017, as it provides more relevant information. The comparative information has been reclassified for this change in presentation. Additionally, cash flows related to capitalized interest of $248 million in the year ended March 31, 2017 have been reclassified from investing activities to operating activities in order to present cash flows related to capitalized interest consistently with interest cash flows that are not capitalized.

Note 4 Future accounting pronouncements

The following new standards and amendments are not yet effective for the year ended March 31, 2018, and have not been applied in preparing these consolidated financial statements. The corporation does not have any plans to early adopt the new standards and the full extent of the impact on adoption of the following standards is not known at this time:

IFRS 9 – *Financial Instruments*

IFRS 9 *Financial Instruments* was finalized in July 2014 and replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance for the classification and measurement of financial assets and liabilities, a new expected credit loss model to measure impairment of financial assets and significant improvements in hedge accounting. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. This new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

(in millions of Canadian dollars)

IFRS 15 – *Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 and replaces IAS 18 *Revenue* and IFRS Interpretations Committee (IFRIC) 18 *Transfers of Assets from Customers*. The standard provides a single five-step model to be applied to all contracts with customers to determine when to recognize revenue and at what amount. The underlying principle of IFRS 15 is that an entity recognizes revenue that shows the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 16 – *Leases*

IFRS 16 *Leases* was issued in January 2016 and replaces current lease accounting requirements under IFRS. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. This new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 *Revenue from Contracts with Customers* has also been applied.

Note 5 Extraprovincial revenue

	2018	2017
Dependable sales	**260**	249
Opportunity sales	**168**	202
Other	**9**	9
	437	460

Dependable sales are sourced from Manitoba Hydro's hydraulic energy available during lowest water conditions and typically with a duration of greater than six months. Opportunity sales are based on excess energy, are generally over shorter periods and are transacted primarily in markets operated by an independent system operator such as the Midcontinent Independent System Operator.

The majority of extraprovincial revenue is from sales to the U.S. The average effective exchange rate for the year was $1.00 U.S. = $1.29 Canadian (2017 – $1.00 U.S. = $1.31 Canadian).

(in millions of Canadian dollars)

Note 6 Other revenue

	2018	2017
Consulting, technology and maintenance services	**55**	56
Customer contributions	**17**	18
Miscellaneous revenue	**14**	32
	86	106

Consulting, technology and maintenance services consist of professional consulting, operations, maintenance and project management services provided to energy sectors world-wide.

Customer contributions are the recognition of deferred revenue related to contributions in aid of construction (Note 27) and the recovery of period costs from customers.

Note 7 Finance expense

	2018	2017
Interest on debt	**768**	711
Provincial debt guarantee fee	**158**	136
Accretion	**32**	29
Interest capitalized	**(343)**	(248)
Foreign exchange loss	**26**	17
	641	645

The Provincial debt guarantee fee during the year was 1.00% of the corporation's total outstanding debt guaranteed by the Province of Manitoba (2017 – 1.00%). Interest was capitalized during the year at 4.80% (2017 – 4.89%).

Note 8 Operating and administrative

	2018	2017
Salaries and benefits	**436**	457
External services	**96**	99
Materials, motor vehicles and supplies	**35**	35
Other	**19**	17
	586	608

Additional salaries and benefits, including termination benefits, are included in other expenses (Note 12) in the amount of $67 million (2017 – $19 million).

(in millions of Canadian dollars)

Note 9 Depreciation and amortization

	2018	2017
Depreciation of property, plant and equipment (Note 16)	**395**	383
Amortization of intangible assets (Note 18)	**24**	22
Loss (gain) on disposal of property, plant and equipment	**11**	(3)
	430	402

Note 10 Fuel and power purchased

	2018	2017
Wind purchases	**73**	73
Transmission charges	**35**	46
Power purchases	**16**	5
Thermal fuel purchases	**6**	8
	130	132

Included in power purchases above is amortization of transmission rights of $1 million (2017 - $2 million).

Note 11 Capital and other taxes

	2018	2017
Corporate capital tax	**95**	84
Property tax and grants in lieu of tax	**37**	38
Payroll tax	**14**	13
	146	135

Note 12 Other expenses

	2018	2017
Discontinuance of Conawapa Generating Station development (Note 20)	**379**	-
Demand side management expenses	**75**	61
Restructuring costs	**50**	4
Consulting, technology and maintenance expenses	**32**	33
Miscellaneous	**12**	6
	548	104

Of the total other expenses, $466 million (2017 – $67 million) are subsequently deferred in regulatory deferral balances through net movement in regulatory balances (Note 20).

(in millions of Canadian dollars)

Note 13 Cash and cash equivalents

	2018	2017
Temporary investments	**454**	525
Cash	**186**	116
Restricted cash	**2**	5
	642	646

Temporary investments consist of cash invested with the Province of Manitoba and have a maturity of less than 30 days. Restricted cash consists of deposits held for letters of guarantees for customer contracts, callable at any time.

Note 14 Accounts receivable and accrued revenue

	2018	2017
Trade accounts receivable	**289**	249
Accrued revenue	**89**	85
Other receivables	**28**	21
Taxes receivable	**21**	20
Current portion of loans and other receivables (Note 19)	**20**	21
Allowance for doubtful accounts	**(19)**	(11)
	428	385

Note 15 Inventory

	2018	2017
Materials and supplies	**67**	66
Natural gas	**26**	25
Fuel	**19**	17
	112	108

Inventory recognized as an expense during the year was $40 million (2017 – $41 million). The write-down of inventory during 2018 was nil (2017 – $1 million). No reversals of write-downs occurred during the year (2017 – nil).

(in millions of Canadian dollars)

Note 16 Property, plant and equipment

	Generation	Transmission lines	Substations	Distribution systems	Other	Construction in progress	Total
Cost or deemed cost							
Balance, April 1, 2016	6 106	763	2 372	2 824	979	4 837	17 881
Additions	119	22	36	218	53	2 519	2 967
Disposals and/or retirements	(7)	(3)	(5)	(15)	(18)	-	(48)
Assets placed in service*	47	15	87	64	32	(245)	-
Transfers to (from) PP&E	(1)	1	1	(4)	1	(25)	(27)
Balance, March 31, 2017	6 264	798	2 491	3 087	1 047	7 086	20 773
Additions	127	15	65	198	41	2 564	3 010
Disposals and/or retirements	(8)	(1)	(12)	(19)	(22)	-	(62)
Assets placed in service*	70	17	119	50	16	(272)	-
Transfers to (from) PP&E	(2)	-	69	(68)	(1)	(379)	(381)
Balance, March 31, 2018	**6 451**	**829**	**2 732**	**3 248**	**1 081**	**8 999**	**23 340**
Accumulated depreciation							
Balance, April 1, 2016	239	26	155	148	105	-	673
Depreciation expense	130	14	89	89	61	-	383
Disposals and/or retirements	(6)	(1)	(6)	(10)	(17)	-	(40)
Balance, March 31, 2017	363	39	238	227	149	-	1 016
Depreciation expense	133	14	94	93	61	-	395
Disposals and/or retirements	(7)	(1)	(9)	(13)	(20)	-	(50)
Transfers to (from) PP&E	-	-	3	(3)	-	-	-
Balance, March 31, 2018	**489**	**52**	**326**	**304**	**190**	**-**	**1 361**
Net book value							
Balance, March 31, 2017	5 901	759	2 253	2 860	898	7 086	19 757
Balance, March 31, 2018	**5 962**	**777**	**2 406**	**2 944**	**891**	**8 999**	**21 979**

*Represents projects that were in construction in progress at the beginning of the year.

Included in additions is interest capitalized during construction of $337 million (2017 – $243 million).

(in millions of Canadian dollars)

Note 17 Sinking fund investments

Manitoba Hydro is legislated under *The Manitoba Hydro Act* to make annual sinking fund payments to the Province of Manitoba of not less than 1% of the principal amount of the outstanding debt on the preceding March 31 and 4% of the balance in the sinking fund at such date. Payments to the sinking fund during the year were $165 million (2017 – $146 million). Interest earned on sinking fund investments is recognized in finance expense. As at March 31, 2018 sinking fund investments totaled nil (2017 – nil).

Note 18 Intangible assets

	Computer application development	Land easements	Transmission rights	Under development	Total
Cost or deemed cost					
Balance, April 1, 2016	120	87	10	21	238
Additions	12	38	29	20	99
Retirements	(3)	-	-	-	(3)
Assets placed into service*	15	2	-	(17)	-
Transfers	-	-	25	-	25
Balance, March 31, 2017	144	127	64	24	359
Additions	9	17	101	14	141
Retirements	(2)	-	-	-	(2)
Assets placed into service*	8	1	-	(9)	-
Balance, March 31, 2018	**159**	**145**	**165**	**29**	**498**
Accumulated amortization					
Balance, April 1, 2016	37	2	5	-	44
Amortization	21	2	2	-	25
Retirements	(3)	-	-	-	(3)
Balance, March 31, 2017	55	4	7	-	66
Amortization	22	2	1	-	25
Retirements	(1)	-	-	-	(1)
Balance, March 31, 2018	**76**	**6**	**8**	**-**	**90**
Net book value					
Balance, March 31, 2017	89	123	57	24	293
Balance, March 31, 2018	**83**	**139**	**157**	**29**	**408**

*Represents projects that were in "under development" at the beginning of the year.

Computer application development is a combination of internally developed and externally acquired intangible assets. Included in additions is interest capitalized during development of $4 million (2017 – $2 million).

