Annual Report 2022

Hydro Québec

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COVER

Rivière Richelieu, the main waterway in the Montérégie administrative region

HYDRO-QUÉBEC IN NUMBERS

$4,557 million
Net income in 2022

$6.0 billion
Contribution to the Québec government's revenue in 2022

$4.3 billion
Investments in Québec in 2022

216.2 TWh
Electricity sales,
including 35.6 TWh in exports

7.59 ¢/kWh
Residential rate,
the lowest in North America

96%
Public satisfaction index

0.96
Lost time accident frequency rate
(per 200,000 hours worked)

$19.6 million
Donations and sponsorships to 514 organizations in 2022

A YEAR MARKED BY MANY ACCOMPLISHMENTS

On behalf of the entire Board, I would like to salute everyone at Hydro-Québec for their outstanding performance in 2022, as demonstrated by the year's excellent financial results, which include record-breaking net income of $4,557 million.

Following the tabling of the *Strategic Plan 2022–2026* at the start of the year, Hydro-Québec launched an ambitious project to further develop Québec's energy infrastructure. This project, which the Board fully supports, takes into account all the conditions required for the transition to a low-carbon economy and the implementation of the vast electrification initiative proposed in the Québec government's *2030 Plan for a Green Economy*. The objective is clear. It's a huge task, but Hydro-Québec is up to the challenge.

In addition, the Board closely followed the progress of high-priority strategic initiatives in areas like customer experience, energy efficiency, the addition of capacity and energy to the supply portfolio, occupational health and safety, capital allocation, and the modernization of Hydro-Québec's rate structure and legal frameworks.

The Board played an active role in the discussions that ushered in significant changes to Hydro-Québec's organizational structure and culture and the birth of One Hydro, a fundamental transformation that paves the way for optimization across the company's value chain. The Board also supported the management team in implementing this new vision for the organization and monitored the process closely.

Among other things, the Board's input was sought with regard to the acquisition of Great River Hydro and the deployment of a 1,250-MW interconnection with New York State in partnership with the Mohawk community of Kahnawà:ke, as well as in the strategic positioning of Québec's wind power sector.

On the governance front, we welcomed three new directors in 2022: David Bahan, Sarin Boivin-Picard and Claude Tessier, whose skills complement the Board's existing expertise and experience. In addition, we reviewed with interest the periodic reports on how equity, diversity and inclusion are progressing within the organization.

It has been a pleasure for me to preside over the Board for over four years now, but my time at the helm will soon come to an end. I would like to thank the Québec government for allowing me to serve at such an important time for Hydro-Québec and for Québec society as a whole. I would also like to express my gratitude to my colleagues on the Board, to the entire management team and to all the wonderful Hydro-Quebecers.

In closing, I wish to salute Sophie Brochu, an exceptional leader who will long be remembered for her personable approach and remarkable communication skills.

Jacynthe Côté
Chair of the Board

A YEAR OF MAJOR ACHIEVEMENTS

Hydro-Québec ended 2022 with an enviable track record in several regards.

First, in terms of our financial performance, net income reached an all-time high of $4.56 billion thanks to robust exports. As a result, we will be able to pay a dividend of $3.42 billion—the highest ever—to our sole shareholder, the Québec government.

On the commercial front, we signed the largest export agreement in our history, which will allow us to supply New York City with clean, renewable energy over a 25-year period. Québec had aspired to a deal such as this for decades, and it will generate more than C$30 billion in revenue over the term of the agreement.

Also noteworthy is the acquisition of 13 hydroelectric generating stations in New England, which will extend our strategic presence in our primary export market.

These major advances in the United States stir the imagination. But of course, our main focus remains here in Québec, alongside our customers and the communities that we have the privilege of serving. How can we accompany our fellow citizens in the transition to a low-carbon economy? And how can we do so at the lowest possible cost?

In this regard, 18 months of hard work and consultations came to fruition with the publication of our *Strategic Plan 2022-2026*, which charts the course of our actions for the coming years. This is not the CEO's plan, but that of our entire organization. It was nourished by the ideas and experience of dozens of stakeholders from a broad representation of Québec society. Based on extensive studies and data, this plan was developed with equal parts humility and ambition, lucidity and passion. It was launched in conjunction with a new organizational structure we call One Hydro, which is designed to facilitate cooperation between our teams for the benefit of society as a whole, in keeping with the wish expressed by numerous employees.

In order to accurately assess the risks we face in connection with global warming and take appropriate action to mitigate their impact on our activities, we also produced our first *Climate Change Adaptation Plan*—a colossal undertaking grounded in scientific, social and environmental considerations. This plan will be updated as science evolves and new data become available in the coming years and decades.

Last but not least, we established a constructive dialogue with Indigenous communities. These ongoing discussions, which constitute a learning process for us, pave the way for new opportunities, as evidenced by the agreements we have signed with several communities over the past months. Much remains to be done, but we're on the right path.

These achievements and so many others, both big and small, speak to the outstanding work of our employees—to their experience, their rigor, their innovative spirit and their unflagging devotion. I wish to extend my sincere thanks to them all.

A real privilege

In January 2023, I informed our Board of Directors and the Québec government of my decision to step down as President and Chief Executive Officer in April.

It has been a real privilege to lead Hydro-Québec. I'm extremely grateful to have had the chance to work alongside talented men and women toward the advancement of our government corporation.

I would like to thank the Board for its support, its critical thinking and its enlightened guidance. On behalf of the entire management team, I'd also like to recognize the great contribution of Jacynthe Côté, whose mandate will come to an end in May. As the first woman to head Hydro-Québec's Board of Directors, Ms. Côté has given us the benefit of her strategic thinking and vast experience of the business world, and has helped us all become better managers.

I'm confident that the Hydro-Québec family, which is committed to working for the common good, will marshal every means at its disposal to help Québec build a sustainable future.

I remain, and will always be, a true Hydro-Quebecer at heart.

Sophie Brochu
President and Chief Executive Officer

OUR MANAGEMENT TEAM

First row: **Sophie Brochu**, President and Chief Executive Officer; **Claudine Bouchard**, Executive Vice President, Chief Infrastructure and Energy System Officer and President and Chief Executive Officer, Société d'énergie de la Baie James; **Julie Boucher**, Vice President – Sustainability, Community Relations and Communications; **Pierre Despars**, Executive Vice President – Strategy and Development; **Nathalie Dubois**, Vice President – Talent and Culture.

Second row: **Éric Filion***, Executive Vice President, Chief Operating and Customer Experience Officer; **Pierre Gagnon**, Executive Vice President – Corporate, Legal and Regulatory Affairs and Chief Governance Officer; **Jean-Hugues Lafleur**, Executive Vice President and Chief Financial Officer; **Jean-François Morin**, Vice President – Digital Technologies; **Dave Rhéaume**, Vice President – Integrated Energy Needs Planning and Risk Management.

*Éric Filion left Hydro-Quebec on February 17, 2023.

Building a sustainable future

Sweeping through Québec and the entire world, the wave of change brought by the pandemic caused us to reflect deeply on our values and how we might help Québec become more resilient, more prosperous and more sustainable. At the same time, in late 2020 the Québec government launched its *2030 Plan for a Green Economy*, an ambitious social undertaking designed to transform and decarbonize the economy. Given Hydro-Québec's pivotal role in this vast initiative, the time was right for us to begin a new strategic planning cycle.

In the context of the energy transition, the challenges we face will call for efforts that go well beyond the scope of a five-year plan. The *Strategic Plan 2022–2026* we launched last March is a roadmap that positions Hydro-Québec for the coming decades. Anchored in our core values of inclusion, courage, innovation and the common good, this plan is built around the four key themes outlined on the following page.

Driving the efficient decarbonization of Québec

We have some powerful advantages when it comes to helping Québec achieve its greenhouse gas (GHG) emissions reduction targets. Thanks to our hydropower, Québec is one of the few places on earth where electricity generation is already carbon-free. Our clean energy can gradually come to replace the fossil fuels consumed in various economic sectors like transportation, buildings, industry and agriculture. Energy efficiency will be key in easing the upward pressure on electricity demand, allowing us to decarbonize more uses without having to add equivalent generating capacity.

Preparing our grid for tomorrow's energy and technology needs

Driven by the fight against climate change, evolving energy-use habits and the availability of new technologies, the energy sector is undergoing a substantial shift. To keep fulfilling our mission in the decades to come, we must take a proactive approach through which our facilities can evolve to meet the needs created by this transition. Only by innovating and rethinking the design and operation of our grid can we meet the growing demand for our clean energy and keep pace with changing customer expectations.

Increasing Québec's collective prosperity

With our renewable, competitively priced energy, we're well positioned to help both Québec and export markets meet their environmental targets while generating considerable economic spinoffs for Quebecers. From dealing with local suppliers to helping local businesses go green and attracting companies from outside Québec who seek to reduce their carbon footprint, we will use our energy to support Québec's economic development and create positive impacts in all regions.

Getting our customers, employees and partners to help us achieve our goals

Successfully transitioning to a low-carbon economy will entail mobilizing all players in the energy ecosystem. With our strong presence across Québec, we are well positioned to enlist partners from every region and background to help us put our clean energy toward serving our society.

The role of the public in optimizing energy use has never been more important than it is now. By teaming up with Quebecers to implement innovative solutions adapted to the context here, we can create maximum value for the entire population. Of course, our employees will continue to play a key role as we embark on this ambitious undertaking of electrifying the economy.

One Hydro

Our value chain consists of four main groups whose actions are driven by six others. By working together to make our customers and the community central to our actions, they help us achieve the success of our current and future goals.

STRATÉGIES ET DÉVELOPPEMENT
Developing strategies

PLANIFICATION INTÉGRÉE DES BESOINS
Planning and prioritizing

INFRASTRUCTURES ET SYSTÈME ÉNERGÉTIQUE
Designing and building

EXPLOITATION ET EXPÉRIENCE CLIENT
Operating and marketing

DRIVERS

Technologies numériques | Talents et culture | Direction financière | Développement durable, relations avec les communautés et communications | Affaires corporatives, juridiques et réglementaires et gouvernance | Audit interne

ONE value chain for HYDRO

In view of meeting both the challenges of the energy transition and our obligations to our Québec customers, we embarked on an ambitious undertaking that has entailed significant changes to how we do things. This collective effort has led to a unified outlook: One Hydro.

Our insistence on the word ONE highlights our new corporate structure, in which our activities converge in a single, unified energy system, our actions are positioned in a cross-cutting value chain, cooperation is key and that together we will realize the initiatives that make up our *Strategic Plan 2022–2026*.

The illustration on the previous page presents the activities of the four groups that make up our value chain:

- Groupe – **Stratégies et développement** is in charge of company strategies, corporate evolution and business development as well as acquisitions, investments, export markets, innovation and R&D.
- Groupe – **Planification intégrée des besoins énergétiques et risques** is mandated to assess our energy needs and conduct the analyses required to optimally allocate financial resources to our various projects by carefully weighing all the risks and opportunities involved.
- Groupe – **Infrastructures et système énergétique** oversees energy system design and development, asset management, technical expertise and support, construction and refurbishment projects, and strategic procurement. The group also manages occupational health and safety and environmental activities on jobsites.
- Groupe – **Exploitation et expérience client** manages electricity supply, technical services, the operation and management of generation, transmission and distribution assets and all customer interactions.

These four groups are supported by our cross-functional groups – **Technologies numériques – Talents et culture – Direction financière – Développement durable, relations avec les communautés et communications – Affaires corporatives, juridiques et réglementaires et gouvernance – Audit interne** – which drive us to achieve the aims that let us fulfill our core mission.

Working together more effectively in *One* single, unified *Hydro*.

Plan d'adaptation aux changements climatiques

2022–2024

Addressing climate risks

To closely manage the risks we face, we recently published our *Climate Change Adaptation Plan*, the result of a wide-reaching assessment of the risks related to not only human activities, but also our infrastructures and operations. The assessment process involved evaluating the severity of climate change impacts and establishing concrete measures based on targets and indicators. Over time, we will be able to determine the impact of our efforts on our action area categories: facility design, operations, power outages and impacts on assets and worker health and safety. Climate risks now form an integral part of our corporate decision-making process—it's our commitment to Quebecers.

Meeting Québec's growing demand for electricity

The growth in Québec's electricity demand projected for the 2022–2032 period presents a sizeable challenge. Meeting it will call for a concerted effort on the part of every stakeholder in our value chain along with a series of targeted measures.

Three key factors account for the increase in demand, estimated at some 25 terawatthours (TWh) of energy and roughly 4,000 megawatts (MW) of capacity:

- Transportation electrification
- Other initiatives to decarbonize the economy
- The emergence of new sectors of economic development, many of which stem from the energy transition, e.g., battery components for electric vehicles and the production of green hydrogen

Growth projections take into account the significant energy efficiency efforts that will make it possible to curtail 8.9 TWh by 2032. Demand response tools will help us manage winter peaks, that is, the coldest hours during the winter when electricity use rises sharply.

All the same, to meet the growing demand, we will have to add energy and capacity to our supply portfolio. Two new calls for tenders—one for 300 MW of wind power, the other for 480 MW of renewable energy—are already underway, with two more to be launched in the next few months.

By providing tools to our various customer segments, we will help curtail over 3,000 MW in winter 2031–2032, or more than the capacity of La Grande-4 generating station, the second largest among our 62 hydroelectric facilities in terms of installed capacity. Tools include Hilo, dynamic pricing and the Demand Response Option for business customer.

In recent years, we've also taken steps to increase the capacity of our generating fleet and enhance other available sources of supply. These include commissioning Romaine 4 generating station, boosting the capacity of various existing hydroelectric facilities, creating a 3,000-MW portfolio of wind power projects and purchasing the output of the Evolugen-owned and -operated generating stations on the Rivière des Outaouais (Ottawa River).

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Growth in Québec's electricity demand over the 2022–2032 period

Organic growth

+4.3 TWh[a]

Conversion of buildings and industrial processes

+4.5 TWh

Emerging market sectors[b]

+8.9 TWh

New technologies

Photovoltaic solar

–0.7 TWh

Transportation electrification

+7.8 TWh

25 TWh
+14%

The sum of the values may differ from the total due to rounding.

a) TWh : terawatthour (one billion kilowatthours).

b) Emerging market sectors include data centers (4.1 TWh), green hydrogen production (2.3 TWh), battery components for electric vehicles (1.2 TWh) and greenhouse farming (0.7 TWh).

Planning, developing and innovating

To meet the challenges stemming from the energy transition, we need a clear road map. We are leveraging all the talents in our organization to meet the challenges we currently face and those to come.

Development

To meet the growing demand for electricity, we are looking to a number of solutions, including wind power. **12**

Contracts and acquisition

With the acquisition of 13 generating stations in New England, our role in neighboring markets is growing. **13**

Innovation

Our research teams will transform the grid into an energy system that combines green technologies with cutting-edge digital technologies. **17**

Focusing on initiatives that benefit everyone

Certification of hydroelectric facility sustainability

Hydro-Québec has begun a process to certify its practices according to the new Hydroelectricity Sustainability Standard. Eastmain-1 and Bernard-Landry generating stations were selected for this review, which will be conducted by assessors accredited by the Hydropower Sustainability Council.

The assessors reviewed hundreds of documents, conducted dozens of interviews and visited the generating stations and their surroundings during a September 2022 field audit. The facilities were evaluated on 12 types of social, environmental and governance issues touching on everything from management structure to preserving biodiversity.

The stakeholders and host communities consulted were given an opportunity to comment on the assessment report. We expect to receive the Council's decision in the coming months.

Acquiring renewable energy assets

We are in a highly competitive marketplace where many players, including major institutional investors, are battling it out for the most attractive opportunities to acquire renewable energy assets. Against this backdrop, we have chosen to focus our efforts on the assets that will benefit most from our investments.

To that end, we will:

- Prioritize assets located in a geographical area of interest to Hydro-Québec
- Focus on assets that are consistent with our overall corporate strategy
- Invest in projects that leverage and build on our expertise
- Pursue projects with proven and justifiable economic rationale
- Favor the active participation of trusted partners

Partnerships for wind power

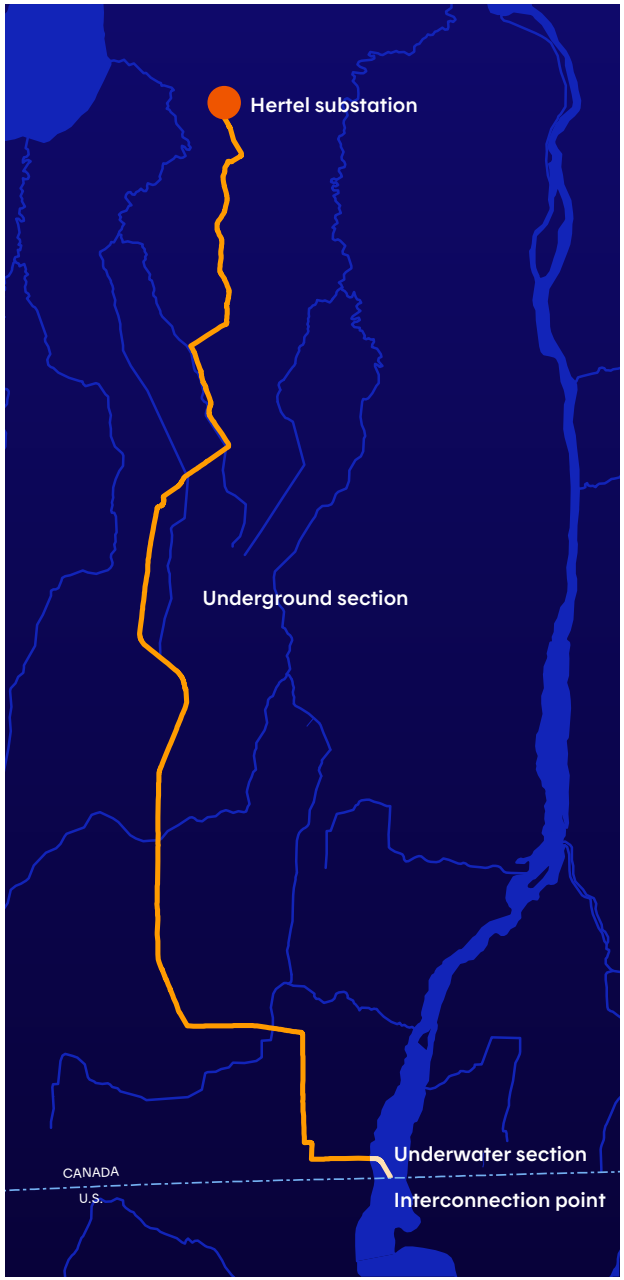
In April 2022, Hydro-Québec announced it was teaming up with Boralex and Énergir for the Des Neiges projects, which involve the development of three 400-MW wind farms on the territory of the Seigneurie de la Côte-de-Beaupré. The facilities could be commissioned by the end of 2026. Construction of the wind farms will generate significant economic benefits thanks to the creation of over 1,500 jobs during the construction period and investments totaling approximately $3 billion. Hydro-Québec's participation reflects its desire to play a more active role in the development of Québec's wind power industry.

Hydro-Québec also entered into partnerships with the Alliance de l'Est (a group composed of the Régie intermunicipale de l'énergie du Bas-Saint-Laurent, which includes eight regional county municipalities (MRCs) and the Wolastoqiyik Wahsipekuk First Nation; the Régie intermunicipale de l'énergie Gaspésie–Îles-de-la-Madelaine, which includes six MRCs; the MRC of Montmagny and the MRC of L'Islet) and two wind energy project proponents.

Opening new energy highways to the U.S.

Champlain Hudson Power Express (CHPE) project

Agreements were signed in November 2021 for the construction of a direct-current line running some 58 km between Hertel substation (Québec) and an interconnection point near the Canada/U.S. border and a 545-km direct-current line between this point and Astoria substation (New York), with a capacity of approximately 1,250 MW, as well as the sale of environmental attributes. Approval from the New York Public Service Commission for the agreement with respect to the sale of environmental attributes was obtained in April 2022. Construction work began late in the year in the U.S., while Canadian authorizations and construction permits are expected in 2023. The new interconnection is unique in several respects: not only does it include approximately 600 km of underground and underwater lines, but it will also carry up to 10.4 TWh of renewable energy every year, enough to power over a million homes.



New England Clean Energy Connect (NECEC) project

Another interconnection line, with an approximate capacity of 1,200 MW, is planned to connect Maine's power system to Appalaches substation. It will deliver, every year for 20 years, up to 9.45 TWh of clean, renewable energy to Massachusetts and up to 0.5 TWh to Maine. In Canada, the main approvals for the line have already been secured; the permitting process is still underway for certain sections of the route.

Construction work in Maine was suspended following an unfavorable referendum outcome on the project in November 2021 and the passage of a new law as a result. Hydro-Québec also suspended clearing work and the construction of access roads in Québec. Legal proceedings in Maine courts were instituted and continued in 2022.

Some legal proceedings have already resulted in positive outcomes for the project. In particular, on August 30, the Maine Supreme Judicial Court rendered a decision under which it ordered the case to be remanded to the trial court and stated that a portion of the new law would be unconstitutional if Hydro-Québec's partner in Maine had obtained all necessary authorizations before it began construction. The trial could take place in 2023.

Exports in 2022

Sales of our renewable energy to neighboring markets, namely New England, New York State, Ontario and New Brunswick, remained strong. They totaled 35.6 TWh, at an average price of 8.2¢/kWh (including hedging effect), which is 62% higher than the 2021 average. Exports contributed $2,912 million to our 2022 revenue, an increase of 59%.

Expanding our operations, anticipating change

A European breakthrough

Since July 22, the stability and security of the French power transmission system in the Bourgogne–Franche-Comté region has been ensured by Tonnerre, a battery energy storage system from our subsidiary EVLO. Chosen by Innergex, this technology has a capacity of 9 MW.

In addition to increasing the stability and resilience of current and future power grids, EVLO's storage systems facilitate the integration of variable energy sources like wind and solar power by storing the renewable energy generated and making it available when needed.

Its energy storage solutions, which are IEC 62933-certified and UL 9540A-tested, are recognized for their superior thermal stability and meet electric utilities' stringent performance requirements.

EVLO's battery energy storage solution is the culmination of several decades of research and development at Hydro-Québec's research institute, IREQ, which has developed cutting-edge expertise in battery chemistry based on lithium iron phosphate (LFP) technology.

Improved market modeling capabilities

In 2022, Hydro-Québec continued to build on the long-term modeling capabilities for northeastern U.S. electricity markets that we developed in 2021. We hope to better anticipate the impact of the profound changes set to accompany decarbonization efforts in this vast region. One of our main observations is that the market penetration of renewable and variable energies, such as photovoltaic and wind power, will require the use of complementary technologies. It is therefore becoming increasingly important to determine the fair value of the flexibility that Québec's hydroelectric fleet can provide to the U.S. Northeast, which can now be quantified by analyzing various scenarios.

Acquisition of Great River Hydro

© Great River Hydro, LLC

Hydro-Québec has acquired Great River Hydro, the owner of 13 hydroelectric generating stations and associated reservoirs on the Connecticut and Deerfield rivers in New England. More than just an investment supporting the objectives of our Strategic Plan, the acquisition is also an opportunity to expand our operations in a market where we have already put down strong roots.

With this long-term investment, Hydro-Québec now possesses the largest hydropower fleet in New England, where ambitious decarbonization and electrification objectives have been set and the quantity of electricity generated from variable renewable energy sources is up sharply.

The assets have a total installed capacity of 589 MW, 38 GWh of storage capacity and a long-term average annual output of 1.6 TWh. The Great River Hydro generating stations are on the Connecticut and Deerfield rivers in Vermont, New Hampshire and Massachusetts. They supply power to over 213,000 New England homes every year.

The acquisition of Great River Hydro was concluded on February 10, 2023, after all required regulatory approvals were obtained, including those from the Vermont Public Utility Commission and the Federal Energy Regulatory Commission.

Supporting the adoption of state-of-the-art solutions

Replacing generating sets

Spanning the production of green hydrogen-based fuels and their use in our off-grid systems, the ACHE^{2}TE project aims to replace the generating sets used in these systems with more efficient electrical systems that are powered by a variety of carbon-neutral fuels. As part of the project, we delivered a solid oxide fuel cell (SOFC) prototype that runs on liquid fuel and has less than 1 kW of power. We plan to operate a demo device before deploying the technology in off-grid systems.

Fostering power system flexibility

The major shift underway in the energy sector is affecting our customers' consumption habits—and our project on Québec's energy culture seeks to pinpoint just what determines energy use. So far, we've surveyed energy use by young families, the factors that promote or hinder efficiency routines, and energy flexibility in Québec households. We also studied the energy maturity of Québec's SMEs, specifically their ability to factor energy efficiency into their operations management and strategic planning practices.

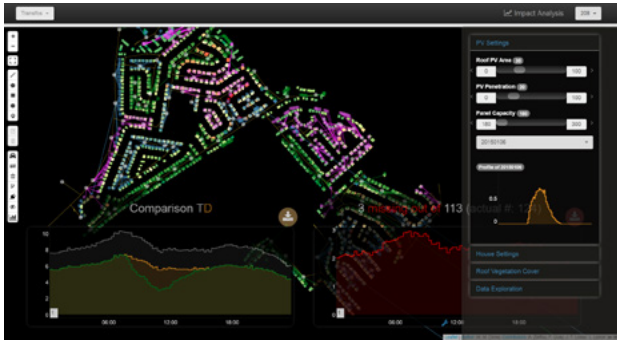
Developing a decarbonization 'compass'

To support efficient electrification, we come up with solutions that encourage customers to adopt technologies with the lowest possible impact on electricity demand and the grid. A true "energy compass," the decarbonization modeling tool currently being developed maps out possible pathways to decarbonization and uses technical-economic analysis to point to the best solution. In 2022, our teams focused on identifying the decarbonization pathways of major GHG emitters in Québec's industrial sector.

Optimizing generating equipment performance and service life

Researchers in the THAUR project, which studies the real-world use of hydraulic turbines, are developing operations and output-planning tools and practices that take turbine wear and tear into account. A further goal is adapting supply and maintenance specifications to the characteristics of each turbine. In 2022, their work led to the design of a tool for detecting manufacturing defects in turbines.

Recommendations were issued on the operation and maintenance of new turbines at Robert-Bourassa generating station following the team's probabilistic technical and economic analysis, which was based on the findings accrued to date. The impact of changes to the operating strategy for the plant's new generating units were qualified using the ATHENA simulator, another THAUR project offshoot.



Assessing the impact of mass adoption of new technologies

The energy system of the future will combine artificial intelligence, connectivity, advanced features and distributed energy resources. To fully understand these changes, we are developing a simulation and decision-support tool known as SCENARIO. The tool can assess how phenomena like the mass adoption of new technologies or changes that could impact energy consumption behaviors affect the grid. In 2022, calculation models to predict the impact on the distribution system of dynamic rates, such as Rate Flex D, were integrated into the prototype.

Inspecting underground lines safely

The APPRANTI project applies real-time thermographic diagnostics to underground work on the distribution system. The project helps field crews safely and efficiently inspect underground lines by using thermal imaging to automatically detect characterize or categorize heat patterns based on the electrical component in question. Almost the whole vehicle fleet is now equipped with this technology.

The project made an impact at the Knowledge Discovery and Data Mining (KDD) Conference, a major international event where leading universities and companies showcase their advances in artificial intelligence. In 2022, just 254 of the 1,695 articles submitted were selected—and the APPRANTI project presentation was one of them!

A sustainable energy system for Québec's future

While continuing to develop our energy system, we must define our main asset design and management requirements and identify the criteria for maintaining and operating our facilities.

Power system

Integrating variable energy sources, paving the way to energy exchanges with our customers and digitizing our infrastructures are at the core of the smart grid we're working to put in place. **17**

Maintenance and operations

By adding capacity and seeing to the constant upkeep of our generating facilities, we can extend their service life and leverage the full potential of our renewable hydropower. **18**

Strategic procurement

Our supply chain helps expand local manufacturing capacity, increase economic spinoffs, develop the international reach of Québec suppliers and improve their ability to compete sustainably. **21**

Shaping the energy system of the future

Integrating more distributed energy resources (DERs) and expanding the role of customers

The key to accelerating the energy transition is to harness variable energy sources that complement our hydropower, and adopt the most promising technological solutions for our customers.

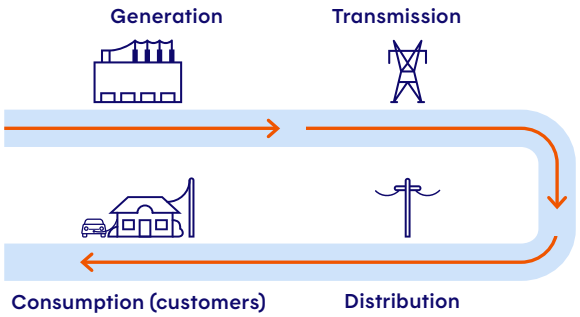
Our planning for the energy system and its evolution will take into account new energy resources and additional output from all sources (wind, solar, thermal, battery, etc.). It will open doors to projects facilitating the integration of these inputs and strengthen our partnerships with businesses and communities. More specifically, we will assess the impacts of incorporating variable generation, particularly wind power, into the grid as a complement to our hydroelectricity.

In addition to these efforts, we're working more closely with municipalities and communities to explore innovative and effective ways of integrating energy management directly at our customers' sites through Hilo, among others. On that front, the Lac-Mégantic microgrid has once again distinguished itself by winning the Grands Prix du génie-conseil québécois award in the Energy category.

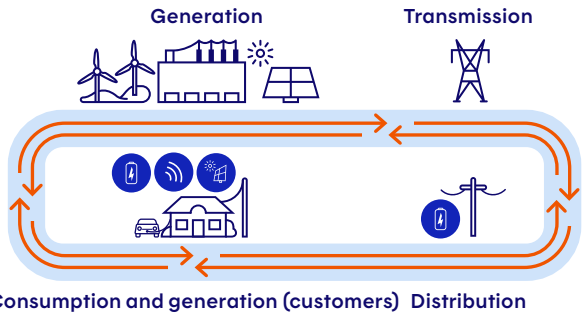
Transforming our grid into an integrated energy system

Our traditional one-way power grid has to evolve into a two-way system to accommodate DERs, allow customers to participate in energy exchanges and meet growing energy needs. Ultimately, our energy system will become a diversified smart system consisting of many interconnected, flexible and bidirectional energy sources. This transformation will leverage new digital technologies to optimize system operations and energy consumption.

Traditional power grid



Bidirectional energy system



Examples of distributed energy resources

Transitioning our current grid to an integrated energy system

A number of game-changing initiatives are at the heart of the digital transformation of the energy system, including improving forecasting tools, substation automation, carrying out predictive maintenance on generating facilities and performing remote monitoring, and 3D modeling.

We are also carrying out R&D in connection with a number of digitization, advanced analytics, AI and solution industrialization initiatives. This year, we developed our first AI model for demand forecasting, for use during winter 2022–2023.

Ensuring the long-term operability of our equipment

Increasing the capacity of existing generating stations

Meeting the growing demand for power is one of Hydro-Québec's priorities. To that end, our Groupe – Infrastructures et système énergétique (GISE) division created a team to upgrade our facilities and maximize their potential. Its goal is to increase the capacity of certain generating units based on technical feasibility, long-term operability, environmental and community impacts, agreements with the community, our execution and supply capacity, as well as related costs.

Refurbishment of Outardes-2 generating station

As part of our efforts to upgrade our existing generating stations and increase their capacity, Hydro-Québec took steps in 2022 to prepare for the replacement of the Outardes-2 facility's three generating units to and ensure the station's continuing operability and increase its capacity. Preliminary work and consultations with the host community will take place over the next two years. Our goal is to maximize the economic benefits for the region.

Refurbishment of Bersimis-2

The Bersimis-2 development, one of Hydro-Québec's pioneer facilities, is being renovated to ensure its continuing operability. The project includes work on the water intake, the five headgates and the auxiliary control and protection systems.

Some preliminary work was performed on the intake in the spring, prior to replacing the first headgate. During the station's shutdown, special care was taken to ensure that sufficient water was released through the spillway to maintain the minimum ecological flow required for salmon-friendly conditions downstream. By 2026, all five headgates will have been replaced in turn.

Replacement of the station's auxiliary systems also began, including those in the control room. The goal is to ensure the long-term operability of the Bersimis-2 development while maintaining public safety and hydropower generation levels.

