Hydro Québec

ANNUAL REPORT 2014

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Hydro-Québec generates, transmits and distributes electricity. Its sole shareholder is the Québec government. While using mainly hydroelectric generation, it supports the development of other technologies—such as wind energy and biomass—through purchases from independent power producers. It also conducts R&D in energy-related fields, including energy efficiency.

The company has four divisions:

HYDRO-QUÉBEC PRODUCTION

generates power for the Québec market and sells electricity on wholesale markets.

HYDRO-QUÉBEC TRANSÉNERGIE

operates the most extensive transmission system in North America for the benefit of customers inside and outside Québec.

HYDRO-QUÉBEC DISTRIBUTION

provides Quebecers with a reliable supply of electricity. To meet needs beyond the heritage pool, which Hydro-Québec Production is obligated to supply, it mainly uses a tendering process. The division also encourages its customers to make efficient use of electricity.

HYDRO-QUÉBEC ÉQUIPEMENT ET SERVICES PARTAGÉS

and Société d'énergie de la Baie James (SEBJ), a subsidiary of Hydro-Québec, design, build and refurbish generating and transmission facilities, mainly for Hydro-Québec Production and Hydro-Québec TransÉnergie.

On the cover

Romaine-2 dam, spillway and reservoir.

Opposite

A butterfly valve inside a penstock at Romaine-2 generating station.

	2014	2013
Operations and Dividend ($M)		
Revenue	**13,638**	12,878
Operating result	**5,807**	5,367
Result from continuing operations	**3,380**	2,938
Result from discontinued operations[a]	**–**	4
Net result	**3,380**	2,942
Dividend	**2,535**	2,207
Balance Sheets ($M)		
Total assets	**74,890**	73,110
Property, plant and equipment	**60,713**	59,077
Long-term debt, including current portion and perpetual debt	**44,744**	44,477
Equity	**20,618**	19,394
Cash Flows ($M)		
Operating activities	**5,623**	5,017
Investing activities	**(3,875)**	(5,386)
Financing activities	**(2,187)**	(127)
Cash and cash equivalents	**1,275**	1,695
Financial Ratios		
Interest coverage	**2.25**	2.09
Return on equity from continuing operations (%)	**16.2**	14.6
Profit margin from continuing operations (%)	**24.8**	22.8
Capitalization (%)	**31.8**	30.5
Self-financing (%)	**51.6**	68.3

a) The discontinued operations are related to the 2012 decision to abandon the project to refurbish Gentilly-2 nuclear generating station and to terminate nuclear power operations.

	2014	2013	2012	2011	2010
Customers and Sales					
Total customer accounts in Québec	**4,179,850**	4,141,990	4,096,267	4,048,708	4,000,168
Electricity sales in Québec (TWh)	**174.9**	173.3	168.4	170.0	169.5
Electricity sales outside Québec (TWh)	**26.6**	32.2	31.8	26.8	23.3
Salaried Employees as at December 31[a]	**19,505**	19,692	21,032	21,977	22,590
Facilities					
Number of hydroelectric generating stations	**62**	61	60	60	60
Total installed capacity (MW)	**36,643**[b]	36,068	35,829	36,971	36,671
Peak power demand in Québec (MW)[c]	**38,743**	39,031	38,797	35,481	37,717
Lines (overhead and underground)					
Transmission (km)	**34,187**[d]	33,885	33,911	33,902	33,725
Distribution (km)[e]	**115,583**	114,843	114,649	113,525	112,089
Number of substations	**530**[f]	527	527	525	525
Power Generation and Purchases					
Renewables (GWh)[g]	**213,896**[h]	218,861	209,349	201,813	192,321
All generating sources (GWh)	**216,633**[h]	220,147	214,062	208,742	203,842
Proportion of renewables (%)	**99**[h]	99	98	97	94

a) Excluding employees of subsidiaries and joint ventures.

b) 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 31 wind farms (2,857 MW) and 4 small hydropower plants (48 MW) and almost all the output from 7 biomass and 3 biogas cogeneration plants (206 MW) operated by independent power producers. Moreover, 1,132 MW are available under long-term contracts with other suppliers.

c) The 2014 figure was valid on February 20, 2015. The values indicated correspond to the needs for the winter beginning in December, including interruptible power. The peak for a given period is based on measurements at fixed intervals. The 2014–2015 winter peak was 38,743 MW and occurred on January 8, 2015, at 8:00 a.m., after the system load momentarily reached 38,950 MW at 7:21 a.m.

d) 33,915 km of lines operated by Hydro-Québec TransÉnergie and 272 km by Hydro-Québec Distribution.

e) These figures include off-grid systems but exclude private systems, lines under construction and 44-kV lines (transmission).

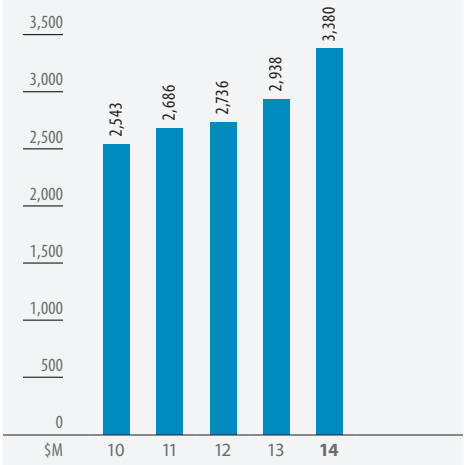
f) 519 substations operated by Hydro-Québec TransÉnergie and 11 by Hydro-Québec Distribution.

g) These figures include renewable energy certificates related to the output of Hydro-Québec Production's generating stations that were sold to third parties; they exclude wind energy, hydropower and biogas purchases for which certificates were sold to third parties.

h) Preliminary figure. The final figure will be published in the *Sustainability Report 2014*.

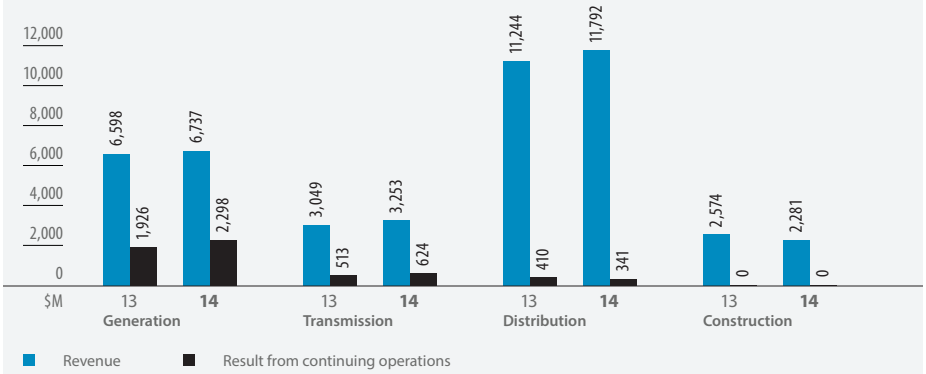
Note: Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

RESULT FROM CONTINUING OPERATIONS

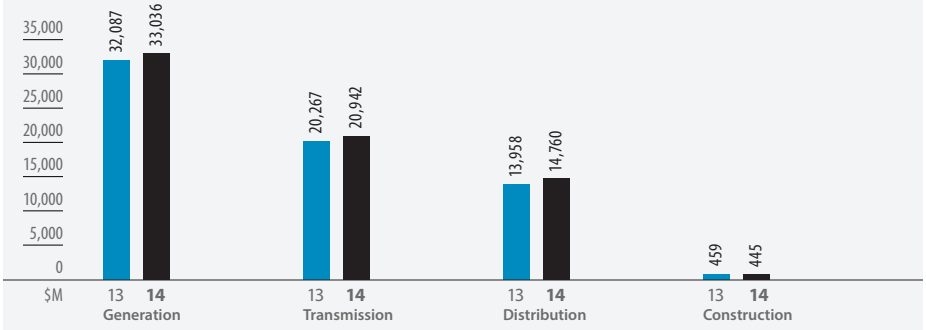


The result from continuing operations totaled $3,380 million, an increase of $442 million compared to 2013 and the best result from continuing operations in Hydro-Québec's history. This exceptional result is due to the company's solid performance on all its markets, combined with sound management of operating expenses.

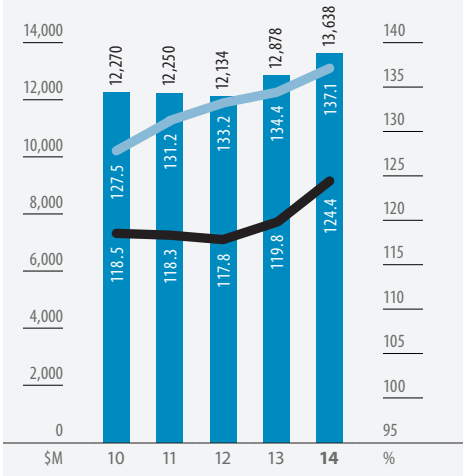
REVENUE AND RESULT FROM CONTINUING OPERATIONS BY SEGMENT



TOTAL ASSETS BY SEGMENT

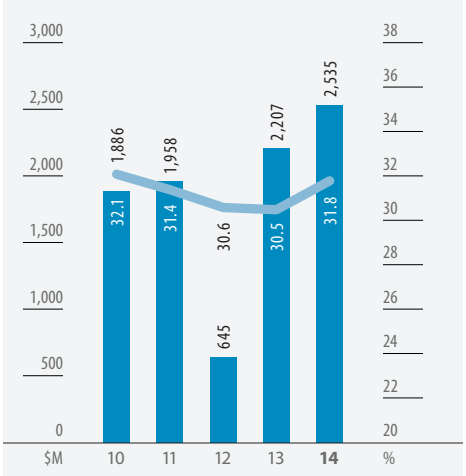


REVENUE, AVERAGE RATE ADJUSTMENT INDEX AND CONSUMER PRICE INDEX



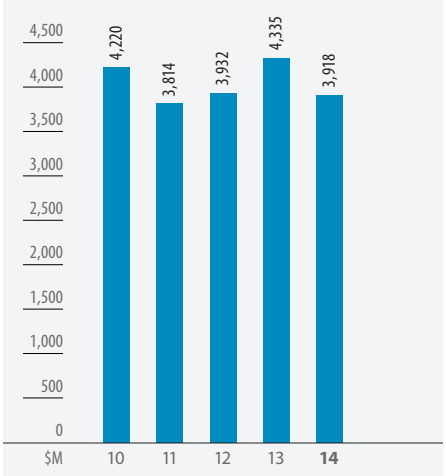
Revenue totaled $13,638 million, compared to $12,878 million in 2013. Revenue from electricity sales increased by $574 million to $13,184 million. Sales in Québec accounted for $11,555 million, or $470 million more than in 2013. On markets outside Québec, revenue from electricity sales totaled $1,629 million, a $104-million increase. Other revenue amounted to $454 million, compared to $268 million in 2013.

DIVIDEND AND CAPITALIZATION



Under the *Hydro-Québec Act*, the dividend cannot exceed the distributable surplus, equal to 75% of the net result. The dividend for 2014 amounts to $2,535 million.

INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS[a]



a) Including the Energy Efficiency Plan.

Cash flows from operating activities totaled $5.6 billion in 2014. They allowed the company, among other things, to pay the 2013 dividend of $2,207 million and to finance a large portion of its investment program, which reached $3.9 billion.

Converter room at
Outaouais substation.

Impressive Results

In 2014, Hydro-Québec delivered its best performance since inception, in terms of both its result from continuing operations and the dividend it will pay its shareholder, the Québec government. With the profitability it achieves year after year, it is truly a jewel in our economy. Management and employees can all be proud of this success.

The company's capital program, operating activities and innovation projects also generated substantial spinoffs this year for Québec as a whole and for its regions.

This performance would not have been possible without effective management at all levels and in the company's various spheres of operation, nor without the sustained commitment shown by employees. Also key to the year's success were an ongoing concern for efficiency and continued innovation initiatives in the core businesses.

As a result of Hydro-Québec's mission to develop the province's energy potential—a role it fulfills with exemplary rigor—and its work to preserve the heritage assets built up since the company was founded, we can look forward to a sustainable energy future.

In addition to the Chairman and the President and Chief Executive Officer, the Board of Directors currently comprises 11 members from diverse backgrounds, who are active on seven committees. The directors exercise a wide range of responsibilities, such as advising Management in the development and implementation of strategic objectives, ensuring Hydro-Québec's sound management and profitability, approving major infrastructure projects and seeing that they are completed on budget and in keeping with the company's sustainable development goals. Accordingly, the Board reviewed numerous projects in power generation, transmission and distribution in 2014.

I am grateful to all the directors for their dedicated participation in the Board's activities, and in particular to those who left the Board during the year: Marie-France Poulin, Martine Rioux, Christyne Tremblay, Patrick Déry and Louis Lagassé, as well as Michel Plessis-Bélair, who was an independent director for more than a decade. I would further like to acknowledge the contribution made by Pierre Karl Péladeau, who chaired the Board with great expertise. Let me also take this opportunity to welcome four new members: Gilbert Charland, Laurent Ferreira, Éric Forest and Yvon Marcoux.

In addition, I wish to salute the remarkable contribution Thierry Vandal has made to the development and international reputation of Hydro-Québec, and to thank him for his tireless efforts to ensure that the company met its targets throughout his ten years as President and Chief Executive Officer. He has left, as his legacy, an efficient and financially solid organization.

Finally, I congratulate Management and thank all the employees for the vital role they play in Hydro-Québec's success.

Michael D. Penner
Chairman of the Board

Michael D. Penner

Thierry Vandal

A Remarkable Year

In 2014, Hydro-Québec posted the best result from continuing operations in its history—$3.4 billion, enabling us to pay a record dividend of $2.5 billion to our shareholder, the Québec government. This result, which represents a 15% growth in profitability compared with 2013, is attributable to the solid performance shown in all our lines of business during a year marked by cold weather that hit both Québec and outside markets early on, and to sound management of our operating expenses. Our success is a product of the expertise, professionalism and determination of all our employees.

The increased contribution by our markets outside Québec stems largely from the efficiency of our generating facilities and transmission system, the attractive cost of our hydropower output and the skillful deployment of our sales programs. Our exports benefited from more favorable prices, particularly early in the year when intense cold gripped the continent.

HIGHLIGHTS

Several major achievements stand out as highlights of 2014. We commissioned both units at Romaine-2 generating station (640 MW), the first in November and the second in December. Of the four facilities that will make up the Romaine complex (1,550 MW), this is the first to be connected to the grid.

Phases two and three of the rollout of our advanced metering infrastructure got under way. Since this program began in February 2013, more than 2.5 million next-generation meters have been installed. By the end of 2016, a total of 3.8 million such meters will be serving our customers. Establishing this type of infrastructure is a clear sign of our determination to continually improve our operating efficiency and the quality of our customer service. The smart grid will allow us to reduce operating expenses, offer new services and optimize management of the distribution system.

Technological innovation, a key component in Hydro-Québec's strategic development, helps extend the company's reach in various ways. For example, we launched a joint venture in 2014 with Sony, called Technologies Esstalion, with a view to designing large-scale energy storage systems for power grids. As well, the SUMO systems developed by our subsidiary TM4 were selected by two of China's largest bus manufacturers, who ordered several hundred of them from Prestolite E-Propulsion Systems, a joint venture between TM4 and a Chinese partner, Prestolite Electric (Beijing). Finally, under a U.K. licensing agreement, British company National Grid will operate the LineScout, a remote-controlled robot designed by Hydro-Québec to inspect high-voltage transmission lines, for a 10-year period.

In February 2015, we reached an agreement with the Syndicat des technologues d'Hydro-Québec. This new collective agreement, like those of the company's other unions, will expire in December 2018.

ONGOING GENERATION PROJECTS

Work is proceeding according to plan at the other three sites in the Romaine complex ($6.5 billion), one of the largest construction projects in Canada. Assembly of the generating units at Romaine-1 (270 MW) is in progress and the first structures at Romaine-3 (395 MW) are being built. The 144-km road, which already linked the first three developments in the complex, now reaches the Romaine-4 (245 MW) site, where preliminary work was carried out during the summer and fall.

In the Baie-James region, refurbishment of the first unit at Robert-Bourassa generating station—the world's largest underground hydroelectric facility—was completed. In the coming years, all of this facility's units will undergo similar overhauls.

We made a substantial contribution to the province's public finances, paying $656 million in water-power royalties earmarked for the Generations Fund.

AN EVOLVING TRANSMISSION SYSTEM

In 2014, our capital projects in transmission totaled $1.6 billion, including $776 million for growth and $851 million for asset sustainment and reliability. These investments enable us to ensure compliance with North American standards and regulatory requirements.