(in millions of Canadian dollars)

Note 19 Loans and other receivables

	2018	2017
Loans to Keeyask investment entities (Note 29)	**185**	135
Loan to Wuskwatim investment entity (Note 29)	**142**	135
Contract receivables and other	**103**	104
	430	374
Less: current portion (Note 14)	**(20)**	(21)
	410	353

Accrued interest related to loans receivable is included in the loan balances above and is recognized in finance income.

(in millions of Canadian dollars)

Note 20 Regulatory deferral balances

	March 31, 2017	Balances arising in the year	Recovery / reversal	**March 31, 2018**	Remaining recovery / reversal period
					(years)
Regulatory deferral debit balances					
Electric					
DSM programs[1]	253	64	(36)	**281**	1 - 10
Site restoration	28	1	(3)	**26**	1 - 15
Change in depreciation method	91	32	-	**123**	*
Deferred ineligible overhead	61	20	(2)	**79**	1 - 34
Acquisition costs	9	-	-	**9**	13 - 16
Affordable Energy Fund	4	-	-	**4**	***
Loss on disposal of assets	10	9	-	**19**	**
Regulatory costs	6	10	(2)	**14**	1 - 5
Conawapa	-	379	-	**379**	1 - 30
Gas					
DSM programs[1]	61	11	(9)	**63**	1 - 10
Deferred taxes	21	2	(3)	**20**	11
Site restoration	3	-	-	**3**	1 - 15
Loss on disposal of assets	9	2	-	**11**	**
Change in depreciation method	6	2	-	**8**	*
Regulatory costs	1	1	(1)	**1**	1 - 5
Deferred ineligible overhead	2	1	-	**3**	34
Change in depreciation rate - meters	1	-	-	**1**	**
	566	534	(56)	**1 044**	
Regulatory deferral credit balances					
Electric					
DSM deferral	49	-	-	**49**	**
Gas					
DSM deferral	8	-	-	**8**	**
PGVA	17	(195)	193	**15**	****
Impact of 2014 depreciation study	3	1	-	**4**	**
	77	(194)	193	**76**	
Net movement in regulatory balances		728	(249)	**479**	

[1] Included in DSM programs is the difference between actual and planned expenditures for electric and gas DSM programs for the fiscal years 2013 to 2017.

* In Order 59/18, the PUB directed Manitoba Hydro to not amortize the cumulative depreciation difference between the ASL and ELG methods of depreciation for rate-setting.

** The amortization periods for these accounts will be determined by the PUB as part of a future regulatory proceeding.

*** The Affordable Energy Fund is amortized to the consolidated statement of income at the same rate as the provision (Note 28) is drawn down.

**** The PGVA is recovered or refunded in future rates.

(in millions of Canadian dollars)

	March 31, 2016	Balances arising in the year	Recovery / reversal	March 31, 2017	Remaining recovery / reversal period
					(years)
Regulatory deferral debit balances					
Electric					
DSM programs[1]	232	56	(35)	253	1 - 10
Site restoration	31	1	(4)	28	1 - 15
Change in depreciation method	60	31	-	91	*
Deferred ineligible overhead	40	21	-	61	1 - 34
Acquisition costs	10	-	(1)	9	14 - 17
Affordable Energy Fund	4	-	-	4	***
Loss on disposal of assets	9	1	-	10	**
Regulatory costs	4	4	(2)	6	1 - 5
Gas					
DSM programs[1]	57	13	(9)	61	1 - 10
Deferred taxes	23	2	(4)	21	12
Site restoration	3	-	-	3	1 - 15
Loss on disposal of assets	6	3	-	9	**
Change in depreciation method	4	2	-	6	*
Regulatory costs	1	1	(1)	1	1 - 5
Deferred ineligible overhead	2	-	-	2	**
Change in depreciation rate - meters	-	1	-	1	**
	486	136	(56)	566	
Regulatory deferral credit balances					
Electric					
DSM deferral	43	6	-	49	**
Gas					
DSM deferral	6	2	-	8	**
PGVA	1	(182)	198	17	****
Impact of 2014 depreciation study	2	1	-	3	**
	52	(173)	198	77	
Net movement in regulatory balances		309	(254)	55	

[1] Included in DSM programs is the difference between actual and planned expenditures for electric and gas DSM programs for the fiscal years 2013 to 2017.

* In Order 59/18, the PUB directed Manitoba Hydro to not amortize the cumulative depreciation difference between the ASL and ELG methods of depreciation for rate-setting.

** The amortization periods for these accounts will be determined by the PUB as part of a future regulatory proceeding.

*** The Affordable Energy Fund is amortized to the consolidated statement of income at the same rate as the provision (Note 28) is drawn down.

**** The PGVA is recovered or refunded in future rates.

The balances arising in the year consist of additions to regulatory deferral balances. The recovery/reversal consists of amounts recovered from customers through the amortization of existing regulatory balances or rate riders. The net impact of these transactions results in the net movement in regulatory deferral balances on the consolidated statement of income.

Balances arising in the year include $2 million (2017 – $2 million) for carrying costs on deferred taxes, the Affordable Energy Fund and the PGVA.

The regulatory deferral debit balances of the corporation consist of the following:

DSM program expenditures are incurred for energy conservation programs to encourage residential, commercial and industrial customers to use energy more efficiently.

Site restoration expenditures are incurred for the remediation of contaminated corporate facilities and diesel generating sites.

Change in depreciation method represents the cumulative annual difference in depreciation expense between the ASL method of depreciation as applied by Manitoba Hydro prior to its transition to IFRS and the ELG method as applied by Manitoba Hydro under IFRS.

Deferred ineligible overhead is the cumulative annual difference in overhead capitalized for financial reporting purposes under IFRS and overhead capitalized for rate setting purposes.

Acquisition costs relate to costs associated with the acquisition of Centra and Minell (July 1999) and Winnipeg Hydro (September 2002).

The Affordable Energy Fund relates to future DSM expenditures in connection with *The Winter Heating Cost Control Act*. The intent of the Affordable Energy Fund is to provide funding for projects that would not otherwise be funded by DSM programs.

Loss on disposal of assets is the net asset retirement losses for those assets retired prior to or subsequent to reaching their expected service life as determined under the ELG method of depreciation.

Regulatory costs are those incurred as a result of electric and gas regulatory hearings.

Deferred taxes are the taxes paid by Centra (July 1999) as a result of its change to non-taxable status upon acquisition by Manitoba Hydro.

Conawapa relates to the one-time transfer of costs incurred to date in relation to the Conawapa Generating Station project which has been discontinued.

Change in depreciation rate on meters represents the difference between depreciation on gas meters between the 20-year rate used for financial reporting purposes and the 25-year rate used for rate-setting purposes.

The regulatory deferral credit balances of the corporation consist of the following:

Purchased gas variance accounts are maintained to recover/refund differences between the actual cost of gas and the cost of gas incorporated into rates charged to customers as approved by the PUB. Purchased gas variance accounts are reflected as a regulatory debit or credit depending if the amounts represent a recovery from or a refund to the customers, respectively.

Impact of 2014 depreciation study represents the cumulative unamortized difference in depreciation between the ASL method based on the 2010 depreciation study and the ASL method based on the 2014 depreciation study. The PUB requires the use of 2010 ASL depreciation rates for Centra for rate setting purposes pending review at the next gas regulatory proceeding.

DSM deferral - In Orders 43/13 and 85/13, the PUB directed that the differences between actual and planned spending on electric and gas DSM programs for the 2013 and 2014 fiscal years be recognized as a liability. In Order 73/15, the PUB further directed that the difference in fiscal 2015 and 2016 spending be added to this deferral. Consistent with Order 73/15, the difference in spending for 2017 was also added to the deferral. The cumulative differences have been recorded as a regulatory deferral credit balance with an offsetting balance recorded as a regulatory deferral debit balance. In Order 59/18, the PUB directed Manitoba Hydro to discontinue the deferral of differences between actual and planned DSM spending; as such, the difference in spending beginning in fiscal 2018 has not been added to the deferral. The disposition of the cumulative balances will be determined by the PUB at a future regulatory proceeding.

(in millions of Canadian dollars)

Note 21 Long-term debt

	Advances from the Province	Manitoba HydroBonds	Manitoba Hydro-Electric Board Bonds	Other*	Total
Balance, April 1, 2016	14 437	26	145	(81)	14 527
Issues	2 163	-	-	23	2 186
Maturities	(301)	(19)	-	-	(320)
Foreign exchange adjustments	42	-	-	1	43
Amortization of net premiums and transaction costs	-	-	-	2	2
Balance, March 31, 2017	16 341	7	145	(55)	16 438
Issues	3 380	-	-	20	3 400
Maturities	(560)	(2)	(20)	-	(582)
Foreign exchange adjustments	(52)	-	-	(6)	(58)
Amortization of net premiums and transaction costs	-	-	-	2	2
	19 109	5	125	(39)	19 200
Less: current portion	(990)	(5)	(5)	-	(1 000)
Balance, March 31, 2018	**18 119**	**-**	**120**	**(39)**	**18 200**

*Other includes adjustments to carrying value of dual currency bonds, transaction costs and debt discounts and premiums.

During the year, the corporation arranged long-term financing of $3 400 million (2017 – $2 186 million). The current year financing was in the form of provincial advances with the majority at fixed interest rates.

Included in the current portion of long-term debt are $995 million (2017 – $330 million) of debt maturities and $5 million (2017 – $6 million) of Manitoba HydroBonds with a maturity date in 2018.

Long-term debt is guaranteed by the Province of Manitoba, with the exception of Manitoba Hydro-Electric Board Bonds in the amount of $65 million (2017 – $65 million) issued for mitigation projects.

