

ANNUAL ACTIVITY AND COMPLIANCE REPORT

Code of Business Conduct and Ethics

Nalcor Energy

Reporting Period: 2017

Date of Report: February 13, 2017

Nalcor Energy's Department of Human Resources hereby certifies that the following is an update regarding reports of non-compliance; education and awareness activities; and other pertinent activities and issues related to the Company's Code of Business Conduct and Ethics.

The purpose of the Code of Business Conduct and Ethics is to:

1. outline and reinforce the Company's commitment to professional and ethical business practices;
2. outline the Company's standards and expectations in areas of business practice and conduct;
3. provide general guidance on avoidance and reporting of potential conflicts of interest and unethical business practices and conduct; and,
4. outline the confidential procedures to be followed for reporting business conduct or practices on the part of any person covered by this Code which may be unethical, represent a conflict of interest, or be non-complaint with the Code and applicable policies in some other way.

Section 1 – Updates or Amendments to the Code

Amendments have been made to one or more sections of the Code as indicated below.

- | | |
|---|--|
| <input type="checkbox"/> Guiding Principles | <input type="checkbox"/> Standards of Business Conduct |
| <input type="checkbox"/> Conflict of Interest | <input type="checkbox"/> Responsibilities |
| <input checked="" type="checkbox"/> Other | <input type="checkbox"/> No amendments during the reporting period |

Details:

An update was made in 2017 under the section Process / Procedures to include reference to a new anonymous reporting option (Ethicsline). In addition to other established procedures and processes, an anonymous report of non-compliance with the Code, the Company's policy related to Dishonest and Fraudulent Activity, or any other conduct of unethical nature may now be initiated with Navex Global by visiting their confidential reporting website at

████████████████████ or by calling ████████████████████ Section 5 - Other relevant activities

pertinent to the Purpose of the Code, provides additional information on Nalcor’s implementation of Ethicsline.

Section 2 – Reports of Non-Compliance: Standards of Business Conduct

Company representatives are expected to comply with all applicable laws and regulations of the Provinces and countries in which the Company operates. Company representatives are not to engage in, or give the appearance of being engaged in, any illegal or improper conduct that is in non-compliance with this Code and are not to condone any illegal act or instruct another person to do so. Company representatives are to be sufficiently familiar with the laws that apply to their work to recognize potential non-compliance and when to seek legal advice.

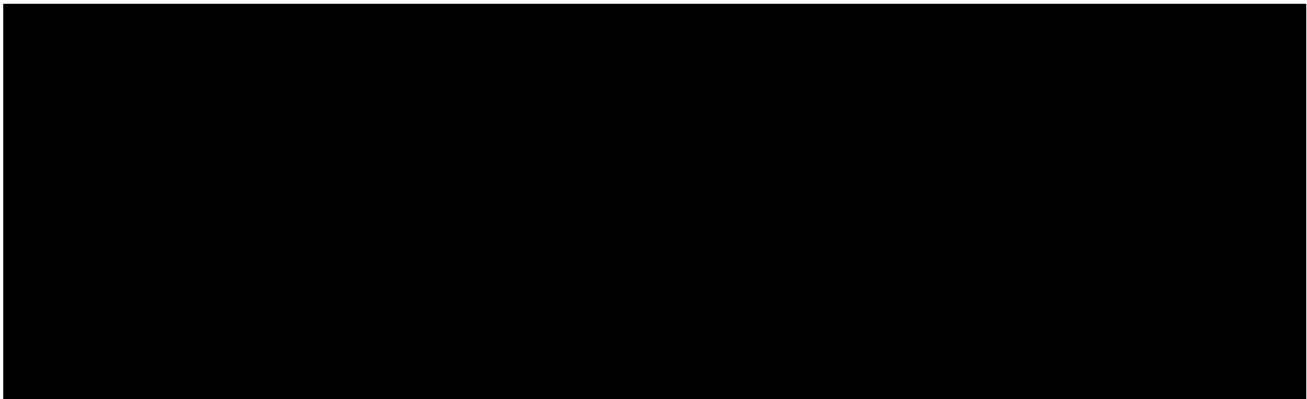
Incidents of non-compliance were reported to the Department of Human Resources in relation to the areas noted below:

