Annual Report 2020

Hydro Québec

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COVER

A Cree man on his way to the Smokey Hill rapids, a traditional cisco fishing site on the Rupert.

NOTE

Some of the photographs in this document were taken before the pandemic and the implementation of hygiene measures by Hydro-Québec.

HYDRO-QUÉBEC IN FIGURES

$2,303 million
Net income in 2020

$3.6 billion
Contribution to the Québec government's revenue in 2020

$3.4 billion
Investments in Québec in 2020

202.7 TWh
Net electricity sales,
including 31.3 TWh in exports

7.30¢/kWh
Residential rate,
the lowest in North America

96%
Public satisfaction index

$7.41 million
Total donations raised for Centraide
in the 2020 Hydro-Québec employees' and pensioners' fundraising campaign, an amount that has grown steadily over the past six years

Our electricity is clean, competitive and abundant

It's a tremendous asset at a time when the Québec economy, like others around the globe, is facing a much-needed energy transition.

It's a Québec resource

that plays an important role in keeping the province's finances sound.

This energy is rivaled only by the collective energy of Quebecers

By working together, all of us can once again set our sights high and build a better future.

A YEAR OF UNPRECEDENTED CHALLENGES

In these trying times, it is more important than ever to show solidarity and act with kindness, even while remaining focused on Hydro-Québec's development and its role as a driver of the vast and ambitious undertaking that is the energy transition.

The Board of Directors' primary role is to support the Management Team so that Hydro-Québec, as a government-owned corporation, can continue to fulfill its leadership role, both today and well into the future. To this end, we ensure that the company's Strategic Plan, business priorities, performance and relations with customers, employees, communities and the government meet the expectations of Quebecers and our partners beyond our borders.

As soon as the COVID-19 pandemic struck, the Board was fully involved in developing and monitoring the company's emergency measures, especially those aimed at helping residential and business customers affected by the public health crisis. The Board also made sure the company took appropriate steps to mitigate the impacts of the pandemic on its finances, operations and projects. Throughout these profoundly disruptive months, Management has been able to count on the Board's full cooperation in matters ranging from occupational health and safety to project management, including Hydro-Québec's intention to play a leading role in bolstering the Québec economy and in facilitating greater food self-sufficiency.

The Board paid close attention to specific issues such as the innovation strategy and endorsed a strategic alliance with Québec-based Innergex that will lead to joint projects in the production of renewable energy. It also approved the launch of Hilo's smart home offering, the establishment of the subsidiary EVLO, which specializes in energy storage systems, and the company's first green hydrogen production project. Together, these initiatives help shape the face of a forward-looking organization eager to be part of a new era built on the cornerstones of the energy transition, digitalization, renewable energy and the electrification of Québec.

Jacynthe Côté
Chair of the Board

The Board regularly showed support for the company's resolve to contribute to the decarbonization of northeastern North America, taking a particular interest in the planned New England Clean Energy Connect (NECEC) transmission line.

The Board authorized the deployment of energy efficiency initiatives for 2021–2025 with the aim of increasing the proportion of electricity in Québec's energy mix. To help promote electric mobility, we also approved funding to Québec municipalities for the installation of 4,500 public charging stations.

The recruitment of the new President and Chief Executive Officer was a high-priority issue for the Board. We're very happy that Sophie Brochu agreed to take the helm.

In closing, my fellow directors and I would like to congratulate the entire Hydro-Québec staff for its impressive accomplishments. Once again this year, the dedication and know-how of all team members had a tremendous impact.

Jacynthe Côté

A YEAR THAT WILL REMAIN ETCHED IN OUR MEMORIES FOR A VERY LONG TIME

In Québec as in the rest of the world, the pandemic has undermined public health, obliterated much of what was considered normal, wreaked havoc on the economy and radically altered ways of doing things. As unsettling as it was, this ordeal also brought out Quebecers' remarkable strength of character and sense of empathy.

The women and men of Hydro-Québec were part of the collective impetus.

Rising above unprecedented circumstances, uncertainties and the challenge of working under new operating constraints implemented to protect employee health and safety, our technical crews went above and beyond to ensure continuity of the electricity service so vital to all Quebecers. And overnight, approximately 10,000 of our personnel switched to working from home, a true leap forward made possible by the exceptional know-how of our information and communications technologies teams. Seated at the kitchen table, sometimes with children on their laps, those employees made sure they were there for all our customers.

In a matter of days, we brought in a series of measures to support the people of Québec: most urgently, to offer more flexible payment terms for those grappling with financial difficulties, as well as peace of mind in the form of a moratorium on service interruptions for non-payment.

Not surprisingly, the public health crisis and economic slowdown weighed heavily on our 2020 financial results. Hydro-Québec posted net income of $2,303 million, down 21% from the previous year. We will nevertheless pay the Québec government a dividend of $1,727 million—a tangible contribution to the provincial coffers, and one that will be greatly needed to relaunch the economy once this crisis is over.

It's impossible to predict the exact repercussions of the pandemic on our financial performance in the medium or long term. That said, we're determined to bounce back quickly, and to help all our fellow citizens do the same. With our sights firmly set on the horizon, we'll take action to

Sophie Brochu
President and Chief Executive Officer

support both the growth of Québec's economy and the acceleration of the energy transition in northeastern North America.

Our new rate option for greenhouse growers is one example of this resolve: we're putting our clean energy to good use by promoting food self-sufficiency in Québec. We estimate that our electricity sales to this industry could triple over the next decade. That would mean avoiding 48,000 tonnes of greenhouse gas emissions, the equivalent of taking 14,000 vehicles off Québec roads.

With its abundance of competitively priced, clean power, Québec is certainly one of the places in the world best positioned to make green hydrogen—which promises to be an important vector in the global energy transition—a viable option. This energy source is expected to develop gradually over the next two decades. In a clear sign of our ambition in this regard, we announced that we will build and operate an electrolysis plant in Varennes, near Montréal. It will have a capacity of some 90 MW, making it one of the world's most powerful electrolyzers. The facility will supply green hydrogen and oxygen to the planned Recyclage Carbone Varennes plant, which will offer an alternative to landfilling non-recyclable waste materials by converting them into biofuels.

Another key vector in the energy transition is energy storage. The battery expertise we've acquired in the last 20 years puts us in a favorable position in this promising sector. EVLO, a new subsidiary launched at the end of the year, designs, sells and operates energy storage systems to meet a wide range of needs, such as increasing the availability of renewable electricity generated from intermittent sources like solar and wind power.

In 2020, our subsidiary Hilo also took off, providing a turnkey smart energy service that helps our residential customers optimize their consumption. By choosing our smart home products, customers can save up to 15% on their energy bill.

When it comes to exports of our green energy to neighboring markets, great strides have been made in recent months. The transmission line that will carry close to 10 TWh of clean electricity annually to Maine and Massachusetts has received the necessary approvals for construction on the U.S. side. In New York, the state's Department of Public Service officially recognized large hydropower as clean energy, opening up the possibility of offering our energy services under the solicitation launched in early 2021. We're very excited about the prospect of contributing to our U.S. partners' energy transition and helping them achieve their own environmental goals.

While we'll no doubt remember 2020 as the year of the pandemic for a long time to come, we will also remember how we succeeded in overcoming huge challenges. The advances achieved by Hydro-Québec are made possible thanks to the dedication of the women and men who strive every day to provide top-quality services. I thank them for the work they do, for their desire to excel and for the caring they show toward the society we're privileged to serve.

Sophie Brochu

OUR MANAGEMENT TEAM

Top row: **Sophie Brochu**, President and Chief Executive Officer; **David Murray**, Chief Innovation Officer of Hydro-Québec and President of Hydro-Québec Production; **Marc Boucher**, President of Hydro-Québec TransÉnergie et Équipement and President and Chief Executive Officer of Société d'énergie de la Baie James; **Éric Filion**, President of Hydro-Québec Distribution et Services partagés; **Pierre Gagnon**, Executive Vice President – Corporate and Legal Affairs and Chief Governance Officer.

Middle row: **Jean-Hugues Lafleur,** Executive Vice President and Chief Financial Officer; **Claudine Bouchard**, Chief Transformation Officer and Vice President – Strategic Procurement; **Julie Boucher**, Vice President – Customer Experience, Communications and Community Relations; **Pierre Despars**, Vice President – Corporate Strategy and Business Development; **Nathalie Dubois**, Vice President – Human Resources.

Bottom row: **Pierre Fortin**, Vice President – Integrated Risk Management; **François Laurin**, Vice President – Information and Communications Technologies; **Geneviève Fournier**, Senior Director – Customer Experience and Marketing.

IREQ'S 50TH ANNIVERSARY

A world-class leader in innovation

On September 29, 2020, Hydro-Québec's research institute (IREQ) celebrated 50 years of history. Inaugurated by Québec's then-Premier Robert Bourassa, alongside its founding director Lionel Boulet, IREQ pursued a number of objectives that are as relevant today as they were at the time: meet the company's experimental needs in extra-high voltage transmission; stimulate growth in Québec's power industry; promote the development of increasingly efficient equipment and systems. IREQ soon gained renown on the international stage as it became part of innovation trends that were driving and energizing the whole world.

For the past half-century, IREQ has relied on the knowledge and extensive expertise of its researchers, engineers, technicians and support staff to sustain Hydro-Québec's growth and performance. It now forms an innovation hub that includes the Hydro-Québec research center in Varennes, the energy technologies laboratory (LTE) in Shawinigan and the Center of Excellence in Transportation Electrification and Energy Storage (CETEES) in Varennes and Shawinigan.

The invention of extra-high-voltage power transmission established Hydro-Québec's reputation in the world of research, and today the company continues to play a leadership role, this time in the energy transition. We're proud of the innovative strength that has earned the company acclaim in the energy sector and acted as a driving force in Québec's development.

The innovation portfolios grouped around three main pillars—our customers, our assets and tomorrow's power system—bring together all the necessary components so that IREQ's different areas of expertise can sustain Hydro-Québec's growth throughout the 21st century. The challenges IREQ tackles pave the way for our successes.

Acting now to preserve tomorrow

With the COVID-19 pandemic came a tidal wave of uncertainty, and we have taken full measure of the challenges facing us. Our employees have shown incredible resilience, both on the ground and working from home. Our customers and partners, large and small, have been badly shaken by the turn of events. They can count on us to help them through this difficult period and on to future successes.

THE COVID-19 PANDEMIC

All over the world, COVID-19 posed a severe threat to public health, weakened the economy and disrupted life as we knew it. The pandemic will leave deep scars, but also lessons whose relevance has never been clearer—like the need to cooperate and to think outside the box.

We will remember 2020 for a long time to come.

Maintaining the quality of service

For weeks after the pandemic first hit, we had to focus firmly on the essentials: maintaining high-quality service and supplying Québec with clean energy. Our other activities—including construction projects to ensure grid availability and long-term operability—subsequently climbed back to near-normal levels, all in keeping with the directives issued by the public health authorities.

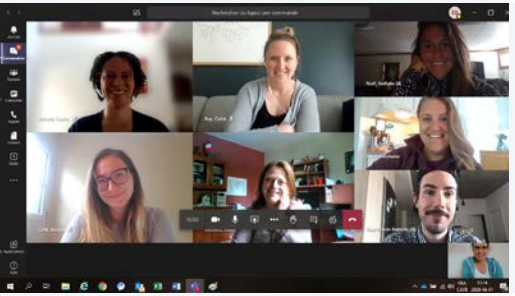
Swift deployment

As COVID-19 made full-time telework a reality for some 10,000 Hydro-Québec employees, their ability to carry on with their duties was largely made possible by the strategies implemented by our highly mobilized information and communications technologies (ICT) teams. Backed by Senior Management, these teams made quick decisions to ensure that our business needs would continue to be met. With groupware now an imperative, they also fast-tracked the deployment of a secure collaborative platform to facilitate teamwork, teleworking, videoconferencing and instant messaging. Hydro-Québec salutes these teams for their extraordinary commitment, generosity and patience throughout this trying time.

Protecting our employees

Numerous measures were implemented to protect our employees against the spread of COVID-19 in the workplace:

- We used multidisciplinary skills to adapt our workspaces to the new reality of the pandemic.
- An employee guide outlines the health and safety measures to follow during work on the power system.
- Our health team follows up on employees who show symptoms or test positive for the virus.
- Teleworkers were provided with tools for ergonomic and mental health.
- Buildings were made ready for a gradual return of staff. However, for as long as alert levels remain high, employees who can do so will continue working from home.
- We provide our employees with the required protective equipment and hygiene products.
- Independent inspections and compliance checks are being conducted on the ground.



A smooth rollout

The emergency biohazard response plan rolled out to cope with the pandemic involved every level of management, not just in establishing and enforcing workplace health measures, but also in encouraging employees working from home to maintain healthy lifestyle habits. At the same time, we had to adapt and apply jobsite health measures in a way that also kept local communities safe. At the Romaine-4 site, our measures were hailed by all project partners—workers, contractors and unions—as well as the Commission des normes, de l'équité, de la santé et de la sécurité du travail (CNESST).

We acted swiftly to support customers who were struggling.

For Hydro-Québec, supporting the economy has meant helping fellow Quebecers get back on their feet. We introduced unprecedented relief measures for our residential and business customers and tailored solutions to fit the realities of our large industrial customers.

Showing solidarity

To adapt our organization to the pandemic and contribute to the collective effort, we were quick to adopt measures showing our solidarity with all Quebecers. These included:

- Suspending administration charges for unpaid bills until September 30
- Suspending all service interruptions for non-payment, for both residential and business customers
- Making it easier for customers experiencing financial difficulties to enter into payment arrangements by phone or online through their Customer Space
- Donating 125,000 face masks to the Québec government
- Donating $300,000 to Centraide for its COVID-19 Emergency Fund to provide vital support to community organizations on the front lines
- Donating $75,000 to the Croix-Rouge du Québec COVID-19 fund to help it pursue its mission during the pandemic
- Seconding employees to the provincial government's "Je contribue–COVID-19" campaign to help contact Quebecers who offered support for the health and social services network
- Maintaining our donations and sponsorships, which go toward creating positive and lasting change in the environmental, economic and social spheres, even for events that have to be postponed or canceled due to the health crisis
- Speeding up payment to suppliers to help support the Québec economy
- Canceling pay raises and performance bonuses for Senior Management in 2020

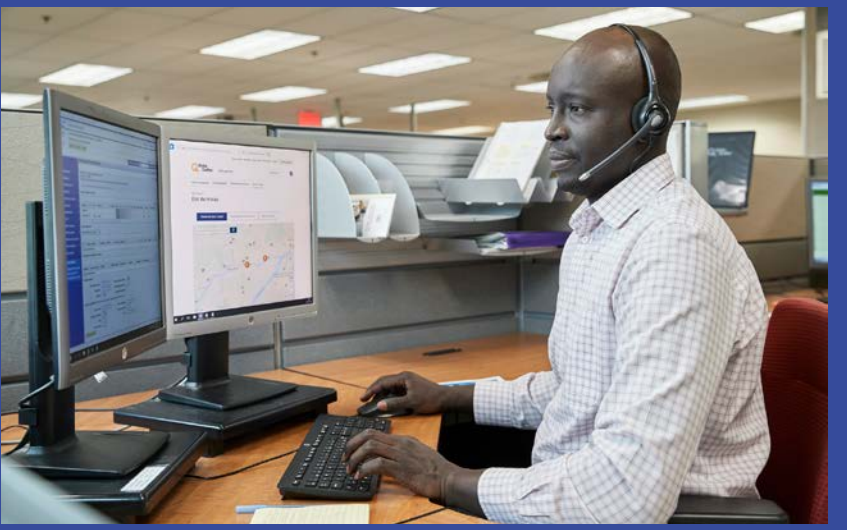
Safeguarding the supply chain

We acted to secure our supply chain right from the onset of the health crisis. Pandemic-associated risks were identified and mitigation measures were put in place. We identified goods and services providers deemed critical to our core mission and worked with them to determine measures that would ensure continuity of supply and quality of service. In light of the current circumstances, we plan on keeping these measures in place through 2021. We also implemented measures to protect suppliers' employees who need to access our facilities. Lastly, with a view to guaranteeing service continuity, colossal efforts were undertaken with our suppliers to maintain sufficient inventory.

Putting safety first

To exercise effective leadership and perform due diligence, Hydro-Québec sees to it that internal rules aimed at preventing the spread of the coronavirus are clearly understood and followed. We've increased the frequency and effectiveness of field observations by managers. In addition, a representative cross-section of crews on jobsites, ranging from Romaine-4 to the distribution system, were the subject of structured audits to check compliance with health and safety guidelines; the results formed the basis of our subsequent recommendations and standards.

Our key relationship



Adapting our operations to customer requirements is a key goal—and an ongoing challenge. We strive at all times to meet our customers' needs and address their concerns; and in our quest to provide quality service, we're deploying increasingly targeted actions. The bottom line is simple: we want to be our customers' partner of choice, today as in the future.

We adapt our operations to our customers' needs.

In recent months, we've worked hard to ensure reliable electricity service and to support our customers during a period that has proven particularly challenging. Improving our performance in this context hinges on understanding our customers' needs, which starts with being willing to listen and learn.

Online Billing helps a good cause

Nearly 52% of our customers are now signed up for Online Billing, compared to 47% at the end of 2019. We donated $3 to Centraide for each customer who signed up for Online Billing, for a total of $316,947.

My Customer Space grows in popularity

More than 52% of customers used their Customer Space to consult their bills or check their electricity consumption in real time, an increase of 16.9% compared to December 2019.

A helping hand for greenhouse growers

The pandemic pointed up the need to increase Québec's food self-sufficiency. In response, we've broadened the terms and conditions of our Additional Electricity Option to make it available to a greater number of greenhouse growers. More specifically, the maximum power demand (which determines eligibility) has been lowered from 300 kW to 50 kW; electricity used for space heating to raise crops now qualifies as well as for photosynthetic lighting; and Rate LG contracts are now eligible.

Supporting our neighbors to the south

Hydro-Québec responded promptly to a call for help from the North Atlantic Mutual Assistance Group (NAMAG) when the Green Mountain Power (Vermont) and National Grid (Rhode Island) transmission systems were hit by a cocktail of wind, freezing rain and heavy snow in February 2020. Ten Hydro-Québec line crews from the Laurentides and Montréal regions lent a hand to Green Mountain Power, and 20 from the Montréal, Montérégie and Québec regions were deployed to assist National Grid.

USE OF OUR DIGITAL PLATFORMS

PLATFORM	END OF 2019	END OF 2020
Facebook (followers)	187,259	206,691 +10%
Twitter (followers)	67,788	79,315 +17%
Instagram (followers)	10,156	13,739 +35%
LinkedIn (followers)	76,549	113,004 +48%
YouTube (views)	5,926,826	5,349,426 -10%
Website (Customer Space visits)	22,475,780	37,609,908 +67%
Mobile app (logins)	12,891,268	14,688,968 +14%

Public satisfaction index	Average call wait time	Decrease in the number of complaints
In 2020, 96% of customers reported being "very satisfied" or "quite satisfied" with our performance, compared to 93% in 2018 and 94% in 2019. To continue to improve customer and public satisfaction, we are honing in on customers' perceptions about rates and on the support we offer during outages.	The average call wait time at our customer relations centers was 95 seconds in 2020, compared to 104 seconds in 2019. After achieving reductions in this average in recent years, we have now struck a balance that seems to satisfy customers.	At the heart of our business strategies are the customer experience and customer satisfaction. As a result, the number of complaints continues to fall, dropping by from 2,231 in 2019 to 1,611 in 2020, for an overall decrease of 72% since 2015.

More and more customers are choosing to contact our customer services through social media (Facebook and Twitter) and our online chat service. In 2020, we had 212,194 chats, a 28% increase compared to 2019 (165,615).

We encourage our customers to be energy wise.

The energy industry is changing, and with it, the role of energy providers. That's why we're using energy efficiency as an economic lever—as evidenced by the new version of our Efficient Solutions program, aimed at companies wishing to make the shift to energy efficiency.

Dynamic pricing

In December 2019, Hydro-Québec introduced two new rate offerings, one for Rate D farm and residential customers and the other for Rate G business customers.

Under the new offerings, customers can save money by reducing their electricity use at our request during winter peak hours (6 to 9 a.m. and 4 to 8 p.m.). As our way of thanking customers for helping us reduce demand during peak periods, dynamic pricing is win-win!

Phase 1 of the rollout resulted in an average total curtailment of 16 MW per peak event, roughly the power needed to supply 3,000 homes. Encouraged by the success of our first run in winter 2019–2020, we proceeded to roll out Phase 2. We held a major recruitment drive from September to November 2020 aimed at getting a further 40,000 customers to sign up for dynamic pricing, bringing the total up to 60,000.

Enhanced financial assistance

We expanded our Efficient Solutions Program, enabling businesses to obtain subsidies covering up to 75% of eligible expenses for more than 200 energy efficiency measures. Québec businesses can now receive twice as much financial assistance as before—up to $3 million per project—letting them recoup their investments faster and cut their operating costs. With our Efficient Solutions program, we're providing tools that will make energy efficiency a springboard for economic recovery. Commercial, institutional and industrial buildings are eligible, and projects can include heating system upgrades, improvements in equipment efficiency, and measures for reducing power losses in lighting.

Maintaining reliable service

A key factor in service continuity, vegetation control along our distribution lines has proven its worth, in particular during major weather events. The cost of this work has risen from $84.3 million in 2019 to $100.1 million in 2020. To focus our efforts on the trees that pose a high risk to the power system, we carried out a risk assessment that resulted in a new standard governing mechanized felling and clearing. In addition to these increased efforts, we are developing new tools and carrying out studies to identify the actions that will have the greatest impact on system reliability.

Award-winning quality

In November, our ongoing quest for excellence and increased customer focus were recognized by the Mouvement québécois de la qualité, whose 2020 Prix performance Québec in the public-sector category went to Hydro-Québec Distribution et Services partagés. The Prix performance Québec are the Québec government's highest distinctions awarded to private- and public-sector organizations that show outstanding management and overall performance.

We take initiatives that are in line with our customer-driven approach.

Customer focus is not an add-on to our business: it's an integral part of it. We aim to make the customer's voice a key driver of our improvement—so much so, that our customers' central role in our concerns, decisions and actions shines through our every initiative.

Credits following the passage of Bill 34

Under the *Act to simplify the process for establishing electricity distribution rates*, we refunded $521 million to our customers in 2020. A total of $458 million was credited to some 4.1 million residential and business customers, while $63 million was distributed among 320 major customers. The Act also kept 2020 electricity rates at their 2019 level.

Modernization of the agri-food industry

In December, the Québec government announced a program to modernize the agri-food sector by extending the three-phase power system to areas it does not currently serve. This will help farms and agri-food businesses reduce their reliance on fossil fuels and lower their GHG emissions. The financial assistance offered could cover as much as 75% of the eligible expenses of a project, up to $250,000. A process has been launched with Hydro-Québec teams who are to oversee these projects and provide customer support.

Our contribution to public transit in Québec

The Réseau express métropolitain (photo below) stands to change the face of public transit in Greater Montréal. By the end of the project, we will have relocated numerous power system components and connected new infrastructure in the Montréal, Laurentides and Montérégie regions, at a total cost of some $33 million.

We are also contributing to major projects of the Société de transport de Montréal, such as the express bus line on Boulevard Pie-IX ($9 million) and the extension of the Montréal metro blue line ($5 million).

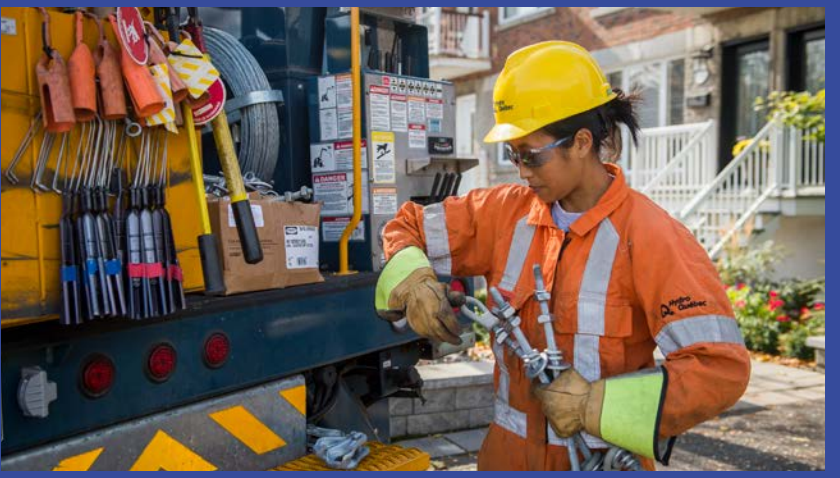
A customer approach that's a two-time winner

At the 2020 E Source Achievements in Customer and Employee Experience, we took top honors in the "Achievements in Employee Experience" category thanks to our Customer-First Approach Development Program.

The annual event showcases energy utilities whose innovative employee engagement methods result in a successful customer experience. The judges were won over by Hydro-Québec's consensus-based, participatory approach to adopting changes affecting its 750 customer relations representatives.

We were also the overall winner at the 2020 North American Customer Centricity Awards, which point up best customer experience practices across North America.

At the heart of our day-to-day concerns



Improving workplace efficiency and productivity remains an ongoing objective. In occupational health and safety (OHS), success hinges on everyone's willingness to comply with the measures in effect. Getting better each day starts with our employees' willingness to constantly strive for excellence—a key component in the achievement of our goals.

We aim to accelerate value creation.

We evolve our business practices across the company in order to accelerate the creation of operational value and improve productivity. Our aim is to find a balance between organizational capacity and performance growth, while instilling a culture of health and caring in personnel at all levels.

A benchmark in operational excellence

Hydro-Québec launched a company-wide process with a view to becoming a benchmark in operational excellence in power generation, transmission and distribution. Drawing on Lean Management principles, whose emphasis on continuous improvement aligns with our business objectives, this motivating, unifying initiative goes beyond process optimization to target waste elimination and maximize value-added activities.

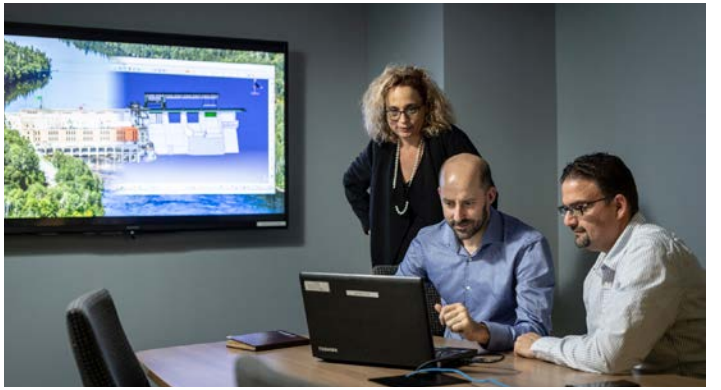
This means honing in not just on management tools and models, but also on individual behaviors. The ultimate aim here is to boost efficiency: to do so, we provide our employees with the flexibility and agility needed to create value through cross-functional initiatives that will benefit Hydro-Québec, its customers, its stakeholders and society as a whole.

To maximize gains within this approach, we've included areas for improvement that specifically target cost reductions and optimizing our supply chain, vehicle fleet and equipment. In tandem, we've put greater emphasis on proximity management, in keeping with the principles of agile and empathetic management that we have made our own.

This practical approach lets us consistently align our policies and values in numerous areas, including health and safety, performance support and employee communications.

Toward the digital transformation

At the heart of power system reliability and company performance are information and communications technologies (ICTs). These technologies are also very much at the fore of Hydro-Québec's digital transformation. A critical step in the energy transition, it involves harnessing the latest technologies—data analytics, cloud computing, mobile apps, the Internet of Things, and automation—to achieve our business goals.



Cross-functional, growth-generating initiatives driving transformation

To further the aims of evolving our organization and accelerating value creation, several other projects were launched and will continue through the coming years. Examples include transitioning off-grid systems away from fossil fuels, modernizing employee skills enhancement programs, developing the power grid operational model, and optimizing the supply chain.

HEALTH AND SAFETY

We aim to make occupational health and safety (OHS) a source of collective pride and an ingrained part of our culture. This calls for a culture of caring, an emphasis on prevention and enhanced leadership by managers. Our initiatives primarily target risk management, performance and leadership.

We strive every day to improve our OHS performance.

Concerted efforts to achieve a safer workplace culture

Throughout the year, our workforce pulled together to reduce the frequency of work-related accidents, both in our operations and on our jobsites. They adopted the expected behaviors through the three critical OHS activities: site visits, daily safety meetings, and accident investigation and analysis reporting.

While focusing on the main risks and dealing with pandemic-related challenges, employees exhibited caring and concern for their co-workers.

A holistic approach to prevention

With our sights set firmly on prevention, we set up a specialist team to analyze potentially serious incidents—i.e., events that could lead to death or significant physical trauma, total or partial limb loss, or permanent loss of use of a body part. Our approach is grounded in rigorous root cause analysis and applying the required corrective measures throughout the organization. We also rolled out a new technological tool that's made it easier to manage prevention activities. Managers and prevention teams use it to report incidents, document field observations and perform inspections. All of this data is input into the dashboards used in daily meetings to anticipate risks and stimulate proactive discussions with the crews concerned.

Getting back into the water

Coinciding with the lifting of lockdown, this past summer in Québec brought its share of risks for a pent-up public all too eager to get out and play. A number of our reservoirs and diversion bays are in urban or natural settings that are popular among outdoor enthusiasts. Given the post-confinement boom in watersports, and in the interest of avoiding unfortunate incidents, we launched an awareness campaign on the hazards of getting too close to hydropower facilities. Our campaign targeted the Outaouais (Ottawa), Saint-Maurice and Saint-François rivers as well as part of the shoreline of the Fleuve Saint-Laurent (St. Lawrence River).

Acclaim for our performance

Hydro-Québec was the proud recipient of the Canadian Electricity Association President's Award of Excellence for Employee Safety in transmission and distribution. In 2020, we had the lowest accident frequency rate in Canada in both those areas. The award can be credited in large part to our teams' achievements and commitment to observing the highest safety standards. It also attests to the continued efforts of employees and managers each day to limit the risk of accidents. Safe stoplog transportation practices gained our dams and civil engineering team in Saguenay–Lac-Saint-Jean a place on the finalist shortlist at the occupational health and safety awards gala of the Commission des normes, de l'équité, de la santé et de la sécurité du travail (CNESST).

We're proactive in our management of OHS issues.

Supported by prevention teams, managers are making more frequent jobsite visits to identify critical risk areas. These "safety time-outs" give managers and employees a chance to discuss specific tasks, determine the associated hazards and ensure that safe work practices are being applied.

A comprehensive approach

This past year saw the successful rollout of a harmonized process for managing risk-related variances. In this approach, prevention and protection are gradually strengthened until the desired group and individual behaviors are adopted. Our first targets are the importance of respecting speed limits and preventing the spread of COVID-19 in the workplace. Another major concern in 2020 was our employees' psychological well-being, which we supported through the Canadian Mental Health Association's awareness campaigns and other programs. What's more, our OHS team and Human Resources came up with tools to help employees adapt to pandemic-related health measures. Together, these actions will become part of the comprehensive health and wellness approach that is currently being prepared.

Jobsite safety

Hydro-Québec has committed to creating a strong OHS culture on its jobsites and becoming a benchmark in this area in the Québec construction industry. For some years now, we've had steering committees and working groups aimed at getting our suppliers on board with our approach. We also added performance assessment criteria to our contracts; a first standard clarified our safety requirements regarding moving vehicles. Particular attention is paid to how and where we might intervene before a potentially serious incident occurs. As part of our biohazard emergency response plan, rolled out to deal with the pandemic, public health measures were adapted to our jobsites with a view to protecting local populations. Regular jobsite checks ensured that these measures were being applied.

Accurate dam safety data

Hydro-Québec and the Cree Nation of Chisasibi presented two videos aimed at reassuring the local community about the region's hydroelectric facilities. The two organizations were united in their efforts to provide residents with reliable, accurate information on emergency preparedness and the measures taken to ensure dam strength and safety. The video *Travailler ensemble pour la sécurité* [Working Together for Safety] talks about establishing an emergency plan, maintaining a chain of communications, and lessons learned. The one titled *Aménagements La Grande-1 et Robert-Bourassa* describes the dam inspections carried out each day at these two facilities and their importance for both Hydro-Québec and the public.

Transforming cybersecurity

The integration of new technologies to a power grid that's increasingly connected raises our exposure to cyber attacks. Guarding ourselves against threats of this nature requires amassing data on such a vast and diverse scale that smart automation solutions must be used to monitor the grid. Major efforts have gone into developing advanced protection strategies that involve simulations and artificial intelligence. Our experimental environments can thus ensure that any solutions we implement are proven, are adapted to real risks and strengthen grid resilience.

We recognize our employees as the driving force behind our actions.

The unifying culture we have worked to foster is based on a few principles essential to solid, disciplined performance. Its core components are sharing values, recognizing desirable behaviors, and nurturing talents and skills.

The employee experience: A critical success factor

Building on our achievements of recent years, we are committed to making our employees central to our actions and decisions. The focus in 2020 was onboarding new hires, developing skills and keeping a running dialogue about performance. By fast-tracking the shift to telework, the pandemic forced us to adapt our practices and embrace digital solutions.

Workforce

At year-end, Hydro-Québec had 20,011 permanent and temporary employees. While 751 permanent employees left for retirement, the number of new hires was down from previous years. Still, 466 permanent and 813 temporary employees joined the company during the year in spite of the pandemic. Regarding succession, millennials (those born between 1980 and 2000) now make up 34% of the total workforce. In 2020, Hydro-Québec dedicated 2.4% of its total payroll to skills development.

Shifting demographics

A clear desire to welcome new talent from every background was evident in our external recruitment and internal promotion processes for management positions. The percentage of external hires from diversity backgrounds (not including the "women" target group) rose from 34% in 2019 to 39% in 2020, while the number of women promoted to managerial positions rose from 33% to 36%. Employees from visible and ethnic minorities now account for 4.5% of our managers, compared to 3.4% in 2018.

Our employees' unwavering commitment

For the second year running, participation in the employee engagement survey reached 82%—surpassing the global standard for high-performance companies by two points. All managers can access their results online and invite team members to share their thoughts on improving engagement.

Pandemic notwithstanding, the sustainable employee engagement index rose nearly four points, from 83.81% in 2019 to 87.46% in 2020. Snapshot surveys introduced early in the pandemic let us check in continually with our employees and take any steps needed to help them adjust to the new reality.

We're more diverse than ever.

Through stories, discussions, personal accounts and panels, more than 30 people from different diversity groups shared their reality during Hydro-Québec's first-ever diversity week.

Enhancing our values

In 2020, equity was added to the core principles that inform our thinking on process neutrality. Key discussions on inclusion were also held with a number of stakeholders. Our convictions on this front are part of our strategic reflections on our new image—and we want our some 20,000 employees to contribute to the attitude shift. One tangible indication of that shift was a weeklong workshop that gave the floor to a different minority group each day, under the banner *Ensemble, parlons-en !* [Let's discuss it together!].

Testimonials highlighting diversity

As part of our online diversity week, we heard many moving testimonials that touched upon a host of topics. Three employees with disabilities spoke about their daily challenges. A panel of Hydro-Quebecers from various ethnic and cultural minorities discussed the barriers they continue to face, both on the job and in terms of their aspirations—a topic that gave rise to lively and often inspiring exchanges. Hydro-Quebecers from the LGBTQ+ community gave vibrant accounts of their personal experience. And a leaders' dialogue between Julie Boucher, Vice President – Customer Experience, Communications and Community Relations, and Daisy House, Chief of the Cree Nation of Chisasibi, was a source of rich insights into the two women's journeys and challenges.

Women engineers

Twenty-eight engineering students from the École de technologie supérieure, Polytechnique Montréal and Concordia University (photo, right) took part in our first open house for young women, *Quand Hydro ouvre ses portes aux filles* discovery day. The activity aimed not just to introduce students to the practice of engineering at Hydro-Québec, but also to encourage them to consider joining us when they graduate.

Women at Hydro-Québec

At Hydro-Québec, women account for 28.5% of our total workforce and fill 26.0% of management positions. The glass ceiling—the term used to describe the often-unacknowledged barrier to professional advancement that prevents women from ascending the corporate ladder as quickly or as far as men can—still exists. But while a great deal of work remains to be done, we believe the more we talk about it openly, the better the chances of bringing about real change.

At Hydro-Québec, cultural minorities account for:

4.5% of managers

14.1% of office workers

18.3% of engineers

12.5% of specialists

3.8% of technicians

Diversity is on the rise in every area of our operations.

Leading the energy transition

With our green, renewable, abundant and competitive energy, our expertise at building and operating power grids, our extensive capacity for innovation, and our highly sophisticated digital technologies, we have what it takes to play a major role in the energy transition. Our goal: to become the battery powering northeastern North America.

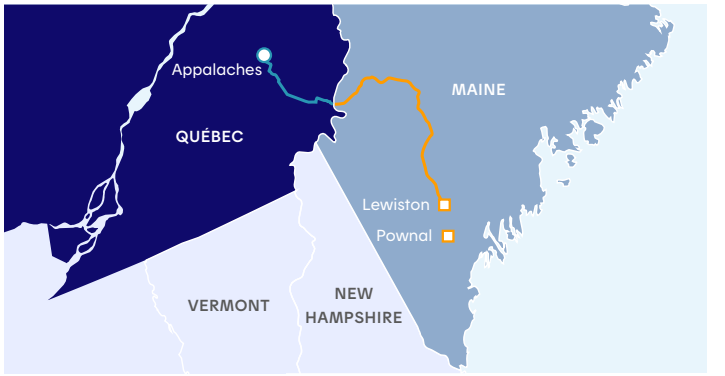
We're accelerating the energy transition, at home and abroad.

In October 2020, the New York Department of Public Service amended its *Clean Energy Standard*, recognizing large hydropower—including power generated by Hydro-Québec—as a form of energy that can contribute to the decarbonization of the state's electricity grid.