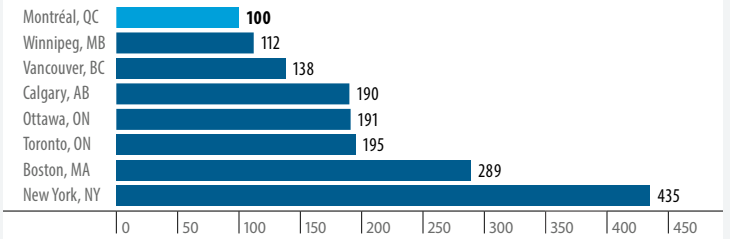
To handle growing electricity output and consumption in Québec, we are optimizing the grid and adding new equipment to it. In October, for example, we commissioned the 262-km, 735-kV line connecting Romaine-2 generating station to Arnaud substation, in the Minganie region.

In addition, Hydro-Québec had some 1,300 transmission projects under way throughout the province in 2014. One of them entailed modifying the architecture of the 315-kV grid linking Québec and Montréal in order to maintain service quality and reliability in eastern Montréal. In the Capitale-Nationale region, the new Lefrançois substation, commissioned in December, will secure the supply for current loads and meet native-load growth.

CONTINUED INVESTMENTS IN DISTRIBUTION

We invested close to $826 million in distribution all across Québec in 2014, more than half of which went to maintaining or improving service reliability and quality. Capital projects over the last decade totaled $7 billion, including $3 billion to meet demand growth and $3 billion for asset sustainment. Our residential electricity rate is among the lowest in North America: for a monthly consumption of 1,000 kWh, Montréal once more ranked first this year.

COMPARATIVE INDEX OF ELECTRICITY PRICES AT APRIL 1, 2014 – RESIDENTIAL CUSTOMERS[a]



a) Monthly bill (before taxes) for a consumption of 1,000 kWh.

COMBINED EFFORTS

The remarkable results we achieved in 2014, which benefit Québec as a whole, were made possible by the steadfast support of the women and men who work for Hydro-Québec or its partners. They have my deepest thanks.

A NOTABLE CONTRIBUTION

Finally, I would like to salute Pierre Karl Péladeau, outgoing Chairman of the Board of Directors, who served us with distinction from April 2013 to March 2014, and welcome his successor Michael D. Penner, who brings us extensive entrepreneurial experience on the North American scene. I extend sincere thanks to all the Board members for their contribution to Hydro-Québec's ongoing success.

Thierry Vandal

President and Chief Executive Officer

Richard Cacchione
President,
Hydro-Québec Production

Operating a Reliable, Flexible Generating Fleet

In 2014, Hydro-Québec Production achieved its best net result ever: $2,298 million, up $368 million from the previous year. Very cold temperatures in winter 2014 contributed to this outstanding performance, as the availability of our facilities during this period enabled us to command attractive prices on wholesale markets. We rely on our employees' know-how to implement short-, medium- and long-term planning processes that ensure a balance between our obligations: namely, meeting most of the Québec demand, exporting on wholesale markets and maintaining our facilities.

At the end of the year, Hydro-Québec Production reached a major milestone in the Romaine project: Romaine-2 generating station, with its 640 MW of installed capacity, was commissioned according to schedule. The Romaine complex will include four generating stations with a total capacity of 1,550 MW and an annual output of 8.0 TWh. This new output will allow us to seize opportunities on wholesale markets. Meanwhile, we carried out refurbishments to optimize our facilities and ensure the long-term operability of our generating fleet.

In 2014, Hydro-Québec Production paid $656 million in water-power royalties earmarked for the Generations Fund—a significant contribution to the Québec economy.

2014 IN FIGURES

Revenue	**$6.7 billion**
Net result	**$2.3 billion**
Customers (% of revenue from electricity sales)	
Hydro-Québec Distribution	**75%**
Other	**25%**
Sales volume	
Hydro-Québec Distribution	**165.5 TWh**
Other	**27.3 TWh**
Property, plant and equipment as at December 31 (including work in progress)	**$30.9 billion**
Investments in property, plant and equipment and intangible assets	**$1.2 billion**

OUR MISSION

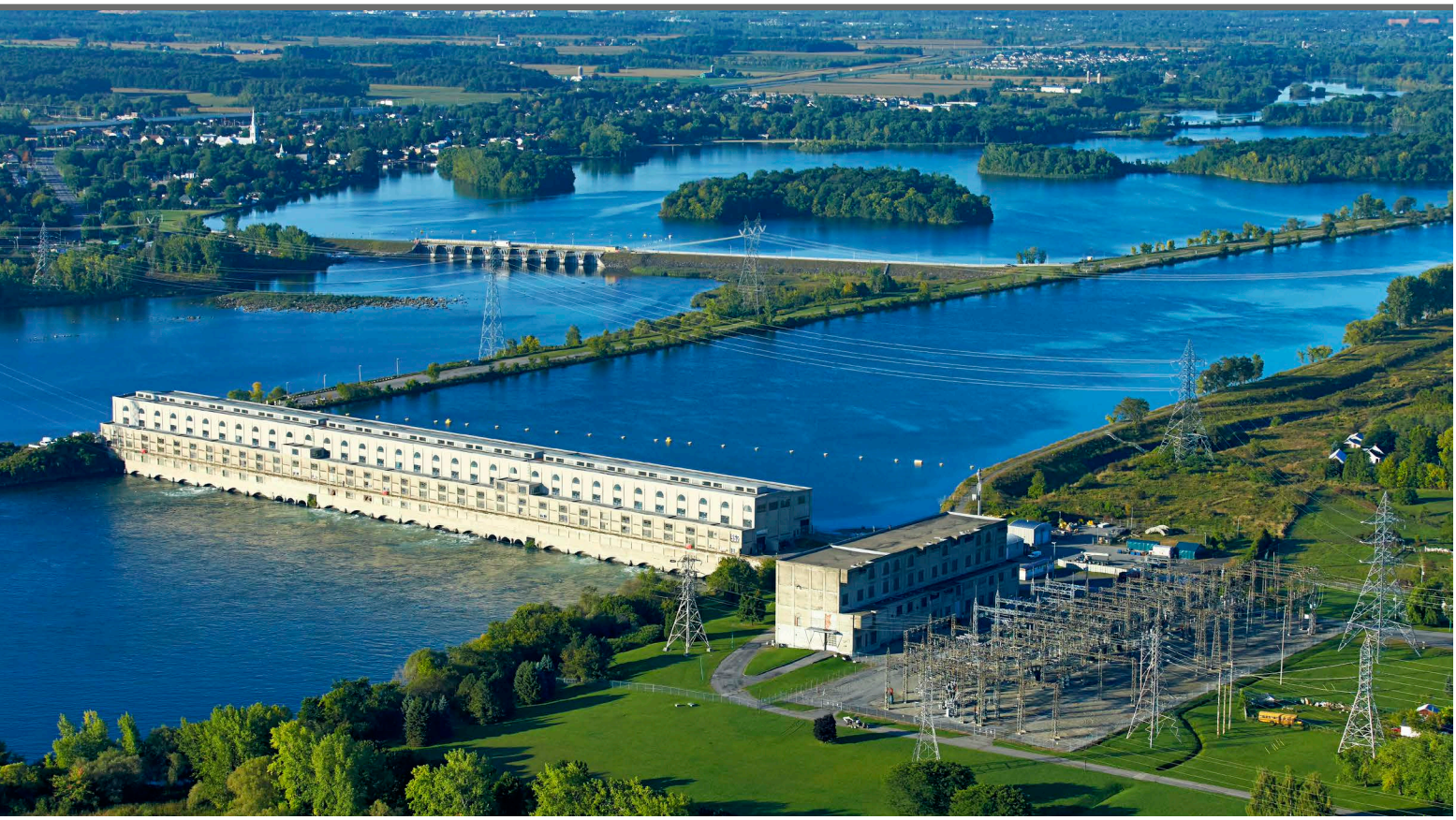
Hydro-Québec Production generates power to supply the domestic market and sells power on wholesale markets.

OUR FACILITIES

Our generating fleet comprises 61 hydroelectric generating stations and 1 thermal generating station, representing assets worth $28.9 billion and installed capacity of 36.5 GW. Our hydroelectric fleet also includes 27 large reservoirs with a combined storage capacity of 176 TWh, as well as 668 dams and 98 control structures.

OUR ACTIVITIES

We supply Hydro-Québec Distribution with an annual maximum volume of 165 TWh of heritage pool electricity. Our output beyond that commitment is sold in Québec, mainly in response to tender calls by Hydro-Québec Distribution, and outside Québec, on wholesale electricity markets.



1

GROWING OUR GENERATING FLEET

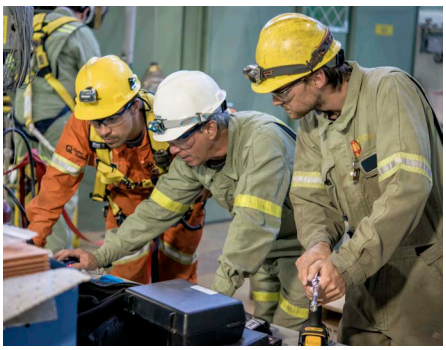
By relying first and foremost on the renewable source that is hydropower, Hydro-Québec meets present needs while preserving the environment and providing for the energy future of generations to come. The company builds its projects in a spirit of sustainable development—that is, development that seeks a balance between economic, social and environmental imperatives.

In the last 12 years, we have added 4,254 MW to our generating fleet by bringing a number of new facilities onstream. We are now focusing the major part of our efforts on the Romaine jobsites, north of the municipality of Havre-Saint-Pierre in the Côte-Nord region.

▶ In 2014, we commissioned the two generating units at Romaine-2 (640 MW). At the end of the year, we also completed the dam and retaining structures for the Romaine-1 development. Assembly of the generating units has begun and is progressing as planned, with commissioning of the first unit slated for the end of 2015. At the Romaine-3 jobsite, construction proceeded at a steady pace. We completed the temporary diversion of the river and began erecting the first structures, so that everything will be operational in 2017. Finally, the road now provides access to the Romaine-4 site, where some preparatory work has begun.

The Romaine complex is one of the largest construction projects in Canada.

▶ In May 2014, COMEX, which is the committee that reviews projects located in the Baie-James territory south of the 55th parallel, filed its report on the public consultations held in November 2012 in six Cree communities. These meetings followed the completion of Eastmain-1-A and Sarcelle powerhouses and the Rupert diversion. COMEX concluded that the project had been unprecedented in terms of the number of mitigation and compensation measures implemented, both environmentally and socially. In its opinion, the project has contributed to a better understanding between all the parties involved and to an increased participation of Crees in the development of the territory. COMEX also noted that the proponent had been proactive by limiting the project's impacts as much as possible and ensuring a greater degree of Cree participation in the environmental and social follow-ups.



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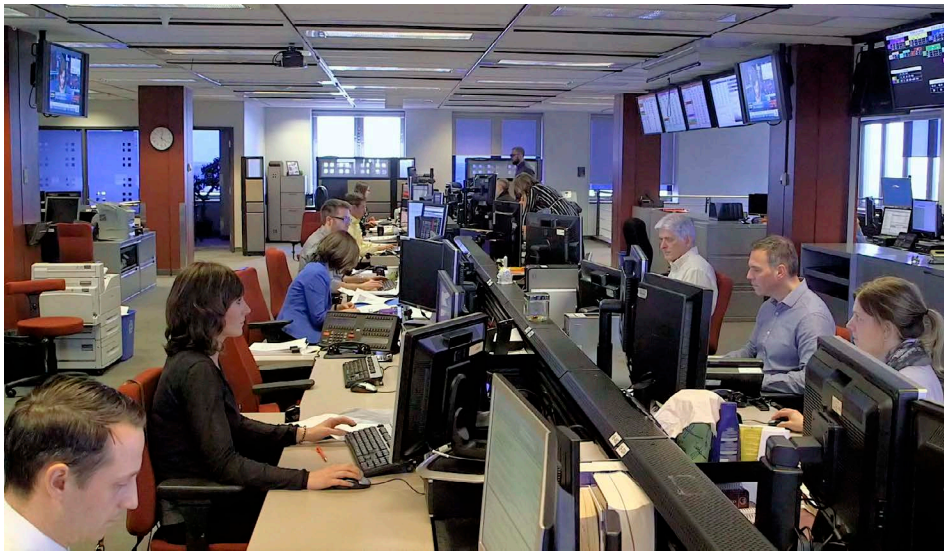
1 Les Cèdres generating station celebrated its 100th anniversary this year. In August, it was inducted into the Hydro Hall of Fame during the HydroVision International conference, an annual event bringing together hydropower professionals from around the world.

2 Power system electrician Pierre-Luc Turgeon, expert technician Marcel Picard and power system electrician Félix Gaudreau discuss the tasks required for special tests at Rapide-2 generating station.



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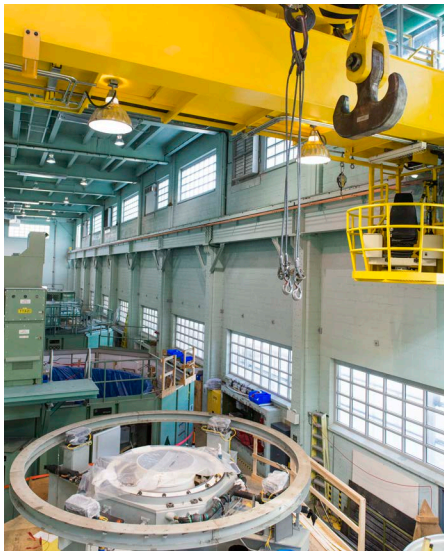


2

▸ This year, Hydro-Québec carried out a study on net reservoir evaporation. The study concluded that creating reservoirs in boreal regions does not cause an imbalance in the hydrological cycle since the quantity of water that evaporates from a reservoir is similar to that of the previous ecosystem. These findings reaffirm the environmental pertinence of hydropower.

▸ Since 2012, we have been paying $10 million annually into the Northern Development Fund, thus contributing to the economic, social and environmental enhancement of Québec's northern territories.

FLEET OPTIMIZATION AND SUSTAINMENT

Fleet sustainment and optimization are imperative for the long-term security and reliability of the electricity supply. Highly specialized teams are continually evaluating facility condition and performance in order to determine the type and urgency of work that may be required. In 2014, $326 million was invested in generating station refurbishment and refitting. Work planning must be adapted to the diversity of our generating fleet, which includes both run-of-river and reservoir power plants.

▸ We completed the first unit overhaul at Robert-Bourassa underground generating station, the most powerful in our fleet (Baie-James region). This major plant overhaul, which will take several years, primarily involves replacing the speed governors and excitation and control systems on all the units, as well as some of the turbine runners.

▸ In the Manicouagan region, a second unit at Jean-Lesage generating station (formerly Manic-2) was refurbished. This plant overhaul will extend service life and increase capacity by about 30 MW. In addition, the spherical valves at Manic-5 are undergoing major work to improve their long-term reliability.

▸ We completed the overhaul of a unit at Beauharnois generating station in the Montérégie region. This large-scale project—which will involve overhauling five other units—will increase the output and prolong the service life of this generating station, whose 36 units make it one of the most powerful facilities in our fleet. We also began the overhaul of another unit at Les Cèdres generating station. This project will incorporate two technological innovations: the first is the installation of a runner prototype made of high-tensile steel, which is easier to weld and is more resistant to cracks, cavitation and mechanical stress. The second innovation is the installation of electric servomotors, which will obviate the need for an air/oil pressure component.

The 62 generating stations operated by Hydro-Québec Production have a total installed capacity of 36.5 GW.

In 2014, the average cost of a kilowatthour was 2.01¢. This is the sum of our generating, procurement and sales costs divided by net sales.

▸ We are completing the refurbishments required to ensure the long-term operability of Paugan generating station, in the Outaouais region. The project to replace the gate lifting mechanisms on the Chelsea dam spillway is progressing as planned.

▸ We finished refitting the second of four units at both Rapide-2 and Rapide-7 generating stations in Abitibi-Témiscamingue. Replacing the four turbine runners and some mechanical components will yield about 12 MW of additional capacity at each facility. At Rapides-des-Quinze generating station, we began the refurbishment and refitting of two of the six units. The improved performance of the new turbine runners and their increased capacity will lead to a plant uprating of about 12 MW.

3

4

▸ The project to expand and upgrade our network of hydrometeorological monitoring stations has entered its third year and is progressing as planned. Under this 10-year project, new stations will be added and obsolete ones replaced throughout the territory. The data collected (on precipitation, snow accumulation, temperature, etc.) is critical for planning generation and maintenance, managing facilities in real time, and designing new structures.