(in millions of Canadian dollars)

Debt principal amounts (excluding adjustments to the carrying value of dual currency bonds, transaction costs, debt discounts and premiums) and related yields are summarized by fiscal years of maturity in the following table:

Years of maturity	Canadian	Canadian yields	U.S.	U.S. yields	**2018 Total**	2017 Total
2019	1 000	7.2%	-	-	**1 000**	996
2020	297	4.7%	71	6.5%	**368**	374
2021	975	3.0%	322	8.3%	**1 297**	1 308
2022	303	1.7%	838	9.4%	**1 141**	1 119
2023	980	1.8%	193	3.7%	**1 173**	496
	3 555	2.6%	1 424	8.1%	**4 979**	4 294
2024-2028	3 737	3.0%	-	-	**3 737**	2 789
2029-2033	1 056	8.1%	-	-	**1 056**	1 006
2034-2038	1 035	4.7%	-	-	**1 035**	1 035
2039-2043	2 194	4.3%	-	-	**2 194**	2 194
2044-2048	2 852	3.4%	-	-	**2 852**	2 852
2049-2065	3 386	3.6%	-	-	**3 386**	1 986
	17 815	3.8%	1 424	8.1%	**19 239**	16 156

Included in the above Canadian maturity amounts are ten (2017 – seven) dual currency bonds with the principal amount repayable in Canadian currency and interest payments denominated in U.S. currency. Six dual currency bonds mature in the 2018-19 fiscal year in the amount of $490 million Canadian (2017 - $490 million), three mature in the 2019-20 fiscal year in the amount of $122 million Canadian (2017 - nil), while one matures in the 2025-26 fiscal year in the amount of $130 million Canadian (2017 - $130 million). U.S. debt is translated into Canadian dollars at the exchange rate prevailing at the consolidated statement of financial position date, $1.00 U.S. = $1.29 Canadian (2017 – $1.00 U.S. = $1.33 Canadian).

Note 22 Accounts payable and accrued liabilities

	2018	2017
Trade and other payables	**611**	964
Employee payroll and benefit accruals	**77**	68
Taxes payable	**44**	40
Water rentals and assessments	**10**	11
	742	1 083

Included in accounts payable and accrued liabilities are accruals based on an estimated amount of services completed or goods and materials received but not invoiced.

(in millions of Canadian dollars)

Note 23 Notes Payable

	2018	2017
Balance, April 1	**-**	-
Issues	**150**	-
Maturities	**(100)**	-
Balance, March 31	**50**	-

Notes payable at March 31, 2018 had a weighted average term to maturity of nine days and a weighted average rate of 1.25%. *The Manitoba Hydro Act* grants the corporation the power to issue short-term promissory notes up to an aggregate amount of $500 million denominated in Canadian and/or U.S. currency which includes access to bank credit facilities that provide for overdrafts and notes payable under certain conditions.

Note 24 Other liabilities

	2018	2017
Current portion of other long-term liabilities (Note 25)	**90**	78
Current portion of deferred revenue (Note 27)	**71**	19
Current portion of provisions (Note 28)	**1**	1
	162	98

The current portion of other long-term liabilities consists of the current portions of mitigation liability of $37 million (2017 – $26 million), major development liability of $32 million (2017 – $31 million), perpetual obligation to the City of Winnipeg for the acquisition of Winnipeg Hydro of $16 million (2017 – $16 million) and refundable advances from customers of $5 million (2017 – $5 million).

The current portion of deferred revenue represents Bipole III contributions in the amount of $54 million (2017 – nil) as well as customer contributions in aid of construction and advance payments from customers for extraprovincial sales, software maintenance and international consulting work.

The current portion of provisions represents the asset retirement obligation for the removal and disposal of polychlorinated biphenyl (PCB) contaminated fluid in equipment bushings at transmission and distribution stations and for the decommissioning of the coal pile associated with the Brandon Thermal Generating Station.

(in millions of Canadian dollars)

Note 25 Other long-term liabilities

	2018	2017
Mitigation liability	**204**	209
Major development liability	**213**	210
Perpetual obligation	**215**	215
Refundable advances from customers	**79**	79
Other	**2**	3
	713	716
Less: current portion (Note 24)	**(90)**	(78)
	623	638

Mitigation

Manitoba Hydro's mitigation program addresses past, present and ongoing adverse effects of historical hydroelectric development. The mitigation program, established in the late 1970s to address project impacts through alleviation of adverse effects, remedial works and residual compensation, grew out of the experience of planning and development of the Lake Winnipeg Regulation and Churchill River Diversion Projects. The Northern Flood Agreement, signed December 16, 1977, created a process that addressed ongoing mitigation and compensation for adverse effects of hydroelectric development in five signatory Indigenous communities. The mitigation program was expanded to address impacts arising from all past hydroelectric developments (prior to the Wuskwatim generating station), particularly for Indigenous people residing or engaged in resource harvesting in the project areas, and it is essential for operating and future development purposes.

Expenditures recorded or settlements reached to mitigate the impacts of historical hydroelectric development amounted to $46 million during the year (2017 – $63 million). Payments made during the year totaled $69 million (2017 – $43 million). In recognition of future mitigation payments, the corporation has recorded a liability of $204 million (2017 – $209 million). There are other mitigation issues, the outcomes of which are not determinable at this time.

Included in mitigation liabilities are obligations assumed on behalf of the Province of Manitoba with respect to certain northern development projects. The corporation has assumed obligations totaling $146 million for which water power rental charges were fixed until March 31, 2001. The obligation outstanding as at March 31, 2018 totaled $8 million (2017 – $8 million).

The discount rates used to determine the present value of mitigation obligations range from 2.95% to 8.50%.

(in millions of Canadian dollars)

Major development

Beginning with the development of the Wuskwatim generating station, project-related adverse effects are identified and addressed during project planning (including the environmental assessment process), which is done in advance of project construction. As such, mitigation measures are built into project design where possible. The costs for these mitigation measures, as well as any residual compensation requirements, are therefore accounted for in the capital cost estimates for each individual project.

Programs and adverse effects agreements have been negotiated to mitigate and compensate for all anticipated project-related impacts for major new generation and transmission development projects including Wuskwatim, Keeyask, Bipole III and the Manitoba-Minnesota transmission line. The corporation has recorded a liability of $213 million (2017 – $210 million) to reflect these agreements. These expenditures are included in the costs of the associated projects and amortized over the life of the assets. Payments made during the year totaled $20 million (2017 – $19 million).

The discount rates used to determine the present value of the major development obligation range from 2.95% to 5.05%.

Perpetual obligation

Effective September 3, 2002, the corporation acquired the net assets of Winnipeg Hydro from the City of Winnipeg. The obligation represents the net present value of payments to the City of Winnipeg of $16 million per annum in perpetuity.

The discount rate used to determine the present value of the perpetual obligation was 7.45%.

Note 26 Employee future benefits

	2018	2017
Net pension liability	**634**	540
Other employee future benefits liability	**274**	278
	908	818

Pension plans

Manitoba Hydro and its employees are participating members of the Civil Service Superannuation Plan (the Plan) established under *The Civil Service Superannuation Act* (CSSA). Manitoba Hydro employees are eligible for pension benefits based on years of service and on the average earnings of the five best years. As a non-matching employer, the provisions of the CSSA require the corporation to contribute approximately 50% of the pension disbursements made to retired employees. Manitoba Hydro provides its portion of pension benefits through a separately administered fund, the Manitoba Hydro Pension Fund (MHPF). Manitoba Hydro and employees make contributions based on a percentage of pensionable earnings in accordance with the CSSA. The corporation expects to pay $35 million in contributions to this defined benefit plan in fiscal 2019.

Manitoba Hydro employees with pensionable service after June 1, 2006 are eligible for an additional pension benefit under the Enhanced Hydro Benefit Plan (EHBP). The EHBP improves the pension formula used to calculate pension benefits. Manitoba Hydro funds the enhanced pension benefit through contributions based on 0.50% of pensionable earnings to a separate trust account that is managed by the Civil Service Superannuation Board (CSSB). The EHBP funds are co-mingled with the Civil Service Superannuation Fund (CSSF) assets for investment purposes. The corporation expects to pay $2 million in contributions to this defined benefit plan in fiscal 2019.

The former employees of Centra are entitled to pension benefits earned under the Centra curtailed pension plans. The Centra curtailed pension plans are Registered Pension Trusts as defined in the *Income Tax Act (Canada)*. The Master Trust is made up of three individual plans including the Centra Gas Manitoba Inc. Pension Plan for Salaried Employees, the Centra Gas Manitoba Inc. Union Employees' Pension Plan and the Centra Gas Manitoba Inc. (Rural) Local 681 Pension Plan. Centra is required to make special payments to the plans at amounts considered necessary to ensure that the benefits will be fully provided for at retirement as determined in the actuarial valuation dated December 31, 2016. The corporation expects to pay $1 million in special payments to these defined benefit plans in fiscal 2019. The plans are registered with the Pension Commission of Manitoba and subject to the rules and regulations of *The Pension Benefits Act of Manitoba*. The Master Trust assets are held in trust with State Street Trust Company of Canada. The CSSB acts as the investment manager.

MHUS employees are eligible for pension benefits under the Plan. As a matching employer under the CSSA, MHUS is required to match employee contributions at a prescribed rate. MHUS' pension expense is recognized at the time contributions are made. Manitoba Hydro does not carry a pension asset or obligation on its consolidated financial statements related to MHUS.