Project to export power to Massachusetts

Hydro-Québec has secured a contract to supply 9.45 TWh to Massachusetts over a 20-year period. The power will be delivered through a new 1,200-MW interconnection that will run from Québec through Maine to the New England grid and is slated for commissioning in 2023. In Québec, the interconnection point will be linked to a new 320-kV direct-current transmission line that will start at Appalaches substation, near Thetford Mines, and cover some 100 km. As part of the overall project, Hydro-Québec has agreed to deliver 500,000 MWh of energy annually to Maine. In December, the Bureau d'audiences publiques sur l'environnement (BAPE) published its report on the Appalaches–Maine component of the project, underlining that it will benefit Québec in addition to contributing to the decarbonization of northeastern North America. The BAPE also found the line route acceptable for both the biophysical and human environments, particularly in light of the optimization efforts made by Hydro-Québec and the mitigation measures planned. Altogether, these sales of clean energy will reduce GHG emissions by some three million metric tons in New England.

The Maine component of the project, known as the New England Clean Energy Connect (NECEC), involves work on a number of grid elements. Several steps in the permitting process have been completed on either side of the border. In August 2020, the Maine Supreme Court blocked a referendum that aimed to prevent the project from going through. In January 2021, the U.S. Department of Energy granted NECEC the Presidential Permit, which is the final major step in the American regulatory process. Representatives from Hydro-Québec and Maine are continuing discussions on the project's benefits for the entire region, particularly with regard to climate change and the economy.



Current exports

In 2020, we delivered 31.3 TWh to neighboring markets, including New England, New York State, Ontario and New Brunswick. These net sales of green, renewable power made a sizeable contribution to our bottom line, accounting for net income of $537 million.

A strategic investment

In February 2020, we announced a strategic alliance with Innergex énergie renouvelable inc., a Québec company that owns over 70 renewable energy generating facilities in Québec, the rest of Canada, the U.S., Europe and South America. Our involvement took the form of a $661-million deal through which we acquired a 19.9% equity interest in Innergex and became its primary shareholder. The two companies will work together on wind, solar and off-grid projects, towards which Hydro-Québec has committed an initial amount of $500 million.

Helping data centers be part of the energy transition

Hydro-Québec is an attractive choice for data center operators, as our clean energy helps them meet ambitious GHG reduction targets. In fact, leading operators have stated their intention to use 100% renewable energy by 2030. To compare footprints, a 50-MW data center set up in Québec rather than Atlanta, Georgia, avoids annual emissions equivalent to 115,000 return trips from Montréal to Vancouver by gasoline-powered car. The annual electricity consumption of data centers operating in Québec doubled between 2016 and 2020, reaching 664 GWh. Their installed load, currently at 90 MW, is expected to rise to 700 MW by 2030.

We believe innovation and energy transition go hand in hand.

Our research teams are active in a wide range of leading-edge sectors: electrification, storage, mobility, distributed energy resources, smart homes, connected technologies and artificial intelligence. Advances in these areas renew the home and work environments of our customers, increase the capacity of our facilities, and prepare tomorrow's electric power system.

Leveraging our innovations

Innovation is a core driver of both the energy transition and Québec's economic development. To fully harness the high-level talent and expertise available throughout our business units, we set up subsidiaries to commercialize our innovations in line with our different business strategies. These companies focus on efforts such as accelerating transportation electrification (Electric Circuit, AXSO and Dana TM4), developing large-scale energy storage technologies (EVLO), offering a variety of complementary solutions to our customers (Hilo), and improving power system reliability (EVLO and Hilo). Their work ensures that our innovative energy solutions meet customers' needs today and in the future.

Improving smart home services

Our subsidiary Hilo provides new value-added offers to our customers, in addition to an innovative approach to demand management that adheres to strict security and data protection criteria. Hilo's turnkey smart home services are currently aimed at residential customers, but will soon be adapted to meet the needs of the commercial, industrial and institutional markets. The many benefits of Hilo's services include: a connected home managed through a mobile app in which customers can view their consumption in real time, program their smart devices and get tips on how to improve their energy use; rewards for customers who sign up for Hilo challenges; savings through energy use optimization; and rebates on home automation devices.

A heat pump for large buildings

Converting the heating systems of large buildings to electricity is an effective way to reduce GHG emissions. In partnership with Emerson, we developed a powerful, commercial-grade CO_2 heat pump designed for use in large buildings. Named Megapac, the pump offers several advantages over heating with natural gas. The first Megapac will be installed in a federal government building in Gatineau.

A complementary partnership

BIXI is going electric! In 2020, the bicycle-sharing company added 1,000 electric bikes to its fleet, and 1,000 more will be made available next year. Hilo is the exclusive partner of this new service—a natural alliance, given the companies' shared focus on ecofriendly and innovative solutions. This complementary partnership will add a whole new dimension to urban mobility.

Connected smart devices

Hydro-Québec's new subsidiary, Hilo, and Québec company Stelpro created a joint venture with a mandate to develop connected devices for smart homes that will contribute to efficient energy use. We chose to create this partnership following a thorough, in-depth analysis of existing technologies. The joint venture will develop innovative products for managing energy use, such as smart thermostats and other connected devices, and supply them to both partners. The equipment will be designed in Québec and manufactured in Stelpro's Shawinigan plant. Because heating accounts for over 50% of a home's electricity use, thermostats are a key tool in the smart management of energy use.

INNOVATIVE SOLUTIONS

We're rolling out tomorrow's power system.

The production of clean hydrogen through electrolysis holds exciting potential for Hydro-Québec, and our first two solar power plants represent another promising avenue. Together, these new industries create stimulating and sustainable business opportunities, for the benefit of all Quebecers.

Storage for modern grids

Our subsidiary Stockage d'énergie EVLO (EVLO) designs, sells and operates safe, efficient and environmentally friendly energy storage systems. EVLO makes its know-how available to customers and communities to improve the efficiency of their grids and support the integration of renewables.

EVLO's turnkey offer includes installation, operation and maintenance of energy storage systems. The core component of these systems is the lithium iron phosphate (LFP) battery, a patented technology considered the safest on the market and developed primarily by researchers at the Center of Excellence in Transportation Electrification and Energy Storage. In addition to offering superior chemical stability, EVLO solutions are exceptionally sustainable.

In 2020, EVLO delivered energy storage systems for use in Lac-Mégantic's microgrid.

Storage project abroad

Innergex has chosen a battery developed by EVLO for its new energy storage project, Tonnerre, located near a wind farm in Bourgogne-Franche-Comté, France. This project involves the installation and commissioning, in 2021, of a 9-MWh storage system in the transmission system operated by France's national transmission provider, RTE. Our alliance with Innergex provides us with a golden opportunity to showcase Québec's expertise on the international scene.

Promising partnerships

To optimize the integration of new technologies on the grid or on customer markets, we fine-tune our know-how in different fields by creating targeted partnerships. For example, we are currently collaborating on a project to accelerate the installation of geothermal systems in Québec's schools. Our partners for this project include Polytechnique Montréal (the largest engineering school in Québec), government and research organizations, schools and private companies.

Wind farm connection

Hydro-Québec is responsible for connecting Parc éolien Dune-du-Nord wind farm, developed by the eponymous company, to the Îles-de-la-Madeleine grid and pairing its control and protection systems with those of Îles-de-la-Madeleine thermal generating station. We energized the transformer in the switchyard in late August, 2020, and commissioning of the wind farm was completed on December 29. Dune-du-Nord wind farm will reduce GHG emissions and fuel oil consumption at the thermal generating station by some 15%, avoiding 20,000 tonnes of CO_2 equivalent and saving 6 million litres of fuel oil per year.

EMERGING SOLUTIONS

We're bringing new energy sources onto the grid.

Hydro-Québec issued a call to purchase integration services for all wind farms under contract. These services comprise two components: load balancing to firm up deliveries of wind energy and injection of firming capacity during the winter period, from December 1 to March 31.

Consolidating our position

With clean energy and abundant water resources, Québec has everything it needs to support the development of green hydrogen, which is produced through water electrolysis, and to become a leader in this industry. Hydrogen and its derivatives, like other carbon-neutral fuels, are first-rate energy solutions for the decarbonization of sectors like industrial production and electric mobility. They are also energy options likely to provide interesting commercial opportunities for Hydro-Québec, both within Québec and in neighboring markets. Our specialized teams are working on setting up a hydrogen lab, which is slated to open in spring 2021. In addition, our efforts to develop carbon-neutral fuels based on green hydrogen led to the filing of a provisional patent for an efficient gasification method. We are also conducting thermodynamic analyses of certain carbon-neutral fuels for use in fuel cells designed for off-grid systems. Finally, we're performing comparative analyses and keeping a close watch on developments in green hydrogen, carbon-neutral fuels and their applications.

Solar, here to stay

In December, we completed the installation of the panels on our first two solar power plants, located in La Prairie and Varennes. The plants will begin operation in the first half of 2021. When all components of the project are finalized, some 30,000 panels will provide nearly 10 MW of power. The project has several objectives:

- Increase Hydro-Québec's expertise in photovoltaic solar generation to complement other generation sources.
- Assess the feasibility of centralized generation of solar energy in Québec and develop Hydro-Québec's knowledge of its effects on the power grid and on the management of the generating fleet.
- Determine which photovoltaic technologies are most appropriate given Québec's specific conditions and its grid.

Innovative microgrid under construction

Québec's first microgrid is gradually being rolled out in Lac-Mégantic. To expand its expertise in distributed energy resources, Hydro-Québec chose to incorporate some of the most advanced technologies in solar power, energy storage and load management. Lac-Mégantic residents who receive an electricity bill will be the first to benefit from this sustainable project directly linked to the energy transition and carried out in collaboration with the municipality. The microgrid's 2,200 solar panels generate enough power to meet the energy needs of 50 individual homes. Because it's connected to Hydro-Québec's main grid, it can either receive electricity from the power system or feed into it, as needed.

A first project to develop green hydrogen in Québec

Hydro-Québec will soon build and operate one the world's most powerful electrolyzers: an 88-MW electrolysis plant, to be located in Varennes, near Montréal. It will supply green hydrogen and oxygen to the Recyclage Carbone Varennes (RCV) plant, which will use it to convert non-recyclable waste into biofuels, providing an alternative to landfill and incineration. With this project, Hydro-Québec is becoming an active player in green hydrogen, a key sector for the energy transition and the decarbonization of the economy.

ELECTRIC MOBILITY

We're working to advance transportation electrification.

In 2012, Hydro-Québec and its partners launched the Electric Circuit, the province's largest and most reliable public charging network for electric vehicles. The Electric Circuit provides clean and renewable fuel for all the electric vehicles on Québec's roads.

Going strong: Transportation electrification in Québec

Transportation electrification is evolving at the steady pace of technological progress. Hydro-Québec is already a North American leader in electric mobility thanks to our clean energy, our charging infrastructure for electric vehicles, our applications to facilitate electric mobility, and our expertise in electric powertrains. Transportation electrification can help speed up economic recovery following the pandemic and meet the needs of the energy transition. It also has a major impact on reducing GHG emissions.

A future-looking lab

IREQ's Center of Excellence in Transportation Electrification and Energy Storage (CETEES) and the Lawrence Berkeley National Laboratory in California, who have been research partners for over 20 years, will set up a joint R&D laboratory specializing in new battery materials for electric vehicles. Their work will focus on the discovery, manufacture and marketing of new materials at competitive costs. The partners hope to develop a solid electrolyte battery to offer electric vehicles greater range and faster charging.

A new subsidiary in electric charging

Created by the Electric Circuit and a minority partner, subsidiary AXSO took over the management of the charging network and the development of its mobile app in June 2020. AXSO set up a simple, state-of-the-art software platform to coordinate all charging network operations. Thanks to AXSO, Electric Circuit members now have access to a new website and an entirely redesigned mobile app with a smart trip-planning feature. Near the end of the year, the Electric Circuit app was also integrated into Apple's CarPlay technology.

World-class electric motors

Hydro-Québec has gained international recognition in transportation electrification with the cutting-edge high- and low-voltage electric motors developed by our subsidiary Dana TM4. The subsidiary's products are designed for commercial (buses and trucks), passenger, sport and leisure vehicles, and for the maritime, rail and mining sectors. In 2020, Hydro-Québec invested more than $25 million to grow Dana TM4 and consolidate its leadership in electric propulsion systems.

These investments are aimed at increasing the company's international presence through the acquisition of Ashwoods Electric Motors, the construction of a motor production plant in India, and the construction of a new production line.

Electric Circuit

2,984 public **charging stations**, including 444 fast chargers

Serving **17 administrative regions**

94,000 members including 29,200 new members in 2020

521 partners

45,300 members active in the past 12 months

Rollout of 100-kW fast-charge stations

In June, Québec company AddÉnergie won a request for proposals to supply 100-kW fast-charge stations to the Electric Circuit, a Hydro-Québec initiative. The agreement signed between the two companies is for a hundred charging stations over an initial two-year term. Their installation will continue the accelerated development of the largest fast-charge network in Québec. AddÉnergie was selected based on several criteria: station robustness, price, user-friendliness and after-sales service. The proposed charging stations were put through rigorous climate testing at the Institut du véhicule innovant. The 100-kW stations will meet the needs of electric vehicle drivers and the arrival on the market of a growing number of EVs able to charge at power levels exceeding 50 kW.

Operations that create collective wealth

Our investments and operations contribute to economic, community, leisure and tourism, and environmental development in all Québec regions. We're building the future by drawing on our employees' commitment and pride and by maximizing the potential of Québec's water, our assets, our innovations, our green attributes and the expertise of each and every one of us.

We contribute to the prosperity of Québec.

Our vision of sustainable development goes far beyond the environment. That's why we're working to see that our operations enjoy the broadest possible support from the communities involved, and why we strive continually to ensure that those operations contribute to the vitality of the Québec economy.

An outstanding performance

For its performance in sustainable development, Hydro-Québec received a gold medal from EcoVadis, an independent organization that provides a comprehensive assessment of companies' social responsibility. This award, which ranks us among the world's best companies in our industry, highlights our excellent performance in terms of ethical, environmental and social issues and human rights.

Multiple initiatives that serve communities

Hydro-Québec's Integrated Enhancement Program (IEP) aims to improve quality of life in the communities that host our new transmission facilities (substations and lines). The amounts provided to municipalities affected by our projects fund community-chosen initiatives.

For example, the final components of the Chamouchouane–Bout-de-l'Île project were commissioned in July 2019. This project—the largest north-south 735-kV line project of the last 25 years—gave rise to multiple initiatives:

- Construction of a 13-km bike path between the towns of La Doré and Saint-Félicien
- Landscaping work at eleven sites in the nine municipalities in the MRC du Domaine-du-Roy
- Building of a natural amphitheater and a gathering area that highlight the bounty of Parc du Lac-Saint-Louis, in the town of La Tuque, and provide an improved experience for park users
- Construction of fire protection equipment and a water supply system in the MRC of Mékinac
- Development of the beach at Baie-du-Milieu in Parc régional du Lac-Taureau in Saint-Michel-des-Saints
- Installation of an all-season skating rink in Parc Quatre-Vents in Sainte-Julienne

For more information on these and other initiatives, see: www.hydroquebec.com/projects/iep/chamouchouane.html.

Sustainable procurement practices

In recent years, Hydro-Québec has carried out targeted initiatives to promote the adoption of sustainable procurement practices. We want to work with suppliers that practice innovative, ethical management in terms of the environment, social engagement and the economy, while also controlling our procurement costs. In 2020, we established a frame of reference for analyzing supplier proposals according to total cost of ownership, where applicable. We are also maintaining our efforts to optimize the spinoffs of our activities in Québec in targeted areas, in compliance with the applicable laws. The Québec government will be adopting a sustainable procurement policy in 2021; we will therefore have to adjust our practices and guidelines to incorporate the principles in that policy.

Stopping corruption in its tracks

Corruption is a global phenomenon that has an extremely costly impact on society and undermines citizens' trust in public bodies. Hydro-Québec is firmly committed to fighting corruption: in the spring of 2019, we began developing an anti-bribery management system (ABMS) that includes strengthening our management measures to meet the requirements of ISO standard 37001. ISO 37001 proposes ways to prevent, detect and address corruption and provides guidelines for the design, implementation, maintenance and improvement of an ABMS. We aim to achieve ISO 37001 certification in 2021.

We act responsibly.

At Hydro-Québec, sustainable development—a three-pronged concept that combines environmental protection, social progress and economic performance—forms an integral part of all our operations and projects. We promote a culture of engagement, integrity and transparency.

Environmental issues and impacts

The Sustainability Report describes Hydro-Québec's performance with respect to its main environmental, social, economic and governance issues.

A responsible corporate citizen

In *Corporate Knights'* 2020 ranking of Canada's best corporate citizens, released in June, Hydro-Québec earned fifth place overall among Canadian companies with annual revenue of over $1 billion and first place among Québec-based companies of that size. The magazine's annual rankings are based on 21 indicators, including governance, employee management, financial management and supplier sustainability.

Protecting natural areas

Under Hydro-Québec's new program for the enhancement of natural areas, managed by the Fondation de la faune du Québec, ten projects in eight regions of the province will receive financial support totaling about $500,000.

The projects selected include enhancing river and forest ecosystems, building infrastructure to improve public access to and awareness of natural areas with high ecological value, and protecting the habitats of vulnerable or threatened plant and animal species.

Raising environmental awareness in companies

Building managers concerned about energy consumption and the resulting greenhouse gas (GHG) emissions can now use Hydro-Québec's GHG calculator. This tool is designed to help companies reduce their environmental impact by comparing the emissions from electric heating with those generated by fossil-fuel heating systems. Find out about the GHG emissions comparison tool and the programs available to companies.

The social economy: People over profits

Social economy enterprises place people and society at the core of their concerns and espouse values of inclusion, participation and respect for individuals and the environment. These enterprises operate in the same way as a conventional business: they share the same economic interests, they aim to satisfy their customers and they manage their resources, both human and material, with the same concern for consistency. It's their social mission, however, that comes first in their order of priorities. That's why they're important for the development of Québec and its regions. Hydro-Québec awarded contracts worth some $23 million to social economy enterprises in 2020.

Our social commitment to the community

The Hydro-Québec Social Responsibility Directive is designed to maximize the impact of our contributions in the form of donations and sponsorships. We are focusing our efforts on specific, measurable, desired social change that meets a real need, whether of an environmental, economic or community nature. We have targeted three main issues: reducing GHG emissions, supporting regional vitality and fighting poverty. We are proud to support organizations in every region of the province. In all, 450 organizations received around $19.3 million in donations and sponsorships in 2020. For more information, see: www.hydroquebec.com/donations-sponsorships/.

We're committed to achieving carbon neutrality by 2030.

Adopting ambitious goals for GHG emissions reduction will make Québec companies more competitive, in addition to attracting new businesses that want to reduce their environmental footprint. Beyond our borders, the small carbon footprint of our power is highly valued.

Preparing for the future

To prepare for the future, we formulated an ambitious Sustainable Development Plan 2020–2024. We drew up this plan while carefully ensuring that our actions align with those of the Québec government. Some of our strategies promote the implementation of the Government Sustainable Development Strategy 2015–2020 (in French only) while others contribute to the realization of Québec's *Agenda 21 for culture*. With respect to the 17 Sustainable Development Goals of the United Nations Development Programme, we intend to do our part by pursuing those goals closest to our reality.

Maintaining certification

Following a six-week audit, we received a positive recommendation for maintaining our ISO 14001 certification. This standard is intended for organizations that want to establish, maintain and improve an environmental management system. It sets the requirements for such a system and applies, more specifically, to the environmental aspects that have been determined as being within the organization's control. This past year saw a first: the entire exercise was performed remotely.

Large reduction in GHG emissions

We've reduced our GHG emissions by 90% since 1990. Our main emission sources are the thermal generating stations that supply off-grid systems. Hydro-Québec's aim is to achieve a 70% renewable supply overall for these systems by 2025. In addition, we are currently operating a fleet of 561 plug-in hybrid or electric vehicles—61 more than our target, and clear progress relative to the 399 vehicles in our fleet in 2019. Since the health crisis has prompted us to work differently and reduce travel, GHG emissions from Hydro-Québec's light-vehicle fleet have decreased by nearly 11%, or 2,185 t CO_2eq, from 2019—equivalent to the exhaust from 500 light vehicles in normal times.

A positive performance in a season like no other

We welcomed 26,730 visitors to our facilities in 2020, fewer than in previous years because of the reduced group size called for by health measures related to the COVID-19 pandemic. On the other hand, visitors enjoyed more personalized tours.

We also made reservations mandatory, which allowed us to go one step further: 48 hours after their tour, we now invite visitors to fill in an online survey. Of the respondents, 99% said they were very satisfied or quite satisfied with their tour—something to be proud of in this unusual season.

Enlightening digs

For the third year in a row, Hydro-Québec carried out archaeological digs along the route of the future 735-kV Micoua–Saguenay transmission line. The Innu community of Mashteuiatsh was actively involved in this work. This past summer, the digs were concentrated in the MRC du Fjord-du-Saguenay, where inventories made in 2018 and 2019 had revealed two paleohistoric sites with artifacts and remains dating back over 2,900 years. The first site, along the banks of the Rivière Bras-du-Nord, brought to light more than 500 stone fragments attesting to tool-carving activity. At the second site, along the Rivière Saint-Louis, more than 2,000 stone fragments and a number of tools were found.

Facilities that match our ambitions

We could not aspire to being the battery of northeastern North America without our generating stations, vast reservoirs with their tremendous storage capacity, and extensive transmission system. Our hydropower is a prime energy source for New England and New York State in their desire to reduce their GHG emissions and improve their energy mix.

We're Canada's largest hydropower generator.

Hydro-Québec generates power to supply the Québec market—its first priority—and sells its available energy on wholesale markets in northeastern North America in order to reduce GHG emissions by neighboring systems. It operates a fleet of 61 hydroelectric generating stations, to which Romaine-4 will soon be added.

Progress of work at Romaine-4

The COVID-19 pandemic brought work to a complete halt at the Romaine-4 jobsite, where the final facility in the Romaine complex is being built. Priority work for impounding the reservoir resumed in May, allowing filling to begin in June, as scheduled. Construction of the dam is complete and concreting of the powerhouse is ongoing. All the stakeholders in the project—contractors, unions, workers and the Commission des normes, de l'équité, de la santé et de la sécurité du travail (CNESST)—have noted the quality of the health measures implemented at the site. Commissioning of Romaine-4 has been postponed to 2022.

Generating station refurbishment and rehabilitation

We began replacing the six generating units at **Rapide-Blanc**. This rehabilitation project also covers the powerhouse building as well as the electrical and mechanical auxiliaries. With this investment of over $610 million, the facility will help meet Québec's energy needs for another 50 years.

Following spring flooding in 2019 and the emergency evacuation of about 250 residents, Hydro-Québec undertook major work to increase the discharge capacity of the **Chute-Bell** structures and to solidify part of the overflow crest. We also modified the two generating units, which have been shut down for several years. Everything was ready for the 2020 spring runoff.

Work on a sixth unit at **Robert-Bourassa** generating station got under way in March. It includes rehabilitation of several major components and replacement of the turbine runner. The unit resumed operation on December 15, 2020.

At **René-Lévesque** and **Outardes-2** generating stations, we're planning to uprate the generating units while replacing the auxiliary equipment and the protections and controls. Various inspection and survey campaigns yielded precise data on their condition that will help plan the work.

Hydro-Québec will invest $750 million in **Carillon** generating station (photo), mainly to replace six of its generating units. The work will take place from 2021 to 2027. The selected supplier has been instructed to maximize the project's economic spinoffs in Québec.

Automated monitoring of large generating facilities

In 2020, we began to roll out phase one of the Centre d'analyse et de maintenance prévisionnelle (CAMP) (predictive maintenance and analysis center), which makes full use of generating fleet data. Obtained through sensors installed on dams, generating units and other components, this information helps to predict equipment behavior. This will make it easier to perform maintenance at the right time, according to an optimized strategy, and to improve our asset management. An initial project involved establishing learning algorithms for detecting changes in behavior at Daniel-Johnson dam. CAMP tools and services will be used in at least 6 dams and 22 generating stations by the end of 2021.

We continually assess the condition of our facilities.

System modernization, equipment connectivity, predictive maintenance analysis and artificial intelligence are just a few examples of the digital transformation that's commanding our attention. The market is changing, and our services are evolving and adapting to tomorrow's world.

Upcoming work

Ever since it was commissioned in 1932, Beauharnois generating station has played a strategic role in Hydro-Québec's generating fleet and transmission system. Its capacity has been gradually increased over the years and stands at 1,912 MW. After many decades, some of its retaining structures (spillways, compensating works, dikes and embankments), which direct the water to the powerhouse, are in need of work to ensure their long-term operability. Since 2018, we've been conducting extensive studies on the condition of these structures to determine what work must be carried out between now and 2025–2026.

Sharing expertise on flood zones and natural environments

The Communauté métropolitaine de Montréal and Hydro-Québec signed a collaboration agreement that aims to step up information sharing around projects that will have a major, lasting impact on the community. Already, two technical committees have been set up for 2020–2021. Their activities are focused on flood zones and flood management in Greater Montréal and on the protection and enhancement of natural areas. Knowledge sharing and coordination efforts will help the two organizations reach common goals, such as improved flood resistance during high-water seasons.

Innovations in generation

To drive our vision of the hydropower development of the future, we are following different approaches: at-source reduction of potential hazards, system interoperability, predictive maintenance and process automation. Between now and 2024, a number of initiatives of this nature—installation of digital protective relays, for example—will be incorporated into projects under way or under study. In 2020, we inaugurated a digital laboratory to test these new technologies before they are installed in our facilities.

A leg up for migrating salmon in the Mitis

To ensure the continued survival of the salmon population in the Rivière Mitis, Hydro-Québec helped implement a new system for capturing salmon below Mitis-2 generating station. The salmon are then returned to the river above the facility. In addition to contributing to the management of salmon stocks, this type of activity supports regional development and local economic spinoffs related to recreational fishing.

Dam condition and safety

Flow management during extreme floods has always been a challenge for Hydro-Québec. Since 2002, flow management has been governed by the *Dam Safety Act*, whose purpose is to increase the safety of the dams to which it applies and thus protect people and property from the risks associated with their presence. In compliance with this law, Hydro-Québec conducted a safety assessment and submitted it to the government in 2012. The company has carried out further studies since 2018 in order to fully understand the structures' condition and ensure their long-term safety according to the new design criteria for the safety check flood.

We transport green, renewable energy.

Our transmission system comprises 34,826 km of lines that carry energy to major load centers located along the Saint-Laurent (St. Lawrence River), as well as interconnections that allow power interchanges with grids in the Atlantic provinces, Ontario and the U.S. Northeast.

Two new interconnections

Two interconnection projects are under way with our American neighbors: Appalaches–Maine and Hertel–New York.

The Appalaches-Maine interconnection with the New England Clean Energy Connect (NECEC) line in Maine has received nearly all the necessary approvals. The planned infrastructure will deliver our clean energy to the New England grid, mainly to supply Massachusetts.

The Champlain Hudson Power Express (CHPE) transmission line in the U.S. has now received all the necessary permits. In Québec, we're continuing development on the Hertel-New York interconnection, which will connect with the future CHPE and calls for the construction of an underground direct-current line running some 60 km between Hertel substation, in La Prairie, and the northern tip of Lac Champlain, on the Canada–U.S. border. Hydro-Québec has worked with New York State for decades and we want to help it achieve its green energy and GHG reduction goals.

Future interconnection equipment

Hydro-Québec plans to install two DC converter units at Châteauguay substation (photo), which supplies a major interconnection with New York State. With a capacity of 500 MW each, the new units will replace the existing equipment, nearing the end of its useful life. They will be connected directly to the 735-kV system in Québec and the 765-kV interconnection line in New York. This new configuration will ensure greater system reliability and reduce operating constraints.

Also at Châteauguay, we are studying a second scenario making use of 750-MW converter units. This increased capacity would allow asynchronous two-way transactions over the entire interconnection with the New York grid.

735-kV Micoua–Saguenay line

The new, 262-km line between Micoua substation, in the Côte-Nord region, and Saguenay substation, in Saguenay–Lac-Saint-Jean, will preserve the reliability of the Hydro-Québec transmission grid. Reduced consumption in Côte-Nord and the shutdown of thermal and nuclear generating stations in southern Québec have resulted in increased power flow along the Manic–Québec corridor lines to the major load centers, making the new line necessary. Clearing work begun in November 2019 is ongoing. The main procurement contracts, in particular those pertaining to steel for the foundations and towers, were awarded in 2020. Construction of a camp for 300 workers was completed in December, in time to break ground on the line in January 2021.

We're well known for the reliability of our transmission system.

We see to the operation, maintenance and continued development of the most extensive power transmission system in North America. By transporting clean energy throughout Québec and into neighboring markets, we're helping to decarbonize the economy. What's more, the design and construction of large-scale projects contribute to the wealth of Québec society.

New on the transmission system

Several generating facilities were brought onto the grid in 2020: the Valleyfield and Kraft Nordic (Lebel-sur-Quévillon) cogeneration plants, Belle-Rivière wind farm (Lac–Saint-Jean) and two solar farms that belong to Hydro-Québec. The Régie de l'énergie approved a new Transmission Tariff clause applicable to photovoltaic generating stations; specifically, it establishes a per-kilowatthour maximum contribution—equivalent to the one charged to wind farms—to the cost of building the collector system. Hydro-Québec also introduced a new maintenance standard for independent power producers connected to the transmission grid. This standard promotes the adoption of recognized practices by producers who receive financial assistance for maintenance and operation of their switchyards.

Substations added to the grid

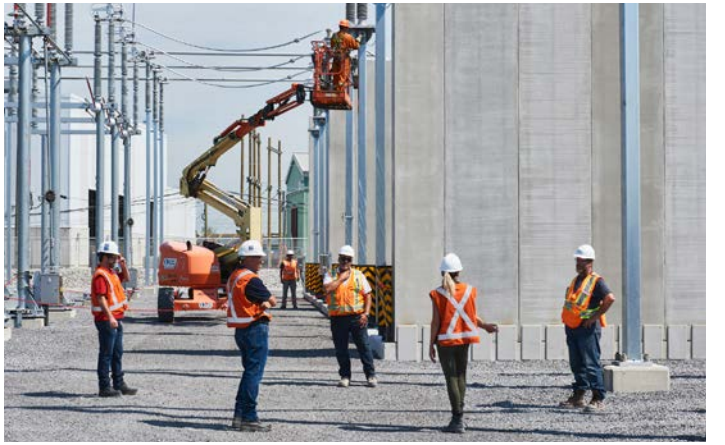
A number of substations, including Patriotes (photo), were commissioned during the year. Construction of the line supplying this 315-kV substation ran from fall 2019 to summer 2020. Startup had been scheduled for June but was postponed to October due to COVID-19. Saint-Jean (315 kV), Mékinac (230 kV), Achigan (120 kV) and Thurso-Papineau (120 kV) substations were also brought onto the grid in 2020.

Power transmission and the energy transition

Hydro-Québec has a vision for an evolving transmission system that reflects changing customer behavior, as manifested by the emergence of distributed generation and the electrification of the economy.

We're in the process of deploying technological infrastructure through which we can modernize our grid operating system, incorporate digital technologies into substations (e.g., the project for system convergence and evolving protections and controls) and create a simulation and analysis environment that will allow us to anticipate new phenomena and maintain a high level of reliability.

In August 2020, the Régie de l'énergie approved the replacement of transmission grid control systems that had reached the end of their useful life. They'll be replaced with a single integrated platform using the latest technologies.



Line rights-of-way: A multipurpose space

Under an agreement between Ville de Montréal and Hydro-Québec, a green corridor roughly 27 km long will connect Bois-de-Saraguay and Angrignon parks. Development of this green corridor will be done in tandem with the conversion to 315 kV of the 120-kV overhead transmission line between Aqueduc and Saraguay substations in the boroughs of LaSalle and Saint-Laurent, respectively. It will include a bike path, a walking trail and landscaping. In the same vein, a framework agreement signed by the Union des municipalités du Québec (UMQ) and Hydro-Québec outlines the attractive conditions offered to municipalities that lease transmission line rights-of-way for the purpose of developing recreational or community amenities compatible with a power line, such as bike paths, sports fields or neighborhood gardens.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis should be read in conjunction with the consolidated financial statements of Hydro-Québec and the notes thereto. The financial information and tabular amounts presented herein are expressed in Canadian dollars, unless otherwise indicated. The consolidated financial statements take into account the decisions handed down by the Régie de l'énergie of Québec [Québec energy board] with respect to the transmission and distribution of electricity. They also reflect the provisions of the *Act to simplify the process for establishing electricity distribution rates* (S.Q. 2019, c. 27).

This analysis, and especially the Outlook section, contains statements based on estimates and assumptions concerning future results and the course of events. Given the risks and uncertainties inherent in any forward-looking statements, Hydro-Québec's actual future results could differ from those anticipated. Finally, the information contained herein takes into account any significant event that occurred on or before February 12, 2021, the date of approval of this Annual Report by Hydro-Québec's Board of Directors.

Financial Review

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS

COMPLEMENTARY DATA

2020 at a Glance

Hydro-Québec posted net income of $2,303 million in 2020, a $620-million decrease compared to the previous year that is due to two main factors. First, temperatures were milder than in 2019, particularly during the months when heating requirements affect customers' energy consumption. Second, 2020 was marked by the COVID-19 pandemic throughout the world, and Québec and its economy were no exception. The resulting public health crisis curbed the activities of many companies and had an adverse effect on Hydro-Québec's operations and financial performance as well, especially as regards electricity sales in and outside Québec, the rate at which investments were made and the allowance related to the collectibility risk for certain accounts receivable. In spite of this, the company will pay a dividend of $1,727 million to the Québec government, its sole shareholder.

Electricity sales in Québec

In the wake of the public health emergency declaration made by the Québec government in March 2020, industrial and commercial activities slowed significantly and even ground to a halt in many economic sectors. This downturn extended over a number of weeks in the spring and was followed by another in the fall, with the implementation of additional measures to contain the second wave of the pandemic. Their repercussions were compounded by the effect of temperature variances, particularly in the first and fourth quarters, when temperatures were on average 3°C and 2°C higher, respectively, than those of the previous year. As a result, Hydro-Québec recorded a decrease in electricity sales in Québec.

The impact of the public health crisis on electricity consumption varied depending on market segment. Whereas consumption by commercial, institutional and small industrial customers and by large industrial customers fell, that of residential customers rose as of the spring on account of the lockdown measures, particularly the adoption of telework by a large number of employers.

Net electricity exports

On external markets, the public health crisis led to lower demand and lower prices, mainly in the second quarter. That said, thanks to an effective sales strategy, the high availability rate of generating and transmission facilities, and abundant runoff, net electricity exports nonetheless exceeded the 30-TWh mark for a fifth consecutive year, reaching 31.3 TWh and contributing $537 million to 2020 net income.

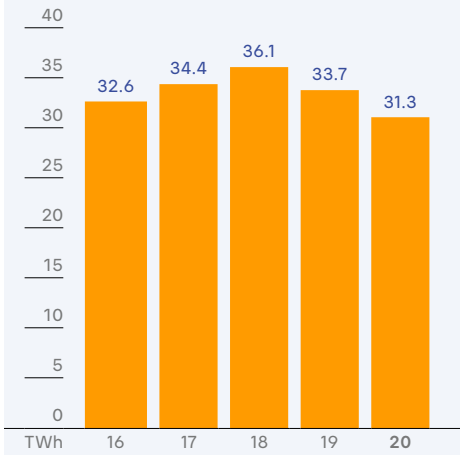
Operational expenditure

Several construction or refurbishment projects were scaled back, suspended or postponed because of the public health emergency. Even though the pace of work accelerated in the summer and fall to make up for lost time, the downtime led to a reduction in the number of hours of work capitalized in the cost of capital projects, which pushed up current operational expenditure.

As well, given the difficult economic conditions, Hydro-Québec deployed various support measures to help customers unable to pay their electricity bills on time. Some accounts receivable, both residential and business, showed signs of deterioration during the year, resulting in an increase in the allowance related to the collectibility risk for the debts concerned. The allowance gave rise to a $157-million expense in 2020, a $71-million increase compared to 2019. This is an unprecedented level that shows the extent of the disruption caused by the public health crisis.

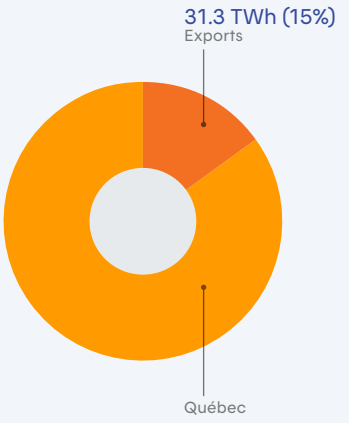
In 2020, net exports accounted for 15% of sales volume and generated 23% of the company's net income.

Net Electricity Exports



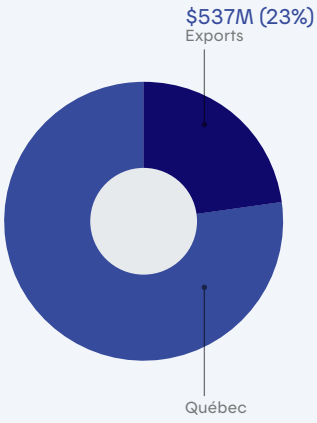
Net Electricity Sales in 2020

202.7 TWh



Net Income in 2020

$2,303M



Attractive and stable electricity rates

Under the *Act to simplify the process for establishing electricity distribution rates*, Hydro-Québec's electricity rates applicable for the rate year starting April 1, 2020, were maintained at the same level as in 2019. Even before this freeze, the company's rates were among the lowest in North America.

Moreover, the Act provided for a refund to customers of an amount equivalent to the unamortized balances of the variance and deferral accounts related to distribution activities as at December 31, 2019. Substantially all of the aggregate amount of $535 million was paid out to customers in 2020. Steps are still being taken to reach the greatest possible number of eligible customers, including those considered inactive in 2020.

Major investments throughout the province

Despite the slower overall pace of work on jobsites due to the public health crisis, Hydro-Québec's investments totaled $3,366 million in 2020. Most of this amount was allocated to major development projects in the Generation and Transmission segments, as well as to large-scale projects to maintain and improve the quality of the company's assets.

The main projects under way include the construction and connection of the Romaine hydroelectric complex (1,550 MW) in the Côte-Nord region. Three of the four reservoir generating stations in this complex, with 1,305 MW of total installed capacity, are already up and running. On the last jobsite, Romaine-4 (245 MW), the dam and related structures went into operation in the third quarter of 2020, after reservoir impoundment was completed. The generating station is scheduled for commissioning in 2022.