The huge 150-tonne "tap," used to disconnect a generating unit from its water intake pipes, was transported many kilometres by barge and truck before a 600-tonne crane finally set it on its base in the heart of Bersimis-2 generating station. Custom-made for Hydro-Québec, the behemoth's move had to be planned down to the millimetre!

Work starts to refurbish six units at Carillon

As a result of its proximity to Montréal's northern suburbs, Carillon generating station plays an important role in managing Greater Montréal's electricity consumption peaks. In winter, all available generating units are put into service to supply sufficient power for two daily peaks. To ensure the station's long-term operability, the major upgrading work undertaken in summer 2021 will continue until 2027. The replacement of the first of the station's 14 generating units got under way in spring 2022. The project also includes replacing the intake gates and their hoisting mechanisms, upgrading the electrical equipment and other related work. Approximately 200 people will be on the job at the height of the project. Commissioned in 1963, Carillon generating station was the first hydroelectric project to be overseen by French-speaking engineers.

Romaine complex: Energy benefiting all Quebecers

On September 16, 2022, the last generating unit in Romaine-4 generating station was commissioned. The entire Romaine complex is now supplying its megawatts of renewable energy into the grid. The hydroelectric complex consists of four reservoir generating stations with a total installed capacity of 1,550 MW and annual output of 8 TWh. Its immediate spinoffs included the creation of an average of 1,000 jobs per year between 2009 and 2022, with 45% them going to regional workers.

Refurbishing, innovating and meeting growing demand

Innovation in control structures

For Hydro-Québec, ensuring our control structures are working properly is a priority. It is crucial for us to be able to count on the gates being able to open fully at all times, whether to release flood waters or to regulate the flow of a river. As a result, this equipment is tested and inspected regularly. Using a new method based on an innovation in ensuring control structures' functional safety, we are now able to evaluate control gate operations and make an accurate assessment of their condition. In turn, this has enabled us to better diagnose the functional safety of these structures, guide repair-related investment decisions, detect anomalies promptly and reduce the number of annual opening tests. Work is currently under way to automate this new approach.

Robert-Bourassa: Last generating unit back in service

Work on the eighth generating unit at Robert-Bourassa generating station got under way in April 2022. It included refurbishing several major components and replacing the turbine runner and all the wicket gates. Some equipment not part of the generating unit, such as the speed control and static excitation systems, were also upgraded. As part of a research project carried out in cooperation with IREQ, the poles of the unit's rotor were fitted for continuous temperature readings to provide a comprehensive diagnostic of the condition of the generator rotors. The genset was put back into service in November, before the winter peak. The project to rehabilitate 8 of the station's 16 units, a major undertaking, had been under way since 2013.

La Vérendrye–Parent line: A team success story

Designed to ensure reliable service for the residents of Parent, in the Haute-Mauricie region, this project involved replacing the 99 wooden H-frames on the La Vérendrye–Parent line. It kicked off in fall 2021 was completed in April 2022. To learn more about the use of energy storage systems and the expanded capacity to integrate distributed energy sources into our transmission system, at Parent substation Hydro-Québec will install (has installed) an energy storage system from its subsidiary EVLO, which will be able to take over in the event of an outage or planned interruption.

Micoua–Saguenay line

Construction of the Micoua–Saguenay line continues, with a view to commissioning in 2023. In fall 2022, 650 workers were on the job to advance our largest ongoing transmission project. The new line will strengthen the Manicouagan–Québec corridor while boosting the system's operational flexibility and reducing electrical losses. Here are a few fast facts about this transformative project, a great source of pride for the region:

- Length of 262 km
- Nearly 600 towers and more than 3,000 km of conductors
- Collaboration of local communities in project development
- Participation of three Indigenous communities (Essipit, Mashteuiatsh and Pessamit)
- Substantial economic spinoffs for the Côte-Nord and Saguenay–Lac-Saint-Jean regions.

Commissioning of Le Corbusier substation

Constructed in Centre industrial park in Laval, the 315/25-kV Le Corbusier substation will help meet the growing demand for electricity in the region, particularly for industrial and urban development. The substation's connection line is about 450 m long and passes over three 120-kV lines. A drone was used to run the conductors a safe distance from the existing lines. The project includes more than 10 km of underground conduits carrying 25 km of distribution cables.

Deepening our knowledge and improving our performance

Reducing the emissions of certain power system components

As a responsible company, Hydro-Québec uses every means at its disposal to bring down GHG emissions. We have identified five categories of equipment that contribute primarily to SF^6 Emissions. The most emission-intensive components will be targeted for action between 2023 and 2025.

In 2023, our teams will perform a detailed analysis of alternative technologies that are currently available in the marketplace or in development.

Environmental commitments and site restoration

Although Romaine 4 generating station, the last in the complex, is now in operation, some restoration work is still required. A significant portion of this work will be carried out by our Indigenous partners. In 2022, Indigenous workers made up approximately 15% of the workforce at Romaine 4. In addition, Hydro-Québec is committed to conducting environmental monitoring of the Romaine complex until 2040 to determine how the surrounding environment is faring and to assess the effectiveness of the mitigation and compensation measures put in place.

Development of grid control systems

The upgrading of Hydro-Québec's grid control systems is a cornerstone of our technological and strategic development vision and aims to deploy a new, modern and integrated energy system management platform. Several phases were completed in 2022, including the implementation of data acquisition infrastructure for generating and transmission facilities.

Collaboration with McGill University on research into climate-related retrofits

McGill University's has a new Research Chair in Architecture for mass building climate retrofits, and Hydro-Québec will be working closely with the university and several businesses to develop innovative models for energy management and the conversion of energy-intensive systems. We hope to develop a systematic and scalable approach to retrofitting existing buildings and cutting their GHG emissions.

Study in progress at Trenche

Studies for the refurbishment of the Trenche facility, which got under way in fall 2021, will continue through to 2024. We are looking into overhauling the six existing generating units and the need to increase discharge capacity. Discussions are in progress with Indigenous and non-Indigenous communities and relevant stakeholders to ensure our choices are optimal and acceptable to all parties.

Adapting to climate change, emerging risks and technological advances

Efforts are under way to improve our understanding of tomorrow's climate and its potential impacts on our infrastructure. This should enable us to steer the implementation of effective mitigation measures toward high-risk areas, which are subject to events like ice storms and conductors heating up during consumption peaks. While continuing to take action to ensure our assets' optimal performance, we must also take account of various emerging risks related primarily to cybersecurity, aging facilities and the strong growth in demand.

Supporting the development of a Québec-based supply chain

Supply strategy stimulus for the electricity industry

On November 8, 2022, in Montréal, the Association de l'industrie électrique du Québec (AIEQ), of which we are a member, carried out an extensive member consultation process. The goal was to encourage the electricity industry's main players to discuss strengthening the responsible supply chain and to promote local manufacturing and purchasing, chiefly through the Association's PASQÉ initiative (Plateforme d'approvisionnement stratégique Québécois de l'industrie électrique), a Québec-based strategic procurement platform geared to the electricity industry.

This initiative provides financial support and strategic consulting services to businesses looking to diversify their offerings and enhance their ability to meet the needs of public- and private-sector prime contractors in Québec's electricity industry. Hydro-Québec is proud to have played a part in launching this major initiative, which will help ensure the long-term future of our supply chain, expand local manufacturing capacity, boost economic spinoffs, develop the international reach of Québec suppliers and improve their ability to compete on a sustainable basis.

A more responsible supply chain

Responsible procurement is about making environmental, social and governance (ESG) criteria part of the goods and services purchasing process. For over two years, a cross-functional committee has been taking steps to ensure our supply chain's sustainability. Those steps included creating a sustainable development questionnaire and incorporating it into our contracting process, developing targeted training sessions and reviewing our guidelines to encourage social economy enterprises.

By 2027, Hydro-Québec aims to meet the Québec government's responsible procurement target. Its efforts reflect the company's desire to reduce its environmental impact by shrinking its suppliers' footprints and enhancing its partners' social and economic sustainability.

Assessment of local economic spinoffs

In order to develop benchmarks to guide our future actions, we analyzed the footprints of our Québec purchases. A new indicator will be introduced in 2023, allowing us to report on our local purchases. We also set decision-making criteria that strike a balance between our desire to enhance spinoffs in Québec, our commitment to pay the anticipated dividend to our shareholder, and our wish to maintain the lowest possible rates for our customers.

Ramping up sourcing from Indigenous communities

Hydro-Québec believes that Indigenous businesses are a major driver of economic development, not just for Indigenous communities and nations but for Québec as a whole. In 2022, business dealings with Indigenous companies amounted to $227.6 million.

Coordinating, scheduling, executing

In serving a diverse clientele with constantly changing needs, we are called upon to deal with the vagaries of nature, responding diligently to weather events that cause power outages. We must also support our customers' energy choices, ensure a safe and healthy workspace for employees and suppliers alike, and promote the development of electric mobility.

Renewable energies

Consisting mainly of hydropower and wind, Hydro-Québec's diverse energy sources represent a major asset in terms of the ongoing energy transition and emerging low-carbon economy. **23**

Energy efficiency

Energy efficiency involves making the best possible use of energy and avoiding waste so that everyone can play an active role in the energy transition. **25**

Health and safety

We aim to continuously improve our workplace health and safety performance by better informing and promoting safe behaviors among our managers, workers and suppliers. **29**

Electric mobility

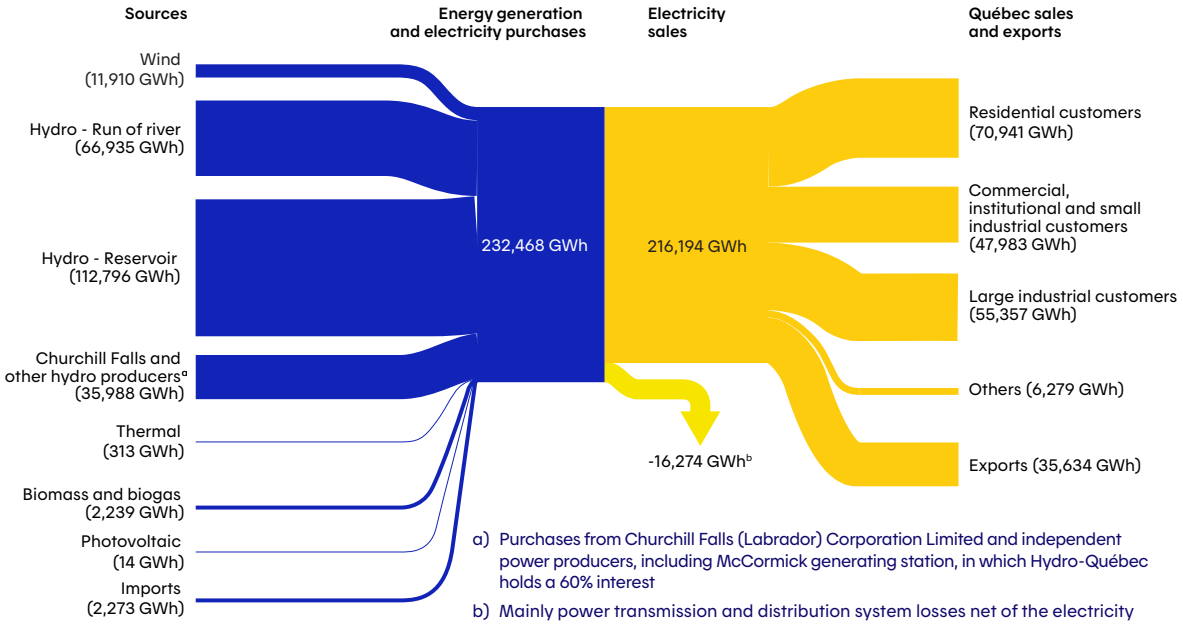
The obvious advantages to electric mobility serve to continually expand the pool of electric vehicle (EV) drivers, be they behind the wheel of a car, light-duty vehicle or heavy-duty vehicle. **32**

Deploying our every resource

Reducing outages

Some 40% of outages that affect the distribution system are caused by vegetation overgrowth. This percentage rises to 70% during major weather events, significantly affecting service continuity and customer satisfaction. To limit the phenomenon, Hydro-Québec has increased its investments, which rose from $62 million in 2018 to $99 million in 2022, and its preventive vegetation management interventions in addition to reviewing clearing cycles, in particular by targeting trees at risk. Another targeted action consists of prioritizing maintenance, improving 60% of overhead lines, increasing the reliability of 400,000 overhead transformers and rebuilding 2,600 km of distribution lines.

Energy sources and sales in 2022



a) Purchases from Churchill Falls (Labrador) Corporation Limited and independent power producers, including McCormick generating station, in which Hydro-Québec holds a 60% interest

b) Mainly power transmission and distribution system losses net of the electricity consumption of Hydro-Québec buildings and worksites

A mobilized response

Two major weather events hit Québec hard in 2022. The first was the derecho, a 300-km storm front that blew through Québec on May 21, 2022, with gusts of up to 150 km/h, causing significant damage. The aftermath saw us replace 1,125 poles and 400 transformers, and carry out almost $80 million worth of repairs. At the storm's peak, 554,000 customers located mainly in the Outaouais, Laurentides, Lanaudière, Maurice and city of Québec regions were left in the dark, mainly due to trees coming into contact with power lines because of the wind and rain. More than 2,000 employees worked flat out for 11 days to restore service to homes and businesses.

The second occurred just before Christmas, when a major winter storm brought with it significant snowfall, extremely strong winds and blowing snow, depriving some 670,000 customers of power. Over 1,000 employees got to work under very challenging conditions, with fallen power lines brought down by the violent winds or under the weight of broken branches. The cost to restore service comes to almost $55 million.

Powering our off-grid systems with renewables

Connecting La Romaine and Unamen Shipu to the grid

With a total population of around 1,400, the village of La Romaine and the Innu community of Unamen Shipu have been supplied by a diesel generating station for 50 years. In October 2022, Hydro-Québec commissioned a new 100-km power line that connects both settlements to the main grid. The new connection, which aligns with the gradual decarbonization of off-grid systems set out in the company's *Strategic Plan 2022–2026*, will reduce annual carbon dioxide (CO_2) emissions by 10,000 t.

Converting off-grid systems in Nunavik

In June, we announced an agreement with Tarquti Energy Inc., making it our preferred and exclusive partner for renewable energy projects in Nunavik. Clean energy will replace a significant portion of the 33,569 kW generated from fossil fuels in the region's off-grid systems.

This unique partnership marks an important milestone for the Inuit in Nunavik, who are already developing the tools and skills they'll need to carry out their own environmentally friendly renewable energy projects in keeping with Nunavimmiut values.

In the future, more renewable energy sources will power Nunavik communities, and numerous local and regional jobs will be created. The partnership is expected to reduce the amount of fuel used for energy production in Nunavik by over 200 million litres.

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A run-of-river generating station in Inukjuak

The project proponent, Inukjuak-based Innavik, continued building a run-of-river hydroelectric generating station that's slated for commissioning in 2023. Work on converting the distribution system and building a 25-kV substation in the community of Inukjuak is also ongoing.

Generating energy from biomass

Discussions are underway between Hydro-Québec and the community of Opitciwan regarding the use of residual forest biomass. A power purchase contract is expected to be submitted to the Régie de l'énergie for approval in December 2023.

Generating renewable energy at Kuujjuarapik-Whapmagoostui

We are also aiming to establish a partnership with the promoter of the Kuujjuarapik-Whapmagoostui wind farm. Talks with the Kuujjuaraapik-Whapmagoostui Renewable Energy Corporation (KWREC) about a wind farm project are moving ahead and could lead to the submission of a power purchase agreement to the Régie de l'énergie in 2023.

Studies on Îles-de-la-Madeleine

As regards connecting Îles-de-la-Madeleine to the main grid, the company has noted the Régie de l'énergie's request for further studies on scenarios to convert Îles-de-la-Madeleine generating station to renewable liquified natural gas, as well as on the addition of wind turbines connected to a battery storage system.

Connecting Kitcisakik

On May 2, Hydro-Québec and the Conseil des Anicinapek de Kitcisakik announced the launch of an electrification project for the village of Kitcisakik, located on the shore of the Dozois reservoir. Working with community representatives, we set up a technical committee to identify the best solutions and ensure the project's success. The work involves building a line between Louvicourt substation and Kitcisakik along with a low-voltage system in the village. In parallel, Québec's First Nations and Inuit relations secretariat will help Kitcisakik residents adapt their homes, which have never before been connected to a power system. Indigenous Services Canada will help connect community buildings to the local network.

Ramping up our energy efficiency efforts

A firm commitment

In its *Strategic Plan 2022-2026*, Hydro-Québec affirms its intention to step up its efforts in energy efficiency. The objective: to achieve 4 TWh of recurring energy savings for the 2021–2025 period, and 8.2 TWh by 2029. To meet these targets, the company is counting on its existing programs as well as new measures to be rolled out over the coming years.

To encourage residential, commercial, institutional and industrial customers to adopt energy-efficient behaviors and technologies, Hydro-Québec is focusing on the following three incentives:

- Financial assistance to encourage the installation of efficient equipment
- Support for optimal energy consumption management
- Awareness and educational activities to strengthen responsible consumption habits that maximize the environmental and economic benefits of energy efficiency

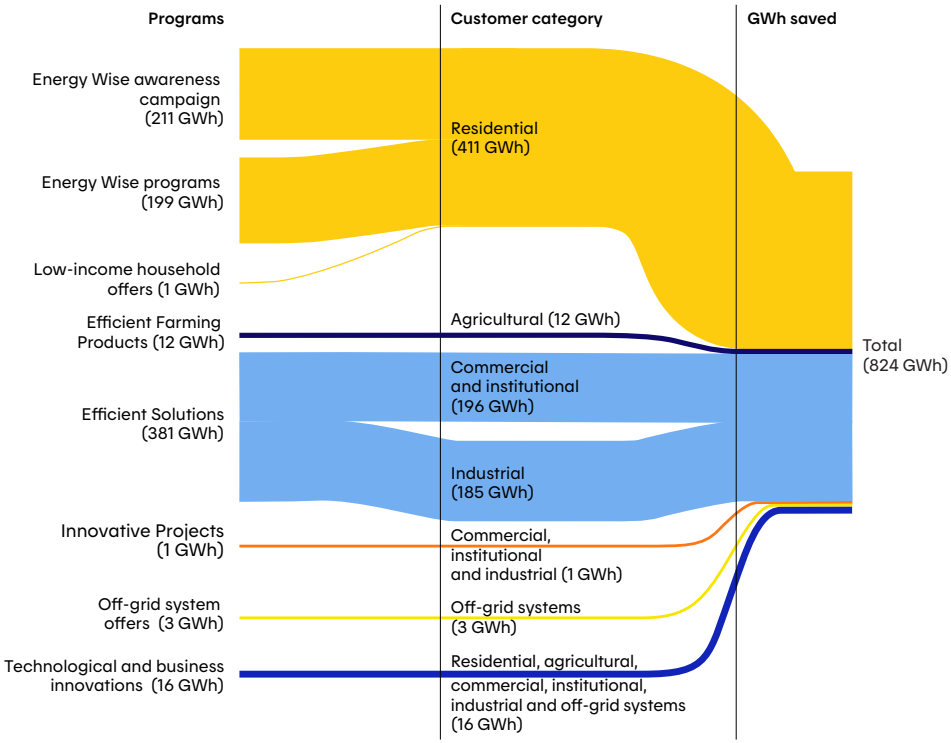
A new dual-energy offer

Announced in July 2021, the partnership between Hydro-Québec and Énergir became a reality in June 2022 with the launch of a new dual-energy offer for Énergir's residential customers. The goal of the partnership is to encourage customers to switch from natural gas to residential dual energy. Along with an attractive dual-energy rate, Hydro-Québec provides financial assistance for the purchase of energy-efficient central heat pumps.

In fall 2022, Hydro-Québec asked the Régie de l'énergie to set a new dual-energy rate for commercial and institutional customers to support the decarbonization of their heating systems. The company is also testing new dual-energy technologies in cooperation with its customers, both residential (five projects) and commercial, or institutional (four projects).

The goal of this unprecedented partnership is to bring about a roughly 70% reduction in natural gas consumption among participating customers and in the GHG emissions associated with heating residential, commercial and institutional buildings.

Energy efficiency programs and GWh saved in 2022



New Efficient Solutions Program components

In May 2022, two components were added to the Efficient Solutions Program for business customers.

Energy analysis: This component encourages businesses to conduct an energy analysis of buildings, equipment or processes in order to identify ways to use electricity more efficiently and make informed decisions about the feasibility and cost-effectiveness of the targeted measures. Businesses can qualify for up to $50,000 in financial support.

Small businesses: The assistance provided under this component covers up to 90% of the eligible costs of energy efficiency projects for small commercial, institutional or industrial businesses paying Rate G. Using the OSE calculation tool, which covers more than 200 predefined measures, these businesses can quickly determine the amount of financial assistance for which they qualify and easily file their applications once their projects have been completed.

The Efficient Solutions Program already includes a component for medium and large businesses, which have two choices for submitting their energy efficiency projects: the Simplified Option, based on the OSE calculation tool, or the Customized Option. The component's benefits combine substantial financial assistance with significant savings on energy bills.

In 2022, business customers saved a total of 381 GWh of energy through all program components.

Educational kit on energy efficiency

In February 2022, Hydro-Québec made its Wattson kit available to high school teachers who want to test students' knowledge about energy efficiency. The kit includes a wide range of fun and original activities to help students become informed consumers and ambassadors for the efficient use of electricity.

Different solutions for different needs

Commercial partnerships

Hydro-Québec has partnered with manufacturer Steffes to design a central heating system with a smaller thermal storage unit that is better suited to the Québec market. The new Serenity models have been incorporated into the commercial offering launched in 2021 and expanded in 2022 to most Québec regions. First geared to business customers only, the program now provides financial assistance to encourage residential customers who want or need to replace their central heating systems to install central heating systems with thermal storage. These all-electric systems help flatten heating-related demand peaks by storing heat during off-peak hours and generate savings for customers through dynamic pricing. They also allow for gradual post-outage recovery, which benefits the power grid.

Some 68 systems were installed in 2022, with total power consumption of 0.4 MW.

Efficient Heat Pump Program

Since the Efficient Heat Pump Program was launched in 2021, almost 81,000 participants have received financial assistance for the purchase and installation of eligible heat pumps. Altogether, their energy use has dropped by 233 GWh.

Energy savings potential

In partnership with the Fédération des coopératives du Nouveau-Québec, Hydro-Québec has set up a pilot project to install condensing dryers and high-efficiency spin washers in Nunavik. The appliances were installed in fall 2022, and the project's results will be known in late 2023.

Following a call for proposals, the company asked a consulting engineering firm to perform energy audits of commercial and institutional buildings in Kuujjuaq. The audits will be used to assess the potential for energy savings and recommend appropriate energy efficiency measures that can be applied across Nunavik.

Another pilot project involving local businesses focuses on installing low-temperature heat pumps at 100 customer establishments in Îles-de-la-Madeleine. The heating data collected will be used to determine their impact on energy consumption and power management in this relatively temperate region.

Revamped program

Hydro-Québec is redesigning its refrigerator replacement program for low-income households. Since February 2022, we have been testing a new business model that provides a new ENERGY STAR® certified refrigerator through ACEF Montérégie-Est to low-income households in the region. If the results are conclusive, the program will gradually be extended region by region across the province in conjunction with local representatives working with our target clientele.

Monitoring energy performance

Using the energy performance indicator launched in 2022, residential customers can see their complete energy use data at a glance, better understand the factors that affect their consumption and receive personalized recommendations, enabling them to develop a plan of action to reduce their electricity bills. By December 31, 2022, just eight months after its introduction, 350,000 people were already using the indicator.

Promoting dynamic pricing

Managing demand

With the demand for Québec's renewable electricity expected to rise, we will need additional capacity in the medium term. The means we currently have at our disposal for managing this situation include:

- Dynamic pricing, an offer that targets residential, farm and business customers (see the latest results below)
- Our subsidiary **Hilo**, whose turnkey service for businesses automatically manages their demand by adjusting their building heating, ventilation and humidity levels during winter peaks.
- The Demand Response and Interruptible Electricity options.

Enhanced rate offerings and Hilo smart energy services help free up system capacity during winter peaks.

North America's lowest rates

Each year, our monthly electricity bills are held up to those of 21 major North American cities in a comparative analysis that covers the residential, commercial, institutional and industrial sectors. The results? Hydro-Québec residential customers pay rates that are among the lowest in North America.

For a monthly consumption of 1,000 kWh, Montréal is once again in first place. In 2022, Québec's electricity rates were roughly half of what people pay in Toronto and just about one-fifth of those in New York.

Our electricity rates have remained in line with the Consumer Price Index in Québec for the last 50 years. Based on the information available to date, the Canadian Consumer Price Index is 879. The price index for electricity is 772, compared to 1,110 for natural gas and 2,600 for oil.

Average call wait time

The average call wait time at our customer relations centers was 110 seconds, compared to 95 seconds in 2020 and 101 seconds in 2021. After reducing wait times in recent years, we've reached a level that our customers are happy with.

Fewer complaints

At the heart of our business strategies are the customer experience and customer satisfaction. The number of complaints has fallen, dropping from 2,231 in 2020 to 1,979 in 2022.

Public satisfaction

In 2022, the percentage of customers who reported being "very satisfied" or "quite satisfied" with Hydro-Québec was 98%, compared to 96% in 2020 and 97% in 2021. To continue to improve satisfaction rates with our energy literacy and the support we provide during outages.

Year three of dynamic pricing

Number of customers

Flex rates: 16,000

Approximately **157,000**[a]

Winter credit: 141,000

Increase of 96,000 customers in winter 2021–2022

Customer contact
6,109 calls received during season 3 (Dec. 1, 2021, to Mar. 31, 2022)

> 2 times more

Number of peak demand events

29 calls to reduce consumption – winter credit

26 calls to reduce consumption – Flex rates

As per a survey, post-season 3
About **89%** of customers reported being quite motivated and **98%** reported taking action at least once

Results

157 MW reduction per event

An additional 92 MW saved in winter 2021–2022

Equivalent to the consumption of 30,000 homes

a) Compared to season 2, winter 2020-2021.

Involving our customers in our initiatives

Energy-intensive projects

Hydro-Québec has noted a surge in interest in Québec's green and affordable energy. This trend is reflected in the large number of connection requests received. Together, these projects total several thousand megawatts.

Although Québec's renewable electricity is a natural driver of the province's economic development, it is unfortunately unable to supply all the facilities currently planned. For that reason, the Québec government, working in cooperation with Hydro-Québec, has introduced a selection process for projects to prioritize those that are most promising for Québec. Projects will be evaluated based on energy, economic, social and environmental factors.

Demand response

To enhance demand response methods and identify the most promising financial and operational models, Hydro-Québec interviewed 60 industrial customers whose facilities together represent over 2,000 MW of power demand. Based on the information collected, the company launched three pilot projects to test innovative new methods for large-power industrial customers in winter 2022–2023. The projects will be continuously assessed in terms of their performance between now and the next rate calibration and could lead to new programs or rate options.

Decarbonizing

In 2022, Hydro-Québec addressed the question of effective decarbonization with its business customers. During the year, we set up three workshops and training courses on the topic, with a view to augmenting the expertise of our teams. We want our sales team to be able to support customers seeking to bring decarbonization into their energy efficiency efforts. We also showcased our customers' decarbonization and energy efficiency projects by publishing success stories. This initiative had positive results and will continue in 2023.

Our expertise recognized

***FORBES* MAGAZINE**
Best Employers
First place in Canada in 2022

***CORPORATE KNIGHTS* MAGAZINE**
Best Corporate Citizens
First place in Canada in 2022

REPUTATATION STUDY 2022
Léger
Best employer in Québec

ECOVADIS 2022
Platinum Award
Sustainable development performance

2022 OCTAS AWARDS
PEOPLE'S CHOICE AWARD
Business solutions category
Integrated vegetation management tool

GRANDS PRIX DU GÉNIE-CONSEIL QUÉBÉCOIS
Energy category
Lac-Mégantic microgrid

2022 IDÉA AWARDS

GRAND PRIZE
Business results and strategy category
Rallying Quebecers around a shared dream

GOLD
Brand revitalization category
Rallying Quebecers around a shared dream

Public service category
Dreaming up our new social project together

Product development and innovation category
Hilo – Rethinking Quebecers' relationship to energy

The Hydro & Me Panel

The general interest in our Collective Energy campaign and the ambition of the ideas received have encouraged us to continue to include Quebecers in our thinking process. In this spirit, we launched the Hydro & Me Panel: a sort of collective think tank we consult on a regular basis, usually through online questionnaires. The panel passed the 10,000-member mark in 2022 and has enjoyed a high degree of participation.

A Collective achievement

Last June, we shared initiatives inspired by the ideas proposed during the Collective Energy citizen consultation. Among these are Estrie-based greenhouse growers La Vallée du Moulin, currently testing a dehumidification technology that could result in more fresh fruits and vegetables being available all year long. In venturing to grow such exotic fruits as figs, the company shows an innovative approach to boosting Québec's food self-sufficiency.

Managing the main hazards in the field

Framework for managing hazards in the field

To help prevent serious accidents and fatalities, Hydro-Québec adopted an occupational health and safety (OHS) approach focusing on its field operations and identified prevention measures for the nine main hazards associated with its activities. Under this new approach, it is now up to managers to manage these risks by taking advantage of opportunities such as start-of-shift meetings, field checks and prevention measure inspections.

In 2022, each team prioritized the three main hazards facing employees. OHS advisors provided their assistance, including information sessions and the following resources, which can help personnel respond to hazards in the field:

- Prevention measure inspection forms, for managers
- Posters describing the main hazards and the associated prevention measures
- Checklist to help managers lead OHS discussions during start-of-shift meetings with workers

In addition, we trained managers and OHS advisors on risk management tools. We also began evaluating the way managers respond to risks in the field in order to make recommendations in 2023. This approach encourages managers to pay greater attention to hazards specific to their operations. It also gives them a better understanding of the risk management process and the role of prevention activities, with help from the OHS advisors.

Managing hazards involving energy sources and moving vehicles

To manage risks involving energy sources, we continued to implement our 2020–2023 energy sources action plan. We also rolled out the 7th edition of the *Work Safety Code*, which presents the safety rules governing energy sources at our facilities. With these tools, we hope to effectively manage a significant risk associated with our core mission.

In the same vein, we provided refresher training to over 20,000 Hydro-Québec workers and suppliers. We also simplified and harmonized numerous standards and work methods to make it easier to understand and follow safety instructions.

Given the scope of our operations across Québec, risks involving moving vehicles are relevant to many of our employees and suppliers. We continued our prevention efforts in 2022, in particular with the development of a training course on all-terrain vehicles to encourage better adoption of safe behaviors.

Because excessive speed presents a risk, defensive driving techniques are an important means of mitigation. We continue to manage speed violations carefully. In 2022, stickers were affixed to our vehicles indicating that they obey the speed limits.

Road sharing and road maintenance are also frequent causes of incidents, and Hydro-Québec continues to participate actively in road management committees, particularly for routes 385 and 389. These external committees bring together users and stakeholders responsible for the two roads, including provincial government departments, municipalities, the regional county municipality, local health authorities, businesses, etc. The committees' main objective is to introduce consensus-based solutions to enhance safety on the roads.

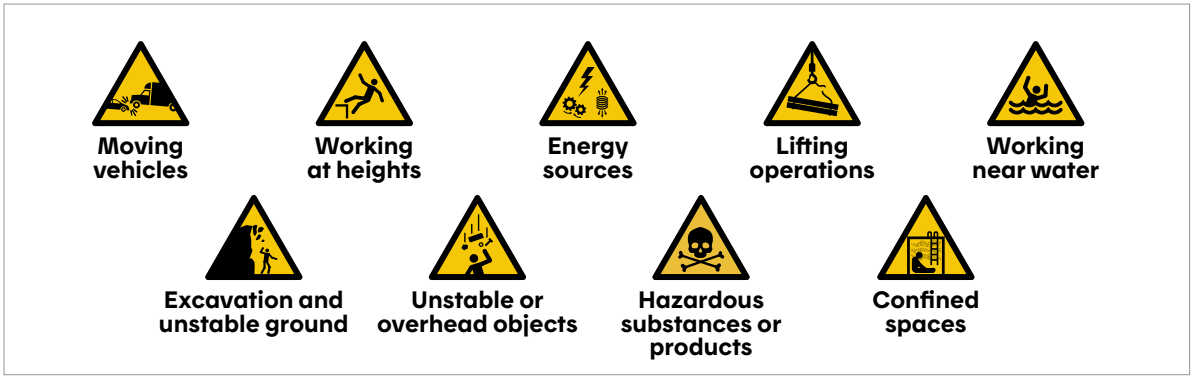
Danger Awareness Campaign

In 2022 we pursued our danger awareness campaign, Conscience des dangers, which is designed to foster a culture of caring. Communications tools featuring employees and their family members dealt with such topics as working at heights, hazardous materials and moving vehicles.