The former employees of Winnipeg Hydro continue to earn benefits under the Winnipeg Civic Employee Benefits Program (WCEBP), which upon the acquisition of Winnipeg Hydro, Manitoba Hydro became a participating employer. The WCEBP is a defined benefit plan that provides pension benefits based on years of service and on the average earnings of the five best years. Manitoba Hydro does not carry a pension asset or obligation on its consolidated financial statements related to the former employees of Winnipeg Hydro. The WCEBP is governed by an independent board of trustees and a trust agreement that limits Manitoba

(in millions of Canadian dollars)

Hydro's contribution rates. The structure of the trust agreement also limits Manitoba Hydro's exposure to future unfunded liabilities. Contributions to the plan are accounted for similar to a defined contribution plan.

MHI sponsors a defined contribution group registered retirement plan. MHI matches 100% of the employee contributions at prescribed contribution rates. The cost of the pension benefits is charged to pension expense as services are rendered. Manitoba Hydro does not carry a pension asset or obligation on its consolidated financial statements for the MHI defined contribution plan.

An independent actuary calculates the liability for pension expense purposes as at December 31 each year with the most recent actuarial valuations being completed as at December 31, 2017. The next actuarial valuations for all plans will occur as at December 2018.

These valuations incorporate management's assumptions and take into consideration the long-term nature of the pension plans. The actuary selects the demographic assumptions. The corporation's management in consultation with the actuary determines the economic assumptions such as discount rate. The accrued benefit actuarial cost method with salary projection is used to determine the pension benefit obligation and current service cost.

The following table presents information pertaining to the Manitoba Hydro Plan, the EHBP and the Centra curtailed plans that are recognized in the consolidated financial statements:

	Manitoba Hydro Plan		EHBP		Centra curtailed pension plans		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Plan assets at fair value								
Balance at beginning of year	**1 015**	938	**27**	24	**130**	121	**1 172**	1 083
Return on assets	**69**	104	**3**	2	**8**	13	**80**	119
Employer contributions	**37**	37	**2**	2	**2**	1	**41**	40
Benefit payments and refunds	**(77)**	(64)	**(1)**	(1)	**(6)**	(5)	**(84)**	(70)
	1 044	1 015	**31**	27	**134**	130	**1 209**	1 172
Pension obligation								
Balance at beginning of year	**1 553**	1 515	**38**	35	**121**	121	**1 712**	1 671
Interest cost	**59**	59	**1**	1	**5**	5	**65**	65
Current service cost	**52**	60	**3**	4	**-**	-	**55**	64
Benefit payments and refunds	**(77)**	(64)	**(1)**	(1)	**(6)**	(5)	**(84)**	(70)
Actuarial losses (gains) arising from changes in financial assumptions	**87**	(17)	**3**	(1)	**5**	-	**95**	(18)
	1 674	1 553	**44**	38	**125**	121	**1 843**	1 712
Net pension (liability) asset	**(630)**	(538)	**(13)**	(11)	**9**	9	**(634)**	(540)

(in millions of Canadian dollars)

The gain on pension fund assets for the MHPF for the fiscal year ended March 31, 2018 was 7.4% (2017 – 11.7% return). The gain for the Centra curtailed plan fund assets for the year ended March 31, 2018 was 7.0% (2017 – 11.9% return). The weighted average term to maturity on fixed income investments is 10.7 years (2017 – 9.9 years).

The investment income earned on the EHBP funds is based on the market rate of return that is earned by the CSSF. For the year ended December 31, 2017, the CSSF earned a rate of return of 10.8% (2017 – 5.66%) on fund assets.

The most recent actuarial valuations for the pension plans for going concern funding purposes were prepared as at December 31, 2017, at which date the Manitoba Hydro Plan was 89% and the EHBP was 104% funded. The Manitoba Hydro Plan is exempt from the funding and solvency test funding requirements of *The Pension Benefits Act*. The Centra curtailed pension plans are subject to a solvency valuation for funding purposes with the latest valuation taking place as at December 31, 2017. The Centra Salaried, Union and Rural plans were 98%, 105% and 95% funded, respectively, at that date.

The corporation's pension expense related to each of the pension benefit plans is as follows:

	Manitoba Hydro Plan		EHBP		Centra curtailed pension plans	
	2018	2017	**2018**	2017	**2018**	2017
Current service cost	**52**	60	**3**	4	**-**	-
Interest on assets	**(41)**	(39)	**(1)**	(1)	**(5)**	(5)
Interest on obligation	**59**	59	**1**	1	**5**	5
Administrative fees	**4**	4	**-**	-	**1**	1
	74	84	**3**	4	**1**	1

Pension expense for the former Winnipeg Hydro employees is equal to employer contributions to the WCEBP. Total contributions to the WCEBP during the year amounted to $1 million (2017 – $1 million) and reflect an employer contribution rate approximating 7.6% of pensionable earnings as of January 2, 2018. Pension expense for MHUS and MHI is equal to the employer contributions and is expensed during the year. The amounts are not material.

(in millions of Canadian dollars)

Assumptions

The significant actuarial assumptions adopted in measuring the corporation's pension and other employee benefit obligations are as follows:

	2018	2017
Discount rate - pensions	**3.60%**	3.80%
Discount rate - other benefits	**3.60%**	3.80%
Rate of compensation increase, including merit and promotions	**0.00 - 2.00%**	0.00 - 2.00%
Long-term inflation rate	**2.10%**	2.00%

Sensitivity of assumptions

The sensitivities of the principle assumptions used to measure the defined benefit obligations are set out below:

Assumption	Change in assumption	Impact on Manitoba Hydro Plan	Impact on EHBP	Impact on Centra curtailed pension plans
Discount rate	+ 0.50%	(116)	(4)	(7)
	- 0.50%	151	5	8
Inflation rate	+ 0.10%	(20)	-	(1)
	- 0.10%	20	-	1
Wage rate	+ 0.10%	6	-	-

The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another.

(in millions of Canadian dollars)

Benefit plan asset allocation

The following is a summary of the asset mix of the plans' investments at fair value:

	MHPF		Centra curtailed pension plans	
	2018	2017	**2018**	2017
Equities	**60%**	63%	**59%**	62%
Bonds and debentures	**20%**	20%	**20%**	20%
Real estate	**13%**	11%	**13%**	11%
Infrastructure	**6%**	5%	**5%**	5%
Private credit	**1%**	-	**1%**	-
Short-term investments	**-**	1%	**2%**	2%
	100%	100%	**100%**	100%

Other employee future benefits

Manitoba Hydro also provides some unfunded non-pension employee future benefits including banked incidental days, vacation days, long-term disability, workers compensation, retiree health spending, sick leave vesting and severance. The following table presents information concerning other employee future benefits:

	2018	2017
Balance at beginning of year	**278**	271
Interest cost	**7**	7
Current service cost	**19**	20
Benefit payments	**(37)**	(22)
Actuarial loss from changes in financial assumptions	**7**	2
Benefits liability	**274**	278

(in millions of Canadian dollars)

Key management personnel

The key management personnel of the corporation have been defined as members of the Manitoba Hydro-Electric Board and Manitoba Hydro's executives. The directors' fees are authorized by the Lieutenant Governor in Council. Manitoba Hydro's executives receive a base salary, in addition to non-cash benefits, employer contributions to the corporation's post-employment defined pension plan and other post-employment benefits.

Key management personnel compensation is as follows:

	2018	2017
Salaries and other short-term employee benefits	**3**	4
Post-employment benefits*	**-**	-
	3	4

*Amounts round to less than $1 million.

Note 27 Deferred revenue

	2018	2017
Contributions in aid of construction	**483**	455
Bipole III contribution	**348**	196
Deferred revenue	**9**	10
	840	661
Less: current portion (Note 24)	**(71)**	(19)
	769	642

Contributions in aid of construction are required from customers whenever the costs of extending service exceed specified construction allowances. These contributions include government grants. Contributions are initially recorded as deferred revenue and are subsequently recognized as revenue over the lives of the related assets.

(in millions of Canadian dollars)

The PUB has directed that the following percentages of approved rate increases be set aside as a Bipole III contribution to be utilized to mitigate the required rate increases when Bipole III is placed in-service:

- Order 43/13 1.50% of the approved 3.50%
- Order 49/14 0.75% of the approved 2.75%
- Order 73/15 2.15% of the approved 3.95%
- Order 59/16 3.36% of the approved 3.36%
- Order 80/17 3.36% of the approved 3.36%.

During the year, $152 million (2017 – $96 million) was set aside for this purpose. The PUB directed in Order 59/18, that the balance in this account should begin to be recognized in other revenue following the in-service date of Bipole III in fiscal 2018-19, amortized over a five year period.

Note 28 Provisions

	Mitigation provisions	Major development provisions	Asset retirement obligations	Affordable Energy Fund	Other provisions	Total
Balance, April 1, 2016	23	-	27	4	-	54
Provisions made	32	-	(20)	-	4	16
Provisions used	-	-	(1)	-	-	(1)
Accretion	1	-	1	-	-	2
Balance, March 31, 2017	56	-	7	4	4	71
Provisions made	(1)	3	-	-	1	3
Provisions used	(12)	-	(1)	-	(2)	(15)
Accretion	2	-	-	-	-	2
Balance, March 31, 2018	**45**	**3**	**6**	**4**	**3**	**61**

	2018	2017
Analyzed as:		
Current (Note 24)	**1**	1
Non-current	**60**	70
	61	71

Mitigation

A provision has been recognized for certain mitigation related obligations arising from ongoing adverse effects of past hydroelectric development. The amount recognized as a provision is the best estimate of the consideration required to settle the obligation at the reporting date. Once a final settlement is reached, these obligations will be transferred to other long-term liabilities (Note 25).

