

Manitoba Hydro

2015 Report on Executive Compensation

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Contents

Manitoba Hydro's Approach to Executive Compensation	3
Executive Compensation at Manitoba Hydro	
Executive Compensation Philosophy	
Comparator Companies	
Executive Compensation Objectives	4
Compensation Governance at Manitoba Hydro	4
2013 Executive Compensation Review	4
2015 Executive Compensation	5
2015 Salary Ranges	5
2015 Total Cash Compensation (TCC)	6
Pension and Benefits	7

Manitoba Hydro's Approach to Executive Compensation

Executive Compensation at Manitoba Hydro

As an integrated electricity and gas energy company with annual revenues of \$2B, Manitoba Hydro ranks as one of Canada's largest utility service providers. Over the next decade it is implementing major capital investments in new generation, transmission and distribution infrastructure to meet Manitoban's long term energy requirements.

In support of meeting these challenges our compensation strategy has been designed to attract, motivate and retain qualified executives to meet business objectives. We believe that an effective compensation program is competitive in the market and rewards performance through the achievement of predetermined goals and objectives. Executive compensation at Manitoba Hydro is:

- Aligned to drive strategic, financial and organizational requirements
- Performance focused
- Competitive in the market
- Financially responsible

Executive Compensation Philosophy

Manitoba Hydro's Compensation philosophy is to target compensation to reflect the 50th percentile of our established market (Manitoba & Utilities) for performance that meets expectation.

Comparator Companies

Competitiveness for our executives is determined by data collected by an independent consulting firm (Hay Group) using a cross section of comparable Canadian companies (Comparator Companies) within our industry or with which we compete for talent.

Our Comparator Companies, forty-eight in total, represents a subset of the national market comprising utility companies and comparable organizations based in Manitoba. This provides a targeted focus on organizations in the same industry and captures the compensation of organizations operating specifically in Manitoba, allowing consideration of local compensation practices. Seventy percent (70%) of the Manitoba & Utilities market is comprised of government organizations and crown corporations, reflecting Manitoba Hydro's ownership structure.

Executive Compensation Objectives

At Manitoba Hydro we compensate and reward our executives based on contribution toward business outcomes. Our compensation program has been designed to meet the following objectives:

- Attract, motivate and retain leaders that excel in attaining business goals (strategic, financial and operating)
- Foster a performance driven culture that rewards strong performance
- Provide a competitive level of compensation
- Manage compensation risk through a system of effective compensation governance

Compensation Governance at Manitoba Hydro

The Human Resources and Governance Committee (HRGC) of the Board of Directors is responsible for the oversight of Manitoba Hydro's compensation program for executives. Specific accountabilities of the HRGC include:

- Review the compensation philosophy and periodically review the compensation structure
- Monitor the President & CEO's performance relative to stated goals and objectives
- Review the President & CEO's assessment of the performance of direct reports
- Review and recommend to the Board for approval the compensation of the President & CEO
- Review the President & CEO's recommendations to award annual performance based salary adjustments for direct reports
- Ensure that appropriate executive succession planning is being carried out
- Monitor significant human resource policies

2013 Executive Compensation Review

In 2013, the HRGC retained the services of The Hay Group, to benchmark Manitoba Hydro's executive compensation program for the purposes of evaluating its competitive positioning within the market. The Hay Group presented its findings and recommendations to the HRGC for its review and consideration. The last review of executive compensation at Manitoba Hydro was undertaken during the late 1990's.

The Hay Group's review of Manitoba Hydro's executive compensation practices revealed the following issues:

- To a large extent, compensation for Manitoba Hydro executives falls below the 10th percentile of Comparator Companies (Manitoba & Utilities market) for all compensation elements
- The gap to market compensation levels is mainly driven by below market base salaries and a lack of annual incentive compensation
- There is not enough salary differentiation among executives based on job size
- Direct comparisons of Manitoba Hydro's executive compensation to other organizations based in Manitoba also show that Manitoba Hydro lags in total cash compensation despite being significantly larger and more complex

In essence, the review revealed a substantial gap between Manitoba Hydro's executive compensation and its stated compensation philosophy i.e. the 50th percentile of compensation levels of the target market.