An upgraded investigation and analysis process

In OHS matters, Hydro-Québec aims to become a learning organization. To that end, across the company, we apply a stringent investigation and analysis process to learn from accidents and take corrective measures. We established a multi-tiered investigation process based on incident severity, created a communication toolkit and formed a team to conduct investigations and analyses. Team members will also be responsible for coaching and training our managers and employees in order to advance learning within the organization.

Boosting our OHS performance



Jobsite safety: Very real dangers

Hydro-Québec has forged a new relationship with various partners and government, union and employer associations to ensure our OHS-related messages are effectively formulated and conveyed.

From June to November 2022, we carried out a new campaign to raise awareness in the Québec construction industry about the importance of OHS. The goal was to reach as many people as possible—whether prime contractors, subcontractors or workers—and make them more aware of the hazards present on worksites. The campaign included billboards, radio spots and social media initiatives, as well as a web page, dangersbienreels.ca. As an extension of the campaign, we also launched internal communication activities geared to teams working at our various worksites.

Implementing the hazardous materials management plan

In 2022 and 2023, we are continuing to roll out our hazardous materials management plan. The plan focuses on risks considered to be top priorities as well as governance, infrastructure and corporate culture as they pertain to this issue.

We have stepped up the pace of the program's deployment to reduce the risk that these materials pose to employee health and safety. Several steps have been taken, including:

- Communication, awareness and training program on hazardous materials for personnel
- Review, establishment and implementation of standards for storing and using hazardous materials
- Implementation of controls at the acquisition stage
- Development of standardized clauses on hazardous materials management for supplier contracts
- Improved management of hazardous material recovery areas
- Establishment of a senior management steering committee and creation of a dashboard to facilitate decision-making and resource allocation

Improving suppliers' OHS performance

For a second year, we continued to implement our four-year OHS action plan. Actions taken include incorporating an OHS questionnaire on high-risk work into our service contracts and standardizing OHS general clauses by service category. More specifically, we drafted consistent requirements for six of the nine main hazards associated with our operations: moving vehicles, energy sources, unstable or overhead objects, excavation and unstable ground, working near water and confined spaces. Requirements for the remaining three critical hazards will be drafted in 2023.

We also work proactively with suppliers to promote best practices. To that end, we met with senior executives of businesses that have contracts with Hydro-Québec as well as with organizations awarding major construction contracts. We also organized a symposium for helicopter service providers. On April 28, the National Day of Mourning, we held a start-of-shift meeting with workers from all our Québec worksites, followed by a 60-minute OHS break for all personnel with a view to fostering adherence to the risk management cycle.

Bringing our OHS values to life

Planning for work in extreme heat

Climate change is making extreme heat conditions increasingly commonplace, even in regions where they are historically rare. While extreme heat can pose health risks for anyone, it especially affects those who are hard at work in such conditions; their health may deteriorate more quickly. Following an event on a Hydro-Québec worksite in 2021, we revised our procedures. During weather alerts, we now explain to our personnel how to prevent heat stroke. A new checklist on preparing a temperature-adapted work plan covers work organization, hydration measures and the provision of cooling equipment.

Making overall health part of our corporate culture

We continued to raise awareness with a new health campaign focusing on four themes: (1) reinventing yourself and building resilience; (2) taming the brain; (3) building healthy relationships, and (4) recharging your batteries. The information was shared at talks and events that promoted health and wellness.

We set up a peer support network for managers. Over 90 people volunteered, and 30 teams were created. The training program will continue in 2023.

Finally, once again this year, we raised employee awareness of the health measures and instructions to follow in the event that someone shows symptoms of COVID-19. Management of this disease is now an integral part of our practices: our prevention mechanisms are well established and our teams are on top of the issue.

International recognition for our interactive OHS game

Our Introduction to Health and Safety project won Silver in the “Best Unique or Innovative Learning and Development Program” category at the 2022 Brandon Hall Group Excellence Awards. These awards are given to organizations that achieve excellence in deploying programs, strategies or tools for training, human resources or talent management. The winners are selected from hundreds of nominations from around the world. The team responsible for this initiative had a dream: to bring our OHS values, behaviors and culture to life by telling the stories of characters in diverse situations and work environments. The stories featured members of our own personnel, and nearly 200 employees contributed to the project to highlight our OHS personnel and values.

Improvements to the safety of helicopter operations

To reduce the risks associated with operations carried out using helicopters, we carried out a benchmarking exercise with businesses that have similar activities. That exercise identified opportunities for improvement based on best practices. Designed to bring about lasting change, our initiatives include preparing specialized aviation training for helicopter operations personnel to assist in identifying risks and to standardize their level of knowledge. We are also striving to improve our computerized charter management and assignment system in order to enhance helicopter flight safety monitoring. Finally, we assigned greater importance to qualitative criteria such as pilot experience and safety in our bidding process.

Showcasing electric mobility

Highlighting the pros of driving electric

Last April, the Electric Circuit teamed up with the Association des véhicules électriques du Québec (AVÉQ), a provincial organization for the promotion of electric vehicles, for the Relais électrique: a province-wide tour aimed at introducing electric mobility to Quebecers. At each stop, members of the public were invited to meet the experts, test drive EVs and get accurate information about charging. The awareness-raising initiative offered personalized support on every topic of interest, from buying an electric vehicle to day-to-day use. By late 2022, the Relais électrique had reached some 3,000 people and resulted in 1,500 test drives.

Improved access to charging networks

To ensure a seamless public charging experience throughout North America, the Electric Circuit is working to boost compatibility between different networks. Extended coverage agreements let the members of one network access the charging stations of all partnering operators without having to create a separate account or subscription.

Arrangements of this kind have been in place for years between the Electric Circuit, FLO (Canada/U.S.) and the eCharge Network (New Brunswick). Now, through ChargeHub—an interoperability platform—the Electric Circuit has simplified access to over 60,000 charging stations in the ChargePoint, RechargÉco (IGA supermarkets), SemaConnect, Shell Recharge and SWTCH networks. More networks are expected to come on board soon.

More complementary services

To better serve its members while encouraging local businesses, the Electric Circuit is inviting merchants across Québec to offer discounts, exclusive products and packages directly on its Marketplace platform, a new feature on the Electric Circuit mobile app. Concentrated around charging sites, these offers are designed to make "refill" stops more attractive for drivers.

Level 2 (7-kW standard) charging stations are part of the Electric Circuit network, but do not belong to Hydro-Québec. To boost partner numbers and speed the expansion of the public charging fleet, the Electric Circuit now lets station owners set their own rates, though within certain parameters designed to keep pricing competitive.

Fast-charge rates are set by the Québec government under provincial regulations established in 2018. As a result, 50-kW+ fast-charge stations are subject to tiered pricing, depending on the power supplied. This is to better match the price paid with energy supplied, improve equity between different vehicle charging profiles and make charging more efficient so as to reduce wait times and better distribute user traffic.

Electrifying commercial transport

We are on the brink of a massive influx of heavy-duty electric vehicles on our roads. The electrification of different models of trucks, which account for 30% of GHG emissions in the road transport sector, will significantly reduce emissions.

In 2022, Hydro-Québec carried out its first tests of commercial vehicle public charging in view of adapting the network to future demand. After identifying the best charging locations, we approached potential partners. In October, a first dedicated charging station for heavy vehicles was put into service in Laval, with more to be rolled out in 2023.

Cleo makes inroads into the EV fleet market

In 2022, to accelerate and simplify the electrification of light-, medium- and heavy-duty commercial vehicles, Hydro-Québec introduced a range of charging solutions for EV fleets. The positive market response led to the creation of our subsidiary Cleo to oversee the commercialization of such services.

Designed to meet the current and future needs of fleet operators, Cleo's solutions include a turnkey charging service with a customizable charging infrastructure. The service also offers full operation and maintenance support along with a smart platform for dynamic charging management that's compatible with most EVs and charging stations currently on the market.

Cleo's team keeps charging operations reliable by providing impartial expertise and personalized guidance. Its customers include pioneers in school bus electrification, such as Autobus Groupe Séguin (Laval) and Groupe Autocar Jeannois (Alma), as well as First Student, North America's biggest student transportation provider.

Circuit électrique

4,124 public **charging stations** (including 740 fast chargers)

Serving **17 administrative regions**

211,900 members including 67,360 new members in 2022

741 partners

103,800 members active in the past 12 months

Since its launch on March 30, 2012—a time when few saw the point of installing charging stations in public places—the Electric Circuit has grown into one the most reliable, extensive EV public charging networks in North America.

Today, the network serves all of Québec's regions as well as parts of eastern Ontario. Unique in Canada in terms of its range and structure, the Electric Circuit is a trailblazer whose presence has resulted in nearly half of all EVs in Canada being driven in Québec.

Be a driving force for change

To remain an employer of choice means managing our human resources effectively on a daily basis. Supporting equity, diversity and inclusion helps ensure that everyone finds their place in our organization. We also prioritize sustainable development in our decisions at every level.

Talent and culture

The rapidly changing workplace and need for constant upskilling call for new practices to deal with labor shortages and the fierce competition for talent. **34**

Communities

Hydro-Québec supports greater representation of women in managerial positions and fosters inclusion from people with disabilities, ethnocultural minorities and members of the LGBTQ+ communities. **35**

Sustainable development

We must make sustainable development intrinsic to our value chain so that environmental, social and governance issues can factor into our decisions, activities and professional development initiatives. **37**

Maintaining effective management of human resources

Remaining an employer of choice

Hydro-Québec is known as an employer of choice. Still, today's job market—with its labor shortages, fierce competition for talent, rapidly evolving workplaces and need for constant upskilling—calls for new ways of thinking to ensure effective human resources management.

In response, we've established strong attraction and retention strategies that include:

- Reconfiguring our workforce planning process to identify our needs and areas of vulnerability.
- Deploying new training methods based on learning by doing (e.g., remote support, video glasses) to reduce completion time and minimize errors, particularly in the field of automation.
- Optimizing strategies to attract interns and new graduates by enhancing internship offers, partnering with educational institutions and reviewing the selection process for Institute of Electrical Power Engineering (IEPE) scholarship students—for example, by boosting our presence among these cohorts and attending networking events.
- Improving the candidate experience by making our job postings more attractive through better descriptions of the work environment, in addition to a simplified online application process.

Special care goes into identifying obstacles to employee attraction and retention in regional areas, and targeting available labor pools. We also analyze the regional impacts of our projects and remain on the lookout for any opportunities that may arise.

Using the employee experience to foster engagement and loyalty

After more than two years of full-time telework for 11,000 people, we've rolled out a thoughtful return-to-work plan that gets people back into the office gradually. Implemented in April 2022, our flexible, hybrid telework program will extend for 12 to 18 months. We're offering support and an array of tech tools adapted to the new working model to help them make the switch. In keeping with our real estate strategy, we also leverage every opportunity to transform our facilities into vectors of cooperation, wellness, flexibility, agility and innovation while targeting optimal building use.

Lastly, we've developed our brand as an employer to attract more candidates and inspire a sense of pride in our workforce. We consulted our employees to determine our strengths and what sets us apart as an employer. Our employer brand was previewed by our workforce before being publicly launched in 2023.

Of course, monitoring employee engagement is still every bit as important; we consult our workforce regularly so that we can better meet their needs and create a positive employee experience. Public perception of Hydro-Québec as an employer will also be measured annually.

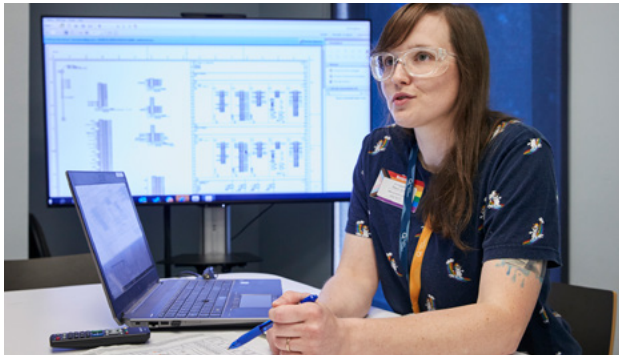
Helping the corporation evolve

In our organizational development plan, we pay particular attention to the corporate culture and leadership aspects essential to achieving our strategic ambitions.

Key behaviors related to the desired culture have been identified so that they may be fostered within the organization. The company's skills profile—an essential talent management tool—has been reviewed with a view to acquiring, developing and enhancing the sought-after profiles. As we make this cultural shift a reality, different means will be used to encourage adoption of the desired behaviors, integrate them into our various mechanisms and celebrate our successes. Progress, in turn, will be assessed through surveys and other tools.

A changing workforce

At year-end, Hydro-Québec had 22,051 permanent and temporary employees. Though only 822 workers left for retirement in 2022, the number of new hires was up from previous years, with 508 permanent and 1,830 temporary positions filled during the year. In 2022, 3.4% of our total payroll went into skills development.



Welcoming diversity and differences

Supporting the advancement of women

While women's representation within the company is more or less unchanged from previous years (around 29%), women account for nearly 39% of the Montréal region workforce. What's more, again this year, their share of management positions increased by 1% to just over 27%.

We are continuing to reach out to various groups, especially those that support immigrant women seeking to join the workforce. We are also striving to deconstruct certain myths about jobs traditionally held by men is also underway with primary school students.

Promoting inclusion

As of now, inclusion—one of Hydro-Québec's core values—goes hand in hand with the growing importance we place on interpersonal (people) skills in terms of hiring and promotions.

For the first time, we've established an inclusion index that will let us measure employee perceptions on impartiality, job prospects and belonging. We will also work to reduce the gap between resources from underrepresented groups and those from the majority as much as possible.

Highlights about our workforce

- **Women:** Women account for 39% of staff in the Montréal region and 28.7% of the total workforce
- **Cultural communities:** People from cultural communities account for 18.9% of employees in the Montréal region. For the first time, the overall representation of this group has surpassed 10%!
- **Indigenous communities:** Seven students from four Indigenous nations interned with us this past summer through a pilot project—a success story that makes us want to offer even more such internships to members of Indigenous communities in 2023. We hope to see these talented young people again at the end of their studies.
- **People with disabilities:** As well as the 22 students with disabilities who interned with us in summer 2022, we welcomed 13 new colleagues with disabilities this year. The addition of a professional special education resource will ensure better support and guidance for these employees, their managers and their teams, all in view of optimizing their contributions in a spirit of inclusive management and collaboration.

Ensuring everyone a seat at the table

Our move toward a more inclusive culture is based on solid foundations on which each entity and every employee can build:

- A shared image of Hydro-Québec: to identify, understand and act on the gaps in representation, the main processes in the career trajectory—hiring, career paths, departures, etc.—were analyzed in detail. As a result, we now have a better understanding of the gaps as well as the areas where we need to be vigilant. Follow-up measures and remedial actions will be implemented soon, as will a campaign encouraging employees from underrepresented groups to self-identify as such.
- Hiring targets: setting personalized hiring targets lets everyone contribute according to their group's business reality and the geographic region in which they operate.
- We equip our people to facilitate contribution from the greatest possible number of allies and support our staff, managers and teams through different means. For example, in 2022, we conducted an awareness campaign on inclusion.
- Working with our partners: We've established a working group involving all the unions to create a model for collaboration and information-sharing on inclusion.

Forging stronger bonds with Indigenous communities in Québec

In the wake of *Hydro-Québec's Declaration of Commitment to the First Nations and the Inuit Nation* and the adoption of the *Strategic Plan 2022–2026*, Hydro-Québec intends to strengthen its relations with Indigenous communities over the coming years through different means. Our main objectives are to:

- Maintain an ongoing dialogue and deepen our involvement with Indigenous communities.
- Proactively enter into socioeconomic partnership agreements with Indigenous communities.
- Work with Indigenous partners, develop job offers and key skill-building opportunities adapted to the needs of First Peoples.

Procurement strategy

As outlined in *Hydro-Québec's Declaration of Commitment to the First Nations and the Inuit Nation* and its policy on relations with Indigenous communities (in French only) , we believe that Indigenous companies represent a major driver of economic development, not just within their own communities and nations, but also for Québec as a whole.

Our procurement strategy is therefore aimed at developing and strengthening our business relations with Indigenous suppliers. In keeping with our recently launched reconciliation initiatives, and informed by the principles of responsible procurement and sustainable development, it will contribute to the collective wealth and development of Indigenous nations and communities.

The main guidelines of the strategy, which seeks to foster Indigenous entrepreneurial potential, are as follows:

- Remain proactive and creative in designing and implementing our business models.
- Work closely with Indigenous businesses and economic development stakeholders.
- Provide Indigenous companies and our internal teams with additional support at every stage of the procurement process.

Fostering openness and team spirit in the workplace

Under an agreement with the Cree Nation, we've set out to foster harmonious, cooperative working relations among Indigenous suppliers through a range of actions. The personalized support offered to Cree employees, managers and teams is undoubtedly the most distinctive element of this agreement. And we're delighted to say that, together with the recently created Indigenous Workforce team, the expertise developed under the agreement now lets us extend our services to employees from every Indigenous nation—an ambitious goal, since each nation has its own realities and each work team, its own challenges.

On November 23, the Indigenous workforce team held the *Plus loin, tous ensemble* forum to pool knowledge, learn new practices and obtain a confirmation—by and for the First Nations and Inuit—that Hydro-Québec is heading in the right direction.

The event brought together some 15 Indigenous and non-Indigenous organizations—including universities, Cégeps and community organizations—from the education and employment sectors. Discussions provided the participating organizations with opportunities to build stronger ties and to pool strengths with the aim of building lasting relationships benefiting future generations of the 11 Indigenous nations in Québec.

Making sustainability part of our DNA

Mandates and responsibilities

Created in 2022, Hydro-Québec's Direction – Activation et intégration du développement durable has been tasked with making sustainable development integral to the company. It will see to incorporating sustainability into the decision-making processes for each activity and every stage in our value. The various teams in this directorate will also work with internal partners and external stakeholders to better assimilate social and environmental considerations into our governance processes. This directorate is also responsible for coordinating cross-cutting environmental files such as decarbonation, adaptation to climate change, heritage and biodiversity.

Rallying our suppliers

To make our approach to procurement even more responsible, we've assessed the sustainability of our suppliers' governance and internal practices. This process encourages the selection of suppliers whose overall approach meets certain environmental, social and governance criteria. We will continue to use the assessment questionnaire for the next few years.

Measuring our performance to improve it

Hydro-Québec wants to make its structures and buildings more sustainable. In 2022, we used the ENVISION certification system, a sustainability reference framework, to identify avenues for improvement in an infrastructure project. The exercise highlighted areas where work was needed, but also noted our progress to date in terms of integrating sustainability principles into our projects.

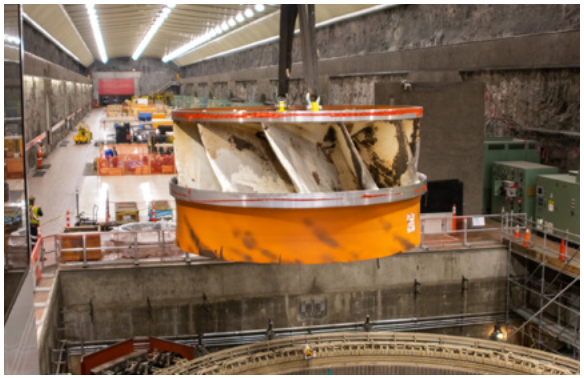
A plan to decarbonize our vehicle fleet

Hydro-Québec's vehicle fleet decarbonization plan will extend until 2036. The first phase aims to replace 2,545 light-duty, utility and specialized vehicles with zero- or low-emission models by 2026, depending on market availability at time of purchase. The charging infrastructure will also be deployed. In 2022, nearly all of the light-duty vehicles, bucket trucks and vans for underground use tagged for exchange were replaced with zero- or low-emission models. By the end of the year, the fleet boasted 769 low-carbon vehicles.

Here are the highlights from 2022:

- In the first quarter, we received the 55 first Ford E-Transit vans to be delivered in Canada.
- A first prototype for an all-electric bucket truck is being developed in partnership with Québec companies Lion, Posi+ and Xander. The motor will be made by Dana TM4, a Dana/Hydro-Québec joint venture.
- Our fleet now features a number of plug-in hybrid vans and bucket trucks equipped with batteries using lithium iron phosphate (LiFePO4) cathodes, a material developed at IREQ.
- Guided tours in all-electric buses were conducted this summer at Robert-Bourassa and Romaine-1 generating stations.
- We began integrating Lion Class 6 and Navistar International eMV all-electric trucks into our fleet.
- Among the first of their kind in Canada, ten Ford F-150 Lightning pickups were delivered to us in the fall.
- Five Ford Mustang Mach-Es joined our car-sharing fleet.
- We've also added some all-electric snowmobiles from Québec manufacturer Taiga.

Increasing our sustainability initiatives



Heritage runner

In 1979, Premier René Lévesque in 1979 switched on the very first generating unit to produce electricity in the Baie-James. Turbine runner 9 from this unit went on to faithfully serve Quebecers for over 42 years. After an outstanding service life, in 2022 the 111-ton giant took its well-earned retirement to join the ranks of the Hydro-Québec historical collection.

Biodiversity

Released in June, Hydro-Québec's *2022–2026 Biodiversity Strategy* puts forth an ambitious framework for meeting the significant challenge of biodiversity loss. By factoring biodiversity preservation and enhancement into our actions and decisions, we reduce our environmental footprint, fight climate change, ensure our long-term operability and contribute to a greener world.

Best in class

Hydro-Québec's sustainable practices again earned the company a top spot in Corporate Knights magazine's 2022 "Best 50 Corporate Citizens in Canada." The annual ranking to promote responsible business practices is based on public data released by organizations on their governance and social and environmental performances.

Safer and reliable infrastructures

In partnership with Hydro-Québec, Université Laval's Sentinel North research chair will tackle the enormous challenge of designing and building infrastructures that are both more sustainable and cost-effective. In a climate change context, the need for safe, reliable infrastructures in northern communities is critical. The chair's findings will be applicable to Québec as a whole, since climate-related issues are no less present in the south. Hydro-Québec fully supports this initiative that, in developing technological tools and high-level expertise in northern engineering, will foster the emergence of infrastructures adapted to changing conditions.

Archaeological heritage

Archaeologists at Hydro-Québec uncovered a fascinating piece of history during work at Mitis-2 generating station in the Bas-Saint-Laurent region. Testament to the region's industrial past, the vestiges were from a former water mill, which may have been used to grind flour. Documentary research on the Seigneurie Pachot placed the mill's construction sometime around 1851. The dig revealed part of the original structure along with two limestone millstones —a lower stationary stone known as a "bedstone" and a rotating or "runner" stone—and some mechanical parts.

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 *An 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. Lastly, the information contained herein takes into account any significant event that occurred on or before February 17, 2023, the date of approval of this Annual Report by Hydro-Québec's Board of Directors.

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2022 at a Glance

NET INCOME

$4,557M

28%[1] ↑

Hydro-Québec posted the best financial performance of its history in 2022. In a context marked by a sharp increase in energy prices on export markets and cold winter temperatures in the first quarter, net income exceeded $4.5 billion for the first time, totaling $4,557 million. This nearly $1.0-billion increase over the $3,564 million recorded the previous year is mainly due to higher sales revenue, both in and outside Québec, which was, however, partially offset by an increase in electricity purchases.

In light of these results, Hydro-Québec will be able to pay a dividend of $3,418 million to the Québec government, its sole shareholder—the largest in its history.

Hikes in market prices drive up sales outside Québec

ELECTRICITY SALES OUTSIDE QUÉBEC

$2,912M

59%[1] ↑

AVERAGE PRICE OBTAINED[2]

8.2¢/kWh

62%[1] ↑

On external markets, electricity sales generated unprecedented revenue of $2,912 million, mainly due to favorable market conditions during the year. Energy markets saw a marked rise in prices, in the midst of the energy crisis in Europe due to the conflict in Ukraine. The export volume remained high, at 35.6 TWh.

Cold winter contributes to unprecedented sales volume on the Québec market

ELECTRICITY SALES IN QUÉBEC

180.6 TWh

3%[1] ↑

Electricity sales in Québec reached a record level of 180.6 TWh, up 5.4 TWh compared to 2021. This increase is in part attributable to the effect of cold temperatures, the impact of which was felt mainly in January—the coldest since 2004—when temperatures were 7°C colder, on average, than in 2021. It also results from higher energy consumption in the residential segment and in the commercial, institutional and small industrial segment.

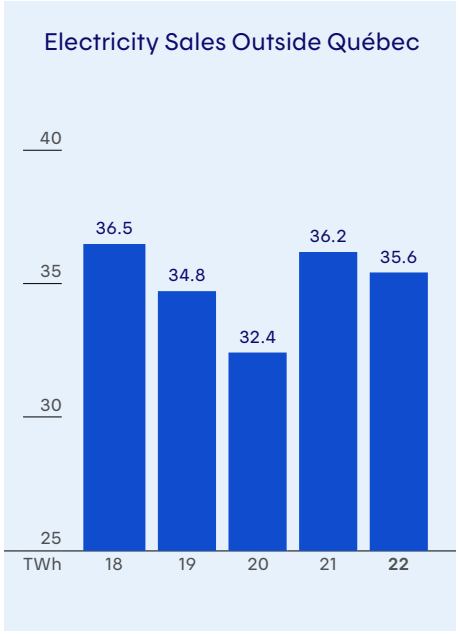
Total volume of electricity sales reaches a new high

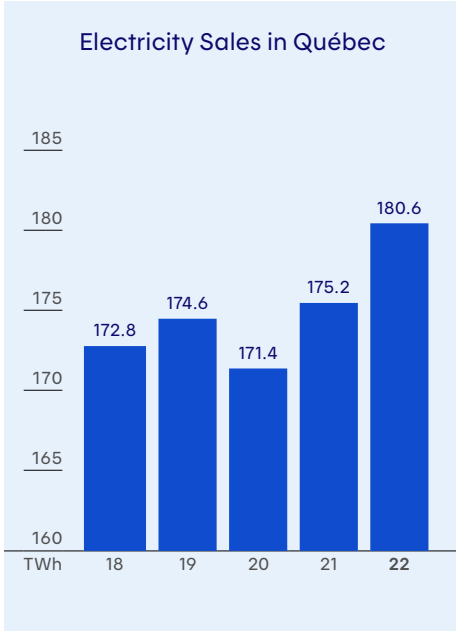
TOTAL SALES

216.2 TWh

2%[1] ↑

Overall, the heightened needs of the Québec market and the high level of electricity exports to neighboring markets drove the total sales volume across all markets to a historic high of 216.2 TWh in 2022, an increase of 4.8 TWh over the previous record, set in 2021. Hydro-Québec succeeded in supplying reliable power to over 4 million customers in Québec and exporting significant electricity volumes to the wholesale markets in northeastern North America. This feat is a direct result of the skills and efforts of its entire workforce, along with the reliability and smooth operation of its facilities.





1. Compared to 2021.
2. Including hedging effect.

Extreme weather events lead to extensive damage

In 2022, Québec was the scene of several weather events, two of which caused widespread power outages that required major service restoration work. First, last May, a storm front, known as a "derecho," over 300-km wide and with winds of 150 km/h resulted in thousands of power outages. Then, in late December, a winter storm with unusually violent wind gusts struck Québec, causing serious damage in many regions. Each of these storms deprived over half a million customers of power. Weather conditions also led to other, smaller outages throughout the year. Overall, these weather events led to restoration costs of $126 million, recognized in operational expenditure. This is the highest amount since the 1998 ice storm. In accordance with the regulatory framework, these costs are borne by Hydro-Québec, and will have no impact on the electricity rates.

Hydro-Québec rates remain among the lowest in North America

AVERAGE PRICE[1]
7.59¢/kWh

In keeping with *An Act to simplify the process for establishing electricity distribution rates*, Hydro-Québec's rates applicable as of April 1, 2022, were indexed based on inflation. All rates were therefore increased by 2.6% except the large-power industrial rate (Rate L), which was increased by 1.7%. Year after year, Hydro-Québec's electricity rates continue to be among the lowest anywhere in North America.

Hydro-Québec continues its major investment program across the entire territory

INVESTMENTS
$4.3B
1%[2] ↑

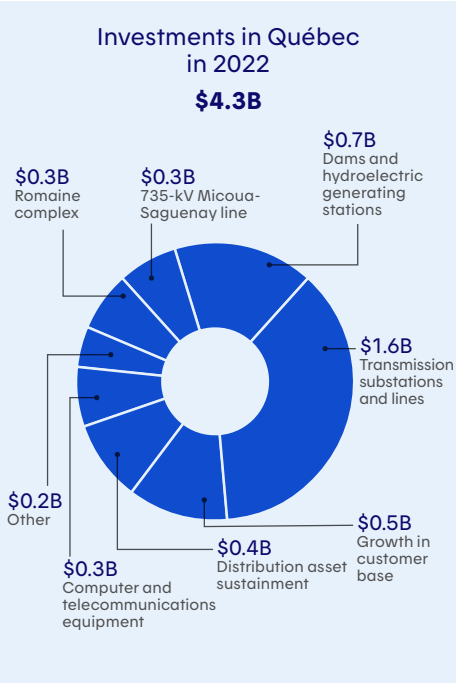
The company dedicated $4,271 million to its investments in property, plant and equipment and intangible assets in 2022. Most of this amount was allocated to large-scale projects aimed at ensuring the long-term operability of the company's assets, as well as to major development projects.

The major projects include continuing the construction of the 735-kV line that will connect Micoua substation, in the Côte-Nord region, to Saguenay substation, in the Saguenay–Lac-Saint-Jean region. This is the largest electricity transmission project underway in Québec. The line, which will run 262 km, is expected to help maintain the reliability and improve the operational flexibility of Hydro-Québec's transmission system and reduce electrical losses associated with the distances covered. The new equipment is expected to be commissioned in 2023.

The company's investments to ensure asset sustainment have increased significantly in recent years. In fact, funds allocated to sustainment in 2022 have increased by nearly 50% compared to five years ago.

The biggest construction project of the last decade has been completed

On the Romaine hydroelectric complex site, the last Romaine-4 generating station was commissioned in September. The complex is now fully operational, 13 years after breaking ground. With total installed capacity of 1,550 MW, it is intended to help the company meet Québec's energy needs for several decades and export clean, reliable and renewable energy to markets outside Québec, in order to reduce greenhouse gas emissions in the northeastern part of the continent.



1. On April 1, 2022 (for residential customers with monthly consumption of 1,000 kWh).
2. Compared to 2021.

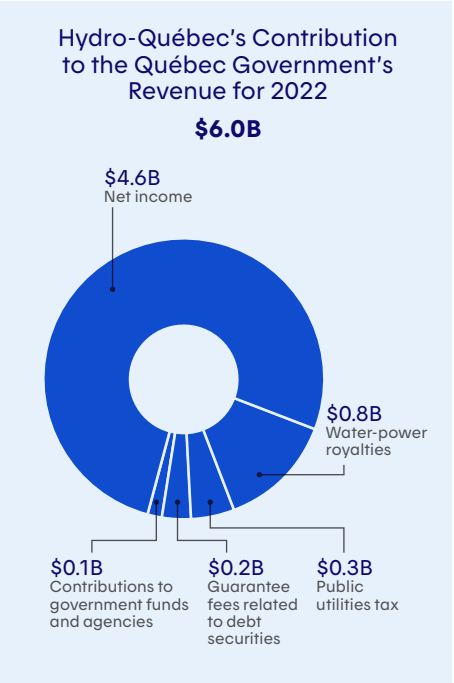
Hydro-Québec makes an acquisition of historic proportions

In September, Hydro-Québec entered into an agreement to acquire Great River Hydro LLC, which owns and operates the largest hydroelectric fleet in New England. This fleet, comprised of 13 hydropower generating stations with total installed capacity of 589 MW, located in the states of Vermont, New Hampshire and Massachusetts, powers over 213,000 households in New England every year.

The acquisition cost, settled in cash, amounted to US$1.5 billion (C$2.1 billion). The transaction is intended to allow Hydro-Québec to diversify its sources of income in its main export market and also to combine its expertise in managing and leveraging hydroelectric facilities with Great River Hydro's understanding of the New England market. Together, the two entities should be able to support the development of new renewable energy projects in a market where such resources are in high demand. The authorizations required from U.S. regulatory agencies were obtained before the closure of the transaction, which occurred on February 10, 2023.