▸ We are close to completing refurbishment on Gouin and La Tuque dams in the Mauricie region. The work mainly involves the spillways, gates and lifting mechanisms.

▸ At Gentilly-2 nuclear generating station, preparations for dormancy continued on schedule and in line with the requirements of the Canadian Nuclear Safety Commission (CNSC). We drained the heat transfer and moderator circuits, and removed the systems. By the end of the year, we had achieved a safe state of storage, with the uranium in the pool. We also began preparatory work to obtain a new licence reflecting the generating station's status by June 30, 2016. During a public meeting held on December 17, Hydro-Québec representatives reported on the progress of the decommissioning to the CNSC, whose members underlined the excellent quality of Hydro-Québec's report.

We use water to generate more than 99% of our output.

In addition, we continued to roll out the plan for reassigning surplus employees, initiated when the generating station was shut down. Since September 2012, about 80% of the 600 permanent employees who were working at Gentilly-2 have either found another job at Hydro-Québec, retired, or been hired by another employer. Nearly half of the employees who found other jobs have remained in the Mauricie and Centre-du-Québec regions.

CREATING VALUE FROM QUÉBEC POWER

The generating fleet is managed with two major goals in mind: the security of Québec's electricity supply and the profitability of operations. Because reservoir generating stations have large storage capacity and can be started up in a matter of minutes, we can adjust output based on domestic demand and conditions on markets outside Québec.

▸ Electricity sales to Hydro-Québec Distribution totaled 165.5 TWh in 2014, compared to 167.2 TWh in 2013.

5

1 Analysts and traders at work on Hydro-Québec Production's energy trading floor.

2 Refitting has been completed on the second of four units at Rapide-2 and Rapide-7 generating stations.

3 Operators Mirco Furoy and Richard Maltais keep an eye on the monitors at the control room console. These monitors show the real-time status of equipment at Robert-Bourassa and La Grande-2-A generating stations.

4 Technician Marcel Picard and powerhouse mechanics Stéphane Legault and Marc Savinsky perform special tests to evaluate the efficiency of generating units and determine the best way to operate them.

5 Powerhouse mechanics Tommy Neeposh and Steve Fraser at work inside La Grande-2-A generating station.

1

▶ Net exports generated $1,529 million, up from $1,353 million in 2013, due to favorable market conditions in winter 2014.

▶ Our neighbors in the U.S. Northeast continue to express interest in hydropower. They are increasingly dependent on natural gas and must decommission old generating stations that run on fossil fuels. Our clean, renewable energy with low greenhouse gas emissions is gaining recognition in our markets.

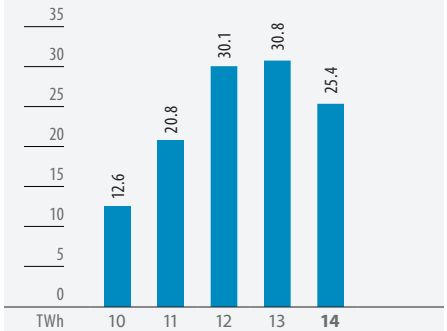
▶ Hydro-Québec Production is continuing talks regarding participation in projects to build transmission lines between Québec and certain states in the U.S. Northeast. These interconnections would enable us to increase our exports to those markets.

▶ We operate our generating fleet in such a way as to maintain a permanent energy reserve sufficient to offset a potential runoff deficit equivalent to 64 TWh over two consecutive years and 98 TWh over four consecutive years. We also keep a capacity reserve in accordance with the industry's reliability criteria. As at December 31, 2014, reservoir storage stood at 103.7 TWh.

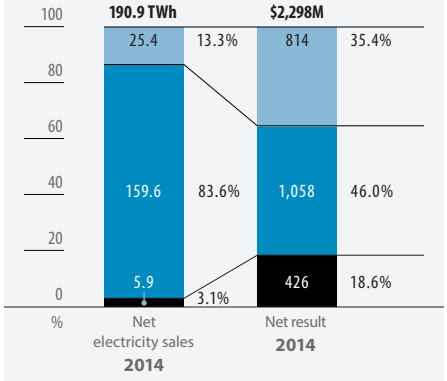
INNOVATING TO MAXIMIZE OUTPUT

Through its technological innovation efforts, Hydro-Québec Production seeks to increase the efficiency, availability and useful life of its assets. Conducted in collaboration with the company's research institute, the Institut de recherche d'Hydro-Québec (IREQ), as well as industry partners and university researchers, the work performed in 2014 was part of a portfolio of 22 projects. The total value of those projects, technology watch activities, technical support and expertise-related mandates amounted to $15 million.

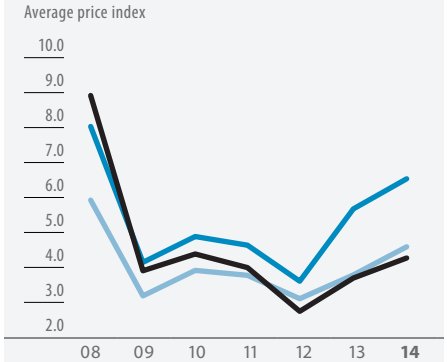
NET ELECTRICITY EXPORTS BY HYDRO-QUÉBEC PRODUCTION



NET ELECTRICITY SALES AND NET RESULT OF HYDRO-QUÉBEC PRODUCTION, BY MARKET



TRENDS IN ENERGY PRICES ON HYDRO-QUÉBEC'S EXTERNAL MARKETS



After reaching a historic peak in 2008, natural gas and electricity prices in northeastern North America dropped sharply in 2009, reaching a low point in 2012 and then rising again.

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▶ In 2014, we worked on projects aimed at optimizing generating facility operation and maintenance. Following are a few examples.

□ Continuous measurement of hydraulic turbine flow: This project for developing a measuring method, which was conducted on three generating units in three power plants, was completed in November 2014. The project achieved its objectives, namely, optimizing generating unit operation and water management by providing more precise information about turbine flow. Rollout of the method should start in 2015.

□ PréDDIT project (integrated turbine deterioration prediction and diagnostics): This Web application developed by IREQ displays fatigue and cavitation degradation ratings for turbine runners. The ratings are calculated based on models and tools developed for the project and validated by field surveys. Once implemented throughout the fleet, the application will improve turbine condition monitoring and make it possible to predict the progression of turbine degradation. It will also help assess the impact of stop/start, no-load and other operations on turbine reliability. For example, in 2014, the application was used to shed light on how start-ups affected the fatigue reliability of turbines at Beauharnois generating station. The findings led to modified start-up procedures for certain units to limit the impact of start-ups and extend the service life of the turbines. Similar benefits are expected in other generating stations.

By continuing to develop Québec's hydraulic resources into clean, renewable power, we will be able to meet the energy needs of future generations.

□ OpenFOAM software: We are performing calculations to evaluate the discharge capacity of control structures, head losses and erosion risks downstream. The goal of this project is to determine whether the software can create a 3D simulation of the complex flows in control structures. In addition to facilitating experience and knowledge sharing, the open-source software performs calculations faster than the applications that are currently used.

□ Replacing SCOMPI robots: Second- and third-generation SCOMPI robots, which were used for numerous turbine and gate repairs (welding, grinding, hammering and polishing), have reached the end of their service life. In 2014, an agreement was reached with IREQ for the manufacture of five new commercial-quality SCOMPI robots. The first robots should be delivered in early 2016.

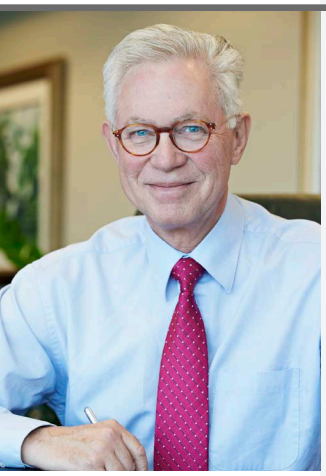
4

1 At Beauharnois generating station, two mechanics measure the play between the stator windings and the rotor in a generator exciter.

2 At Rapide-2 generating station, expert technician Jean-Pierre Dionne and electrical engineer Hugo Harnois prepare to connect three current transformers to a power analyzer.

3 The refurbishments carried out at Paugan generating station in 2014 mainly involved modernizing the intakes and the generating unit controls and protections.

4 We are installing new hydrometeorological stations in strategic locations to collect valuable data for operation, generation planning, environmental protection, safety and civil engineering.



André Boulanger
President,
Hydro-Québec TransÉnergie

Making the Most of Our Transmission Assets

At Hydro-Québec TransÉnergie, the load on our grid continues to grow. In 2014, we carried out major work to maintain and improve the quality of our assets and, in so doing, maximize the reliability of our grid. Substantial efforts also went into integrating new infrastructure to meet the growing demand for power transmission. Our capital program totaled $1.6 billion.

The largest growth project was construction of the system bringing the output from Romaine-2 generating station, in the Côte-Nord region, onto the grid, including a transmission line connecting Romaine-2 to Arnaud substation. This line extends and strengthens the transmission grid and will enable us to handle demand growth.

Our planning activities are focused largely on deploying our asset management model, which calls for better integration of our maintenance and sustainment strategies. We stepped up our maintenance operations, which, in the coming years, will help curb the increase in the risk of failure and reduce major breakdowns that could affect customers' electrical service. This strategy offers many advantages in terms of service continuity, which was excellent in 2014.

The growing number of projects and continued development of the transmission system pose challenges that are both numerous and complex. To meet these challenges, we rely on our skilled, committed personnel, who play a key role in our day-to-day success.

2014 IN FIGURES

Revenue	**$3.3 billion**
Net result	**$624 million**
Customers (% of revenue)	
Hydro-Québec Distribution (native-load transmission service)	**84%**
Hydro-Québec Production and other North American wholesalers (point-to-point transmission services)	**11%**
Other	**5%**
Property, plant and equipment as at December 31 (including work in progress)	**$19.9 billion**
Investments in property, plant and equipment	**$1.6 billion**

OUR MISSION

Hydro-Québec TransÉnergie operates the most extensive transmission system in North America, markets system capacity and manages power flows across Québec. Our Direction – Contrôle des mouvements d'énergie acts as Reliability Coordinator for transmission systems in Québec.

OUR FACILITIES

Our system comprises 33,915 km of transmission lines and 519 substations, including interconnections that allow power interchanges with grids in the Atlantic provinces, Ontario and the U.S. Northeast. Our tariff, approved by the Régie de l'énergie, ensures non-discriminatory access to our system in compliance with North American regulatory requirements.

OUR ACTIVITIES

To meet evolving customer needs and provide high-quality transmission service, Hydro-Québec TransÉnergie works diligently to ensure the development, reliability and long-term operability of its system. With a view to continuously improving its performance, the division also focuses particular attention on developing its expertise.

1

MAJOR PROJECTS AND TRANSMISSION SYSTEM DEVELOPMENT

We manage and develop the system so that it can efficiently transmit energy from generating centres to load centres. In 2014, capital investment in asset sustainment and growth remained at a high level, totaling over $1.6 billion. This amount covers both the replacement of equipment that had reached the end of its service life and the addition of new lines or reinforcement of strategic line segments that handle ever-increasing energy flows. The Montréal and Québec metropolitan grids, for example, saw the start-up of many new facilities in 2014.

Sustainable operation of transmission facilities that must be continuously and optimally maintained is one of the major challenges met by Hydro-Québec TransÉnergie. To achieve this, we employ methods and planning tools that ensure service continuity and improve performance over the long term.

On January 8, 2015, electricity demand in Québec reached a peak of 38,743 MW.

METROPOLITAN MONTRÉAL

Work to reinforce supply to the metropolitan loop is moving ahead in accordance with the system development plans put forward in recent years. The objective is to meet both current and future needs. The 2013 commissioning of the 735-kV section at Bout-de-l'Île substation is the first in a series of strategic and pivotal projects that will bolster supply to the province's largest load centre.

▶ We modified the architecture of the 315-kV grid linking Québec and Montréal in order to maintain service quality and power reliability in eastern Montréal.

□ A section was added to the 315-kV Mauricie–Lanaudière line to connect the Mauricie–Bout-de-l'Île line to Lanaudière substation. Scheduled completion: 2015.

□ Work continued on a 735/315-kV transformer section being built at Bout-de-l'Île substation to enable it to receive loads from Duvernay, Boucherville and Lanaudière substations. Scheduled completion: 2015.

2

1 Lineworkers in action on a tower on the Romaine-2–Arnaud line, which has now been commissioned.

2 From left to right: Engineers Pierre Dufour, Raymond Cossette and Sylvain Plante, working on transmission system planning and development for the coming years.

▶ Work proceeded on the 735-kV Chamouchouane–Bout-de-l'Île project, which calls for the construction of an approximately 400-km, 735-kV line between Chamouchouane substation, in the Saguenay–Lac-Saint-Jean region, and the future 735/120/25-kV Judith-Jasmin substation, which will be part of the metropolitan Montréal loop. This project also includes adding a 19-km, 735-kV line segment to relocate an existing line running from Jacques-Cartier substation (Québec region) to Bout-de-l'Île substation. The project has a number of objectives: maintain transmission system reliability, improve supply to substations in

1

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Hydro-Québec TransÉnergie enjoys worldwide recognition in designing and operating large transmission systems.

By continuing to develop our transmission grid and ensuring our facilities' long-term operability, we will be able to meet the needs of future generations.

the metropolitan loop, ensure optimal integration of new generating sources and prepare the grid for the future.

□ 735-kV Chamouchouane–Bout-de-l'Île project (scheduled completion: 2018): we filed the environmental impact assessment and applied for Régie de l'énergie approval.

□ 735/120/25-kV Judith-Jasmin substation (scheduled completion: 2019): we applied for Régie de l'énergie approval.

▶ We continued work on growth and sustainment projects as part of the 25-year development plan for the grid on the island of Montréal. The first facilities targeted by this plan are:

□ 315/120/25-kV Bélanger substation and tap line (scheduled completion: 2015)

□ 315/25-kV Henri-Bourassa substation (scheduled completion: 2015)

□ 315/25-kV Fleury substation and tap line (scheduled completion: 2017)

□ 315/25-kV De Lorimier substation and two tap lines, approved by the Régie de l'énergie during the year (scheduled completion: 2017).

□ 315/25-kV Saint-Patrick substation and two tap lines (scheduled completion: 2019).

▶ We completed 315/120-kV Pierre-Le Gardeur substation and commissioned it in December 2014. This substation will meet growing demand in the southern Lanaudière region. It will also reduce pressure on the 315/120-kV section at Duvernay substation, where capacity had been exceeded, and eliminate overloading problems on some 120-kV lines.

▶ Construction continued on 315/25-kV Blainville substation and its tap line, designed to meet demand growth in the central Basses-Laurentides region. Scheduled completion: 2015.

▶ We obtained approval from the Régie de l'énergie and began construction on a 120-kV double-circuit line between Pierre-Le Gardeur and Saint-Sulpice substations intended to serve growing customer needs in the Lanaudière region. Scheduled completion: 2015.

▶ We continued work to increase capacity and replace equipment at 315/120-kV Chomedey substation in Laval. Scheduled completion: 2015.

CAPITALE-NATIONALE REGION

Major refurbishment and reinforcement work on the grid that supplies the Communauté métropolitaine de Québec (CMQ) is progressing smoothly, in line with the development plan put forward in 2008. The new facilities will complete the CMQ regional grid development plan, which already included the recently commissioned Anne-Hébert (2010), Limoilou (2012) and Charlesbourg (2013) substations. This major redesign is intended both to support long-term load growth and to ensure the long-term operability of the CMQ grid.

▶ Work is going forward on two new 230-kV lines between Québec and Limoilou substations. Scheduled completion: 2015.

▶ The new 315/25-kV Lefrançois substation and its tap line, commissioned in December, will eventually allow 69/25-kV Montmorency substation and its tap line to be dismantled. The goal of this project is to secure the supply for current loads and meet native-load growth.

▶ The new 315/25-kV Duchesnay substation and its tap line will replace 69/25-kV Val-Rose substation and its tap line and will help meet increased demand in the regional county municipality of La Jacques-Cartier. Scheduled completion: 2016.

INVESTMENTS IN THE TRANSMISSION SYSTEM ($M)

	2014	2013	2012	2011	2010
System growth	**776**	998	688	460	423
Asset sustainment (reliability and long-term operability)	**851**	917	735	832	825
Total	**1,627**	1,915	1,423	1,292	1,248

3

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5

The most extensive grid in North America: we adapt our operations every year so we can always meet our customers' needs.