In addition, progress was made during the year in land clearing for construction of the 735-kV line between Micoua substation, in the Côte-Nord region, and Saguenay substation, in Saguenay–Lac-Saint-Jean. The new line, which will extend 262 km, will help maintain the reliability of Hydro-Québec's transmission system.

The company also carried out several projects in all its business segments to ensure the long-term operability of its facilities and optimize their performance.

A substantial contribution to the Québec government's revenue

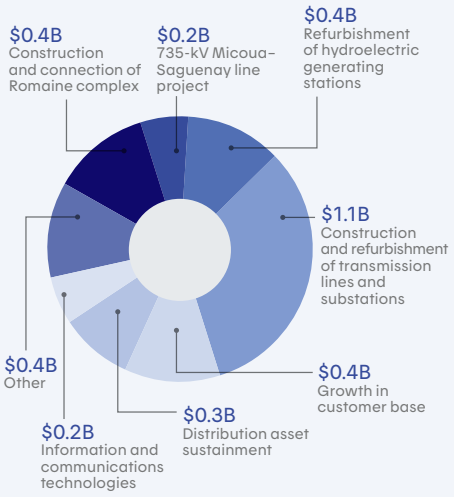
Hydro-Québec's contribution to the Québec government's revenue for 2020 amounts to $3.6 billion. This substantial contribution, which includes the company's net income of $2,303 million as well as water-power royalties, the public utilities tax, and guarantee fees related to debt securities, benefits all Quebecers, as do the economic spinoffs of Hydro-Québec's operations throughout the province.

A promising alliance in renewable energy

In February 2020, Hydro-Québec acquired a 19.9% stake in Innergex énergie renouvelable inc., a Québec company that builds and operates hydroelectric facilities, wind farms and solar farms in North America, South America and Europe. This transaction was made as part of a strategic alliance that will allow the two companies to join forces to carry out large-scale projects on the global market. It represents an important milestone in the achievement of Hydro-Québec's strategic objectives.

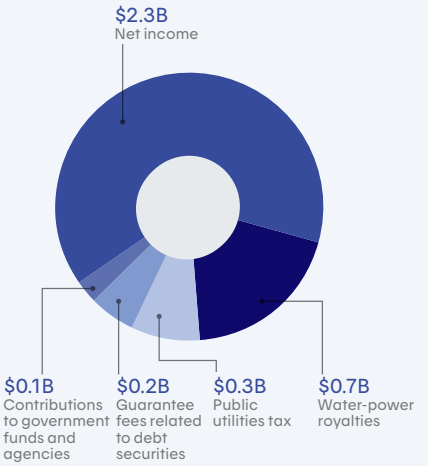
Investments in Québec in 2020

$3.4B



Hydro-Québec's Contribution to the Québec Government's Revenue for 2020

$3.6B



Consolidated Results

Net income

In a context marked by mild temperatures and by severe economic disruptions caused by the global COVID-19 pandemic, Hydro-Québec posted net income of $2,303 million in 2020, a $620-million decrease compared to the $2,923 million recorded the previous year. The difference is in large part due to lower net electricity sales in Québec, lower net electricity exports, and higher operational expenditure.

On the Québec market, net electricity sales decreased by $146 million compared to 2019, under the combined effect of two main factors. First, electricity sales were $500 million lower, essentially because of the impact of temperatures, which were milder in 2020 than in 2019 during most of the months when heating requirements affect customers' energy consumption. The decrease was mitigated by the fact that, after the *Act to simplify the process for establishing electricity distribution rates* came into force, Hydro-Québec Distribution et Services partagés stopped recognizing variances between actual revenue and costs for certain items and the forecasts in the rate filings, which had had a negative impact of $328 million in 2019. Pursuant to the Act, substantially all of the amount equivalent to the unamortized balances as at December 31, 2019, of the variance and deferral accounts related to distribution activities, which totaled $535 million, was refunded to customers in 2020.

On markets outside Québec, net electricity exports amounted to $1,325 million, a $116-million decrease that is due to the impact of first-quarter temperatures, which resulted in lower demand and prices on export markets, as well as to the repercussions of the pandemic, which also led to lower prices and market requirements, especially in the second quarter. Net export volume thus totaled 31.3 TWh, or 2.4 TWh less than in 2019, while prices on Hydro-Québec's main export markets fell by some 25% in 2020. However, the decline in market prices was partially offset by the positive impact of the company's sales and risk management strategies.

Operational expenditure rose by $328 million compared to the previous year, partly because of the effect of the pandemic on the company's operations—in particular the rise in the allowance related to the collectibility risk for certain accounts receivable—and an increase in the Pension Plan's current service cost, mainly due to the fluctuation in long-term interest rates, which impacted the discount rates.

Revenue

Revenue totaled $13,594 million, compared to $14,021 million a year earlier. Revenue from ordinary activities reached $13,446 million, a decrease from $14,076 million in 2019. Electricity sales amounted to $13,324 million, or $615 million less than the $13,939 million recorded the previous year. This marked reduction is due to a $500-million decrease in electricity sales in Québec and a $115-million decline in electricity sales on markets outside Québec. Other revenue from ordinary activities decreased by $15 million, whereas revenue from other activities increased by $203 million.

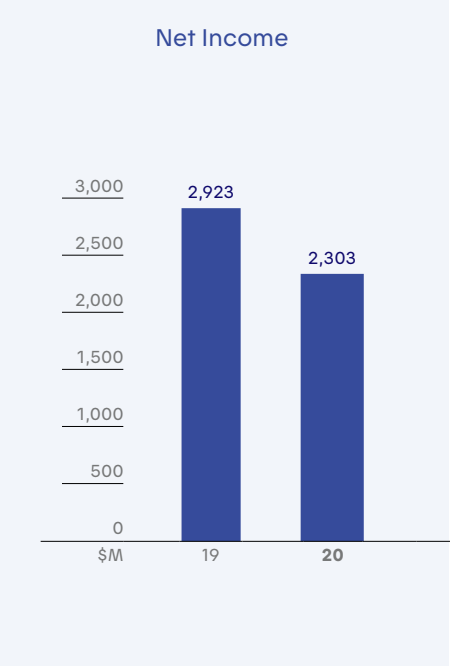
Revenue from ordinary activities

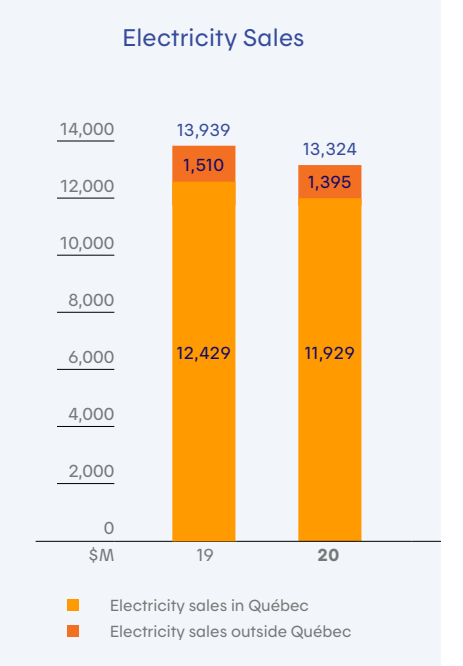
Electricity sales in Québec

In Québec, electricity sales decreased by 3.2 TWh to total 171.4 TWh, compared to the historic volume of 174.6 TWh recorded in 2019, resulting in a $500-million decline in the related revenue. The differences are due to the combined effects of several factors.

First, temperatures were milder during most of the months when heating requirements affect customers' energy consumption, leading to a 4.9-TWh or $409-million decrease in electricity sales. Their negative impact was particularly felt in the first and fourth quarters, the periods when Hydro-Québec records most of its sales. More specifically, temperatures in first quarter 2020 were on average 3°C higher than those in the first quarter of the previous year, which resulted in a $294-million decline in electricity sales. Similarly, fourth-quarter temperatures were on average 2°C higher than in the corresponding quarter of 2019, which translated into a $152-million decrease.

Second, baseload demand rose by 1.7 TWh or $44 million because of higher energy requirements in the residential segment, partly attributable to the impact of the lockdown measures, in particular the general adoption of telework, and also because of higher consumption by aluminum smelters, mainly due to the gradual resumption of operations at a large facility in the Centre-du-Québec region in summer 2019, following a prolonged labor conflict. However, this increase was partially offset by the effects of the public health measures, which led to the closure of a large number of stores and other businesses for many weeks in the spring and fall, and which drove down electricity sales in the commercial, institutional and small industrial segment, as well as in the large industrial customer segment.





Finally, the decline in aluminum prices, which have an impact on revenue from special contracts with certain large industrial customers, resulted in a $134-million decrease in revenue from electricity sales in Québec.

Electricity sales outside Québec

Revenue from electricity sales on markets outside Québec totaled $1,395 million, compared to $1,510 million in 2019, essentially because of lower demand and prices on export markets under the combined impact of temperatures and the pandemic.

Other revenue from ordinary activities

Other revenue from ordinary activities was $122 million, compared to $137 million the previous year. The difference is mainly due to the suspension of administration charges on unpaid bills between March and September 2020, as part of the measures implemented by Hydro-Québec to assist customers experiencing financial difficulties in the context of the pandemic. This relief measure resulted in a $25-million decrease in revenue.

Revenue from other activities

Revenue from other activities increased by $203 million from the previous year, mainly because, after the *Act to simplify the process for establishing electricity distribution rates* came into force, Hydro-Québec Distribution et Services partagés stopped recognizing variances between actual revenue and costs for certain items and the forecasts in the rate filings. In 2019, these variances, related in particular to weather conditions and the cost of native-load transmission service, had had a negative impact of $328 million.

Pursuant to the Act, substantially all of the amount equivalent to the unamortized balances as at December 31, 2019, of the variance and deferral accounts related to distribution activities, which totaled $535 million, was refunded to customers in 2020.

Expenditure

Total expenditure was $8,688 million in 2020, compared to $8,403 million in 2019.

Operational expenditure

Operational expenditure amounted to $3,146 million, a $328-million increase from the $2,818 million recorded a year earlier. The difference is primarily attributable to a $179-million rise in the Pension Plan's current service cost, mainly due to a decrease, at the end of 2019, in long-term interest rates on capital markets, which determine the discount rates. It also results from the repercussions of the pandemic on Hydro-Québec's operations. Given the difficult economic conditions, some accounts receivable showed signs of deterioration during the year, which led to an increase in the allowance related to the collectibility risk for the debts concerned. The allowance gave rise to a $157-million expense in 2020, an increase of $71 million compared to 2019. This is an unprecedented level that attests to the extent of the disruption caused by the public health crisis. In addition, several construction or refurbishment projects were scaled back, suspended or postponed because of the public health measures. Even though the pace of the work picked up in the second half of the year, this situation nevertheless led to a reduction in the number of hours of work capitalized in the cost of the projects, which pushed up operational expenditure.

Other components of employee future benefit cost

In the line item Other components of employee future benefit cost, a credit amount of $494 million was recognized in 2020, compared to $557 million in 2019. This negative change is mainly attributable to a decrease in long-term interest rates on capital markets at the end of 2019, whose impact was partially offset by the returns on Pension Plan assets.

Electricity and fuel purchases

Electricity and fuel purchases totaled $2,204 million in 2020, a $23-million decrease from the $2,227 million recorded in 2019 that is due to a $26-million reduction in external energy purchases related to distribution activities. More specifically, short-term purchases on the markets decreased by 0.3 TWh or $20 million because of the milder temperatures in 2020.

Depreciation and amortization

Depreciation and amortization expense amounted to $2,694 million, compared to $2,782 million the previous year. This $88-million decrease essentially results from an $84-million reduction in the amortization of regulatory assets and liabilities, primarily because of the coming into force of the *Act to simplify the process for establishing electricity distribution rates*.

Taxes

Taxes were $1,138 million, comparable to the $1,133 million recognized in 2019.

Financial expenses

Financial expenses totaled $2,603 million in 2020, compared to $2,695 million in 2019. The $92-million decrease is mainly on account of the combined effect of maturities and redemptions of certain high-interest-bearing debts, on the one hand, and, on the other hand, new debt issues at much lower interest rates, given the favorable market environment.

Key Figures for 2020

	2020	2019
OPERATIONS AND DIVIDEND ($M)		
Revenue	**13,594**	14,021
Income before financial expenses	**4,906**	5,618
Net income	**2,303**	2,923
Dividend	**1,727**	2,192
BALANCE SHEETS ($M)		
Total assets	**80,895**	78,563
Property, plant and equipment	**66,900**	65,992
Long-term debt, including current portion and perpetual debt	**48,413**	45,767
Equity	**21,322**	21,448
FINANCIAL RATIOS		
Return on equity (%)[a]	**9.5**	12.4
Capitalization (%)[b]	**31.0**	32.3
Profit margin (%)[c]	**16.9**	20.8
Interest coverage[d]	**1.89**	2.07
Self-financing (%)[e]	**12.8**	48.6

a) Net income divided by average equity for the year less average accumulated other comprehensive income for the year. The decrease in this ratio compared to 2019 is mainly due to lower net income.

b) Equity divided by the sum of equity, long-term debt, current portion of long-term debt, perpetual debt, borrowings and derivative instrument liabilities, less derivative instrument assets and sinking fund.

c) Net income divided by revenue. The decrease in this ratio compared to 2019 is mainly due to lower net income.

d) Sum of income before financial expenses and net investment income divided by interest on debt securities. The decrease in this ratio compared to 2019 is mainly due to lower income before financial expenses.

e) Cash flows from operating activities less dividend paid, divided by the sum of cash flows from investing activities, excluding net change in short-term investments and sinking fund, and repayment of long-term debt. The decrease in this ratio compared to 2019 is mainly due to the $3.2-billion reduction in cash flows from operating activities.

Cash and Capital Management

Operating activities

Cash flows from operating activities totaled $2.8 billion in 2020, compared to $6.0 billion in 2019, mainly because of the interest paid upon the redemption of zero-coupon bonds, which totaled $1.6 billion in 2020, compared to $7 million the previous year. The decrease is also due to the $1.5-billion negative variance in non-cash working capital items and the $0.6-billion reduction in net income.

The funds raised were used to pay the dividend for 2019 and to finance a portion of the investment program, among other things.

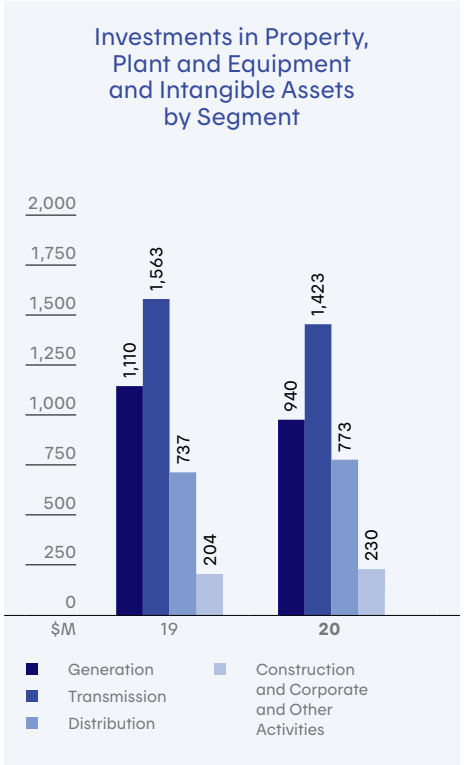
Investing activities

In 2020, Hydro-Québec invested $3.4 billion in property, plant and equipment and intangible assets, compared to $3.6 billion in 2019. Of this amount, $1.2 billion was allocated to development projects and $2.2 billion to maintaining or improving the quality of assets.

Investments in the Generation segment totaled $940 million, of which $441 million went to development activities, mainly the ongoing construction of the Romaine hydroelectric complex, and $499 million to asset maintenance and improvement, in particular the refurbishment projects under way at Robert-Bourassa, Rapide-Blanc and Beauharnois generating stations.

Capital spending in the Transmission segment totaled $1,423 million. Of this amount, $269 million was used to connect new generating facilities to the grid and increase transmission capacity. Another $1,154 million was invested in transmission asset sustainment and reliability projects, especially equipment replacement, facility modernization and grid reinforcement, including work to prepare for construction of the 735-kV Micoua–Saguenay line, to which $179 million was allocated.

Investments in the Distribution segment totaled $773 million. Most of this amount went toward projects aimed at handling the growing customer base and ensuring the long-term operability of the distribution system.



Financing activities

In 2020, Hydro-Québec made six fixed-rate bond issues on the Canadian capital market, at an average cost of 2.22%. These bonds will mature in 2055 and 2060.

The company also issued floating-rate notes maturing in 2023, for a total amount of $1.0 billion.

These issues raised a total of $4.6 billion. The proceeds were used to support part of the investment program and to repay higher-rate maturing debt.

Sources of Financing

Type of financing	Amount authorized by the Board of Directors	Market	Outstanding as at December 31, 2020
Operating credit lines	C$ or US$1,000 million[a]		US$0.3 million C$0.1 million
Credit facility[b]	US$2,000 million[c]		–
Commercial paper[b]	US$3,500 million or equivalent in C$	United States or Canada	–
Medium-term notes[b]	US$3,000 million or equivalent in other currencies	United States	US$330 million[d]
	C$20,000 million or equivalent in US$	Canada	C$11,085 million[d]

a) Of this amount, available balances of US$200 million, C$2 million and $247 million in Canadian or U.S. dollars are covered by operating credit line agreements with the financial institutions concerned.

b) Guaranteed by the Québec government.

c) Includes a US$750-million swing loan.

d) Corresponds to net proceeds from the issuance of medium-term notes.

Credit Ratings

	2020			2019		
	Commercial paper	Long-term debt	Outlook/ Trend	Commercial paper	Long-term debt	Outlook/ Trend
U.S. agencies						
Moody's	**P-1**	**Aa2**	**Stable**	P-1	Aa2	Stable
S&P Global Ratings	**A-1+**	**AA–**	**N/A[a]**	A-1+	AA–	N/A[a]
Fitch Ratings	**F1+**	**AA–**	**Stable**	F1+	AA–	Stable
Canadian agency						
DBRS Morningstar	**R-1 (middle)**	**AA (low)**	**Stable**	R-1 (middle)	AA (low)	Stable

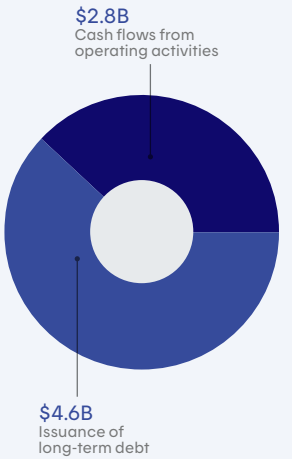
a) S&P Global Ratings does not provide an outlook for Hydro-Québec's credit rating.

Dividend and capitalization

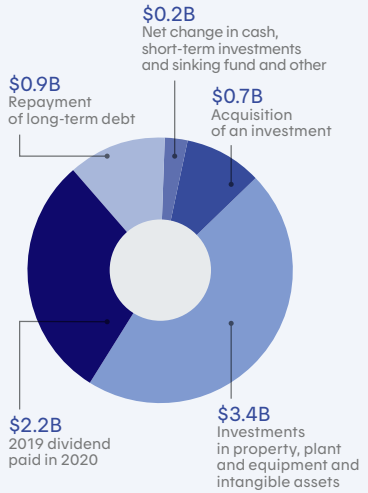
The dividend payable to the Québec government for 2020 is $1,727 million. Once this dividend is factored in, the capitalization rate was 31.0% as at December 31, 2020.

Under the *Hydro-Québec Act* (CQLR, c. H-5), the dividend cannot exceed 75% of net income. Moreover, the Québec government may not declare, in respect of a given year, a dividend in an amount that would have the effect of reducing the capitalization rate to less than 25% at the end of the year.

Sources of Funds in 2020



Uses of Funds in 2020



Segmented Results

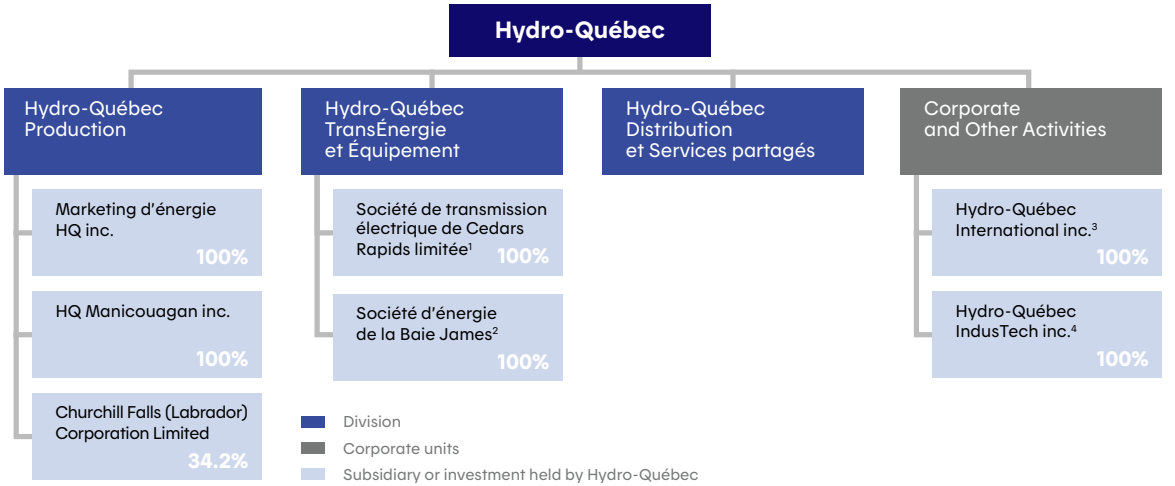
Operating segments

Further to organizational adjustments that took effect on June 1, 2020, Hydro-Québec now comprises the following three divisions:

- Hydro-Québec Production, which is part of the Innovation et Hydro-Québec Production structural unit;
- Hydro-Québec TransÉnergie et Équipement;
- Hydro-Québec Distribution et Services partagés.

This restructuring had no impact on the company's business segments or the reporting of segmented information in the consolidated financial statements. Hydro-Québec therefore continues to carry out its activities in four reportable business segments, namely Generation, Transmission, Distribution and Construction, as well as Corporate and Other Activities.

The organization chart on the right presents the company's three divisions and its principal first-tier interests.



1. This subsidiary's activities are included in the Transmission segment.
2. This subsidiary's activities are included in the Construction segment.
3. Hydro-Québec International inc. notably holds an investment in Innergex énergie renouvelable inc.
4. Hydro-Québec IndusTech inc. notably owns 100% of the outstanding shares of Services Hilo inc., which operates under the Hilo brand.

Generation

This segment includes activities related to the operation and development of Hydro-Québec's generating facilities, except in off-grid systems. It also includes electricity sales and arbitrage transactions on wholesale markets in northeastern North America.

Transmission

This segment includes activities related to the operation and development of the main power transmission system, the marketing of system capacity and the management of power flows across Québec.

Distribution

This segment includes activities related to the operation and development of Hydro-Québec's distribution grid. It also includes retail electricity sales on the Québec market, as well as customer services and the promotion of energy efficiency.

Construction

This segment includes activities related to the design and execution of construction and refurbishment projects involving mainly power generation and transmission facilities.

Operations and Assets by Segment

						2020
Segmented financial information ($M)	Generation	Transmission	Distribution	Construction	Corporate and Other Activities[a]	Hydro-Québec
Revenue[b]	**6,490**	**3,624**	**12,072**	**2,056**	**(10,648)**	**13,594**
Net income (loss)	**1,841**	**586**	**216**	**6**	**(346)**	**2,303**
Total assets	**33,513**	**24,145**	**14,147**	**43**	**9,047**	**80,895**

						2019
Segmented financial information ($M)	Generation	Transmission	Distribution	Construction	Corporate and Other Activities[a]	Hydro-Québec
Revenue[b]	6,690	3,493	12,245	2,248	(10,655)	14,021
Net income (loss)	2,042	569	323	1	(12)	2,923
Total assets	33,534	23,773	14,079	40	7,137	78,563

a) Corporate and Other Activities includes intersegment eliminations and adjustments.

b) Segment data include revenue from both external and intersegment customers as presented in Note 20 to the consolidated financial statements.

Note: Some of the prior year's data have been reclassified to conform to the presentation adopted in the current year.

Generation

2020 AT A GLANCE	
Revenue	$6.5B
Net income	$1,841M
Contribution of net exports to net income	$537M
Customers (% of revenue from electricity sales)	
Distributor	78%
Other	22%
Sales volume	
Distributor	158.3 TWh
Other	32.4 TWh
Property, plant and equipment as at December 31 (including work in progress)	$31.7B
Investments in property, plant and equipment and intangible assets	$940M

Under the *Act respecting the Régie de l'énergie* (CQLR, c. R-6.01), Hydro-Québec Production (the "Generator") is required to provide Hydro-Québec Distribution et Services partagés, in its role as electricity distributor in Québec (the "Distributor"), with a base volume of up to 165 TWh of heritage pool electricity annually and may also compete for contracts under the Distributor's open tendering process. It sells electricity on wholesale markets as well.

Its generating fleet includes 61 power plants, 28 large reservoirs with a combined storage capacity of 176.8 TWh, 681 dams and 91 control structures.

Operating results

The Generator recorded net income of $1,841 million in 2020, a $201-million decrease compared to 2019. Net electricity exports totaled $1,325 million, or $116 million less than the previous year, due to lower sales volume and market prices, whose impact was mitigated by the company's sales and risk management strategies. Electricity sales to the Distributor decreased by $43 million to total $5,073 million, mainly on account of lower requirements on the Québec market.

Net electricity exports

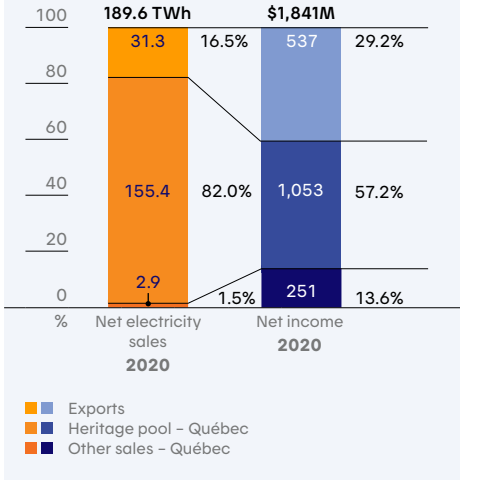
Net electricity exports totaled $1,325 million, or $116 million less than in 2019. Their volume exceeded 30 TWh for a fifth consecutive year, reaching 31.3 TWh. However, this represents a 2.4-TWh decrease compared to the previous year, due to the impact of first-quarter temperatures, which resulted in lower demand and prices on export markets, as well as to the repercussions of the global pandemic, which also led to lower prices and market requirements, especially in the second quarter. The drop in market prices was partially offset by the positive impact of the company's sales and risk management strategies, particularly the use of hedging derivative instruments.

Electricity sales in Québec

Sales to the Distributor

Electricity sales to the Distributor totaled $5,073 million, a $43-million decrease compared to the $5,116 million recorded a year earlier. The difference was mainly attributable to a decline in the volume of supplies as a result of the milder temperatures in winter and fall 2020. The temperature impact was, however, mitigated by the indexing of the price of heritage pool electricity in accordance with the *Act respecting the Régie de l'énergie*.

Generation Segment's Net Electricity Sales and Net Income by Market

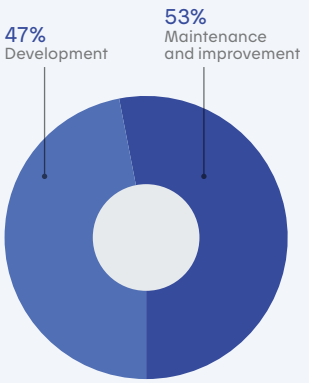


Investing activities

In 2020, the Generator invested $940 million in property, plant and equipment and intangible assets. Of this amount, $441 million went to development activities, mainly the ongoing construction of the Romaine hydroelectric complex, where the dam and related structures at Romaine-4 went into operation after reservoir impoundment was completed. The generating station is scheduled for commissioning in 2022. In keeping with the energy transition, the Generator also invested in the construction of two photovoltaic solar generating stations, namely the La Citière plant in La Prairie and the IREQ plant in Varennes, both located in the Montérégie region. The two facilities should be brought onstream in the first half of 2021.

The remaining $499 million was allocated to asset sustainment and optimization, including refurbishment projects at Robert-Bourassa, Rapide-Blanc and Beauharnois generating stations.

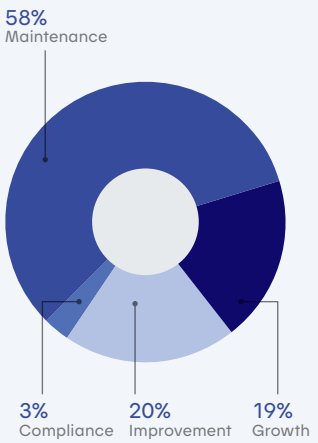
Breakdown of Generation Segment Investments in 2020



Transmission

2020 AT A GLANCE	
Revenue	$3.6B
Net income	$586M
Customers (% of revenue)	
Distributor *(native-load transmission service)*	83%
Generator and other North American wholesalers *(point-to-point transmission services)*	12%
Other	5%
Property, plant and equipment as at December 31 (including work in progress)	$23.8B
Investments in property, plant and equipment and intangible assets	$1,423M

Breakdown of Transmission Segment Investments in 2020



Hydro-Québec TransÉnergie et Équipement,[1] in its role as provider of power transmission services in Québec (the "Transmission Provider"), operates and develops Hydro-Québec's power transmission system, one of the most extensive in North America. It markets system capacity and manages power flows throughout the province, offering non-discriminatory access to its system to all market players in compliance with applicable regulatory requirements.

The Transmission Provider's activities are regulated by the Régie de l'énergie. Since January 1, 2019, the Transmission Provider's rates have been subject to performance-based regulation (PBR), which will apply for a four-year period. Under PBR, rates for the 2020 rate year were determined using a parametric formula that provides for the application of the cost-of-service method for some unpredictable costs and the use of an indexation formula for the other cost components. Previously, transmission rates were based solely on the cost-of-service method.

Rate cases

For 2020, the revenue authorized by the Régie de l'énergie for transmission rate-setting purposes totaled $3,435 million: $3,022 million for native-load transmission and $413 million for short- and long-term point-to-point transmission services. These amounts represent increases of $12 million and $8 million, respectively, compared to 2019.

On account of the COVID-19 pandemic, the Transmission Provider notified the Régie that it would postpone the filing of its 2021 rate application, initially scheduled for summer 2020, until summer 2021. The Régie approved the extension of 2020 rates on a provisional basis, subject to later review.

Operating results

The Transmission segment's net income was $586 million in 2020, comparable to the $569 million posted a year earlier. The increase in revenue from native-load transmission service and the decrease in financial expenses were offset by an increase in depreciation and amortization expense, primarily due to the commissioning of property, plant and equipment.

Investing activities

In 2020, the Transmission Provider invested $1,423 million in property, plant and equipment and intangible assets: $269 million for growth projects and $1,154 million for asset sustainment and reliability projects. The purpose of growth projects is to connect new generating facilities to the grid or to increase transmission capacity in response to higher load demand or new service requests. Asset sustainment and reliability projects involve keeping facilities in good operating condition, continuously improving service quality and complying with the legal and regulatory requirements for operating a power transmission system.

In the growth category, the Transmission Provider allocated $86 million to the project involving the deployment of a 320-kV direct current line running some 100 km between Appalaches substation near Thetford Mines and a connection point on the Québec/Maine border, as part of a larger project aimed at building a new 1,200-MW interconnection between Québec and the New England grid. It also allocated $23 million to the construction of 315/25-kV Patriotes substation, in the Laurentides region.

At the same time, the Transmission Provider carried out more than 1,500 projects aimed at maintaining and improving asset quality. These include the pursuit of various activities under the architecture development plan for the 315-kV system on the island of Montréal, as well as the replacement of the grid control systems, special protection systems, and substation protections and controls. The Transmission Provider also allocated $179 million to work related to the future 262-km, 735-kV Micoua–Saguenay line, which will help maintain the reliability of Hydro-Québec's transmission system.

1. For the presentation of segmented information, this division's financial data are divided between the Transmission and Construction segments.

Distribution

2020 AT A GLANCE	
Revenue	$12.1B
Net income	$216M
Market segments (% of revenue from electricity sales)	
Residential	46%
Commercial, institutional and small industrial	32%
Large industrial	19%
Other	3%
Property, plant and equipment as at December 31 (including work in progress)	$10.6B
Investments in property, plant and equipment and intangible assets	$773M
Rate freeze from April 1, 2020, to March 31, 2021 (pursuant to the *Act to simplify the process for establishing electricity distribution rates*)	

Hydro-Québec Distribution et Services partagés,[1] in its role as power distributor in Québec (the "Distributor"), provides electricity to the Québec market and delivers reliable power and quality services to its customers with a view to efficiency and sustainable development. In this context, it also promotes energy efficiency among its customers.

The Distributor's activities are regulated by the Régie de l'énergie, which has exclusive jurisdiction to set electricity rates.

Process for Establishing Electricity Distribution Rates[a]

2020	2021–2024	2025	2026–2029
Rate freeze	Indexed based on inflation	Régie de l'énergie to set rates based on cost of service for one year and start of new cycle	Indexed based on inflation

a) Excluding the large-power industrial rate (Rate L).

Rate-setting process

The Distributor's rates are subject to the *Act to simplify the process for establishing electricity distribution rates*, which came into force in December 2019. In particular, the Act specifies that electricity distribution rates are to be set or modified by the Régie every five years commencing on April 1, 2025, and that, in the interim, they will be adjusted each year based on the annual change in the average Québec Consumer Price Index. However, it authorizes the Distributor to apply to the Régie, before the deadline, to modify its rates if they do not allow for recovery of the cost of service.

Pursuant to the Act, distribution rates were frozen for the rate year starting April 1, 2020, while the rates for the following four years will be indexed annually. For the rate year starting April 1, 2021, Hydro-Québec announced a 1.3% increase in all rates except the large-power industrial rate (Rate L). This adjustment is based on the change in the average Québec Consumer Price Index between September 30, 2019, and September 30, 2020, excluding alcoholic beverages, tobacco products and recreational cannabis. The increase to be applied to Rate L customers will be announced at a future date.

Previously, the Distributor's rates were subject to performance-based regulation (PBR). Under PBR, rates for the 2019–2020 rate year, which took effect on April 1, 2019, were determined using a parametric formula with two components: the application of the cost-of-service method for some unpredictable costs and the use of an indexation formula for the other cost components.

The Act also provided for a refund to customers of an amount equivalent to the unamortized balances of the Distributor's variance and deferral accounts as at December 31, 2019. Substantially all of the balance of $535 million was paid out to customers in 2020.

Supplying the Québec market

The Distributor depends on various sources to supply the Québec market, mainly the heritage pool of 165 TWh, which it purchases from the Generator. It also issues short- and long-term calls for tenders.

For requirements of less than three months, the Distributor may also buy electricity directly on the market, without tendering, under an authorization granted by the Régie de l'énergie. For unforeseen needs that cannot be met otherwise, it relies on a framework agreement with the Generator that covers the period from January 1, 2020, to December 31, 2022. This agreement was approved by the Régie de l'énergie in December 2019.

In October 2020, the Distributor filed a first progress report on the Electricity Supply Plan 2020–2029 with the Régie. This report provides an updated demand forecast for the Québec market, which projects 15.9-TWh growth over the period concerned, and outlines the events that have influenced supply planning as well as the measures taken since the Plan was filed in November 2019.

Finally, the Distributor is continuing its efforts to promote energy efficiency. Among other things, it has developed an integrated offer based on raising awareness among customers and helping them make lasting

1. For the presentation of segmented information, financial data pertaining to shared services are included in Corporate and Other Activities.

changes in how they use electricity. In addition, it constantly adjusts its programs according to market needs and the company's requirements, ensures that its initiatives are in line with those of its various partners and remains on the lookout for potential energy savings from new technologies. In this regard, the Hydro-Québec subsidiary Hilo launched a suite of smart home products and services in August 2020 and will gradually expand its offerings to energy management in non-residential buildings, electric mobility solutions, smart storage and solar self-generation. These services will contribute to better management of energy use and thereby reduce supply requirements.

COVID-19 pandemic: Relief measures for customers

Since the beginning of the public health crisis related to the COVID-19 pandemic in March 2020, Hydro-Québec has made sustained efforts to continue delivering reliable electric power while also helping Quebecers get through the situation.

More specifically, the company introduced a number of relief measures to assist customers experiencing financial difficulties. In particular, administration charges for unpaid bills were suspended until September 30, 2020, and flexible payment options are being offered to customers to help adapt payment arrangements to their needs. In addition, service was not interrupted for non-payment of electricity bills.

Some accounts receivable nevertheless showed signs of deterioration, which led to an increase in the allowance related to the collectibility risk for the debts concerned.

Operating results

Net income related to distribution activities totaled $216 million, or $107 million less than the $323 million recorded the previous year. Revenue from electricity sales decreased by $500 million, primarily on account of the impact of temperatures, which were milder in winter and fall 2020 than in the same periods in 2019. This decrease was mitigated by the fact that, after the *Act to simplify the process for establishing electricity distribution rates* came into force, the Distributor stopped recognizing variances between actual revenue and costs for certain items and the forecasts in its rate filings, which had had a negative impact of $328 million on revenue from other activities in 2019. In addition, operational expenditure rose by $67 million, essentially on account of the increase in the allowance related to the collectibility risk for certain debts. Electricity purchases, the related transmission costs and fuel purchases were $120 million lower, primarily because of a decrease in supplies purchased from the Generator and from third parties.

Electricity sales in Québec

Revenue from electricity sales amounted to $11,929 million, a $500-million decrease compared to 2019. This decrease is the result of a combination of four main factors: the negative impact of temperatures, the repercussions of the pandemic on electricity demand in Québec, higher consumption by aluminum smelters, and the decline in market prices for aluminum.

The volume of electricity sales totaled 171.4 TWh, compared to the historic volume of 174.6 TWh recorded in 2019, a decrease of 3.2 TWh.