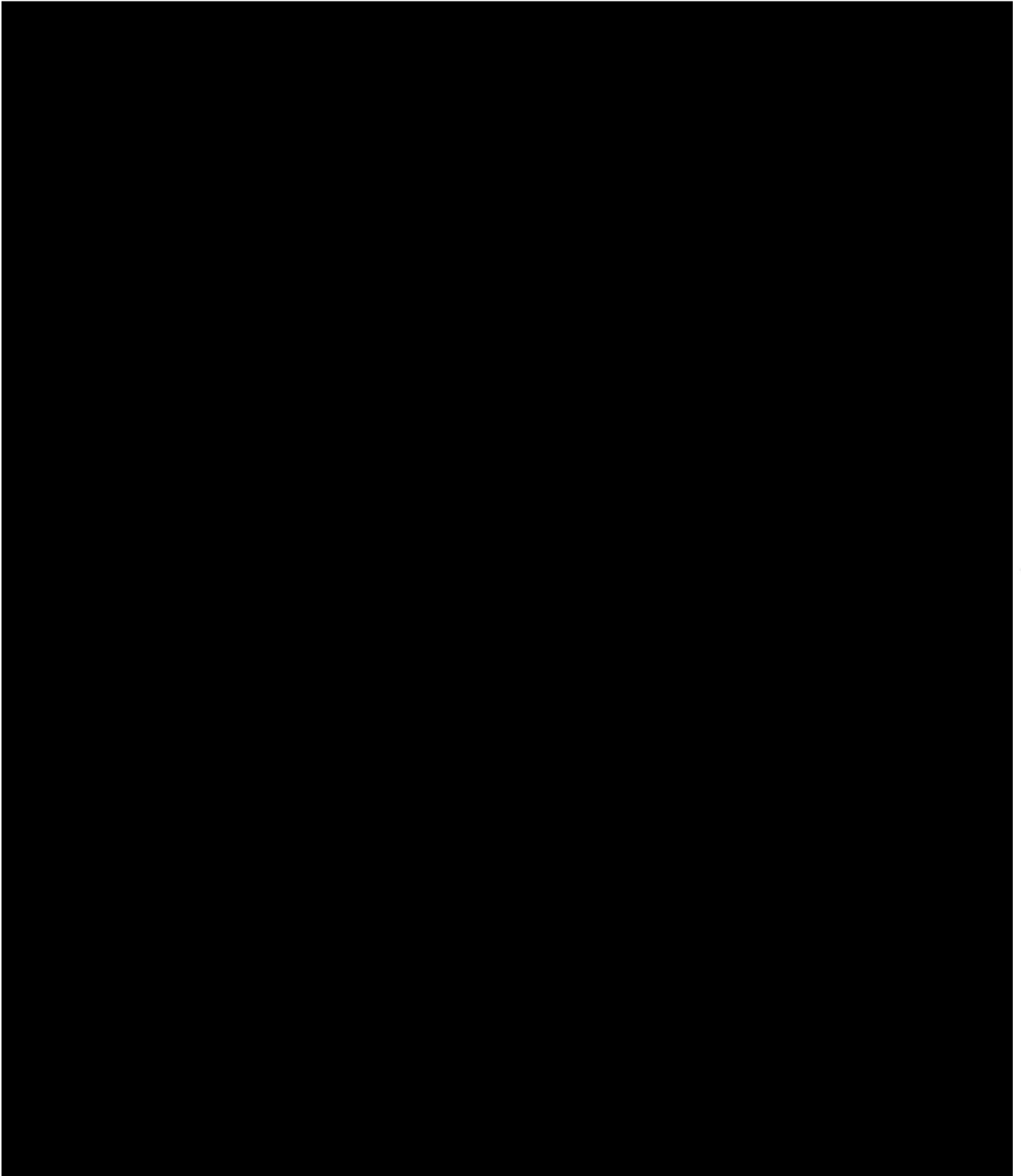
- Safety and Health
- Environmental Protection
- Respect and Dignity in the Workplace
- Protection of Corporate Assets
- Privacy and Confidentiality of Personal and Business Information
- There were no reports of non-compliance during the period.
- Financial Reporting
- Security and Emergency Procedures
- Intellectual Property
- Competitor Information