1 Safety advisor Patrick Moreau and prevention advisor Suzanne Paradis in front of the first 735-kV line built on the island of Montréal, a project intended to reinforce the metropolitan loop.

2 Chamouchouane substation, in the Saguenay–Lac-Saint-Jean region, is the lynchpin in an important project.

3 In winter, snowmobiles and helicopters are used for line inspections in remote regions, such as Côte-Nord.

4 The converter room plays a critical role at Outaouais substation.

5 Société de transmission électrique de Cedars Rapids (CRT), a wholly owned subsidiary of Hydro-Québec, celebrated its 100th anniversary this past September 23.

OTHER REGIONS

To resolve the various issues affecting the transmission system—mainly demand growth and asset sustainment—, we commissioned or connected a number of other transmission facilities and continued work on certain equipment.

▶ Ongoing work to connect the Romaine complex, as part of the project to expand the grid in the Minganie region:

□ The switchyard at Romaine-2 generating station (640 MW) and the 262-km, 735-kV line linking Romaine-2 to Arnaud substation were completed and brought online in December.

□ Continued work on Outardes substation and the 735-kV lines. Scheduled completion: 2015.

▶ We are gradually integrating the wind generation contracted for by Hydro-Québec Distribution following tender calls in 2005 (2,000 MW) and 2009 (289.9 MW):

□ Vents du Kempt, Rivière-du-Moulin (Phase 1) and Seigneurie-de-Beaupré-4 wind farms (2005 tender call)

□ Saint-Damase, Mitis, Plateau-2 and Témiscouata wind farms (2009 tender call)

▶ We made progress on a double-circuit 230-kV line between Saint-Césaire and Bedford substations, in Montérégie. Scheduled completion: 2015.

▶ In Abitibi-Témiscamingue, we undertook several projects to ensure long-term operability and meet demand, including:

□ Replacement of the 735/315-kV power transformers at Abitibi substation, approved by the Régie de l'énergie during the year. Scheduled completion: 2015.

□ Reinforcement of the 120-kV transmission system in the Palmarolle and Rouyn-Noranda areas by extending the 120-kV line from Figuery substation as far as Palmarolle substation. Commissioned in October 2014.

□ Reinforcement of the 315/120-kV transmission system by adding an autotransformer and static var compensation at Figuery substation. Scheduled completion: 2015.

□ Installation of three synchronous compensators at Cadillac substation to maintain the facility's short-circuit current level while also limiting voltage fluctuations on the transmission grid. Commissioned in October 2014.

▶ We boosted series compensation capacity at Bergeronnes substation to ensure transmission service at the interconnections with New York State and New England. Commissioned in October 2014.

▶ To ensure the long-term operability of the DC grid, we are replacing converter control and protection systems at Radisson and Nicolet substations, and carrying out related work at Grondines and Lotbinière substations. Scheduled completion: 2016.

▶ We must also renew the 230-kV and 735-kV equipment, special protection systems and relay building at Nicolet substation in the Centre-du-Québec region to ensure long-term operability and comply with directives and standards applicable to Hydro-Québec TransÉnergie. Scheduled completion: 2018.

▶ In the Baie-James region, we replaced two static var compensators at Nemiscau substation, as well as the cooling, control and protection systems. Commissioned in December 2014.

▶ Replacement of two static var compensators at Albanel substation in Nord-du-Québec will maximize service continuity and system stability in the region, while also ensuring optimal system operability and planning. Scheduled completion: 2016.

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OUR PRIMARY RESPONSIBILITY: RELIABILITY

Hydro-Québec TransÉnergie's Direction – Contrôle des mouvements d'énergie acts as Reliability Coordinator for transmission systems in Québec. The Reliability Coordinator submits the reliability standards established by the North American Electric Reliability Corporation (NERC) to the Régie de l'énergie. These are applied under a continent-wide regime of mandatory standards. In 2014, the Reliability Coordinator continued its submissions to the Régie de l'énergie for adoption of the NERC reliability standards it proposes.

▶ The Régie de l'énergie adopted seven reliability standards in March and required the Reliability Coordinator to conduct a public consultation. Accordingly, the Reliability Coordinator continued public consultations throughout the year regarding the additional or updated reliability standards it intends to submit to the Régie.

▶ In September, the Régie signed an agreement with NERC and the Northeast Power Coordinating Council (NPCC) for implementation of the Québec Reliability Standards Compliance Monitoring and Enforcement Program. The Reliability Coordinator was consequently able to submit an amended version of the Sanction Guide applicable in case of non-compliance with NERC standards.

▶ In December, the Régie de l'énergie set April 1, 2015 as the date on which 12 reliability standards applying exclusively to Hydro-Québec TransÉnergie will come into effect.

APPROACHES THAT ARE CONTINUALLY EVOLVING

To optimize our asset use and minimize the risk of equipment failure, we continued to roll out our asset management model, which calls for better harmonizing of our maintenance and sustainment strategies.

▶ To support this approach, we refined the maintenance and sustainment objectives of each of our asset families. The impact of these objectives was then simulated using our asset-aging modeling tool. The information generated by these simulations enables us to optimize and measure the different steps to be taken and to determine the financial, human and material resources required to maintain an acceptable level of risk of equipment failure.

▶ We continued to deploy the maintenance system optimization program, which is aimed at meeting the challenge of performing maintenance and sustainment work while ensuring continuous operation of transmission facilities. The addition of this new technology will facilitate workforce planning and help us optimize work on the system.

▶ Given our substantial capital spending, we continued to optimize our supply chain processes to make sure we are obtaining high-quality equipment and material and to reduce life-cycle costs.

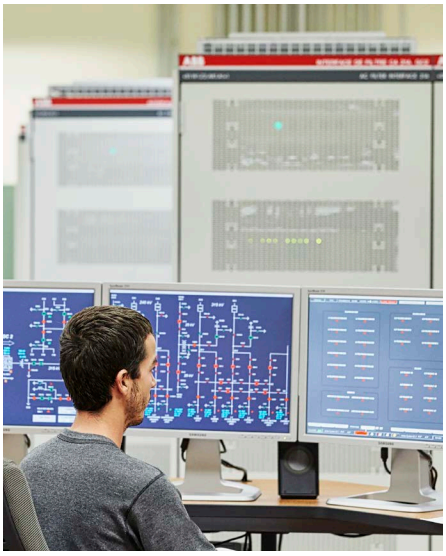
The reliability of our transmission system is the result of constant hard work by our employees and suppliers.

HEALTH AND SAFETY

Our health and safety efforts continued, with stepped-up initiatives targeting employees, suppliers and the general public. For example, we prepared lockout placards designed to standardize safety measures to be taken during work on electrical equipment. In addition, we continued work on securing access to live equipment located in hard-to-access areas.

THE ENVIRONMENT AND VEGETATION CONTROL

For the past two years, we have been using Light Detection And Ranging (LIDAR) technology, a highly precise method for comparing the height of ground cover with conductor height in order to establish the scope of work needed on vegetation growing in line rights-of-way. In 2014, we carried out a new data capture campaign and began incorporating this data into our corporate systems. The gradual optimization of vegetation inspection in rights-of-way is also designed to maintain system reliability through improved knowledge of minimum clearances that are safe for transmission lines, workers and the public.



INNOVATING TO IMPROVE TRANSMISSION SERVICE

Technological innovation plays a key role in all our areas of activity. In 2014, we spent nearly $21 million on various innovation efforts, many related to the smart grid. We continued to examine our strategic positioning in the field of simulation, and roadmapping was initiated to set out long-term development plans for simulation tools and to ensure sustained expertise in that area. Our R&D efforts are carried out in cooperation with Hydro-Québec's research institute, IREQ, as well as companies and specialized research centres.

▶ We launched a project to convert from conventional to digital substations by implementing digital technologies that increase communication network capacity and a reliable, redundant system for continuous synchronization. The objective is to propose secure solutions with standard interfaces so systems from multiple vendors can intercommunicate. Solutions will be validated on a test platform typical of the existing environment. Using this mockup of the future substation's control and protection systems, we can maximize the benefits of new technologies while minimizing risks in implementing them.

▶ Hydro-Québec TransÉnergie, RTE (France's Réseau de transport d'électricité) and the Université de Sherbrooke signed a memorandum of understanding to continue partnering under the university's research chair on transmission line mechanical and structural engineering. This collaborative effort will lead to innovative solutions for optimizing not only new line design but also work on existing lines.

▶ Under the Smart Grid program, Alstom Grid was granted a marketing licence for the out-of-step protective (OSP) relay that we developed jointly with that company. The first OSP relay will be installed at Saguenay substation to replace surge arrester switching.

▶ A prototype universal, non-intrusive diagnostic tool, UNIC, was developed for high-voltage circuit breakers. UNIC analyzes the condition of in-service breakers and made it possible during tests to target inspections to those facing imminent failure and subsequently replace them.

▶ A magneto-thermal simulation model that we developed for transformers was tested and commissioned. With it, we can operate transformers beyond their theoretical limits with no adverse effect on their service life. We can thus evaluate their thermal performance if problems are detected and defer procurement of new transformers.

▶ In-service testing has been successfully completed for two new diagnostic tools to be used by the line inspection robot LineScout: the LineCore corrosion sensor, developed in partnership with BC Hydro and National Grid (U.K.), and a digital radiography system.

▶ In 2014, an important phase was completed in developing EMTP-RV, a tool for simulating transient electromagnetic phenomena on the grid. Through enhancements to the calculation engine, run speed was increased and interoperability was achieved with PSS/e transient simulation software and with power system simulation data.

1 Bout-de-l'Île substation improves supply to substations in the metropolitan loop, ensures optimal integration of new generating sources and prepares the grid for the future.

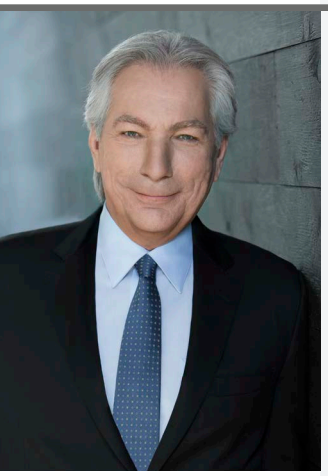
2 Forestry technicians Claude Lévesque and Vincent Lord inspect vegetation to make sure it poses no risk to the public, workers or the grid.

3 Lineworkers Gratien Morel and Mathieu Larouche prepare to replace insulators on a 735-kV line.

4 Operator Alexandre Desroches studies the operation diagrams at Outaouais substation.

BREAKDOWN OF R&D INVESTMENTS IN 2014 ($M)

Technological innovation	**15.4**
Technical support	**4.5**
Technology watch	**0.6**



Daniel Richard
President,
Hydro-Québec Distribution

Ensuring Our Customers' Peace of Mind

To meet customers' needs and ensure their peace of mind, Hydro-Québec Distribution applies improvement measures inspired by industry best practices in all its spheres of operation. We use proven technological solutions to develop our service offering while continuing to ensure the reliability of our network. One of our goals is to improve the quality of information available to customers and to simplify access to our services.

In 2014, the Régie de l'énergie authorized phases 2 and 3 of our advanced metering infrastructure rollout. The experience acquired since the beginning of the project enables us to deploy the new infrastructure more quickly and efficiently than anticipated: more than 2.5 million meters have been installed to date and we expect to have completed all 3.8 million installations by the end of 2016. Customer satisfaction with respect to meter replacement is very high.

Through our energy efficiency efforts, the 8 TWh savings target set by the Québec government for the Energy Efficiency Plan (EEP) was reached in 2014, a year earlier than anticipated.

2014 IN FIGURES

Revenue	**$11.8 billion**
Net result	**$341 million**
Market segments (% of revenue from electricity sales)	
Residential	**45%**
Commercial, institutional and small industrial	**32%**
Large industrial	**21%**
Other	**2%**
Property, plant and equipment as at December 31 (including work in progress)	**$9.5 billion**
Investments in property, plant and equipment and intangible assets (including the Energy Efficiency Plan)	**$915 million**

OUR MISSION

Hydro-Québec Distribution ensures a secure, reliable supply of electricity and delivers high-quality services to the Québec market.

OUR FACILITIES

We operate 115,583 km of distribution lines and five distribution control centres as well as one hydroelectric generating station, 24 thermal generating stations, 272 km of transmission lines and 11 substations supplying customers on off-grid systems.

OUR ACTIVITIES

To meet electricity demand, we rely primarily on the heritage pool of 165 TWh supplied by Hydro-Québec Production. We also negotiate long-term supply contracts and purchase power on the market. We operate the distribution system efficiently and ensure its reliability. In addition, we handle relations with Hydro-Québec's domestic customer base, offering customers products and services tailored to their needs, as well as a wide range of energy efficiency programs.

Line workers in buckets install a conductor on insulators.

MANAGING SUPPLY RESOURCES

Our supply strategy makes use of a flexible energy portfolio that enables us to ensure reliable electrical service at the lowest cost in spite of unforeseeable spikes and dips in demand. These fluctuations can be significant, especially during the winter peak. Despite very harsh weather in the first quarter of 2014, we met customer needs at all times.

▶ Following Régie de l'énergie approval in February 2014, the purchase program for power from forest biomass cogeneration plants, adopted by the Québec government on November 20, 2013, was extended until December 19, 2014. One of the plants selected under the program began delivering power during the year. The contracted capacity of the plants in operation totals 108.5 MW. Three new power purchase agreements (PPAs) were signed, bringing the capacity contracted under this program to 204.1 MW.

▶ In July, we awarded PPAs following a short-term tender call for the purchase of firm power to meet the needs of our Québec customers during the winters of 2014–2015 to 2017–2018. The capacities contracted under these agreements range from 50 to 750 MW.

▶ In December 2014, the Régie de l'énergie handed down a partial decision regarding the Electricity Supply Plan 2014–2023. It authorized a long-term tender call process for the procurement of 500 MW to meet capacity requirements starting in winter 2018–2019.

▶ Also in December, under a tender call for an additional 450 MW of wind power, we selected the bids submitted by three project proponents, for a total of 446.4 MW.

▶ Eight wind farms built in response to the 2005 and 2009 calls for tenders were commissioned in 2014. The wind turbines now in service supply a total of 2,644.7 MW.

In 2014, a year earlier than expected, Hydro-Québec Distribution met the EEP energy savings target of 8 TWh.

ONGOING ENERGY EFFICIENCY ACTIVITIES

Through our energy efficiency efforts, the energy savings target of 8 TWh set by the Québec government for the Energy Efficiency Plan (EEP) was reached a year earlier than anticipated. Customer participation in EEP programs generated new savings of 504 GWh, bringing the cumulative savings under the plan to 8.2 TWh. We maintained our programs and continued to update our action strategies targeting sustainable energy efficiency gains and the gradual implementation of new demand response measures.

▶ To accelerate the deployment of demand response measures during peak periods, we launched a pilot project to interrupt power to water heaters with a view to rolling out the program on a wider scale in winter 2015–2016.

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▶ We continued our collaboration with the Bureau de l'efficacité et de l'innovation énergétiques, in particular to review the regulation on energy efficiency of electrical or hydrocarbon-fueled appliances and update the regulations on energy conservation in commercial, institutional and industrial buildings, as well as multi-unit residential buildings. These regulations, which apply to both new buildings and expansions, will be integrated into the *Québec Construction Code*.

▶ We launched the Efficient Homes Program for builders. This program, which will expand over time, encourages the inclusion of certain energy-saving measures in new homes, such as efficient windows and doors, electronic thermostats, LED bulbs, a three-element water heater and a service box that can accommodate a charging station for electric vehicles.

▶ We also launched the ENERGY STAR® Certified Windows for Rental Properties Program to promote energy-efficient windows to rental property owners who undertake renovation projects.

▶ To date, some 15,000 kits have been purchased by customers and municipalities under the Water- and Energy-Saving Products Program.

▶ Hydro-Québec applauded the energy efficiency efforts of 28 companies, including 21 who earned admission to the Energy Savers' Circle after reducing their consumption by at least 5% or 50 GWh a year.

▶ Hydro-Québec received two ENERGY STAR® awards from the Government of Canada: Utility of the Year – Provincial, and Promotional Campaign of the Year, for the campaign on LED service life. Thanks to our efforts, LED bulbs, which boast a long service life and low energy consumption, are being quickly adopted by the public.

CUSTOMER CARE

Determined to satisfy the needs of our customers while simplifying their lives, we rely on proven technological solutions.

▶ Since June, new Equalized Payments Plan (EPP) functionalities have been added to our Web site. Customers can now track their consumption all year long, change their monthly installment as necessary and sign up to receive an e-mail alert if their actual consumption is substantially higher than the consumption covered by their installments.