Electricity Sales in Québec by Segment

	Sales volume			Sales revenue		
	2020	2020–2019 change		**2020**	2020–2019 change	
Market segment	TWh	TWh	%	$M	$M	%
Residential	**68.6**	(2.1)	(3.0)	**5,535**	(217)	(3.8)
Commercial, institutional and small industrial	**45.1**	(2.8)	(5.8)	**3,853**	(203)	(5.0)
Large industrial	**52.1**	1.7	3.4	**2,208**	(71)	(3.1)
Other	**5.6**	–	–	**333**	(9)	(2.6)
Total	**171.4**	(3.2)	(1.8)	**11,929**	(500)	(4.0)

Factors Underlying the 2020–2019 Change in Sales by Segment

	Volume effects					Price effects	**Total**
	Baseload demand[a]		Temperatures		**Total**		
Market segment	TWh	$M	TWh	$M	$M	$M	$M
Residential	1.8	155	(3.9)	(337)	**(182)**	**(35)**	**(217)**
Commercial, institutional and small industrial	(2.0)	(170)	(0.8)	(63)	**(233)**	**30**	**(203)**
Large industrial	1.7	56	–	–	**56**	**(127)**	**(71)**
Other	0.2	3	(0.2)	(9)	**(6)**	**(3)**	**(9)**
Total	1.7	44	(4.9)	(409)	**(365)**	**(135)**	**(500)**

a) Including additional sales on February 29, since 2020 was a leap year.

On the one hand, temperatures led to a 4.9-TWh decrease in sales. Their impact was particularly felt in the first and fourth quarters, which correspond to the months when heating requirements affect customers' energy consumption and when Hydro-Québec therefore records most of its sales. In winter and fall 2020, temperatures were on average 1°C higher than normal, whereas they had been 2°C and 1°C lower, respectively, during the same periods in 2019. Thus, for the first three months of 2020, the temperature variance compared to the previous year resulted in a 3.5-TWh or $294-million decrease in electricity sales, while for the last three months of the year, it translated into an additional decrease of 1.9 TWh or $152 million.

On the other hand, baseload demand rose by 1.7 TWh because of higher energy requirements in the residential segment, partly attributable to the impact of the lockdown measures, in particular the general adoption of telework, and also because of higher consumption by aluminum smelters, itself mainly due to the gradual resumption of operations at a large facility in summer 2019, following a prolonged labor conflict. However, this increase was partially offset by the effects of the public health measures resulting from the pandemic, which led to the closure of a large number of stores and other businesses for many weeks in the spring and fall, and which drove down electricity sales in the commercial, institutional and small industrial segment, as well as in the large industrial customer segment.

Other revenue from ordinary activities

Other revenue from ordinary activities decreased by $25 million compared to the $56 million posted in 2019. The difference is due to the suspension of administration charges on unpaid bills between March and September 2020, as part of the relief measures implemented by Hydro-Québec to assist customers experiencing financial difficulties due to the pandemic.

Revenue from other activities

With regard to revenue from other activities, a negative amount of $328 million had been recognized in 2019 to reflect the change in variances between actual revenue and costs for certain items and the forecasts in the rate filings, related in particular to weather conditions and the cost of native-load transmission service. Pursuant to the *Act to simplify the process for establishing electricity distribution rates*, no amount was recorded in this regard in 2020.

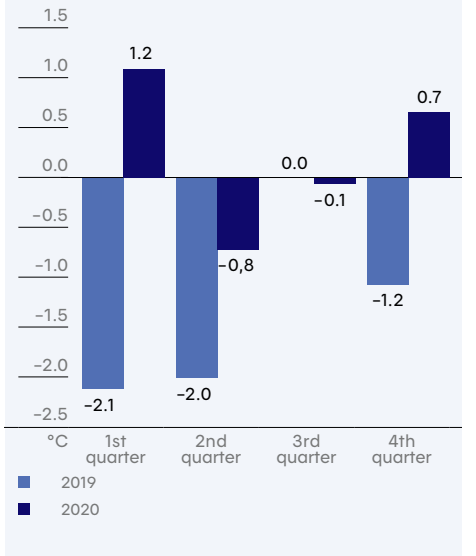
Operational expenditure

Operational expenditure totaled $1,344 million in 2020, compared to $1,277 million in 2019. This $67-million rise is essentially due to an increase in the allowance related to the collectibility risk for certain debts given that some accounts receivable, both residential and business, showed signs of deterioration during the year as a result of the difficult economic conditions caused by the pandemic. The allowance therefore gave rise to a $157-million expense in 2020, or $71 million more than in 2019.

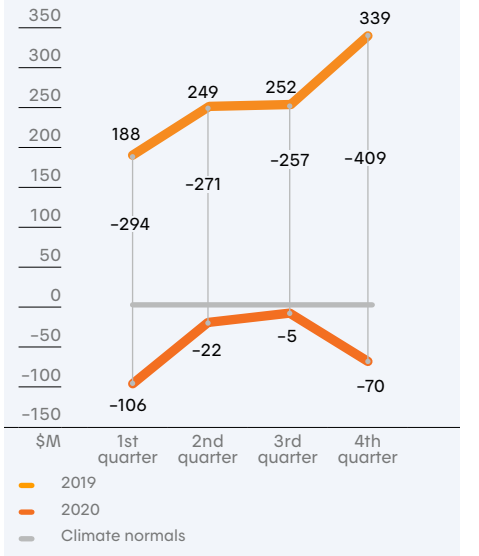
Electricity purchases, transmission costs and fuel purchases

Electricity purchases, the related transmission costs and fuel purchases decreased by $120 million compared to 2019. Supplies from the Generator declined by $43 million because of the lower volume of electricity sales in Québec. The impact of this element was mitigated, however, by the indexing of the price of heritage pool electricity in accordance with the *Act respecting the Régie de l'énergie*. Supplies from third parties decreased on account of a reduction in short-term purchases on the markets and a slightly lower output compared to 2019 from wind farms under contract. Fuel purchases also dropped, in particular because of the decline in fuel prices. Finally, costs incurred for native-load transmission provided by the Transmission Provider increased by $12 million.

Variances from Climate Normals – Montréal and Québec



Cumulative Impact on Electricity Sales in Québec of Temperatures Compared to Normals

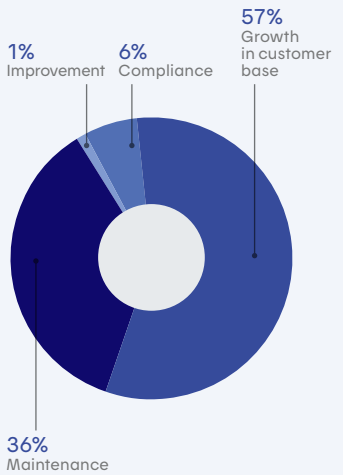


Investing activities

In 2020, the Distribution segment's investments in property, plant and equipment and intangible assets totaled $773 million.

Of this amount, $440 million went toward handling the growth of the Québec customer base, which includes connecting new customers as well as the village of La Romaine and the community of Unamen Shipu, both located in the Basse-Côte-Nord region and currently served by an off-grid system, to the main grid. The Distributor also allocated $333 million to asset sustainment, in particular the project to replace the distribution grid control system.

Breakdown of Distribution Segment Investments in 2020



Construction

2020 AT A GLANCE	
Volume of activity	$2.1B
Main customers	
Generator	39%
Transmission Provider	54%

The Construction segment consists of activities related to projects carried out by Hydro-Québec TransÉnergie et Équipement[1] and by Société d'énergie de la Baie James (SEBJ) (collectively, the "Construction Expert").

Hydro-Québec TransÉnergie et Équipement is responsible for construction and refurbishment projects throughout Québec, except in the territory governed by the *James Bay and Northern Québec Agreement* (JBNQA). SEBJ builds generating facilities in the territory governed by the JBNQA (north of the 49th parallel) and may also carry out certain projects elsewhere in Québec and outside the province.

As an engineering, construction and environmental specialist, the Construction Expert also offers the Generator and the Transmission Provider a variety of services needed for draft-design studies, impact assessments and other undertakings in the context of energy-related projects. These services include technical and scientific surveys, planning, cost estimates and cost control, design, architecture, geomatics and quality control.

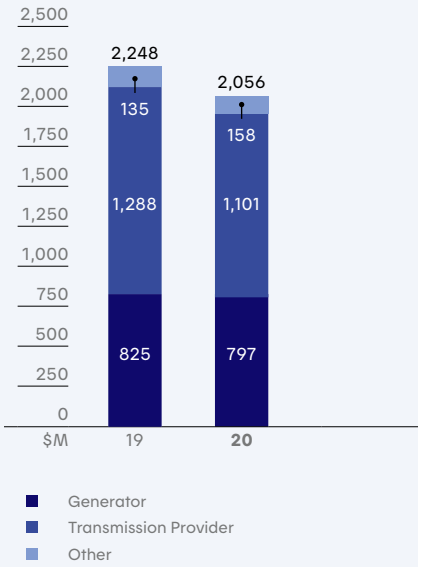
Volume of activity

The Construction Expert carried out activities amounting to a total of $2,056 million in 2020, compared to $2,248 million the previous year. The high volume is attributable to several large-scale projects. Work done for the Generator totaled $797 million, compared to $825 million in 2019, while work done for the Transmission Provider totaled $1,101 million, compared to $1,288 million in 2019.

Main projects

In the area of power generation, the Construction Expert continued building the Romaine hydroelectric complex and overhauling some of the generating units at Robert-Bourassa and Beauharnois generating stations. It also began the replacement of six generating units and continued upgrading the auxiliary systems at Carillon generating station. Progress was also made on the refurbishment of Rapide-Blanc generating station and the dike at Les Cèdres. In the area of transmission, connection of the Romaine complex continued to advance, as did the land clearing for construction of the 735-kV Micoua–Saguenay line. In addition, the Construction Expert carried on with its numerous replacement programs throughout Québec while also upgrading various facilities on the main transmission system and pursuing other projects to increase transmission capacity.

Breakdown of Construction Segment Activities



1. For the presentation of segmented information, this division's financial data are divided between the Transmission and Construction segments.

Corporate and Other Activities

The Corporate and Other Activities heading includes all corporate activities, which are handled by the Groupe – Direction financière, Groupe – Affaires corporatives et juridiques et gouvernance, Vice-présidence – Expérience client, communications et relations avec les communautés, Vice-présidence – Ressources humaines and Vice-présidence – Gestion intégrée des risques. It also encompasses the activities of the Vice-présidence – Technologies de l'information et des communications, Vice-présidence – Stratégies d'entreprise et développement des affaires, Vice-présidence – Évolution de l'entreprise et approvisionnement stratégique, Direction principale – Centre de services partagés, Direction principale – Institut de recherche d'Hydro-Québec and Direction principale – Filiales et innovations commerciales, as well as intersegment eliminations and adjustments.

Results

The net loss for Corporate and Other Activities was $346 million in 2020, compared to $12 million in 2019, in particular because of higher operating expenses. First of all, the Pension Plan's current service cost increased compared to the previous year, mainly because of a decrease, at the end of 2019, in long-term interest rates on capital markets. Next, additional expenses related to business development were recognized in 2020, partly in connection with the operations of the subsidiaries tasked with leveraging the technologies and services resulting from Hydro-Québec's R&D efforts in the areas of energy efficiency, demand response and energy storage systems. Lastly, after mandatory telework went into effect for many of the company's employees, additional expenses were incurred for telecommunications services, so that everyone could work efficiently from home.

Corporate activities

The Groupe – Direction financière is responsible for financing, treasury, accounting, budget planning, taxation, control, preparation of financial statements and reports, and management of the Pension Plan and pension fund. As at December 31, 2019, the date of the most recent actuarial valuation, the Pension Plan showed a funding surplus of $8.2 billion, which means that the assets held on that date were sufficient to cover future pension costs as well as the stabilization provision established under the requirements of the *Supplemental Pension Plans Act* (CQLR, c. R-15.1). The Pension Plan's funding ratio was 142.4% at that time.

The Groupe – Affaires corporatives et juridiques et gouvernance provides administrative support to the company's Board of Directors and the boards of Hydro-Québec subsidiaries, as well as legal services, advice and opinions to the entire company. It negotiates, drafts and reviews the contracts and agreements required in the course of the company's operations and protects its interests in business matters and disputes, including court cases and matters involving regulators such as the Régie de l'énergie of Québec and the Canada Energy Regulator. It also develops strategies and guidelines and provides advisory services in the areas of corporate affairs, governance and ethics, access to documents and protection of personal information, information management, and sustainable development. At the request of the Management or Board of Directors of Hydro-Québec, it also conducts analyses and assessments to evaluate the company's governance, performance and compliance in different areas, such as anti-bribery policies, the environment and worker health and safety.

The Vice-présidence – Expérience client, communications et relations avec les communautés provides customer experience and marketing advice and frames of reference to Hydro-Québec and its subsidiaries. It is also responsible for communications with the general public and the company's stakeholders, including governments, as well as relations with communities and Indigenous peoples. It also develops integrated strategies regarding all stakeholders and sees to the continuous enhancement of Hydro-Québec's reputation, in collaboration with all of the units.

The Vice-présidence – Ressources humaines develops strategies, guidelines, directives, corporate programs and objectives in matters pertaining to human resources management, labor relations, compensation and employee benefits, organizational performance, as well as training and skills development. It also supports the company's transformation by seeking to ensure that Management can count on optimum conditions regarding human resources. Moreover, it is responsible for all measures regarding the protection of personnel and third parties, as well as the security of Hydro-Québec's facilities and assets.

The Vice-présidence – Gestion intégrée des risques coordinates and monitors the integrated portfolio of market and credit risks related in particular to energy trading floor operations, the regulated activities of the Transmission Provider and the Distributor, business development, treasury operations, debt financing and management, and the Pension Plan. In addition, it takes part in optimizing capital projects by conducting systematic cost engineering analyses.

Vice-présidence – Technologies de l'information et des communications

The Vice-présidence – Technologies de l'information et des communications designs, deploys and operates the company's information and telecommunications networks, systems, applications and infrastructure, and is responsible for their evolution and security. As part of its mandate, it works toward an integrated vision with respect to governance, architecture, development and operations. It also develops leading-edge technology solutions designed to increase the company's productivity and facilitate its digital transformation, including increased automation of the power grid and business processes, greater mobility, as well as the use of cloud computing, data analytics and artificial intelligence.

This unit's volume of activity totaled $768 million in 2020, compared to $731 million in 2019.

Investing activities

The investments of the Vice-présidence – Technologies de l'information et des communications totaled $174 million in 2020. They were essentially allocated to maintaining asset quality in keeping with Hydro-Québec's corporate architecture targets and strategic digitalization objectives.

Vice-présidence – Stratégies d'entreprise et développement des affaires

The mandate of the Vice-présidence – Stratégies d'entreprise et développement des affaires is to identify and seize growth opportunities both in Québec and on external markets, so that Hydro-Québec can maximize its contribution to the province's

economic expansion. To that end, it develops strategies that take into account the company's business environment and that leverage its existing and constantly growing intellectual capital. The unit also remains on the lookout for potential investments in the form of acquisitions, equity stakes or long-term partnerships, and also promotes the benefits of Québec hydropower on export markets.

Vice-présidence – Évolution de l'entreprise et approvisionnement stratégique

The Vice-présidence – Évolution de l'entreprise et approvisionnement stratégique oversees Hydro-Québec's major cross-functional projects and guides the evolution of the operational model, processes and management systems with a view to continuous improvement. In addition, it looks after the governance and coordination of the corporate emergency response plan and emergency biohazard response plan, and reports on them to the Management Committee. It is also responsible for occupational health and safety, as well as environmental governance and expertise. Lastly, this unit provides the entire company with guidelines, policies, products and services related to strategic procurement, according to best practices in this area.

Direction principale – Centre de services partagés

The mission of the Direction principale – Centre de services partagés[1] is to create value by offering competitive services and expertise pertaining to real estate management and materials and transportation logistics to the company as a whole. It thereby contributes to Hydro-Québec's bottom line by optimizing costs and maximizing asset value.

The unit's volume of activity totaled $481 million in 2020, compared to $500 million in 2019.

Direction principale – Institut de recherche d'Hydro-Québec

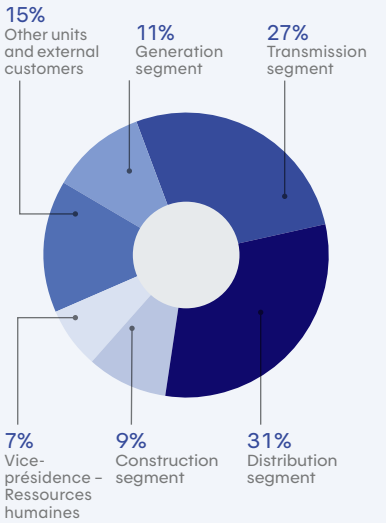
The Direction principale – Institut de recherche d'Hydro-Québec[2] (IREQ) develops leading-edge technologies and applications adapted to the energy situation in Québec, in order to help the company improve grid performance and serve customers better.

As the company's innovation hub, IREQ includes the Hydro-Québec research center and the Center of Excellence in Transportation Electrification and Energy Storage (CETEES). The research center, whose projects are designed in particular to support the energy transition, keeps the company on the leading edge of advances in knowledge and technological solutions in all areas likely to have an impact on its operations over the short and long term. R&D efforts at CETEES focus on advanced materials for sustainable mobility and large- and small-scale energy storage, two key elements in the fight against climate change.

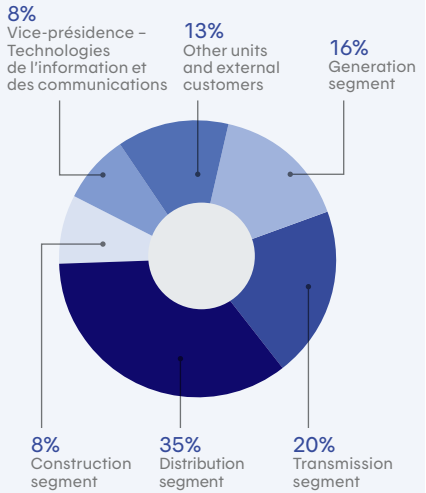
Direction principale – Filiales et innovations commerciales

The mandate of the Direction principale – Filiales et innovations commerciales[2] is to develop an end-to-end vision and strategy for commercializing innovative technologies that will help build Québec's energy future for the benefit of customers. It is also in charge of coordinating the operations of the Hydro-Québec IndusTech subsidiaries tasked with marketing the technologies and services resulting from Hydro-Québec's R&D efforts, including Hilo (energy efficiency and demand response), EVLO (energy storage systems), DANA TM4 (electric propulsion) and the Electric Circuit (charging infrastructure).

Breakdown of 2020 Activities: Vice-présidence – Technologies de l'information et des communications



Breakdown of 2020 Activities: Direction principale – Centre de services partagés



1. The Direction principale – Centre de services partagés is part of the Hydro-Québec Distribution et Services partagés division.
2. The Direction principale – Institut de recherche d'Hydro-Québec and Direction principale – Filiales et innovations commerciales are part of the Innovation et Hydro-Québec Production structural unit.

Outlook

As this Annual Report goes to press, it is impossible to give a meaningful estimate of the duration and scope of the public health crisis resulting from the COVID-19 pandemic and the extent of the ensuing economic disruption. It is also difficult to assess the fallout on Hydro-Québec's operations and financial results over the long term. The company is carefully monitoring changes in the situation and intends to launch various projects designed to enable it to bounce back and help its customers get back on their feet.

For 2021, Hydro-Québec is targeting net income of $2.7 billion.

The company plans to invest approximately $4.6 billion in 2021, most of which will be allocated to the operations of the Transmission Provider ($2.1 billion), the Generator ($1.1 billion) and the Distributor ($0.9 billion). More than 60% of the total amount will be earmarked for facility maintenance and improvements. The remainder will go toward growth and business development activities.

The 2021 borrowing program is set at $3.5 billion. The funds raised will be used to support a large part of the investment program and to repay maturing debt.

The **Generator** will continue its work on the Romaine complex jobsites in the course of developing Québec's hydroelectric potential. Three of the four generating stations in this major project, namely Romaine-2, Romaine-1 and Romaine-3, were commissioned in 2014, 2015 and 2017, respectively, and Romaine-4 is scheduled to follow in 2022. At the same time, the Generator will continue investing to ensure the long-term operability of its facilities and optimize their output. For instance, refurbishment is under way at Robert-Bourassa, Rapide-Blanc, Carillon and Beauharnois generating stations.

The **Transmission Provider** will devote a large part of its investments to erecting transmission lines, in particular the 735-kV line that will extend 262 km between Micoua substation, in the Côte-Nord region, and Saguenay substation, in the Saguenay–Lac-Saint-Jean region, as well as the approximately 100-km 320-kV direct current interconnection line between Appalaches substation, located near Thetford Mines, and a connection point on the Québec–Maine border. It will also continue to invest in upgrading and modernizing its facilities to ensure the reliability and long-term operability of its transmission assets and maintain service quality. Some examples of this include the projects to replace the grid control systems, special protection systems, and substation protections and controls, as well as work stemming from the architecture development plan for the 315-kV system on the island of Montréal.

The **Distributor** will continue to deliver reliable power and high-quality services to all Quebecers and will make further investments to better meet customer needs. For example, work is ongoing to connect the village of La Romaine and the Innu community of Unamen Shipu, both located in the Basse-Côte-Nord region and currently served by an off-grid system, to the main grid, and a new generating station will be built to supply the Inuit village of Tasiujaq, in the Nord-du-Québec region. The Distributor will also pursue projects to maintain and improve the quality of its facilities, such as replacing the distribution grid control system.

Integrated Business Risk Management

For many years, Hydro-Québec has applied an integrated business risk management process as part of its ongoing activities. This process is supported by various control, communication and assessment mechanisms intended to ensure dynamic monitoring of risk developments.

The company's structural units, namely the divisions and corporate units, are central to the process. As part of their activities, they manage the risks to which they are exposed and reassess them on a regular basis, daily in some cases. In concrete terms, each structural unit must identify and assess its main risks and then develop and apply mitigation measures to ensure that residual risks are at a level acceptable to Hydro-Québec. The structural units report monthly on their risk management and monitoring activities to the Management Committee, which then acts as a risk management committee to provide overall monitoring of business risks. This approach makes it possible to create a consolidated portfolio of residual business risks during the annual planning process. The consolidated portfolio is presented to the Board of Directors with the Business Plan, which includes a sensitivity analysis indicating the impact of certain risks on forecast net income.

Integrated Business Risk Management Process

	Annually	Monthly
Structural units	• Identification of each structural unit's risks and validation by the manager reporting to the President and Chief Executive Officer • Development or updating of the structural unit's portfolio of residual business risks	Report on the monitoring of each structural unit's portfolio of residual business risks
Corporate Management[a]	Review of the company's consolidated portfolio of residual business risks, risk map and probability of attaining forecast net income	Review of the consolidated monthly report on the monitoring of the company's portfolio of residual business risks
Board of Directors	**Audit Committee** • Analysis of the company's integrated process for managing residual business risks • Analysis of the company's consolidated portfolio of residual business risks and risk map **Financial Affairs, Projects and Technologies Committee** Analysis of the Business Plan and probability of attaining forecast net income **Board of Directors** Review of the Business Plan, the company's consolidated portfolio of residual business risks, risk map and probability of attaining forecast net income	

a) Acting as the risk management committee, with the Vice President – Integrated Risk Management as Chief Risk Officer.

Financial risks

In the course of its operations, Hydro-Québec carries out transactions that expose it to certain financial risks, such as market, liquidity and credit risk. Systematic monitoring and the adoption of strategies that include the use of derivative instruments considerably reduce exposure to such risks and their impact on the company's results.

To manage market and credit risk, a team of specialists that is independent of the units carrying out the transactions constantly monitors a number of indicators related to financial and energy transactions, recommends strategies and applies controls aimed at reducing risk.

Market risk

Hydro-Québec's results are subject to three main types of market risk: currency risk, interest rate risk and risk associated with energy and aluminum prices. Fluctuations in the Canadian dollar's exchange rate relative to the U.S. dollar affect revenue from sales denominated in U.S. dollars as well as the cost of U.S. dollar–denominated debt. Interest rate fluctuations affect financial expenses and pension costs. Finally, energy price fluctuations affect revenue from wholesale markets, while aluminum price fluctuations have an impact on revenue from special contracts with certain large industrial customers in Québec.

The three types of market risk are the subject of active integrated management based mainly on the use of derivative financial instruments. The purpose of such management is to limit the impact of market risk on Hydro-Québec's results, according to strategies and criteria established based on the company's risk tolerance. In addition, market risk over the medium and long term is mitigated by the offsetting effect between the impact of a general increase or decrease in

interest rates on financial expenses, on the one hand, and the impact of such an increase or decrease on pension costs, on the other.

Hydro-Québec's pension costs are also subject to the risk of fluctuation in the fair value of investments held in the pension fund portfolio. To manage this risk, the company relies on asset diversification and on investment management strategies that include the use of derivatives.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities. This type of risk may arise from difficulties accessing sources of financing for its investment program.

Hydro-Québec's liquidity risk is mitigated by several factors, including substantial cash flows generated by operating activities, access to a preauthorized standby credit facility and a diversified portfolio of highly liquid financial instruments.

Credit risk

Credit risk is the risk that a counterparty may not meet its contractual obligations.

Hydro-Québec is exposed to credit risk related to receivables through ongoing electricity sales in Québec. To mitigate the impacts of the pandemic, the company relaxed its payment arrangement conditions to accommodate the needs of both residential and business customers. It also launched a campaign to inform its most vulnerable customers of the more flexible conditions, while also increasing its provision related to the collectibility risk.

The company is also exposed to credit risk related to the cash equivalents, short-term investments and derivative instruments traded with financial institutions and other issuers and, to a lesser extent, with North American energy companies under the Distributor's power purchase agreements and the Generator's energy transactions on markets outside Québec.

Exposure to credit risk is mitigated by the implementation of limits and frameworks for risk concentration and level of exposure by counterparty. To ensure compliance with such limits and frameworks, Hydro-Québec takes a proactive approach based on various controls and monitoring reports. These enable it to react quickly to any event that could have an impact on the financial position of its counterparties. In addition, the company generally does business with counterparties that have a high credit rating. It also enters into agreements to keep the market value of the main portfolios of derivative instruments below a predetermined threshold.

Regulatory risks

Hydro-Québec is exposed to regulatory risks because, under the *Act respecting the Régie de l'énergie*, its activities related to electricity transmission and distribution are regulated. The decisions handed down by the Régie de l'énergie may therefore affect the results of the Transmission Provider and the Distributor. In particular, the Act stipulates that rates are determined on a basis that allows for recovery of the cost of service and provides a reasonable return on the rate base.

However, the *Act to simplify the process for establishing electricity distribution rates*, which came into force in 2019, put an end to the regulatory practice whereby any variance between the actual amounts of certain items, in particular revenue variances related to weather conditions and variances related to the cost of electricity supplies, and the amounts forecast in the rate filings, which were based on climate normals and recognized by the Régie for rate-setting purposes, could later be factored into the Distributor's rates. The Distributor is therefore now exposed to the risks associated with these items, which were formerly covered by variance and deferral accounts. As of 2021, these risks will, however, be mitigated by the annual indexation of rates.

Various measures have been put in place to reduce the impact of regulatory risks on the results of the Transmission Provider and the Distributor. These measures include submitting complete and well-argued files to the Régie de l'énergie and maintaining a constructive dialogue with the Régie and the intervenors, particularly during working sessions.

Operational risks

Managing a power system poses numerous technical challenges related to aging equipment. Hydro-Québec must therefore make informed decisions when it comes to planning investments aimed at extending the useful life of its facilities and replacing certain assets.

Generation

One of the principal uncertainties that Hydro-Québec faces relates to natural water inflows. The Generator must ensure that it is able to meet its commitments to supply an annual base volume of up to 165 TWh of heritage pool electricity to the Distributor and fulfill its contractual obligations. In concrete terms, this means being able to cover a natural inflow deficit of 64 TWh over two consecutive years, and 98 TWh over four consecutive years. To manage this risk, the Generator applies a variety of mitigation measures and closely monitors them. It therefore manages its reservoir storage on a multiyear basis and maintains an adequate margin between its generating capacity and its commitments. This margin allows it to compensate for variations in runoff, replenish its reserves or take advantage of business opportunities. Hydro-Québec regularly reports to the Régie de l'énergie on the Generator's generating capacity and energy reserve.

Moreover, the Generator operates many generating stations and control structures in southern Québec, particularly on the Rivière Saint-Maurice, the Rivière des Outaouais (Ottawa River) and the Fleuve Saint-Laurent (St. Lawrence River), along which a number of urban centers and other agglomerations are located. These rivers have experienced major spring flooding in recent years, especially in 2017 and 2019. To reduce the impact of flooding on communities, the Generator plans ahead and manages its facilities in such a way as to maximize public safety, by carrying out rigorous monitoring and by working closely with the authorities. For example, various reservoirs were used to limit flooding in 2019. The company held numerous information sessions during the year to educate the public about the key role that its reservoirs and control structures play in managing floods.

The Generator is also exposed to risk arising from variances between actual temperatures and domestic market demand and forecast values. Such variances have an impact on its electricity sales to the Distributor and may affect the volume available for its export sales.

In addition to runoff uncertainties, the Generator's export activities on wholesale markets are subject to market risk and the risk of unavailability of generating and transmission equipment. Market risk results from fluctuations in energy prices on markets outside Québec, and is mitigated by ongoing monitoring of trends in wholesale markets and the use of hedging derivative instruments. The risk of unavailability of generating and transmission equipment is mitigated through maintenance and upgrade programs.

The risks related to export activities are quantified in an integrated fashion by a team of specialists independent of the unit carrying out the transactions. This team sees to the application of controls, presents daily reports to Senior Management and ensures compliance with the limits approved by Management and the Board of Directors.

Transmission

Several factors, such as extreme weather events and equipment failure, may cause service interruptions or result in the unavailability of part of the transmission system. The multifaceted strategy adopted by the Transmission Provider to counter these factors includes implementing the standards of the North American Electric Reliability Corporation (NERC) as well as measures to maintain and reinforce its transmission facilities and ensure that assets continue to operate smoothly throughout their useful lives. It is worth noting in this regard that the Direction principale – Contrôle des mouvements d'énergie et exploitation du réseau within Hydro-Québec TransÉnergie et Équipement is the Reliability Coordinator for transmission systems in Québec, a role it was assigned by the Régie de l'énergie in 2007.

The Transmission Provider must provide enough transmission capacity to supply the Distributor and other customers, as well as ensuring transmission system security and reliability. To do so, it applies optimal management of the annual peak load and invests in modernizing its transmission facilities based on an asset management model. It has also undertaken major projects to replace the grid control systems, special protection systems, and substation protections and controls.

Distribution

The main risk to which the Distributor is exposed relates to continuity of service. To maintain power quality, it continually invests in its system to modernize and automate it and enhance its security. It also relies on vegetation control, the application of an asset maintenance program and renewal strategy, and compliance with applicable standards for overhead and underground systems. To reduce the duration of service interruptions, the vast majority of which are caused by adverse weather conditions, it has adopted new technologies for rapid detection of outages, faster service restoration and remote management of certain incidents.

Even under normal weather conditions, the Distributor has to deal with demand fluctuations that are due to economic and energy market factors and that impact its results. When demand is lower than forecast, it cannot recover from customers all the costs related to power transmission and distribution. Since the *Act to simplify the process for establishing electricity distribution rates* came into force, it also has been exposed to risks related to weather conditions and variances in electricity supply costs. To counter the impact of all these risks, it constantly fine-tunes its method of forecasting electricity demand.

Construction

One of the key risks that Hydro-Québec must deal with in the course of its construction projects is occupational health and safety on its jobsites. In 2017, the company initiated a major shift aimed at developing strong leadership, raising its standards and improving its performance in health and safety, and thereby becoming a benchmark in this area in Québec's construction industry. To this end, it developed an action plan that is reviewed annually and monitored on a monthly basis by Senior Management. All the structural units are working together toward a common goal: provide a safe, healthy and respectful work environment.

Pressure on construction project costs is another risk to which Hydro-Québec is constantly exposed. This pressure stems from such factors as a labor shortage due in part to the boom in Québec's construction industry, higher prices for certain materials or products, as well as factors like late deliveries, poor quality and work stoppages, which affect project schedules. The recovery plans likely to be deployed in the coming months in response to the COVID-19 pandemic could put more pressure on project costs and availability of labor.

To meet its commitments and continue to apply high safety and quality standards, the Construction Expert has implemented a number of measures designed to reduce its risk exposure. In particular, it closely monitors project schedules, costs, accidents and risks specific to each project or key deliverable, an approach that enables it to ensure that projects are progressing as planned and to take any necessary corrective action. In collaboration with internal partners, it also maintains ongoing relations with the relevant organizations and government departments to stay abreast of future amendments to laws and regulations that could affect its activities. Finally, in conjunction with the Direction principale – Approvisionnement stratégique, it develops procurement strategies that promote competition, sustainable supplies and continued expertise in its markets, and it adjusts its project execution strategies according to economic conditions, in consultation with its partners.

Corporate and Other Activities

Occupational health and safety

Hydro-Québec is continuing the company-wide shift it initiated to change its culture and improve its performance in occupational health and safety (OHS) in order to protect all its workers. The transformation is built around three pillars: leadership, risk management and performance.

Numerous initiatives were launched, many of which seek to reduce the severity and frequency of accidents. Priority is given to the two most critical risks for the company, namely moving vehicles and live equipment, as well as to musculoskeletal disorders, the cause of most incidents.

Significant efforts were deployed to optimize reporting of accidents, determine their causes and implement effective control strategies and methods. For instance, a specialized team was tasked with conducting independent investigations to determine the basic causes of potentially serious incidents with a high risk of recurrence.

On account of the public health crisis, the company added biological risks to its action priorities. In March 2020, it deployed its emergency biohazard response plan, which calls for the application of numerous hygiene measures in workplaces and on jobsites in order to protect both workers and the local populations concerned. At the same time, it implemented a number of support measures to help teleworkers maintain a healthy lifestyle.

OHS performance indicators continue to be closely monitored in dashboards and performance reviews, and the measures taken since 2017 have provided the necessary foundation for achieving the desired results. Improving the company's OHS performance and creating a genuine culture of prevention is a long process. However, the continued deployment, in 2021, of the company's health and safety action plan should contribute to more effective risk management and to the achievement of new gains in this area during the coming years.

Safety of individuals and security of assets and revenue

Hydro-Québec takes every possible measure to protect its employees and third parties against any threats, hazards, disasters and exceptional circumstances that might occur during the course of operations. It carries out continuous monitoring of threats and vulnerabilities, and of the safety measures necessary for accomplishing its mission. The company also looks after securing all its physical assets, information assets and cyber assets.

To help ensure optimal protection of individuals and of its assets and revenue, Hydro-Québec is committed to fostering a safety and security culture; increasing public awareness of the need for good safety habits near its facilities; anticipating, evaluating and mitigating risks and threats; establishing and applying adapted safety measures; ensuring surveillance of assets and detection of anomalies; responding quickly in the event of harm, damage or threat to individuals, assets or revenue in order to limit impacts; complying with legal and regulatory requirements; and taking part in government safety and security initiatives.

Concerning protection of revenue, Hydro-Québec pays special attention to electricity theft, fraud, intellectual property infringement and possible attacks on the grid. To counter these risks, the company relies on a series of measures, including an analytical method for detecting electricity theft, increased security at strategic facilities, as well as continued active surveillance in collaboration with its partners.

In addition, Hydro-Québec has a corporate emergency response plan to ensure the continuity of its operations and its mission in case of an exceptional event. The corporate plan integrates the structural units' emergency response plans and activities with the aim of strengthening and improving coordination of the efforts of all internal and external responders, including public authorities.

Security of information and communications technologies

Cybersecurity is a key concern for Hydro-Québec. To manage this issue, the company relies on a multidisciplinary team of experts who work closely with a network of external collaborators. Together, they monitor Hydro-Québec's information and telecommunications networks, anticipate and analyze threats and keep a close watch on related risks. The company regularly assesses the mitigation measures in place and deploys new strategies based on changes in the business environment and emerging trends in security.

Growth in Québec and beyond

Hydro-Québec intends to take advantage of opportunities both in Québec and beyond its borders with a view, in particular, to increasing the company's value, enhancing its strategic position and supporting the decarbonization of all its markets. The growth avenues it is exploring involve developing its domestic and export markets, leveraging its technologies and acquiring assets or equity stakes. To ensure the success of these ventures, the company has adopted a disciplined approach and implemented a business opportunity analysis process to identify the related risks and manage them proactively.

Environment

Every year, Hydro-Québec reviews its management of environmental risks as well as areas for improvement using its ISO 14001:2015–certified management system. It thereby seeks to have better control of the impacts of its operations and projects on biophysical and human environments and maximize the positive environmental spin-offs of its presence throughout Québec.

Climate change

Climate change is already starting to have an impact on Hydro-Québec's operations. In its *Strategic Plan 2020–2024*, the company therefore undertook to develop an adaptation plan aimed at mitigating the related risks. In 2020, a committee made up of representatives from all the units concerned identified key vulnerabilities in order to propose adaptation measures and, in due course, oversee their implementation. The company also asserted its intention to be a leader in the energy transition so as to make an even larger contribution to the fight against global warming.

MANAGEMENT'S REPORT ON FINANCIAL INFORMATION

Hydro-Québec's consolidated financial statements and all the information contained in this Annual Report are the responsibility of Management and are approved by the Board of Directors. The consolidated financial statements have been prepared by Management in accordance with United States generally accepted accounting principles and take into account the decisions handed down by the Régie de l'énergie of Québec with respect to the transmission and distribution of electricity. They include amounts determined based on Management's best estimates and judgment. Financial information presented elsewhere in the Annual Report is consistent with the information provided in the consolidated financial statements.

Management maintains an internal control system whose objective is to provide reasonable assurance that financial information is relevant and reliable and that Hydro-Québec's assets are appropriately recorded and safeguarded. In particular, this system includes Hydro-Québec's policies and directives, and involves communicating Hydro-Québec's rules of ethics and Code of Conduct to employees to ensure the proper management of resources and the orderly conduct of business, in compliance with the applicable laws and regulations. An internal auditing process allows evaluation of the sufficiency and effectiveness of controls, as well as of Hydro-Québec's policies and directives. Recommendations ensuing from this process are submitted to Management and the Audit Committee.