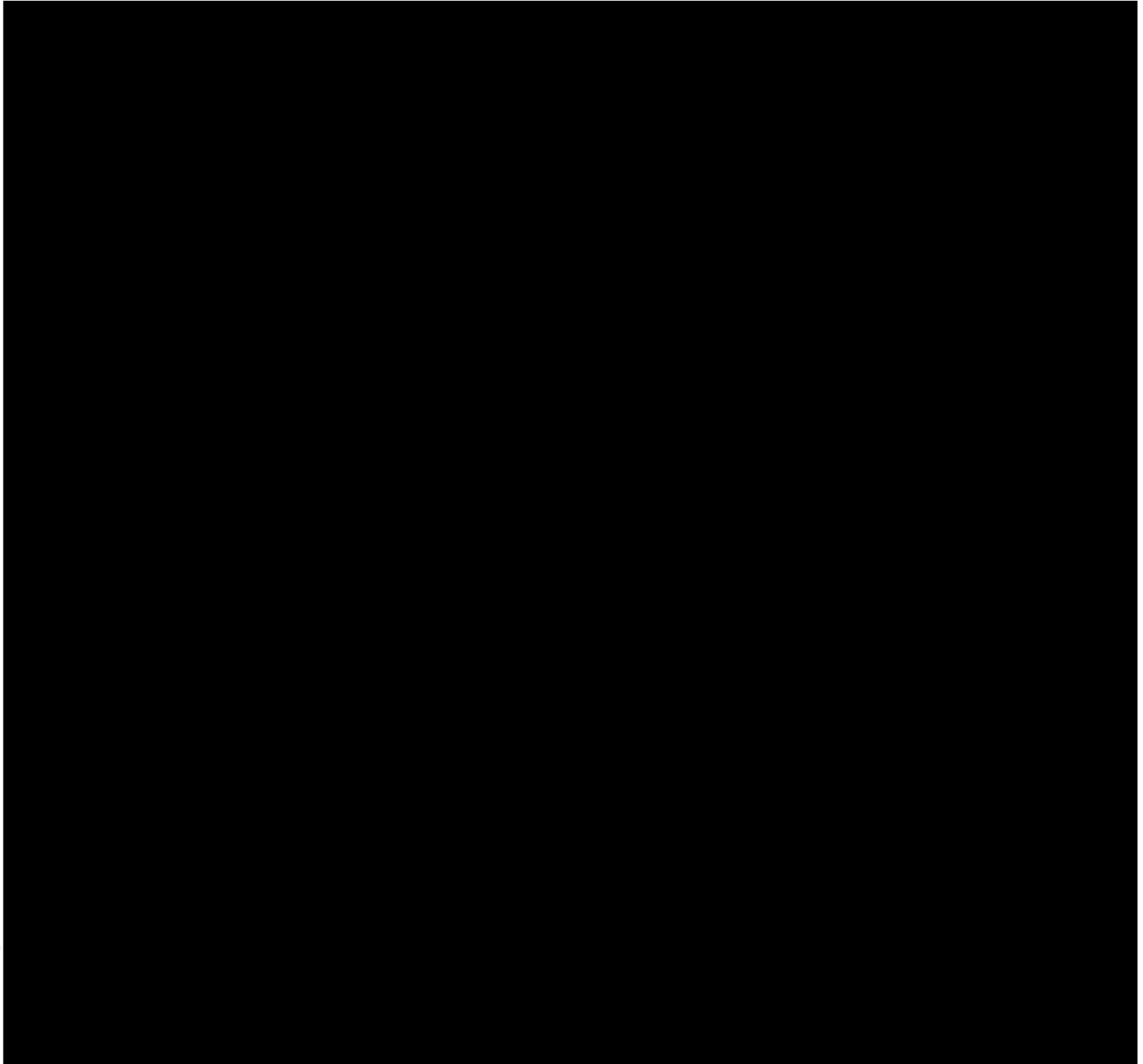
Details:

The Code of Conduct and Business Ethics Policy along with other appropriate policies and expectations for professional conduct were reviewed (as appropriate) with parties involved and as part of the resolution in the incidences noted below.

Safety and Health:

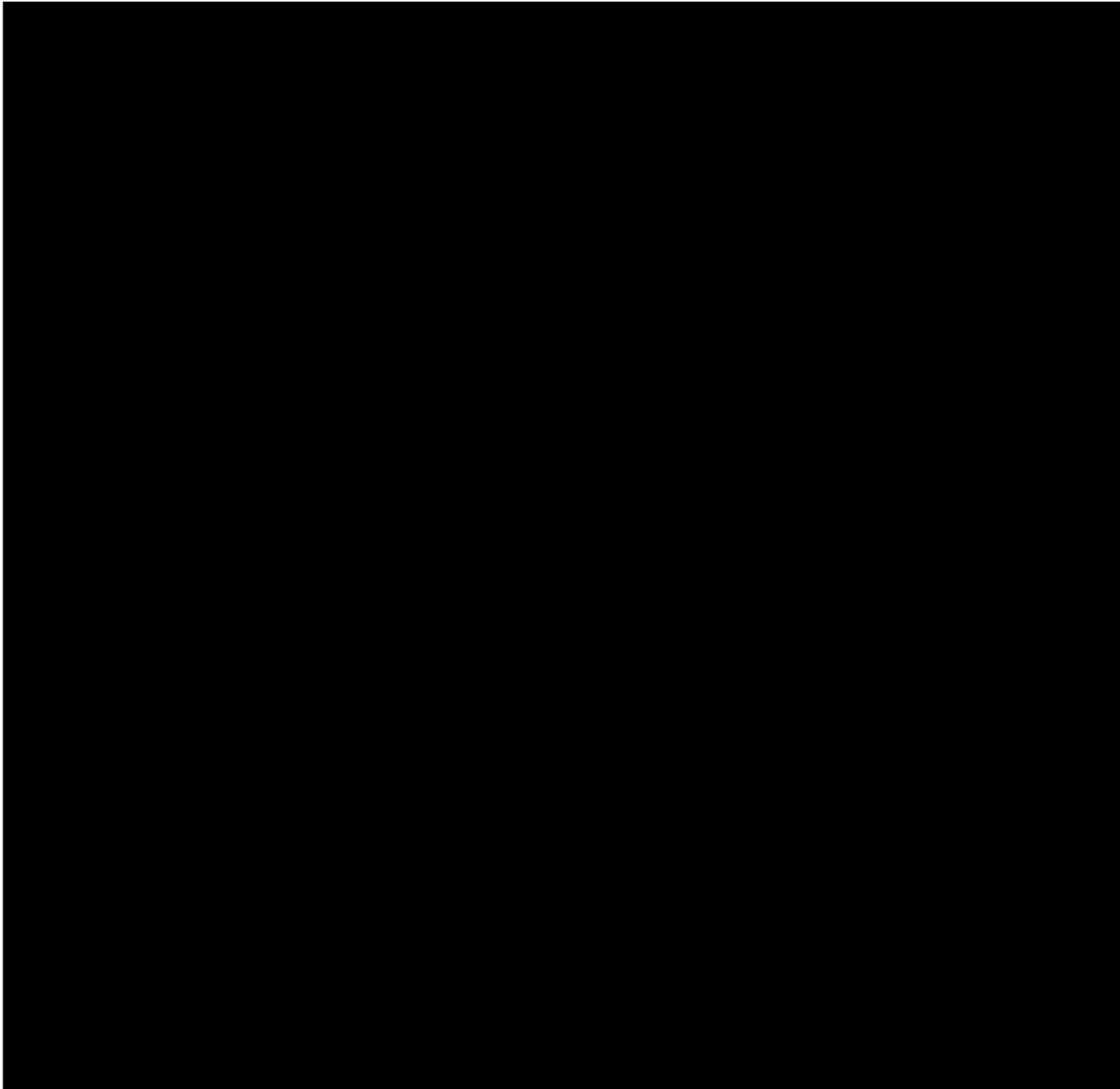




Respect and Dignity in the Workplace:*Lower Churchill Management Corporation:*

There were seven (7) informal complaints reported to Human Resources relating to professional conduct and respect and dignity in the workplace in 2017 within the Lower Churchill Project (LCP) Delivery Team. All informal complaints were investigated and resolved through an informal resolution process through consultation with the respective supervisors, managers and Human Resources as per the LCP Respectful Workplace Standard.

There was one (1) formal complaint reported to Human Resources relating to professional conduct and respect and dignity in the workplace in 2017 within the Lower Churchill Project (LCP) Delivery Team. The complaint