▶ With a view to helping our customers access information more easily and be more self-sufficient, in the fall we launched a new portal through which rental property owners and managers can track responsibility for the electricity bill for each of their units.

▶ To meet the demand for information on service interruptions, we developed a new Web tool that breaks down interruptions (whether power failures or scheduled outages) by region and pinpoints their locations on a map. The expected service restoration time is displayed when available.

▶ Online Billing continues to gain in popularity, with some 122,000 additional customers opting for this service in 2014. In all, 756,000 customers—24% of residential customers—have given up paper bills, allowing us to avoid printing 7.2 million bills per year.

▶ In March 2014, the Régie de l'énergie approved a rate increase of 4.3%, excluding Rate L for which the increase is 3.5%, effective April 1, 2014, and set the rate of return on equity at 8.2%.

▶ In August, Hydro-Québec Distribution filed an application with the Régie de l'énergie for a rate adjustment of 3.9%—3.5% for Rate L—effective April 1, 2015. More than half of the increase requested is to cover the cost of new supplies, chiefly wind power, and the indexation of the heritage pool price. Additional efficiency gains on the order of $50 million limited the rate increase for 2015.

▶ In October, the Québec government announced the introduction of an electricity rate for businesses, designed to promote economic development. This rate targets new projects that have significant electricity needs and good potential for economic spinoffs.

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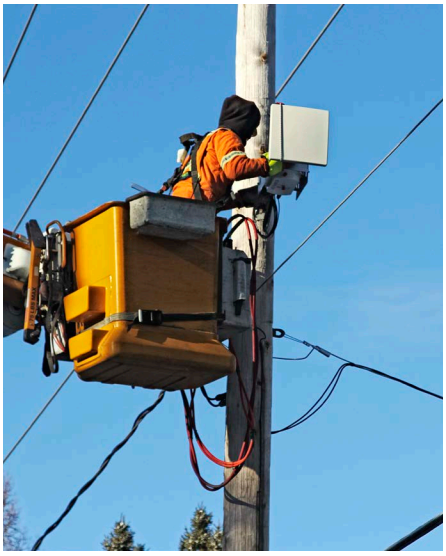

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▶ The rate applicable to Hydro-Québec's residential customers remained among the lowest in North America. For customers whose monthly consumption is 1,000 kWh, Montréal once again took first place.

▶ Hydro-Québec continued to support low-income customers who have difficulty paying their electricity bills. In 2014, we entered into 99,722 special arrangements with these customers. In response to the concerns expressed by the government in Order-in-Council No. 841-2014, which directs the Régie de l'énergie to take economic, social and environmental concerns into account when assessing the rate changes for the 2015–2016 rate year, we filed a proposal to enhance our services for low-income households.

Customer satisfaction regarding interactions with the company was 8.2 out of 10, on a par with the 2013 level.

A NETWORK TO SERVE OUR CUSTOMERS BETTER

Hydro-Québec Distribution continued to invest in the development, reliability and long-term operability of its facilities in order to ensure high-quality electrical service and thus contribute to customers' peace of mind. Our main projects were the continued rollout of the advanced metering infrastructure and the modernization of business practices related to system operations.

1 Line workers in action at a new residential development.

2 A crew at work during a winter storm in a residential area of Montréal.

3 Line workers install conductors on insulators.

4 Under the program for the annual inspection of metering stations, metering technician France Toupin inspects an installation belonging to a large-power business customer.

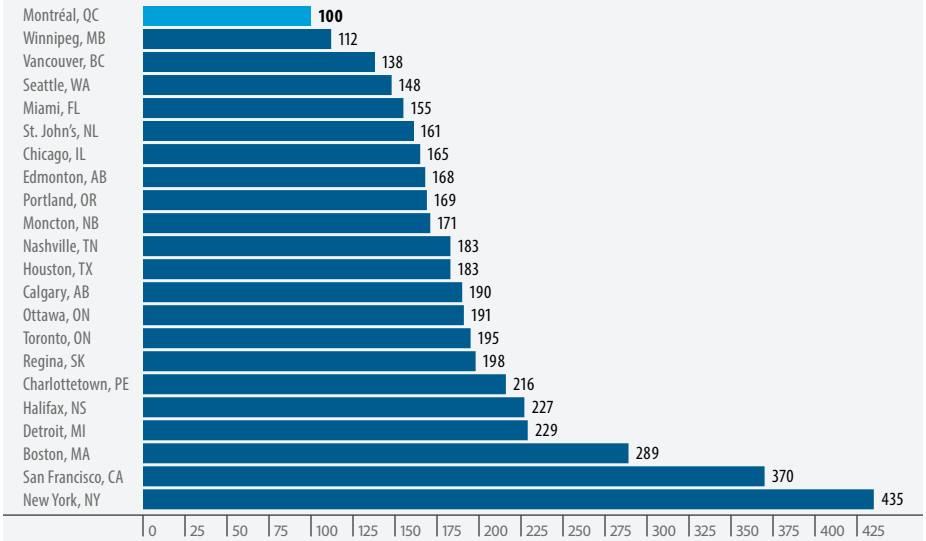
5 A line worker installs a directional cellular antenna on a pole to extend coverage to parts of the distribution system where the cellular signal is too weak.

ADVANCED METERING INFRASTRUCTURE

▶ Launched in 2013, rollout of the advanced metering infrastructure continued, and we have installed more than 2.5 million meters to date. In June, the Régie de l'énergie authorized phases 2 and 3 of the project, meaning that we can now pursue deployment with an overall vision and take decisions that will optimize the installation of meters and telecommunications equipment, thus maintaining a faster rollout rate and keeping costs below those initially budgeted.

▶ In May, Hydro-Québec filed an application with the Régie de l'énergie to lower the charges associated with opting not to have a communicating meter installed. The charges were $98 for the initial installation and $17 monthly for meter reading. A ruling by the Régie de l'énergie in September set the initial installation charge at $15 and the meter reading charge at $5 monthly.

COMPARATIVE INDEX OF ELECTRICITY PRICES AT APRIL 1, 2014 – RESIDENTIAL CUSTOMERS[a]



a) Monthly bill (before taxes) for a consumption of 1,000 kWh.

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Hydro-Québec Distribution is making substantial efforts to provide peace of mind for its customers.

THE DISTRIBUTION SYSTEM

▶ We implemented SOGEM (line crew scheduling and management solutions), a tool that aims to modernize, optimize and standardize scheduling, dispatching and repair work processes on the distribution network. This project, approved by the Régie de l'énergie in 2013, will allow us to optimize the work and movement of all line crews across Québec. SOGEM will also improve the use of the vehicle fleet thanks to better matching of vehicle assignments to needs.

▶ In the interest of improving distribution system planning and engineering, we are currently reviewing our system design directives and simplifying and standardizing our usual assemblies. Using standardized engineering assemblies will eventually lower project costs and reduce design work while increasing safety. This new method, tested in 2014, will be implemented in 2015. We are also working on several ways to streamline the processing of connection requests, which will lead to reduced waiting times for customer hookups.

▶ We launched a pilot project to automate service restoration after outages, installing 13 intelligent switch-type agents on the system in Sainte-Julie. In 2014, certain events allowed us to put this technology to the test, with positive results. Evaluation is ongoing and we are currently developing a deployment strategy for 2015.

▶ We implemented a proactive approach for strengthening communication with our customers by keeping them informed about the progress of their service requests throughout the engineering process and during the work. With this approach, customers receive an automated e-mail or phone call at certain key stages in the processing of a request, for example, when changing a date agreed upon with a customer.

▶ We keep up our employees' expertise in order to ensure service quality at all times. One training approach is on-the-job team mentoring, which is provided to new employees by experienced employees recognized in their field. This approach speeds up professional development and uniformizes the application of standards and work methods in accordance with safety rules designed to protect workers and the public.

▶ Hydro-Québec trims trees near lines to protect people traveling along rights-of-way, improve system operation and prevent service interruptions. In some locations, with a view to reducing vegetation-related outages, we implemented specific, locally adapted methods for preventive elimination of vegetation that could jeopardize the system.

INNOVATING TO IMPROVE DISTRIBUTION SERVICE AND ENERGY EFFICIENCY

Hydro-Québec Distribution counts on innovation to enhance system performance and intelligence, improve the efficiency of technical operations in the field, and support energy efficiency and sustainability efforts. In 2014, the division spent $22 million on innovation projects carried out in conjunction with Hydro-Québec's research institute, IREQ.

▶ The deployment of smart meters and the associated infrastructure generates a large quantity of operational data. To ensure optimal grid management and service quality, this data must be processed and aggregated with information in other Hydro-Québec databases, which presents a significant challenge. In 2014, as part of CISRI, a project promoting semantic interoperability for the smart grid, we developed an innovative concept for archiving data which, once implemented, will allow us to conserve and analyze changes in distribution system topology over a period of more than two years.

HYDRO-QUÉBEC DISTRIBUTION'S INVESTMENTS, EXCLUDING THE EEP[a] ($M)

	2014	2013	2012	2011	2010
Development	**294**	313	336	326	346
Asset sustainment and reliability	**532**	456	394	407	382
Total	**826**	769	730	733	728

a) EEP: Energy Efficiency Plan

▶ Developed by IREQ, the MILE system for intelligent power line maintenance aims to improve service continuity by reducing the number and duration of power outages. In 2014, we tested a new measuring instrument that will substantially reduce system deployment costs. Project data collected over the years shows a 50% reduction in the frequency of avoidable outages and a 60% improvement in the interruption duration index for the lines equipped with this technology.

▶ In 2011, IREQ launched the STAR project to determine the alternative telecommunications solutions that would best meet changing needs related to the smart distribution grid, which would soon exceed the capabilities of conventional telephone lines. This year, after rigorously studying the requirements for system protections and controls and after testing a variety of target technologies, cellular technology was chosen. To facilitate deployment across the 4,400 remotely controlled devices in the grid, IREQ developed a method for mounting the equipment on power poles, extending coverage to 95% of the overhead system. The same type of installation increased the coverage of collectors for the advanced metering infrastructure, which also uses cellular technology.

Customer satisfaction with their experience during meter replacement is very high.

▶ IREQ's energy technology laboratory, LTE, makes extensive efforts to help Québec companies use electricity more wisely in order to improve their competitiveness and productivity. In 2014, LTE and FPInnovations developed a lumber kiln equipped with a moisture control system. Since wood treated in this kiln has a precise moisture content, it can be used in high-value-added products such as engineered wood.

▶ A pilot project designed to reduce winter peak demand was carried out during peak periods in 2014. It covered five commercial and institutional buildings and showed that their power demand could be reduced by 31% to 66% during the peak, with little or no effect on occupant comfort or energy consumption.

▶ In conjunction with industry partners, we began developing a diagnostic tool for mechanical systems in commercial and institutional buildings. Using data from the controllers for such systems, this software supports ongoing system optimization—improving energy efficiency by 5% to 30%—and the development of demand-side management measures.

1 A supervisor informs his crew of the tasks to be carried out and the safety measures to be applied.

2 Lineworkers Charles Felix-Leduc and Carl Dubé install a compression joint prior to stringing a conductor.

3 In a residential neighborhood, replacing several spans of a line requires a meticulously planned service interruption.

Réal Laporte
President,
Hydro-Québec Équipement et services partagés
President and Chief Executive Officer, Société d'énergie de la Baie James

Maximizing the Value of Our Actions

In 2014, we completed over 1,600 construction projects worth a total $2.3 billion, in addition to providing $509 million in services. Our activities revolved primarily around developing the Romaine complex, extending the main transmission system into the Minganie region and refurbishing existing transmission and hydropower facilities.

We aim to achieve maximum efficiency when carrying out the projects entrusted to us. We rely on a variety of approaches—concurrent engineering, modular construction, best possible use of digital tools at both the design and construction stages—as well as a wide range of means for optimizing facility performance and reducing project lead time and cost.

The project development stage gives us the opportunity to apply and continually improve the way we inform and consult host communities, thereby enabling us to enhance our projects and tailor them to local realities.

Pursuing a proactive strategy, we are involved in operations at plants both inside Québec and in various countries to ensure the quality of products and equipment that will be added to Hydro-Québec's fleets.

At a time when every major project poses new challenges that have a direct impact on our performance, welcoming innovation is a profitable approach. We therefore strive to instill a taste for initiative in all members of our team.

2014 IN FIGURES

Volume of activity

Construction (HQESP and SEBJ)	**$2.3 billion**
Shared services	**$0.5 billion**

Main customers – Construction

Hydro-Québec Production	**44%**
Hydro-Québec TransÉnergie	**54%**

OUR MISSION

Hydro-Québec Équipement et services partagés (HQESP) and Société d'énergie de la Baie James (SEBJ) design and carry out projects for the construction and refurbishment of generating and transmission facilities that optimally meet Hydro-Québec's needs. Working in partnership with host communities and industry, we offer high-quality, cost-effective solutions that apply best practices in social and environmental acceptability. In addition, through the Centre de services partagés (shared services centre), HQESP offers management services in real estate, materials, procurement, transportation and other areas to all Hydro-Québec divisions and corporate units.

OUR ACTIVITIES

Our services cover all project stages and aspects: management, communications with stakeholders, permitting, field surveys and geomatics, biophysical and human environment studies, design and implementation of environmental measures, engineering, procurement, construction, health and safety, in-plant and on-site quality assurance, and project management up to handoff to the operator.

We are constantly seeking new ways to maximize facility performance while reducing costs and construction time.

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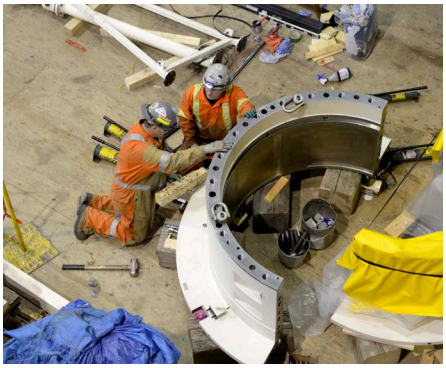
COMBINING EFFICIENCY AND QUALITY

We are keeping up our efforts to reduce lead times for projects that are essential for supplying power to customers, while ensuring the quality of the structures delivered and the safety of workers on our jobsites. Because of the challenges posed by the construction of facilities that are sometimes quite large in scope, we draw on a broad and ever-growing array of options. They include adapting conventional methods to fit new situations and adopting new techniques inspired by innovations elsewhere or here in Québec. This year, we are particularly proud of the strong performance of the asphalt concrete core dam built at Romaine-2, which was commissioned in 2014.

KEY ACHIEVEMENTS IN GENERATION

▶ At the Romaine complex, we finished the Romaine-2 development—the first to be completed in this project. Its two generating units have been running since late 2014. Here are the other milestones reached:

- Romaine-1: the diversion tunnel went into operation, construction was completed on the dam and the dike, and the spillway and intake were concreted.
- Romaine-3: the temporary diversion tunnel began operation and excavation got under way on the generating station, penstocks and spillway.
- Romaine-4: with completion of the final stretch of road, the highway now reaches this development.



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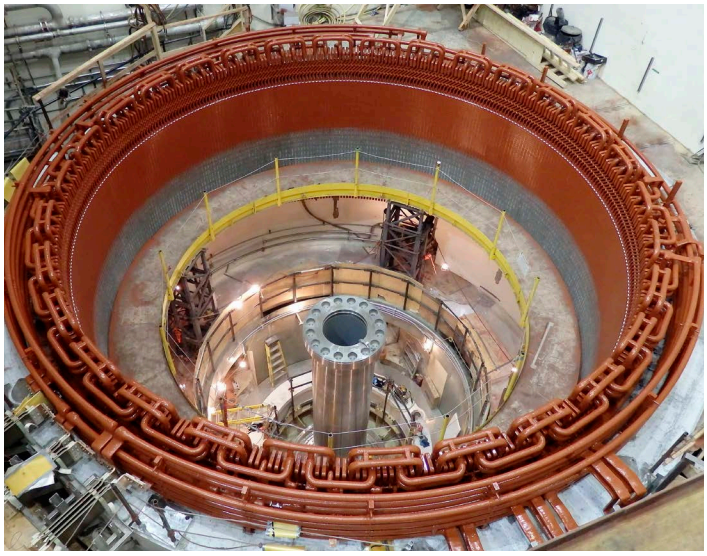
1 Installing prefabricated panels in the service bay area at the entrance to Romaine-1 generating station.