Discount rates used to determine the present value of mitigation related provisions were 4.00% (2017 - 3.75% to 4.15%).

Major development

A provision has been recognized for certain major development related obligations arising from impacts of current hydroelectric development. The amount recognized as a provision is the best estimate of the consideration required to settle the obligation at the reporting date. Once a final settlement is reached, these obligations will be transferred to other long-term liabilities (Note 25).

Discount rates used to determine the present value of major development related provisions were 3.80%.

Asset retirement obligations

An asset retirement obligation continues to be recognized for the future decommissioning of the Brandon Thermal Generating Station coal pile. The estimate was adjusted as a result of plans to repurpose parts of the station and only remove the coal pile. The corporation estimates the undiscounted cash flows required to settle the asset retirement obligations are approximately $3 million (2017 – $3 million), which is expected to be incurred in 2020.

The corporation recognizes an asset retirement obligation for the removal and disposal of PCB contaminated fluid in equipment bushings at transmission and distribution stations. The estimated undiscounted cash flows required to settle the asset retirement obligation are approximately $3 million (2017 – $4 million), which is expected to be incurred by 2024.

No funds are being set aside to settle the asset retirement obligations. The discount rates used to determine the fair market value of asset retirement obligations range from 1.80% to 2.02% (2017 - 0.75% to 1.30%).

Affordable Energy Fund

In accordance with the requirements of *The Winter Heating Cost Control Act*, Manitoba Hydro established an Affordable Energy Fund in the initial amount of $35 million for the purpose of providing funding for projects that would not otherwise be funded by DSM programs. Expenditures of nil (2017 – nil) during the year were charged to operations with the regulatory deferral balance and the provision reduced accordingly.

(in millions of Canadian dollars)

Other provisions

Other provisions have been established for obligations discovered, which require recognition in the financial statements due to the likelihood of settlement and the presence of an obligation, either from past events or constructive in nature.

Note 29 Non-controlling interests

	2018	2017
Wuskwatim Power Limited Partnership		
Taskinigahp Power Corporation	**32**	40
Keeyask Hydropower Limited Partnership		
Cree Nation Partners Limited Partnership	**103**	78
Fox Lake Cree Nation Keeyask Investments Inc.	**35**	26
York Factory First Nation Limited Partnership	**35**	26
	173	130
	205	170

Manitoba Hydro has entered into the WPLP with Taskinigahp Power Corporation (TPC) to carry on the business of developing, owning and operating the Wuskwatim Generating Station. TPC is owned beneficially by Nisichawayasihk Cree Nation (NCN). The generating station and associated transmission assets were placed into service during the 2012-13 year.

The 33% ownership interest of TPC in the WPLP of $32 million (2017 – $40 million) is represented as a non-controlling interest within the equity section of the consolidated statement of financial position. TPC's portion of the net loss of the WPLP during 2017-18 is $8 million (2017 – $12 million).

In accordance with the partnership agreements, Manitoba Hydro provides debt financing to TPC for investment in WPLP. As at March 31, 2018, Manitoba Hydro has provided advances to TPC of $88 million (2017 – $88 million). In addition, Manitoba Hydro provides advances on future WPLP distributions to NCN. As at March 31, 2018, Manitoba Hydro has provided advances to NCN of $7 million (2017 – $6 million). The advances plus interest are repayable by TPC through distributions from the WPLP. In exchange for forgiveness of the advances and interest, TPC has the option to put all their units back to Manitoba Hydro at any time between June 29, 2037 and June 29, 2062.

Manitoba Hydro has also entered into the KHLP with Tataskweyak Cree Nation (TCN) and War Lake First Nation (War Lake) operating as Cree Nation Partners (CNP), York Factory First Nation (York Factory) and Fox Lake Cree Nation (Fox Lake) to carry on the business of developing, owning and operating the Keeyask Generating Station. Cree Nation Partners Limited Partnership (CNPLP) is owned beneficially by TCN and War Lake through CNP, FLCN Keeyask Investments Inc. (FLCNKII) is owned beneficially by Fox Lake and York

(in millions of Canadian dollars)

Factory First Nation Limited Partnership (YFFNLP) is owned beneficially by York Factory. The generating station is currently under construction and projected to be placed into service in 2021.

The 15% ownership interest of CNPLP, the 5% ownership interest of FLCNKII and the 5% ownership interest of YFFNLP in the KHLP totaling $173 million (2017 – $130 million) is represented as a non-controlling interest within the equity section of the consolidated statement of financial position.

In accordance with the partnership agreements, Manitoba Hydro provides debt financing to CNPLP, FLCNKII and YFFNLP. As at March 31, 2018, Manitoba Hydro has provided advances to CNPLP of $103 million (2017 – $76 million), FLCNKII of $34 million (2017 – $25 million) and YFFNLP of $34 million (2017 – $25 million). The advances plus interest are repayable by CNPLP, FLCNKII and YFFNLP through distributions from the KHLP. In exchange for forgiveness of the advances and interest, CNPLP, FLCNKII and YFFNLP have the option at the final closing date (six months after the last unit in-service date of the Keeyask Generating Station) to convert their common units to preferred units based on their invested capital and return their common units to Manitoba Hydro or to put all their units back to Manitoba Hydro.

Summarized financial information before intercompany eliminations for WPLP and KHLP are as follows:

	2018	2017
WPLP		
Current assets	**21**	13
Non-current assets	**1 504**	1 526
Current liabilities	**23**	24
Non-current liabilities	**1 405**	1 393
Revenue	**91**	80
Net loss	**(25)**	(36)
KHLP		
Current assets	**8**	89
Non-current assets	**4 401**	3 202
Current liabilities	**235**	152
Non-current liabilities	**3 183**	2 398

(in millions of Canadian dollars)

Note 30 Financial instruments

The carrying amounts and fair values of the corporation's non-derivative financial instruments were as follows:

		2018		2017	
	Level	Carrying value	Fair value	Carrying value	Fair value
Fair value through profit and loss					
Cash and cash equivalents	1	**642**	**642**	646	646
Loans and receivables					
Accounts receivable and accrued revenue	*	**408**	**408**	364	364
Loans and other receivables (including current portion)	2	**430**	**460**	374	397
Other financial liabilities					
Accounts payable and accrued liabilities	*	**742**	**742**	1 083	1 083
Note payable	2	**50**	**50**	-	-
Long-term debt (including current portion)	2	**19 200**	**21 194**	16 438	18 456
Mitigation liability (including current portion)	2	**204**	**253**	209	259
Major development liability (including current portion)	2	**213**	**244**	210	244
Perpetual obligation (including current portion)	2	**215**	**385**	215	370

*carried at values that approximate fair value

The fair value measurement of financial instruments is classified in accordance with a hierarchy of three levels, based on the type of inputs used in making these measurements:

Level 1 - Quoted prices in active markets for identical assets and liabilities;
Level 2 - Inputs other than quoted prices that are observable in active markets for the asset or liability; and
Level 3 - Inputs for the asset or liability that are not based on observable market data.

Fair value Level 2 measurements are derived from quoted market yields at the close of business on the consolidated statement of financial position date for similar instruments available in the capital market. There are nominal amounts measured at Level 3 that are based on internally developed valuation models, and consistent with valuation models developed by other market participants in the wholesale power markets. The carrying values of all other financial assets and liabilities approximate their fair values.

(in millions of Canadian dollars)

Financial risks

During the normal course of business, Manitoba Hydro is exposed to a number of financial risks including credit and liquidity risks and market risk resulting from fluctuations in foreign currency, interest rates and commodity prices. Risk management policies, processes and systems have been established to identify and analyze financial risks faced by the corporation and its subsidiaries, to set risk tolerance limits, establish controls and to monitor risk and adherence to policies. An integrated risk management plan has been developed and reviewed by the Manitoba Hydro-Electric Board to ensure the adequacy of the risk management framework in relation to the risks faced by the corporation. The nature of the financial risks and Manitoba Hydro's strategy for managing these risks have not changed significantly from the prior year.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Manitoba Hydro is exposed to credit risk related to sinking fund investments, temporary investments and pension fund investments. The corporation limits its exposure to credit risk by only investing in government-guaranteed bonds, highly rated investments and well-diversified investment portfolios.

The corporation is also exposed to credit risk related to domestic and export energy sales. Credit risk related to domestic sales is mitigated by the large and diversified electric and natural gas customer base. Customers participating in residential financing programs are subject to credit reviews and must meet specific criteria before they are approved for a residential loan or financing. Equity loans advanced to Indigenous partners are secured by their ownership investment units in the Wuskwatim and Keeyask generating stations. Credit risk in the export power market is mitigated by establishing credit requirements, conducting standard credit reviews of all counterparties and setting and monitoring exposure limits for each of these counterparties. Letters of credit and netting provisions are also in place to further mitigate credit risk. The maximum exposure to credit risk related to domestic and export energy sales is its fair value.

The values of the corporation's aged accounts receivable and related allowance for doubtful accounts are presented in the following table:

	Manitoba	Extraprovincial	**2018**	2017
Under 30 days	205	24	**229**	198
31 to 60 days	21	-	**21**	16
61 to 90 days	10	-	**10**	7
Over 90 days	29	-	**29**	28
	265	24	**289**	249
Allowance for doubtful accounts	(19)	-	**(19)**	(11)
Total accounts receivable	246	24	**270**	238

(in millions of Canadian dollars)

The provision for bad and doubtful accounts is reviewed annually, based on an estimate of aged receivables that are considered uncollectible.