was investigated and resolved through a formal resolution process. The complaint was investigated by the LCP Human Resources Manager with the appropriate consultation from the respective supervisors and managers as per the LCP Respectful Workplace Standard. The complaint was deemed to be founded. The appropriate remedial action was taken per the LCP Respectful Workplace Standard.



Protection of Corporate Assets:Lower Churchill Management Corporation:

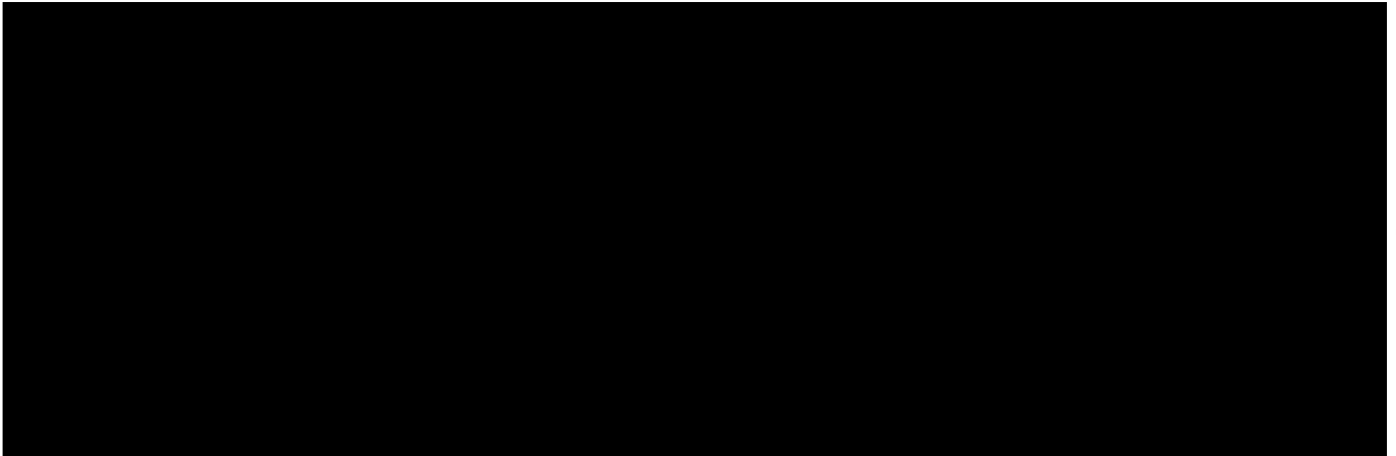
Based on an anonymous letter that was received by the Muskrat Falls Generation Project Manager (dated August 2017), the LCP Management team requested that Nalcor Energy Internal Audit complete an independent review. (A copy of this letter was later received by Nalcor's Corporate office October 2017.) The specific allegations were categorized into the following to allow separate reviews: (1) site purchasing (2) billable time (3) invoicing (4) respectful workplace. Item No. 4 was reviewed by Nalcor Energy and LCP Human Resources.