The Board of Directors approves the corporate governance rules. It assumes its responsibility for the consolidated financial statements through its Audit Committee, composed solely of independent directors, who do not hold full-time positions within Hydro-Québec or in one of its subsidiaries. The Audit Committee is responsible for recommending the consolidated financial statements to the Board of Directors for approval. The Audit Committee meets with Management, the independent auditors and the Internal Auditor to discuss the results of their audits and the resulting findings with respect to the integrity and the quality of Hydro-Québec's financial reporting as well as its internal control system. The independent auditors and the Internal Auditor have full and unrestricted access to the Audit Committee, with or without Management present.

The 2020 and 2019 consolidated financial statements have been audited jointly by the Auditor General of Québec, KPMG LLP and Ernst & Young LLP.

/s/ Jacynthe Côté
Chair of the Board

/s/ Sophie Brochu
President and Chief Executive Officer

/s/ Jean-Hugues Lafleur
Executive Vice President and
Chief Financial Officer

Montréal, Québec
February 12, 2021

INDEPENDENT AUDITORS' REPORT

To the Minister of Finance of Québec:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Hydro-Québec and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2020 and 2019, and the consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and 2019, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with United States generally accepted accounting principles (U.S. GAAP).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- The information, other than the consolidated financial statements and our auditors' report thereon, included in the Annual Report
- The information, other than the consolidated financial statements and our auditors' report thereon, included in a document likely to be entitled *Annual Report – Form 18-K*.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

The document likely to be entitled *Annual Report – Form 18-K* is expected to be made available to us after the date of the auditors' report. If, based on the work we will perform on the other information included in this document, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. GAAP, 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.

In preparing the consolidated financial statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

As required by the *Auditor General Act* (CQLR, c. V-5.01), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

The engagement partners from KPMG LLP and from Ernst & Young LLP on the audit resulting in this independent auditors' report are respectively André Dugal and Laurent Liagre.

On behalf of the Auditor General of Québec,

/s/ KPMG LLP[1]

/s/ Ernst & Young LLP[2]

/s/ Marc-Antoine Daoust, CPA auditor, CA
Assistant Auditor General

Montréal, Québec
February 12, 2021

1. FCPA auditor, FCA, public accountancy permit No. A110618
2 . CPA auditor, CA, public accountancy permit No. A129122

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Operations

Years ended December 31 In millions of Canadian dollars	Notes	2020	2019
Revenue	20	**13,594**	14,021
Expenditure			
Operations		**3,146**	2,818
Other components of employee future benefit cost	18	**(494)**	(557)
Electricity and fuel purchases		**2,204**	2,227
Depreciation and amortization	4	**2,694**	2,782
Taxes	5	**1,138**	1,133
		8,688	8,403
Income before financial expenses		**4,906**	5,618
Financial expenses	6	**2,603**	2,695
Net income		**2,303**	2,923

Consolidated Statements of Comprehensive Income

Years ended December 31 In millions of Canadian dollars	Notes	2020	2019
Net income		**2,303**	2,923
Other comprehensive income	16		
Net change in items designated as cash flow hedges	15	**(229)**	260
Net change in employee future benefits	18	**(464)**	(759)
Other		**(9)**	(3)
		(702)	(502)
Comprehensive income		**1,601**	2,421

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

Consolidated Balance Sheets

As at December 31 In millions of Canadian dollars	Notes	2020	2019
ASSETS			
Current assets			
Cash and cash equivalents		**1,467**	1,115
Short-term investments		**304**	445
Accounts receivable and other receivables	15	**2,313**	2,488
Derivative instruments	15	**147**	186
Regulatory asset	3	**123**	118
Materials, fuel and supplies		**316**	291
		4,670	4,643
Property, plant and equipment	7	**66,900**	65,992
Intangible assets	8	**1,053**	925
Investments	9	**1,717**	1,132
Derivative instruments	15	**11**	24
Regulatory assets	3	**5,700**	4,959
Other assets	10	**844**	888
		80,895	78,563
LIABILITIES			
Current liabilities			
Borrowings		**–**	40
Accounts payable and accrued liabilities		**2,080**	2,897
Dividend payable	16	**1,727**	2,192
Accrued interest		**933**	911
Asset retirement obligations	11	**84**	66
Derivative instruments	15	**14**	30
Current portion of long-term debt	12	**1,900**	1,817
		6,738	7,953
Long-term debt	12	**46,257**	43,690
Asset retirement obligations	11	**838**	821
Derivative instruments	15	**3**	–
Regulatory liabilities	3	**331**	343
Other liabilities	13	**5,150**	4,048
Perpetual debt	14	**256**	260
		59,573	57,115
EQUITY	16		
Share capital		**4,374**	4,374
Retained earnings		**20,058**	19,482
Accumulated other comprehensive income		**(3,110)**	(2,408)
		21,322	21,448
		80,895	78,563
Commitments and contingencies	19		

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

On behalf of the Board of Directors,

/s/ Geneviève Brouillette
Chair of the Audit Committee

/s/ Jacynthe Côté
Chair of the Board

Consolidated Statements of Changes in Equity

Years ended December 31 In millions of Canadian dollars	Note	Share capital	Retained earnings	Accumulated other comprehensive income	Total equity
Balance as at December 31, 2019		**4,374**	**19,482**	**(2,408)**	**21,448**
Net income		**–**	**2,303**	**–**	**2,303**
Other comprehensive income	16	**–**	**–**	**(702)**	**(702)**
Dividend	16	**–**	**(1,727)**	**–**	**(1,727)**
Balance as at December 31, 2020		**4,374**	**20,058**	**(3,110)**	**21,322**
Balance as at December 31, 2018		4,374	18,741	(1,906)	21,209
Adjustments related to a change in accounting policy		–	10	–	10
Net income		–	2,923	–	2,923
Other comprehensive income	16	–	–	(502)	(502)
Dividend	16	–	(2,192)	–	(2,192)
Balance as at December 31, 2019		4,374	19,482	(2,408)	21,448

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

Consolidated Statements of Cash Flows

Years ended December 31 In millions of Canadian dollars	Notes	2020	2019
Operating activities			
Net income		**2,303**	2,923
Adjustments to determine net cash flows from operating activities			
Depreciation and amortization	4	**2,694**	2,782
Amortization of premiums, discounts and issue expenses related to debt securities		**127**	211
Deficit of net cost recognized with respect to amounts paid for employee future benefits		**(181)**	(433)
Interest and other	17	**(1,243)**	208
Regulatory assets and liabilities		**(178)**	(453)
Change in non-cash working capital items	17	**(694)**	804
		2,828	6,042
Investing activities			
Additions to property, plant and equipment		**(3,151)**	(3,480)
Additions to intangible assets		**(215)**	(134)
Acquisition of an investment	9	**(661)**	–
Net change in short-term investments and sinking fund	10	**217**	485
Other		**(15)**	(80)
		(3,825)	(3,209)
Financing activities			
Issuance of long-term debt		**4,541**	3,075
Repayment of long-term debt		**(938)**	(3,818)
Cash receipts arising from credit risk management		**5,036**	2,909
Cash payments arising from credit risk management		**(5,060)**	(2,810)
Net change in borrowings		**(64)**	(9)
Dividend paid		**(2,192)**	(2,394)
Other		**26**	8
		1,349	(3,039)
Foreign currency effect on cash and cash equivalents		**–**	(14)
Net change in cash and cash equivalents		**352**	(220)
Cash and cash equivalents, beginning of year		**1,115**	1,335
Cash and cash equivalents, end of year		**1,467**	1,115
Supplementary cash flow information	17		

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

Note 1
Significant Accounting Policies

Years ended December 31, 2020 and 2019

Amounts in tables are in millions of Canadian dollars, unless otherwise indicated.

Under the provisions of the Hydro-Québec Act *(CQLR, c. H-5), Hydro-Québec is mandated to supply power and to pursue endeavors in energy-related research and promotion, energy conversion and conservation, and any field connected with or related to power or energy. Hydro-Québec is required, in particular, to supply a base volume of up to 165 TWh a year of heritage pool electricity for the Québec market, as set out in the* Act respecting the Régie de l'énergie *(CQLR, c. R-6.01). As a government corporation, Hydro-Québec is exempt from paying income taxes in Canada.*

Hydro-Québec's consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP").

Management is of the opinion that these consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hydro-Québec.

Management has reviewed events occurring until February 12, 2021, the date of approval of these consolidated financial statements by the Board of Directors, to determine whether circumstances warranted consideration of events subsequent to the balance sheet date.

COVID-19 pandemic

The global COVID-19 pandemic adversely affected Hydro-Québec's financial results for 2020. Because of the public health emergency declared by the Québec government in March, several business sectors scaled back or shut down their operations, and then gradually resumed them as of mid-May, and many commercial establishments had to suspend them again in the fall in some areas.

At the present time, it is impossible to give a meaningful estimate of the duration and scope of the public health crisis and the extent of the resulting economic slowdown, or the repercussions on Hydro-Québec's operations and financial results over the short and long term.

Regulation

The *Act respecting the Régie de l'énergie* grants the Régie de l'énergie of Québec (the "Régie") exclusive authority to determine or modify the rates and conditions under which electricity is transmitted and distributed by Hydro-Québec. Hydro-Québec's electricity transmission and distribution activities in Québec are therefore regulated. Under this legislation, rates are set by reasoned decision of three commissioners after public hearings. The Act also stipulates that rates are set on a basis that allows for recovery of the cost of service and provides a reasonable return on the rate base.

Since January 1, 2019, the Transmission Provider's rates have been subject to performance-based regulation (PBR), which will apply for a four-year period. Under PBR, rates for the 2019 rate year were set using the cost-of-service method, while those for the 2020 rate year were determined using a parametric formula specifically for transmission activities, as will be the case for the next two years. This parametric formula provides that some unpredictable costs will continue to be based on the cost-of-service method, while the other cost components will be calculated using an indexation formula.

As for the Distributor, its rates are governed by the *Act to simplify the process for establishing electricity distribution rates* (S.Q. 2019, c. 27). This Act, which came into force in December 2019, effectively amended the *Act respecting the Régie de l'énergie*. In particular, it specifies that electricity distribution rates are to be set or modified by the Régie every five years commencing on April 1, 2025, and that, in the interim, they will be adjusted each year based on the annual change in the average Québec Consumer Price Index. However, it authorizes the Distributor to apply to the Régie, before the deadline, to modify its rates if they do not allow for recovery of the cost of service. Under the new Act, an amount equivalent to substantially all unamortized balances of the Distributor's variance and deferral accounts as at December 31, 2019, was refunded to customers, and rates for the 2019–2020 rate year, effective from April 1, 2019, to March 31, 2020, were frozen until March 31, 2021.

Previously, the Distributor's rates were subject to PBR. Under PBR, rates for the 2018–2019 rate year, in effect from April 1, 2018, to March 31, 2019, were set using the cost-of-service method, whereas those for the 2019–2020 rate year, which came into effect on April 1, 2019, were set using a parametric formula specifically for distribution activities. This formula had two components, namely the application of the cost-of-service method for some unpredictable costs and the use of an indexation formula for the other cost components.

Moreover, the rates of the Transmission Provider are subject to an earnings-sharing mechanism, while those of the Distributor were subject to it until December 31, 2019.

Under U.S. GAAP, it is acknowledged that rate regulation may affect the timing of the recognition of certain transactions in the consolidated results, giving rise to the recognition of regulatory assets and liabilities, which Hydro-Québec considers it is likely to recover or settle subsequently through the rate-setting process.

When the Transmission Provider or the Distributor determines that certain costs incurred may likely be recovered in future rates, such costs are deferred and recognized as assets. When it is probable that the Transmission Provider or the Distributor will be required to reimburse customers, or when costs have been recovered but will be incurred in the future, a liability is recognized. The balances of these assets and liabilities are amortized over the recovery periods approved by the Régie.

The risks and uncertainties related to regulatory assets and liabilities are monitored and assessed from time to time. When Hydro-Québec deems that the net carrying amount of a regulatory asset or liability is no longer likely to be taken into account in determining future rates, a loss or gain is recognized in the results for the period during which the judgment is made.

Scope of consolidation

The consolidated financial statements include the accounts of Hydro-Québec and its subsidiaries as well as those of variable interest entities where Hydro-Québec is the primary beneficiary. All intercompany balances and transactions are eliminated at the time of consolidation.

Note 1
Significant Accounting Policies (continued)

Investments over which Hydro-Québec has joint control or significant influence are accounted for on an equity basis. These investments are initially recognized at cost, and their carrying amount is subsequently increased or decreased by an amount equal to Hydro-Québec's share of the changes in their net assets after the date of acquisition. Hydro-Québec's share of the results of these investments is recognized in results. Dividends received are applied against the carrying amount of the investments.

Use of estimates

The preparation of financial statements in accordance with U.S. GAAP requires that Management make estimates and assumptions that affect the amounts recognized as assets and liabilities, the disclosures regarding contingent assets and liabilities at the date of the consolidated financial statements and the amounts recognized as revenue and expenditure for the years at issue. The estimates relate, among other things, to revenue, which includes estimated amounts for electricity delivered but not billed; the carrying amount of regulatory assets and liabilities; fair value measurements of financial instruments; as well as the useful life of property, plant and equipment and intangible assets for calculating the depreciation and amortization expense. They also concern cash flows, the expected timing of payments, and the discount rates used to determine asset retirement obligations and employee future benefit liabilities, which are based on different economic and actuarial assumptions. Actual results could differ from those estimates and such differences could be significant.

Revenue

Hydro-Québec supplies the Québec market with electricity and also sells power on wholesale markets in Canada and the United States. Substantially all revenue from ordinary activities is derived from electricity sales contracts with customers. These sales are recognized over time, based on the electricity delivered and the amount that Hydro-Québec is entitled to charge customers in accordance with regulated rates or contractual provisions.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date, whereas non-monetary items denominated in foreign currencies are translated at the historical exchange rate. Revenue and expenditure arising from foreign currency transactions are translated into Canadian dollars at the exchange rate in effect at the transaction date. The exchange gains or losses resulting from the translation of monetary items are included in results.

The financial statements of foreign operations whose functional currency is not the Canadian dollar are translated according to the current rate method. Under this method, assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date, whereas revenue and expenditure are translated at the average exchange rate in effect during the period. The exchange gains or losses resulting from the translation of the financial statements of these foreign operations are presented in Other comprehensive income.

Financial instruments

Cash and cash equivalents

Cash and cash equivalents include investments with a maturity of three months or less from the date of acquisition.

Short-term investments

Short-term investments, classified as available-for-sale debt securities, consist of money market instruments with a maturity of more than three months from the date of acquisition and are recognized at fair value. Changes in fair value are recorded in Other comprehensive income until they are realized, at which time they are reclassified to results. Revenue from these investments, calculated using the effective interest method, is recognized in results.

Receivables – Accounts receivable

Accounts receivable are recognized at the amount invoiced, net of the allowance for doubtful accounts. This allowance is based on the status of customer files and the recovery experience for each age group of accounts. Receivables are written off during the period in which the accounts are deemed uncollectible.

Other receivables and financial liabilities

Other receivables presented under Accounts receivable and other receivables, bonds held in the sinking fund, which are presented in Other assets, less any impairment losses, as well as borrowings, financial liabilities presented under Accounts payable and accrued liabilities, the dividend payable, accrued interest, long-term debt, financial liabilities presented under Other liabilities, and perpetual debt, are measured at amortized cost using the effective interest method. Amortized cost includes issue expenses as well as premiums and discounts, if applicable. Interest is recognized in results.

Derivative instruments

Derivative instruments are recognized at fair value at the balance sheet date. Changes in fair value are recognized in results for the period in which they occur, except in the case of derivative instruments designated as hedges in a cash flow hedging relationship. The net balances of derivative instruments that are transacted with the same counterparty, that are the subject of an enforceable master netting arrangement, net of cash received or paid under collateral exchange agreements, and that meet the conditions for set-off are presented on the balance sheet.

Note 1
Significant Accounting Policies (continued)

As part of its integrated business risk management, Hydro-Québec uses derivative instruments to manage its market risk, consisting of currency risk, interest rate risk and risk resulting from fluctuating energy and aluminum prices. It applies cash flow or fair value hedge accounting to eligible hedging relationships that it designates as hedges, and properly documents these relationships. Among other things, this process involves associating derivative instruments with specific assets or liabilities on the balance sheet, or with probable anticipated transactions. Hydro-Québec ensures that hedging relationships are highly effective in hedging the designated risk exposure initially and then monthly thereafter. In addition, for hedges of anticipated transactions, it assesses the probability of the occurrence of those transactions designated as hedged items at least on a quarterly basis.

In the case of a cash flow hedge, changes in the fair value of an instrument designated as a hedge are recognized under Other comprehensive income. Such amounts are reclassified to results, in the line item affected by the hedged item, during the periods in which the hedged item affects results. If a derivative instrument no longer satisfies hedging conditions, if it has expired or is sold, terminated or exercised, or if Hydro-Québec terminates its designation as a hedging item, hedge accounting ceases to be applied on a prospective basis. Gains and losses previously accumulated in Other comprehensive income continue to be deferred and are later reclassified to results during the same periods as the hedged item. If the hedged item ceases to exist or if it becomes likely that the hedged anticipated transactions will not occur, the deferred gains or losses are immediately reclassified to results.

In the case of a fair value hedge, changes in the fair value of the derivative instrument are recognized in results in the line item affected by the hedged item. Offsetting changes in the fair value of the hedged item attributable to the hedged risk are recognized as adjustments to this item's carrying amount and are offset against results.

Cash flows attributable to derivative instruments designated as hedges are presented in the statement of cash flows based on the same classification as the hedged item.

Hydro-Québec assesses its contracts to determine if they meet the definition of a derivative or if they include an embedded derivative, which must be separated from its host contract. If such is the case, the contract or the embedded derivative is recognized at fair value on the balance sheet.

All futures or forward contracts on non-financial items that can be settled on a net basis and whose price is closely tied to the non-financial item bought or sold are recorded at the settlement date if there is a probability of receipt or delivery in accordance with expected requirements.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In accordance with the applicable standards, Hydro-Québec classifies the fair value measurements of assets and liabilities according to a three-level hierarchy, based on the type of inputs used in making these measurements:

- Level 1: Quoted prices (unadjusted) on active markets for identical assets or liabilities that Hydro-Québec can access at the measurement date;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly; and
- Level 3: Unobservable inputs.

Materials, fuel and supplies

Inventories of materials, fuel and supplies are valued at the lower of cost and net realizable value. Cost is determined by the weighted average cost method.

Property, plant and equipment

Property, plant and equipment are carried at cost, which comprises materials, labor, other costs directly related to construction activities, and financial expenses capitalized during construction. Property, plant and equipment also include draft-design costs for projects whose technical feasibility has been demonstrated, whose profitability has been estimated, and for which Management deems that it will in all likelihood have the necessary resources for completion. The present value of retirement obligations related to property, plant and equipment, as well as that of agreements with local communities concerned by certain investment projects that fall within the definition of a liability, are added to the carrying amount of the property, plant and equipment at issue. Moreover, contributions from third parties are applied against the cost of the related property, plant and equipment.

Property, plant and equipment are depreciated over their useful life, using the straight-line method, starting in the month following the date of commissioning. The depreciation periods for the principal categories of property, plant and equipment are as follows:

Hydraulic generation	40–120 years
Thermal generation	15–50 years
Transmission substations and lines	30–85 years
Distribution substations and lines	25–70 years
Other property, plant and equipment	5–50 years

Note 1
Significant Accounting Policies (continued)

When property, plant and equipment are retired, their cost, net of accumulated depreciation and salvage value, is recognized in the results for the year.

Maintenance and repair costs are recognized in results when incurred.

Leases

Hydro-Québec's leases mainly concern office buildings and its generating and transmission facilities. On the execution date, Hydro-Québec determines whether an agreement is a lease by assessing whether it confers a right to control the use of a specific asset for a certain time period in exchange for consideration.

Right-of-use assets and lease liabilities where the lease is for a term of more than 12 months are recognized at the lease commencement date, using the present value of the lease payments for the term of the lease. Any lease expenses paid prior to the commencement date are added to the amount of the assets concerned. The discount rate used is the interest rate implicit in the lease to the extent that it can be readily determined. If such is not the case, Hydro-Québec uses its incremental borrowing rate at the commencement date of the lease. Renewal and termination options are taken into account in determining the term of the lease if it is reasonably certain that they will be exercised.

The costs associated with variable lease payments are not taken into account in measuring the lease liabilities and are recognized in results as and when they are incurred. If a lease has both lease and nonlease components, Hydro-Québec has elected to group them together and recognize them as a single lease component.

Right-of-use assets related to finance leases are recognized in Property, plant and equipment, while the corresponding liabilities are recognized in Current portion of long-term debt and Long-term debt. The depreciation and amortization of assets and interest on finance lease liabilities are recognized in Depreciation and amortization and Financial expenses, respectively.

Right-of-use assets related to operating leases are recognized in Other assets, while the corresponding liabilities are recognized in Accounts payable and accrued liabilities and Other liabilities. Operating lease expenses are recognized on a straight-line basis as an operational expenditure over the term of the lease.

Intangible assets

Intangible assets are recognized at cost.

The cost of internally developed computer software is capitalized when it meets capitalization criteria. The related financial expenses are capitalized during the development period.

Intangible assets with an indefinite useful life are not amortized. These assets are tested for impairment annually or more frequently if events indicate a potential impairment loss. Any amount by which the carrying amount exceeds the fair value is recognized in results for the period in which the impairment is determined.

Intangible assets with a finite useful life, such as software and licences, are amortized over their useful life according to the straight-line method. The amortization period for these assets varies from 3 to 24 years.

Capitalized financial expenses

Financial expenses capitalized in property, plant and equipment under construction and in internally developed computer software are determined on the basis of the cost of debt and recognized as a deduction from financial expenses in the consolidated results. Capitalized financial expenses related to rate-regulated transmission or distribution activities also take into account the return on equity of the activities concerned. The portion that corresponds to return on equity is included in Revenue in the consolidated results.

Impairment of long-lived assets

Hydro-Québec reviews the carrying amount of its property, plant and equipment and its amortizable intangible assets whenever events or changes in circumstances indicate that the expected undiscounted net cash flows could be lower than the carrying amount of the property and assets. An impairment loss corresponding to the amount by which the carrying amount exceeds fair value is recognized in the results for the year, if applicable.

Employee future benefits

Hydro-Québec offers all its employees a contributory pension plan based on final pay (the "Pension Plan"), as well as other post-retirement benefits and post-employment benefits (collectively, the "Other plans"). All Hydro-Québec's employee future benefit plans are defined-benefit plans.

The funded status of employee future benefit plans is recognized in Hydro-Québec's Consolidated Balance Sheets. It is equal to the difference between the fair value of plan assets and the value of the projected benefit obligations of each plan.

Note 1
Significant Accounting Policies (continued)

Pension Plan and other post-retirement benefits

The Pension Plan is a fully funded contributory plan that provides pension benefits based on the number of years of service and an average of the best five years of earnings. These benefits are indexed annually based on a rate which is the greater of the inflation rate, up to a maximum of 2%, and the inflation rate less 3%.

The other post-retirement benefits are provided by group life, medical and hospitalization insurance plans, which are contributory plans with contributions adjusted annually. Benefit costs and obligations under the Pension Plan and other post-retirement benefits provided in exchange for current service are calculated according to the projected benefit method prorated to years of service. They are determined using a discount rate and are based on Management's best estimates, in particular concerning the expected return on plan assets, salary escalation, the increase in health care costs, and employees' retirement ages.

In order to establish the benefit costs and its obligations under the Pension Plan and other post-retirement benefits, Hydro-Québec has adopted the following policies:

- Discount rates used to determine the projected benefit obligations and to estimate the current service cost and the interest on obligations are based on the interest rate curve on the measurement date, namely December 31, of high-quality Canadian corporate bonds. These discount rates take into account the amount and different payment maturity dates of the projected benefit obligations for each plan.
- Actuarial gains and losses are initially recognized in Other comprehensive income. Thereafter, amortization of actuarial gains or losses is recognized under Other components of employee future benefit cost if the unamortized net actuarial gain or loss at the beginning of the year exceeds 10% of the value of the projected benefit obligations or 10% of the market-related value of the plan assets, whichever is greater. The amortization corresponds to the excess divided by active employees' average remaining years of service.
- Past service costs (credits) arising from amendments to the Pension Plan and other post-retirement benefits are initially recognized in Other comprehensive income. Thereafter, they are amortized under Other components of employee future benefit cost using the straight-line method over periods not exceeding active employees' average remaining years of service.
- The expected return on Pension Plan assets is based on a market-related value determined by using a five-year moving average value for equity securities and by measuring other asset classes at fair value.

The unamortized balances of net actuarial losses and of past service costs (credits) accounted for in Accumulated other comprehensive income arising from employee future benefits to be recovered in future rates are recognized as a regulatory asset.

Post-employment benefits

Post-employment benefits are under non-contributory salary insurance plans, which pay short- and long-term disability benefits. Most of these plans are not funded, with the exception of the long-term disability plan, which is fully funded.

The post-employment benefit cost and obligation are recognized at the time of the event giving rise to the obligation to pay benefits. The cost of these benefits is recognized in results for the period. Actuarial gains and losses are accounted for in the same way as for the Pension Plan and other post-retirement benefits, the only difference being that the amortization period is determined based on the average remaining years of disability.

Asset retirement obligations

Hydro-Québec accounts for asset retirement obligations in the period in which the legal obligations with respect thereto arise, provided that a reasonable estimate of their fair value can be made. The corresponding costs of asset retirement are added to the carrying amount of the related long-lived asset and are amortized over its useful life. Any change due to the passage of time is recognized as an operational expenditure (i.e., an accretion expense) for the current year, and the corresponding amount is added to the carrying amount of the liability. Changes resulting from revisions to the timing or the amount of the undiscounted cash flows are recognized as an increase or decrease in the carrying amount of the liability arising from asset retirement obligations, and the corresponding amount is added to the carrying amount of the related asset or deducted up to a maximum of its carrying amount, with any excess then being recognized in results. When the asset reaches the end of its useful life, any change is immediately recognized in results. The actual costs incurred to settle asset retirement obligations are applied against liabilities. During the final settlement of such an obligation, the difference between the balance of the obligation and the actual cost incurred is recognized as a gain or a loss in results.

The cash flows required to settle asset retirement obligations are estimated on the basis of studies that use various assumptions concerning the methods and timing to be adopted for the retirement. Hydro-Québec periodically reviews the measurement of these obligations in light of the underlying assumptions and estimates, potential technological advances, and changes in applicable standards, laws and regulations.

Note 1
Significant Accounting Policies (continued)

Agreements with local communities

Hydro-Québec has entered into various agreements with the local communities concerned by certain investment projects. The amounts under these agreements are recognized in Long-term debt if they fall within the definition of a liability, and the offsetting item is recognized in Property, plant and equipment. The recognized amounts are determined by discounting the future cash flows related to these agreements. The discount rate used is the interest rate on Hydro-Québec bonds at the date of initial recognition. Subsequently, in the case of agreements with indexed cash flows, the cash flows are subject to an annual re-estimate that can result in a change in the discount rate.

Related party transactions

In the normal course of business, Hydro-Québec sells electricity and enters into other business transactions with its sole shareholder, the Québec government, and its agencies, as well as with other government corporations. These transactions are measured at the exchange amount.

In addition, as a government corporation, Hydro-Québec provides the Québec government with financial data prepared in accordance with International Financial Reporting Standards so that it can prepare its consolidated financial statements.

Note 2
Changes to Accounting Policies

Recent change

Employee future benefits

On December 31, 2020, Hydro-Québec retrospectively adopted Accounting Standards Update ("ASU") 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*, issued by the Financial Accounting Standards Board (the "FASB"). This ASU adds, removes or clarifies certain disclosure requirements for post-retirement defined-benefit plans. Changes to this effect were made to Note 18, Employee Future Benefits.

Standard issued but not yet adopted

Financial instruments

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU provides new guidance on the impairment of financial assets that are not accounted for at fair value in results. It will be applied on a modified retrospective basis to the financial statements for interim and annual periods beginning on or after January 1, 2023. Hydro-Québec is currently examining the impact of this ASU on its consolidated financial statements.

Note 3
Regulation

Rates

Transmission

Hydro-Québec's power transmission rates for 2020 and 2019 were determined in Régie decisions D-2020-063 and D-2019-058, effective January 1, 2020, and January 1, 2019, respectively. The authorized return on the rate base was set at 6.78% in 2020 and 7.05% in 2019, assuming a capitalization with 30% equity.

Distribution

Under the *Act to simplify the process for establishing electricity distribution rates*, electricity distribution rates are frozen until March 31, 2021. Those of the rate year beginning on April 1, 2019, were determined in decision D-2019-037, in which the Régie authorized an increase of 0.9% for all rates except Rate L, which increased by 0.3%. In 2019, the authorized return on the rate base was set at 7.13%, assuming a capitalization with 35% equity.

The following information describes the impact on the consolidated financial statements of the regulatory accounting policies and practices adopted by Hydro-Québec in accordance with the Régie's decisions with respect to its rate-regulated activities.

Regulatory assets and liabilities

	Expected years of amortization	2020	2019
Regulatory assets			
Employee future benefits	As of 2021	**4,988**	4,186
Costs related to a suspension agreement	2021–2024	**472**	464
Costs related to energy efficiency initiatives	2021–2030	**332**	397
Other	2021–2047	**31**	30
		5,823	5,077
Less			
Current portion		**123**	118
		5,700	4,959
Regulatory liabilities			
Depreciation of property, plant and equipment	2021–2115	**326**	335
Other	2021–2022	**5**	8
		331	343

Regulatory assets and liabilities are not included in the rate base, except in the case of costs related to energy efficiency initiatives.

Note 3
Regulation (continued)

Employee future benefits

The unamortized balances of net actuarial losses and of past service costs (credits) to be recovered in future rates are recognized as a non-interest-bearing regulatory asset, which is amortized when the unamortized balances are reclassified as a cost component of employee future benefits.

Costs related to a suspension agreement

The Régie authorized an agreement regarding the temporary suspension of deliveries from a generating station in 2014. The offsetting entry for the financial liability recorded for this agreement was recognized as a non-interest-bearing regulatory asset, and the adjustments related to subsequent changes in this liability are also recognized in this asset. The annual costs related to the suspension agreement are recovered in the rates, according to the amounts billed.

Costs related to energy efficiency initiatives

Eligible costs incurred with regard to energy efficiency initiatives are recognized as a regulatory asset and bear interest at the rate of return authorized by the Régie on the rate base until such time as they are included in the rate base and amortization begins.

Depreciation of property, plant and equipment

Prior to July 10, 2015, the useful life of property, plant and equipment was limited to 50 years for rate-setting purposes. Since then, this limit no longer applies, provided that the weighted average useful life of all property, plant and equipment of the Transmission Provider, on the one hand, and of the Distributor, on the other hand, does not exceed 50 years. The differences in the depreciation expense resulting from the application of useful lives limited to 50 years for rate-setting purposes until July 9, 2015, were recognized as a non-interest-bearing regulatory liability and are amortized at the same rate as the property, plant and equipment concerned.

Other regulatory practices

The compensation granted by the Québec government for the 1998 ice storm was applied against the cost of newly constructed property, plant and equipment. It is amortized over the remaining useful life of the retired assets, using the straight-line method of depreciation.

Financial expenses are capitalized in property, plant and equipment under construction related to rate-regulated activities according to the authorized rates of return on the rate bases. Set using methods approved by the Régie, these rates take into account a component associated with the cost of the debt and a component associated with the return on equity. The component associated with return on equity totaled $45 million in 2020 and $47 million in 2019.

The cost of dismantling retired and replaced transmission assets for which no asset retirement obligation was recognized is added, net of the salvage value, to the cost of the newly constructed assets. The cost of restoring sites associated with replaced assets is also added to the cost of newly constructed assets.

Finally, contributions received for relocation or modification projects relating to certain transmission grid assets are recorded in a separate account and applied against property, plant and equipment. These contributions are amortized over the average useful life of assets for each project, using the straight-line method.

Note 4
Depreciation and Amortization

	2020	2019
Property, plant and equipment	**2,367**	2,344
Intangible assets[a]	**105**	107
Regulatory assets and liabilities	**106**	190
Retirement of capital assets	**116**	141
	2,694	2,782

a) For the period from 2021 to 2025, amortization of intangible assets that have already been recognized should be as follows: $90 million in 2021, $67 million in 2022, $58 million in 2023, $37 million in 2024 and $13 million in 2025.

Note 5
Taxes

	2020	2019
Water-power royalties[a]	**716**	720
Public utilities tax[b]	**304**	299
Municipal, school and other taxes[c]	**118**	114
	1,138	1,133

a) Water-power royalties payable to the Québec government totaled $710 million in 2020 ($714 million in 2019), including a balance receivable of $5 million as at December 31, 2020 ($15 million outstanding as at December 31, 2019).

b) The public utilities tax is payable to the Québec government.

c) Including two amounts payable to the Québec government in 2020, namely $59 million under the *Act respecting the ministère des Ressources naturelles et de la Faune* (CQLR, c. M-25.2) [$59 million in 2019 under the *Act respecting Transition énergétique Québec* (CQLR, c. T-11.02)], of which no balance was outstanding as at December 31, 2020 and 2019, and $15 million under the *Act to establish the Northern Plan Fund* (CQLR, c. F-3.2.1.1.1) ($15 million in 2019), which was outstanding as at December 31, 2020 and 2019.

Note 6
Financial Expenses

	2020	2019
Interest on debt securities	**2,630**	2,769
Net foreign exchange loss	**7**	7
Guarantee fees related to debt securities[a]	**217**	220
	2,854	2,996
Less		
Capitalized financial expenses	**191**	183
Net investment income	**60**	118
	251	301
	2,603	2,695

a) Guarantee fees related to debt securities are charged at a rate of 0.5% and are paid to the Québec government.

Note 7
Property, Plant and Equipment

	2020				2019			
	In service	Accumulated depreciation	Under construction	Net carrying amount	In service	Accumulated depreciation	Under construction	Net carrying amount
Generation								
Hydraulic	49,487	20,272	1,647	**30,862**	48,522	19,611	1,952	30,863
Other	1,252	836	388	**804**	1,175	809	137	503
	50,739	21,108	2,035	**31,666**	49,697	20,420	2,089	31,366
Transmission								
Substations and lines	35,508	14,167	1,261	**22,602**	34,654	13,417	1,068	22,305
Other	2,747	1,644	118	**1,221**	2,678	1,581	135	1,232
	38,255	15,811	1,379	**23,823**	37,332	14,998	1,203	23,537
Distribution								
Substations and lines	15,991	7,586	532	**8,937**	15,462	7,298	454	8,618
Other	3,663	2,083	129	**1,709**	3,613	1,974	99	1,738
	19,654	9,669	661	**10,646**	19,075	9,272	553	10,356
Other	1,581	964	148	**765**	1,546	921	108	733
	110,229	47,552	4,223	**66,900**[a]	107,650	45,611	3,953	65,992[a]

a) As at December 31, 2020, the cost and accumulated depreciation of property, plant and equipment under finance leases amounted to $1,247 million and $343 million, respectively ($1,029 million and $297 million as at December 31, 2019).

Note 8
Intangible Assets

	2020			2019		
	Cost	Accumulated amortization	Net carrying amount	Cost	Accumulated amortization	Net carrying amount
Amortizable						
Software, licences and other	2,271	1,750	**521**	2,114	1,708	406
Unamortizable						
Easements and other			**532**			519
			1,053			925

Note 9
Investments

	2020	2019
At equity		
Innergex énergie renouvelable inc. (19.8 %)[a, b]	**621**	–
Société en commandite Hydroélectrique Manicouagan (60.0%)[b, c]	**585**	590
Other	**511**	542
	1,717	1,132

a) This investment includes the unamortized excess of the purchase price over the underlying carrying amount of the net assets of Innergex énergie renouvelable inc. ("Innergex") as at the acquisition date, which consisted of goodwill of $243 million and net amortizable assets of $175 million as at December 31, 2020.

b) In 2020, electricity purchases from Société en commandite Hydroélectrique Manicouagan ("SCHM") totaled $82 million ($81 million in 2019), while electricity purchases from Innergex since its acquisition on February 6, 2020, amounted to $239 million.

c) This investment includes the unamortized excess of the purchase price over the underlying carrying amount of the net assets of SCHM as at the acquisition date, which consisted of unamortizable intangible assets of $282 million and amortizable assets of $219 million as at December 31, 2020 ($282 million and $230 million, respectively, as at December 31, 2019).

Acquisition of an investment

On February 6, 2020, Hydro-Québec acquired a 19.9% stake in Innergex (TSX: INE), a renewable power producer that builds, acquires, owns and operates hydroelectric facilities, wind farms and solar farms. The consideration transferred to Innergex was $661 million. The investment in Innergex is accounted for using the equity method.

Note 10
Other Assets

	Note	2020	2019
Sinking fund[a]	12	**600**	649
Operating lease assets		**186**	212
Other		**58**	27
		844	888

a) The sinking fund, allocated to repaying the long-term debt, consists of bonds issued by the Québec government, including primarily long-term bonds maturing in 2026 as well as short-term bonds presented in Short-term investments, which totaled $122 million as at December 31, 2020 ($75 million as at December 31, 2019).

Note 11
Asset Retirement Obligations

Liabilities arising from asset retirement obligations relate to the costs of dismantling the Gentilly-2 facilities, the removal of spent nuclear fuel resulting from their operation, and the dismantling of thermal generating stations and certain fuel tanks and transmission substations.

The aggregate carrying amount of the asset retirement obligations is as follows:

	2020				2019			
	Dismantling of Gentilly-2 facilities[a]	Removal of spent nuclear fuel[a]	Dismantling of other assets	Total	Dismantling of Gentilly-2 facilities[a]	Removal of spent nuclear fuel[a]	Dismantling of other assets	Total
Balance, beginning of year	500	230	157	**887**	463	259	151	873
Liabilities incurred	–	–	3	**3**	–	–	4	4
Accretion expense	26	15	4	**45**	25	16	4	45
Liabilities settled	(30)	(3)	(10)	**(43)**	(26)	(2)	(9)	(37)
Revision of estimated cash flows and expected timing of payments	–	–	30	**30**	38	(43)	7	2
Balance, end of year	496	242	184	**922**	500	230	157	887
Less								
Current portion	47	7	30	**84**	47	6	13	66
	449	235	154	**838**	453	224	144	821

a) The Canadian Nuclear Safety Commission requires a financial guarantee to secure performance of Hydro-Québec's obligations with regard to the cost of dismantling the Gentilly-2 facilities and the removal of spent nuclear fuel. This guarantee consists of investments held by the Hydro-Québec Trust for Management of Nuclear Fuel Waste, as well as an irrevocable financial guarantee of up to $685 million from the Québec government.