(b) Liquidity risk

Liquidity risk refers to the risk that Manitoba Hydro will not be able to meet its financial obligations as they come due. The corporation meets its financial obligations when due through cash generated from operations, short-term borrowings, long-term borrowings advanced from the Province of Manitoba and sinking fund withdrawals.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities as at the consolidated statement of financial position date:

	Carrying value	2019	2020	2021	2022	2023	2024 and thereafter
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	742	742	-	-	-	-	-
Note payable	50	50	-	-	-	-	-
Long-term debt*	19 326	1 950	1 268	2 168	1 941	1 899	26 240
Mitigation liability	204	37	18	22	23	21	395
Major development liability	213	30	15	15	15	16	593
Perpetual obligation	215	16	16	16	16	16	16**
	20 750	2 825	1 317	2 221	1 995	1 952	27 244

*includes current portion and interest payments but excludes the Provincial debt guarantee fee
**per year in perpetuity

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Manitoba Hydro is exposed to three types of market risk: foreign exchange risk, interest rate risk and commodity price risk associated with the price of electricity and natural gas. Manitoba Hydro continually monitors its exposure to these risks and may use hedges or derivative contracts to manage these risks.

(i) Foreign exchange risk

Manitoba Hydro has exposure to U.S. dollar foreign exchange rate fluctuations primarily through the sale and purchase of electricity in the U.S. and through borrowing in U.S. markets. This exposure is managed through a long-term natural hedge between U.S. dollar cash inflows from export revenues and U.S. dollar cash outflows for long-term coupon and principal payments.

To mitigate annual net income impacts due to foreign exchange rate fluctuations, long-term cash flow hedges have been established between U.S. long-term debt balances and future U.S. export revenues as well as between U.S. interest payments on dual currency bonds and future U.S. export revenues. Accordingly, translation gains and losses for U.S. long-term debt obligations in effective hedging relationships with future export revenues, are recognized in OCI until future hedged U.S. export revenues are realized, at which time the associated gains or losses in AOCI are recognized in net income. For the year ended March 31, 2018, unrealized foreign exchange translation gains of $57 million (2017 – $47 million losses) were recognized in OCI and net losses of $22 million (2017 – $20 million) were reclassified from OCI into net income. In addition, the corporation utilizes foreign exchange forward contracts to hedge U.S. long-term debt balances, for which hedge accounting is not applied. The monthly foreign exchange revaluation of these U.S. long-term debt balances and the mark to market of the foreign exchange forward contracts offsets in net income. The fair value of these forward contracts of $2.6 million (2017 – nil) is included in accounts receivable and accrued revenue and classified as Level 2 fair value measurements.

In addition to natural hedging relationships, cross currency swap arrangements transacted by the Province of Manitoba on the corporation's behalf are utilized to manage exchange rate exposures and as a means to capitalize on favourable financing terms in either U.S. or Canadian capital markets. Cross currency agreements represent an exchange of principal and/or interest flows denominated in one currency for principal and/or interest flows denominated in another. Such transactions effectively amend the terms of the original debt obligation with the Province of Manitoba with the swapped debt arrangement.

As at March 31, 2018, a change in the Canadian dollar of plus (minus) $0.10 relative to the U.S. dollar would decrease (increase) net income by $2 million (2017 – $8 million), while OCI would increase (decrease) by $101 million (2017 – $120 million).

(ii) Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Manitoba Hydro is exposed to interest rate risk associated with temporary investments, floating rate short-term and long-term debt, fixed rate long-term debt maturing within 12 months, less sinking fund withdrawals, offset by the change in interest capitalization. As at March 31, 2018, an increase or decrease of 1% in the interest rate would reduce or increase net income, respectively, by $6 million (2017 - $3 million), with no impact to OCI.

Interest rate swap agreements transacted by the Province of Manitoba on the corporation's behalf are utilized to manage the fixed and floating interest rate mix of the total debt portfolio, interest rate exposure and related overall cost of borrowing. Interest rate swap agreements represent an agreement between two parties to periodically exchange payments of interest without the exchange of the principal amount upon which payments are based. The Province of Manitoba may also enter into forward start interest rate swap arrangements where the agreement to exchange interest payments commences at some future date. In either swap arrangement, the terms of the debt advanced by the Province of Manitoba to the corporation are amended by the swap.

(in millions of Canadian dollars)

(iii) Commodity price risk

The corporation is exposed to electricity price risk that results from volatility of market prices and natural gas price risk through its purchase of natural gas for delivery to customers throughout Manitoba. The corporation mitigates commodity price risk through its limited use of derivative financial instruments. Manitoba Hydro does not use derivative contracts for trading or speculative purposes.

The corporation has entered into commodity derivative contracts as at March 31, 2018. The fair value of these contracts of $0.4 million (2017 – $1 million) is included in accounts receivable and accrued revenue and classified as Level 2 fair value measurements.

Note 31 Capital management

Manitoba Hydro manages its capital structure to ensure that there is sufficient equity to absorb the financial effects of adverse circumstances and to ensure continued access to stable low-cost funding for capital projects and ongoing operational requirements.

The corporation monitors its capital structure on the basis of its equity ratio. Manitoba Hydro's long-term target is to achieve a minimum equity ratio of 25%.

The corporation's equity ratio was as follows:

	2018	2017
Long-term debt (Note 21)	**18 200**	16 102
Current portion of long-term debt (Note 21)	**1 000**	336
Notes payable (Note 23)	**50**	–
Less: Cash and cash equivalents (Note 13)	**(642)**	(646)
Net debt	**18 608**	15 792
Retained earnings	**2 936**	2 899
Accumulated other comprehensive loss	**(688)**	(709)
Contributions in aid of construction (Note 27)	**483**	455
Bipole III contribution (Note 27)	**348**	196
Non-controlling interest (Note 29)	**205**	170
Total equity	**3 284**	3 011
Equity ratio	**15%**	16%

Manitoba Hydro issues debt for its capital requirements under the authority of *The Manitoba Hydro Act*, *The Loan Act* and *The Financial Administration Act*. *The Manitoba Hydro Act* grants the corporation the power to issue up to $500 million of short-term promissory notes. Manitoba Hydro submits annual requests under *The Loan Act* for the necessary borrowing authority for new capital requirements. Authority to refinance any maturing long-term debt is provided through *The Financial Administration Act*. The majority of Manitoba Hydro's long-term debt is obtained through advances from the Province of Manitoba.

Note 32 Related parties

Manitoba Hydro is a Crown corporation controlled by the Province of Manitoba. As a result, the corporation has a related party relationship with all entities that are controlled, jointly controlled or significantly influenced by the Province of Manitoba. However, as permitted by IAS 24 *Related Party Disclosures*, the corporation is exempt from disclosure requirements relating to transactions with the Province of Manitoba and any other entity that is a related party because the Province of Manitoba has control, joint control or significant influence over both the corporation and the other entity.

Significant transactions with the Province of Manitoba and other related provincial entities consist of:

- Long-term debt – the corporation obtains the majority of its long-term debt through advances from the Province of Manitoba (Note 21),
- Provincial Debt Guarantee Fee – the corporation pays the Province of Manitoba an annual fee on the outstanding debt. The Provincial Debt Guarantee Fee of $158 million (2017 – $136 million) for the year was 1.00% (2017 – 1.00%) of the corporation's total outstanding debt guaranteed by the Province of Manitoba,
- Sale of electricity and natural gas – energy sales to related parties,
- Water rentals – amounts are paid to the Province of Manitoba for the use of water resources in the operation of the corporation's hydroelectric generating stations. Water rental rates during the year were $3.34 per MWh (2017 – $3.34 per MWh) totalling $116 million (2017 – $122 million), and
- Taxes – amounts are paid to the Province of Manitoba for corporate capital tax, payroll tax (Note 11) and provincial sales tax, all of which are incurred in the normal course of business.

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Note 33 Commitments and contingencies

Manitoba Hydro has energy purchase commitments of $1 591 million (2017 – $1 419 million) that relate to future purchases of wind, natural gas (including transportation and storage contracts), coal and electricity. Commitments are primarily for wind, which expire in 2038, and natural gas purchases, which expire in 2037. In addition, other outstanding commitments principally for construction are approximately $2 132 million (2017 – $3 330 million).

As at March 31, 2018, total future minimum lease payments committed under operating leases amounted to $10 million (2017 - $12 million).

During the year, Manitoba Hydro entered into an agreement with an independent third party pipeline company to increase pipeline capacity. As part of the agreement, the corporation has committed to pay its share of the pre-license development costs associated with the contract, limited to $19 million, in the event that the federal license is not granted for the project. While the potential costs are quantified, no obligating event has occurred and so a provision has not been booked.

The corporation will incur future costs associated with the assessment and remediation of contaminated lands and facilities and for the phase-out and destruction of PCB mineral oil from electrical equipment. Although these costs cannot be reasonably determined at this time (except for items already recognized as asset retirement obligations), a contingent liability exists.

Due to the size, complexity and nature of Manitoba Hydro's operations, various legal and operational matters are pending. Management believes that any settlements related to these matters will not have a material adverse effect on Manitoba Hydro's consolidated financial position or results of operations.

Manitoba Hydro provides guarantees to counterparties for natural gas purchases. At March 31, 2018, there is an outstanding guarantee totaling $30 million (2017 – $40 million) which matures October 31, 2018. Letters of credit in the amount of $75 million (2017 – $74 million) have been issued for construction and energy related transactions with maturities until 2049.