2 Assembling part of the butterfly valve for a generating unit at Romaine-2.

VOLUME OF CONSTRUCTION ACTIVITY ($B, FINANCING EXCLUDED)

2014	2013	2012	2011	2010
2.3	2.6	2.3	2.1	2.6



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▶ Refurbishment of generating facilities took up much of our efforts:

□ In Montérégie, we finished refurbishing unit 32 at Beauharnois generating station and commissioned two overhead traveling cranes at Les Cèdres.

□ In Abitibi, Rapide-2 and Rapide-7 each had one unit refurbished.

□ In Côte-Nord, unit 28 at Jean-Lesage generating station underwent refurbishment.

□ In the Mauricie region, the spillway refurbishment was completed and the static excitation system was replaced at La Tuque generating station.

KEY ACHIEVEMENTS IN TRANSMISSION

▶ In preparation for bringing Romaine-2 generating station onto the grid, we finished building its substation and the 735-kV Romaine-2–Arnaud line (262 km), begun in 2011.

▶ Two new workcamps (Montagnais and Belmont) were put up to house workers building the lines that will connect Romaine-3 and Romaine-4 to the grid via Montagnais substation.

▶ Clearing was done in preparation for construction of the 315-kV Romaine-3–Romaine-4 line.

▶ In Gaspésie, we completed construction on a 9.2-km, 120-kV line to connect Vents du Kempt wind farm to the grid.

▶ In the Capitale-Nationale region, the new 315/25-kV Lefrançois substation and its tap line will ensure an adequate supply to customers currently served by 69/25-kV Montmorency substation.

▶ In the same region, the 345-kV tie line for Rivière-du-Moulin wind farm went into operation.

▶ On the transmission grid serving northeastern metropolitan Montréal, we completed the following projects:

□ Construction of 315/120-kV Pierre-Le Gardeur substation and its tap lines (Lanaudière region).

□ Addition of a static var compensator at Bout-de-l'Île substation.

▶ In Montérégie, the 230-kV Saint-Césaire–Bedford line will ensure reliability of the regional grid and of interchanges between Québec and Vermont.

▶ To maintain transmission grid stability in Abitibi-Témiscamingue, we replaced the gas turbines at Cadillac generating station with three synchronous compensators.

▶ In Nord-du-Québec, we finished replacing two static var compensators at Nemiscau substation and boosted series compensation capacity at Bergeronnes substation.

Transmission projects were a main focus of construction in 2014, for a total of $1.2 billion, while generating facilities accounted for $1.0 billion.

Construction of the asphalt concrete core dam at Romaine-2—one of the largest such dams in the world—was closely monitored.

GENERATING FACILITIES: WORK IN PROGRESS

▶ Construction work on generating facilities totaled $1.0 billion in 2014. Most of this activity was at Romaine-1 and Romaine-3, as well as at a number of other generating stations undergoing refurbishment. While Romaine-2 was being completed, work began or continued at the other sites in the complex:

□ At Romaine-1, work commenced on the generating units, and the mechanical and electrical systems were installed.

□ At Romaine-3, the temporary diversion went into operation, construction began on the dam and dike B3, and the headrace tunnel, intake and generating station site were excavated.

□ At Romaine-4, we performed technical surveys and engineering for the dam and the generating station.

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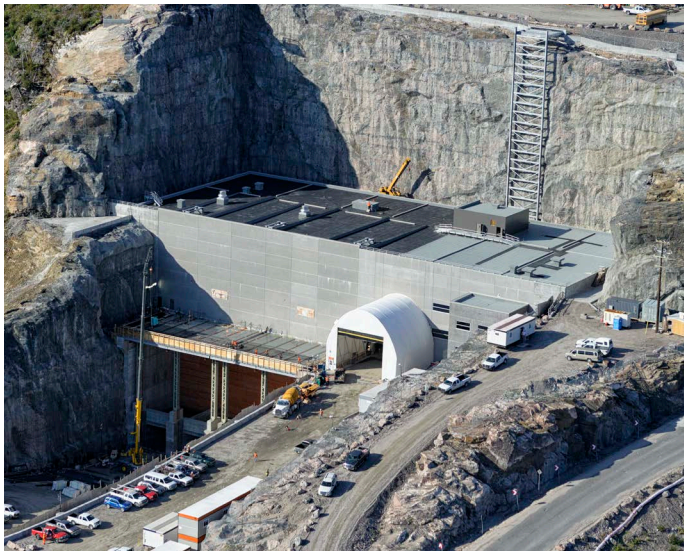

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▶ In Baie-James (Nord-du-Québec), we continued implementing mitigation measures—the final step in the Eastmain-1-A/Sarcelle/Rupert project.

▶ Ongoing refurbishment at Beauharnois generating station is currently focused on units 23 and 27.

▶ We are replacing station services at Trenche generating station, in the Mauricie region.

▶ In Côte-Nord, we are refurbishing the gantry crane and head gates at Manic-5.

▶ In Nord-du-Québec, work proceeded on the new Akulivik thermal power plant. We completed the outer shell of the building and installed the switchgear and control systems.

▶ We are currently conducting a number of refurbishment studies for asset sustainment.

TRANSMISSION FACILITIES: WORK IN PROGRESS

Restoration and improvements on the transmission system, worth a total $1.2 billion, filled most of our order book. In some cases, lines were extended. More often, however, existing components were replaced to make the grid more reliable, flexible and efficient. We plan work stages and schedules so as to cause the least possible disruption to system operation.

The structured improvement processes that we apply to our projects allow us to continually enhance our efficiency.

▶ Grid expansion in Minganie with a view to connecting the Romaine complex continued:

□ Romaine-2 substation and the line linking it to Arnaud substation, near Sept-Îles, came onstream.

□ We broke ground on 315/161/13.8-kV Romaine-1 substation which, with the line running to Romaine-2 substation, will allow output from Romaine-1 generating station to be brought onto the grid starting in 2016.

▶ In the Capitale-Nationale region, construction is under way on 315/25-kV Duchesnay substation and its tap line to better meet rapidly growing demand in the regional county municipality of La Jacques-Cartier.

▶ In the Montréal region, we are building 315/25-kV Henri-Bourassa substation to replace Bourassa substation, and are continuing construction on 315/120/25-kV Bélanger substation and its tap line in a densely populated urban neighborhood, where we had to reduce the facility's footprint and ensure that it blends in with the built environment. We also completed a study on relocating a section of the 315-kV Hertel–Viger line running along Highway 10 in order to clear the work area needed to build the deck of the new bridge over the Saint-Laurent that will replace the Champlain Bridge. At Bout-de-l'Île substation, work continued on a new 735/315-kV section.

1 Top view of a generating unit at Romaine-2.

2 A new 13.8-kV section has been added to Cadillac substation.

3 Formwork for the first layers of asphalt concrete that will form the impervious core of Romaine-1 dam.

4 Work on Romaine-1 generating station is proceeding at a good pace.

▶ 315/25-kV Blainville substation and its tap line will soon be added to the grid that supplies the Basses-Laurentides region.

▶ We continued work on the new 315/25-kV Fleury substation, which is scheduled for completion in 2017 and will be able to fill the short- and long-term electricity needs of Ahuntsic-Cartierville, a borough of Montréal.

▶ We began rebuilding 315/25-kV De Lorimier substation and its tap lines to meet growing demand in the eastern part of downtown Montréal.

▶ Construction is in progress on the 315-kV Mauricie–Lanaudière line, which features the two biggest tubular steel poles ever built for a Hydro-Québec transmission line. Handling these 95-tonne support structures meant we had to change our work methods to suit this particular challenge.

▶ In Nord-du-Québec, construction on the new 315/25-kV Waswanipi substation and its tie line is proceeding at a rapid pace. These facilities, slated for commissioning in September 2015, will mainly meet anticipated electricity demand in the Cree community of Waswanipi.

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► We also conducted various studies and public consultations in connection with major projects under preparation, such as:

□ Addition of an approximately 400-km, 735-kV line to link Chamouchouane substation, in Saguenay–Lac-Saint-Jean, to the metropolitan region, and construction of a line segment between an existing line and Bout-de-l'Île substation, on the eastern tip of the island of Montréal.

□ In Gaspésie, 230-kV connection of Mesgi'g Ugju's'n (Rivière-Nouvelle) wind farm to the existing Matapédia–Cascapédia line.

□ In the Capitale-Nationale region, construction of the new 315/25-kV Baie-Saint-Paul substation and its tap line.

□ In Montérégie, addition of the 120-kV Langlois–Vaudreuil-Soulanges line to handle strong population growth and dynamic industrial and commercial development in the region.

□ Also in Montérégie, construction of 120/25-kV Adamsville substation (Bromont) and its tap line to replace existing substations where capacity has been exceeded.

□ In Outaouais, construction of the new 120/25-kV Lacroixville substation and the 120-kV Paugan–Maniwaki line to replace the existing 69/25-kV Gracefield substation, which can no longer meet demand growth in the regional county municipality of La Vallée-de-la-Gatineau.

DEVELOPING TOMORROW'S APPROACHES

Our efforts are primarily aimed at minimizing project lead time, moving information more swiftly, ensuring better quality control, and generally offering a wider range of constructions options in order to provide top value for Hydro-Québec's other divisions—our customers—as shown by the examples below.

► Regarding computer-aided design, we design substation control equipment using primarily E^3.series software to model 2D cabling and wiring diagrams, which are usually drawn by hand. This lets users view and annotate diagrams at all times, and access the latest updates. Documentation is thus always kept up to date, which is useful not only during project construction but also for operation and refurbishment. Use of the software in designing Saint-Bruno-de-Montarville, Blainville, Lachenaie and Pierre-Le Gardeur substations resulted in substantial gains while avoiding errors due to manual data entry.

► We are making more frequent use of a digital drawing table to enable project participants at multiple sites to share, comment and annotate construction drawings.

We rely on teamwork to pass on know-how and develop skills. This also fosters the emergence of new approaches and facilitates problem solving.

Minimizing risks to the health and safety of all those working on our jobsites is a cooperative undertaking that involves each and every employee of Hydro-Québec and of its contractors. Our combined efforts enabled us to limit the frequency of accidents with loss of time to 7.5 (per million hours worked) on jobsites under our management in 2014. This result is largely attributable to steps we have taken to improve our health and safety culture.

► We also developed a new technique based on digital photogrammetry for mapping rock walls excavated on the surface or underground. With this technique, simple photographs of a wall can be converted into a 3D model reproducing it exactly, thus giving geologists a clearer picture of the condition and quality of the rock. They can then more easily detect the natural strike of the rock and cracks in it in order to project potential short- and long-term changes. This information reduces uncertainties regarding the scope of work to consolidate the foundations of our structures and allows exchanges with off-site specialists.

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▶ In the area of methods and materials, we designed a test facility to help teams conduct pre-commissioning tests on modular protection, automation and control buildings, and on the special protection systems in them. With the simulator-like facility, the quality and proper operation of deliverables can be checked before startup, potentially reducing on-site inspection time and facilitating in-plant correction of non-conformities.

▶ For smart grids, GOOSE (generic object-oriented substation event) communication technology was implemented at Romaine-2 generating station, a first for Hydro-Québec. With the GOOSE system, designed to ensure efficient automatic change-over switching in auxiliary system connection cabinets, a single device did the work of many, whose installation was thus avoided.

▶ Modularization and prefabrication enabled us to significantly reduce lead times for several major stages in both transmission and generation projects (generating station construction, installation of water-oil separators, laying substation foundations, etc.).

4

Committees of international experts, who are invaluable sources of expertise and know-how, advise Hydro-Québec at the different stages of facility design (engineering, hydraulics, geotechnics, geology, etc.) and make recommendations. These committees played a part in close to a dozen projects in 2014.

1 Erecting a tubular steel pole on the 315-kV Mauricie–Lanaudière line.

2 Lineworkers in action on a tower on the 315-kV Chénier–Blainville line.

3 The future Romaine-1 spillway.

4 A new autotransformer and static var compensators at Figuery substation will enhance reliability of the 315/120-kV Abitibi transmission system.

TECHNOLOGICAL INNOVATION: AN AVENUE FOR STRATEGIC DEVELOPMENT

1

1 Under a 10-year licensing agreement for the United Kingdom, Britain's National Grid can use LineScout, a remotely controlled robot designed by IREQ, to inspect its high-voltage transmission lines.

2 Participants in the Consortium on Hydraulic Machines, which includes Hydro-Québec, received one of the prestigious NSERC Synergy Awards for Innovation, which honor collaborations that are a model for partnering between industry and universities or colleges. Shown here is a turbine flow simulation produced as part of the BulbT research project conducted by the Consortium at Université Laval, in Québec.

3 An antenna is hoisted to its perch in a microwave telecommunications system.

Technological innovation is a constant factor in Hydro-Québec's success. Our innovation projects have two major objectives: optimize the existing power system and extend its useful life, and make the future grid smarter, more automated and more flexible in order to serve customers better. Innovation efforts are primarily carried out by the Groupe – Technologie, which comprises the company's research institute, the Institut de recherche d'Hydro-Québec (IREQ), as well as the Direction principale – Télécommunications and the Direction principale – Technologie de l'information. The Groupe – Technologie focuses on power grid intelligence, reliability and long-term operability. It runs its projects hand in hand with the Hydro-Québec divisions concerned, supported by its research teams and its IT and telecommunications specialists. Considerable effort is devoted to modernizing Hydro-Québec's telecommunications network, integrating the information and communication systems underlying all company activities, and improving IT security, including cybersecurity.

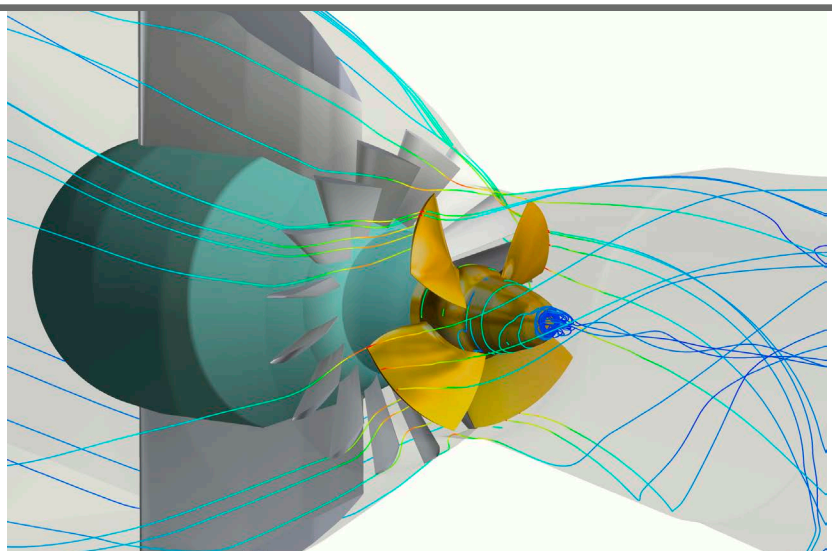
SMART POWER GRID

Progress toward an increasingly smart and automated grid is a high priority for Hydro-Québec and mobilizes the Groupe – Technologie and the company's divisions. Projects are conducted in conjunction with several highly regarded research centres and organizations. Some 20 such projects are ongoing.

In 2014, Hydro-Québec maintained the technological priorities set out in its Smart Grid innovation program for 2012–2017.

▶ We successfully carried out a pilot initiative to increase transmission system capacity under the ACOR project on grid response improvement. Launched in 2013, the initiative was designed to achieve system-wide voltage control by deploying phasor measurement units (PMUs), IREQ-developed controllers and intelligent electronic devices (IEDs) that collect and transmit data on grid response and evaluate grid condition. The data can be used to prevent voltage drops and increase power system transmission capacity. The technologies developed under ACOR delivered a convincing performance on an in-service static var compensator. The project has now entered the deployment phase: 17 substations across Québec will be equipped with PMUs and IEDs to control their static var compensators.

▶ Very positive results were also achieved in 2014 with MILE, an intelligent power line maintenance tool designed to discover and locate hard-to-detect faults so that targeted maintenance can be performed and outages avoided. From 10 lines in 2014, deployment is planned on an additional 25 distribution lines in 2015. Since testing began on the grid, MILE has reduced avoidable outages by 50%, customer-hours of interruption by 60% and outages of unknown cause by 92% on a test line with one of the highest failure rates in Québec.



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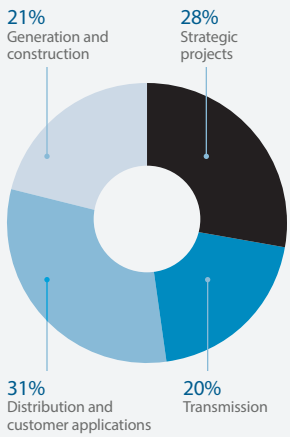
INFORMATION AND COMMUNICATION TECHNOLOGIES

Developing information and communication technologies (ICT) is a priority for Hydro-Québec because they play a key role in all areas of company activity. Through these technologies, data is transmitted and made available to support power system operations and to help computerize numerous business processes that the company needs to operate smoothly. They are also indispensable for all employees, who use them on a daily basis to communicate and to exchange, process and store data.