The following table presents the discount rates used to determine the carrying amount of the asset retirement obligations, which correspond to the credit-adjusted risk-free rates:

%	Dismantling of Gentilly-2 facilities	Removal of spent nuclear fuel	Dismantling of other assets
Initial recognition of obligations	6.4	6.4	Between 0.2 and 4.6
Subsequent recognition of obligations	Between 2.4 and 5.7	Between 3.1 and 5.7	Between 0.2 and 4.6

Hydro-Québec Trust for Management of Nuclear Fuel Waste

Under the *Nuclear Fuel Waste Act* (S.C. 2002, c. 23) ("NFWA"), which came into force in 2002, the owners of nuclear fuel waste in Canada were required to set up a management organization, the Nuclear Waste Management Organization, and each of them was required to establish a trust fund to finance the cost of long-term management of its nuclear fuel waste.

In April 2009, the Government of Canada approved a formula for financing the costs of the approach adopted for long-term nuclear fuel waste management. The amounts deposited in the trust funds can only be used to finance the implementation of this approach.

Hydro-Québec has made all the payments required under the NFWA. As at December 31, 2020, the investments held in the Hydro-Québec trust fund were composed of debt securities issued by Hydro-Québec, the fair value of which totaled $183 million ($173 million as at December 31, 2019).

The Hydro-Québec Trust for Management of Nuclear Fuel Waste is considered a variable interest entity of which Hydro-Québec is the primary beneficiary.

Note 12
Long-Term Debt

Long-term debt is mainly composed of bonds, medium-term notes and other debts, including liabilities under agreements entered into with local communities and finance lease liabilities. The following table presents a breakdown of the debt, including the current portion, at amortized cost, by currency at the time of issue and at the time of repayment. Currency swaps traded for purposes of managing currency risk related to long-term debt were taken into account in determining the percentages of debt by currency at the time of repayment.

	2020				2019			
			At time of issue	At time of repayment			At time of issue	At time of repayment
	In Canadian dollars and other currencies	At closing exchange rates as at the balance sheet date	%	%	In Canadian dollars and other currencies	At closing exchange rates as at the balance sheet date	%	%
Canadian dollars[a]	40,217	**40,217**	**84**	**100**	37,801	37,801	84	100
U.S. dollars[a, b]	5,869	**7,486**	**16**	**–**	5,710	7,403	16	–
		47,703	**100**	**100**		45,204	100	100
Plus								
Adjustment for fair value hedged risk		**454**				303		
		48,157				45,507		
Less								
Current portion		**1,900**				1,817		
		46,257				43,690		

a) Including non-interest-bearing debts other than bonds and medium-term notes whose present value was $1,774 million as at December 31, 2020 ($1,556 million as at December 31, 2019).

b) Certain debts carry sinking fund requirements. This fund, presented in Short-term investments and Other assets, totaled $722 million as at December 31, 2020 ($724 million as at December 31, 2019).

The amortized cost, at the balance sheet date, of the tranches of long-term debt maturing over the 2021–2025 period is as follows: $1,900 million in 2021, $3,326 million in 2022, $1,018 million in 2023, $1,371 million in 2024 and $132 million in 2025.

Note 12
Long-Term Debt (continued)

Interest rates

The following table presents interest rates on bonds and medium-term notes, which take into account contractual rates, premiums, discounts and issue expenses, as well as the effect of forward contracts and swaps traded to manage long-term risks related to debt. As at December 31, 2020, the variable-rate portion of the bonds and notes totaled 6.6% (4.7% as at December 31, 2019).

%			2020	2019
Maturity	Canadian dollars	U.S. dollars	Weighted average	Weighted average
1–5 years	6.22	7.87	**7.03**	9.00
6–10 years	4.15	9.75	**9.52**	8.89
11–15 years	5.76	–	**5.76**	7.98
16–20 years	5.11	–	**5.11**	5.93
21–25 years	4.89	–	**4.89**	5.11
26–30 years	4.47	–	**4.47**	4.89
31–35 years	2.96	–	**2.96**	4.47
36–40 years	4.46	–	**4.46**	3.11
41–45 years	–	–	**–**	6.53
Weighted average	4.23	9.39	**4.39**	4.76

Credit facility and lines of credit

Hydro-Québec has an undrawn credit facility of US$2,000 million, including a US$750-million swing loan, which will expire in 2025. Any related debt securities will bear interest at a rate based on the London Interbank Offered Rate ("LIBOR"), except for the swing loan, which is at the U.S. base rate. Hydro-Québec also has access to operating lines of credit, which are renewed automatically in the absence of notice to the contrary and bear interest at the prime rate. As at December 31, 2020, the available balances on these lines of credit were US$200 million, C$2 million and $247 million in Canadian or U.S. dollars (US$200 million, C$2 million and $262 million in Canadian or U.S. dollars as at December 31, 2019).

Note 13
Other Liabilities

	Note	2020	2019
Employee future benefit liabilities	18	**4,444**	3,358
Accounts payable		**543**	501
Operating lease liabilities[a]		**163**	189
		5,150	4,048

a) As at December 31, 2020, operating leases had a weighted average remaining term of 7.8 years, and the weighted average discount rate applicable to the related liabilities was 2.5% (8.4 years and 2.5%, respectively, as at December 31, 2019).

Accounts payable include a $349-million financial liability ($346 million as at December 31, 2019) related to an agreement regarding the temporary suspension of deliveries from a generating station. The current portion, presented under Accounts payable and accrued liabilities, totaled $123 million as at December 31, 2020 ($118 million as at December 31, 2019). This financial liability, including the current portion, represented a discounted amount of $472 million as at December 31, 2020 ($464 million as at December 31, 2019). It included an outstanding amount, payable in U.S. dollars, of $22 million (US$17 million) as at December 31, 2020 ($21 million, or US$16 million, as at December 31, 2019). As at December 31, 2020, the effective rate of this liability was 1.46% (1.94% as at December 31, 2019).

Note 14
Perpetual Debt

Perpetual notes in the amount of $256 million (US$201 million) as at December 31, 2020, and of $260 million (US$201 million) as at December 31, 2019, bear interest at LIBOR, plus 0.0625%, as calculated semiannually. As at December 31, 2020 and 2019, the rates applicable to the perpetual notes were 0.4% and 2.2%, respectively.

The perpetual notes are redeemable at Hydro-Québec's option. Forward contracts are used to mitigate the currency risk associated with the perpetual debt.

Note 15
Financial Instruments

In the course of its operations, Hydro-Québec carries out transactions that expose it to certain financial risks, such as market, liquidity and credit risk. Exposure to such risks and the impact on results are reduced through careful monitoring and implementation of strategies that include the use of derivative instruments.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. Hydro-Québec is exposed to three main types of market risk: currency risk, interest rate risk and risk associated with energy and aluminum prices. Active integrated management of these three types of risk aims to limit exposure to each risk and reduce their overall impact on results.

Management of long-term risk

Management of risk associated with sales in U.S. dollars

Currency risk – Hydro-Québec uses forward contracts to manage the currency risk associated with probable U.S.-dollar sales, designating them as cash flow hedges. The impact of these hedging transactions on results is recognized in Revenue.

Management of risk associated with debt

Currency risk and interest rate risk – Hydro-Québec uses currency forward contracts and swaps to manage the currency risk associated with long-term debt and perpetual debt, as well as interest rate forward contracts and swaps to modify long-term exposure to interest rate risk. When designated as hedging items, these derivative instruments are recognized as cash flow hedges or fair value hedges, depending on the risk hedged. The impact on results of foreign currency hedging transactions and those associated with debt interest rates is recognized in Financial expenses.

The following table presents the notional amounts, expressed in Canadian dollars or foreign currencies, of forward contracts and swaps used to manage long-term risk:

	2020[a]	2019[a]
Forward contracts		
Canadian dollars	**(2,000)**	(1,900)
U.S. dollars[b]	**(542)**	203
Swaps		
Canadian dollars	**(6,890)**	(6,893)
U.S. dollars	**5,720**	5,730

a) Figures in parentheses represent amounts to be paid.

b) As at December 31, 2020, sales and purchase contracts totaled US$743 million and US$201 million respectively (nil for sales contracts and US$203 million for purchase contracts as at December 31, 2019).

Management of short-term risk

Currency risk – Hydro-Québec uses forward contracts to manage its foreign currency risk exposure over the short term. When designated as hedging items, these derivative instruments are recognized as cash flow hedges. The impact of currency risk hedging transactions on results is recognized in the line items affected by the hedged item, namely Revenue, Electricity and fuel purchases, or Financial expenses. In this context, Hydro-Québec traded foreign currency sales and purchase contracts for which the notional amounts of open positions as at December 31, 2020, were US$1,133 million and US$8 million, respectively (US$1,542 million for sales contracts and nil for purchase contracts as at December 31, 2019).

Interest rate risk – Hydro-Québec uses interest rate forward contracts and swaps to manage short-term interest rate risk. When designated as hedging items, these derivative instruments are recognized as cash flow hedges. The impact on results of transactions to hedge short-term interest rate risk is recognized in the line item affected by the hedged item, namely Financial expenses.

Note 15
Financial Instruments (continued)

Price risk – Hydro-Québec uses mainly commodity futures and swaps to manage risk resulting from fluctuations in energy and aluminum prices. When designated as hedging items, these derivative instruments are recognized as cash flow hedges. The impact on results of transactions to hedge the risk related to energy and aluminum prices is recognized in the line items affected by the hedged item, namely Revenue or Electricity and fuel purchases. In this context, Hydro-Québec traded electricity futures and swaps for which open positions as at December 31, 2020, totaled 22.4 TWh (23.4 TWh as at December 31, 2019), natural gas futures for which open positions as at December 31, 2020, totaled 1.5 million MMBtu (2.8 million MMBtu as at December 31, 2019), petroleum product swaps for which open positions as at December 31, 2020, totaled 62.7 million litres (22.3 million litres as at December 31, 2019), as well as aluminum swaps for which open positions as at December 31, 2020, totaled 262,750 tonnes (187,775 tonnes as at December 31, 2019).

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities.

Hydro-Québec's exposure to this risk is reduced by significant cash flows from operating activities; a diversified portfolio of highly liquid or readily convertible instruments traded with high-quality counterparties; preauthorized sources of financing; the ability to access capital markets; the diversification of financing sources; and management of the volume of floating-rate debt and debt repayable in foreign currency.

Moreover, as at December 31, 2020, $45,626 million in long-term debt, perpetual debt and borrowings, net of the sinking fund ($43,383 million as at December 31, 2019) was guaranteed by the Québec government.

Credit risk

Credit risk is the risk that one party to a financial asset will fail to meet its obligations.

Hydro-Québec is exposed to credit risk related to accounts receivable and other receivables, which arises primarily from its day-to-day electricity sales in and outside Québec. It is also exposed to credit risk related to cash and cash equivalents, short-term investments and the sinking fund, as well as to derivative instruments traded with financial institutions. Credit risk is limited to the carrying amount of the related assets presented on the balance sheet, which approximates fair value.

Accounts receivable and other receivables

Exposure to credit risk from electricity sales is limited due to Hydro-Québec's large and diverse customer base. Management believes that Hydro-Québec is not exposed to a significant credit risk, particularly because sales in Québec are billed at rates that allow for recovery of costs based on the terms and conditions set by the Régie. Moreover, Hydro-Québec holds as collateral customer deposits totaling $102 million ($123 million as at December 31, 2019), of which $29 million ($47 million as at December 31, 2019) is recognized in Accounts payable and accrued liabilities and $73 million ($76 million as at December 31, 2019) in Other liabilities.

The value of accounts receivable and other receivables, net of the related allowance for doubtful accounts, is presented in the following table:

	2020	2019
Accounts receivable[a]	1,944	2,145
Other receivables[b]	369	343
	2,313[c]	2,488[c]

a) Including unbilled electricity deliveries, which totaled $1,244 million as at December 31, 2020 ($1,317 million as at December 31, 2019).

b) Including a $54-million financial guarantee ($82 million as at December 31, 2019) covering certain derivative instruments held at year end.

c) Including US$102 million (US$132 million as at December 31, 2019) translated at the exchange rate in effect at the balance sheet date.

The allowance for doubtful accounts amounted to $321 million as at December 31, 2020 ($245 million as at December 31, 2019).

Other financial assets

In order to reduce its exposure to credit risk associated with cash and cash equivalents, short-term investments, the sinking fund and derivative instruments, Hydro-Québec deals with a number of issuers and financial institutions with high credit ratings, most of which are Canadian. In addition, it applies policies to limit risk concentration as well as various monitoring programs and sets credit limits for each counterparty. Through prior agreements, it can also limit the market value of the main derivative instrument portfolios. Any variation in market value beyond the agreed-upon limit results in a cash receipt or payment. As at December 31, 2020, substantially all counterparties dealing with Hydro-Québec had a credit rating of A or higher, and none of them had defaulted on their obligations to Hydro-Québec.

Note 15
Financial Instruments (continued)

Fair value

Fair value of derivative instruments

The following table presents the fair value of derivative instruments, excluding the impact of offsets, by type and depending on whether they are designated as fair value hedges or cash flow hedges, or not designated as hedges:

	2020				2019			
	Derivatives designated as fair value hedges	Derivatives designated as cash flow hedges	Derivatives not designated as hedges[a]	Gross amounts of derivatives recognized[b]	Derivatives designated as fair value hedges	Derivatives designated as cash flow hedges	Derivatives not designated as hedges[a]	Gross amounts of derivatives recognized[b]
Assets								
Contracts – Currency risk	–	1,157	6	**1,163**	–	1,085	9	1,094
Contracts – Interest rate risk	569	3	–	**572**	413	81	–	494
Contracts – Price risk	–	105	55	**160**	–	145	51	196
	569	1,265	61	**1,895**	413	1,311	60	1,784
Liabilities								
Contracts – Currency risk	–	(150)	(214)	**(364)**	–	(101)	(174)	(275)
Contracts – Interest rate risk	–	(43)	–	**(43)**	–	(1)	–	(1)
Contracts – Price risk	–	(46)	(14)	**(60)**	–	(2)	(10)	(12)
	–	(239)	(228)	**(467)**	–	(104)	(184)	(288)
Total	569	1,026	(167)	**1,428**	413	1,207	(124)	1,496

a) These derivative instruments are mainly traded as part of Hydro-Québec's risk management. As at December 31, 2020, $(173) million was in consideration of amounts received or disbursed [$(165) million as at December 31, 2019] with respect to agreements to limit the market value of the main portfolios of derivative instruments. These agreements arise from frameworks applied by Hydro-Québec to reduce its credit risk exposure and limit risk concentration.

b) Fair value measurements of derivative instruments are Level 2 measurements. These measurements are obtained by discounting future cash flows, which are estimated on the basis of the spot rates, forward rates or forward prices (foreign exchange rates, interest rates, and energy or aluminum prices) in effect on the balance sheet date and take into account the credit risk assessment. The valuation techniques make use of observable market data.

Note 15
Financial Instruments (continued)

The impact of offsetting derivative instruments is presented in the table below:

	2020				2019			
	Gross amounts of derivatives recognized	Gross amounts offset[a]	Cash (received) paid as collateral[b]	Net amounts presented on the balance sheet	Gross amounts of derivatives recognized	Gross amounts offset[a]	Cash (received) paid as collateral[b]	Net amounts presented on the balance sheet
Assets								
Current	429	(132)	(150)	**147**	297	(18)	(93)	186
Long-term	1,466	(300)	(1,155)	**11**	1,487	(240)	(1,223)	24
	1,895	(432)	(1,305)	**158**	1,784	(258)	(1,316)	210
Liabilities								
Current	(314)	282	18	**(14)**	(186)	156	–	(30)
Long-term	(153)	150	–	**(3)**	(102)	102	–	–
	(467)	432	18	**(17)**	(288)	258	–	(30)
Total	1,428	–	(1,287)	**141**	1,496	–	(1,316)	180

a) The gross amounts of derivatives offset are related to contracts traded according to International Swaps and Derivatives Association ("ISDA") guidelines and constituting enforceable master netting arrangements. Such master netting arrangements apply to all derivative instrument contracts traded over the counter.

b) Cash amounts offset are amounts received or paid under collateral exchange agreements signed in compliance with ISDA guidelines.

Moreover, although certain derivatives cannot be offset for lack of enforceable master netting arrangements, margin calls may result in amounts received from or paid to clearing agents, based on the fair value of the instruments concerned. As at December 31, 2020, $137 million payable in consideration of net cash receipts was included in Accounts payable and accrued liabilities ($133 million as at December 31, 2019).

Note 15
Financial Instruments (continued)

The impact of derivative instruments on results and other comprehensive income is presented in the tables below. It should be noted that most derivative instruments traded are designated as cash flow hedges or fair value hedges and therefore reduce the volatility of results. Derivative instruments which are not designated as hedges, but which nonetheless provide an economic hedge for at-risk opposite positions, also reduce the volatility of results. The sensitivity of results is thus limited to net exposure to unhedged risks.

	2020			
	Losses (gains) on derivatives designated as fair value hedges	Losses (gains) on derivatives designated as cash flow hedges		Losses (gains) on derivatives not designated as hedges
	Recognized in results	Recognized in Other comprehensive income	Reclassified from Other comprehensive income to results	Recognized in results
Contracts – Currency risk	–	6	146[a]	104
Contracts – Interest rate risk	(144)	296	10[b]	15
Contracts – Price risk	–	(253)	(336)[c]	(38)
	(144)[b, d]	**49**	**(180)**[d]	**81**[d, e]
Impact of hedged items on results	**151**		**182**	**(106)**

	2019			
	Losses (gains) on derivatives designated as fair value hedges	Losses (gains) on derivatives designated as cash flow hedges		Losses (gains) on derivatives not designated as hedges
	Recognized in results	Recognized in Other comprehensive income	Reclassified from Other comprehensive income to results	Recognized in results
Contracts – Currency risk	–	169	428[a]	18
Contracts – Interest rate risk	(40)	94	6[b]	2
Contracts – Price risk	–	(355)	(266)[c]	(44)
	(40)[b, d]	(92)	168[d]	(24)[d, e]
Impact of hedged items on results	47		(185)	(36)

a) In 2020, $26 million was recognized in Revenue ($46 million in 2019), and $120 million in Financial expenses ($382 million in 2019).

b) These amounts were recognized in Financial expenses.

c) In 2020, $(341) million was recognized in Revenue [$(266) million in 2019], and $5 million in Electricity and fuel purchases (nil in 2019).

d) In 2020, the items Revenue, Electricity and fuel purchases, and Financial expenses totaled $13,594 million, $2,204 million and $2,603 million, respectively ($14,021 million, $2,227 million and $2,695 million in 2019).

e) These instruments are essentially related to integrated risk management transactions. Their impact on results is recognized in the line items affected by the managed risk. Therefore, in 2020, $(60) million was recognized in Revenue [$(61) million in 2019], $27 million in Electricity and fuel purchases ($17 million in 2019), and $114 million in Financial expenses ($20 million in 2019).

Note 15
Financial Instruments (continued)

In 2020, Hydro-Québec reclassified a net loss of $2 million from Accumulated other comprehensive income to results after having discontinued cash flow hedges (net gain of $17 million in 2019).

As at December 31, 2020, Hydro-Québec estimated the net amount of gains in Accumulated other comprehensive income that would be reclassified to results in the next 12 months to be $192 million ($155 million as at December 31, 2019).

As at December 31, 2020, the maximum period during which Hydro-Québec hedged its exposure to the variability of cash flows related to anticipated transactions was nine years (three years as at December 31, 2019).

Fair value of other financial instruments

Fair value measurements for other financial instruments are Level 2 measurements. Fair value is obtained by discounting future cash flows, based on rates observed on the balance sheet date for similar instruments traded on financial markets.

The fair value of cash equivalents, receivables – accounts receivable, other receivables and financial liabilities approximates their carrying amount because of the short-term nature of these financial instruments, except for the items presented in the table below:

	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Sinking fund	**600**	**657**	649	663
Liabilities				
Long-term debt[a]	**(48,157)**[b]	**(70,432)**	(45,507)[b]	(63,643)
Perpetual debt	**(256)**	**(293)**	(260)	(245)

a) Including the current portion.

b) Including an amount of $1,997 million ($1,998 million as at December 31, 2019) for debts subject to a fair value hedge, which resulted in an adjustment of $532 million ($390 million as at December 31, 2019) in connection with the hedged risk for existing hedging relationships, and of $(78) million [$(87) million as at December 31, 2019] for discontinued relationships.

Note 16
Equity

Share capital

The authorized share capital consists of 50,000,000 shares with a par value of $100 each, of which 43,741,090 shares were issued and paid up as at December 31, 2020 and 2019.

Retained earnings

Under the *Hydro-Québec Act*, the dividends to be paid by Hydro-Québec are declared once a year by the Québec government, which also determines the payment terms. For a given year, the dividend cannot exceed the distributable surplus, equal to 75% of net income. This calculation is based on the consolidated financial statements. However, in respect of a given year, no dividend may be declared in an amount that would have the effect of reducing the capitalization rate to less than 25% at the end of the year. All or a portion of the distributable surplus that has not been subject to a dividend declaration may no longer be distributed to the shareholder as a dividend.

For 2020, the dividend is $1,727 million ($2,192 million for 2019).

Accumulated other comprehensive income

	2020				2019			
	Cash flow hedges	Employee future benefits	Other	Accumulated other comprehensive income	Cash flow hedges	Employee future benefits	Other	Accumulated other comprehensive income
Balance, beginning of year	67	(2,476)	1	**(2,408)**	(193)	(1,717)	4	(1,906)
Other comprehensive income before reclassifications	(49)	(588)	(9)	**(646)**	92	(804)	(3)	(715)
Amounts reclassified outside of Accumulated other comprehensive income	(180)	124	–	**(56)**	168	45	–	213
Other comprehensive income	(229)	(464)	(9)	**(702)**	260	(759)	(3)	(502)
Balance, end of year	(162)	(2,940)	(8)	**(3,110)**	67	(2,476)	1	(2,408)

Note 17
Supplementary Cash Flow Information

	2020	2019
Change in non-cash working capital items		
Accounts receivable and other receivables	**181**	204
Materials, fuel and supplies	**(25)**	(27)
Accounts payable and accrued liabilities	**(824)**	672
Accrued interest	**(26)**	(45)
	(694)	804
Activities not affecting cash		
Increase in property, plant and equipment and intangible assets	**273**	64
Increase in operating lease assets and liabilities	**2**	41
	275	105
Interest paid[a]	**3,750**	2,229

a) Including interest paid upon redemption of zero-coupon bonds, which totaled $1,646 million in 2020 ($7 million in 2019). This interest is presented in the line item Interest paid and other under Operating activities in the Consolidated Statements of Cash Flows.

Note 18
Employee Future Benefits

The projected benefit obligations, valued by independent actuaries, and the assets of employee future benefit plans, at fair value, are valued as at December 31 of each year.

Changes in projected benefit obligations and in plan assets, at fair value

	Pension Plan		Other plans		Total	
	2020	2019	**2020**	2019	**2020**	2019
Projected benefit obligations						
Balance, beginning of year	**28,948**	25,111	**1,729**	1,460	**30,677**	26,571
Current service cost	**610**	431	**52**	43	**662**	474
Employee contributions	**222**	212	**–**	–	**222**	212
Benefit payments and refunds	**(1,142)**	(1,076)	**(78)**	(67)	**(1,220)**	(1,143)
Interest on obligations	**848**	906	**51**	53	**899**	959
Actuarial loss[a]	**2,455**	3,364	**182**	240	**2,637**	3,604
Balance, end of year	**31,941**	28,948	**1,936**	1,729	**33,877**	30,677
Plan assets, at fair value						
Balance, beginning of year	**27,153**	24,688	**105**	96	**27,258**	24,784
Actual return on plan assets	**2,762**	3,053	**2**	2	**2,764**	3,055
Employee contributions	**222**	212	**–**	–	**222**	212
Contributions by Hydro-Québec	**266**	276	**19**	19	**285**	295
Benefit payments and refunds	**(1,142)**	(1,076)	**(14)**	(12)	**(1,156)**	(1,088)
Balance, end of year	**29,261**	27,153	**112**	105	**29,373**	27,258
Funded status – Plan deficits	**2,680**	1,795	**1,824**	1,624	**4,504**	3,419
Presented as:						
Accounts payable and accrued liabilities	**–**	–	**60**	61	**60**	61
Other liabilities	**2,680**	1,795	**1,764**	1,563	**4,444**	3,358

a) The actuarial loss as at December 31, 2020, is mainly due to the lower discount rates resulting from the decline in long-term interest rates on financial markets.

As at December 31, 2020, accumulated benefit obligations under the Pension Plan totaled $29,325 million ($27,140 million as at December 31, 2019). Unlike projected benefit obligations, accumulated benefit obligations do not take into account the future salary assumption.

Pension Plan assets

Investments and their associated risks are managed in accordance with the Hydro-Québec Pension Fund Investment Management Policy (the "Investment Policy"), which is approved every year by the Board of Directors. These risks include market risk, credit risk and liquidity risk. The Investment Policy provides for diversification of benchmark portfolio securities in order to maximize the expected return within an acceptable risk interval that takes into account the volatility of the Pension Plan's surplus or deficit. Additional frameworks define the approval process for each type of transaction and establish rules governing the active management of the different portfolios as well as credit risk management. Compliance with the Investment Policy and the additional frameworks is monitored on a regular basis. The Investment Policy allows the use of derivative instruments such as forward contracts, options and swaps.

The target allocation of Pension Plan investments, as established by the Investment Policy in effect as at December 31, 2020, was as follows:

%	Target allocation
Fixed-income securities	35
Equities	52
Alternative investments[a]	13
	100

a) Alternative investments include real estate investments, private equity investments and commercial mortgages.

Note 18
Employee Future Benefits (continued)

The fair value of net Pension Plan investments as at December 31, according to the fair value hierarchy and based on the type of securities, was as follows:

	2020				2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash	1,392	–	–	**1,392**	170	–	–	170
Short-term investments[a]	–	36	–	**36**	–	1,375	–	1,375
Bonds[a, b]	558	7,155	–	**7,713**	696	6,618	–	7,314
Listed shares	12,734	–	–	**12,734**	11,179	–	–	11,179
Real estate investments[a, c]	164	2	3,273	**3,439**	–	38	3,176	3,214
Private equity investments[d]	–	–	1,408	**1,408**	–	–	1,079	1,079
Hedge funds[e]	490	2,040	–	**2,530**	505	2,281	–	2,786
Derivative instruments – Assets[f]	1	65	–	**66**	–	63	–	63
Derivative instruments – Liabilities[f]	(12)	(16)	–	**(28)**	(10)	(21)	–	(31)
Other	7	30	–	**37**	20	17	–	37
	15,334	9,312	4,681	**29,327**[g]	12,560	10,371	4,255	27,186[g]

a) The fair value of Level 2 short-term investments, bonds and real estate investments is essentially measured by discounting net future cash flows, based on the current market rate of return.

b) Pension Plan assets include securities issued by Hydro-Québec, as well as by the Québec government and some of its agencies, for a total of $1,365 million ($990 million as at December 31, 2019).

c) The fair value of Level 3 real estate investments is measured by independent appraisers. The main method used to determine the fair value of these investments is discounting future cash flows. This method is based on observable and unobservable inputs, in particular the discount rate and future cash flows.

d) The fair value of private equity investments is measured by various techniques including future cash flow discounting or using data such as earnings multiples or the price of recent comparable transactions.

e) Hedge funds are measured at the values provided by the fund managers, which are determined on the basis of the fair value of the underlying investments or of the net asset value.

f) Level 2 derivatives are measured using the market closing prices of the underlying products or by discounting net future cash flows.

g) The fair value of investments does not take into account the net amount of payables and receivables, which is an amount payable of $66 million ($33 million as at December 31, 2019).

A reconciliation of the opening and closing balances of Level 3 investments is presented in the table below:

	2020			2019		
	Real estate investments	Private equity investments	Total	Real estate investments	Private equity investments	Total
Balance, beginning of year	3,176	1,079	**4,255**	3,303	826	4,129
Acquisitions	347	397	**744**	327	382	709
Disposals	(134)	(145)	**(279)**	(440)	(149)	(589)
Realized net gains	3	2	**5**	127	3	130
Unrealized net (losses) gains	(119)	75	**(44)**	(141)	17	(124)
Balance, end of year	3,273	1,408	**4,681**	3,176	1,079	4,255

In 2020 and 2019, there was no reclassification between Level 3 and Levels 1 and 2.

Other plan assets

Other plan assets as at December 31, 2020, were composed of bonds issued by Hydro-Québec for a total of $91 million ($87 million as at December 31, 2019), as well as cash amounting to $21 million ($18 million as at December 31, 2019). Bonds are classified at Level 2 in the fair value hierarchy.

Note 18
Employee Future Benefits (continued)

Plan costs

Net cost components recognized for the year

	Pension Plan		Other plans		Total	
	2020	2019	**2020**	2019	**2020**	2019
Current service cost[a]	**610**	431	**52**	43	**662**	474
Other components of employee future benefit cost[b]						
Interest on obligations	**848**	906	**51**	53	**899**	959
Expected return on plan assets	**(1,713)**	(1,623)	**(2)**	(2)	**(1,715)**	(1,625)
Amortization of net actuarial loss	**287**	91	**33**	16	**320**	107
Amortization of past service costs (credits)	**7**	7	**(5)**	(5)	**2**	2
	(571)	(619)	**77**	62	**(494)**	(557)
Net cost (credit) recognized for the year	**39**	(188)	**129**	105	**168**	(83)

a) This component, net of the amount capitalized in assets, is recognized as an operational expenditure.

b) This item is presented separately in the Consolidated Statements of Operations. Its components are not capitalized in assets.

Components of Other comprehensive income for the year

	Pension Plan		Other plans		Total	
	2020	2019	**2020**	2019	**2020**	2019
Actuarial loss	**1,406**	1,934	**182**	240	**1,588**	2,174
Amortization of net actuarial loss	**(287)**	(91)	**(33)**	(16)	**(320)**	(107)
Amortization of past service (costs) credits	**(7)**	(7)	**5**	5	**(2)**	(2)
Change in Other comprehensive income	**1,112**	1,836	**154**	229	**1,266**	2,065
Less						
Change in the employee future benefit regulatory asset	**705**	1,162	**97**	144	**802**	1,306
Net change in Other comprehensive income	**407**	674	**57**	85	**464**	759

Components of Accumulated other comprehensive income

	Pension Plan		Other plans		Total	
	2020	2019	**2020**	2019	**2020**	2019
Unamortized net actuarial loss	**7,264**	6,145	**664**	515	**7,928**	6,660
Unamortized past service costs (credits)	**11**	18	**(11)**	(16)	**–**	2
Aggregate of amounts recognized in Accumulated other comprehensive income	**7,275**	6,163	**653**	499	**7,928**	6,662
Less						
Employee future benefit regulatory asset	**4,577**	3,872	**411**	314	**4,988**	4,186
Net amount recognized in Accumulated other comprehensive income	**2,698**	2,291	**242**	185	**2,940**	2,476

Note 18
Employee Future Benefits (continued)

Significant actuarial assumptions

The following actuarial assumptions, used to determine the projected benefit obligations and net cost recognized for the plans, result from a weighted average.

	Pension Plan		Other plans	
	2020	2019	**2020**	2019
Projected benefit obligations				
Rate at end of year (%)				
Discount rate – Projected benefits	**2.57**	3.13	**2.58**	3.14
Salary escalation rate[a]	**3.35**	3.27	**–**	–
Net cost recognized				
Rate at end of prior year (%)				
Discount rate – Current service cost	**3.18**	3.99	**3.15**	3.97
Discount rate – Interest on obligations	**2.94**	3.64	**2.99**	3.72
Expected long-term rate of return on plan assets[b]	**6.50**	6.50	**2.27**	2.55
Salary escalation rate[a]	**3.27**	3.24	**–**	–
Active employees' average remaining years of service	**13**	13	**12**	12

a) This rate takes salary increases into account as well as promotion opportunities while in service.

b) The expected long-term rate of return on the Pension Plan assets is the average of the expected long-term return on the various asset classes, weighted according to their respective target weightings, plus a rebalancing, diversification and active management premium, net of expected management and administrative fees.

As at December 31, 2020, health care costs were based on an annual growth rate of 0% for 2021. According to the assumption used, this rate will be 5.7% in 2022 and will then decrease on a straight-line basis until it reaches a final rate of 4.2% in 2040.

Benefits to be paid in next 10 years

	Pension Plan	Other plans
2021	1,137	68
2022	1,156	70
2023	1,174	73
2024	1,192	75
2025	1,210	78
2026–2030	6,349	427

In 2021, Hydro-Québec expects to make contributions of $264 million and $18 million, respectively, to the Pension Plan and the Other plans.

Note 19
Commitments and Contingencies

Commitments

Electricity purchases

On May 12, 1969, Hydro-Québec signed a contract with Churchill Falls (Labrador) Corporation Limited ["CF(L)Co"] whereby Hydro-Québec undertook to purchase substantially all the output from Churchill Falls generating station, which has a rated capacity of 5,428 MW. In 2016, this contract was automatically renewed for a further 25 years in accordance with the contract provisions. On June 18, 1999, Hydro-Québec and CF(L)Co entered into a contract to guarantee the availability of 682 MW of additional power until 2041 for the November 1 to March 31 winter period. In 2020, electricity purchases from CF(L)Co totaled $97 million ($100 million in 2019).

As at December 31, 2020, Hydro-Québec was also committed under contracts to purchase electricity from other power producers. Based on the renewal clauses, the terms of these contracts extend through 2062. Hydro-Québec had also undertaken to purchase power transmission rights.

On the basis of all these commitments, Hydro-Québec expects to make the following payments over the coming years:

2021	1,889
2022	1,903
2023	1,913
2024	1,916
2025	2,061
2026 and thereafter	21,592

Investments

As part of its development projects and activities aimed at maintaining or improving the quality of its assets, Hydro-Québec plans to invest approximately $4.5 billion in property, plant and equipment and intangible assets per year in Québec over the period from 2021 to 2025. In addition, under finance leases that are not yet in force, but under which Hydro-Québec has already made commitments, it expects to make lease payments for a total undiscounted amount of $2.9 billion from 2022 to 2063.

Contingencies

Guarantees

In accordance with the terms and conditions of certain debt securities issued outside Canada, Hydro-Québec has undertaken to increase the amount of interest paid to non-residents in the event of changes to Canadian tax legislation governing the taxation of non-residents' income. Hydro-Québec cannot estimate the maximum amount it might have to pay under such circumstances. Should an amount become payable, Hydro-Québec has the option of redeeming most of the securities in question. As at December 31, 2020, the amortized cost of the long-term debts concerned was $2,843 million ($3,303 million as at December 31, 2019).

Litigation

In the normal course of its development and operating activities, Hydro-Québec is sometimes party to claims and legal proceedings. Management is of the opinion that an adequate provision has been made for these legal actions. Consequently, it does not foresee any significant adverse effect of such contingent liabilities on Hydro-Québec's consolidated results or financial position.

Among other ongoing actions, some Indigenous communities have initiated proceedings before the Québec courts against the governments of Canada and Québec, as well as against Hydro-Québec, based on demands concerning their ancestral rights. In particular, the Innu of Uashat mak Mani-Utenam are demanding $1.5 billion in damages resulting from various activities carried out on land they claim as their own. As well, in November 2006 the Innu of Pessamit reactivated an action brought in 1998, aimed at obtaining, among other things, the recognition of ancestral rights related to Québec lands on which certain hydroelectric generating facilities of the Manic–Outardes complex are located. This community is claiming $500 million. Hydro-Québec is challenging the legitimacy of these claims.

Moreover, in October 2020, Innu Nation Inc. brought an action for damages against CF(L)Co and Hydro-Québec before the courts of the province of Newfoundland and Labrador. It claims that the construction and operation of the Churchill Falls hydroelectric complex in Labrador, which is owned and operated by CF(L)Co, is the result of a joint venture between CF(L)Co and Hydro-Québec and allegedly infringes on the ancestral rights of the Innu of Labrador. Innu Nation Inc. claims that CF(L)Co and Hydro-Québec should refund the profits derived from the complex or, alternatively, provide monetary restitution which, in Hydro-Québec's case, amounts to $4 billion. Hydro-Québec is challenging the legitimacy of this action.

Note 20
Segmented Information

Hydro-Québec carries on its activities in the four reportable business segments defined below. The non-reportable business segments and other activities, including intersegment eliminations and adjustments, are grouped together under Corporate and Other Activities for reporting purposes.

Generation: This segment includes activities related to the operation and development of Hydro-Québec's generating facilities, except in off-grid systems. It also includes electricity sales and arbitrage transactions on wholesale markets in northeastern North America.

Transmission: This segment includes activities related to the operation and development of the main power transmission system, the marketing of system capacity and the management of power flows across Québec.

Distribution: This segment includes activities related to the operation and development of Hydro-Québec's distribution grid. It also includes retail electricity sales on the Québec market, as well as customer services and the promotion of energy efficiency.

Construction: This segment includes activities related to the design and execution of construction and refurbishment projects involving mainly power generation and transmission facilities. These projects are almost all carried out in Québec.

Corporate and Other Activities: The corporate units help the business segments carry out their operations. Other activities include, in particular, intersegment eliminations and adjustments.

The amounts presented for each segment are based on the financial information used to prepare the consolidated financial statements. The accounting policies used to calculate these amounts are as described in Note 1, Significant Accounting Policies, and Note 3, Regulation.

Intersegment transactions related to electricity sales are recorded based on the supply and transmission rates provided for in the *Act respecting the Régie de l'énergie* and the *Act to simplify the process for establishing electricity distribution rates*. Intersegment products and services are measured at full cost, which includes all costs directly associated with product or service delivery.

Most of Hydro-Québec's revenue is from Québec, and substantially all its property, plant and equipment are related to its Québec operations. In 2020, revenue from outside Québec amounted to $1,529 million, with $1,057 million originating from the United States ($1,629 million and $1,104 million, respectively, in 2019).