Note 34 Segmented information

Operating segments are reported consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operations, has been identified as the President and Chief Executive Officer. The corporation is managed as three segments, electricity operations, natural gas operations and other, based on how financial information is produced internally for the purposes of making operating decisions.

Segment descriptions

Electric Operations

Electric operations derives its revenue from the sale of electricity in both Manitoba and to the export markets. Manitoba Hydro's electric operations also includes subsidiaries WPLP, KHLP and 6690271 Manitoba Ltd. Electricity is sold in Manitoba to residential, commercial and industrial customers while extraprovincial sales of electricity are to the U.S. and Canadian markets. Domestic electricity sales are regulated by the PUB.

Natural Gas Operations

The operations of Centra make up the entire natural gas operations segment. Centra is regulated by the PUB and generates revenue through the sale and distribution of natural gas to residential, commercial and industrial customers throughout Manitoba.

Other Segment

The other segment includes the operations of all other subsidiaries of the corporation, including MHI, MHUS, Minell and Teshmont.

MHI derives its revenue by providing professional consulting, operations, maintenance and project management services to energy sectors world-wide, either exclusively or through partnerships. MHI also provides research and development services and products to the electrical power system industry.

MHUS generates revenue by providing meter reading, interactive voice response systems and contracted services primarily to Manitoba Hydro and Centra.

Minell operates a pipeline transmission system extending from Moosomin, Saskatchewan to Russell, Manitoba and is regulated by the National Energy Board. Revenues are derived through the rentals of Minell's gas transmission facilities to Centra as they are used solely for the transportation of natural gas on behalf of Centra.

Teshmont is a holding company established to acquire a 40% ownership of Teshmont Consultants Limited Partnership, which carries on a high voltage engineering and consulting practice.

Segmented results

Results by operating segment for the years ended March 31, 2018 and 2017 are shown below. Intersegment eliminations are presented to reconcile segment results to the corporation's consolidated totals. Eliminations have been made for intersegment transactions and balances.

(in millions of Canadian dollars)

	Electric operations		Natural gas operations		Other segment		Eliminations		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Revenues										
External revenue	**1 931**	1 927	**345**	344	**54**	56	**-**	-	**2 330**	2 327
Intersegment revenue	**-**	-	**1**	1	**10**	9	**(11)**	(10)	**-**	-
	1 931	1 927	**346**	345	**64**	65	**(11)**	(10)	**2 330**	2 327
Expenses										
Finance expense	**601**	608	**21**	19	**1**	-	**18**	18	**641**	645
Operating and administrative	**517**	536	**63**	65	**17**	17	**(11)**	**(10)**	**586**	608
Depreciation and amortization	**402**	375	**24**	23	**1**	2	**3**	2	**430**	402
Cost of gas sold	**-**	-	**196**	183	**-**	-	**-**	-	**196**	183
Water rentals and assessments	**126**	131	**-**	-	**-**	-	**-**	-	**126**	131
Fuel and power purchased	**130**	132	**-**	-	**-**	-	**-**	-	**130**	132
Capital and other taxes	**130**	119	**16**	16	**-**	-	**-**	-	**146**	135
Other expenses	**502**	60	**14**	12	**35**	35	**(3)**	(3)	**548**	104
Finance income	**(23)**	(17)	**-**	-	**-**	-	**-**	-	**(23)**	(17)
Corporate allocation	**8**	8	**12**	12	**-**	-	**(20)**	(20)	**-**	-
	2 393	1 952	**346**	330	**54**	54	**(13)**	(13)	**2 780**	2 323
Net income (loss) before net movement in regulatory deferral balances	**(462)**	(25)	**-**	15	**10**	11	**2**	3	**(450)**	4
Net movement in regulatory deferral balances	**472**	66	**7**	(11)	**-**	-	**-**	-	**479**	55
Net Income	**10**	41	**7**	4	**10**	11	**2**	3	**29**	59
Net income (loss) attributable to:										
Manitoba Hydro	**18**	53	**7**	4	**10**	11	**2**	3	**37**	71
Non-controlling interests	(8)	(12)	-	-	-	-	-	-	(8)	(12)
	10	41	**7**	4	**10**	11	**2**	3	**29**	59

(in millions of Canadian dollars)

	Electric operations		Natural gas operations		Other segment		Eliminations		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Total assets	**23 606**	21 271	**642**	617	**96**	85	**(219)**	(201)	**24 125**	21 772
Total regulatory deferral debit balances	**934**	462	**110**	104	**-**	-	**-**	-	**1 044**	566
Total liabilities	**22 207**	19 474	**528**	503	**16**	15	**(111)**	(91)	**22 640**	19 901
Total regulatory deferral credit balances	**49**	49	**27**	28	**-**	-	**-**	-	**76**	77
Retained earnings	**2 767**	2 749	**76**	69	**79**	69	**14**	12	**2 936**	2 899

Note 35 Comparative figures

Where appropriate, comparative figures for 2017 have been reclassified in order to conform to the presentation adopted in 2018.

Financial statistics

For the year ended March 31	IFRS				CGAAP					
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
					dollars are in millions					
Revenues										
Domestic Electric	**1 464**	1 419	1 399	1 424	1 405	1 341	1 193	1 200	1 145	1 127
Gas	**343**	342	353	427	413	328	328	403	452	578
Extraprovincial	**437**	460	415	384	402	329	333	358	385	533
Other	**86**	106	91	81	72	70	46	42	29	36
	2 330	2 327	2 258	2 316	2 292	2 068	1 900	2 003	2 011	2 274
Expenses										
Finance expense	**641**	645	620	551	470	489	423	425	410	471
Operating and administrative	**586**	608	614	614	558	533	481	463	440	429
Depreciation and amortization	**430**	402	394	378	442	423	381	393	384	368
Cost of gas sold	**196**	183	181	266	252	182	197	261	316	431
Water rentals and assessments	**126**	131	126	125	125	118	119	120	121	123
Fuel and power purchased	**130**	132	117	129	140	109	116	66	62	86
Capital and other taxes	**146**	135	123	115	117	105	103	102	99	87
Other expenses	**548**	104	114	77	36	30	19	23	16	13
Finance income	**(23)**	(17)	(23)	(26)	-	-	-	-	-	-
	2 780	2 323	2 266	2 229	2 140	1 989	1 839	1 853	1 848	2 008
Net income (loss) before net movement in regulatory accounts	**(450)**	4	(8)	87	152	79	61	150	163	266
Net movement in regulatory accounts	**479**	55	47	38	-	-	-	-	-	-
Net Income	**29**	59	39	125	152	79	61	150	163	266
Net income (loss) attributable to:										
Manitoba Hydro	**37**	71	49	136	174	92	61	150	163	266
Non-controlling interests	**(8)**	(12)	(10)	(11)	(22)	(13)	-	-	-	-
	29	59	39	125	152	79	61	150	163	266
Assets										
Property, plant and equipment	**21 979**	19 757	17 208	15 222	13 627	12 508	11 797	10 954	10 128	9 382
Sinking fund investments	**-**	-	-	114	111	352	372	282	822	666
Current and other assets	**2 146**	2 015	2 085	1 821	1 901	1 682	1 622	1 646	1 487	1 499
Regulatory deferral debits	**1 044**	566	486	410	-	-	-	-	-	-
	25 169	22 338	19 779	17 567	15 639	14 542	13 791	12 882	12 437	11 547
Liabilities and Equity										
Long-term debt	**18 200**	16 102	14 201	12 303	10 460	9 329	9 101	8 617	8 228	7 668
Current and other liabilities	**3 671**	3 157	2 799	2 603	1 913	1 937	1 495	1 127	1 328	1 637
Deferred revenue	**769**	642	535	459	381	340	318	295	295	296
Regulatory deferral credits	**76**	77	52	23	-	-	-	-	-	-
Non-controlling interests	**205**	170	140	120	73	95	100	87	62	39
Retained earnings	**2 936**	2 899	2 828	2 779	2 716	2 542	2 450	2 389	2 239	2 076
Accumulated other comprehensive income (loss)	**(688)**	(709)	(776)	(720)	96	299	327	367	285	(169)
	25 169	22 338	19 779	17 567	15 639	14 542	13 791	12 882	12 437	11 547
Cash Flows										
Operating activities	**(94)**	623	607	519	691	589	567	595	589	688
Financing activities	**2 854**	1 855	2 111	1 560	1 125	635	725	674	1 124	424
Investing activities	**(2 764)**	(2 787)	(2 257)	(1 727)	(1 706)	(1 242)	(1 312)	(1 373)	(1 698)	(1 086)
Financial Indicators										
Equity ratio [1]	**15%**	16%	17%	18%	24%	25%	26%	27%	27%	23%
Interest coverage [2]	**1.50**	1.54	1.57	1.73	1.95	1.81	1.74	1.96	2.06	2.16
Capital coverage [3]	**0.50**	1.48	1.37	1.20	1.35	1.25	1.13	1.25	1.34	1.77

[1] Equity ratio represents equity (retained earnings plus accumulated other comprehensive income plus contributions in aid of construction plus non-controlling interest) divided by equity plus debt (long-term debt plus notes payable minus sinking fund investments and temporary investments).

[2] Interest coverage represents earnings before finance expense and depreciation and amortization adjusted for net movement impacts divided by finance expense.

[3] Capital coverage represents internally generated funds divided by capital construction expenditures.