Based on information available in the anonymous letters, reviews completed, recommendations provided and actions taken, Internal Audit is comfortable that the allegations have been appropriately addressed. The results of each review can be summarized as:

1. Site purchasing – No evidence of asset theft or procurement fraud. Additional controls recently implemented will further reduce the likelihood of fraud.
2. Billable time – One individual (employee of a contractor) was removed from site and no longer works on any Nalcor Energy project/jobs due to irregularities found in billings compared to time on site. Billings for all other individuals reviewed were found to be reasonable.
3. Invoicing – Allegations were deemed unfounded as allowances were invoiced as per contract and policy.
4. Respectful Workplace – Specific allegations within the letter were not substantiated for two individuals who are no longer working on site and was undeterminable for another. An independent review was recently completed of site respectful workplace culture and recommendations and associated actions were effectively addressed (or in progress). A

recommendation was made to conduct a similar (refresh) review in 2018 to evaluate effectiveness of the recommendations and to support continual improvement.

In addition to the categories above, there was a reference to inappropriate hiring practice related to an Administrative position. This item was reviewed by LCP Human Resources who confirmed that normal recruitment processes were followed and the claim of wrongful hiring practice was not substantiated.



Section 3 – Reports of Non-Compliance: Conflict of Interest

As an agent of the province of Newfoundland and Labrador, the Company is governed by the Conflict of Interest Act. Employees are not to engage in any activity that adversely affects the performance of their duties as an employee, officer or director of the Company, or is likely to do so; that places the employee, officer or director in a position of conflict of interest or is likely to do so; or in which the employee, officer or director has an advantage as a result of his/her employment or association with the Company.

Incidents of non-compliance were reported to the Department of Human Resources in relation to the areas noted below:

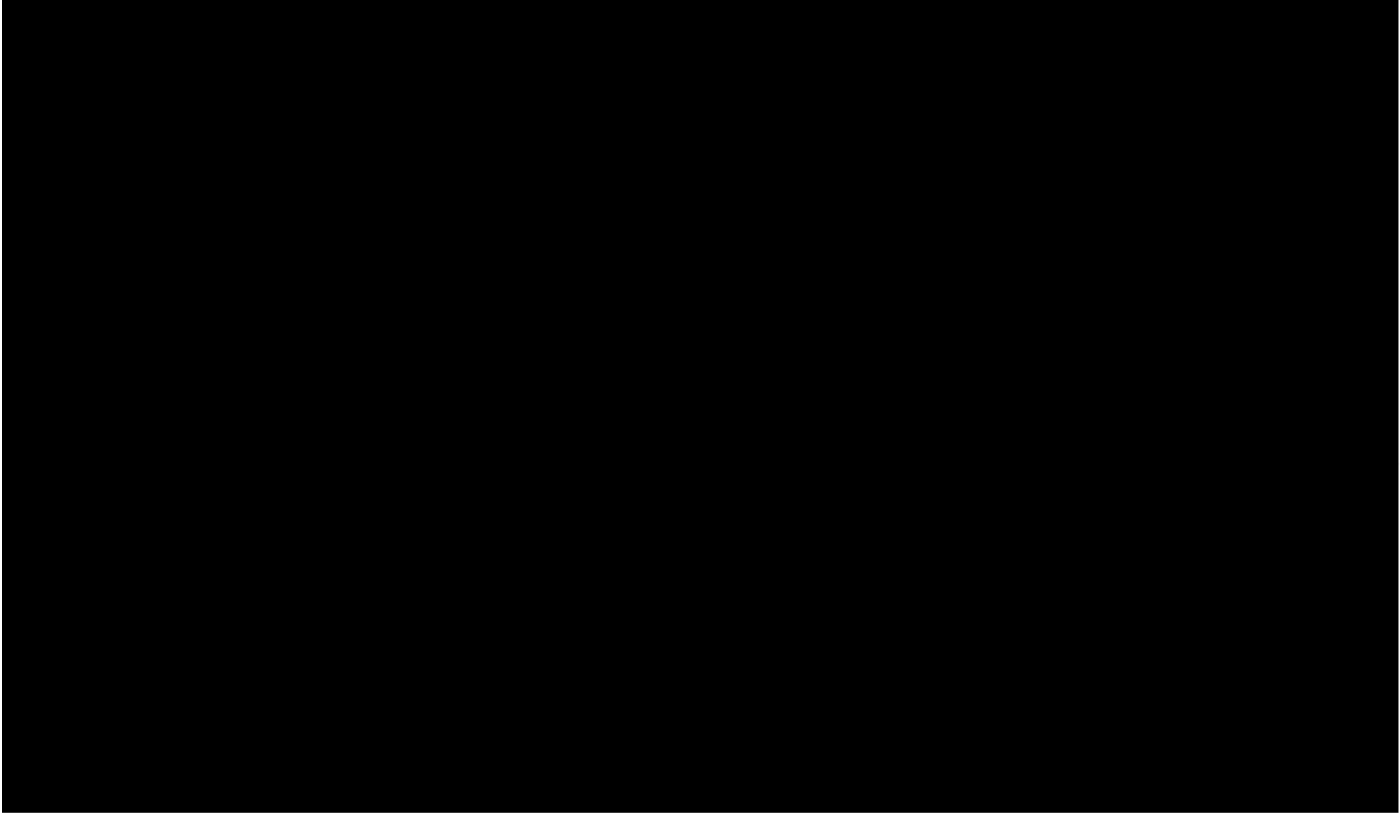
- | | |
|---|---|
| <input type="checkbox"/> Entertainment, Gifts and Favors | <input type="checkbox"/> Outside Business Interests |
| <input type="checkbox"/> General Prohibitions | <input checked="" type="checkbox"/> Other |
| <input type="checkbox"/> There were no reports of non-compliance during the period. | |

Details:

Other:

Lower Churchill Management Corporation:

Allegations were brought forth by an anonymous reporter through Ethicsline claiming authorization of overtime for workers when they didn't work it; that workers moved personal furniture for an individual; and that two people (who work together) are in a relationship and get paid for more hours than they work. The Ethicsline report was received around the time of another anonymous complaint (in the form of a letter and referenced in Section 2 above). While these reports were investigated and dealt with separately, information arising from Nalcor's Internal Audit review contributed to concluding both reports. Allegations of misconduct relating to getting paid for more hours than worked and inappropriate approval of overtime were not substantiated. No systemic issues were found with overtime approvals relating to the claim above or evidenced in the review. The claim of a conflict of interest as a result of a personal relationship was not substantiated. A change was made to the reporting structure to remove any possible conflict. With respect to workers helping to move an individual's personal furniture, this event occurred in 2015 and management authorized the personal time. There was no violation of policy found and no company equipment was used.



Section 4 – Education and Awareness Activities

Managers are accountable to ensure that employees under their responsibility are aware and follow the Code of Business Conduct and Ethics Policy.

Since 2016, the Nalcor Code of Business Conduct and Ethics training is implemented through the online course provider. The course is assigned to all new hires as part of the mandatory and general on-boarding and orientation program. All existing employees were required to complete this training in 2016. All employees must complete a refresh of the online course every two years.

Confirmation of course completion is recorded and monitored in the corporation's learning management system. Supervisors are accountable to provide an alternate form of the course where employees are unable to participate on-line.

Section 5 – Other relevant activities pertinent to the Purpose of the Code.