The company makes it largest contribution yet to the Québec government's revenue

Hydro-Québec's contribution to the Québec government's revenue for 2022 amounts to $6.0 billion. This substantial contribution, which includes the company's net income of $4.6 billion, 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.



Consolidated Results

Net income

Hydro-Québec recorded historic net income in 2022. In a context marked by a sharp increase in energy prices on export markets and cold winter temperatures at the beginning of the year, net income reached $4,557 million, an increase of $993 million compared to the $3,564 million recorded the previous year. This growth is attributable to a solid increase in electricity sales, both in and outside Québec, partially offset, however, by an increase in electricity purchases.

On markets outside Québec, electricity sales rose by $1,086 million, mainly as a result of a sharp increase in the average price obtained. Export volume reached 35.6 TWh, comparable to a year earlier.

In Québec, electricity sales set a new record of 180.6 TWh, an increase of 5.4 TWh compared to the previous year, bringing in $912 million more than in 2021, due to several factors. First, temperatures led to an increase of 3.0 TWh or $258 million. Their effect was mainly felt in January, when they were 7°C lower, on average, than in 2021. Second, baseload demand rose by 2.4 TWh or $202 million as a result of growth in energy consumption in most segments, especially among residential customers and in the commercial, institutional and small industrial segment. Lastly, the increase in aluminum prices drove up electricity sales by $211 million, while the indexation of rates as of April 1, 2021 and 2022, had a favorable impact of $239 million.

Electricity purchases rose $665 million due to three factors: an increase in short-term supplies purchased on the markets to meet Québec's ad hoc requirements during the cold spell at the beginning of the year; higher transmission costs related to sales outside Québec partly due to the sharp spike in energy prices on the markets; and a higher supply volume, resulting in part from the coming into force of new power purchase agreements.

Revenue

Revenue totaled $16,567 million, compared to $14,526 million a year earlier. Revenue from ordinary activities reached $16,369 million, compared to $14,363 million in 2021. Electricity sales amounted to $16,143 million, or $1,998 million more than the $14,145 million recorded the previous year. This marked increase is due to a $912-million rise in electricity sales in Québec and a $1,086-million spike in electricity sales on markets outside Québec. Other revenue from ordinary activities increased by $8 million, and revenue from other activities, by $35 million.

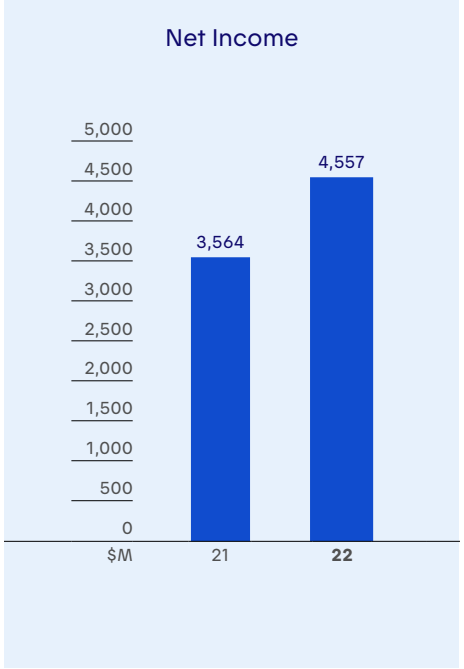
Revenue from ordinary activities

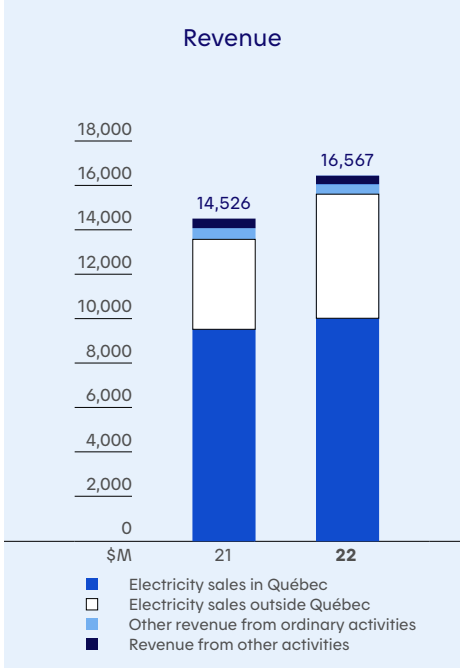
Electricity sales in Québec

In Québec, electricity sales rose by 5.4 TWh to a historic peak—180.6 TWh—contributing to a $912-million increase in related revenue, resulting from the combined effect of four factors, with a practically equivalent impact.

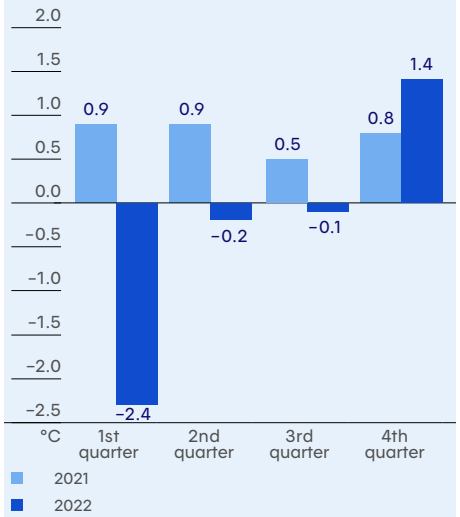
First, temperatures had a favorable impact of 3.0 TWh or $258 million. First-quarter temperatures were colder in 2022 than 2021, leading to an increase of 3.6 TWh or $311 million. The impact on sales was especially significant in January—the coldest since 2004—when temperatures were 7°C lower, on average, than in 2021. On the other hand, December's temperatures were milder in 2022 than 2021, resulting in a decrease in sales of 0.8 TWh, or $70 million compared to the previous year.

Second, baseload demand rose by 2.4 TWh or $202 million due to the increase in energy needs, mainly in the residential segment, where demographic change led to a natural growth in the number of customer accounts, and in the commercial, institutional and small industrial segment, which benefited from renewed vigor in the Québec economy. It should be noted that the first half of 2021 was marked by the enforcement of public health measures related to the management of the pandemic, including the closure of many stores and other businesses for several months during winter and spring, which exerted downward pressure on electricity sales.

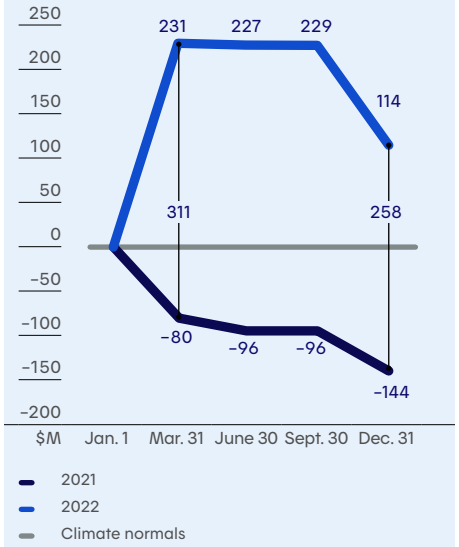




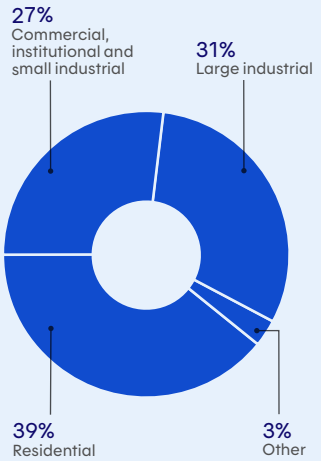
Variances from Climate Normals – Montréal and Québec



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



Breakdown of Electricity Sales in Québec in 2022 (TWh)



Third, the increase in aluminum prices, which have an effect on revenue from some special contracts, led to a $211-million increase in revenue from electricity sales in Québec.

Fourth, the rate indexations that came into effect on April 1, 2021 and 2022, pursuant to *An Act to simplify the process for establishing electricity distribution rates*, translated into a $239-million increase in revenue.

Electricity Sales in Québec by Segment

	Sales volume			Revenue		
	2022	2022-2021 change		**2022**	2022-2021 change	
Segment	TWh	TWh	%	$M	$M	%
Residential	**70.9**	3.3	4.9	**5,974**	452	8.2
Commercial, institutional and small industrial	**48.0**	1.8	3.9	**4,205**	248	6.3
Large industrial	**55.4**	(0.4)	(0.7)	**2,674**	176	7.0
Other	**6.3**	0.7	12.5	**378**	36	10.5
Total	**180.6**	5.4	3.1	**13,231**	912	7.4

Factors Underlying the 2022–2021 Change in Sales by Segment

	Volume effects					Price effects			Total
	Baseload demand		Temperatures		Total	Rate adjustments	Other	Total	
Segment	TWh	$M	TWh	$M	$M	$M	$M	$M	$M
Residential	0.8	73	2.5	220	**293**	**121**	**38**	**159**	**452**
Commercial, institutional and small industrial	1.4	111	0.4	34	**145**	**91**	**12**	**103**	**248**
Large industrial	(0.4)	(5)	–	–	**(5)**	**19**	**162**	**181**	**176**
Other	0.6	23	0.1	4	**27**	**8**	**1**	**9**	**36**
Total	2.4	202	3.0	258	**460**	**239**	**213**	**452**	**912**

Electricity sales outside Québec

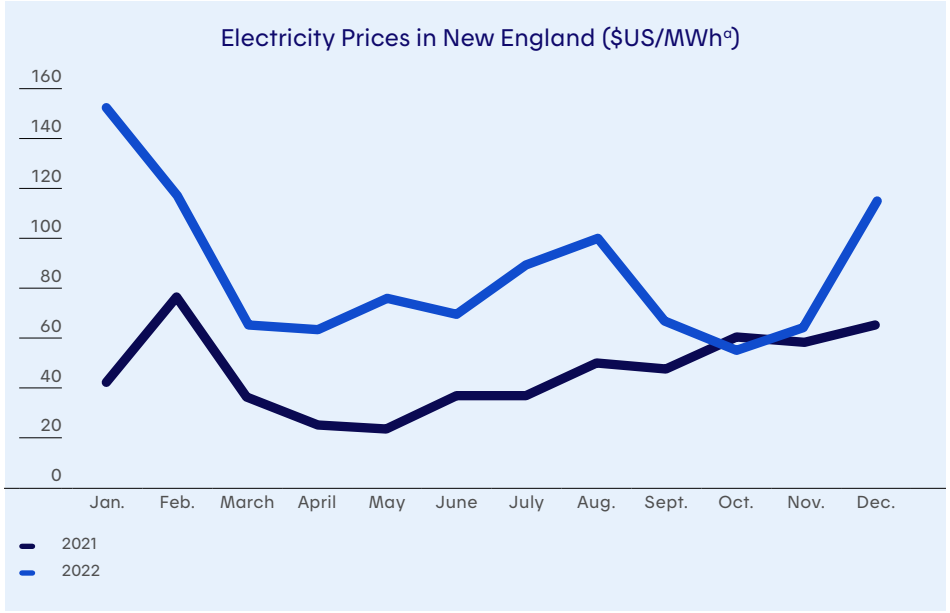
Revenue from electricity sales in markets outside Québec approached $3 billion, totaling $2,912 million, compared to $1,826 million in 2021. This growth comes mainly from favorable market conditions during the year, due to the spike in global energy prices in 2022. More specifically, the economic recovery and the energy crisis in Europe due to the conflict in Ukraine drove up natural gas prices, leading to an increase in electricity prices in markets in the northeastern United States, where gas-fired electricity generation is prevalent. The result was that the annual average for electricity prices in New England, Hydro-Québec's main export market, nearly doubled in comparison to 2021. This situation led to much higher revenue from sales outside Québec, which was partially offset by the effect of the risk management strategy put in place by the company to mitigate price volatility. Export volume remained at a level comparable to that of 2021, or 35.6 TWh. The strength of economic activity, combined with favorable weather conditions, especially during the summer, led to sustained demand on external markets.

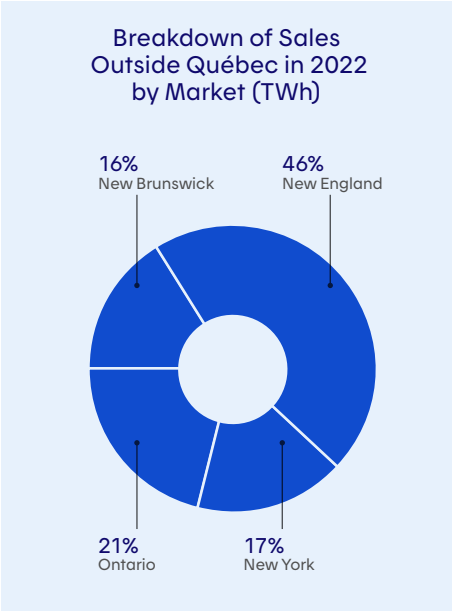
Other revenue from ordinary activities

Other revenue from ordinary activities amounted to $226 million, an amount comparable to the $218 million recorded in 2021.

Revenue from other activities

Revenue from other activities was $198 million, an increase of $35 million over the $163 million recorded a year earlier.





a) Monthly averages of hourly electricity prices on the New England market (Mass Hub – ISO-NE).

Expenditure

Total expenditure reached $9,716 million in 2022, compared to $8,594 million a year earlier.

Operational expenditure

Operational expenditure amounted to $3,844 million, or $556 million more than the $3,288 million recorded in 2021, resulting from several factors.

First, the increase is partly due to the company's increase in activities to improve service quality and reliability, the intensification of servicing and maintenance activities, and an increase in expenditure related to digital services to meet Hydro-Québec's increased business needs and support the company's technological evolution. These elements are reflected in part in growth of the workforce and greater costs related to the use of external services. In addition, the indexation of salaries and the impact of inflation on the entire supply chain created upward pressure on operational expenditure. The impact of these factors was mitigated by a decrease in the current service cost of the Pension Plan, related to the rise, in late 2021, in long-term interest rates on the capital markets, which determine the discount rates.

Next, the cost of restoring service increased in comparison to 2021, due essentially to two extreme weather events that led to major outages and significant damage during the year. These two events were a major storm front, called a "derecho," which struck Québec in May and a winter storm with unusually violent winds hit at the end of the year. In both cases, more than half a million customers were without power, and major work was required, leading to a significant increase in costs, especially in terms of overtime and expenditure related to external vegetation control services and the participation of special teams of line workers.

Finally, the increase in the operational expenditure also reflects the activities of subsidiaries tasked with leveraging the technologies and services resulting from the company's R&D efforts in the areas of energy efficiency, demand response and energy storage systems.

Other components of employee future benefit cost

In the line item Other components of employee future benefit cost, a credit amount of $1,020 million was recognized in 2022, compared to $743 million in 2021. This change comes primarily from the increase in the value of the Pension Plan assets on December 31, 2021, which had a positive effect on the amounts recognized under this line item in 2022.

Electricity purchases

Electricity purchases totaled $2,834 million, an increase of $665 million compared to the $2,169 million recognized in 2021. This difference is due to a $235-million increase in short-term supplies for electricity export purposes, particularly due to higher transmission costs related to sales outside Québec, attributable in part to the sharp hike in energy prices. Furthermore, short-term supplies purchased on the markets to meet Québec's ad hoc requirements during the cold spells spiked by $165 million. Wind power supplies also increased by $102 million because of higher output from facilities under contract and the commissioning of two new wind farms in the Montérégie and Saguenay–Lac-Saint-Jean regions. Finally, the coming into force of a new power purchase agreement with an independent producer that allows Hydro-Québec to buy the entire output from generating stations on the Rivière du Lièvre, in Outaouais, led to purchases of $88 million.

Depreciation and amortization

Depreciation and amortization expense amounted to $2,828 million, compared to $2,689 million a year earlier. This $139-million rise derives in part from an increase in the depreciation of property, plant and equipment and intangible assets, particularly following commissioning activities in 2021 and 2022.

Taxes

Taxes amounted to $1,230 million, or $39 million more than the $1,191 million recognized in 2021, primarily due to a $23-million increase in water-power royalties, attributable mainly to the indexation of the applicable rate and, to a lesser degree, higher output volume.

Financial expenses

Financial expenses stood at $2,294 million in 2022, a $74-million decrease compared to the $2,368 million recorded the previous year. The sharp increase in interest rates in the capital markets resulted in a higher interest expenditure related to variable-rate debts, which was partially offset by the growth of net investment income. Despite rising interest rates, the company also issued new debt securities at interest rates far lower than those related to debts that matured during the year, which had a favorable effect on the financial expenses.

Key Figures

	2022	2021
OPERATIONS AND DIVIDEND ($M)		
Revenue	**16,567**	14,526
Income before financial expenses	**6,851**	5,932
Net income	**4,557**	3,564
Dividend	**3,418**	2,673
BALANCE SHEETS ($M)		
Total assets	**89,374**	82,698
Property, plant and equipment and intangible assets	**71,080**	69,420
Long-term debt, including current portion	**51,541**	49,698
Equity	**26,877**	23,260
FINANCIAL RATIOS		
Return on equity (%)[a]	**17.6**	14.3
Capitalization (%)[b]	**34.6**	32.0
Profit margin (%)[c]	**27.5**	24.5
Interest coverage[d]	**2.94**	2.52
Self-financing (%)[e]	**55.3**	52.2

a) Net income divided by average equity for the year less average accumulated other comprehensive income for the year. The increase in this ratio compared to 2021 is mainly attributable to the increase in net income.

b) Equity divided by the sum of equity, long-term debt, current portion of long-term debt, borrowings and derivative instrument liabilities, less derivative instrument assets and sinking fund. The increase in this ratio compared to 2021 is mainly due to higher equity.

c) Net income divided by revenue. The increase in this ratio compared to 2021 is due to the increase in net income, which was nevertheless offset by revenue growth.

d) Sum of income before financial expenses and net investment income divided by interest on debt securities. The increase in this ratio compared to 2021 is mainly due to the increase in income before financial expenses.

e) Cash flows from operating activities less dividend paid, divided by the sum of cash flows from investing activities —excluding acquisitions and disposals of short-term investments and sinking fund securities—and repayment of long-term debt. The increase in this ratio compared to 2021 is mainly due to the $1.7-billion increase in cash flows from operating activities.

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

Cash and Capital Management

Operating activities

Cash flows from operating activities amounted to $6.8 billion in 2022, compared to $5.1 billion in 2021. This increase is partly due to the $1.0-billion growth in net income, as explained in the Consolidated Results section.

The cash flows were used to pay the dividend for 2021 and to finance a portion of the investment program, among other things.

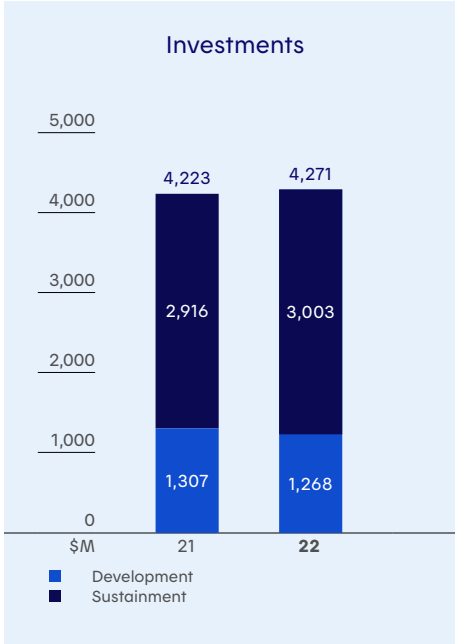
Investing activities

In 2022, Hydro-Québec invested $4.3 billion in property, plant and equipment and intangible assets, compared to $4.2 billion in 2021. Most of this amount was allocated to large-scale asset sustainment initiatives and major development projects.

The company allocated $3.0 billion to asset sustainment. In particular, it continued to invest in its generating facilities to ensure their long-term operability and maximize their output. For instance, projects are underway at Robert-Bourassa, Bersimis-2, Beauharnois, Rapide-Blanc and Carillon generating stations. The work on these last two generating stations should also increase power to be able to meet anticipated increase in electricity demand. At the same time, Hydro-Québec allotted significant funds to the construction of transmission lines designed to reinforce its system and enhance its operating flexibility, including the 262-km 735-kV line that will connect Micoua substation, in the Côte-Nord region, to Saguenay substation, in the Saguenay–Lac-Saint-Jean region. It also continued to invest in upgrading and modernizing its transmission facilities. 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 related to the architecture development plan for the 315-kV system on the island of Montréal. Lastly, it carried out work to optimize the operation of the distribution system and to maintain and improve the quality of its distribution assets.

Investments in development projects totaled $1.3 billion. In particular, significant funds were allocated to various projects to handle the growing customer base in Québec and increase output capacity. It should be noted that the last unit of Romaine-4 generating station, in Minganie, was commissioned in September, bringing its installed capacity to 245 MW. The Romaine complex is now fully operational, 13 years after work began.

Hydro-Québec is also continuing its transportation electrification efforts with ongoing investments in its public charging network, the Electric Circuit.



Financing activities

In a context marked by rising interest rates, Hydro-Québec carried out a number of fixed-rate issues on the Canadian capital market during the year: $2.3 billion in medium-term notes maturing in 2028, at an average cost of 3.15%, and $2.7 billion in bonds maturing in 2060 and 2063, at an average cost of 3.95%.

The funds raised, in the total amount of $5.0 billion, were used to support part of the investment program and to repay higher-cost maturing debt.

Sources of Financing

Type of financing	Amount authorized by the Board of Directors	Market	Outstanding as at December 31, 2022
Operating credit lines	C$ or US$1,000 million[a]		C$3.3 million
Credit facility[b]	US$2,000 million[c]		—
Commercial paper[b]	US$5,000 million or equivalent in C$	United States or Canada	C$2.9 million
Medium-term notes[b]	US$3,000 million or equivalent in other currencies	United States	US$202 million[d]
	C$20,000 million or equivalent in US$	Canada	C$13,360 million[d]

a) Of this amount, available balances of US$200 million, C$2 million and $496 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) Including a US$750-million swing loan.

d) Net proceeds from the issuance of medium-term notes.

Credit Ratings

	2022		
	Commercial paper	Long-term debt	Outlook
U.S. agencies			
Moody's	**P-1**	**Aa2**	**Stable**
S&P Global Ratings	**A-1+**	**AA–**	**N/A[a]**
Fitch Ratings	**F1+**	**AA–**	**Stable**
Canadian agency			
DBRS Morningstar	**R-1 (middle)**	**AA (low)**	**Stable**

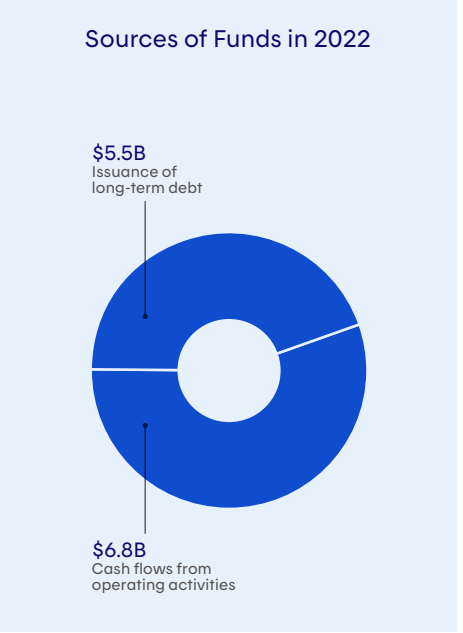
a) S&P Global Ratings does not provide an outlook for Hydro-Québec's credit rating.

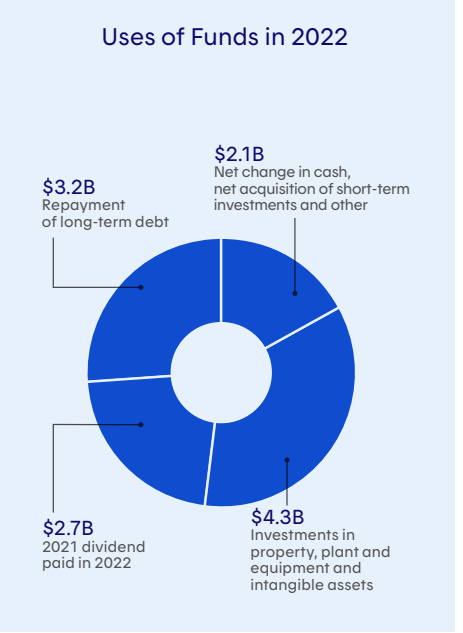
These credit ratings are identical to those in effect on December 31, 2021.

Dividend and capitalization rate

The dividend payable to the Québec government for 2022 is $3,418 million. The capitalization rate was 34.6% as at December 31, 2022.

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.





Regulatory Framework

The *Act respecting the Régie de l'énergie* (CQLR, c. R-6.01) 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 in Québec. Hydro-Québec's electricity transmission and distribution activities in Québec are therefore regulated.

Power transmission

In its role as the provider of power transmission services in Québec, Hydro-Québec operates and develops one of the most extensive power transmission systems in North America. It markets system capacity and manages power flows throughout Québec, offering non-discriminatory access to its system to all market players in compliance with applicable regulatory requirements.

Since January 1, 2019, the transmission rates have been subject to performance-based regulation (PBR), applicable for a four-year period. Under PBR, rates for the 2022 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.

Rate case

For 2022, the revenue authorized by the Régie de l'énergie for transmission rate-setting purposes totaled $3,197 million, namely $2,813 million for native-load transmission and $384 million for short- and long-term point-to-point transmission services. These amounts represent decreases of $90 million and $21 million, respectively, compared to 2021.

With regard to its transmission activities, Hydro-Québec informed the Régie that it would postpone its 2023 rate application, initially planned for summer 2022, to summer 2023, due to the change in the company's organizational structure. The Régie authorized the provisional extension of the 2022 rates until it can study the new rate submission.

Electricity distribution

In its role as power distributor in Québec, Hydro-Québec 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.

Rate-setting

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

Process for Establishing Electricity Distribution Rates[a]

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

a) Excluding Rate L.

b) Based on the lesser of the average CPI and the top rate of the Bank of Canada's inflation-control range for domestic distribution rates beginning April 1, 2023, in accordance with the provisions of the bill entitled *An Act mainly to cap the indexation rate for Hydro-Québec domestic distribution rate prices and to further regulate the obligation to distribute electricity.*

Pursuant to the Act, all distribution rates for the rate year beginning on April 1, 2022, were indexed at a rate of 2.6%, except the large-power industrial rate (Rate L). This increase corresponds to the change in average CPI between September 30, 2020, and September 30, 2021. Rate L was increased by 1.7%, which is equal to the 0.65 rate authorized by the Régie in February 2022 multiplied by the general indexation factor of 2.6%.

All distribution rates were increased by 1.3% for the rate year ended March 31, 2022, with the exception of Rate L, which was increased by 0.8%.

In February 2023, the National Assembly of Québec passed the bill entitled *An Act mainly to cap the indexation rate for Hydro-Québec domestic distribution rate prices and to further regulate the obligation to distribute electricity*. Among other things, this Bill stipulates that the indexation rate for residential electricity rates will be based on the lesser of the average CPI and the top rate of the Bank of Canada's inflation-control range. The increase in residential rates will be limited to 3% for the rate year beginning April 1, 2023. Since the rates that apply to business customers are not targeted, they are expected to increase by 6.5%, which is equal to the average CPI between September 30, 2021, and September 30, 2022. The increase that applies to Rate L will be set by a Régie decision expected during the first quarter of 2023.

Supplying the Québec market

In its distribution activities, Hydro-Québec relies on several sources to supply the Québec market, mainly the heritage pool of 165 TWh. It also issues short- and long-term calls for tenders.

For requirements of less than three months, it may also buy electricity directly on the market, without tendering, under an authorization granted by the Régie de

l'énergie. For unexpected needs that cannot be otherwise met, it relies on a framework agreement with the internal group responsible for trading in wholesale electricity markets and covering the period from January 1, 2020, to December 31, 2022. The Régie approved this agreement in December 2019, and in December 2022, also approved a renewal request for the period from January 1, 2023, to December 31, 2025.

In November 2022, Hydro-Québec filed its *Electricity Supply Plan 2023-2032* with the Régie. The plan forecasts demand growth of 25 TWh, or nearly 15%, over the 2022–2032 period. Based on the forecasts, the increase in demand is accelerating, largely due to the energy transition.

Hydro-Québec is also continuing its efforts to promote energy efficiency. For example, it has developed an integrated offer based on raising awareness among customers and helping them make lasting changes in the way they use electricity. In addition, it constantly adjusts its programs according to market needs and the company's requirements, seeks to ensure that its initiatives are in line with those of its various partners and remains on the lookout for potential energy savings from new technologies.

Finally, in July 2021, Hydro-Québec entered into a partnership agreement with Énergir to reduce greenhouse gas emissions associated with heating residential, commercial and institutional buildings. The agreement seeks to implement a dual-energy solution combining electricity and natural gas in keeping with the *2030 Plan for a Green Economy*, which establishes the Québec government's electrification and climate change policy framework. The Régie de l'énergie authorized the agreement in May 2022, and the partners launched their first dual-energy offer, for residential customers, the following month. An application related to commercial and institutional customers was filed with the Régie in October 2022.

Organizational Structure

In 2022, Hydro-Québec changed its organizational structure in order to use a cross-functional approach to manage its activities. Since the new structure came into effect in last February, its results are no longer analyzed based on the former operating segments, but rather on a consolidated basis. Consequently, Hydro-Québec now comprises a single reportable business segment.

Groups in the value chain

The reorganization was based on the value chain, that is, founded on the sequence of key activities that allow the company to carry out its mission and create value for its customers. Four groups constitute the main links in the Hydro-Québec value chain:

- Groupe – Stratégies et développement
- Groupe – Planification intégrée des besoins énergétiques et risques
- Groupe – Infrastructures et système énergétique
- Groupe – Exploitation et expérience client

The **Groupe – Stratégies et développement** establishes Hydro-Québec's Strategic Plan, tracks its implementation, constantly monitors the energy sector and carries out strategic mandates and analyses. It is also tasked with guiding the development of the organization and establishing and deploying the regulatory strategy. This group is also responsible for business development, acquisitions, investment management, energy transactions and commercialization strategies to promote the clean, renewable energy generated by Hydro-Québec across all the company's markets. Finally, it carries out strategic R&D projects in collaboration with other players in the innovation ecosystem.

The **Groupe – Planification intégrée des besoins énergétiques et risques** anticipates Hydro-Québec's integrated medium- and long-term energy needs for all its markets. It plots various development trajectories for the energy system and designs financial resource allocation guidelines with a view to reliability, profitability, decarbonization and sustainable development, in keeping with the company's risk appetite. The group also coordinates Hydro-Québec's business risk portfolio and monitors market and credit risks related, in particular, to energy trading floor operations, regulated power transmission and distribution activities, business development, treasury activities, financing and management of debt and the Pension Plan. It also conducts economic and financial analyses related to major investment, acquisition and equity investment projects.

The **Groupe – Infrastructures et système énergétique** oversees the design and development of the energy system, optimal and integrated asset management, carrying out infrastructure projects, strategic supplies and environmental activities associated with the company's jobsites. It also provides the expertise and technical support required for the smooth operation of projects. Concretely, this group prepares all facets of the Hydro-Québec grid for the integration of decentralized energy resources and new technologies to make it smarter, more interactive and more resilient, taking climate change and other emerging risks into account. It also ensures the proper functioning of the company's assets over their complete life cycle. Furthermore, it develops and carries out construction and refurbishment projects related to power generation and transmission, as well as major distribution projects, and strengthens the company's supply chain while maximizing sustainable wealth creation for Québec. Finally, it conducts impact studies and environmental assessments related to infrastructure projects in order to allow the company to pursue its ambitions while complying with laws and sustainable development principles and protecting biodiversity.

The **Groupe – Exploitation et expérience client** has the mandate to operate and maintain all generation, transmission and distribution assets, offer technical services and provide products and services that meet the needs of all customer segments. It is also responsible for occupational health and safety activities and shared services, including the management of materials, real estate and the vehicle fleet, as well as food, lodging and air transportation services.

Cross-functional groups

The role of the six cross-functional groups is to create value for the four groups in charge of Hydro-Québec's core mission.