Note 20
Segmented Information (continued)

The following tables present information related to results, assets and investing activities by segment:

						2020
	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Total
Revenue						
External customers	1,561	192	11,992	9	(160)	**13,594**[a]
Intersegment customers	4,929	3,432	80	2,047	(10,488)[b]	**–**
Depreciation and amortization	839	1,120	599	7	129	**2,694**
Financial expenses	1,174	932	434	–	63	**2,603**
Net income (loss)	1,841	586	216	6	(346)	**2,303**
Total assets	33,513	24,145	14,147	43	9,047	**80,895**
Investments in property, plant and equipment and intangible assets affecting cash	940	1,423	773	9	221	**3,366**

						2019
	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Total
Revenue						
External customers	1,665	50	12,161	1	144	14,021[a]
Intersegment customers	5,025	3,443	84	2,247	(10,799)[b]	–
Depreciation and amortization	867	1,074	606	7	228	2,782
Financial expenses	1,241	962	456	–	36	2,695
Net income (loss)	2,042	569	323	1	(12)	2,923
Total assets	33,534	23,773	14,079	40	7,137	78,563
Investments in property, plant and equipment and intangible assets affecting cash	1,110	1,563	737	4	200	3,614

a) Including $148 million from sources other than contracts with customers [$(55) million in 2019], of which no amount relates to alternative revenue programs involving certain regulatory assets and liabilities [$(102) million in 2019].

b) Including intersegment eliminations of $(12,415) million [$(12,692) million in 2019].

Note 21
Comparative Information

Some of the prior year's data have been reclassified to conform to the presentation adopted in the current year.

FIVE-YEAR REVIEW

Consolidated Financial Information

$M	2020	2019	2018	2017	2016
OPERATIONS					
Revenue	**13,594**	14,021	14,370	13,468	13,339
Expenditure					
Operations	**3,146**	2,818	2,843	2,664	2,671
Other components of employee future benefit cost	**(494)**	(557)	(340)	(322)	(233)
Electricity and fuel purchases	**2,204**	2,227	2,167	2,005	1,866
Depreciation and amortization	**2,694**	2,782	2,685	2,686	2,597
Taxes	**1,138**	1,133	1,111	1,076	1,045
	8,688	8,403	8,466	8,109	7,946
Income before financial expenses	**4,906**	5,618	5,904	5,359	5,393
Financial expenses	**2,603**	2,695	2,712	2,513	2,532
Net income	**2,303**	2,923	3,192	2,846	2,861
DIVIDEND	**1,727**	2,192	2,394	2,135	2,146
BALANCE SHEET SUMMARY					
Total assets	**80,895**	78,563	76,989	75,769	75,167
Long-term debt, including current portion and perpetual debt	**48,413**	45,767	46,335	45,259	45,909
Equity	**21,322**	21,448	21,209	19,755	19,704
INVESTMENTS AFFECTING CASH					
Property, plant and equipment and intangible assets	**3,366**	3,614	3,402	3,754	3,460
FINANCIAL RATIOS					
Return on equity (%)[a]	**9.5**	12.4	14.0	12.9	13.4
Capitalization (%)[b]	**31.0**	32.3	31.8	30.7	30.5
Profit margin (%)[c]	**16.9**	20.8	22.2	21.1	21.4
Interest coverage[d]	**1.89**	2.07	2.18	2.13	2.16
Self-financing (%)[e]	**12.8**	48.6	63.9	66.6	58.8

a) Net income divided by average equity for the year less average accumulated other comprehensive income for the year.

b) Equity divided by the sum of equity, long-term debt, current portion of long-term debt, perpetual debt, borrowings and derivative instrument liabilities, less derivative instrument assets and sinking fund.

c) Net income divided by revenue.

d) Sum of income before financial expenses and net investment income divided by interest on debt securities.

e) Cash flows from operating activities less dividend paid, divided by the sum of cash flows from investing activities, excluding net change in short-term investments and sinking fund, and repayment of long-term debt.

Note: Certain comparative figures in the Five-Year Review have been reclassified to conform to the presentation adopted in the current year.

Operating Statistics

	2020	2019	2018	2017	2016
GWh					
Electricity sales					
In Québec, by segment					
Residential	**68,647**	70,688	69,566	66,111	65,065
Commercial, institutional and small industrial	**45,146**	47,894	47,659	45,816	45,483
Large industrial	**52,096**	50,358	50,252	53,699	53,635
Other	**5,557**	5,640	5,337	5,077	5,062
	171,446	174,580	172,814	170,703	169,245
Outside Québec					
Canada/U.S.	**32,397**	34,789	36,524	34,935	32,744
Total electricity sales	**203,843**	209,369	209,338	205,638	201,989
$M					
Revenue from electricity sales					
In Québec, by segment					
Residential	**5,535**	5,752	5,591	5,285	5,155
Commercial, institutional and small industrial	**3,853**	4,056	4,016	3,873	3,842
Large industrial	**2,208**	2,279	2,196	2,288	2,265
Other	**333**	342	331	317	311
	11,929	12,429	12,134	11,763	11,573
Outside Québec					
Canada/U.S.	**1,395**	1,510	1,731	1,651	1,626
Total revenue from electricity sales	**13,324**	13,939	13,865	13,414	13,199
As at December 31					
Number of customer accounts					
In Québec, by segment					
Residential	**4,076,286**	4,032,426	3,994,491	3,958,300	3,924,992
Commercial, institutional and small industrial	**321,562**	319,225	317,608	316,430	314,816
Large industrial	**189**	186	185	184	183
Other	**4,763**	4,705	4,630	4,582	4,550
Total customer accounts	**4,402,800**	4,356,542	4,316,914	4,279,496	4,244,541

Operating Statistics (continued)

	2020	2019	2018	2017	2016
MW					
Installed capacity					
Hydroelectric	**36,687**	36,700	36,767	36,767	36,366
Thermal	**544**	543	543	542	542
Total installed capacity	**37,231**[a]	37,243	37,310	37,309	36,908
GWh					
Total energy requirements[b]	**223,869**	229,959	230,795	226,824	223,143
MW					
Peak power demand in Québec[c]	**36,576**	36,159	38,319	38,204	36,797
km					
Lines (overhead and underground)					
Transmission	**34,826**[d]	34,802	34,361	34,479	34,292
Distribution	**226,752**	225,304	224,659	224,033	221,843
Total lines (overhead and underground)	**261,578**	260,106	259,020	258,512	256,135

a) In addition to the generating capacity of its own facilities, Hydro-Québec has access to almost all the output from Churchill Falls generating station (5,428 MW) under a contract with Churchill Falls (Labrador) Corporation Limited that will remain in effect until 2041. It also purchases all the output from 42 wind farms (3,882 MW) and 7 small hydropower plants (110 MW) and almost all the output from 10 biomass and 4 biogas cogeneration plants (343 MW) operated by independent power producers. Moreover, 968 MW are available under long-term contracts with other suppliers.

b) Total energy requirements consist of kilowatthours delivered within Québec and to neighboring systems.

c) The 2020 figure was valid on February 12, 2021. The values indicated reflect demand at the annual domestic peak for the winter beginning in December, including interruptible power. The 2020–2021 winter peak occurred at 8:00 a.m. on February 1, 2021.

d) 34,554 km of lines operated by the Transmission Provider and 272 km by the Distributor.

Other Information

	2020	2019	2018	2017	2016
%					
Rate increase as at April 1[a]	**–**	0.9	0.3	0.7	0.7
As at December 31					
Total number of employees[b]					
Permanent	**17,414**	16,977	16,960	17,338	17,282
Temporary	**2,597**	2,500	2,944	2,448	2,270
	20,011	19,477	19,904	19,786	19,552
%					
Representation of target groups					
Women	**28.5**	29.2	28.8	28.9	28.7
Other[c]	**10.7**	10.4	8.9	8.1	7.7

a) Excluding Rate L for years 2016 to 2019.

b) Excluding employees of subsidiaries and joint ventures.

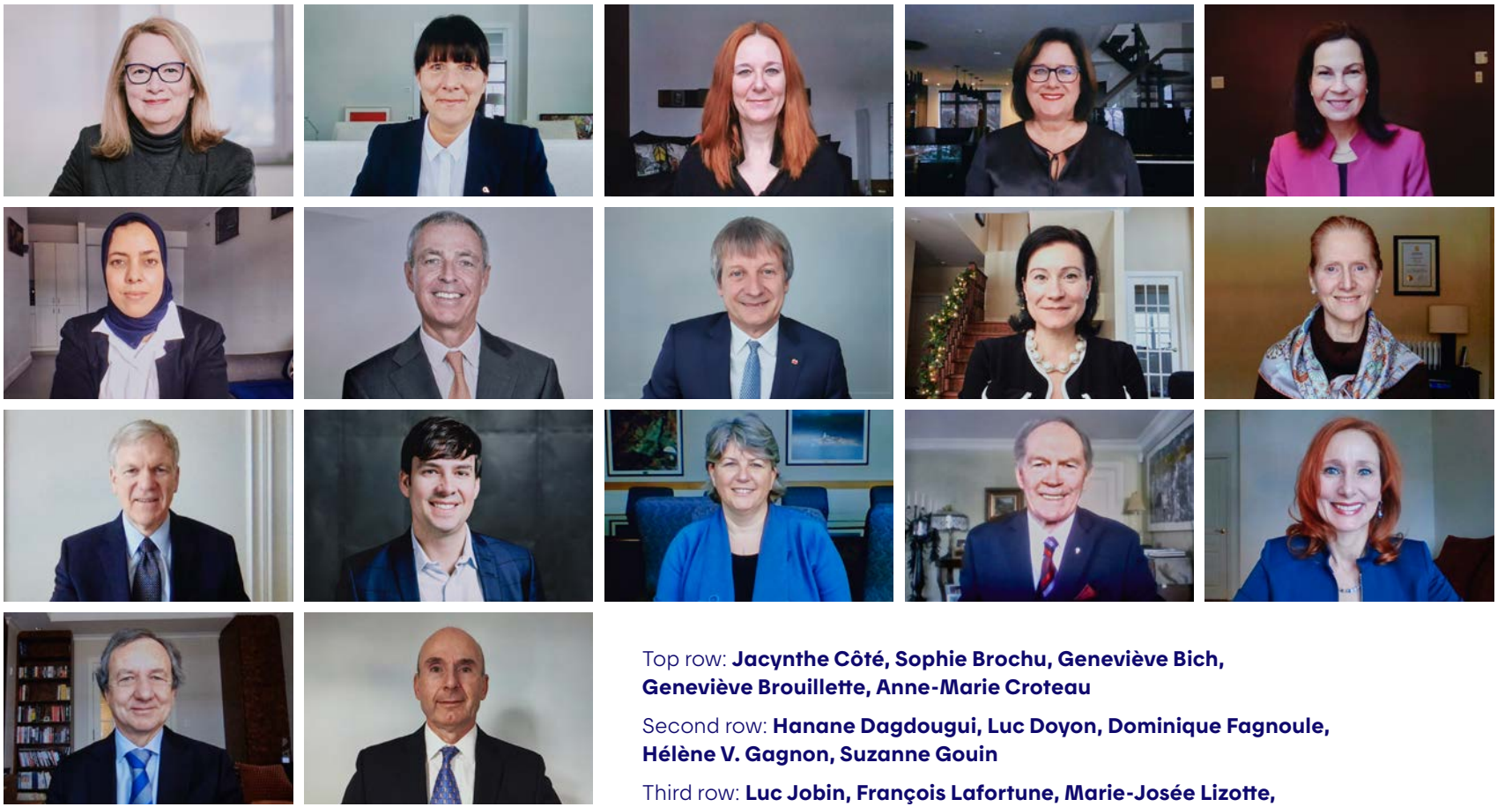
c) Self-reported members (men and women) of the following groups: Indigenous peoples, ethnic minorities, visible minorities and people with disabilities.

CONSOLIDATED RESULTS BY QUARTER

					2020
$M	1st quarter	2nd quarter	3rd quarter	4th quarter	12-month period
Revenue	4,371	2,816	2,833	3,574	**13,594**
Expenditure					
Operations	738	788	743	877	**3,146**
Other components of employee future benefit cost	(124)	(123)	(124)	(123)	**(494)**
Electricity and fuel purchases	594	516	469	625	**2,204**
Depreciation and amortization	647	651	656	740	**2,694**
Taxes	320	253	261	304	**1,138**
	2,175	2,085	2,005	2,423	**8,688**
Income before financial expenses	2,196	731	828	1,151	**4,906**
Financial expenses	671	651	625	656	**2,603**
Net income	1,525	80	203	495	**2,303**

					2019
$M	1st quarter	2nd quarter	3rd quarter	4th quarter	12-month period
Revenue	4,640	2,932	2,765	3,684	14,021
Expenditure					
Operations	679	704	675	760	2,818
Other components of employee future benefit cost	(139)	(140)	(139)	(139)	(557)
Electricity and fuel purchases	702	503	444	578	2,227
Depreciation and amortization	637	686	658	801	2,782
Taxes	325	250	260	298	1,133
	2,204	2,003	1,898	2,298	8,403
Income before financial expenses	2,436	929	867	1,386	5,618
Financial expenses	662	665	662	706	2,695
Net income	1,774	264	205	680	2,923

BOARD OF DIRECTORS



Top row: **Jacynthe Côté, Sophie Brochu, Geneviève Bich, Geneviève Brouillette, Anne-Marie Croteau**

Second row: **Hanane Dagdougui, Luc Doyon, Dominique Fagnoule, Hélène V. Gagnon, Suzanne Gouin**

Third row: **Luc Jobin, François Lafortune, Marie-Josée Lizotte, Yvon Marcoux, Marie-Josée Morency**

Bottom row: **Claude Séguin, Paul Stinis**

Jacynthe Côté

Chair of the Board, Hydro-Québec

Appointment: November 7, 2018
Term: May 14, 2023
Status: Independent director
Place of residence: Candiac

Jacynthe Côté holds a bachelor's degree in chemistry from Université Laval. She spent most of her career at Alcan, where she held a series of management positions in areas including human resources, environment, health and safety, business planning and development, production and management, in both Québec and England. After Alcan was acquired by Rio Tinto, she headed the Rio Tinto Alcan Primary Metal group for a number of years. From 2009 to 2014, she was the multinational's President and Chief Executive Officer. Ms. Côté serves on the boards of Banque Royale du Canada, Transcontinental and Finning International. She also chairs the boards of Alloprof and the Fondation CHU Sainte-Justine.

Sophie Brochu

President and Chief Executive Officer, Hydro-Québec

Appointment: April 2, 2020
Term: April 2, 2025
Status: Non-independent director
Place of residence: Bromont

Sophie Brochu holds a bachelor's degree in economics from Université Laval and has over 30 years of experience in the energy sector. She began her career in 1987 as a financial analyst with Société québécoise d'initiatives pétrolières (SOQUIP), a Québec government corporation responsible for developing the natural gas network in the province. In 1997, she joined Énergir (formerly Gaz Métro) as Vice President, Business Development, and subsequently went on to head other departments, including those in charge of natural gas supplies, sales and customer services. In 2007, she became Énergir's President and Chief Executive Officer, a position she held until the end of 2019. Very active in the community, she has been involved with Centraide of Greater Montreal for many years and co-founded ruelle de l'avenir, a non-profit organization that encourages students in the Centre-Sud and Hochelaga neighborhoods of Montréal to stay in school. She chairs the board of Fondation Forces AVENIR, which supports activities designed to foster and celebrate community involvement by high school, college and university students. In addition, she is a leader of L'effet A, an initiative whose aim is to promote the participation of women at all organizational levels. She also serves on the board of Banque de Montréal (BMO). Ms. Brochu was awarded honorary doctorates by Université de Montréal (HEC Montréal) and Bishop's University. She is a member of the Order of Canada.

Geneviève Bich

Vice President, Human Resources, Metro inc.

Appointment: September 9, 2015
Term: February 19, 2024
Status: Independent director
Place of residence: Westmount

Geneviève Bich holds a Bachelor of Arts with a major in psychology from McGill University and a Bachelor of Law from Université de Montréal. She is a member of the Barreau du Québec and the Ordre des conseillers en ressources humaines agréés du Québec. From 1991 to 2008, she held various management positions at Bell Canada, including Vice-President, Human Resources and Labour Relations. Before joining Metro in 2013 as Vice President, Human Resources, Ms. Bich worked at Groupe Dynamite and Aimia.

Geneviève Brouillette

Chief Financial Officer, Groupe ALDO

Appointment: July 12, 2017
Term: September 4, 2023
Status: Independent director
Place of residence: Montréal

With a Bachelor of Commerce from McGill University and a bachelor's degree in accounting from Université du Québec à Montréal, Geneviève Brouillette is a member of the Ordre des comptables professionnels agréés du Québec (CPA, CA) and has certification from the Collège des administrateurs de sociétés. Over the course of her career, she has held various senior positions, mainly at Kraft Canada, Groupe St-Hubert, Colabor and Keurig Dr Pepper, in Canada and the United States. She joined Groupe ALDO in January 2019 as Chief Financial Officer.

Anne-Marie Croteau

Dean, John Molson School of Business, Concordia University

Appointment: July 6, 2016
Term: August 19, 2024
Status: Independent director
Place of residence: Montréal

Anne-Marie Croteau holds a bachelor's degree in actuarial mathematics from Concordia University, a Bachelor of Business Administration and a master's in management from HEC Montréal, and a PhD in administration from Université Laval. She is dean of the John Molson School of Business at Concordia University and full professor of business technology management. Certified by the Collège des administrateurs de sociétés, she is a member of the board of Collège André-Grasset and has also served on the boards of Finance Montréal and the Société de l'assurance automobile du Québec.

Hanane Dagdougui

Assistant Professor, Department of Mathematics and Industrial Engineering, Polytechnique Montréal

Appointment: February 19, 2020
Term: February 19, 2024
Status: Independent director
Place of residence: Montréal

Hanane Dagdougui holds a bachelor's degree in physics and a master's in energetics and automation from Université Cadi Ayyad in Marrakech, Morocco, as well as a PhD in energy systems engineering from the École nationale supérieure des mines de Paris and the École Polytechnique at the University of Genoa. Ms. Dagdougui began her teaching career at the latter institution's Faculty of Engineering in 2011. Prior to being named assistant professor in the department of mathematics and industrial engineering at Polytechnique Montréal in 2017, she worked for three years as an institutional postdoctoral researcher in the electrical engineering department of the École de technologie supérieure.

Luc Doyon

Corporate Director

Appointment: September 4, 2019
Term: September 4, 2023
Status: Independent director
Place of residence: Montréal

Luc Doyon holds a bachelor's degree in mechanical engineering from Polytechnique Montréal and a graduate diploma in welding engineering from the École supérieure du soudage et de ses applications in Paris. He has also taken part in the Executive Education program at INSEAD (Institut européen d'administration des affaires) [European Institute of Business Administration] in Fontainebleau, France. He spent his career with the French industrial group Air Liquide, where he worked from 1983 to 2017. He started out as an engineer at Air Liquide Canada and became a manager in 1988. In particular, he served as Vice-President, Merchant Gases at Air Liquide America in Houston, and President and Chief Executive Officer of Air Liquide Canada in Montréal. In 2012, he was appointed President and Chief Executive Officer of the welding division of Groupe Air Liquide in Paris.

Dominique Fagnoule

Executive Advisor, Banque Nationale du Canada

Appointment: August 19, 2020
Term: August 19, 2024
Status: Independent director
Place of residence: Montréal

Dominique Fagnoule has a degree in civil engineering, with a specialization in electronics, from Université de Liège in Belgium. He was Chief Information Officer of BNP Paribas – Personal Finance from 2009 to 2013. Prior to that, he held various positions at FORTIS in the Netherlands and Belgium, including General Manager – Retail Banking Information Systems. Mr. Fagnoule has also held a number of senior-level positions in large-scale financial institutions, including Générale de Banque in Belgium. In 2013, he joined Banque Nationale, where he was Executive Vice-President – Information Technology and Organizational Performance before being named Executive Advisor in 2020. He also serves on the board of Youth Fusion.

Hélène V. Gagnon

Senior Vice President, Public Affairs, Global Communications and Corporate Social Responsibility, CAE inc.

Appointment: April 22, 2015
Term: September 4, 2023
Status: Independent director
Place of residence: Outremont

A graduate of McGill University in both civil law and common law, Hélène V. Gagnon also has a master's degree in public administration and public policy from the London School of Economics. She is a member of the Barreau du Québec and holds accreditation from the Canadian Public Relations Society. Ms. Gagnon has been Senior Vice President, Public Affairs, Global Communications and Corporate Social Responsibility at CAE since 2015 and has held similar positions at Bombardier Aéronautique, Bombardier Transport and Noranda. She sits on the boards of Aéroports de Montréal, the Aerospace Industries Association of Canada and the Aéro Montréal aerospace cluster. She has also served on the board of the Canadian American Business Council since 2017 and was named its Vice Chair in 2020. Also in 2020, she was inducted into the prestigious College of Fellows of the Canadian Public Relations Society (CPRS).

Suzanne Gouin

Chair of the Board of Management, Canada Revenue Agency

Appointment: September 26, 2007
Term: July 6, 2020[1]
Status: Independent director
Place of residence: Hampstead

Suzanne Gouin has a bachelor's degree in political science from Concordia University, where she also pursued graduate courses in media studies. She completed an MBA at the University of Western Ontario and has earned certification from the Institute of Corporate Directors. She has held several management positions in media companies, including President and Chief Executive Officer of TV5 Québec Canada from 2002 to 2015. She was appointed Chair of the Board of Management at the Canada Revenue Agency in 2017. She sits on the board of the Foundation of Greater Montreal.

1. When their term expires, directors remain in office until replaced or reappointed.

Luc Jobin

Corporate director and leadership consultant

Appointment: September 11, 2019
Term: September 11, 2023
Status: Independent director
Place of residence: Montréal

With a bachelor's degree in criminology from Nova Southeastern University in Florida and a diploma in public accountancy from McGill University, Luc Jobin is a member of the Ordre des comptables professionnels agréés du Québec (CPA, CA). He began his career at Deloitte Haskins & Sells in 1980. From 1983, he held a number of management positions at Imasco, Imperial Tobacco Canada and Power Corporation of Canada, in such areas as finance, human resources, planning and business development. His responsibilities included managing strategic units in North America, Europe and Asia. He joined the Canadian railway company CN as Executive Vice-President and Chief Financial Officer in 2009 and was named President and Chief Executive Officer in 2016, after holding the position on an interim basis. Since 2018, he has been a corporate director and leadership consultant. On March 1, 2021, he will be appointed Chairman Designate of the board of British American Tobacco (BAT), and will become Chairman of the organization on April 28.

François Lafortune

Founder and Chief Executive Officer, Diagram Ventures

Appointment: July 12, 2017
Term: July 12, 2021
Status: Independent director
Place of residence: Montréal

François Lafortune holds a Bachelor of Engineering from McGill University and an MBA from Stanford University in California. In 2006, he joined McKinsey management consulting, where he was project manager and co-leader of its Canadian technology practice, a position he held until he left the company in 2015. In 2016, he founded Diagram Ventures, a business incubator for innovative technology companies in financial services, insurance and healthcare, and has remained at its helm since inception.

Marie-Josée Lizotte

Deputy Minister of Energy and Natural Resources

Appointment: August 19, 2020
Term: July 11, 2021
Status: Non-independent director
Place of residence: Québec

Marie-Josée Lizotte holds a bachelor's degree in urban planning and a diploma of specialized studies in engineering and development project management from Université de Montréal, as well as a master's in land use planning and regional development from Université Laval. She began her career in Québec's public service in 1989. Since 2001, she has held various senior positions in the Ministère des Finances, de l'Économie et de la Recherche and the Ministère du Développement économique, de l'Innovation et de l'Exportation. Ms. Lizotte joined the Ministère de l'Environnement et de la Lutte contre les changements climatiques in 2010 as Director General – Strategic and Environmental Assessment, and subsequently became Assistant Deputy Minister for Environmental Authorizations and Assessments. She has served as Deputy Minister of Energy and Natural Resources since 2020.

Yvon Marcoux

Corporate director

Appointment: December 17, 2014
Term: December 17, 2018[1]
Status: Independent director
Place of residence: Boucherville

With a licentiate in law from Université Laval and a Master of Laws from the University of Toronto, Yvon Marcoux is a retired lawyer and Lawyer Emeritus. After starting out as a professor in the Faculty of Law at Université Laval, he held senior management positions at Québec's Conseil du trésor and Ministère des Affaires municipales, as well as at Banque Nationale, Banque Laurentienne and Provigo, and was Chairman and President and Chief Executive Officer of the Société générale de financement du Québec. He has sat in the Québec National Assembly, where he was Transport Minister, then Justice Minister and Attorney General.

Marie-Josée Morency

Executive Vice-President and General Manager, Chambre de commerce de Lévis

Appointment: July 6, 2016
Term: August 19, 2024
Status: Independent director
Place of residence: Québec

After completing a bachelor's in communications at Université Laval, Marie-Josée Morency began her career as an entrepreneur. She worked in communications in the Saguenay region for Cystic Fibrosis Québec, the Association provinciale des constructeurs d'habitation du Québec and Promotion Saguenay. From 2010 to 2017, she was Executive Director, Chambre de commerce et d'industrie Saguenay-Le Fjord, and served on the boards of numerous economic development corporations. From 2017 to 2018, she worked for Raymond Chabot Grant Thornton in business development at their subsidiary Operio. Since 2019, she has been Executive Vice-President and General Manager of the Chambre de commerce de Lévis. She is president of the Alliance des chambres de commerce de Chaudière-Appalaches and Vice Chair of the board of the Société Alzheimer de Québec, and also sits on the board of the Fédération des chambres de commerce du Québec and on the Conseil régional des partenaires du marché du travail de la Chaudière-Appalaches.

1. When their term expires, directors remain in office until replaced or reappointed.

Claude Séguin

Chair of the Board, Fonds de solidarité
de la Fédération des travailleurs du Québec (FTQ)

Appointment: August 19, 2020
Term: August 19, 2024
Status: Independent director
Place of residence: Westmount

With a bachelor's degree in business administration from HEC Montréal and both a master's and a PhD in public administration from Syracuse University in the state of New York, Claude Séguin began his career in the public sector, holding management positions at the Secrétariat du Conseil du trésor before being appointed Assistant Deputy Minister of Finance in 1983 and Deputy Minister in 1987. In 1992 he struck out into the private sector as Téléglobe Inc.'s Executive Vice President, Finance and Chief Financial Officer. He then served as President of CDP Capital—Private Equity at the Caisse de dépôt et placement du Québec (CDPQ), and subsequently joined Groupe CGI, where he was Senior Vice President, Corporate Development and Strategic Investments from 2003 to 2016 and Special Advisor to the Chairman from 2016 to 2018. He has been Chair of the Board of the FTQ Fonds de solidarité since 2018.

Paul Stinis

Corporate director

Appointment: April 22, 2015
Term: August 19, 2024
Status: Independent director
Place of residence: Westmount

With a bachelor's in mining engineering from McGill University and an MBA from Concordia University, Paul Stinis began his career as an engineer in the oil and gas industry. He has held various management positions at two major banks and was Vice-President, Finance and Treasurer at Bell Canada International. In 2003, he joined the BCE/Bell Canada group as Vice-President and Assistant Treasurer, then served as Senior Vice-President and Treasurer from 2009 to 2018. Among other duties, he was in charge of all operations related to treasury and capital markets, including risk management, insurance, pension funds, pension plans, group benefits and investor relations. From 2015 to 2018, he headed Bimcor, the pension fund investment manager for the BCE/Bell Canada group.

Directors' compensation and benefits in 2020[a]

	Base compensation	Meeting fees	Taxable benefits[b]
Geneviève Bich	$26,834	$26,555	$7,104
Sophie Brochu[c]	–	–	–
Geneviève Brouillette	$26,834	$28,828	$2,153
Jacynthe Côté[d]	$66,543	$44,766	$6,234
Anne-Marie Croteau	$20,443	$27,115	$102
Hanane Dagdougui	$16,725	$15,878	$82
Luc Doyon	$20,151	$26,805	$82
Dominique Fagnoule	$6,751	$11,675	$1,026
Hélène V. Gagnon	$22,385	$18,959	$83
Suzanne Gouin	$20,443	$29,450	$2,892
Luc Jobin	$20,138	$29,109	$5,672
François Lafortune	$20,443	$18,959	$102
Marie-Josée Lizotte[c]	–	–	$1,026
Yvon Marcoux	$19,733	$21,670	$102
Marie-Josée Morency	$20,443	$22,228	$7,104
Claude Séguin	$6,751	$8,873	$3,096
Paul Stinis	$20,443	$34,244	$7,104

a) Compensation set by the government under Order-in-Council No. 610-2006 of June 28, 2006. It consists of a basic annual retainer plus a fee for each Board or committee meeting attended. A yearly supplement is also paid to statutory committee chairs.

b) Insurance and health assessments paid by Hydro-Québec.

c) By law, non-independent directors—Sophie Brochu and Marie-Josée Lizotte—receive no compensation or meeting fees as members of the Board of Directors.

d) Jacynthe Côté's compensation was set under Order-in-Council No. 1342-2018 of November 7, 2018. She receives an annual base compensation of $60,584 plus a meeting fee of $934 for each Board or committee meeting attended.

ACTIVITY REPORT OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES

Board of Directors

Chaired by Jacynthe Côté, the Board of Directors met 17 times in 2020, while its committees held 31 meetings over the same period. The high number of Board meetings (double the usual) is a reflection of the year's events, in particular the pandemic and the recruitment of the new President and Chief Executive Officer.

In collaboration with Management, the Board members devised and refined a dashboard for monitoring key performance indicators and events affecting the company's operations. They were also actively involved in developing and overseeing emergency measures related to COVID-19 and in tracking the pandemic's changing financial and operational impacts on the company. With the unequivocal support of the Board, Hydro-Québec implemented a number of relief measures to assist residential and business customers affected by the public health crisis. In this way, the Board provided ongoing support to Management in handling the COVID-19 crisis, in terms of both workplace health and safety and management of the company's major projects.

The Board contributed to the development of a new integrated business risk management model. Designed to facilitate deliberation and decision-making, this modeling tool will promote value creation at Hydro-Québec. The Board's tasks included reviewing and commenting on the definition of the main inputs selected for determining a reference scenario and the main risks likely to impact it. The Board also ratified the company's consolidated portfolio of residual business risks.

Business development was another area examined by the Board this past year. The members held discussions with Management with a view to updating the corporate strategies. The conversation centered on Québec's economic development and Hydro-Québec's energy contribution to neighboring Canadian provinces and American states. The Board closely monitored developments in the energy supply situation in New York State and in the New England Clean Energy Connect (NECEC) transmission line project, through which New England will receive 1,200 megawatts of renewable energy produced by Québec's hydroelectric generating stations.

The Board also supported Hydro-Québec's innovation strategy designed to increase grid resilience and efficiency and to accelerate the energy transition. It approved the formation of a strategic alliance with Innergex to develop renewable energy projects outside Québec and commercialize Hydro-Québec's innovations on a global scale. It monitored the rollout of subsidiary Hilo's smart home offering, as well as the launch of EVLO, another subsidiary that designs, sells and operates safe, efficient and sustainable energy storage systems.

A proud supporter of the visual arts in Québec, Hydro-Québec regularly enriches its collection by acquiring a wide variety of works: paintings, photographs, prints and videos. A winner of the Prix Paul-Émile-Borduas (1978), Ulysse Comtois (1931–1999) occupies a prominent place in the history of Québec art. From 1954 to 1965, his painting was rooted in the post-Automatiste tradition. His quest to develop his own pictorial language reflects borrowings from the Automatistes: their gesturality, textured effects and the emergence of the form against the background. The painting *Archipel* shown here is a fine example of his approach.

Ulysse Comtois

Archipel – Oil on canvas, 1960

The Board approved capital projects in power generation, transmission and distribution, and authorized major information and communications technology (ICT) projects to accelerate the company's digital shift. It also endorsed the measures that Hydro-Québec will be rolling out between 2021 and 2025 to step up its energy efficiency efforts across all market segments and to increase electrification in Québec. In addition, to promote electric vehicle use, the Board approved a grant program enabling Québec's municipalities to acquire a total of 4,500 charging stations.

To optimize its operations, the Board reduced the number of committees and reviewed their mandates. It appointed Paul Stinis as its Vice Chair and welcomed five new government-appointed members, whose skills and expertise will offer valuable insight into matters related to the energy transition. Working with the government, the Board continues to seize opportunities for increased diversity. In accordance with the *Hydro-Québec Act*, it also approved the criteria for evaluating its performance and that of its committees. Concerned with maintaining good relations with stakeholders, it paid close attention to the company's relations with Indigenous communities.

The Board approved organizational changes and the appointment of senior executives reporting to the President and Chief Executive Officer. It took a particular interest in management succession and diversity within the company, and approved the executive succession plan. With the energy transition and digital shift in full swing, personnel management remains a key consideration for the Board.

In the course of its recurring deliberations, the Board examined the company's objectives, its consolidated Business Plan and its quarterly and annual financial results, as well as the financial statements of the Hydro-Québec Pension Plan. It also approved the company's 2021–2023 and annual internal audit plans.

In a business context evolving at an increasingly rapid pace, it is essential to consider the areas that will need to be prioritized to mitigate the impacts of the pandemic. The Board and Management will therefore be completely rethinking their strategic planning, with a view to the 2021 filing of the Strategic Plan 2022–2026, which will pave the way for the realization of Québec's collective aspirations.

Executive (A)

The Executive Committee did not hold any meetings in 2020.

Governance and Social Responsibility (B)

The Governance and Social Responsibility Committee is the result of the merger of the Governance and Ethics Committee and the Health and Safety, Environment and Social Responsibility Committee. Created on August 28, 2020, the Committee is chaired by Hélène V. Gagnon.

Seeing the company-wide improvement in health and safety, the Committee offered support and advice for consolidating the management of certain risks and continuing to evolve the corporate culture. With the pandemic shedding light on mental health risks for personnel, the Committee saw to it that Hydro-Québec was implementing appropriate measures to protect employees and ensure their well-being. It also assisted the company with the transition to teleworking.

With regard to the environment and sustainability, the Committee had discussions with Management on the initiatives currently in place to mitigate risks and seize opportunities related to Hydro-Québec's environmental attributes, as well on its positioning in relation to the economic recovery. The Committee was also briefed on the steps taken by the company to produce an inventory of climate change–related risks.

It continued discussions on the status of relations between the company and different stakeholders, closely monitoring issues related to Indigenous communities and supporting Management in the process of obtaining Progressive Aboriginal Relations (PAR) certification. The Committee was briefed on Management's brand positioning approach and efforts, and began to examine the idea of a unifying, inspiring project that would showcase the benefits of Hydro-Québec's presence across Québec's communities.

In addition, to optimize operations, the Committee recommended that the Board review the mandates of certain committees. It monitored the performance assessment of the Board and its committees, which is directed by the Chair of the Board, and recommended approval of the performance evaluation criteria used. The Committee examined strategic and corporate governance matters, and considered the candidates for the appointment of new directors. It also recommended that Paul Stinis be appointed Vice Chair of the Board.

Audit (C)

The Audit Committee, chaired by Geneviève Brouillette, was assigned additional responsibilities. Since November 13, 2020, the Committee's mandate has included various corporate financial matters, such as treasury considerations and financial programs.

The Committee was also given a larger role in the area of risk management. As part of sound governance, the Board asked the Committee to help provide integrated business risk management in support of the company's decision-making. The Committee therefore studied the modeling tool developed by the Vice-présidence – Gestion intégrée des risques, reviewed the entire integrated risk management process and oversaw the implementation of this process. It also closely monitored changes in the company's risk portfolio, including risks related to the COVID-19 pandemic.

The year was marked by an important change for the internal audit team, namely the rollout of a plan to evolve its internal audit practices, in accordance with the vision for internal audit 3.0. The Committee kept a close watch on this process, which helped strategically position the team within the company, while ensuring alignment between its activities and those related to integrated risk management, corporate control and compliance. To strengthen the third line of defence, the team explored new audit approaches based on data analytics in an effort to fully harness the potential of artificial intelligence. Each Committee meeting includes at least two closed-door sessions: one in the presence of the Internal Auditor and another exclusively between the Committee members, who are all independent.

The Committee supported the Groupe – Direction financière with its optimization project to reduce the number of controls, while preserving the quality and rigor of the internal control process. The result was a more than 40% reduction in the number of controls, without a single important control being removed. The Committee also specified the perimeter of the work included in the 2021 corporate control plan, following a benchmarking of best practices. In addition, it worked to strengthen the second line of defence.

The Committee fulfilled all the responsibilities described in its mandate. It closely monitored the management of risks related to the Hydro-Québec pension fund, the fund's performance compared to its peers and the structure of its portfolio, particularly in light of the economic uncertainty caused by the pandemic. It also recommended that the Board approve the pension fund investment policy and the actuarial valuation of Pension Plan funding and solvency.

The Committee met with the Auditor General of Québec and the independent auditors, in private and without Management present, to study the company's quarterly and annual financial statements as well as the annual financial statements of the Hydro-Québec Pension Plan, and recommended that the Board approve these statements.

Human Resources (D)

Chaired by Geneviève Bich, the Human Resources Committee was very active in the process of filling the position of President and Chief Executive Officer and also recommended the appointment of new officers. The Committee supported organizational changes, in particular the creation of a department dedicated to integrated risk management and tasking the Chief Innovation Officer and President of Hydro-Québec Production with the development of a vision and strategy for the entire innovation value chain. In addition, to harness the full potential of Hydro-Québec's key cross-functional projects, the Committee supported the creation of the Vice-présidence – Évolution de l'entreprise et approvisionnement stratégique.

It reviewed activities related to management succession planning and recommended that the Board approve the succession plan. It also studied the development strategies that apply to the company's senior executives. In addition, it supported Management's efforts in the areas of equity, diversity and inclusion within the company.

The Committee reviewed the new Pension Plan bylaw, which applies to all participants under the agreements reached between Hydro-Québec and the unions, and recommended its approval by the Board.

The Committee studied the results of the employee engagement survey and discussed them with Management, highlighting recent improvements and priorities for action in 2021.

Finally, it reviewed the executive performance assessments and recommended Board approval of objectives aligned with Hydro-Québec's corporate strategy and priorities.