A corporate governance ethics and values audit was completed in 2015 by Nalcor's Internal Audit team. The results indicated that the Ethics and Values program currently in place at Nalcor Energy and its affiliates has many features that can be considered best practice in today's culture. To strengthen the existing program, five medium risk issues were identified relating to an ethics committee/officer, ethics hotline/whistleblower program, ethical culture assessment, ethics training, and ethical supplier selection process.

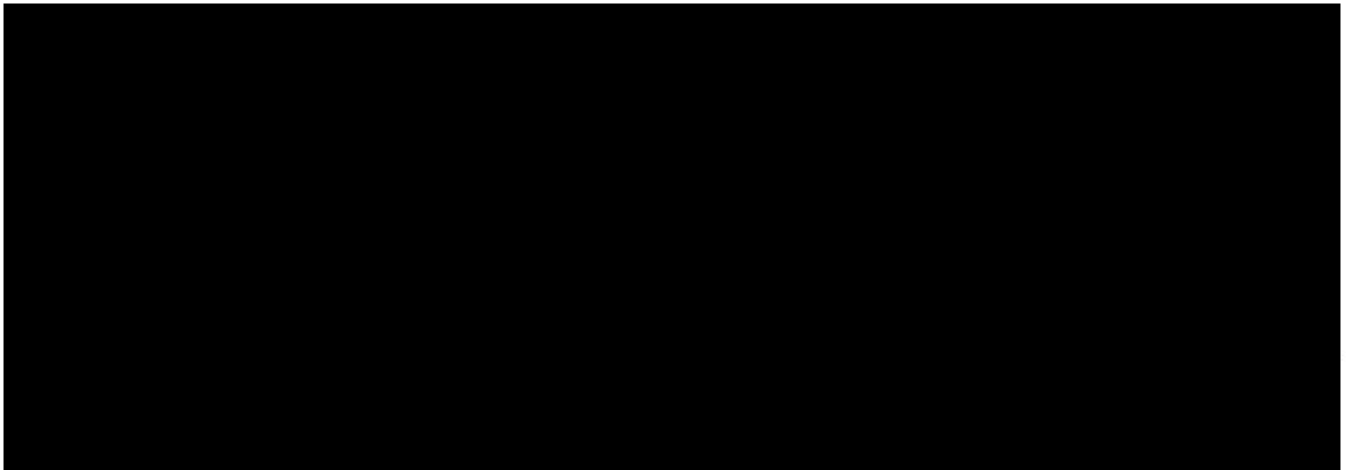
In 2017, Nalcor implemented Ethicsline which had previously been referred to as Whistleblower Process. Ethicsline is an online tool available to all Nalcor employees who have information about a violation of a company policy or procedure, or illegal activity impacting the company. Ethicsline is independent of the Nalcor and Hydro corporate websites, offering a fully confidential and secure way to make a report (online by [REDACTED] by phone [REDACTED] and it is available 24 hours per day, 7 days per week.

Any report that comes through Ethicsline is reviewed by the appropriate management representative. Nalcor's Chief Human Resource Officer and VP Safety, Health & Sustainability and the applicable Executive Vice President are presented with all investigation reports and confirm alignment prior to "closing" a matter.

Ethical culture is assessed through several avenues: 1) Ethicsline reports/outcomes, 2) informal complaints addressed through facilitation with Human Resources, and 3) related questions through employee engagement survey(s).

The Nalcor Code of Business Conduct and Ethics training is implemented through the online course provider as stated in Section 4, Education and Awareness Activities.

There are plans to assess the current supply chain process.



Lower Churchill Management Corporation:

A review of the Lower Churchill Project (LCP) workplace as it relates to respectful workplace culture and the LCP Respectful Workplace Standard was initiated by LCP Management in February 2017. The review was conducted by an independent Human Resources Consultant with Knightsbridge Robertson Surette whereby LCP was provided with a summary document of findings. There were several recommendations from the consultant based on the outcome of the review which have been actioned and continue to be implemented.

Michael Roberts
Chief Human Resource Officer & Vice President of Safety, Health
and Sustainability, Nalcor Energy

Feb 14 / 2018
Date