The **Groupe – Affaires corporatives, juridiques et réglementaires 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, guidelines and frameworks for regulation, rates and transmission services, corporate affairs, governance and ethics, access to information, protection of personal information and information management. At the request of Hydro-Québec's Management or Board of Directors, it also conducts analyses to assess the company's governance, performance and compliance in different areas, such as anti-bribery policies, the environment and occupational health and safety.

The **Groupe – Développement durable, relations avec les communautés et communications** is responsible for communications with the general public and the company's stakeholders, including governments, as well as relations with local communities and Indigenous peoples. It ensures that Hydro-Québec takes into account the expectations of Québec society for the development of its guidelines and in its decisions. It also provides advisory services concerning the design and implementation of strategies that foster the acceptability of Hydro-Québec's current projects and activities, on one hand, and encourage the achievement of ambitious sustainable development objectives, on the other. All of the group's activities contribute to Hydro-Québec's good reputation.

The **Groupe – Direction financière** is responsible, together with the other groups, for financial planning and assessing Hydro-Québec's performance and optimal use of resources to meet strategic and operational objectives. In this way, it aims to protect the company's financial stability by developing strategies to carry out its financing, cash management and financial risk management activities and provide the levers required to ensure the long-term operability of assets and the sound growth of operations. It also oversees all accounting and control activities, monitors developments in this area and provides guidelines and advice regarding taxation and accounting issues. It also aims to maximize the financial performance of the Pension Plan through the creation and implementation of strategies aligned with the applicable regulatory requirements, based on a level of risk deemed acceptable. As at December 31, 2021, the date of the most recent actuarial valuation, the Pension Plan showed a funding surplus of $12.4 billion and a funding ratio of 162.4%. The Pension Plan's excellent position triggered a contribution holiday for Hydro-Québec and a reduction in employee contributions in 2022.

The **Groupe – Technologies numériques** designs and operates Hydro-Québec's digital networks, systems, applications and infrastructure and plans their development. To this end, its teams ensure the sustainment of hardware and software resources and establish the technological foundations essential to business growth. They also implement an integrated vision regarding governance, architecture, development and operations, with an emphasis on security. In addition, the group develops innovative, cutting-edge solutions to increase productivity and facilitate the company's digital transformation, which involves increased power grid and business process automation, greater mobility, instilling a strong cybersecurity culture and the use of cloud computing, data analytics and artificial intelligence. Finally, it is also responsible for the operation, development, maintenance and security of Hydro-Québec's telecommunications network, which is one of the largest in the North American electricity sector.

The **Groupe – Talents et culture** 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. 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 **Groupe – Audit interne** ensures that internal control mechanisms are well designed and implemented and that they are adequate and effective by providing reasonable assurance and by supporting the Board of Directors in exercising sound governance at Hydro-Québec. It provides advice and suggests improvements not just in terms of efficiency, but also in the areas of environmental protection, health and safety, technology, innovation and social responsibility. To do so, it focuses on working with Senior Management and creating added value. Reporting to the Board of Directors' Audit Committee, the group is responsible for the internal audit of the company, including its subsidiaries and Pension Plan, and has the necessary powers and authority to perform its role in an independent and objective manner, in compliance with applicable laws and standards. In carrying out its duties, it adopts a systematic and methodical approach, taking into account Hydro-Québec's objectives, strategies, risks, governance processes and management system, and is guided by best practices in internal auditing.

Outlook

For 2023, Hydro-Québec is targeting net income of $4.0 billion.

The company is planning to make investments in the order of $5.7 billion, nearly two-thirds of which will be dedicated to asset sustainment activities. The largest projects related to grid modernization and reliability include the refurbishment work underway at Rapide-Blanc and Carillon generating stations to optimize the generating activities, the addition of two converter units to Châteauguay substation to increase its interconnection capacity with the New York system, and the ongoing construction of the 735-kV Micoua–Saguenay line.

The balance of the planned investments will be dedicated to development activities to meet the growth in demand in Québec, expand Hydro-Québec's activities on neighboring markets and contribute to the decarbonization of the economy. Other activities include the connection of new customers to the distribution network, the initial phase of major projects to increase the capacity of certain hydroelectric generating stations, including Outardes-2 generating station, the construction of the Hertel–New York interconnection line, which will be connected to the Champlain Hudson Power Express (CHPE) line, and the construction of a new generating station to supply the Inuit village of Tasiujaq, in the Nord-du-Québec region.

The 2023 borrowing program is set at $5.0 billion. The funds collected will help finance the company's ongoing needs, including a large portion of the investment program and the acquisition of Great River Hydro LLC, in New England.

Integrated Risk Management

For many years, Hydro-Québec has applied an integrated 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.

All groups within the company have a role to play. 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, using the tools developed by the Groupe – Planification intégrée des besoins énergétiques et risques, among other things. In concrete terms, each group 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 groups report periodically on their risk management and monitoring activities to the Management Committee, which then acts as a risk management committee to provide overall risk monitoring. This approach makes it possible to create an enterprise risk portfolio during the annual planning process. The portfolio is presented to the Board of Directors with the Business Plan, which includes a sensitivity analysis indicating the impact of certain risks on Hydro-Québec's capacity to attain its net income target.

Integrated Risk Management Process

	Annually	Monthly
Groups	• Identification of each group's risks and validation by the manager reporting to the President and Chief Executive Officer • Development or update of the list of each group's risks to be included in the enterprise risk portfolio	Report on the monitoring of each group's risks included in the enterprise risk portfolio
Management Committee[a]	Review of the enterprise risk portfolio, the major risk map and the probability of attaining the net income target	Review of the consolidated monthly report on the monitoring of the enterprise risk portfolio
Board of Directors	**Audit Committee** Analysis of the integrated risk management process, the enterprise risk portfolio and the major risk map **Investments and Financial Affairs Committee** Analysis of the Business Plan and the probability of attaining the net income target **Board of Directors** Review of the Business Plan, the enterprise risk portfolio, the major risk map and the probability of attaining the net income target	

a) Acting as the risk management committee, with the Vice President – Integrated Energy Needs Planning and 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. The adoption of strategies that include the use of derivative instruments and systematic monitoring considerably reduces exposure to such risks and their impact on the company's results.

To manage market and credit risks, a team of specialists that is independent from the teams 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. Lastly, 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.

Hydro-Québec mainly uses derivative financial instruments to manage its market risks. The purpose of such management is to limit their impact on Hydro-Québec's results, according to strategies and criteria that are established based on its 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 to carry out its investment program.

Hydro-Québec's liquidity risk is mitigated by several factors, including substantial cash flows from 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.

It is also exposed to credit risk related to the cash equivalents, short-term investments and derivative instruments it trades with financial institutions and other issuers and, to a lesser extent, with North American energy companies. These derivative instruments are associated with power purchase agreements it concludes to supply the Québec market and with energy transactions on markets outside Québec.

Exposure to credit risk is partially offset by putting in place frameworks and limits related to risk concentration and counterparty exposure. 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 derivative instrument portfolios below a predetermined threshold.

Regulatory risks

Hydro-Québec is exposed to regulatory risks because, under the *Act respecting the Régie de l'énergie*, its electricity transmission and distribution operations are regulated. The decisions handed down by the Régie de l'énergie may therefore affect the results associated with these activities. 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, *An 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 rates. As a result, Hydro-Québec is now exposed to the risks associated with these items, which were formerly covered by variance and deferral accounts. Since 2021, however, these risks have been partially offset by the annual indexation of the distribution rates.

Various means have been put in place in an attempt to reduce the impact of risk on the revenue and expenditure related to regulated activities. These measures include submitting complete and well-argued files to the Régie and maintaining a constructive dialogue with the Régie and the intervenors, particularly during working sessions.

Operational risks

Managing an electric power system like Hydro-Québec's poses many technical challenges associated with the aging of the equipment, technological progress and changing customer needs, particularly in the context of the energy transition. The company must make informed decisions to plan its short- and long-term investments.

Therefore, in 2022, Hydro-Québec adopted a new organizational structure based on the value chain in its sector, ranging from developing strategic guidelines and planning electricity supply needs to operating and maintaining facilities and marketing services. The advantages of this structure include establishing an overview of major investments the company will have to make in the coming years. It also includes adopting a cross-functional approach to the allocation of the capital required to maintain and sustain the existing assets and expand the power system's overall capacity as efficiently as possible, in order to handle the growing demand generated by energy transition at the lowest possible cost.

At the same time, Hydro-Québec intends to develop its power system into a diversified, smart and robust energy system capable of integrating decentralized energy resources and a higher volume of variable energy sources, as well as leading-edge digital technologies that can increase operational flexibility and help meet customer needs and expectations.

Generation activities

One of the principal uncertainties related to generation activities relates to natural water inflows. Hydro-Québec must maintain sufficient energy reserves to meet its commitment to supply an annual base volume of up to 165 TWh of heritage pool electricity while still fulfilling its contractual obligations. In concrete terms, this means covering a natural inflow deficit of 64 TWh over two consecutive years, and 98 TWh over four consecutive years. To manage this risk, the company relies on several

mitigation measures that it adheres to rigorously. It manages its reservoir storage on a multiyear basis and maintains an adequate margin between its commitments and its generating capacity. 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 its generating capacity and energy reserves.

Moreover, it 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 experience major spring flooding. To reduce the impact of flooding on communities, Hydro-Québec 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 are used to limit the risk of flooding. The company also holds numerous information sessions each year to educate the public about the key role that its reservoirs and control structures play in managing floods.

Temperature variations and the difference between actual demand on the Québec market and projections represent another risk, as these factors impact energy sales in Québec and the volume available for export. In addition to runoff and temperature uncertainties, export activities on wholesale markets are subject to market risk and the risk of unavailability of generating and transmission equipment. Market risk is the result of fluctuations in energy prices on markets outside Québec. It is mitigated by the ongoing monitoring of trends on wholesale markets and the use of hedging derivatives. The risk of unavailability of generating and transmission equipment is mitigated through the implementation of maintenance and upgrade programs.

The risks related to export activities are quantified in an integrated fashion by a team of specialists that is independent from the team carrying out the transactions. This team sees to the application of controls, submits daily reports to the managers who oversee these activities and ensures compliance with the limits approved by Management and the Board of Directors.

Transmission activities

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 Hydro-Québec to prevent these problems includes compliance with the standards of the North American Electric Reliability Corporation (NERC) as well as measures to maintain and reinforce its power system in order to 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 des réseaux of the Groupe – Exploitation et expérience client serves as the Reliability Coordinator for transmission systems in Québec, a role it was assigned by the Régie de l'énergie in 2007.

Hydro-Québec must ensure adequate transmission capacity to supply the company's distribution system and the facilities of other customers, as well as 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 activities

The continuity of the electricity distribution service is a critical issue for Hydro-Québec. To maintain power quality, the company makes ongoing investments in its system to modernize and automate it, and to enhance its security. It also relies on vegetation control, the implementation of an asset maintenance program and an asset renewal strategy, as well as 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.

Hydro-Québec deals at all times with demand fluctuations (in normal weather conditions) that result from the economic and energy-related situation 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 *An Act to simplify the process for establishing electricity distribution rates* came into force, the company has also been exposed to risks associated with weather conditions and variances in electricity supply costs. To limit the impact of all these risks, it constantly fine-tunes its method of forecasting electricity demand.

Construction activities

One of the risks Hydro-Québec faces in its construction projects is occupational health and safety on its jobsites. To manage this, it focuses on controlling the main dangers and on the leadership of its field crews, taking action throughout the planning and completion of the projects with the goal of being an occupational health and safety benchmark in the construction sector in Québec.

In the preliminary design phase, the company identifies the risks and implements mitigation measures. During the execution of the work, it continually monitors the application of these measures, through systematic jobsite inspections, to ascertain

their efficacy and uncover any residual risks in order to put the appropriate means of oversight in place. It also intervenes regularly with the contractors. In light of workforce turnover, orientation, qualification and support for new workers are emphasized. All the teams work together to achieve a common goal: offering a safe, healthy and respectful work environment. The institution of the Principal contractor's safety program, which defines Hydro-Québec's health and safety expectations for contractors, is the first step in the deployment of standards to manage the main risks on jobsites.

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, the increase in prices for certain materials and products, as well as issues such as late deliveries, poor quality and work stoppages, which affect project schedules. In 2022, inflation, supply challenges in many sectors of the economy and the post-pandemic recovery plans rolled out in the second half of 2021 had an impact on project costs and the availability of labor.

To meet its commitments and continue to apply high safety and quality standards, the company implemented a number of measures to reduce its exposure to risk. For instance, teams analyze health and safety risks and then develop integrated solutions to eliminate or mitigate these risks in the early stages of engineering. In addition, the company 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. Hydro-Québec 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, it monitors markets and develops strategies to foster competition, increase its attractiveness as a customer, ensure the sustainability of supplies and maintain expertise in its markets. It also adjusts its project completion strategies based on 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 staff members and suppliers. At the heart of its efforts is to make overall health, including psychological health, a pillar of operational performance, thus reducing risk and protecting the well-being of all.

The company is also continuing to take concrete steps to control the main hazards and to prevent those with a potential for serious risk by relying on simple and consistent standards. Managers exercise their leadership by conducting inspections and other prevention activities in the field. Priority is placed on nine principal identified hazards, including moving vehicles and energy sources. Hydro-Québec has established clear, consistent requirements for these hazards, and supports its suppliers to help them fulfill their OHS role.

Health and safety performance indicators continue to be monitored in dashboards and performance reviews.

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 in 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 takes care to secure 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 culture of safety and security; 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, the company pays special attention to electricity theft, fraud, intellectual property infringement and possible attacks on the grid. To counter these risks, it relies on a series of measures, including an analytical method for detecting electricity theft, the creation of a team dedicated to investigating collusion, corruption, fraud and economic integrity, the proactive verification of security risks, 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 occurrence. The corporate plan integrates the emergency response plans and activities of all the groups 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, it relies on a multidisciplinary team of experts who work closely with a network of external collaborators. Together, these stakeholders protect technological assets, anticipate and analyze threats, and rigorously monitor 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 is called on to play a central role in the electrification of Québec and neighboring markets and intends to leverage its expertise in clean, renewable energy to contribute to the continuing reduction of the use of fossil fuels. The energy transition presents its own unique challenges, such as the tightening of energy and capacity balances, the increased investments required to meet the growth in demand and the imperative to develop the electric power system into a more diversified, interactive energy system. To achieve this, the company released, in 2022, its *Strategic Plan 2022–2026*, which lays the groundwork for its decarbonization efforts and positions itself for the decades to come. It is also exploring growth avenues focused on developing its export markets and making acquisitions or acquiring equity stakes, primarily in neighboring markets. 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 better control the impact of its operations and projects on biophysical and human environments and to maximize the positive environmental spin-offs of its presence throughout Québec.

Climate change

To manage the risks it faces in relation to climate change, Hydro-Québec conducted a study assessing human risks as well as risks related to its infrastructure and activities. This assessment measured the impact of climate change and established concrete measures, with targets and indicators, in each action category: facility design and operations, power outages and impacts on assets, and worker health and safety. At the end of this exercise, in 2022, the company released its first *Climate Change Adaptation Plan*, which provides a governance framework to manage physical climate change risks. It also asserted its intention to be a leader in the energy transition so as to make an even bigger 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, as well as the Code of Ethics applicable to all Hydro-Québec employees, which aim to ensure the proper management of resources and the orderly conduct of business, in compliance with the applicable laws and regulations. An internal audit process assists in evaluating the sufficiency and effectiveness of controls. 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 Vice President – Internal Audit 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 Vice President – Internal Audit have full and unrestricted access to the Audit Committee, with or without Management present.

The 2022 and 2021 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 17, 2023

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, 2022 and 2021, 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, 2022 and 2021, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit adressed the key audit matter
Capitalization of labor costs to property, plant and equipment	
Description of the matter As discussed in notes 1 and 8 to the consolidated financial statements, property, plant and equipment are carried at cost, which comprises the cost of materials and labor, other costs directly related projects that meet capitalization criteria, as well as financial expenses capitalized during construction. Maintenance and repair costs are recognized in results when incurred. **Why the matter is a key audit matter** Given the magnitude and volume of capitalized self-build projects to which a number of employees are assigned, we made significant efforts in conducting our audit procedures regarding the Group's determination of the portion of labor costs directly attributable to projects that meet the capitalization criteria. Accordingly, we identified the capitalization of labor costs to property, plant and equipment as a key audit matter.	Our audit procedures conducted to address this key audit matter included the following: · We obtained an understanding, evaluated the design and tested the operating effectiveness of key controls over the process for capitalizing labor costs to property, plant and equipment. · For a selection of hours capitalized in projects, we discussed with the managers responsible the hours capitalized and the nature of the project. · For a sample of capitalized labor costs, we compared the number of hours spent by an employee to the number of hours charged to this project in the approved time sheet. · For a selection of capitalized projects, we investigated certain variances between the actual capitalized costs and the approved budgeted costs by examining the supporting documents.

Key audit matter	How our audit adressed the key audit matter
Determining the projected benefit obligation of the pension plan	
Description of the matter As stated in notes 1 and 16 to the consolidated financial statements, projected benefit obligation of the pension plan amounted to $23,129 million as at December 31, 2022. The projected pension obligation of the pension plan is calculated according to the projected benefit method prorated on years of service. The calculation is based on Management's best estimates, including the following significant assumptions: discount rate, salary escalation, mortality rate and employee retirement age. **Why the matter is a key audit matter** Given the magnitude and sensitivity of the Group's calculation of the pension plan's projected benefit obligation to minor changes in certain significant assumptions, significant judgments on our part and specialized actuarial expertise and knowledge were required to assess the results of our audit procedures with respect to Management's material assumptions. Accordingly, we identified the determination of the projected benefit obligation of the pension plan as a key audit matter.	Our audit procedures conducted to address this key audit matter included the following: • We compared a selection of data used by actuarial experts chosen by Management to the Group's records. • We assessed the appropriateness of significant assumptions by assessing in particular: - The salary escalation rate compared with historical data and collective agreements. - Employee retirement age compared with historical data. • We involved our actuarial professionals with specialized skills and knowledge to help us assess: - The method used to determine the discount rate and its calculation, by comparing the discount rate with the published external rates. - The adjustments made by the Group to the published Canadian mortality table based on historical plan data. - Appropriateness of the Group's actuarial model.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 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.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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/ Patrick Dubuc, CPA auditor
Assistant Auditor General

Montréal, Québec
February 17, 2023

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

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Operations

Years ended December 31 In millions of Canadian dollars	Notes	2022	2021
Revenue	4	**16,567**	14,526
Expenditure			
Operations		**3,844**	3,288
Other components of employee future benefit cost	16	**(1,020)**	(743)
Electricity purchases		**2,834**	2,169
Depreciation and amortization		**2,828**	2,689
Taxes	5	**1,230**	1,191
		9,716	8,594
Income before financial expenses		**6,851**	5,932
Financial expenses	6	**2,294**	2,368
Net income		**4,557**	3,564

Consolidated Statements of Comprehensive Income

Years ended December 31 In millions of Canadian dollars	Notes	2022	2021
Net income		**4,557**	3,564
Other comprehensive income	14		
Net change in items designated as cash flow hedges	13	**874**	(544)
Net change in employee future benefits	16	**1,534**	1,586
Other		**70**	5
		2,478	1,047
Comprehensive income		**7,035**	4,611

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	2022	2021
ASSETS			
Current assets			
Cash and cash equivalents		**1,773**	1,297
Short-term investments		**2,015**	381
Accounts receivable and other assets	7	**4,292**	3,632
		8,080	5,310
Property, plant and equipment and intangible assets	8	**71,080**	69,420
Regulatory assets	3	**1,026**	3,020
Employee future benefit assets	16	**5,911**	1,813
Other assets	9	**3,277**	3,135
		89,374	82,698
LIABILITIES			
Current liabilities			
Borrowings		**4**	–
Accounts payable and other liabilities	10	**3,944**	3,452
Dividend payable	14	**3,418**	2,673
Current portion of long-term debt	11	**1,011**	3,247
		8,377	9,372
Long-term debt	11	**50,530**	46,451
Employee future benefit liabilities	16	**1,173**	1,640
Other liabilities	12	**2,417**	1,975
		62,497	59,438
EQUITY	14		
Share capital		**4,374**	4,374
Retained earnings		**22,088**	20,949
Accumulated other comprehensive income		**415**	(2,063)
		26,877	23,260
		89,374	82,698
Commitments and contingencies	17		

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, 2021		**4,374**	**20,949**	**(2,063)**	**23,260**
Net income			**4,557**		**4,557**
Other comprehensive income	14			**2,478**	**2,478**
Dividend	14		**(3,418)**		**(3,418)**
Balance as at December 31, 2022		**4,374**	**22,088**	**415**	**26,877**
Balance as at December 31, 2020		4,374	20,058	(3,110)	21,322
Net income			3,564		3,564
Other comprehensive income	14			1,047	1,047
Dividend	14		(2,673)		(2,673)
Balance as at December 31, 2021		4,374	20,949	(2,063)	23,260

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	2022	2021
Operating activities			
Net income		**4,557**	3,564
Adjustments to determine net cash flows from operating activities			
Depreciation and amortization		**2,828**	2,689
Deficit of net cost recognized with respect to amounts paid for employee future benefits		**(424)**	(342)
Other		**55**	263
Regulatory assets and liabilities		**(525)**	(231)
Change in non-cash working capital items	15	**339**	(852)
		6,830	5,091
Investing activities			
Additions to property, plant and equipment and intangible assets		**(4,271)**	(4,223)
Acquisition of investments	9	**–**	(197)
Acquisition of short-term investments and sinking fund securities		**(4,376)**	(2,388)
Disposal of short-term investments and sinking fund securities		**2,795**	2,283
Other		**(29)**	(73)
		(5,881)	(4,598)
Financing activities			
Issuance of long-term debt		**5,445**	3,728
Repayment of long-term debt		**(3,218)**	(1,948)
Cash receipts arising from credit risk management		**5,550**	3,862
Cash payments arising from credit risk management		**(5,575)**	(4,524)
Dividend paid		**(2,673)**	(1,727)
Other		**(21)**	(38)
		(492)	(647)
Foreign currency effect on cash and cash equivalents		**19**	(16)
Net change in cash and cash equivalents		**476**	(170)
Cash and cash equivalents, beginning of year		**1,297**	1,467
Cash and cash equivalents, end of year		**1,773**	1,297
Supplementary cash flow information	15		

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

Note 1
Significant Accounting Policies

Years ended December 31, 2022 and 2021

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

Hydro-Québec was established under the Hydro-Québec Act *(CQLR, c. H-5). Its mission is to provide reliable electric power to the Québec market by using primarily clean and renewable sources of energy and operating an integrated electricity generation, transmission and distribution system. It also exports electricity to neighboring markets in Canada and the United States. 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 has reviewed events occurring until February 17, 2023, 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.

In 2022, Hydro-Québec changed its organizational structure in order to use a cross-functional approach to manage its activities. Since the new structure came into effect on February 28, its results have been analyzed on a consolidated basis. Consequently, Hydro-Québec now comprises a single reportable business segment. The note on segmented information included in the *Annual Report 2021* is therefore no longer required.

Regulation

The *Act respecting the Régie de l'énergie* (CQLR, c. R-6.01) 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 to be 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 power transmission rates have been subject to performance-based regulation (PBR), applicable for a four-year period. Under PBR, rates for the 2019 rate year were set using the cost-of-service method, while those from the 2020 to 2022 rate years were determined using a parametric formula specifically for transmission activities. This parametric formula provides that some unpredictable costs are to be set based on the cost-of-service method, while the other cost components are to be calculated using an indexation formula.

The electricity distribution rates are governed by *An 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 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 Hydro-Québec to apply to the Régie, before the deadline, to modify its electricity distribution rates if they do not allow for recovery of the cost of service.

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.

When certain costs incurred may likely be recovered in future rates, such costs are deferred and recognized as assets. However, if it is probable that Hydro-Québec will be required to reimburse customers, or when costs that will be incurred in the future have been recovered, 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. All intercompany balances and transactions are eliminated at the time of consolidation.

Investments over which Hydro-Québec has joint control or significant influence are accounted for on an equity basis in other assets. 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 revenue from other activities. 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 the carrying amount of regulatory assets; 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 obligations, which are based on different economic and actuarial assumptions. Actual results could differ from those estimates and such differences could be significant.

Note 1
Significant Accounting Policies (continued)

Revenue

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 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.

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 consist of money market instruments mainly issued by Canadian provincial governments and Canadian banks with a maturity of more than three months from the date of acquisition. They are classified as available-for-sale debt securities, 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.

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.

Other financial assets and liabilities

Other financial assets and liabilities 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, except those for which Hydro-Québec chose to apply the normal purchases and normal sales scope exemption. When they are subject to enforceable master netting arrangements, the derivative instruments are presented at the net amount, net of the balance of cash exchanged as collateral.

Hydro-Québec applies cash flow or fair value hedge accounting to eligible hedging relationships that it designates as hedges. It ensures that hedging relationships are highly effective in hedging the designated risk exposure. 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.

In the case of a fair value hedge, changes in the fair value of the hedged item attributable to the hedged risk are recognized in results during the hedging period. Changes in the fair value of the instrument designated as a hedge are also recognized in results, under the same line item as the fair value of the hedged item.

Derivatives that are not designated as hedges are recognized in results.

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 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.

Note 1
Significant Accounting Policies (continued)

Materials and supplies

Inventories of materials 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 the cost of materials and labor, other costs directly related to projects that meet capitalization criteria, as well as financial expenses capitalized during construction. Costs are capitalized when they allow for increased service capacity or to extend the useful life of an existing property, plant and equipment asset.

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, are added to the carrying amount of the property, plant and equipment at issue. Contributions from third parties are applied against the cost of the related property, plant and equipment.

Further, property, plant and equipment related to rate-regulated activities include certain amounts resulting from regulatory practices authorized by the Régie. These amounts correspond primarily to the impact of the change of depreciation method and the cost of dismantling and restoring replaced assets for which no asset retirement obligation was recognized.

Property, plant and equipment are depreciated over their useful life, using the straight-line method, starting at the date of commissioning.

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.

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.

Intangible assets with a finite useful life are amortized according to the straight-line method.

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. 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. 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 and intangible assets, while the corresponding liabilities are recorded in 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 other liabilities. Operating lease expenses are recognized on a straight-line basis as an operational expenditure over the term of the lease.

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. 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, the mortality rate, and employee retirement age.

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.
- 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.

Asset retirement obligations

Asset retirement obligations correspond primarily to the costs of dismantling the Gentilly-2 nuclear facilities, the removal of spent nuclear fuel resulting from their operations, and the dismantling of thermal generating stations.

Hydro-Québec accounts for these obligations in other liabilities, in the period in which the legal obligations with respect thereto arise, provided that a reasonable estimate of their fair value can be made. Fair value is determined by discounting the estimated cash flows required to settle the future obligation, calculated using a credit-adjusted risk-free rate. These cash flows are established on the basis of studies that use various assumptions concerning the measures and timing to be adopted for the retirement.

Asset retirement obligations are added to the carrying amount of the related long-lived asset and are amortized over its useful life. The increase in the liability attributable to the passage of time is recognized as an operational expenditure (i.e., an accretion expense) for the current year.

Asset retirement obligations may be adjusted to reflect the revision of expected timing and estimated cash flow amounts. The resulting change in costs is recognized as an increase or decrease in the carrying amount of an item of property, plant and equipment, specifically in operating expenses, if the item in question has reached the end of its useful life.

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 and intangible assets. 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.

Note 2
Change to Accounting Policy

Standard issued but not yet adopted

Financial instruments

In June 2016, the Financial Accounting Standards Board issued the Accounting Standards Update ("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 quarterly and annual periods beginning on or after January 1, 2023. Hydro-Québec expects its adoption to have no significant impact on its consolidated financial statements.

Note 3
Regulation

Electricity distribution rates

Under *An Act to simplify the process for establishing electricity distribution rates*, electricity distribution rates were indexed at a rate of 2.6% on April 1, 2022, with the exception of Rate L, which was indexed at a rate of 1.7%.

Regulatory assets and liabilities

	Expected years of amortization	2022	2021
Regulatory assets			
Employee future benefits[a]	Various	**–**	2,299
Costs related to a suspension agreement[b]	2023–2026	**479**	482
Costs related to energy efficiency initiatives[c]	2023–2032	**383**	332
Financial aid related to public transit electrification[d]	2023–2047	**274**	–
Other	2023–2047	**21**	29
		1,157	3,142
Less			
Current portion		**131**	122
		1,026	3,020
Regulatory liabilities			
Depreciation of property, plant and equipment[e]	2023–2115	**308**	317
Employee future benefits[a]	Various	**307**	–
Other	–	**–**	2
		615	319

a) The unamortized balances of net actuarial gains and losses to be reimbursed or recovered in future rates are recognized as regulatory assets or liabilities, as the case may be. These assets and liabilities are non-interest-bearing and are amortized when the unamortized balances are reclassified as a cost component of employee future benefits.

b) The offsetting entry for the financial liability recorded for an agreement regarding the temporary suspension of deliveries from a generating station is recognized as a non-interest-bearing regulatory asset. This regulatory asset is amortized when the annual costs related to the suspension agreement are recovered in the rates, according to the amounts billed.

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

d) The amounts Hydro-Québec allocated for public transit eletrification purposes are recognized as regulatory assets. Amortization of these amounts begins when they are included in the rate base, i.e., when they are paid.

e) Prior to July 10, 2015, the useful life of property, plant and equipment was limited to 50 years for rate-setting purposes. The differences in the depreciation expense resulting from this limit were recognized as a non-interest-bearing regulatory liability and are amortized at the same rate as the property, plant and equipment concerned.

Note 4
Revenue

	2022	2021
Revenue from ordinary activities		
Electricity sales		
In Québec	**13,231**	12,319
Outside Québec	**2,912**	1,826
	16,143	14,145
Other revenue from ordinary activities	**226**	218
	16,369[a, b]	14,363[a, b]
Revenue from other activities	**198**	163
	16,567	14,526

a) In 2022, revenue from ordinary activities in the United States amounted to $1,852 million ($1,217 million in 2021).

b) This revenue includes gains and losses on derivative instruments whose amounts are presented in Note 13, Financial instruments.

Note 5
Taxes

	2022	2021
Water-power royalties[a]	**780**	757
Public utilities tax[b]	**330**	308
Other	**120**	126
	1,230	1,191

a) Water-power royalties payable to the Québec government totaled $774 million in 2022 ($752 million in 2021).

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

Note 6
Financial Expenses

	2022	2021
Interest on debt securities	**2,365**	2,371
Net foreign exchange gain	**(2)**	(3)
Guarantee fees related to debt securities[a]	**235**	228
Capitalized financial expenses	**(204)**	(190)
Net investment income	**(100)**	(38)
	2,294	2,368

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

Note 7
Accounts Receivable and Other Assets

	Notes	2022	2021
Accounts receivable[a, b]		**2,108**	1,918
Deposits[c]		**654**	804
Materials and supplies[e]		**430**	389
Prepaid expenses		**342**	180
Regulatory assets[e]	3	**131**	122
Derivative instruments[e]	13	**454**	52
Other financial assets		**173**	167
		4,292[d]	3,632[d]

a) Including unbilled electricity deliveries, which totaled $1,449 million as at December 31, 2022 ($1,320 million as at December 31, 2021), as well as an allowance for doubtful accounts of $362 million as at December 31, 2022 ($339 million as at December 31, 2021).

b) Including amounts receivable from the Québec government totaling $168 million ($169 million as at December 31, 2021).

c) Including a total of $346 million ($513 million as at December 31, 2021) paid to clearing agents on margin calls. Additional information is presented in Note 13, Financial Instruments.

d) Including $871 million (US$644 million) as at December 31, 2022 and $882 million (US$697 million) as at December 31, 2021, translated at the exchange rate in effect at the balance sheet date.

e) The prior year's data have been reclassified to conform to the presentation adopted in the current year. In the consolidated financial statements dated December 31, 2021, this was a separate line item on the balance sheets.