Financial Affairs, Projects and Technologies (E)

Chaired by Paul Stinis, the Financial Affairs, Projects and Technologies Committee held nine meetings in 2020. To optimize its operations, it modified its mandate on November 13, 2020, transferring the responsibilities associated with treasury and financial programs to the Audit Committee.

The Committee examined the portion of Hydro-Québec's Business Plan regarding its wholly owned first-tier subsidiaries and the annual budgets based on these plans, and recommended their approval by the Board. It reviewed the company's investment portfolio along with its portfolio of growth-generating, cross-functional projects and initiatives. It analyzed a number of projects and programs, and recommended their approval by the Board. Examples include the first phase of the generating unit replacement at Carillon generating station, reinforcement of the Saguenay–Lac-Saint-Jean transmission system, the energy efficiency initiatives program for 2021–2025 and the grant program for Québec municipalities wishing to install public EV charging stations.

The Committee also paid close attention to developments in ICT projects, which are particularly important in view of the digital shift and energy transition. Important milestones were reached in several of these projects, such as the analytics foundation project, which will offer predictive analysis solutions based on the company's centralized data lake. The Committee supported the Vice-présidence – Technologies de l'information et des communications in establishing an integrated vision of all projects and a management approach tailored to the type of project and the operational risks specific to each. The Committee followed up on the company's major ICT projects, which the Vice-présidence – Gestion intégrée des risques includes in Hydro-Québec's business risk portfolio.

Cybersecurity was another issue addressed by the Committee in 2020. It reviewed the company's Cybersecurity Master Plan 2020–2024 and oversaw its rollout so that Hydro-Québec can continue to offer reliable, secure service while also protecting privacy.

The Committee further studied Hydro-Québec's plan for upgrading its telecommunications network, which is among the most extensive in the North American energy market, and monitored the portfolio of associated projects.

In the area of innovation, the Committee helped develop the strategy for improving grid resilience and efficiency and accelerating the energy transition, which applies to both Hydro-Québec and its subsidiaries. The Committee discussed the strategic objectives of those subsidiaries and reviewed their business plans. The subsidiaries' governance was also harmonized to provide more speed and agility in their operations, while continuing to ensure their sound management.

The Committee supported the Vice-présidence – Stratégies d'entreprise et développement des affaires in its initiatives to develop the green hydrogen sector. It recommended Board approval of the draft-design study for the production of hydrogen to supply the Enerkem biorefinery in Varennes, and Board authorization of the signing of the supply agreement. The Committee also paid close attention to the development of the project to build the NECEC interconnection line, which will increase transmission capacity to the New England grid and help meet the energy needs of the state of Massachusetts.

Director attendance at meetings of the Board of Directors and Board committees in 2020

Director	Notes	Board[1]	Committees					Merged committees[2]	
			A[3]	B[4]	C	D	E	F	G
Number of meetings		17		3	7	10	9	2	2
Jacynthe Côté	A B C D E	17/17		3/3	7/7	10/10	9/9	2/2	2/2
Sophie Brochu	A 5	12/12		3/3	5/5	8/8	6/6	1/1	1/1
Geneviève Bich	B D	16/17		3/3		10/10			2/2
Geneviève Brouillette	C D 6	16/17			7/7	9/10	1/1		
Anne-Marie Croteau	D E 7	15/17				5/5	9/9		2/2
Hanane Dagdougui	E 8	15/15					4/4		
Luc Doyon	B E	16/17		3/3			9/9		2/2
Dominique Fagnoule	C E 9	7/7			3/3		4/4		
Hélène V. Gagnon	B	17/17		3/3					2/2
Suzanne Gouin	A C D 10	17/17			7/7	5/5	5/5		
Luc Jobin	C E	17/17			7/7		9/9		
François Lafortune	E	15/17					7/9		
Marie-Josée Lizotte	11	7/7							
Yvon Marcoux	A B C D	11/17		1/3	5/7	5/10		2/2	
Marie-Josée Morency	B D	13/17		2/3		10/10			1/2
Claude Séguin	E 12	7/7					4/4		
Paul Stinis	A B C E	17/17		3/3	7/7		9/9	2/2	

Committees

A. Executive
B. Governance and Social Responsibility
C. Audit
D. Human Resources
E. Financial Affairs, Projects and Technologies

Merged committees

F. Governance and Ethics
G. Health and Safety, Environment and Social Responsibility

Notes

1. The Board of Directors held 17 meetings, including 9 special meetings.
2. The Governance and Ethics Committee and the Health and Safety, Environment and Social Responsibility Committee merged on August 28, 2020.
3. The Executive Committee did not hold any meetings in 2020.
4. The Governance and Social Responsibility Committee is the result of the merger of the Governance and Ethics Committee and the Health and Safety, Environment and Social Responsibility Committee.
5. Sophie Brochu took up her duties on April 2, 2020. She attends the meetings of the Governance and Social Responsibility, Audit, Human Resources, and Financial Affairs, Projects and Technologies committees as a guest.
6. Geneviève Brouillette attended the January 14, 2020, meeting of the Financial Affairs, Projects and Technologies Committee as an expert guest.
7. Anne-Marie Croteau joined the Human Resources Committee on August 28, 2020.
8. Hanane Dagdougui was appointed effective February 19, 2020. She joined the Financial Affairs, Projects and Technologies Committee on August 28, 2020.
9. Dominique Fagnoule was appointed effective August 19, 2020. He joined the Audit Committee and the Financial Affairs, Projects and Technologies Committee on August 28, 2020.
10. Suzanne Gouin joined to the Human Resources Committee on August 28, 2020. She served on the Financial Affairs, Projects and Technologies Committee from January 1 to August 28, 2020.
11. Marie-Josée Lizotte was appointed effective August 19, 2020.
12. Claude Séguin was appointed effective August 19, 2020. He joined the Audit Committee and the Financial Affairs, Projects and Technologies Committee on August 28, 2020.

GOVERNANCE

The Board of Directors complies with the requirements of the *Hydro-Québec Act* with regard to governance. In particular, it ensures that appropriate control mechanisms are in place and are the subject of periodic reporting.

Independence

With the exception of Sophie Brochu, President and Chief Executive Officer, and Marie-Josée Lizotte, Deputy Minister of Energy and Natural Resources, the members of the Board are independent directors, meaning that they have no direct or indirect relations or interests—in particular of a financial, commercial, professional or philanthropic nature—that could affect the quality of their decision-making with regard to the interests of the company.

Rules of ethics

The Board is responsible for compliance with the rules set out in the Code of Ethics and Rules of Professional Conduct for Directors and Executives of Hydro-Québec and its Wholly Owned Subsidiaries, which are based primarily on the Regulation respecting the ethics and professional conduct of public office holders. The Code is available in French only.

Compensation and benefits paid to directors

Compensation for all independent directors is set out in Order-in-Council No. 610-2006 and is indexed periodically by the government. It consists of a basic annual retainer of $19,947 plus a fee of $934 for each Board or committee meeting attended. A yearly supplement of $6,235 is paid to the chairs of the Audit Committee, the Governance and Social Responsibility Committee and the Human Resources Committee. Under Order-in-Council No. 1342-2018, the Chair of the Board receives annual compensation of $60,584 and earns the same compensation as the other independent directors for participating in meetings of the Board and its committees, as well as for chairing a committee. Board members are also entitled to reimbursement of travel expenses incurred in the performance of their duties.

Hiring of independent experts

Board members may retain the services of independent experts at the company's expense in order to obtain advice on matters related to their mandate.

Director induction and training program

When Board members are first appointed, they receive training on their roles and responsibilities, the nature and business context of Hydro-Québec's principal activities, and the company's legal and regulatory framework. New directors also receive training providing them with a solid grasp of the basic notions of electricity, and are usually given tours of the system control center and the energy trading floor. By the end of the induction program, new members have received about 15 hours of training. The four external directors who joined the Board in 2020 were trained through this program; however, some tours had to be postponed due to the pandemic.

Continuing development activities for Board members during the year included presentations on such topics as risk management for energy transactions, relations with Indigenous nations and the Code of Ethics and Rules of Professional Conduct for Directors and Executives of Hydro-Québec and its Wholly Owned Subsidiaries. Members of the Audit Committee received additional training on the use and recognition of financial instruments, and attended a presentation on the company's integrated business risk management. Finally, some Board members also participated in the virtual Canadian Waterpower Week and the annual conference of the Association de l'industrie électrique du Québec (AIEQ), which focused on energy productivity and the growth of the electric industry in Québec.

Deintegration

In 1997, Hydro-Québec restructured itself into divisions, which enabled it to obtain a power marketer's licence and sell electricity at market prices on U.S. wholesale markets. Among other things, this deintegration, or structural unbundling, ensures that the Transmission Provider's operations are kept separate from those of its affiliates. Rules of conduct and ethics were enacted and integrated into internal directives, which are briefly described below:

- *Transmission Provider Code of Conduct:*[1] Governs relations between the Transmission Provider and its affiliates, and is intended to prevent any form of preferential treatment or cross-subsidization.
- *Reliability Coordinator Code of Conduct:*[2] Ensures that the reliability of the transmission system remains the Reliability Coordinator's top priority and prevents any form of preferential treatment in favor of other structural units of the Transmission Provider, its affiliates or other system users.

1. Transmission Provider Code of Conduct (www.oasis.oati.com/HQT/HQTdocs/Code_de_Conduite_en.pdf).
2. Reliability Coordinator Code of Conduct (www.hydroquebec.com/data/transenergie/pdf/code_conduite-en.pdf).

- *Code of Ethics on Conducting Calls for Tenders:*[3] Ensures that the Distributor's tendering process is conducted fairly for all electricity suppliers.
- *Code de conduite du Distributeur* [Distributor Code of Conduct]:[4] Regulates transactions between the Distributor and the Generator for non-tendered electricity supply in order to ensure that the Generator does not benefit from any unfair advantage. It also governs dealings between the Distributor and its affiliates, with the aim of preventing affiliates' business operations from being subsidized, in whole or in part, by electricity service customers.

The application of each of these codes is the subject of an annual accountability report to the Régie de l'énergie.

Internal control system

Hydro-Québec's Management maintains an internal control system with a financial information component based on the internationally recognized framework developed by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. The objective of this system is to provide reasonable assurance that the financial information is relevant and reliable, and that Hydro-Québec's assets are appropriately recorded and safeguarded. The system includes an integrated business risk management process and the development of an annual internal control plan. Internal auditing helps to determine whether the internal control system is sufficient and effective, and to assess the company's policies and procedures. It includes a value-for-money audit to ensure the efficiency, effectiveness and profitability of the company's activities.

Auditors' fees and independence

KPMG LLP, Ernst & Young LLP and the Auditor General of Québec are Hydro-Québec's independent auditors for 2020. The professional fees billed by KPMG LLP and Ernst & Young LLP in 2020 for services other than auditing and certification accounted for 5.4% of the total $3.4 million in fees billed. Hydro-Québec uses various mechanisms to enable the Audit Committee to ensure that independent auditors remain independent, including a process whereby any engagement that could be assigned to them is analyzed beforehand. No professional service engagement may be assigned to the Auditor General of Québec, since that office serves the National Assembly exclusively.

Access to information and protection of privacy

All requests for access to information received by Hydro-Québec are handled in accordance with the *Act respecting access to documents held by public bodies and the protection of personal information*. In 2020, Hydro-Québec received and processed 455 requests for access to information that concerned administrative documents or personal information. Of these, 179 were granted in full, 192 were granted in part and 41 were turned down. The most common reasons for denying requests are the need to protect third-party personal information, or security or commercial concerns that prevent disclosure of the document. As for the other 43 requests, either they could not be fulfilled because the company did not have the document, the request was withdrawn or the information concerned another public body.

Altogether, 209 requests for access were processed within 20 days, 123 were processed within 21 to 30 days, and 123 were processed within 31 days or more, for an average processing time of 26 days. In addition, 17 review notices were received from the Commission d'accès à l'information, and no requests for access were the subject of accommodation measures under the government policy on equal access for persons with disabilities to publicly available documents and services. Decisions on access requests and the report on requests processed in 2020 are available (in French only) at www.hydroquebec.com/documents-donnees/loi-sur-acces/bilans.html. Hydro-Québec also ensures that information whose publication is prescribed by the *Regulation respecting the distribution of information and the protection of personal information* is made available on our website, at www.hydroquebec.com/documents-data/act-respecting-access/distribution-information, where it can be easily accessed by the public.

The company reminded its employees of the principles of the protection of privacy through training activities, internal memos and in the context of specific cases, under the guidance of the Tactical Committee on the Governance of Corporate Data and Technologies.

3. Code of Ethics on Conducting Calls for Tenders (www.hydroquebec.com/data/achats-electricite-quebec/pdf/code_240701_en.pdf).
4. Code de conduite du Distributeur (www.hydroquebec.com/data/a-propos/pdf/code-conduite-distributeur.pdf).

Compensation and benefits paid to the company's five most highly compensated officers as at December 31, 2020

	Base salary as at December 31	Incentive compensation for 2019, paid in 2020	Perquisites used[a]	Taxable benefits			
					Automobile		Life insurance and health insurance
				Nature of benefit	Allowance	Usage and parking	
Sophie Brochu President and Chief Executive Officer of Hydro-Québec	$580,000[b]	–	–	Executive vehicle	–	–	$5,603
David Murray Chief Innovation Officer of Hydro-Québec President of Hydro-Québec Production President of Hydro-Québec IndusTech inc.[c]	$492,900	$128,992	–	Car allowance or provision of a vehicle, plus parking	$17,279	$3,743	$9,871
Marc Boucher President of Hydro-Québec TransÉnergie et Équipement President and Chief Executive Officer of Société d'énergie de la Baie James[d]	$476,278	$121,499	$3,449		$17,279	$3,100	$8,945
Jean-Hugues Lafleur Executive Vice President and Chief Financial Officer	$436,800	$116,582	$4,160		$17,279	$2,940	$9,465
Éric Filion President of Hydro-Québec Distribution et Services partagés	$428,000	$119,326	$1,717		$17,279	$5,233	$9,116

Incentive Compensation

Under Hydro-Québec's incentive compensation policy, non-unionized employees may receive an annual performance bonus. An executive's bonus is based on corporate objectives that are set and approved annually, and is subject to the attainment of the financial performance threshold.

Pension Plan and Supplementary Benefits Program

Basic Hydro-Québec Pension Plan (HQPP)

- Usual contribution under the plan
- Pension calculated on the basis of average salary for the best five years
- Credit of 2.25% per contribution year
- Recognition of 66.67% of the maximum incentive compensation as pensionable earnings for purposes of the HQPP, up to a maximum of 20% of salary.

Supplementary Benefits Program

- Contribution assumed by Hydro-Québec
- Additional benefits to offset the tax limits under the HQPP (lifting of ceiling on the permitted maximum amount)
- Payment of benefits according to the same terms as those applicable under the HQPP

Other provision applicable to the President and Chief Executive Officer of Hydro-Québec

- Recognition of 100% of the maximum incentive compensation as pensionable earnings (less portion recognized for purposes of the HQPP)

a) Taxable benefits related to financial, tax and estate planning, sports clubs and professional dues.

b) Sophie Brochu's salary for 2020, as of her appointment on April 2, 2020, amounts to $437,231.

c) David Murray does not receive any separate compensation as President of Hydro-Québec IndusTech inc.

d) Marc Boucher does not receive any separate compensation as President and Chief Executive Officer of Société d'énergie de la Baie James.

Compensation and benefits paid to officers among those most highly compensated who left Hydro-Québec in 2020

Other most highly compensated officers in 2020	Base salary as at December 31	Incentive compensation for 2019, paid in 2020	Perquisites used[a]	Taxable benefits			
				Automobile			Life insurance and health insurance
				Nature of benefit	Allowance	Usage and parking	
Éric Martel President and Chief Executive Officer of Hydro-Québec	$579,462[e]	$262,380	–	Executive vehicle	–	$2	$3,164
Réal Laporte President of Hydro-Québec Innovation, équipement et services partagés	$487,261[f]	$136,969	$5,000	Car allowance or provision of a vehicle, plus parking	$20,432	$1,971	$12,096

e) Éric Martel's salary for 2020 until his departure on April 5, 2020, amounts to $151,552.

f) Réal Laporte's salary for 2020 until his departure on November 30, 2020, amounts to $450,772.

Compensation and benefits paid to the only two officers compensated by wholly owned subsidiaries as at December 31, 2020[g]

	Base salary as at December 31	Incentive compensation	Perquisites	Employee benefits
Nadyne Guay General Manager of Société de transmission électrique de Cedars Rapids limitée	$138,289	$19,318	$990[h]	Hydro-Québec Pension Plan and group insurance plan
Sébastien Fournier President and Chief Executive Officer of Services Hilo inc.	$220,000	$17,378	$846[i]	Services Hilo inc. group RRSP and group insurance plans

g) Only one director of a wholly owned subsidiary is compensated. As Chair of the Board of Directors of Services Hilo inc., Carl Cassista received total compensation of $25,418 in 2020, i.e., annual base compensation and fees for meetings of the Board of Directors.

h) Taxable benefits related to financial, tax, and estate planning, sports clubs and monthly transit passes.

i) Taxable benefits related to the purchase of monthly transit passes.

Ethics

Ethics at Hydro-Québec are founded on five principles: acting with integrity, acting with loyalty and diligence, treating people and the environment with respect, managing information responsibly and treating our customers, suppliers and partners fairly and courteously. These principles, which are set out in the employee Code of Conduct (in French only, at www.hydroquebec.com/data/a-propos/pdf/code-conduite.pdf) and the accompanying self-training program, are meant to guide employees in their actions and in the choices they make. Employees who wish to ask a question or request advice about a particular situation can write to ethique@hydro.qc.ca or contact an ethics advisor. During the year, more than 380 requests were received and processed.

The year also saw the implementation of a simplified process for governance, in collaboration with internal stakeholders involved in ethics and integrity. The collaboration will be key for coordinating and streamlining activities, promoting prevention and increasing engagement, with a view to continuous improvement. The responsibilities of each stakeholder were clarified and areas for improvement were specified. In 2021, the company will focus on consolidating and improving existing tools and activities for promoting an ethics-aware corporate culture.

Language guidelines

Among the measures established for applying the *Charter of the French Language* are a consultation service offered to all employees and an intranet site devoted to the language guidelines applicable to Hydro-Québec. In 2020, the company worked with the Commission de toponymie to name certain solar power facilities.

Sustainable development

The Sustainability Report discusses Hydro-Québec's main initiatives and the progress it is making in this area, as well as its sustainable energy choices. The report is based on the Global Reporting Initiative Standards and is available at www.globalreporting.org/standards/, where additional information is provided on the company's performance in sustainable development.

Sustainable Development Plan 2020–2024

Hydro-Québec published its Sustainable Development Plan 2020–2024: *Drawing on the Past to Shape the Future*, available at www.hydroquebec.com/data/documents-donnees/pdf/sustainable-development-plan-2020-2024.pdf. The Plan takes into account stakeholder expectations, an analysis of the discrepancies between common practices in the area of corporate responsibility and those found in ISO 26000, and the main sustainability issues faced by the company. It prioritizes the most pressing issues, encourages employees to become agents of lasting change and creates synergy between units. It also demonstrates Hydro-Québec's commitment to advancing Québec's collective prosperity and making the transition to a low-carbon economy.

The Plan sets out 12 strategies linked to three pillars: governance, community and environment. Each strategy is associated with at least one improvement target and one performance indicator.

Born in Hebei, China, Hua Jin, who has been living in Montréal since 2012, is the winner of the Conseil des arts de Montréal's first-ever Cultural Diversity in Visual Arts Award. Acquired in 2020, the photo depicts Ting-Ting, an only child who lives on the artist's uncle's farm in China. One evening, when Hua was photographing the sunset from the roof of a building, Ting-Ting climbed up to join her, sat down and began drawing. This work echoes the "one-child policy" that China instituted in 1979.

Hua Jin

My Big Family_Child – Inkjet print, 2011

Sustainable Development Plan 2020–2024

Hydro-Québec published its *Sustainable Development Plan 2020–2024* in April 2020. Structured around the three pillars of Governance, Community and Environment, the plan lays out 12 strategies and is aligned with Québec government initiatives. Some of the strategies promote the implementation of the Government Sustainable Development Strategy 2015-2020 (in French only), while others contribute to *Québec's Agenda 21 for culture*. When it comes to the United Nations Development Programme Sustainable Development Goals, Hydro-Québec plans to do its part by pursuing some of the 17 goals that most closely reflect our reality. An accounting of the company's performance with respect to the Plan will be presented in the *Sustainability Report 2020*. The year was marked by a host of challenges that led the company to review certain priorities. Although several activites continued, some were postponed to 2021.

	Strategies	Targets	Results 2020
Governance			
1	Make sustainability principles integral to our governance, operations and projects	1.1 Integrate sustainability principles into our corporate guidelines	Will begin in 2021, as the review of corporate policies is undertaken
		1.2 Earn public recognition for our leadership in responsible government	Obtained a new mark of recognition and postponed ISO 37001 certification to 2021
2	Do business with responsible suppliers	2.1 Identify and apply occupational health and safety requirements to risk-sensitive work categories	Suppliers categorized based on the health and safety risk level of their activities
3	Significantly improve our occupational health and safety performance while fostering employee wellness	3.1 Obtain ISO 45001:2018 health and safety certification by 2023	4.8% progress in the process of ISO 45001:2018 certification
		3.2 Implement or showcase health and wellness initiatives	48 health and wellness initiatives
4	Offer an inclusive work environment that reflects Québec's diversity and rally our employees around sustainable development	4.1 Continue to improve equal access to employment by raising target group representation	28.5% women (2019: 29.2%), 1.6% Indigenous (2019: 1.7%), 1.9% ethnic minorities (2019: 1.9%), 6.7% visible minorities (2019: 6.6%), 0.6% people with disabilities (2019: 0.6%)
		4.2 Increase target group representation in management positions	26.0% women (2019: 24.8%), 1.0% Indigenous (2019: 1.0%), 1.0% ethnic minorities (2019: 1.0%), 3.5% visible minorities (2019: 3.4%), 0.5% people with disabilities (2019: 0.6%)
		4.3 Implement a sustainability awareness program that promotes employee engagement	Program implementation postponed until 2021
		4.4 Launch an action plan for disabled groups	Completion of 90% of actions identified in the 2019–2020 plan

Sustainable Development Plan 2020–2024 (continued)

	Strategies	Targets	Results 2020
Community			
5	Foster Québec's development as a society through our financial contribution	5.1 Contribute $23.4 billion to Québec's gross domestic product (GDP) by 2024	$20.7 billion contributed to the GDP (2019: $20.7 billion)[a]
6	Build and operate sustainable, resilient infrastructure while adapting our activities to climate change	6.1 Implement a climate change adaptation plan by 2021	Completion of 66% of the climate change adaptation plan
		6.2 Expand the integration of sustainability principles in infrastructure projects	2 solar farms (IREQ and La Citière)
		6.3 Obtain or maintain BOMA BEST certification for targeted administrative buildings and rented office premises of over 1,000 m^2 in Montréal and Québec	100% BOMA BEST certification for the 23 targeted buildings and office spaces
7	Generate more sustainable value in the community	7.1 Develop indicators and optimize certain programs to maximize their social and economic benefits for the community	25% progress for the 2 targeted programs (Integrated Enhancement Program and Social Responsibility Directive)
8	Take steps to include Indigenous peoples and encourage their input into our development	8.1 Obtain Silver-level certification from the Canadian Council for Aboriginal Business's Progressive Aboriginal Relations (PAR) program	30% progress in the PAR Silver certification process
Environment			
9	Work toward decarbonizing all of our business activities and markets	9.1 Avoid 4.6 Mt CO_2 eq. of emissions through our long-term export contracts	2.5 Mt CO_2 eq. of GHG avoided (2019: 2.5 Mt CO_2 eq.)[a]
		9.2 Cut direct emissions of our operations by 35% by 2027	Not available[b]
		9.3 Aim for carbon neutrality by 2030	Established roles and responsibilities and a preliminary action plan
10	Equip Quebecers to lower their consumption through better electricity use	10.1 Propose electricity management solutions to our business and residential customers that aim to cut energy use by 2.49 TWh and potentially reduce power demand by 1,523 MW compared to 2019[c]	0.4427-TWh reduction in energy use by business and residential customers (2019: 0.4783 TWh) 1,825-MW potential reduction in power demand (2019: 287 MW)
11	Enhance and protect biodiversity	11.1 Develop a corporate strategy for enhancing and protecting biodiversity	Development of the strategy postponed to 2021
12	Reduce resource use by applying the principles of the circular economy	12.1 Draft and deploy a logistics strategy that applies the best practices of the circular economy	Developed a logistics strategy for material and transportation that integrates circular economy initiatives
		12.2 Use tools to integrate a total cost analysis (TCA) of goods and services at time of procurement into our governance	Adopted new guidelines for the integration of total ownership costs

a) Preliminary data. The final figure will be published in the *Sustainability Report 2020*.

b) Results will be published in the *Sustainability Report 2020*.

c) The target regarding energy use reduction by business and residential customers was increased to 3,482 TWh in December 2020.

Action related to the implementation of Québec's *Agenda 21 for culture*.

Occupancy and vitality of territories

As a government corporation, Hydro-Québec supports the Québec government's efforts to ensure the occupancy and vitality of territories. The following are the main measures in the company's new action plan, in compliance with the *Act to ensure the occupancy and vitality of territories* (CQLR, c. O-13).

Measures to ensure the occupancy and vitality of territories	Indicator
Continue efforts in the field of transportation electrification Hydro-Québec is actively expanding the Electric Circuit, the largest public charging network in Québec, which currently includes nearly 3,000 charging stations for electric vehicles (EVs). The rollout of the Electric Circuit to all of Québec's regions is guided by a plan based on strict criteria. The goal is to increase the use of EVs by offering users high-quality service and a network that covers the entire province. In 2018, to cater its offer to market needs, the Electric Circuit undertook to add 1,600 fast-charge stations to its fleet by 2027. In addition, under the Plan for a Green Economy presented by the Québec government in November 2020, Hydro-Québec has committed to installing 2,500 fast-charge stations and 4,500 standard stations by 2030. The Electric Circuit will consequently be central to the strategy to accelerate transportation electrification. With the number of EV drivers growing exponentially every year, the expansion of the Electric Circuit will facilitate EV travel and contribute to stimulating tourism and economic activity in all of the province's regions. Transportation electrification is a promising green sector, in which Hydro-Québec intends to play a leading role.	2,984 public charging stations, including 444 fast chargers
Support the greenhouse industry in Québec In July 2020, Hydro-Québec filed an application with the Régie de l'énergie to expand the measures offered since 2013 to greenhouse growers. As a result, the Additional Electricity rate option for photosynthetic lighting will now also apply to space heating to raise crops and will be offered to all producers whose maximum power demand exceeded 50 MW in the last 12 months. These measures will support the development of the greenhouse industry in a number of regions, while also increasing Québec's food self-sufficiency.	No indicator
Roll out an information program on the integration of Hydro-Québec's facilities into the host environment and the coordination of planning To optimize the integration of its projects throughout the province, Hydro-Québec undertook to provide training on its operations and land management practices from 2016 to 2020 to the land-use planners of regional county municipalities (MRCs) and of the cities and agglomerations that perform some of the functions of MRCs. As at December 31, 2020, more than 20 training sessions had taken place in-person or online.	The company reached out to all of Québec's MRCs and invited their land-use planners to at least one of the training sessions offered since 2016. Altogether, 90 MRCs, or 89% of all MRCs in Québec, registered for at least one training session.
Offer free guided tours of some facilities By showcasing its built and technological heritage in Québec's various regions and offering free tours of some of its facilities, Hydro-Québec helps promote tourism in different parts of the province. The integration of our facilities into their host environments is one of the topics visitors learn about during the tours.	26,730 people visited Hydro-Québec's facilities in 2020
Convert off-grid systems Hydro-Québec has undertaken to gradually convert its off-grid systems to cleaner, less costly energy sources. The company is also committed to working with local communities on promising initiatives, while ensuring that it meets its financial and environmental goals. The specific features of each system and the needs of each community will be considered to help select a technological solution that ensures system reliability and is also optimal from social, environmental and economic standpoints.	No indicator
Participate in the microgrid project in Lac-Mégantic Following the July 2013 rail disaster and the destruction of its downtown core, the town of Lac-Mégantic faced multiple challenges: physical rebuilding, social rehabilitation and economic diversification. Hydro-Québec is participating in this revitalization through the installation of a microgrid designed to meet the needs of Lac-Mégantic residents. The microgrid features a range of components, such as solar panels, energy storage units and tools to manage buildings' energy use.	No indicator

ACT TO FACILITATE THE DISCLOSURE OF WRONGDOINGS RELATING TO PUBLIC BODIES

A number of years ago, to promote ethical behavior, Hydro-Québec adopted a procedure for handling allegations of wrongdoing. This procedure has been updated to meet the requirements of the *Act to facilitate the disclosure of wrongdoings relating to public bodies*.

2020 report	
Cases covered by Section 25 of the *Act to facilitate the disclosure of wrongdoings relating to public bodies*	Number of cases
1 Disclosures received by the designated officer	9
2 Cases in which processing or examination of the disclosure was ended under subparagraph 3 of Section 22	–
3 Well-founded disclosures (concluded in 2020)	6
4 Disclosures broken down by category of wrongdoing set out in Section 4:	
• a contravention of a Québec law, of a federal law applicable in Québec or of a regulation made under such a law	1
• a serious breach of the standards of ethics and professional conduct	2
• a misuse of funds or property belonging to a public body, including the funds or property it manages or holds for others	1
• gross mismanagement within a public body, including an abuse of authority	5
• any act or omission that seriously compromises or may seriously compromise a person's health or safety or the environment	–
• directing or counselling a person to commit any of the wrongdoings described above	–
5 Information forwarded under the first paragraph of Section 23	1

ACT RESPECTING WORKFORCE MANAGEMENT AND CONTROL WITHIN GOVERNMENT DEPARTMENTS, PUBLIC SECTOR BODIES AND NETWORKS AND STATE-OWNED ENTERPRISES

On December 5, 2014, the Québec government adopted the *Act respecting workforce management and control within government departments, public sector bodies and networks and state-owned enterprises*. The purpose of this Act is to strengthen workforce management and control mechanisms within public bodies, in particular through workforce planning and measures to control staffing and service contracts.

In accordance with the Act, Hydro-Québec adopted a directive establishing the situations in which the authorization of its President and Chief Executive Officer is not required for the signing of service contracts during the application period of the Act. The directive was submitted to the Conseil du trésor and has been in effect since December 1, 2017. For the period from April 1, 2019, to March 31, 2020, the President and Chief Executive Officer of Hydro-Québec authorized 238 contracts falling within the scope of the Act, for a total of $924,859,252.

The table opposite shows Hydro-Québec's total workforce, in paid hours, for the reference period.

Paid hours	
Management	3,712,402
Professionals	13,268,415
Clerical staff, technicians and similar	9,642,701
Peace officers	41,426
Laborers, maintenance and service personnel	12,534,963
Students and interns	147,940
Total	39,347,847

OUR GENERATING, TRANSMISSION AND DISTRIBUTION FACILITIES

Generation

Installed capacity — 37,231 MW

61 hydroelectric generating stations[a] — 36,687 MW

Robert-Bourassa	5,616	Sainte-Marguerite-3	882	Péribonka	385	Manic-1	184
La Grande-4	2,779	Laforge-1	878	Laforge-2	319	Rapides-des-Îles	176
La Grande-3	2,417	Bersimis-2	845	Trenche	302	Chelsea	152
La Grande-2-A	2,106	Outardes-4	785	La Tuque	294	Sarcelle	150
Beauharnois	1,912	Bernard-Landry	768	Romaine-1	270	La Gabelle	131
Manic-5	1,596	Carillon	753	Beaumont	270	Première-Chute	131
La Grande-1	1,436	Romaine-2	640	McCormick	235	Les Cèdres	113
René-Lévesque	1,326	Toulnustouc	526	Rocher-de-Grand-Mère	230	Rapides-des-Quinze	109
Jean-Lesage	1,229	Outardes-2	523	Paugan	216	Rapides-Farmer	104
Bersimis-1	1,178	Eastmain-1	480	Rapide-Blanc	204	Other (16 generating stations rated less than 100 MW)	689
Manic-5-PA	1,064	Brisay	469	Shawinigan-2	200		
Outardes-3	1,026	Romaine-3	395	Shawinigan-3	194		

24 thermal generating stations[b] — 544 MW

Bécancour (gas turbine)	411
Other (23 diesel plants on off-grid systems)	133

a) 60 managed by the Generator and 1 by the Distributor.

b) 1 managed by the Generator and 23 by the Distributor.

Other sources of supply — 10,731 MW

Churchill Falls generating station [Churchill Falls (Labrador) Corporation Limited][a]	5,428
42 wind farms operated by independent power producers[b]	3,882
10 biomass and 4 biogas cogeneration plants operated by independent power producers[c]	343
7 small hydropower plants operated by independent power producers[b]	110
Other suppliers[d]	968

a) Hydro-Québec has access to almost all the output until 2041.

b) Hydro-Québec purchases all the output.

c) Hydro-Québec purchases almost all the output.

d) Hydro-Québec has access to the output of these suppliers.

Hydroelectric generating station under construction — 245 MW

Romaine-4	245

Photovoltaic generating stations under construction — 10 MW

La Citière	8
IREQ	2

Transmission

Voltage	Lines (km)	Substations (number)
765 and 735 kV	12,319[a]	41
450 kV DC	1,218	2
315 kV	5,507	83
230 kV	3,252[b]	54
161 kV	2,140	43
120 kV	7,018	222
69 kV or less	3,372[c]	93[d]
Total	**34,826**	**538**

a) Including 469 km of 735-kV lines operated at 315 kV.

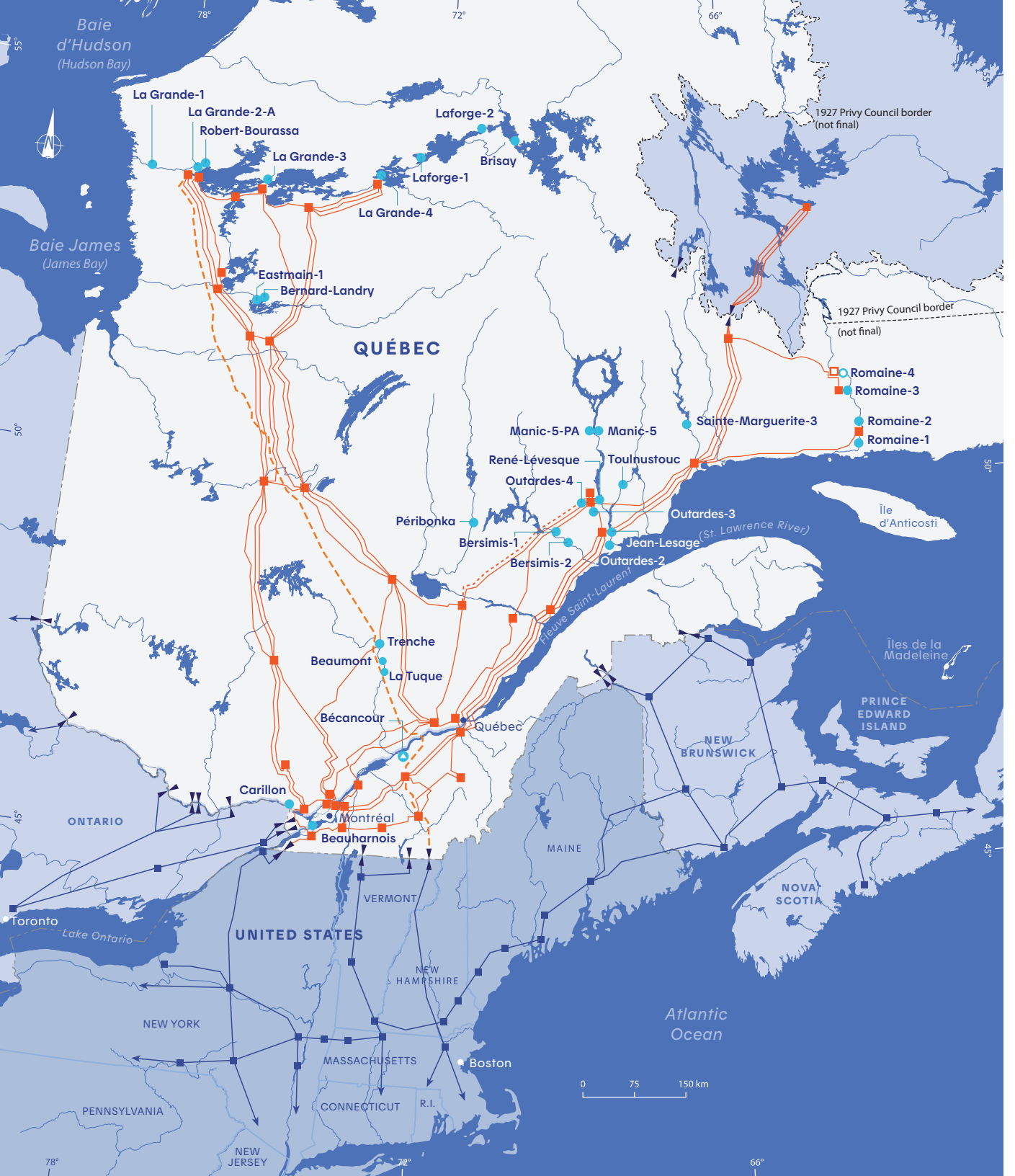
b) Including 33 km of 230-kV lines operated at 120 kV.

c) 3,100 km of lines operated by the Transmission Provider and 272 km by the Distributor.

d) 82 substations operated by the Transmission Provider and 11 by the Distributor.

Distribution

Medium voltage	Lines (km)
34 kV	745
25 kV	113,765
12 kV	4,644
4 kV or less	191
Total	119,345
Low voltage	107,407
Total	**226,752**



OUR MAJOR FACILITIES

Generating stations rated 245 MW or more	
●	Hydro
▲	Thermal
Other facilities	
○	Generating station under construction
■	735-kV substation
□	735-kV substation under construction
———	735-kV line
- - - - -	735-kV line under construction
— — —	450-kV direct-current line
⋈	Interconnection
——■——	Neighboring system (simplified)

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