Operating statistics

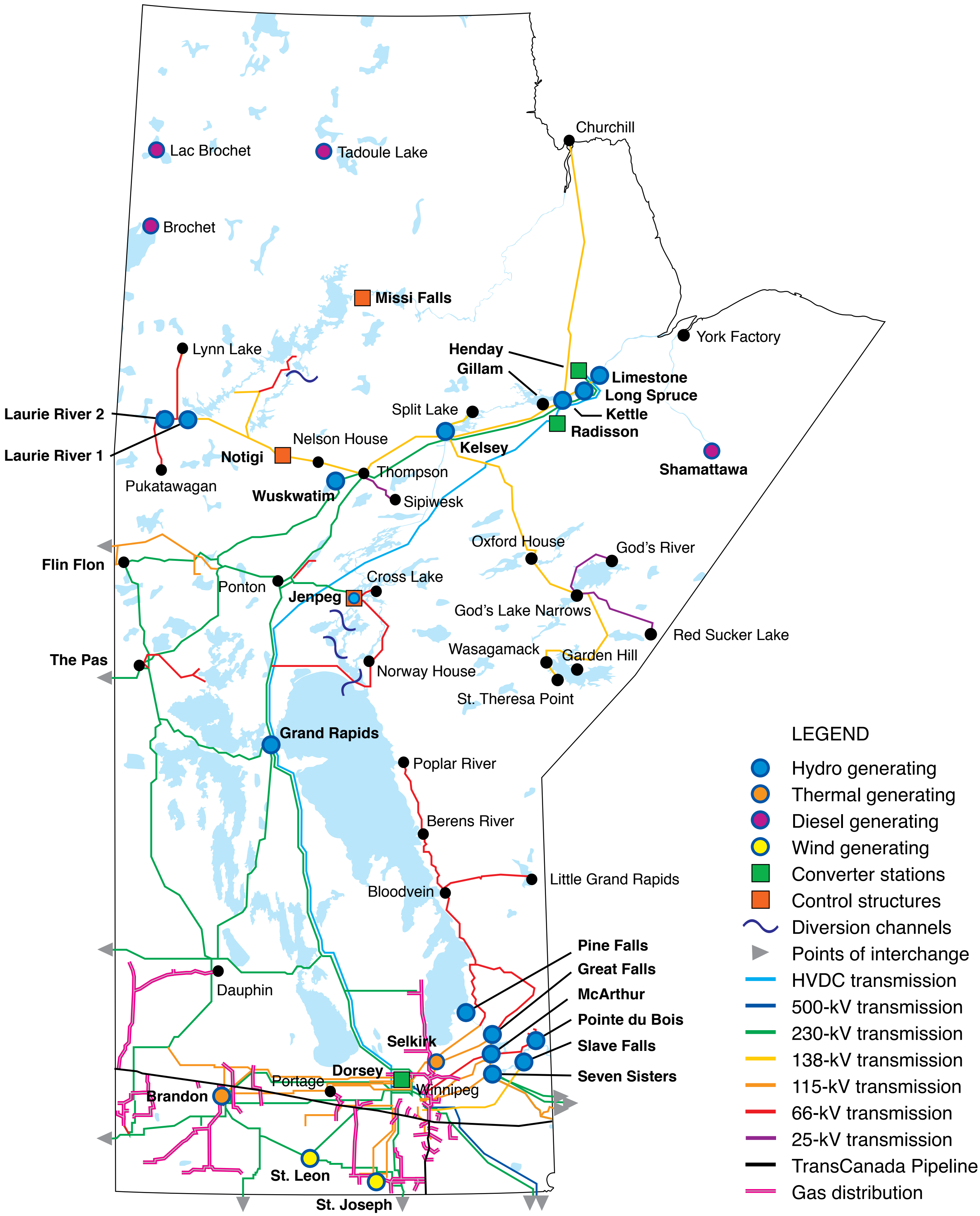
For the year ended March 31

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Electric System Capability										
Capability (000 kW)	**5 648**	5 679	5 680	5 691	5 715	5 675	5 475	5 489	5 501	5 480
Manitoba firm peak demand (000 kW)	**4 735**	4 801	4 460	4 688	4 720	4 535	4 343	4 261	4 359	4 477
Per cent change	**(1.4)**	7.6	(4.9)	(0.7)	4.1	4.4	1.9	(2.2)	(2.6)	4.8
Electric System Supply										
Total energy supplied (millions of kWh)										
Generation	**34 613**	36 433	34 990	35 044	35 392	33 230	33 235	34 102	33 961	34 528
Isolated systems	**14**	15	14	15	14	14	14	13	13	13
	34 627	36 448	35 004	35 059	35 406	33 244	33 249	34 115	33 974	34 541
Electric Load at Generation (millions of kWh)										
Integrated system	**23 288**	25 144	24 566	25 399	25 510	24 650	23 499	23 783	23 295	24 285
Isolated system	**14**	15	14	15	14	14	14	13	13	13
	23 302	25 159	24 580	25 414	25 524	24 664	23 513	23 796	23 308	24 298
Per cent change	**(7.4)**	2.4	(3.3)	(0.4)	3.5	4.9	(1.2)	2.1	(4.1)	1.3
Electric System Deliveries (millions of kWh)										
Energy delivered in Manitoba										
Residential	**7 636**	7 250	7 181	7 788	7 888	7 334	6 930	7 060	6 899	6 954
Commercial / Industrial	**14 869**	14 716	14 473	14 670	14 450	14 143	13 840	13 727	13 587	14 256
	22 505	21 966	21 654	22 458	22 338	21 477	20 770	20 787	20 486	21 210
Extraprovincial	**9 448**	11 272	10 281	9 811	10 537	9 087	10 244	10 344	10 860	10 122
	31 953	33 238	31 935	32 269	32 875	30 564	31 014	31 131	31 346	31 332
Gas Deliveries (millions of cubic metres)										
Residential	**579**	524	498	597	664	602	509	591	581	696
Commercial / Industrial	**887**	801	748	870	964	849	728	821	803	866
Transportation	**582**	661	600	604	652	598	629	584	619	603
	2 048	1 986	1 846	2 071	2 280	2 049	1 866	1 996	2 003	2 165
Number of Customers										
Electric:										
Residential	**509 465**	503 167	497 699	492 275	486 654	480 254	474 661	469 635	465 055	460 804
Commercial / Industrial	**70 797**	70 271	69 935	69 594	69 106	68 520	68 020	67 664	67 304	66 668
	580 262	573 438	567 634	561 869	555 760	548 774	542 681	537 299	532 359	527 472
Gas:										
Residential	**255 868**	253 357	251 142	249 313	247 010	244 768	242 813	241 123	239 535	239 597
Commercial / Industrial	**26 122**	25 911	25 716	25 504	25 218	25 018	24 886	24 838	24 766	23 411
	281 990	279 268	276 858	274 817	272 228	269 786	267 699	265 961	264 301	263 008
Full Time Equivalent (FTE) [1]	**5 998**[2]	6 411	6 410	6 483	6 556	6 463	6 413	6 394	6 236	6 080

[1] Regular FTEs includes employees of subsidiaries as well as seasonal, hourly and part-time staff. It is derived by calculating total straight time hours in the year divided by 1 916 hours per FTE. The 2017-18 FTE figure includes employees that departed the corporation through the Voluntary Departure Program/management reorganization and contains the portion of the year those employees worked prior to their departure date.

[2] Includes participants in Voluntary Departure Program on pre-retirement leave and/or salary continuance as at March 31, 2018

Major electric & natural gas facilities



Sources of electrical energy generated & purchased

For the year ended March 31, 2018

Nelson River	**74.64**	%
Billion kWh generated	**26.9**	
Limestone	24.05	%
Kettle	23.49	%
Long Spruce	19.20	%
Kelsey	6.09	%
Jenpeg	1.81	%
Winnipeg River	**10.53**	%
Billion kWh generated	**3.8**	
Seven Sisters	3.07	%
Great Falls	2.65	%
Pine Falls	1.67	%
Pointe du Bois	0.61	%
Slave Falls	1.35	%
McArthur	1.18	%

Saskatchewan River	**6.61**	%
Billion kWh generated	**2.4**	
Grand Rapids	6.61	%
Laurie River	**0.17**	%
Billion kWh generated	**0.1**	
Laurie River 1	0.08	%
Laurie River 2	0.09	%
Burntwood River	**4.06**	%
Billion kWh generated	**1.5**	
Wuskwatim	4.06	%

Thermal	**0.12**	%
Billion kWh generated	**0.0**	
Brandon	0.09	%
Selkirk	0.03	%
Purchases (excl. wind)	**1.16**	%
Billion kWh purchased	**0.4**	
Wind	**2.72**	%
Billion kWh purchased	**1.0**	

Manitoba Hydro generating stations & capabilities

Interconnected Capabilities			
Station	Location	Number of units	Net Capability (MW)
Hydraulic			
Great Falls	Winnipeg River	6	**136**
Seven Sisters	Winnipeg River	6	**164**
Pine Falls	Winnipeg River	6	**83**
McArthur	Winnipeg River	8	**54**
Pointe du Bois	Winnipeg River	16	**56**
Slave Falls	Winnipeg River	8	**68**
Grand Rapids	Saskatchewan River	4	**479**
Kelsey	Nelson River	7	**286**
Kettle	Nelson River	12	**1 220**
Jenpeg	Nelson River	6	**90**
Long Spruce	Nelson River	10	**980**
Limestone	Nelson River	10	**1 350**
Laurie River (2)	Laurie River	3	**10**
Wuskwatim	Burntwood River	3	**212**
Thermal			
Brandon		3	**324**
Selkirk		2	**125**
Isolated Capabilities			
Diesel			
Brochet			**3**
Lac Brochet			**2**
Shamattawa			**4**
Tadoule Lake			**2**
Total Generating Capability			**5 648**

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