Note 8
Property, Plant and Equipment and Intangible Assets

		2022			2021		
	Depreciation period	Cost	Accumulated depreciation	Net carrying amount	Cost	Accumulated depreciation	Net carrying amount
Property, plant and equipment[e]							
Dams and hydroelectric generating stations	40–120 years	51,991	21,866	**30,125**	50,075	21,147	28,928
Transmission substations and lines	30–85 years	37,238	15,610	**21,628**	36,424	14,945	21,479
Distribution substations and lines	25–70 years	17,329	8,042	**9,287**	16,760	7,817	8,943
Administrative buildings, telecommunications equipment and other	5–50 years	9,729	5,927	**3,802**	9,247	5,686	3,561
Property, plant and equipment under construction		5,014		**5,014**	5,344		5,344
		121,301	51,445	**69,856**[a, b]	117,850	49,595	68,255[a, b]
Intangible assets[e]							
Software, licences and other	3–24 years	2,573	1,912	**661**	2,461	1,837	624
Easements and other				**563**			541
				1,224			1,165
				71,080[c, d]			69,420[c, d]

a) As at December 31, 2022, the cost and accumulated depreciation of property, plant and equipment under finance leases amounted to $1,061 million and $439 million, respectively ($1,045 million and $391 million as at December 31, 2021).

b) Including an amount of $1,516 million ($1,600 million as at December 31, 2021) relative to the regulatory practice authorized by the Régie in 2010 regarding the change in the depreciation method.

c) In 2022, the amortization and depreciation expense of property, plant and equipment and intangible assets amounted to $2,445 million and $102 million, respectively ($2,385 million and $101 million in 2021), and retirements amounted to $207 million ($118 million in 2021). These amounts were recognized in Depreciation and amortization.

d) Including costs of $458 million related to the New England Clean Energy Connect project ($273 million as at December 31, 2021). More information regarding this project is presented in Note 17, Commitments and Contingencies.

e) The prior year's data have been reclassified to conform to the presentation adopted in the current year. In the consolidated financial statements dated December 31, 2021, this was a separate line item on the balance sheets.

Note 9
Other Assets

	Note	2022	2021
Investments[c]		**2,056**	1,967
Sinking fund[a]		**647**	647
Contract fulfillment costs[b]		**302**	275
Operating lease assets		**137**	160
Derivative instruments[c]	13	**34**	3
Other		**101**	83
		3,277	3,135

a) The sinking fund, allocated to repaying the long-term debt, consists of bonds issued by the Québec government, namely long-term bonds maturing in 2026 as well as short-term bonds presented in Short-term investments, which totaled $74 million as at December 31, 2022 and 2021.

b) Setup costs to honor future sales contracts. These costs will be mainly amortized on a straight-line basis over a 20-year period commencing on the starting date of electricity deliveries.

c) The prior year's data have been reclassified to conform to the presentation adopted in the current year. In the consolidated financial statements dated December 31, 2021, this was a separate line item on the balance sheets.

Investments

	2022	2021
At equity		
Innergex		
Innergex énergie renouvelable inc. (19.8% in 2022 and 19.9% in 2021)[a]	**688**	642
Innergex HQI USA LLC (50.0%)[b]	**189**	201
Société en commandite Hydroélectrique Manicouagan (60.0%)[c]	**565**	578
Other	**614**	546
	2,056	1,967

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. as at the acquisition date, which consisted of goodwill of $243 million and net amortizable assets of $165 million as at December 31, 2022 ($243 million and $171 million, respectively, as at December 31, 2021).

b) On October 25, 2021, Hydro-Québec acquired a 50% interest in Innergex HQI USA LLC, for a cash consideration of $197 million.

c) This investment includes the unamortized excess of the purchase price over the underlying carrying amount of the net assets of Société en commandite Hydroélectrique Manicouagan as at the acquisition date, which consisted of unamortizable intangible assets of $282 million as well as property, plant and equipment of $198 million as at December 31, 2022 ($282 million and $208 million, respectively, as at December 31, 2021).

Note 10
Accounts Payable and Other Liabilities

	Note	2022	2021
Accounts payable and accrued liabilities[b]		**2,655**[a]	2,163
Accrued interest[b]		**829**	877
Derivative instruments[b]	13	**404**	337
Asset retirement obligations[b]		**56**	75
		3,944	3,452

a) Including an amount of $178 million to be paid to a Québec government corporation, in connection with financial aid related to public transit electrification.

b) The prior year's data have been reclassified to conform to the presentation adopted in the current year. In the consolidated financial statements dated December 31, 2021, this was a separate line item on the balance sheets.

Note 11
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:

	2022	2021
Canadian dollars[a]	**46,033**	42,938
U.S. dollars[b, c, e]	**5,494**	6,473
Adjustment for fair value hedged risk	**14**	287
	51,541[d]	49,698[d]
Less		
Current portion	**1,011**	3,247
	50,530	46,451

a) Including non-interest-bearing debts other than bonds and medium-term notes, whose present value was $1,842 million as at December 31, 2022 ($1,802 million as at December 31, 2021).

b) These debts are subject to currency risk management.

c) Certain debts carry sinking fund requirements. This fund, accounted for in Short-term investments and Other assets, totaled $721 million as at December 31, 2022 and 2021.

d) As at December 31, 2022, $49,143 million in long-term debt, net of the sinking fund, was guaranteed by the Québec government ($47,059 million as at December 31, 2021).

e) Including a perpetual debt, amounting to $272 million (US$201 million) as at December 31, 2022, and $254 million (US$201 million) as at December 31, 2021, bearing interest at the US London Interbank Offered Rate ("US LIBOR"), plus 0.0625%, calculated semiannually. On December 31, 2022 and 2021, the rates were 4.3% and 0.3%, respectively. The prior year's data have been reclassified to conform to the presentation adopted in the current year. In the consolidated financial statements dated December 31, 2021, the perpetual debt was a separate line item on the balance sheets.

Note 11
Long-Term Debt (continued)

Capital repayments

The amortized cost, at the balance sheet date, of the tranches of long-term debt maturing over the 2023–2027 period is as follows:

2023	1,011
2024	1,450
2025	97
2026	770
2027	407

Interest rates

The following table presents effective 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 risks related to debt:

%	**2022**	2021
Maturity	Weighted average	Weighted average
1–5 years	**8.25**	7.18
6–10 years	**6.67**	7.22
11–15 years	**5.91**	5.55
16–20 years	**5.11**	5.11
21–25 years	**4.89**	4.89
26–30 years	**4.45**	4.47
31–35 years	**2.96**	2.96
36–40 years	**3.28**	3.05
41–45 years	**3.28**	–

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 US 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, the available balances on these lines of credit were as follows:

	2022	2021
C$ or US$ million	**498**	296
US$ million	**200**	200

Note 12
Other Liabilities

	Notes	**2022**	2021
Asset retirement obligations[a, c]		**930**	867
Accounts payable		**660**[b]	523
Regulatory liabilities[c]	3	**615**	319
Operating lease liabilities		**118**	140
Derivative instruments[c]	13	**94**	126
		2,417	1,975

a) The rates used to determine the present value of the estimated cash flows ranged from 0.2% to 6.4% as at December 31, 2022 and 2021. Furthermore, under the *Nuclear Fuel Waste Act* (S.C. 2002, c. 23), Hydro-Québec has established a trust fund to finance the cost of long-term management of its nuclear fuel waste. The fair value of the investments held in this trust fund amounts to $174 million ($182 million as a December 31, 2021). These investments were composed of debt securities issued by Hydro-Québec.

b) Including an amount of $96 million to be paid to a Québec government corporation, in connection with financial aid related to public transit electrification.

c) The prior year's data have been reclassified to conform to the presentation adopted in the current year. In the consolidated financial statements dated December 31, 2021, this was a separate line item on the balance sheets.

Note 13 Financial Instruments

In the course of its operations, Hydro-Québec carries out transactions that expose it to certain financial risks, such as market 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.

Currency risk

Hydro-Québec uses currency swaps and forward currency purchase contracts to manage the currency risk associated with U.S. dollar denominated long-term debt and forward currency sales contracts to manage exposure associated with probable sales in U.S. dollars. When designated as hedging items, these derivative instruments are recognized as cash flow hedges.

Interest rate risk

Hydro-Québec uses interest rate swaps to convert certain fixed-rate debts into variable-rate debts and interest rate forward contracts to set the interest rate for certain future debt issues. When designated as hedging items, these derivative instruments are recognized based on the type of hedge, cash flow hedge or fair value hedge. In light of the hedging strategy used, the variable-rate portion of the bonds was 5.7% as at December 31, 2022 (6.9% as at December 31, 2021). The rate of the previous year was recalculated to include the perpetual debt to conform to the current year's presentation. In the consolidated financial statements as at December 31, 2021, perpetual debt was reported as a separate line item in the balance sheets.

Price risk

Hydro-Québec uses mainly commodity futures and swaps to manage risk resulting from fluctuations in energy, aluminum and petroleum prices. This aims to mitigate the impact of market price volatility on the results on the sale and purchase of electricity and purchase of fuel indexed to these prices. When designated as hedging items, these derivative instruments are recognized as cash flow hedges.

The following table presents the notional amounts of forward contracts and swaps used to manage market risk:

	2022	2021
Currency risk		
Sale (US$ million)	**5,652**	4,119
Purchase (US$ million)	**3,907**	4,971
Interest rate risk		
Variable-rate payer (C$ million)	**1,500**	2,000
Fixed-rate payer (C$ million)	**3,000**	2,300
Price risk		
Electricity (TWh)	**20.5**	21.1
Aluminum (tonnes)	**367,475**	490,050
Petroleum (millions of litres)	**17.3**	38.3
Congestion (TWh)	**7.7**	7.3

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 financial assets such as cash and cash equivalents, short-term investments, the sinking fund, deposits and derivative instruments.

In terms of accounts receivable, this risk arises primarily from ongoing electricity sales inside and outside Québec. The risk exposure is limited due to Hydro-Québec's large and diverse customer base. Management therefore believes that Hydro-Québec is not exposed to a high 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.

In order to reduce the exposure to credit risk related to other financial assets, Hydro-Québec deals with a number of issuers and financial institutions with high credit ratings. Furthermore, to offset exposure to risk related to derivative instruments, it has signed, with each counterparty, a collateral exchange agreement based on the International Swaps and Derivatives Association ("ISDA") guidelines, which limits the market value of the portfolio. A variation of this market value beyond the agreed-upon limit will therefore result in a cash receipt or payment.

Note 13
Financial Instruments (continued)

Fair value

Fair value of derivative instruments

The following table presents the fair value of derivative instruments, including the impact of offsets, by hedge type:

	2022				2021			
	Fair value hedges	Cash flow hedges	Derivatives not designated as hedges	Total	Fair value hedges	Cash flow hedges	Derivatives not designated as hedges	Total
Assets								
Currency contracts	–	767	19	**786**	–	833	6	839
Interest rate contracts	83	48	–	**131**	393	4	–	397
Price contracts	–	419	283	**702**	–	42	33	75
Gross amounts recognized	83	1,234	302	**1,619**	393	879	39	1,311
Impact of gross amounts offset[a]				**(231)**				(517)
Impact of cash (received) paid as collateral[b]				**(900)**				(739)
Net assets presented on the Consolidated Balance Sheets				**488**[c]				55[c]
Liabilities								
Currency contracts	–	(270)	(14)	**(284)**	–	(162)	(101)	(263)
Interest rate contracts	–	(17)	–	**(17)**	–	(152)	–	(152)
Price contracts	–	(463)	(35)	**(498)**	–	(579)	(34)	(613)
Gross amounts recognized	–	(750)	(49)	**(799)**	–	(893)	(135)	(1,028)
Impact of gross amounts offset[a]				**231**				517
Impact of cash (received) paid as collateral[b]				**70**				48
Net liabilities presented on the Consolidated Balance Sheets				**(498)**[d]				(463)[d]

a) The impact of gross amounts offset is related to contracts traded according to 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.

c) Net assets presented on the Consolidated Balance Sheets includes a short-term balance of $454 million ($52 million as at December 31, 2021) and a long-term balance of $34 million ($3 million as at December 31, 2021).

d) Net liabilities presented on the Consolidated Balance Sheets includes a short-term balance of $(404) million [$(337) million as at December 31, 2021] and a long-term balance of $(94) million [$(126) million as at December 31, 2021].

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, 2022, $346 million receivable in consideration of net payments was included in Accounts receivable and other assets ($513 million as at December 31, 2021).

Note 13
Financial Instruments (continued)

Fair value hierarchy

Fair value measurements of derivative instruments are classified according to a three-level hierarchy based on the inputs used. Fair values of certain energy derivatives classified as Level 1, measured at $(223) million as at December 31, 2022, [$(413) million as at December 31, 2021], are derived from the closing price on the balance sheet date. Fair values of all other derivatives, with the exception of those related to the risk of congestion of the transmission system and power purchase agreements for variable volumes, are classified as Level 2. These fair values, totaling $852 million as at December 31, 2022, ($678 million as at December 31, 2021), 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 inputs.

The derivatives classified as Level 3, whose fair value measurement is based on unobservable inputs, totaled $191 million as at December 31, 2022, ($18 million as at December 31, 2021). The valuation technique used to classify the derivatives related to transmission system congestion is determined based on a two-year moving average of spot prices and forward prices for energy at the measurement date, while the technique used for fixed price power purchase agreements of variable volumes are based on forward energy prices, taking the counterparty's historical consumption into consideration.

Impact of derivative instruments on results and other comprehensive income

The instruments traded, the impact of which is presented in the table below, reduce the volatility of results. Most of the derivative instruments are designated as hedges.

	2022	2021
Losses (gains) on derivatives recognized in results		
Fair value hedges		
Interest rate contracts[a]	**282**	176
Derivatives not designated as hedges		
Currency contracts[b]	**(156)**	(22)
Price contracts[b]	**(165)**	82
	(39)[c]	236[c]
Losses (gains) on derivatives reclassified from Other comprehensive income to results		
Cash flow hedges		
Currency contracts[d]	**(214)**	(144)
Interest rate contracts[a]	**4**	8
Price contracts[e]	**768**	278
	558[c]	142[c]
Losses (gains) on derivatives recognized in Other comprehensive income		
Cash flow hedges		
Currency contracts	**190**	32
Interest rate contracts	**(723)**	(216)
Price contracts	**217**	870
	(316)	686

a) These amounts were recognized in Financial expenses.

b) These derivatives are essentially traded as part of integrated risk management. Their impact on results is recognized in the line items affected by the managed risk. Therefore, in 2022, $(161) million was recognized in Revenue ($104 million in 2021), $9 million in Electricity purchases [$(17) million in 2021], and $(169) million in Financial expenses [$(27) million in 2021].

c) In 2022, the items Revenue, Electricity purchases, and Financial expenses totaled $16,567 million, $2,834 million and $2,294 million, respectively ($14,526 million, $2,169 million and $2,368 million in 2021).

d) In 2022, $88 million was recognized in Revenue [$(177) million in 2021], and $(302) million in Financial expenses ($33 million in 2021).

e) In 2022, $779 million was recognized in Revenue ($276 million in 2021), and $(11) million in Electricity purchases ($2 million in 2021).

Note 13
Financial Instruments (continued)

In 2022, Hydro-Québec reclassified a net loss of $11 million from Accumulated other comprehensive income to results after having discontinued cash flow hedges (nil in 2021).

As at December 31, 2022, Hydro-Québec estimated the net amount of losses in Accumulated other comprehensive income that would be reclassified to results in the next 12 months to be $145 million ($448 million as at December 31, 2021).

As at December 31, 2022, the maximum period during which Hydro-Québec hedged its exposure to the variability of cash flows related to anticipated transactions was seven years (eight years as at December 31, 2021).

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, accounts receivable, deposits, other financial assets 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:

		2022		2021	
	Notes	Carrying amount	Fair value	Carrying amount	Fair value
Assets					
Sinking fund	9	**647**	**621**	647	678
Liabilities					
Long-term debt[a]	11	**(51,541)**[b]	**(52,543)**	(49,698)[b]	(66,218)

a) Including the current portion.

b) Including an amount of $1,492 million ($1,935 million as at December 31, 2021) for debts subject to a fair value hedge, which resulted in an adjustment of $79 million ($345 million as at December 31, 2021) with respect to existing hedging relationships and of $(65) million [$(58) million as at December 31, 2021] for hedging relationships terminated by Hydro-Québec.

Note 14
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, 2022 and 2021.

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 2022, the dividend is $3,418 million ($2,673 million for 2021).

Accumulated other comprehensive income

	2022				2021			
	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	(706)	(1,354)	(3)	**(2,063)**	(162)	(2,940)	(8)	(3,110)
Other comprehensive income before reclassifications	316	1,490	70	**1,876**	(686)	1,438	5	757
Amounts reclassified outside of Accumulated other comprehensive income	558	44	–	**602**	142	148	–	290
Other comprehensive income	874	1,534	70	**2,478**	(544)	1,586	5	1,047
Balance, end of year	168	180	67	**415**	(706)	(1,354)	(3)	(2,063)

Note 15
Supplementary Cash Flow Information

	2022	2021
Change in non-cash working capital items		
Accounts receivable and other assets	**(18)**	(800)
Accounts payable and other liabilities	**357**	(52)
	339	(852)
Activities not affecting cash		
Increase in property, plant and equipment and intangible assets	**131**	110
Interest paid	**2,005**	2,088

Note 16 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	
	2022	2021	**2022**	2021	**2022**	2021
Projected benefit obligations						
Balance, beginning of year	**30,415**	31,941	**1,812**	1,936	**32,227**	33,877
Current service cost	**631**	704	**52**	55	**683**	759
Employee contributions	**226**	208			**226**	208
Benefit payments and refunds	**(1,205)**	(1,177)	**(76)**	(79)	**(1,281)**	(1,256)
Interest on obligations	**815**	681	**49**	43	**864**	724
Actuarial gain[a]	**(7,753)**	(1,942)	**(488)**	(143)	**(8,241)**	(2,085)
Balance, end of year	**23,129**	30,415	**1,349**	1,812	**24,478**	32,227
Plan assets, at fair value						
Balance, beginning of year	**32,228**	29,261	**111**	112	**32,339**	29,373
Actual return on plan assets	**(2,212)**	3,662	**(5)**	(5)	**(2,217)**	3,657
Employee contributions	**226**	208			**226**	208
Contributions by Hydro-Québec	**3**[b]	274	**21**	19	**24**	293
Benefit payments and refunds	**(1,205)**	(1,177)	**(16)**	(15)	**(1,221)**	(1,192)
Balance, end of year	**29,040**	32,228	**111**	111	**29,151**	32,339
Funded status – Plan surplus (deficit)	**5,911**	1,813	**(1,238)**	(1,701)	**4,673**	112
Presented as:						
Employee future benefit assets	**5,911**	1,813	**–**	–	**5,911**	1,813
Accounts payable and other liabilities	**–**	–	**(65)**	(61)	**(65)**	(61)
Employee future benefit liabilities	**–**	–	**(1,173)**	(1,640)	**(1,173)**	(1,640)

a) The actuarial gain as at December 31, 2022 and 2021, is primarily due to the higher discount rates resulting from the increase in long-term interest rates on financial markets.

b) The actuarial valuation as at December 31, 2021, for Pension Plan funding purposes triggered a contribution holiday for Hydro-Québec in 2022. Hydro-Québec nevertheless made contributions as salary adjustments for previous years.

As at December 31, 2022, accumulated benefit obligations under the Pension Plan totaled $21,444 million ($28,185 million as at December 31, 2021). Unlike projected benefit obligations, accumulated benefit obligations do not take into account the future salary assumption.

Note 16
Employee Future Benefits (continued)

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, 2022, was as follows:

%	Target allocation
Fixed-income securities	38
Equities	46
Alternative investments[a]	16
	100

a) Alternative investments include real estate investments and opportunistic funds.

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:

	2022				2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash	1,458	–	–	**1,458**	1,459	–	–	1,459
Short-term investments[a]	–	252	–	**252**	–	55	–	55
Bonds[a, b]	538	7,867	–	**8,405**	647	7,745	–	8,392
Listed shares[i]	12,195	–	–	**12,195**	14,669	–	–	14,669
Real estate investments[a, c, i]	–	181	4,525	**4,706**	–	1	3,795	3,796
Private investments[d]	–	–	2,853	**2,853**	–	–	2,317	2,317
Hedge funds[e]	–	3,473	–	**3,473**	–	2,917	–	2,917
Investment assets[a, f]	211	1,193	–	**1,404**	41	184	–	225
Investment liabilities[a, g]	(34)	(5,526)	–	**(5,560)**	(42)	(1,432)	–	(1,474)
	14,368	7,440	7,378	**29,186**[h]	16,774	9,470	6,112	32,356[h]

a) The fair value of Level 2 short-term investments, bonds, real estate investments and investment assets and liabilities is essentially measured by discounting net future cash flows, based on the current market rate of return. Level 2 derivatives are measured using the market closing prices of the underlying products or by discounting net future cash flows.

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 $930 million ($1,188 million as at December 31, 2021).

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 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) Investment assets mainly consist of securities purchased under resale agreements, for an amount of $1,106 million (nil as at December 31, 2021), of collateral pledged, for an amount of $186 million ($17 million as at December 31, 2021), and derivative financial instruments, for an amount of $40 million ($157 million as at December 31, 2021). Securities purchased under repurchase agreements are not recognized in assets given that the counterparty retains substantially all the risks and rewards incidental to ownership.

g) Investment liabilities mainly consist of securities sold under repurchase agreements, for an amount of $4,697 million ($1,421 million as at December 31, 2021), and bonds sold short, for an amount of $818 million (nil as at December 31, 2021). The securities sold under repurchase agreements are presented in assets given that the Pension Fund retains nearly all the risks and rewards incidental to their ownership. The bonds sold short represent the Pension Fund's commitments to purchase securities from another party to hedge its positions.

h) The fair value of investments does not take into account the net amount of payables and receivables, which is an amount payable of $146 million ($128 million as at December 31, 2021).

i) Public real estate fund data from the previous year have been reclassified to conform to the current year's presentation. Therefore, these investments, which were previously accounted for in Level 1 Real estate investments, are now included in Level 1 Listed shares. As at December 31, 2021, they totaled $758 million.

Note 16
Employee Future Benefits (continued)

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

	2022			2021		
	Real estate investments	Private investments	Total	Real estate investments	Private investments	Total
Balance, beginning of year	3,795	2,317	**6,112**	3,273	1,408	4,681
Acquisitions	601	688	**1,289**	600	741	1,341
Disposals	(165)	(236)	**(401)**	(308)	(335)	(643)
Realized net gains (losses)	1	(1)	**–**	(9)	(10)	(19)
Unrealized net gains	293	85	**378**	239	513	752
Balance, end of year	4,525	2,853	**7,378**	3,795	2,317	6,112

In 2022 and 2021, there was no reclassification between Level 3 and Levels 1 and 2.

Plan costs

Net cost components recognized for the year

	Pension Plan		Other plans		Total	
	2022	2021	**2022**	2021	**2022**	2021
Current service cost[a]	**631**	704	**52**	55	**683**	759
Other components of employee future benefit cost[b]						
Interest on obligations	**815**	681	**49**	43	**864**	724
Expected return on plan assets	**(1,996)**	(1,852)	**(2)**	(3)	**(1,998)**	(1,855)
Amortization of net actuarial loss	**89**	346	**25**	40	**114**	386
Amortization of past service costs (credits)	**4**	7	**(4)**	(5)	**–**	2
	(1,088)	(818)	**68**	75	**(1,020)**	(743)
Net (credit) cost recognized for the year	**(457)**	(114)	**120**	130	**(337)**	16

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	
	2022	2021	**2022**	2021	**2022**	2021
Actuarial gain	**(3,545)**	(3,752)	**(481)**	(135)	**(4,026)**	(3,887)
Amortization of net actuarial loss	**(89)**	(346)	**(25)**	(40)	**(114)**	(386)
Amortization of past service (costs) credits	**(4)**	(7)	**4**	5	**–**	(2)
Change in Other comprehensive income	**(3,638)**	(4,105)	**(502)**	(170)	**(4,140)**	(4,275)
Less						
Change in the employee future benefit regulatory liability and asset	**(2,289)**	(2,582)	**(317)**	(107)	**(2,606)**	(2,689)
Net change in Other comprehensive income	**(1,349)**	(1,523)	**(185)**	(63)	**(1,534)**	(1,586)

Note 16
Employee Future Benefits (continued)

Components of Accumulated other comprehensive income

	Pension Plan		Other plans		Total	
	2022	2021	**2022**	2021	**2022**	2021
Unamortized net actuarial (gain) loss	**(468)**	3,166	**(17)**	489	**(485)**	3,655
Unamortized past service costs (credits)	**–**	4	**(2)**	(6)	**(2)**	(2)
Aggregate of amounts recognized in Accumulated other comprehensive income	**(468)**	3,170	**(19)**	483	**(487)**	3,653
Less						
Employee future benefit regulatory (liability) asset	**(294)**	1,995	**(13)**	304	**(307)**	2,299
Net amount recognized in Accumulated other comprehensive income	**(174)**	1,175	**(6)**	179	**(180)**	1,354

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	
	2022	2021	**2022**	2021
Projected benefit obligations				
Rate at end of year (%)				
Discount rate – Projected benefits	**5.08**	3.00	**5.06**	3.02
Salary escalation rate[a]	**3.15**	3.25		
Net cost recognized				
Rate at end of prior year (%)				
Discount rate – Current service cost	**3.12**	2.72	**3.05**	2.66
Discount rate – Interest on obligations	**2.69**	2.14	**2.79**	2.22
Expected long-term rate of return on plan assets	**6.50**[b]	6.50[b]	**1.80**	2.17
Salary escalation rate[a]	**3.25**	3.35		
Active employees' average remaining years of service	**14**	13	**13**	13

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, 2022, health care costs were based on an annual growth rate of 4.7% for 2023. According to the assumption used, this rate will continue to increase until 2026 to reach 5.3% until 2030, then gradually decrease until it reaches a final rate of 4.0% in 2040.

Note 16
Employee Future Benefits (continued)

Benefits expected to be paid in next 10 years

	Pension Plan	Other plans
2023	1,225	73
2024	1,242	75
2025	1,260	77
2026	1,279	79
2027	1,296	81
2028–2032	6,820	436

In 2023, Hydro-Québec expects to make contributions of $21 million to Other plans, but does not plan to make contributions to the Pension Plan.

Note 17
Commitments and Contingencies

Commitments

Electricity purchases

Hydro-Québec has concluded electricity purchase agreements with companies over which it has joint control or significant influence. In 2022, electricity purchases from these companies amounted to $450 million ($417 million in 2021).

As at December 31, 2022, Hydro-Québec was also committed under contracts to purchase electricity and transmission services from counterparties. Based on the renewal clauses, the terms of these contracts extend through 2066.

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

2023	2,180
2024	2,112
2025	2,177
2026	2,488
2027	2,691
2028 and thereafter	58,376

Investments

As part of its development projects and activities aimed at sustaining its assets, Hydro-Québec plans to invest approximately $6.7 billion in property, plant and equipment and intangible assets per year in Québec over the period from 2023 to 2027. 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 $457 million from 2023 to 2063.

Contingencies

Litigation

In the normal course of its development and operations, Hydro-Québec is from time to time involved in claims and legal proceedings. Management believes that adequate provision has been made for such litigation. Consequently, it does not expect any material adverse effect of such contingent liabilities on the financial position or consolidated results of Hydro-Québec.

Among other pending actions, certain Indigenous communities have instituted proceedings before the Québec courts against the governments of Canada and Québec and against Hydro-Québec based on claims of Aboriginal rights and titles. For example, the Innu of Uashat mak Mani-utenam are claiming $1.5 billion as compensation for various activities carried out on the territory they claim, including the generation and transmission of electricity. In addition, the Innu of Pessamit have brought an action seeking the recognition of their Aboriginal rights and title to lands in Québec where certain Hydro-Québec electricity generation and transmission facilities are located, including the Manic-Outardes and Bersimis hydroelectric complexes. They allege that these facilities infringe on their Aboriginal rights and title and are claiming $500 million in compensation. Hydro-Québec is contesting the merits of these claims.

In addition, proceedings have been instituted against Hydro-Québec and Churchill Falls (Labrador) Corporation Limited ["CF(L)Co"] relative to the Churchill Falls hydroelectric complex in Labrador, which is owned and operated by CF(L)Co. In an action brought before the courts of Newfoundland and Labrador in October 2020, Innu Nation Inc. alleges that the construction and operation of this hydroelectric complex amount to a "common enterprise" of CF(L)Co and Hydro-Québec, and allegedly infringe on the Aboriginal rights and title of the Labrador Innu. Innu Nation Inc. seeks a disgorgement of the profits that CF(L)Co and Hydro-Québec have derived from the operation of this hydroelectric complex or, failing that, monetary compensation of $4 billion with regard to Hydro-Québec. In another action brought in January 2023 before the Québec Superior Court, the Innu of Uashat mak Mani-utenam allege that the Churchill Falls complex infringes on their Aboriginal rights and title, as well as their treaty rights. In addition to various judicial declarations and permanent injunction orders, they are claiming from Hydro-Québec $2 billion in compensatory damages, $200 million in punitive damages, and additional damages in the form of

Note 17
Commitments and Contingencies (continued)

an annual payment equivalent to 12.5% of 15% of Hydro-Québec's annual profits from the date of the commencement of the proceedings. Hydro-Québec is contesting the merits of these claims.

Investments

Further to the agreement entered into by Hydro-Québec to sell 9.45 TWh of energy to electricity distributors in Massachusetts over a 20-year period, Hydro-Québec and its U.S. partner NECEC Transmission LLC ("NECEC LLC") launched the New England Clean Energy Connect ("NECEC") project in the United States to transmit the power via the State of Maine. This project is part of a larger project aimed at establishing a new interconnection between the Québec and New England grids. In January 2021, NECEC LLC initiated the construction of the NECEC line, as all the key authorizations and major permits required by the U.S. regulatory authorities had been obtained. In November 2021, Mainers voted in a citizen initiative referendum to block the project, leading to the enactment of a new law blocking the project (the "new law").

Hydro-Québec and NECEC LLC are challenging the legality of the new law in court, and have requested a preliminary injunction to prevent its application. The Maine Superior Court previously refused this request, and NECEC LLC was forced to suspend construction work until the legal proceedings are resolved. In coordination with NECEC LLC, Hydro-Québec also suspended some of the construction work related to the project in Québec.

On August 30, 2022, the Maine Supreme Judicial Court rendered a final judgment in favor of NECEC LLC and Hydro-Québec, confirming that the new law was partially unconstitutional, as it violated NECEC LLC's vested rights if the company could demonstrate that line construction had begun in good faith. At the same time, the Supreme Judicial Court remanded the case back to the trial court, Maine Superior Court, to determine if NECEC LLC had acted in good faith. The work will not resume until the adoption of a judicial settlement, specifying that the new law does not apply to the NECEC project. Hearings before the Maine Superior Court are slated for April 2023.

On November 29, 2022, the Supreme Judicial Court of Maine upheld the validity of the lease for public land obtained by NECEC LLC, thus reversing the Maine Superior Court's August 10, 2021, decision which had initially invalidated this lease. This decision puts an end to legal action in connection with this lease.

Should the project be terminated, a significant portion of the costs recognized as assets, which totaled $530 million as at December 31, 2022, will be charged to results, along with the amounts that Hydro-Québec has undertaken to pay under various agreements, which amounted to $160 million on that date.

Note 18
Subsequent Events

Acquisition of Great River Hydro NE LLC

On February 10, 2023, Hydro-Québec acquired 100% of the units of Great River Hydro NE LLC, a company which owns and operates 13 hydropower generating stations located in the states of Vermont, New Hampshire and Massachusetts. This acquisition will enable Hydro-Québec to diversify its revenue streams in its main export market. The required authorizations were obtained from the regulatory authorities in the United States before the closure of the transaction. The acquisition cost, settled in cash, of US$1.5 billion (C$2.1 billion) is subject to certain adjustments to be carried out approximately 60 days after closing. The liabilities assumed include a debt of US$750 million (C$1 billion).

Due to the recent closure of the transaction, the allocation of the acquisition cost among the assets acquired and the liabilities assumed has not yet been established.

Electricity distribution rates

On February 15, 2023, the National Assembly of Québec passed the bill entitled An *Act mainly to cap the indexation rate for Hydro-Québec domestic distribution rate prices and to further regulate the obligation to distribute electricity*. This bill specifies that the indexation rate for residential electricity rates will be based the lesser of the average Consumer Price Index and the top rate of the Bank of Canada's inflation-control range. This law will apply to rates as of April 1, 2023, and has no impact on the consolidated financial statements as at December 31, 2022.

Note 19
Comparative Information

Some of the prior year's data have been reclassified to conform to the presentation adopted in the current year. In particular, some assets and liabilities which were recognized under a separate line item in the Consolidated Balance Sheets are now grouped due to their limited financial importance. These reclassifications have no impact on total assets and liabilities. Additional information is presented in the following notes: Note 7, Accounts Receivable and Other Assets, Note 8, Property, Plant and Equipment and Intangible Assets, Note 9, Other Assets, Note 10, Accounts Payable and Other Liabilities, Note 11, Long-Term Debt and Note 12, Other Liabilities.