Based on the findings from the review of executive compensation the Hay Group recommended to the HRGC that:

- A new salary structure be implemented utilizing executive job evaluation results to differentiate compensation based on job size
- New minimum and maximum salary ranges be created based on the average market median base salary
- To catch up base salaries to market, eligible executives should receive transitional base salary increases (market adjustments) based on performance to bring their base salaries within the new salary ranges
- A new annual short term incentive compensation plan be implemented
- A vehicle allowance program be extended to Vice Presidents
- The new salary ranges be reviewed and adjusted on an 'ad hoc' basis based on market conditions

In February 2014, the HRGC endorsed the Hay Group's recommendations, with the exception of proceeding with the implementation of an annual short term incentive compensation plan. The HRGC approved an implementation strategy to bring executives to market rates over a period of up to six years.

Executive salary progression to and within the new salary ranges is subject to the establishment of individual predetermined annual goals and an assessment of performance by the President & CEO. The HRGC approves an annual salary budget for this purpose.

2015 Executive Compensation

2015 Salary Ranges

Position	Range Minimum	Range Maximum
President & CEO	\$388,000	\$485,000
Vice President 1	\$236,000	\$295,000
Vice President 2	\$195,000	\$243,000

2015 Total Cash Compensation (TCC)

Salaries are established at a level that is competitive in the market for similar sized roles and reflects the nature and level of the position, the level of skill, knowledge and experience each individual brings to their role and each individual's level of performance. TCC is defined as the sum of an executive's annual base salary and car allowance. 2015 Range Position represents where an executive's 2015 salary is positioned relative to the minimum of the 2015 salary range.

Position	2014 ⁵ Salary	2015 Salary	Car Allowance	2015 TCC	% Salary Change	2015 Range Position
President & CEO ¹	\$439,150	\$361,522	\$10,897	\$372,419	N/A	N/A
VP, Corporate Communications & Public Affairs ²	N/A	\$119,248	\$6,564	\$125,812	N/A	-64%
VP, Finance, Regulatory & CFO ³	\$194,314	\$220,000	\$12,000	\$232,000	13.2%	-7%
VP, Major Capital Projects ⁴	N/A	\$193,999	\$11,512	\$205,511	N/A	-22%
VP Generation	\$194,314	\$225,000	\$12,000	\$237,000	15.8%	-5%
VP Customer Service & Distribution	\$197,816	\$223,000	\$12,000	\$235,000	12.7%	-6%
VP, Transmission	\$194,314	\$226,000	\$12,000	\$238,000	16.3%	-4%
VP, Human Resources & Corporate Services	\$214,838	\$236,000	\$12,000	\$248,000	9.9%	At Min.
VP, General Counsel & Corporate Secretary	\$185,912	\$195,000	\$12,000	\$207,000	4.9%	At Min.
VP Customer Care & Energy Conservation	\$185,912	\$193,500	\$12,000	\$205,500	4.0%	-1%
VP Corporate Relations	\$185,912	\$200,000	\$12,000	\$212,000	7.5%	+2.5%

- 2015 TCC represents a partial year as follows:
 - Thomson resigned his employment in September 2015. His 2015 annual salary had been set at \$485,000 plus a car allowance of \$15,000 for a TCC of \$500,000.¹
 - Vinish appointed to VP Corporate Communication & Public Affairs in June 2015²
- In addition to Rainkie's TCC for 2015, he received \$17,600 for assuming the role of Acting President & CEO from September to December 31, 2015³
- Adams appointed to VP Major Capital Projects in March 2015⁴
- Does not include the additional pay period in 2014⁵
- Except for Adams, Thomson and Vinish, 2015 salary adjustments represent the second of up to six annual performance based market adjustments to transition Vice Presidents through the new salary ranges based on performance.
- Shepherd was appointed President & CEO on December 7, 2015. His TCC for 2015 was \$31,861.00. His 2016 annual salary is \$450,000 plus a car allowance of \$15,000 for a TCC of \$465,000. Shepherd also receives the same pension and benefits available to all employees.

Pension and Benefits

Except for Thomson, all executives receive the same pension benefits available to all employees based on the provisions of the Civil Service Superannuation Plan. Thomson was a participating member of the Civil Service Superannuation Plan, however, pursuant to his employment contract his pension is enhanced by a doubling of service provision and unreduced pension eligibility at age 60.

Executives, including Thomson, also receive the same benefits available to all employees.