With the rapid progress in ICT and the emergence of a smarter, more automated power grid, work processes are becoming highly dependent upon information systems and their supporting infrastructure.

BREAKDOWN OF IREQ INNOVATION EFFORTS IN 2014 (BY AMOUNT INVESTED)



In 2014, we pursued initiatives to leverage technological convergence in the IT and telecommunication sectors, to enhance the quality and efficiency of services offered and to position ICT as a major driving force for optimization within the company.

We also continued to ensure the long-term operability of ICT infrastructure, systems and applications.

▸ We pursued implementing the IP/MPLS network, gradually migrating services to it and adjusting the tools and approaches needed to manage it. About 25% of the telephones in Hydro-Québec's administrative centres were replaced in 2014 under the IP telephony deployment project.

▸ Under the company's substation and generating station refurbishment program, we continued the work needed to modernize Hydro-Québec's telecommunications network, in particular by deploying next-generation SONET on the Amos–Lebel link. We also pursued conversion to digital microwave links, covering the Chicoutimi–Tadoussac and Hope–Moiré–Normand segments, as well as the Daigle–Hope link serving four heliports in the eastern part of the 3M project. Work began to convert the Chicoutimi–Jacques-Cartier and Edmundston–Rivière-du-Loup microwave links to digital.

▸ We continued reinforcing the telecommunications network that serves strategic substations in areas where the risk of severe ice accumulation is high, completing work between Montréal and Québec in 2014.

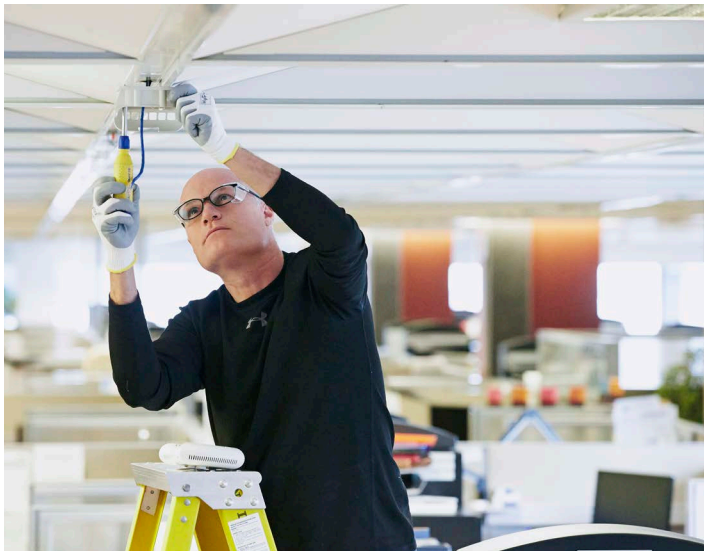
▸ We installed new telecommunications infrastructure for the integration of new transmission substations (including Romaine-2) and the connection of four wind farms and one hydropower plant.

▸ Under the 2011–2014 corporate ICT security program, we finished rolling out security services, which are now deployed throughout Hydro-Québec.

▸ Continued monitoring of advances in ICT helped us keep in step with industry trends and develop innovative, high-performance solutions supporting company business processes and infrastructure projects. This contributed to better company performance, as shown by the examples below.

□ As the company accelerated smart meter deployment at customer homes in 2014, we shortened the timeframes for upgrading the IT infrastructure needed to handle the increased volume of data, and we stepped up deployment of the wireless communications network to cover most regions of Québec.

□ We pursued projects to improve operational maintenance activities. For Hydro-Québec TransÉnergie, we completed the planning component in 2014, the scheduling component having been finalized in 2013. For Hydro-Québec Distribution, we completed both the scheduling and mobility components.



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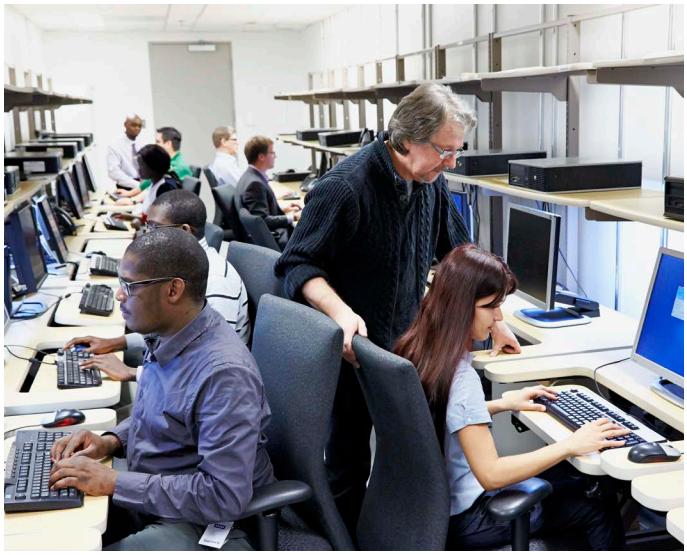

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MANAGING AGING ASSETS

A major issue facing Hydro-Québec is the aging of its assets. To meet the challenge, the maintenance and refurbishment of existing facilities must be planned optimally, as must the construction of new ones. We must ensure the long-term operability, reliability and safety of facilities in service and extend the service life of assets so that capital outlays can be spread out over longer periods. To achieve this, IREQ allocates substantial resources toward R&D on managing aging assets.

▶ In 2014, IREQ research teams and the Hydro-Québec divisions continued to work on various projects, partnering with other industry players in several cases. Projects covered electricity generation, transmission and distribution under three broad themes: condition diagnostics and estimation of remaining service life; optimization of maintenance strategies and decision support tools; and use of the knowledge acquired to improve methods for designing and refurbishing facilities and to guide research on new materials.

▶ IREQ is also coordinating reflection on asset management in order to develop a comprehensive view of the situation and issues within the company and identify its specific technological R&D needs. That reflection was launched in 2014 during the fifth symposium on the management of aging assets organized by IREQ and attended primarily by a broad spectrum of Hydro-Québec specialists.

WIND POWER

Playing an active role in the deployment of wind power in the province, Hydro-Québec has directed IREQ to conduct research on integrating this variable energy resource and exploratory work on other renewables.

▶ In collaboration with Hydro-Québec TransÉnergie, we continued our use of SIRE, a system simulating the impacts of wind power on the grid. The system's historical database was updated and used to support projects under the smart grid innovation program and to prepare the company for a NERC reliability standard compliance audit.

▶ Under a project in collaboration with Hydro-Québec Production, IREQ pursued its work on determining the optimal capacity reserves that must be maintained for reliable short-term supply when wind generation is a major source.

▶ With Hydro-Québec TransÉnergie, we undertook development of a method for analyzing the behavior of wind plants connected to the grid, a prerequisite for determining what measures will ensure reliable connection of wind farms.

▶ IREQ continued to work with Hydro-Québec Distribution on two pilot projects testing the combined use of wind and diesel to supply off-grid systems.

ENERGY STORAGE AND CONVERSION

In 2014, IREQ continued R&D on advanced battery materials for use in electric vehicles and large-scale storage applications, as well as its efforts to license its portfolio of patents in that area.

Current research is on the physical components of high energy and power density lithium-ion batteries—storage solutions with considerable performance, safety and environmental advantages. Again this year, our work yielded technological advances that garnered much interest.

▶ In June 2014, Hydro-Québec and Sony (Japan) launched the R&D joint venture Technologies Esstalion, which will design high-capacity storage systems for power grids and test their use in a wide range of applications, especially to meet demand during peak periods and help bring intermittent energy sources onto the grid. The joint venture will build on Hydro-Québec's power grid operation and control expertise and the technologies it has developed in lithium-ion battery materials, as well as on Sony's highly scalable modular systems and its technology for manufacturing very safe, reliable olivine-type lithium-ion iron phosphate rechargeable batteries. (For more information on our work and agreements related to advanced battery materials, see Innovating to improve ground transportation on page 37).

OPEN INNOVATION

For its research work and for commercializing its technologies, IREQ maintained its partnering arrangements with universities, public and private research organizations and industry, following the collaborative approach it had already implemented.

▶ In 2014, Hydro-Québec kept up its collaboration with 17 research chairs and its partnerships with Québec universities and college centres for the transfer of technologies.

▶ Working with researchers from the Ouranos consortium, we started evaluating the potential benefits of adapting certain practices of Hydro-Québec's divisions in light of climate change.

▶ We forged 48 partnerships and collaborative arrangements with power industry players and public and private research centres across Québec and worldwide. Here is a partial list of our achievements under the 258 agreements already signed.

□ MIDA integrated generator diagnostic technology, developed by IREQ in collaboration with Hydro-Québec Production, was transferred under an agreement with Irkutskenergo, a subsidiary of Russia's largest independent power producer, EuroSibEnergo.

□ We continued to work with China Electric Power Research Institute and France's Réseau de transport d'électricité on real-time power system simulation using the Hypersim technology developed by IREQ in collaboration with Hydro-Québec TransÉnergie.

▶ Our line robotics program remained a driver for agreements and technology transfer.

□ The LineCore sensor for detecting corroded conductors was transferred to partners Hydro-Québec TransÉnergie, BC Hydro and National Grid Electricity Transmission (U.K.).

□ A licensing agreement was signed with National Grid Electricity Transmission for using LineScout in the U.K., and the related technology transfer was begun.

□ The licence of Shandong Electric Power Research Institute (China) to market the LineROVer was renewed.

1 Telecommunications technician Jocelyn Fiset installs a wireless network terminal.

2 Computer maintenance advisor Yvan Lévesque and workstation development team members install new software on workstations.

3 Employees in action at the IT operations centre.

4 Eli Saheb, Executive Vice President – Technology, and Yoshito Ezure, Senior Vice President, Sony and Senior General Manager of Energy Division, Device Solutions Business Group, sign the agreement creating the joint venture Technologies Esstalion.

1

1 Two of China's largest bus manufacturers now equip their vehicles with TM4's SUMO powertrain.

2 A new fast-charging station (left) was installed in Maskinongé, in the Mauricie region.

3 Representatives from the French region of Aquitaine tour Hydro-Québec's research facilities before signing an agreement between IREQ and the Regional Council of Aquitaine on advanced battery materials for transportation electrification.

In Québec, the transportation sector is a major source of CO_2 emissions, one of the main greenhouse gases. A number of initiatives illustrate Hydro-Québec's commitment to ground transportation electrification, a forward-looking solution for reducing CO_2 emissions. Its leadership in rolling out a network of public charging stations—the Electric Circuit—is a clear example, as are the numerous technological breakthroughs led by Hydro-Québec's research institute, IREQ. A recognized world leader in research on electricity generation, transmission and storage, most notably in battery materials, IREQ also helps commercialize the new technologies and innovative products it develops.

CHARGING INFRASTRUCTURE

▸ The Electric Circuit, Canada's first public charging network, continued its expansion. Some 358 charging stations are now installed in 15 of Québec's 17 administrative regions. Since the Electric Circuit was inaugurated in March 2012, 87 partners have joined the five founding partners—Les Rôtisseries St-Hubert, RONA, METRO, the Agence métropolitaine de transport (AMT) and Hydro-Québec.

▸ On July 2, the city of Montréal inaugurated four curbside charging stations, installed as part of a one-year pilot project in collaboration with the Electric Circuit. These charging stations are designed to keep the cable off the ground to facilitate snow clearing.

▸ On September 26, the Québec–Montréal Electric Charging Corridor was launched along Highway 40. It is composed of six public charging sites, including five with fast-charge (400-volt) stations.

▸ On October 2, Montréal's first fast-charging station was commissioned in the parking lot of the Centre de services communautaires du Monastère, in the borough of Plateau-Mont-Royal.

▸ Also on October 2, the Electric Circuit issued a first tender call to purchase fast-charging stations. As with the 240-V stations, IREQ carried out tests in a climate chamber to make sure the charging stations accepted could withstand the rigors of Québec weather. AddÉnergie won the tender call.

▸ From October 28 to 30, Electric Mobility Canada held its annual convention, EVVÉ2014, in Vancouver. Hydro-Québec presented its projects related to ground transportation electrification. We also promoted the international EVS29 conference, to be held in Montréal in June 2016, having staunchly supported the city's application to host this conference.

PUBLIC TRANSIT

Hydro-Québec continued its commitment to public transit electrification, which takes the form of providing technical and financial support to transit authorities for their feasibility studies.

▸ We continued to collaborate on feasibility studies for the Société de transport de Montréal electric bus project, which aims to electrify four corridors (including carrying out detailed studies for the Saint-Michel corridor).

▸ We also continued to work with the Société de transport de Laval:

- The Clic carpooling program using ten Chevrolet Volts (with the Agence métropolitaine de transport)
- The 12-metre electric bus pilot project

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▸ New projects are also on the horizon. We began a technical collaboration with the Société de transport de Montréal as part of the Cité mobilité demonstration project. We also plan to contribute to a pilot project by the Réseau de transport de Longueuil to start using plug-in hybrid electric buses.

ELECTRIC MOTORS

▸ The SUMO powertrains developed by Hydro-Québec subsidiary TM4—the HD model and its derivative, MD—are being used in two major electric bus development projects in Québec. The Nova Bus LFSe urban electric bus (SUMO HD) and the Lion electric school bus (SUMO MD) both began road trials in 2014.

▸ TM4's SUMO powertrains were also selected by two of China's largest bus manufacturers, Foton and BLK, each ordering hundreds of units from Prestolite E-Propulsion Systems, a joint venture formed by TM4 and Prestolite Electric (Beijing).

▸ The Prestolite E-Propulsion Systems factory in China manufactures TM4's SUMO electric powertrains for trucks, buses and heavy machinery destined for Asian markets. The plant began mass production in 2014.

▸ In 2014, TM4's customer base grew to 40 companies located in more than 25 countries.

INNOVATING TO IMPROVE GROUND TRANSPORTATION

IREQ plays a major role in battery material research, design and development, as well as in the commercialization of related patents. Its work includes research on the physical components (powders and solvents) of batteries for ground transportation and other energy storage applications.

▸ Hydro-Québec and Sony Corporation launched an R&D joint venture, Technologies Esstalion, with a mission to design large-capacity energy storage systems that can be used in power grids.

▸ We signed a three-year research collaboration agreement with the German company BASF to develop new electrolytes for lithium-ion batteries.

▸ Hydro-Québec and the Regional Council of Aquitaine created SCE France, a company dedicated to research on transportation electrification as well as energy storage and conversion. This new joint venture will set up a laboratory in the French region of Aquitaine to develop lithium-iron-phosphate batteries and conduct research into new charging technologies using advanced materials.

▸ Hydro-Québec and the Université de Montréal signed an agreement with Aleees, one of the world's largest producers of battery materials, allowing the Taiwanese company to integrate lithium-iron-phosphate batteries into its value chain and use them for industrial purposes in Québec. Aleees has committed to creating jobs in a Québec plant, where it will manufacture products and systems for industrial applications such as electric buses and energy storage.

▸ We signed a memorandum of understanding with the Korea Electronics Technology Institute (South Korea) to collaborate in research on a new generation of 10-V bipolar batteries.

▸ IREQ pursued its collaboration with the Lawrence Berkeley National Laboratory under a U.S. Department of Energy R&D program aimed at developing high-energy-density technology.

▸ IREQ signed an agreement to collaborate with the European community on a new research project: Enhanced Energy Efficiency and Comfort by Smart Light Transmittance Control (EELICON). The three-year project aims to industrialize smart window technology.

▸ In 2014, IREQ filed 10 patents on its work in battery materials and published 32 scientific articles in prestigious journals.

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1 Cree workers monitoring the spawning of target species in the Rivière Rupert.

2 Planting in the new rainwater retention pond at Henri-Bourassa substation.

3 Cree worker sorting lake sturgeon larvae.

Hydro-Québec conducts its activities with due respect for the environment and plays a significant role in Québec's economic, social and cultural development. *Environmental performance:* the company harnesses water and gravity to produce green energy, which is fundamental to sustainable development. It produces very low levels of greenhouse gases (GHGs) and contributes very little to the province's GHG emissions. Hydro-Québec exports clean energy, thereby helping to protect the environment in neighboring provinces and states. *Social performance:* the company's community investments, which add up to tens of millions of dollars annually, support a host of activities throughout Québec. They take the form of funding granted under our Integrated Enhancement Program, financial support provided by the Fondation Hydro-Québec pour l'environnement, or donations and sponsorships, and are earmarked for projects that serve community interests. *Economic performance:* the company's sound financial health, its presence throughout the province and the spinoffs from its projects are important drivers of the Québec economy.