In addition, the acquisitions and disposals of short-term investments and sinking fund securities, previously presented under Net change in short-term investments and sinking fund in the Consolidated Statements of Cash Flows, are now presented as separate line items under Investing activities. This reclassification has no impact on the total amount recognized for such activities.

FIVE-YEAR REVIEW

Consolidated Financial Information

$M	2022	2021	2020	2019	2018
OPERATIONS					
Revenue	**16,567**	14,526	13,594	14,021	14,370
Expenditure					
Operations	**3,844**	3,288	3,146	2,818	2,843
Other components of employee future benefit cost	**(1,020)**	(743)	(494)	(557)	(340)
Electricity purchases	**2,834**	2,169	2,204	2,227	2,167
Depreciation and amortization	**2,828**	2,689	2,694	2,782	2,685
Taxes	**1,230**	1,191	1,138	1,133	1,111
	9,716	8,594	8,688	8,403	8,466
Income before financial expenses	**6,851**	5,932	4,906	5,618	5,904
Financial expenses	**2,294**	2,368	2,603	2,695	2,712
Net income	**4,557**	3,564	2,303	2,923	3,192
DIVIDEND	**3,418**	2,673	1,727	2,192	2,394
BALANCE SHEET SUMMARY					
Total assets	**89,374**	82,698	80,895	78,563	76,989
Long-term debt, including current portion	**51,541**	49,698	48,413	45,767	46,335
Equity	**26,877**	23,260	21,322	21,448	21,209
INVESTMENTS AFFECTING CASH					
Property, plant and equipment and intangible assets	**4,271**	4,223	3,366	3,548	3,402
FINANCIAL RATIOS					
Return on equity (%)[a]	**17.6**	14.3	9.5	12.4	14.0
Capitalization (%)[b]	**34.6**	32.0	31.0	32.3	31.8
Profit margin (%)[c]	**27.5**	24.5	16.9	20.8	22.2
Interest coverage[d]	**2.94**	2.52	1.89	2.07	2.18
Self-financing (%)[e]	**55.3**	52.2	12.8	49.0	63.9

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, 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 acquisitions and disposals of short-term investments and sinking fund securities—and repayment of long-term debt.

Operating Statistics

	2022	2021	2020	2019	2018
GWh					
Electricity sales					
In Québec, by segment					
Residential	**70,941**	67,572	68,647	70,688	69,566
Commercial, institutional and small industrial	**47,983**	46,157	45,146	47,894	47,659
Large industrial	**55,357**	55,779	52,096	50,358	50,252
Other	**6,279**	5,721	5,557	5,640	5,337
	180,560	175,229	171,446	174,580	172,814
Outside Québec					
Canada/U.S.	**35,634**	36,190	32,397	34,789	36,524
Total electricity sales	**216,194**	211,419	203,843	209,369	209,338
$M					
Revenue from electricity sales					
In Québec, by segment					
Residential	**5,974**	5,522	5,535	5,752	5,591
Commercial, institutional and small industrial	**4,205**	3,957	3,853	4,056	4,016
Large industrial	**2,674**	2,498	2,208	2,279	2,196
Other	**378**	342	333	342	331
	13,231	12,319	11,929	12,429	12,134
Outside Québec					
Canada/U.S.	**2,912**	1,826	1,466	1,571	1,700
Total revenue from electricity sales	**16,143**	14,145	13,395	14,000	13,834
As at December 31					
Number of customer accounts					
In Québec, by segment					
Residential	**4,178,346**	4,128,692	4,076,286	4,032,426	3,994,491
Commercial, institutional and small industrial	**325,498**	323,501	321,562	319,225	317,608
Large industrial	**194**	193	189	186	185
Other	**4,868**	4,812	4,763	4,705	4,630
Total customer accounts	**4,508,906**	4,457,198	4,402,800	4,356,542	4,316,914

Operating Statistics (continued)

	2022	2021	2020	2019	2018
MW					
Installed capacity					
Hydroelectric	**36,882**	36,694	36,687	36,700	36,767
Thermal	**546**	544	544	543	543
Photovoltaic	**10**	10	–	–	–
Total installed capacity	**37,438**[a]	37,248	37,231	37,243	37,310
GWh					
Total energy requirements[b]	**235,717**	231,913	223,869	229,959	230,795
MW					
Peak power demand in Québec[c]	**43,124**	40,537	36,450	36,160	38,364
km					
Lines (overhead and underground)					
Transmission	**34,678**	34,775	34,826	34,802	34,361
Distribution	**227,796**	226,949	226,752	225,304	224,659
Total lines (overhead and underground)	**262,474**	261,724	261,578	260,106	259,020

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 44 wind farms (3,932 MW) and 56 hydroelectric generating stations (708 MW) and almost all the output from 13 biomass and 5 biogas cogeneration plants (419 MW) operated by independent power producers. Moreover, 554 MW are available under long-term contracts.

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

c) The 2022 figure was valid on February 17, 2023. The values indicated reflect demand at the annual domestic peak for the winter beginning in December, including interruptible power. The 2022–2023 winter peak occurred at 6:00 p.m. on February 3, 2023.

Other Information

	2022	2021	2020	2019	2018
%					
Rate increase as at April 1[a]	**2.6**	1.3	–	0.9	0.3
As at December 31					
Total number of employees[b]					
Permanent	**18,808**	18,163	17,414	16,977	16,960
Temporary	**3,243**	3,005	2,597	2,500	2,944
	22,051	21,168	20,011	19,477	19,904
%					
Representation of underrepresented groups					
Women	**28.7**	28.5	28.5	29.2	28.8
Other[c]	**12.6**	11.9	10.7	10.4	8.9

a) Excluding Rate L.

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

					2022
$M	1st quarter	2nd quarter	3rd quarter	4th quarter	12-month period
Revenue	5,151	3,521	3,603	4,292	**16,567**
Expenditure					
Operations	856	978	889	1,121	**3,844**
Other components of employee future benefit cost	(255)	(255)	(255)	(255)	**(1,020)**
Electricity purchases	900	601	589	744	**2,834**
Depreciation and amortization	666	666	673	823	**2,828**
Taxes	347	271	276	336	**1,230**
	2,514	2,261	2,172	2,769	**9,716**
Income before financial expenses	2,637	1,260	1,431	1,523	**6,851**
Financial expenses	575	580	569	570	**2,294**
Net income	2,062	680	862	953	**4,557**

					2021
$M	1st quarter	2nd quarter	3rd quarter	4th quarter	12-month period
Revenue	4,447	2,990	3,028	4,061	14,526
Expenditure					
Operations	768	807	788	925	3,288
Other components of employee future benefit cost	(186)	(185)	(186)	(186)	(743)
Electricity purchases	631	505	458	575	2,169
Depreciation and amortization	652	658	650	729	2,689
Taxes	332	264	274	321	1,191
	2,197	2,049	1,984	2,364	8,594
Income before financial expenses	2,250	941	1,044	1,697	5,932
Financial expenses	609	589	596	574	2,368
Net income	1,641	352	448	1,123	3,564

BOARD OF DIRECTORS

Top row: **Jacynthe Côté, Sophie Brochu, David Bahan, Geneviève Bich, Geneviève Biron**

Second row: **Sarin Boivin-Picard, Geneviève Brouillette, Anne-Marie Croteau, Hanane Dagdougui, Marco Dodier**

Third row: **Luc Doyon, Dominique Fagnoule, Hélène V. Gagnon, Marie-Josée Morency, Claude Séguin**

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

Jacynthe Côté

Chair of the Board of Directors, Hydro-Québec

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

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, health and safety, business planning and development, production and environment, in both Québec and England. After Alcan was acquired by Rio Tinto, she headed the Rio Tinto Alcan Primary Metal group for a few 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. She was awarded honorary doctorates by Université du Québec à Chicoutimi and Université de Montréal (HEC Montréal).

Sophie Brochu

President and CEO, Hydro-Québec

Appointment: April 2, 2020
Term: April 11, 2023
Status: Non-Independent director
Place of residence: Estrie

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 the Société québécoise d'initiatives pétrolières, a government corporation responsible for developing Québec's natural gas network. She joined Énergir (formerly Gaz Métro) as Vice President of Business Development in 1997 and subsequently went on to head other departments, including those in charge of gas supplies, sales and customer services. In 2007, she was named Énergir's President and Chief Executive Officer, a position she held until the end of 2019. Ms. Brochu is a keen supporter of social causes and has been active for many years with Centraide of Greater Montreal. She also co-founded ruelle de l'avenir, an 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 and celebrate community involvement by high school, college and university students. She also serves on the board of Banque de Montréal and the Québec government's Committee on the Economy and the Energy Transition. She has received honorary doctorates from Université de Montréal (HEC Montréal) and Bishop's University and is both a Member of the Order of Canada and an Officer of the Ordre national du Québec.

David Bahan

Deputy Minister, Ministère de l'Économie, de l'Innovation et de l'Énergie

Appointment: December 14, 2022
Term: June 1, 2026
Status: Non-independent director
Place of residence: Chaudière-Appalaches

After earning a master's degree in economics from Université de Montréal, David Bahan began his career as an economist at the Institut de la statistique du Québec in 2000. He later joined the Ministère des Finances, where he held various positions over the years, including Managing Director of Policies for Individuals and Managing Director of Economic Policies. From 2013 to 2016, he was Assistant Deputy Minister for Business Fiscal Policies, Economic Development and Public Corporations. He was Deputy Minister of Economy and Innovation from 2018 to 2022 before being appointed Deputy Minister of Economy, Innovation and Energy.

Geneviève Bich

Vice-President, Human Resources, Metro Inc.

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

Geneviève Bich holds a Bachelor of Arts with a major in psychology from McGill University and a law degree 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 of Human Resources, Ms. Bich worked for Groupe Dynamite and Aimia.

Geneviève Biron

Founder and President, Propulia Capital

Appointment: March 31, 2021
Term: March 31, 2025
Status: Independent director
Place of residence: Montréal

Geneviève Biron holds a bachelor of science degree in human resources and finance from HEC Montréal and received her Certified Director accreditation from the Institute of Corporate Directors. She worked in medical diagnostic services for nearly 30 years at Biron Health Group Inc., where she was in charge of human resources, the medical analysis laboratory and all business divisions. In 2005, Ms. Biron founded Imagix – Medical Imaging, a division of Biron Health Group Inc., and served as its President and Chief Executive Officer until her appointment as President and Chief Executive Officer of Biron Health Group Inc. in 2014. Since July 2021, as founder and President of Propulia Capital, she has played an active role in the development of growth-stage companies. Propulia Capital supports companies that have business models focusing on digital platforms and that aim to make people's lives easier by fostering a strong, caring culture.

Sarin Boivin-Picard

Venture Partner, NextGen Venture Partners

Appointment: June 1, 2022
Term: June 1, 2026
Status: Independent director
Place of residence: Chaudière-Appalaches

Sarin Boivin-Picard holds a bachelor's degree in business administration from HEC Montréal, a master's degree in corporate finance from IE Business School (Spain) and "Administrateur de la relève" [young director's] certification from the Collège des administrateurs des sociétés of Université Laval. He also holds a public leadership certificate

from the John F. Kennedy School of Government at Harvard University (Massachusetts), and professional certification in sustainable investment from Concordia University. He recently completed the Institute for Governance of Private and Public Organizations' Young Directors program. Mr. Boivin-Picard began his career in 2017 as a structured products analyst at the Banque Nationale du Canada while simultaneously serving as a reserve officer in the Canadian Armed Forces. He joined the Lucie and André Chagnon Foundation as an investment analyst in 2018 and then taught business administration as a lecturer at Université de Moncton. He also worked as a product manager for Altitude-sports.com before joining NextGen Venture Partners, a venture capital firm.

Geneviève Brouillette

Chief Financial Officer, ALDO Group

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, of which she was made a Fellow (FCPA) in February 2021, and is certified by the Institute of Corporate Directors. Ms. Brouillette is an experienced leader who has held key finance and senior management positions in both Canada and the United States with such renowned companies as Keurig Dr Pepper, Groupe St-Hubert, Reader's Digest and Kraft Heinz. She joined Groupe ALDO in January 2019 as Chief Financial Officer. She also sits on the Previan Board of Directors, where she chairs the Audit Committee.

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's degree in business administration and a master's in management from HEC Montréal, and a Ph.D. in administration from Université Laval. She is Dean of the John Molson School of Business at Concordia University and a full professor of business technology management. Certified by the Collège des administrateurs de sociétés, she is Vice Chair of the board of Collège André-Grasset and has served on the boards of Finance Montréal and the Société de l'assurance automobile du Québec. She is a member of the Conseil des parrains et marraines of the Jeune Chambre de commerce de Montréal, as well as a member of the Board of the AACSB International network, an accreditation body for business schools.

Hanane Dagdougui

Associate 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 engineering physics and a master's degree in energetics and automation from Cadi Ayyad University in Marrakech, Morocco, as well as a PhD in high-risk activities engineering from the École nationale supérieure des mines de Paris and a PhD in energy systems engineering from the École Polytechnique at the University of Genoa. Ms. Dagdougui began her teaching and research career at the latter institution's Faculty of Engineering in 2011. Prior to being appointed assistant professor in the department of mathematical and industrial engineering at Polytechnique Montréal in 2017, she spent three years as an institutional postdoctoral researcher in the electrical engineering department of Montréal's École de technologie supérieure. She has published numerous papers on the energy industry, most of which explore the links between operations research, artificial intelligence and the various actors in the power system and power grid stakeholders. She is a member of the Réseau québécois sur l'énergie intelligente (RQEI) Scientific Committee and the Energy Modelling Hub's Advisory Committee.

Marco Dodier

Consultant in private practice

Appointment: July 12, 2021
Term: July 12, 2025
Status: Independent director
Place of residence: Estrie

Marco Dodier received a bachelor's degree in industrial engineering from Université du Québec à Trois-Rivières in 1998. After co-founding Cesart in 1996, he held the positions of Executive Vice President and President, growing the company into one of the largest and most well-known web development and consulting firms before it was acquired by Bell Canada in 2005. From 2006 to 2015, as President of Gesca Digital Investments, he was in charge of developing the company's digital assets through acquisitions or equity stakes. In addition, Mr. Dodier held several executive positions within the Power Corporation group from 2009 to 2015, including President of Cyberpresse, President of w.illi.am/ and co-President of Duproprio.com. In 2015, he became President and Chief Executive Officer of DuProprio, before selling the company to Desjardins in 2021. He is currently an independent consultant.

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, and in 2017 he left the company. He is also a corporate director of Chemtrade Logistics.

Dominique Fagnoule

Independent director

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

Dominique Fagnoule has a civil engineering degree in electricity, with a specialization in electronics, from Université de Liège in Belgium. He was Chief Information Officer and a member of the executive committee 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 (personal banking). Mr. Fagnoule has also held a number of senior-level positions in major financial institutions, including Générale de Banque in Belgium. In 2013, he joined Banque Nationale, where he was Executive Vice-President – Information Technology and a member of the Office of the President before being named Executive Advisor in 2020.Since retiring in April 2022, he has continued to work as a private consultant.

Hélène V. Gagnon

Chief Sustainability Officer and Senior Vice President, Stakeholder Engagement, CAE Inc.

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

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 a Fellow of the Canadian Public Relations Society. Ms. Gagnon joined CAE in 2015 as Senior Vice President, Public Affairs, Global Communications and Corporate Social Responsibility after holding similar positions at Bombardier Aerospace, Bombardier Transportation and Noranda. Since 2022, she has been Chief Sustainability Officer and Senior Vice President, Stakeholder Engagement at CAE. She serves as Vice Chair of the board of Aéroports de Montréal and sits on the boards of Aerospace Industries Association of Canada and Aéro Montréal, Greater Montréal's aerospace cluster. In addition, she is Vice-Chair of the Board of Directors of the Canadian American Business Council. In 2022, the *Globe and Mail*'s "Report on Business" included her in its list of Canada's Top 50 CEOs.

Marie-Josée Morency

Executive Vice-President and General Manager, Chambre de commerce et d'industrie du Grand Lévis

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

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'habitations 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 as Director of Business Development at their subsidiary Operio. Since 2019, she has been Executive Vice-President and General Manager of the Chambre de commerce et d'industrie du Grand Lévis. Ms. Morency is also Vice President of the Board of Directors of Société Alzheimer de Québec and Chair of its Governance Committee. She is a member of the Board and Human Resources Committee of the Fédération des chambres de commerce du Québec as well as of the Board and Governance and Human Resources Committee of Pôle Québec logistique. Finally, she is also a member of the Conseil régional des partenaires du marché du travail de la Chaudière Appalaches.

Claude Séguin

Chairman of the Board, Fonds de solidarité des travailleurs du Québec (FTQ)

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

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 New York State, 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, 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: Montréal

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. At the start of 2021, he joined the advisory committee that manages the investment strategy for the McGill University Pension Plan.

Claude Tessier

Chief Financial Officer,
Alimentation Couche-Tard Inc.

Appointment: June 1, 2022
Term: June 1, 2026
Status: Independent director
Place of residence: Laval

Claude Tessier holds a bachelor's degree in accounting from Université du Québec à Montréal. He is a member (CPA) of the Ordre des comptables professionnels agréés du Québec and has over 30 years of experience in the financial sector. He joined PricewaterhouseCoopers (formerly Coopers & Lybrand) in 1986 as a senior auditor and then worked as an accounting consultant at Mallette International. Since 1991, Mr. Tessier has held several senior management positions, including vice-president, chief financial officer and president, with such major companies as Costco Canada, Provigo and Sobeys. Since 2016, he has been Chief Financial Officer at Alimentation Couche-Tard Inc. Mr. Tessier has been a member of the Board of Directors of TMX Group Limited since September 2020. He sits on the Group's Derivatives Committee and chairs its Finance and Audit Committee. In addition, since 2016 he has served on the board of Maison de la Sérénité in Laval, which provides free specialized palliative care. His activities there include taking part in the organization's annual fundraising campaign.

Directors' compensation and benefits in 2022

	Base compensation[8]	Meeting fees[8]	Taxable benefits
David Bahan[1]	–	–	–
Geneviève Bich[2]	$28,995	$23,819	$7,645
Geneviève Biron	$21,696	$21,058	$7,645
Sarin Boivin-Picard[3]	$11,665	$5,946	$1,702
Sophie Brochu[1]	–	–	–
Geneviève Brouillette[4]	$28,997	$23,809	$179
Jacynthe Côté	$67,011	$46,248	$6,101
Anne-Marie Croteau	$22,095	$21,941	$211
Hanane Dagdougui	$22,101	$24,601	$179
Marco Dodier	$21,475	$25,785	$7,645
Luc Doyon	$22,106	$28,745	$2,248
Dominique Fagnoule	$21,947	$24,724	$5,230
Hélène V. Gagnon[5]	$28,933	$16,559	$179
Suzanne Gouin[6]	$10,671	$12,899	$1,337
Marie-Josée Lizotte[1, 7]	–	–	$172
Marie-Josée Morency	$22,088	$16,758	$7,645
Claude Séguin	$21,934	$16,568	$3,161
Paul Stinis	$22,106	27,897	$6,101
Claude Tessier[3]	$11,667	$5,946	$96

1. Receives no compensation as a member of the Board of Directors.
2. Receives an additional amount as Chair of the Human Resources Committee.
3. Appointed on June 1, 2022.
4. Receives an additional amount as Chair of the Audit Committee.
5. Receives an additional amount as Chair of the Governance and Social Responsibility Committee.
6. Term ended June 1, 2022.
7. Resigned on November 28, 2022.
8. These amounts include compensation for a prior period.

ACTIVITY REPORT OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES

Board of Directors

Chaired by Jacynthe Côté, the Board of Directors met 11 times in 2022, while its committees held 34 meetings over the same period. Three new directors were appointed by the government in 2022: Claude Tessier, Sarin Boivin-Picard and David Bahan. Their skills have added to the Board's existing expertise and experience optimizing the support it provides to the company.

The Board gave Hydro-Québec the go-ahead for the ambitious energy infrastructure development project outlined in the *Strategic Plan 2022–2026*, tabled at the start of the year. The project will support the transition toward a low-carbon economy and help bring about the vast electrification initiative put forth in the government's *2030 Plan for a Green Economy*. The cultural and structural shift to One Hydro will help put the strategy in motion, while presenting optimization opportunities throughout Hydro-Québec's value chain.

In this context, the Board diligently conducted its periodic review of the priority strategic initiatives touching on the customer experience, energy efficiency, demand response, capacity and energy additions, occupational health and safety, capital allocation and updates to rates and the legislative framework.

Another key development in 2022 was the acquisition of Great River Hydro, which owns and operates 13 high-quality hydropower generating stations in the northeastern U.S. with a total installed capacity of 589 MW.

During the year, the Board approved investments in the project undertaken in partnership with the Mohawk community of Kahnawà:ke to deploy a 1,250-MW interconnection from Hertel substation to New York; and the replacement of converter units at Châteauguay substation. It also gave the green light to the Electricity Supply Plan 2023–2032 outlining how Hydro-Québec, in its distribution activities, will meet the anticipated growth in demand, as well as to the strategic positioning and annual roadmap for the Québec wind power sector.

The Board worked closely with Management to set up a solid succession plan for senior executives and also looked into the company's equity, diversity and inclusion efforts.

The Board regularly tracks the company's performance indicators—particularly regarding finances, the environment, health and safety and workforce management—along with its reputation ratings. In this connection, Board members monitored Management's efforts to safeguard the company's financial health. In keeping with its responsibility with respect to the company's financial integrity, the Board also oversaw the quality of financial information and reporting mechanisms, and approved the financial statements of Hydro-Québec and its pension plan.

A proud supporter of the visual arts in Québec, Hydro-Québec enriches its collection regularly by acquiring works in a variety of mediums, from paintings and photographs to prints and videos.

Sayeh Sarfaraz (1978–) was born and grew up in Iran as the Islamic republic was emerging. Driven into exile at the dawn of the 21st century, she left for France. After graduating from the École supérieure des arts décoratifs de Strasbourg, she immigrated to Montréal in 2007. Since then, she has had a dozen solo exhibitions in Québec, France, Germany and the United States. For her series entitled "On rejoue ?" (2022), Sarfaraz dives into her past to find happy moments from her childhood, drawing inspiration and sharing treasures from her cultural heritage in ancient Persia.

Sayeh Sarfaraz

***Untitled,* "On rejoue ?" series** – Gouache on Saint-Armand paper, 2022

75 x 55 cm ea.

In the course of its recurring deliberations, the Board examined the company's objectives as they relate to the *Strategic Plan* and consolidated Business Plan, and reviewed the main capital projects, with a special focus on the long-term financial outlook and the consolidated portfolio of business risks.

In terms of governance, the Board examined with interest a comparative analysis of major trends and best practices. Board members also received training on a range of topics, including the situation in Ukraine and its impact on the supply chain, cybersecurity governance, issues relating to the customer-grid interface, decarbonization, relations with Indigenous communities and privacy protection. Lastly, the Board endorsed the 2022 Centraide campaign, to which Hydro-Québec and its active and retired employees across Québec donated $8.0 million.

Comité exécutif (A)

Le Comité exécutif n'a tenu aucune réunion en 2022.

Governance and Social Responsibility Committee (B)

The Governance and Social Responsibility Committee, chaired by Hélène V. Gagnon, made health and safety issues a priority in 2022 and received regular updates on the subject, particularly with regard to implementing the risk management program in field operations and following up on employees' psychological health. In addition, because the hazardous materials management program has repercussions for both health and safety and the environment, the Committee also looked at the program's administration.

More specifically, Hydro-Québec's environmental performance was also the focus of presentations to the Committee, to which the company submitted its *Sustainability Report 2021*. In the view of the Committee members, it was essential that Hydro-Québec's mandate to adapt to climate change be discharged in exemplary fashion. In that regard, the Committee closely monitored Hydro-Québec's Collective Energy project, which is now in its third phase, Implementation.

Social acceptability strategies for major projects are a serious concern for the Committee, which also devoted considerable attention to relations with Indigenous communities and the Progressive Aboriginal Relations (PAR) certification process. It recommended that the Board of Directors allocate significant resources to support First Nations and Inuit women entrepreneurs. The Centraide 2022 campaign was also the object of sustained interest from the Committee.

In keeping with its mandate, the Committee examined the performance of the Board of Directors and its committees. It oversaw the creation of a new committee, the Digital Technologies Committee, whose responsibilities were previously handled by the Financial Affairs, Projects and Technologies Committee, now renamed the Investments and Financial Affairs Committee. The charters of the Board of Directors committees were subsequently revised, and the relevant regulatory and legislative activities were monitored. The Committee also recommended Board approval of the subsidiary governance policy.

The company's ISO 37001:2016 certification for its anti-bribery management system is an ongoing process that requires the attention of the Committee, which received a report card and an assessment. The Committee also kept tabs on relations between Hydro-Québec and such stakeholders as the Union des municipalités du Québec, the Fédération québécoise des municipalités and the Union des producteurs agricoles, along with the company's communication strategies and two major projects: NECEC and CHPE.

On the legal front, the Committee closely monitored the company's plan to comply with the requirements of the *Act to modernize legislative provisions as regards the protection of personal information*. The Committee also reviewed changes to the company's list of decision-making powers to ensure sound governance.

Audit Committee (C)

Chaired by Geneviève Brouillette, FCPA, the Audit Committee met with the independent auditors to examine the company's quarterly and annual financial statements as well as the annual financial statements of the Hydro-Québec Pension Plan. It recommended that the Board approve the statements.

The Committee carefully 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. It recommended that the Board approve the Pension Fund Investment Management Policy and the actuarial valuation of Pension Plan funding and solvency.

To ensure sound governance, the Committee fulfilled its role in overseeing business risk management in support of the company's decision-making. It kept a close watch on changes in the enterprise risk portfolio, taking into account uncertainties related to inflation, the war in Ukraine, climate change and the procurement of goods and services.

The Committee closely monitors any activity potentially detrimental to the company's financial health that is brought to its attention by the Vice President – Internal Audit or another member of the management team. The Committee recommended to the Board that it review the mandate of the Groupe – Audit interne and closely monitored the improvement plan developed for the group's practices. It also reviewed the report on corporate compliance activities for the first half of 2022 and monitored the value-for-money audit carried out by the Auditor General of Québec.

In compliance with the *Act to facilitate the disclosure of wrongdoings relating to public bodies*, the Committee received reports regarding the Act's enforcement on two occasions during the year. In this regard, the Committee recommended that the Board review the reporting policy applicable to Hydro-Québec's operations. The Committee also carried out its other responsibilities, namely ensuring the optimal use of the company's resources, the sound management of its finances and the appropriate internal controls.

All Audit Committee members are independent. They have been trained in various areas, including the impacts of regulation on Hydro-Québec's financial model.

Human Resources Committee (D)

Chaired by Geneviève Bich, the Human Resources Committee approved the review of the organizational structure and the new structure's implementation in keeping with the goals of One Hydro. In line with the *Strategic Plan 2022–2026*, the reorganization should enable Hydro-Québec to better meet the challenges of the energy transition. The Committee also examined the plan to change the corporate culture and reviewed the performance indicators for the new business model.

The Committee prioritized succession planning for the company's executives and the review of development strategies geared to senior managers and employees deemed to have strong potential for advancement within the company.

The Committee supported the activities of the team responsible for equity, diversity and inclusion. It learned of the team's observations as well as the programs and actions designed to foster diversity and inclusion.

In order to fulfill its mandated responsibilities, the Committee regularly reviews a dashboard of strategic indicators.

The results regarding the 2021 corporate objectives, including the President and CEO's performance evaluation, and the setting of goals for 2023 were discussed in committee, as were the back-to-the-office program and the continuation of flexible telework, which are being closely tracked by the Committee.

The Human Resources Committee reviewed the Corporate Ombudsman's report and her recommendations attentively. It also studied the findings of our annual *Notre énergie, notre engagement* employee survey.

Investments and Financial Affairs Committee (E)

The Investments and Financial Affairs Committee is chaired by Paul Stinis, who also chaired its predecessor, the Financial Affairs, Projects and Technologies Committee.

The Committee recommended Board approval for the addition, in partnership with the Mohawk community of Kahnawà:ke, of a new line and interconnection with New York State from Hertel substation.

The Committee also recommended that the Board approve the proposed acquisition of Great River Hydro.

The wind farm projects on the territory of the Seigneurie de la Côte-de-Beaupré lands and in Matapédia, Madawaska and Pohénégamook–Picard–Saint-Antonin were endorsed by the Committee, as were the agreements to purchase the output of the forest biomass cogeneration plant in the Opitciwan off-grid system and the planned wind farm in the Whapmagoostui–Kuujjuarapik off-grid system.

The Committee reviewed and made recommendations regarding the strategic positioning of Hydro-Québec with respect to wind power and supplying large-power consumers and regarding the strategic, commercial and financial positioning of Hydro-Québec IndusTech's main subsidiaries—namely Services Hilo, Stockage d'énergie EVLO, Cléo Innovations, Circuit électrique Québec, AXSO and Dana TM4—and carried out rigorous follow-up.

Committee members attended presentations on power system asset management as well as the valuation model and the asset investment plan, with a view to optimal and integrated management of the power system and the impact on the company's financial outlook. They also reviewed the major capital projects.

The Committee examined options and strategies regarding the New England Clean Energy Connect project, recommended the approval of the revised head office interior refurbishment project and reviewed the decarbonization strategy for Hydro-Québec's vehicle fleet.

In conjunction with the Audit Committee, it gave careful consideration to the impact of the rising inflation rate. As part of its mandate, the Committee also received the report on the power system reliability policy.

Finally, together with the Digital Technologies Committee, the Investments and Financial Affairs Committee studied the SAP ERP system upgrade project and the modernization of grid control systems and the evolution of system operation.

Digital Technologies Committee (F)

This new committee, which grew out of the Financial Affairs, Projects and Technologies Committee and is chaired by Anne-Marie Croteau, met for the first time on March 24, 2022.

Its mission is to advise the Board of Directors on general guidelines, policies, strategies and objectives concerning the strategic alignment of digital technologies and their strategic coherence with operational technologies (OT).

In addition, the Committee examines the financial commitments required for the development and implementation of major IT systems and infrastructure that will enable the company to carry out its mission and achieve its business objectives. The first issue the Committee examined was the modernization of grid control systems.

The Committee also focused on the major SAP ERP system upgrade project and efforts associated with the strategy for deriving full value from data.

The Committee is very sensitive to cybersecurity issues. It conducted a thorough review of the management program for major cybersecurity incidents, which includes IT/OT containment tests.

In accordance with its mandate, the Committee ensured appropriate risk management and compliance with corporate policies. The performance of projects and activities involving digital technologies was the subject of several presentations to the Committee.

Director Attendance at Meetings of the Board of Directors and Board Committees in 2022

Director	Notes	Board[1]	Committees					
			A[2]	B	C	D	E	F
	Number of meetings	11		7	7	6	9	5
Jacynthe Côté	A B C D E F	11/11		7/7	7/7	6/6	9/9	5/5
Sophie Brochu	A E F 3	11/11		7/7	7/7	6/6	9/9	5/5
Geneviève Bich	B D	10/11		7/7		6/6		
Geneviève Biron	B F	10/11		7/7				4/5
Sarin Boivin-Picard	F 4	5/6						1/1
Geneviève Brouillette	C D	11/11			7/7	5/6		
Anne-Marie Croteau	D F 8	11/11				5/6	1/1	4/5
Hanane Dagdougui	C F 8	11/11			7/7		1/1	5/5
Marco Dodier	D E 8	11/11			1/1	6/6	8/8	
Luc Doyon	B E 8	11/11		7/7	1/1		9/9	
Dominique Fagnoule	C F 8	11/11			7/7		1/1	5/5
Hélène V. Gagnon	B	9/11		7/7				
Suzanne Gouin	A C D 6	5/5			4/4	1/1		2/2
Marie-Josée Lizotte	7	8/10						
Marie-Josée Morency	B D	7/11		5/7		4/6		
Claude Séguin	E 8	9/11			1/1		6/9	
Paul Stinis	A C E	11/11			7/7		9/9	
Claude Tessier	C 5	5/6			1/1			

Committees

A. Executive
B. Governance and Social Responsibility
C. Audit
D. Human Resources
E. Investments and Financial Affairs
F. Digital Technologies

Notes

1. The Board of Directors held 11 meetings, including 3 special meetings.
2. The Executive Committee did not hold any meetings in 2022.
3. Sophie Brochu attends the meetings of the Governance and Social Responsibility, Audit and Human Resources committees as a guest.
4. Sarin Boivin-Picard was appointed effective June 1, 2022. He joined the Digital Technologies Committee on September 23, 2022.
5. Claude Tessier was appointed effective June 1, 2022. He joined the Audit Committee on September 23, 2022.
6. Suzanne Gouin term ended on June 1, 2022.
7. Marie-Josée Lizotte resigned on November 28, 2022.
8. Changes were made to committee composition during the year.

GOVERNANCE

Hydro-Québec's 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

The independent members of the Board of Directors 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.

Directors' compensation and benefits

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 $21,168 plus a fee of $991 for each Board or committee meeting attended. A yearly supplement of $6,617 is paid to chairs of the Audit, Governance and Social Responsibility and Human Resources committees.

The Chair of the Board receives annual compensation of $64,292 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 main activities, and the company's legal and regulatory framework. New directors also receive training providing them with a solid grasp of basic notions of electricity and another on Hydro-Québec's Indigenous relations. In addition, they are invited to tour the system control center, cybersecurity monitoring center and energy trading floor. By the end of the induction program, they will have received some 15 hours of training.

Continuing development activities for Board members during the year included presentations on such topics as environmental issues, issues relating to the customer/grid interface, climate change and Indigenous matters, in addition to geopolitical tensions involving Russia, Ukraine and NATO. Audit Committee members received training on disaster impact assessment in terms of wildfires in the northern protected area.

Regulatory requirements and internal guidelines

For a number of years now, the company has implemented internal guidelines in relation to the various regulatory requirements of the Régie de l'énergie and the U.S. Federal Energy Regulatory Commission (FERC).[1] Below is a brief description of each guideline:

- *Transmission Provider Code of Conduct*:[2] Governs relations between the Transmission Provider[3] and its affiliates and is intended to prevent any form of preferential treatment or cross-subsidization.
- *Reliability Coordinator Code of Conduct*:[4] 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. Permission to sell electricity at market prices on U.S. wholesale markets was granted by the FERC.
2. Transmission Provider Code of Conduct (https://www.oasis.oati.com/woa/docs/HQT/HQTdocs/CCT-2020-12-17-EN.pdf).
3. Hydro-Québec when conducting electric power transmission activities as defined in the *Act respecting the Régie de l'énergie* (CQLR, c. R-6.01.).
4. Reliability Coordinator Code of Conduct (www.hydroquebec.com/data/transenergie/pdf/code_conduite-en.pdf).

- *Code of Ethics on Conducting Calls for Tenders*:[5] Ensures that the Distributor's[6] tendering process is conducted fairly for all electricity suppliers.
- *Distributor Code of Conduct*:[7] : Regulates transactions between the Distributor and the Generator[8] for non-tendered electricity supply to ensure that the Generator does not benefit from any unfair advantage; 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. The financial information component of this system is based on the internationally recognized framework developed by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission, and includes the implementation of an annual control plan. The objective of this component 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 control system includes an integrated business risk management process, and the company has also established a process for assessing the compliance of its operations in various fields such as the fight against corruption. The Audit interne group assesses the primary management, control and governance processes to determine if they are sufficient and appropriate, and issues recommendations for improving their economy, efficiency and effectiveness.

Auditors' fees and independence

KPMG LLP, Ernst & Young LLP and the Auditor General of Québec are Hydro-Québec's independent auditors for 2022. The professional fees billed by KPMG LLP and Ernst & Young LLP in 2022 for services other than auditing and certification accounted for 25.5% of the total $4.3 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, privacy protection and data ethics

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* (CQLR, c. A-2.1, the "Access Act"). In 2022, Hydro-Québec received 463 requests for access to information that concerned administrative documents or personal information and processed 473 of these requests. Of these, 204 were granted in full, 153 were granted in part and 72 were turned down. The most common reasons for denying requests were the need to protect third-party personal information, or security or commercial concerns that prevent disclosure of the document. As for the other 44 requests, they could not be fulfilled either because the company did not have the document in question, the request was withdrawn, or the information concerned another public body. In total, 224 requests for access were processed within 20 days, 183 in 21 to 30 days, and 66 in 31 days or more, for an average processing time of 21 days. In addition, 7 review notices were received from the Commission d'accès à l'information; no requests 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 2022 are available (in French only) at https://www.hydroquebec.com/documents-donnees/loi-sur-acces/bilans.html. Hydro-Québec posts documents and information whose publication is prescribed by the *Regulation respecting the distribution of information and the protection of personal information*, including responses to access requests, on its website at https://www.hydroquebec.com/documents-data/act-respecting-access/distribution-information/ to facilitate access by the population.

Training and awareness-raising initiatives were developed under the leadership of the Committee on the Governance of Corporate Data and Technologies (today the Data and Information Governance Committee). Hydro-Québec reminded its employees of the principles of access to information and the protection of privacy, particularly regarding the new provisions under the (S.Q. 2021, c. 25). The company also implemented the action plan adopted in 2021 aimed at ensuring compliance with these new obligations. Corporate guidelines were established concerning consent in relation to personal information and the processing thereof in order to lay the groundwork for the privacy protection program, again with a view to ensuring compliance with the Access Act.

5. Code of Ethics on Conducting Calls for Tenders (www.hydroquebec.com/data/achats-electricite-quebec/pdf/code_240701_en.pdf).
6. Hydro-Québec when conducting electric power transmission activities as defined in the *Act respecting the Régie de l'énergie*.
7. Code de conduite du Distributeur [Distributor Code of Conduct]:(www.hydroquebec.com/data/a-propos/pdf/code-conduite-distributeur.pdf).
8. Hydro-Québec when carrying on electric power generation activities.

Ethics

The year 2022 marked the introduction of a new *Code of Ethics* at Hydro-Québec as well as an obligation for employees to renew their commitment to abiding by the code each year. The reworking of the document reflects the company's evolution and enshrines its new values, namely the common good, inclusion, courage and innovation. The new *Code of Ethics* is grounded in a set of commitments targeting a safe and healthy work environment, sustainable development, transparent business relations and unflagging loyalty.

To ask a question or seek advice on a particular situation, Hydro-Québec's employees can at any time contact an ethics advisor, whose job it is to guide their day-to-day actions and decisions. In 2022, the ethics team processed 474 such requests.

Combatting corruption

In June 2021, Hydro-Québec became one of Québec's first organizations to achieve ISO 37001 certification. The powerful international standard confirms our commitment to adopting best practices in bribery risk management. To maintain the certification, Hydro-Québec must:

- Ensure sound governance specific to the fight against corruption
- Assess the risks associated with some of its processes (procurement, managing sensitive information)
- Implement mitigation measures to reduce these risks
- Raise awareness and train employees
- Take every means necessary to safeguard the identity of anyone who reports a matter of ethical concern, who helps validate such a report or who cooperates in any investigation carried out in the wake of such a report, barring any waiver from the individual in question or cases where their identity is required be disclosed by law or a court order.

In spring 2022, the Bureau de normalisation du Québec (BNQ) conducted a first maintenance audit, the outcome of which was positive. Hydro-Québec has since launched a number of awareness-raising and integration initiatives, including creating a community of anti-corruption practitioners and publishing a newsletter listing all data related to integrity and ethics activities.

Language guidelines

Among the measures established for applying the *Charter of the French Language* are an intranet site devoted to the language guidelines applicable at Hydro-Québec. In 2022, the company closely followed the progress of Bill 96. When the bill passed into law on June 1, 2022, becoming the *Act respecting French, the official and common language of Québec* (S.Q. 2022, c. 14), the company developed an awareness plan in response and in keeping with its legal obligations. The ensuing initiatives, which include employee training, updates to certain guidelines and various internal communications, are to be finalized in 2023. Hydro-Québec received three complaints from the public. The company made every effort to correct the situation in each case.

The Commission de toponymie worked with Hydro-Québec to rename a hydroelectric generating station; nine names to designate company-owned dams across Québec were also officially adopted.

Winner of the Prix Paul-Émile-Borduas in 2018 and a Governor General's Award in Visual and Media Arts in 2011, Geneviève Cadieux (1955–) is the first woman to have represented Canada at the prestigious Venice Biennale (1990). She has been practising photography for over 40 years, and interest in her work extends far beyond our borders. With over 150 group exhibitions to her credit, she has had her work featured in dozens of solo shows around the world, including at the Tate Modern in London and the Institute of Contemporary Arts in Amsterdam.

Geneviève Cadieux

Ma mère – Inkjet print on rag paper, 1991–2020

152.5 x 162.5 cm

Compensation of Hydro-Québec Officers for the Year Ended December 21, 2022

Names and positions of the five most highly compensated officers	Base compensation paid	Annual incentive pay[a]	Pension plan contributions paid by the employer	Other benefits paid or granted	Total compensation for the year
Sophie Brochu President and Chief Executive Officer	$614,676	$269,232	$203,224	$37,372	$1,124,504
Éric Filion Executive Vice President, Chief Operating and Customer Experience Officer	$492,258	$127,758	$142,024	$45,441	$807,481
Claudine Bouchard Executive Vice President, Chief Infrastructure and Energy System Officer	$470,559	$93,328	$141,824	$38,927	$744,638
Pierre Despars Executive Vice President – Strategy and Development	$444,115	$112,000	$117,424	$47,377	$720,916
Jean-Hugues Lafleur Executive Vice President and Chief Financial Officer	$448,275	$125,973	$66,024	$44,772	$685,044

a) Hydro-Québec does not offer a long-term profit-sharing plan.

Annual incentive pay

Under Hydro-Québec's incentive compensation policy, non-unionized employees may receive annual incentive pay based on performance. In the case of officers, it is based on corporate objectives that are predetermined and approved annually and is conditional upon the attainment of the financial performance threshold.

The main factors determining the amount of the annual incentive pay are the degree to which each group met its corporate objectives and the officer's annual salary, prorated to the period during which the officer held that position during the year.

The maximum incentive pay for officers other than the President and Chief Executive Officer is 30% of their annual base salary. *For the President and Chief Executive Officer, the maximum is 50%.*

The sums paid in 2022 represent the incentive pay for the year 2021. The financial performance threshold for 2021—net income of at least $2,500 million—was attained

Pension plan contributions paid by Hydro-Québec

Basic Hydro-Québec Pension Plan (HQPP, funded plan):

- Contributory defined-benefit pension plan
- Retirement pension calculated on the basis of average salary for the best five years
- Credit of 2.25% per contribution year
- Partially indexed retirement pension
- HQPP pensionable earnings set at 66.67% of the maximum incentive pay, up to 20% of salary

Supplementary Benefits Program (unfunded plan)

- Current service cost borne entirely by Hydro-Québec
- Additional benefits to offset the HQPP tax limits (ceiling lifted on permitted maximum amount)
- Benefit payment terms the same as for the HQPP
- *Additional provision applicable to Hydro-Québec's President and Chief Executive Officer – Recognition of 100% of maximum incentive pay as pensionable earnings (less the HQPP pensionable portion)*

For the Basic Hydro-Québec Pension Plan (HQPP, funded plan), the amounts disclosed are the contributions that should have been paid by Hydro-Québec without taking into account the contribution reductions based on the Plan's financial situation. The amounts disclosed are equal to 13.05% of pensionable earnings under the Plan.

For the Supplementary Benefits Program (unfunded plan), the amounts disclosed represent the current service cost calculated by AON, based on the following:

- Assumptions: Same as those used for the HQPP's actuarial valuation on a funding basis as at December 31, 2021
- Current service cost calculated on the basis of the earnings rates in effect in 2022

Other benefits paid or granted

Signing bonus: No signing bonus paid to officers and included in the amounts disclosed.

Severance pay: No severance pay paid to officers and included in the amounts disclosed.

The sums reported as other benefits paid or granted are generally the taxable amounts associated with the following benefits provided to officers by Hydro-Québec:

- Annual automobile allowance ($17,975 for a gas-powered vehicle or $22,471 for a plug-in electric vehicle). *However, the President and Chief Executive Officer does not receive this allowance.*
- Automobile usage expenses (parking, gasoline or access to an electric charging station at the workplace, kilometrage allowance for business needs). *However, the President and Chief Executive Officer does not receive this benefit.*
- *The President and Chief Executive Officer is, however, provided with a company car (the value of this benefit is equal to the amortization of the cost of the vehicle, plus maintenance and charging costs). This value, included in the amount reported as other benefits paid or granted, is not a taxable benefit for the President and Chief Executive Officer.*
- Group insurance plan premiums – life, health, travel and disability insurance. The premium paid by Hydro-Québec for long-term disability insurance, included in the amount reported as other benefits paid or granted, is not a taxable benefit for the officer. In addition, the monetary value of salary continuation in the event of short-term disability cannot be determined.
- Gratuity account allowing for the reimbursement of expenses related to financial, tax or estate planning, sports clubs and professional dues up to $5,000 per year. *Additional provision applicable to the President and Chief Executive Officer of Hydro-Québec: Annual maximum of $10,000.*
- Access to an annual health assessment.

Compensation of Officers of Entities in Which Hydro-Québec Holds at Least a 90% Stake, for the Year Ended December 31, 2022

Names and positions of the five most highly compensated officers[a]	Name of the entity in which Hydro-Québec holds at least a 90% stake	Base compensation paid	Annual incentive pay[b]	Pension plan contributions paid by the employer	Other benefits paid or granted	Total compensation for the year
Claudine Bouchard President and Chief Executive Officer	Société d'énergie de la Baie James	$470,559	$93,328	$141,824	$38,927	$744,638
Pierre Despars[c] President	Hydro-Québec IndusTech inc.	$444,115	$112,000	$117,424	$47,377	$720,916
Jean-Hugues Lafleur President and Chief Executive Officer	Groupe financier HQ inc.	$448,275	$125,973	$66,024	$44,772	$685,044
Sébastien Fournier[d] President and Chief Executive Officer	Services Hilo inc.	$251,364	$60,500	$12,568	$324,585[e]	$649,017
Pierre Gagnon Vice President – Legal Affairs and Compliance	Gestion HQI inc. and Marketing d'énergie HQ inc.	$335,988	$89,107	$81,224	$48,572	$554,891

a) The officers listed in the table above for entities in which Hydro-Québec holds at least a 90% stake, with the exception of Sébastien Fournier, are also Hydro-Québec officers. The total compensation components shown are the benefits paid or granted by Hydro-Québec, for their role both as Hydro-Québec officers and as officers of the entities in which Hydro-Québec holds at least a 90% stake.

b) Neither Hydro-Québec nor any entity in which it holds at least a 90% stake provide a long-term profit-sharing plan.

c) Pierre Despars is also President of Marketing d'énergie HQ inc. and President and Chief Executive Officer of 7459-7416 Québec Inc., 9459-7556 Québec Inc., 9459-7614 Québec Inc., Fonds de croissance HQI inc., Gestion HQI inc., Hydro-Québec International inc., Novus E Solutions inc., Novus Hydrogène inc. and Société de portefeuille HQI Canada inc.

d) Sébastien Fournier served as President and CEO until October 18, 2022, the date he left Services Hilo inc. The annualized value of his total compensation amounts to $667,070 (i.e., the annualized values of his base compensation of $267,319, the pension plan contribution of $13,366 made by Services Hilo inc. and other benefits paid or granted of $325,885).

e) A severance package of $312,500 was granted to Sébastien Fournier, a portion of which will be payable in 2023.

Details regarding incentive pay, pension plan contributions and other benefits paid or granted to officers who are also employed by Hydro-Québec are presented on pages 106 and 107, whereas details concerning Sébastien Fournier (President and Chief Executive Officer of Services Hilo inc.) are provided below.

Annual incentive pay

Under Hydro-Québec's incentive compensation policy, non-unionized Services Hilo inc. employees may receive annual incentive pay based on performance. In the case of the President and Chief Executive Officer, it is based on corporate objectives that are predetermined and approved annually by the Services Hilo inc. Board of Directors and is conditional upon the attainment of Hydro-Québec's financial performance threshold.

The main factors determining the amount of the annual incentive pay are the degree to which the corporate objectives were met and the officer's annual salary, prorated to the period during which the officer held that position during the year.

The maximum incentive pay for officers is 25% of the annual base salary.

The amounts paid in 2022 represent the incentive pay for the year 2021. The financial performance threshold for 2021—Hydro-Québec net income of at least $2,500 million—was attained.

Pension plan contributions paid by the entity in which Hydro-Québec holds at least a 90% stake

Group Registered Retirement Savings Plan (RRSP): The employer's contribution is equal to the contribution paid by the officer, up to a maximum of 5% of his or her salary. The amount disclosed is equal to 5% of the officer's pensionable earnings under the Plan.

Other benefits paid or granted

Signing bonus: No signing bonus paid to officers and included in the amounts disclosed.

Severance pay: The main criteria used to calculate severance pay are the officer's total compensation, the number of years worked at the entity in which Hydro-Québec holds at least a 90% stake, as well as any other relevant criterion generally recognized by Québec jurisprudence. The terms and conditions governing Sébastien Fournier's severance pay provide that 64% is payable in 2022 and 36% in 2023. In addition, 60% of the severance pay is in the form of a retirement allowance, while 40% is paid directly into his registered retirement savings plan (RRSP) in accordance with the applicable tax rules.

The sums reported as other benefits paid or granted are generally the taxable amounts associated with the following benefits provided to officers by Services Hilo inc.:

- Purchase price of public transit passes
- Supply of home equipment developed by Services Hilo inc.
- Services Hilo inc. group insurance plan premiums – life, health, travel and disability insurance. The premium paid by Services Hilo inc. for disability insurance, which is included in the amount reported as other benefits paid or granted, is not a taxable benefit for the officer.

Sustainable development

Hydro-Québec's *Sustainability Report* is an in-depth accounting of the programs, actions, and indicators implemented to respect the principles of sustainable development. It covers a variety of subjects that affect Hydro-Québec's business context and activities as well as their economic, environmental and social impacts. The report demonstrates how sustainability principles are integrated into the company. Information is collected and verified internally before an outside firm conducted an independent evaluation of some quantitative data and verified compliance with the Accountability AA1000 Aps (2018) principles.

Sustainable Development Plan 2020–2024

Published in April 2020, the *Sustainable Development Plan* sets out and provides a framework for attaining our concrete objectives for future development. The plan revolves around three pillars, with a guideline for each:

Governance Be a sustainable development leader by keeping to the highest sustainability standards, both internally and with our partners.

Community Contribute to Québec's social and economic development while improving the social acceptability of our projects and operations.

Environment Become an environmental leader through our choices, innovative practices and expertise.

In addition to taking into consideration the Québec government's orientations and actions, the Sustainable Development Plan also incorporates 7 of the 17 Sustainable Development Goals of the United Nations Development Programme: 07 Affordable and clean energy | 08 Decent work and economic growth | 10 Reduced inequalities | 12 Responsible production and consumption | 13 Climate action | 15 Life on land | 16 Peace, justice and strong institutions.

Our progress with respects to the Sustainable Development Plan is set annually in the Sustainability Report.

	Strategy	Target	2022 results
Governance			
1	Make sustainability principles integral to our governance, operations and projects	1.1 Integrate sustainability principles into our corporate guidelines	Sustainability principles integrated into 45% of our policies and directives (13/29)
		1.2 Earn public recognition for our leadership in responsible governance	Three new recognitions obtained
2	Do business with responsible suppliers	2.1 Identify and apply occupational health and safety requirements to risk-sensitive work categories	OHS questionnaire integrated into our external evaluation tool (Cognibox). Three new harmonized requirements about critical dangers have been drafted.
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	Progress in the ISO 45001: 2018 certification process: 47% (%)
		3.2 Implement or showcase health and wellness initiatives	35 health and wellness initiatives implemented
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	28.7% women (2021: 28.5%), 1.6% Indigenous people (2021: 1.1%), 2.1% ethnic minorities (2021: 1.2%), 8% visible minorities (2021: 4.4%), 0.9% people with disabilities (2021: 0.7%)
		4.2 Increase target group representation in management positions	27.2% women (2021: 26.6%), 1.1% Indigenous people (2021: 1.1%), 1.4% ethnic minorities (2021: 1.2%), 4.4% visible minorities (2021: 4.4%), 0.6% people with disabilities (2021: 0.4%)
		4.3 Implement a sustainability awareness program that promotes employee engagement	Sustainable development awareness program 100% implemented among employees
		4.4 Launch an action plan for disabled groups	Progress on 54 commitments: Completed: 40 (74%) | In progress: 12 (22%) | Pending: 2 (4%)

Sustainable Development Plan 2020–2024 (continued)

	Strategy	Target	2022 results
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	$25.0 billion contributed to GDP (2020: $22.7 billion)
6	Build and operate sustainable, resilient infrastructure while adapting our activities to climate change	6.1 Implement a climate change adaptation plan by 2021	Implementation of actions in the Climate Change Action Plan: Completed: 5% In progress: 74% About to begin: 21%
		6.2 Expand the integration of sustainability principles in infrastructure projects	A detailed analysis grid was integrated into the impact studies for a major infrastructure project
		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 City	BOMA BEST certification attained for the 21 targeted buildings and office spaces (100%)
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	Progress on the two programs in question (Integrated Enhancement Program (IEP)) and Social Responsibility Directive reached 75%
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	Silver-level PAR program certification obtained
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	2.3 Mt CO_2 eq. of GHG emissions avoided (2021: 2.5 Mt CO_2 eq.)
		9.2 Cut direct emissions of our operations by 35% by 2027	Not available[a]
		9.3 Aim for carbon neutrality by 2030	The preliminary basis for a compensation strategy has been established
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.	Reduction of 0.824 TWh of energy use by business and residential customers (2021: 0.733 TWh) Potential reduction in power demand of 621.0 MW (2021: 438.7 MW)
11	Enhance and protect biodiversity	11.1 Develop a corporate strategy for enhancing and protecting biodiversity	Hydro-Québec's Biodiversity Strategy 2022–2026 adopted and published
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	Logistics strategy: 65% of actions implemented
		12.2 Use tools to integrate a total cost analysis (TCA) of goods and services at time of procurement into our governance	Indicator under review

a) Result not available. The final figure will be published in the *Sustainability Report 2022*.

Occupation 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 3,500 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 *2030 Plan for a Green Economy* launched 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.	At present, the Electric Circuit has some 4,124 public charging stations across Québec, including over 740 fast-charge stations.
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 now also applies to space heating to raise crops and is available to all producers whose maximum power demand exceeded 50 MW in the last 12 months. These measures will help 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 set out to provide training on its operations and land management practices. From 2016 to 2020, this training was offered 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 remotely.	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 the company's facilities into their host environments is one of the topics visitors learn about during the tours.	77,025 people visited Hydro-Québec's facilities in 2022.
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 the social, environmental and economic standpoints.	No indicator
Participating in the Lac-Mégantic microgrid project Québec's first islandable microgrid, inaugurated in July 2021, features a range of components, such as solar panels for local energy generation, energy storage units and tools to manage buildings' energy use to best meet user needs. It is the only technology showcase of its kind in Québec. This year, the project was recognized with top honors in the energy category at the 2022 Grands Prix du génie-conseil québecois. Since summer 2022, the microgrid discovery tour allows visitors to learn about the most advanced energy technologies. In 2023, a new building will go up within the perimeter of the microgrid to test a unique technological mix to better serve modest-- income customers.	No indicator

DISCLOSURE OF WRONGDOINGS

To preserve trust in Hydro-Québec and maintain integrity and ethics at a high standard, Hydro-Québec's Board of Directors and Management implemented an integrated reporting procedure. Reports can be made by phone (1 866 384-4783) but also through a secure online form that guarantees full confidentiality for all communications.

The Policy for reporting on Hydro-Québec's activities and requesting support or mediation in the event of a difficult situation in the workplace encourages the disclosure of irregular situations and ensures protection from reprisal. With the policy, the company meets its obligations under the *Act to facilitate the disclosure of wrongdoings relating to public bodies* (CQLR, c. D-11.1). In 2022, we received 95 reports. Of these, 35 qualified as wrongdoing, distributed as follows:

2022 report	
Cases covered by Section 25 of the *Act to facilitate the disclosure of wrongdoings relating to public bodies*	Number
1 Disclosures received by the designated officer	35
2 Cases in which processing or examination of the disclosure was ended under subparagraph 3 of Section 22	0
3 Well-founded disclosures (concluded in 2022)	7
4 Disclosures broken down by category of wrongdoing set out in Section 4:	0
• contravention of a Québec law, of a federal law applicable in Québec, or of a regulation made under such a law	17
• a serious breach of the standards of ethics and professional conduct	6
• a misuse of funds or property belonging to a public body, including the funds or property it manages or holds for others	7
• gross mismanagement within a public body, including an abuse of authority	3
• any act or omission that seriously compromises or may seriously compromise a person's health or safety or the environment	2
• directing or counselling a person to commit any of the wrongdoings described above	0
5 Information forwarded under the first paragraph of Section 23	0

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 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, 2021, to March 31, 2022, the President and Chief Executive Officer of Hydro-Québec authorized 135 contracts falling within the scope of the Act, for a total of $287,045,013.

The table opposite shows Hydro-Québec's total workforce, in paid hours, for the reference period.

Paid hours	
Management	3,759,021
Professionals	14,944,698
Clerical staff, technicians and similar	9,006,320
Peace officers	34,630
Laborers, maintenance and service personnel	12,693,351
Students and interns	166,731
Total	40,604,751

OUR GENERATING, TRANSMISSION AND DISTRIBUTION FACILITIES

Generation

Installed capacity — 37,439 MW

62 hydroelectric generating stations — 36,882 MW

Robert-Bourassa	5,616	Sainte-Marguerite-3	882	Péribonka	385	Shawinigan-3	194
La Grande-4	2,779	Laforge-1	878	Laforge-2	319	Manic-1	184
La Grande-3	2,417	Bersimis-2	845	Trenche	302	Rapides-des-Îles	176
La Grande-2-A	2,106	Outardes-4	785	La Tuque	294	Chelsea	152
Beauharnois	1,864	Bernard-Landry	768	Romaine-1	270	Sarcelle	150
Manic-5	1,596	Carillon	753	Beaumont	270	La Gabelle	131
La Grande-1	1,436	Romaine-2	640	Romaine-4	245	Première-Chute	131
René-Lévesque	1,326	Toulnustouc	526	McCormick	235	Les Cèdres	113
Jean-Lesage	1,229	Outardes-2	523	Rocher-de-Grand-Mère	230	Rapides-des-Quinze	109
Bersimis-1	1,178	Eastmain-1	480	Paugan	216	Rapides-Farmer	104
Manic-5-PA	1,064	Brisay	469	Rapide-Blanc	211	Other (16 generating stations rated less than 100 MW)	680
Outardes-3	1,026	Romaine-3	395	Shawinigan-2	200		

24 thermal generating stations — 547 MW

Bécancour (gas turbine)	411
Other (23 diesel plants on off-grid systems)	136

2 photovoltaic generating stations — 10 MW

Gabrielle-Bodis	8
Robert-A.-Boyd	2

Other sources of supply — 11,041 MW

Churchill Falls generating station [Churchill Falls (Labrador) Corporation Limited][a]	5,428
44 wind farms operated by independent power producers[b]	3,932
56 hydroelectric generating stations operated by independent power producers[b]	708
13 biomass and 5 biogas cogeneration plants operated by independent power producers[c]	419
Other	554

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.

Transmission

Voltage	Lines (km)	Substations (number)
765 and 735 kV	12,319[a]	41
450 kV DC	1,218	2
315 kV	5,508	85
230 kV	3,252[b]	54
161 kV	2,128	43
120 kV	6,995	223
69 kV or less	3,258	91
Total	**34,678**	**539**

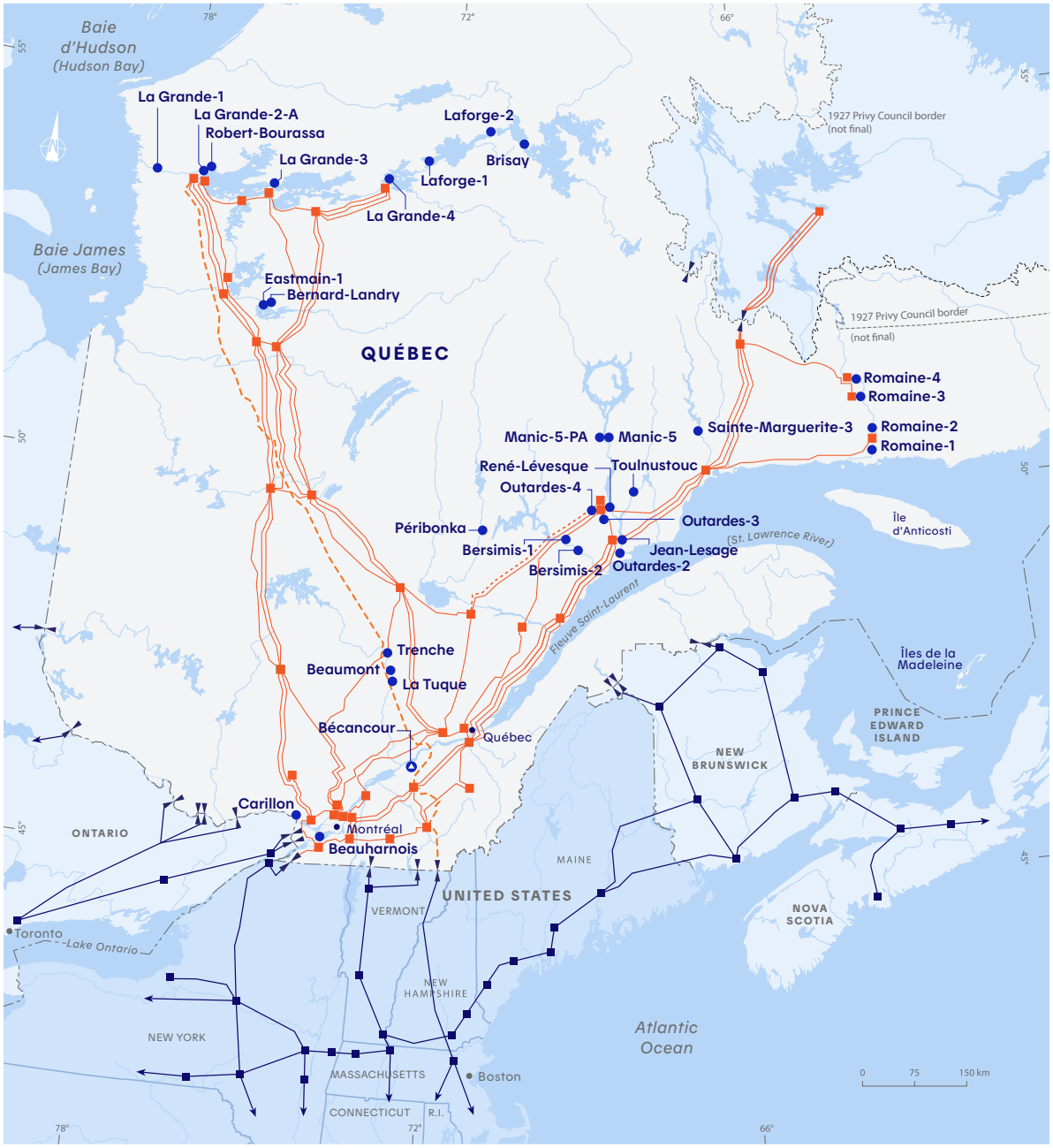
a) Including 469 km of 735-kV lines operated at 315 kV.

b) Including 33 km of 230-kV lines operated at 120 kV.

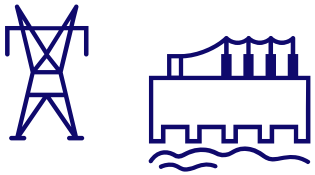
Distribution

Medium voltage	Lines (km)
34 kV	825
25 kV	114,528
12 kV	4,476
4 kV or less	197
Total	120,026
Low voltage	107,770
Total	**227,796**

Our major facilities



Hydro-Québec operates the most extensive transmission system in North America. It includes 34,678 km of power lines at varying voltages.



Generating stations rated 245 MW or more	
Hydro	Thermal
Other facilities	
735-kV substation	735-kV line
Interconnexion	735-kV line under construction
Neighboring system (simplified)	450-kV direct-current line

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Hydro-Québec wishes to thank all
the employees and suppliers whose photos
appear in this Annual Report.

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