RESPECT FOR THE ENVIRONMENT

At Hydro-Québec, we take a great many initiatives to protect the environment. Each of our development projects includes a specific environmental component that involves assessing impacts in collaboration with the parties concerned and taking steps to prevent, mitigate or compensate for those impacts. Our approach is systematic: it encompasses the environmental impact assessment, environmental compliance monitoring during construction, harmonious integration of the facilities into their surroundings, archaeological digs if necessary, measures to protect the air, water, soil and biodiversity, site restoration and follow-up on the mitigation measures. Other practices, such as recycling, sustainable consumption and vehicle fleet management with a view to energy efficiency, are a permanent fixture.

For our construction projects, we produce an environmental compliance monitoring guide for people working in the field, such as compensation agents, compliance officers and contractors.

▶ In April, Hydro-Québec won the 2014 IAIR corporate award for Best Company for Leadership – Hydroelectricity, presented by the magazine *IAIR – Excellence in Global Economy and Sustainability*, which is read by thousands of leaders and decision makers in the financial and economic sectors worldwide. This honor recognizes the fact that Hydro-Québec is a major supplier of electricity produced by a clean, renewable energy source.

▶ The provincial review committee (COMEX) published its report on the public consultation held in six Cree communities after completion of the Eastmain-1-A/Sarcelle/Rupert project in the Baie-James region. The report concluded that the project had been unprecedented in terms of the number of mitigation and compensation measures implemented, both environmentally and socially. In addition, the project promoted better understanding between the parties and greater Cree participation in developing the region. The report further notes that the company went beyond government requirements in limiting the project's impacts as much as possible and ensuring greater Cree involvement in the environmental and social follow-ups.

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▸ As part of the Romaine project, in Minganie, Hydro-Québec impounded the reservoir at Romaine-2 while protecting salmon habitat below Romaine-1 generating station, located a few kilometres downstream. This was accomplished by regulating the flow during filling, which lasted six months. The operation entailed using a temporary diversion, building a temporary instream flow release structure, and channeling through the spillway. The filling thus took place in three stages.

▸ We published two environmental compliance monitoring guides for the project to connect the Romaine complex to the grid, which includes building 500 km of new transmission lines. The guides provide comprehensive information on ensuring compliance during clearing and construction operations. Based on data contained in the project's impact statement, they group the information according to the different disciplines, such as engineering, forestry and environment.

▸ Out of a concern for the questions raised by international environmental stakeholders regarding the water footprint of various generating options, we examined the case of Eastmain 1 reservoir in the Baie-James region. To quantify net water loss through evaporation attributable to the reservoir, we needed to know the area's evaporation rate before and after reservoir impoundment. For this, we used data collected in an extensive study of net greenhouse gas emissions by this reservoir, conducted a few years earlier. It turns out that the reservoir's water losses through evaporation are similar to those from preexisting ecosystems. Result: reservoir hydropower has very little effect on the hydrological cycle and does not reduce the availability of water in the region.

▸ We worked with the Interuniversity Research Centre for the Life Cycle of Products, Processes and Services (CIRAIG) to develop Québec's first life cycle inventory database, which was launched in November. By providing environmental information on electricity distributed in the province, this database will allow Québec companies to more accurately determine the environmental footprint of their products and to benefit from the small footprint of the province's electrical energy mix.

▸ Hydro-Québec is actively involved in protecting biodiversity. Here are some highlights from 2014:

- We took part in the activities of six at-risk species recovery teams, under the coordination of the Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques. In this way, we contribute to the protection of some 15 at-risk wildlife species in Québec, such as wood turtle and peregrine falcon.
- Hydro-Québec belongs to a group working to protect the golden-winged warbler, a forest bird that is likely to be designated vulnerable or threatened in Québec. Line rights-of-way in wooded areas are suitable habitats for this rare species. We therefore take special measures during vegetation control operations when this bird is present.
- We continued to track the movements of 25 forest-dwelling woodland caribous in order to determine the real impact of construction of the Romaine complex on this species, designated vulnerable in Québec. This is one component of our caribou monitoring program, which also includes periodic aerial surveys and an evaluation of habitat quality.

▸ Hydro-Québec published a good-practice guide for preserving our built heritage. The goal is to standardize the processes for preserving, protecting and enhancing the company's extensive heritage. Our generating stations, substations, administrative buildings and civil engineering structures span a century of industrial and institutional architecture. This guide—the first in a series of three—lays out the heritage context and the company's preservation principles, as well as precautions to be taken when carrying out generating station maintenance or refurbishment, among other points.

▸ At Pointe-Gatineau, in the Outaouais region, archaeological finds were discovered during grid undergrounding work conducted under a program to enhance public thoroughfares. We uncovered a prehistoric site containing objects that date back 3,500 to 5,000 years. They include arrowheads, axe heads and bifacials, a copper point, a stemmed point carved out of Onondaga chert, a chisel fragment made of fine quartzite and a blank flake of rhyolite.

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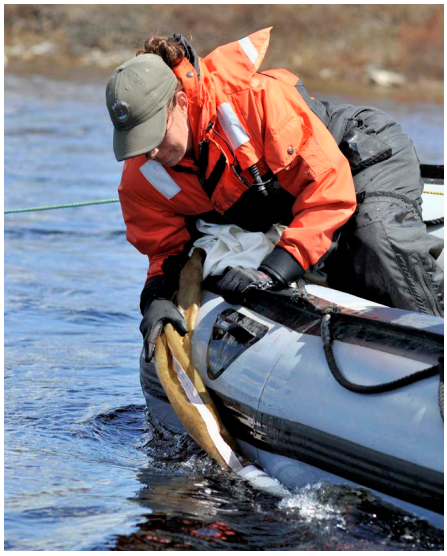

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► In September, for the second year in a row, Hydro-Québec hosted the international finals of the *Ma thèse en 180 secondes* contest. The participants each had just three minutes to present a clear, concise and convincing summary of their research projects. This contest gives PhD students a chance to develop their communication skills, and the public a chance to discover the wealth of scientific research going on. The event brought together 12 students from Belgium, France, Morocco and Québec.

► Clé Verte environmental certification was renewed for four of the shared services centre's repair shops. The Gatineau, Lebourgneuf, Trois-Rivières and La Grande-4 shops earned gold-level certification, bringing the company's total to nine. Clé Verte (Green Wrench) certification, awarded by Nature-Action Québec, recognizes vehicle repair shops that meet criteria based on environmental best practices.

► We replaced 126 of our light-duty vehicles (43% of vehicles replaced during the year) with more energy-efficient models.

► We systematically decontaminate and recycle insulating oil used in our facilities. In 2014, our rate of reuse was 92%, which is comparable to previous years.

SOCIAL PROGRESS

Hydro-Québec plays a part in the social development of the communities where it has a presence. Through the Fondation Hydro-Québec pour l'environnement and the Integrated Enhancement Program, the company contributes to such endeavors as preservation and enhancement of the natural environment, building of community facilities and creation of tourist attractions. In addition, our donations and sponsorships help promote culture and provide communities with services.

► In 2014, the Fondation Hydro-Québec pour l'environnement allocated $393,000 to 12 projects in seven of the province's administrative regions. Here are two examples:

□ A new exhibit was installed in the interpretation room at the Rivière-Batiscan park visitor centre. It features redesigned interactive modules and new vivariums. Visitors will learn about the importance of protecting reptiles, bats, monarch butterflies and amphibians found in the park and fish in the Rivière Batiscan. They will then be able to act responsibly in order to preserve certain vulnerable animal species.

□ Two nature reserves on private property in Venise-en-Québec were enhanced by the Société d'initiative touristique et économique (S.I.T.E.) du Lac Champlain. The Pointe-Fontaine and Tourbière-de-Venise-Ouest nature reserves, which will be open to the public, cover 6.6 ha of forest and 17 ha of wetlands. A trail and footbridges will provide access to the site. Information panels will explain the ecological role played by wetlands and describe the different habitats they contain. These two reserves are located north of a marsh next to Ruisseau McFee, a tributary of Baie Missisquoi.

► In 2014, the Integrated Enhancement Program (IEP) supported a number of initiatives in various locations. Under the IEP, Hydro-Québec grants funding equivalent to 1% of the initially authorized value of a power line or substation project to the host community. Here are two such initiatives:

□ As part of the project to build a new 18-km section of transmission line between Sainte-Germaine-Boulé and Palmarolle substation, in the regional county municipality of Abitibi-Ouest, four municipalities shared a total of $261,408. The municipality of Palmarolle received $52,000, which enabled it to complete an approximately 6-km bicycle path, offering residents a readily accessible outdoor facility.

□ Following construction of the 230-kV Rimouski–Les Boules line, the municipality of Sainte-Luce received $98,749. This funding was used to improve services for local residents and stimulate tourist development in the area. The initiative involved refurbishing the buildings and sidewalk along Promenade de l'Anse-aux-Coques and installing street furniture at Halte luçoise.

► A total of $17.8 million in donations and sponsorships was granted to support organizations and activities throughout Québec. For details, see our Web site at **www.hydroquebec.com/publications/en/donation-sponsorship**.

▶ Parc Hydro-Québec, which lies between the Théâtre du Nouveau-Monde and Maison du développement durable (Centre for Sustainable Development), in the heart of Montréal's Quartier des spectacles, earned an award of excellence from the Canadian Society of Landscape Architects. This National Citation in the Design category honors distinctive design, ground-breaking research and sustainable landscape management.

SUSTAINABLE DEVELOPMENT ACTION PLAN 2013–2016

Hydro-Québec published its Sustainable Development Action Plan 2013–2016 *in March 2013. This tool enables the company to contribute to the implementation of Québec's Government Sustainable Development Strategy, the strategy to ensure the occupancy and vitality of territories, and Québec's* Agenda 21 for culture. A formal accounting of Hydro-Québec's performance with respect to the Action Plan is presented in the *Sustainability Report 2014*.

1 Capturing fish that were trapped in troughs during the impounding of Romaine 2 reservoir. They will be released back into the river below the generating station.

2 Hauling in a drift net—part of monitoring the spawning of target species in the Rupert.

3 Ptarmigan are one of the species targeted by the Eastmain-1-A/Sarcelle/Rupert environmental follow-up.

4 Visitors to Manic-5 listen with interest to tour guide Alexandra Garant in the Georges-Dor reception centre.

SUSTAINABLE DEVELOPMENT ACTION PLAN 2013–2016

	Action		Indicator	Results as at December 31, 2014
1	Build hydropower projects	OVT	Cumulative capacity made available by the Romaine project	640 MW
2	Increase output and capacity gains at existing hydroelectric generating stations	OVT	Cumulative gains in available peak capacity	36 MW[a]
			Cumulative gains in average annual output	83 GWh/year[a]
3	Continue energy efficiency initiatives		Recurring energy savings	8.2 TWh[b]
4	Continue to help low-income customers		Number of payment arrangements[c] with low-income customers	99,722[a]
5	Contribute to the reduction of transport-related GHG emissions and collaborate in the electrification of transportation in Québec		Atmospheric emissions from the light-vehicle fleet	24,016 t CO_2 eq.[a]
		OVT	Number of new charging stations and number of regions covered by The Electric Circuit	117 charging stations 15 regions
6	Contribute to the implementation of Québec's policy for ecoresponsible government		Number of product purchasing guides that include ecoresponsible specifications	2[d]
7	Inform and educate employees about sustainability and the company's approach		Percentage of new hires having been informed about sustainable development	96%
8	Preserve and enhance biodiversity in transmission and distribution line rights-of-way	OVT	Percentage of distribution system vegetation control operations per year that include measures for enhancing biodiversity	98%
9	Publicize the knowledge acquired through Hydro-Québec environmental studies	C	Number of documents published on the Web	21[d]
10	Continue to protect and enhance the company's built and technological heritage	C	Number of good-practice guides produced and disseminated	1
		OVT	Number of annual visits to facilities and jointly operated sites	140,681[a]

OVT Action associated with implementation of the strategy to ensure the occupancy and vitality of territories.

C Action associated with implementation of Québec's *Agenda 21 for culture*.

a) Preliminary figure. The final figure will be published in the *Sustainability Report 2014*.
b) Savings achieved since implementation of the Energy Efficiency Plan in 2003.
c) Including long-term arrangements.
d) Cumulative since implementation of the Action Plan.

A MAJOR FORCE IN THE ECONOMY

1

1 At Manic-5, security guard Marc-Antoine Pearson, tour guides Marie-Christine Côté and Caroline Desrosiers, and bus driver Rodrigue Deschênes form a strong team.

2 Daniel-Johnson dam, the world's highest multiple arch-and-buttress dam, draws crowds of visitors every year.

3 Hydro-Québec's construction activities yield substantial regional economic spinoffs, largely through the hiring of local contractors, as at the Romaine-3 jobsite.

4 Cable crew chief Sébastien LaBadie, centre, distributes the work and reminds the crew of the standards and methods that apply to the operations to be performed before installing a new medium-voltage line; on his right, apprentice cable workers Maxime Lavoie-Paquet and Alex Henry and, on his left, cable crew chief Luc Roy and apprentice cable worker Frédéric Thibeault.

Hydro-Québec plays a leading role in the Québec economy, with some 20,000 employees and close to 150 places of business located throughout the province. Every year, we invest in the development, modernization and long-term operability of the power system, as well as our telecommunications network, IT equipment and real estate holdings. In 2014, these investments totaled $3.9 billion. In addition, we work with private- and public-sector actors in our innovation initiatives.

Recognized worldwide for its expertise in large power systems, Hydro-Québec promotes Québec know-how in a number of national and international energy organizations. We also participate in many international cooperation initiatives.

THE HUMAN RESOURCES FUNCTION

Human resources are the greatest asset of a public utility such as Hydro-Québec. We promote a healthy and stimulating work environment that encourages people to give the best of themselves and contribute to the company's success. To meet this challenge, we rely on a frame of reference in which our objectives can be grouped into four main areas: labor force, work environment, leadership and organization.

LABOR FORCE

We deployed various strategies and measures to ensure that Hydro-Québec has the personnel it needs to achieve its business objectives.

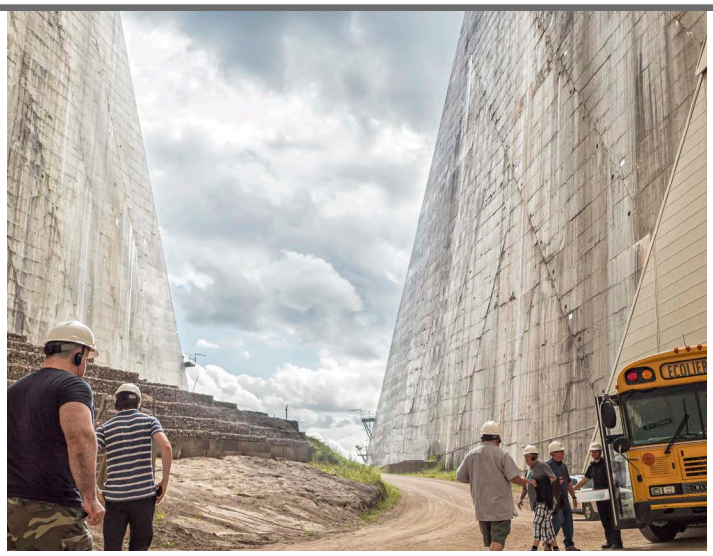
▶ At December 31, 2014, Hydro-Québec had a total of 20,043 permanent and temporary employees, 19,505 of whom were salaried employees.

▶ Throughout the year, we continued the process for reassigning employees so as to ease the impacts arising from major changes within the company. In 2014, solutions were found for more than 370 employees who were without positions.

▶ Of the 2,400 employees eligible for retirement in 2014, 943 left the company, compared with 1,209 out of 2,762 in 2013. Altogether, 5,650 employees have retired in the last five years. We are continuing to take the necessary steps in all the trades to preserve and renew the know-how deemed essential.

▶ For training activities in 2014, the emphasis was on improving the performance of development activities and implementing a technology designed to boost efficiency.

▶ Hydro-Québec is a founding partner of the Institute of Electrical Power Engineering (IEPE). In 2014, we awarded 15 Jean-Jacques-Archambault general scholarships and 37 traveling scholarships to IEPE students, for a total contribution of $75,300. Since the Institute was established in 2001, 192 graduates have joined the company's ranks, including 15 in 2014.



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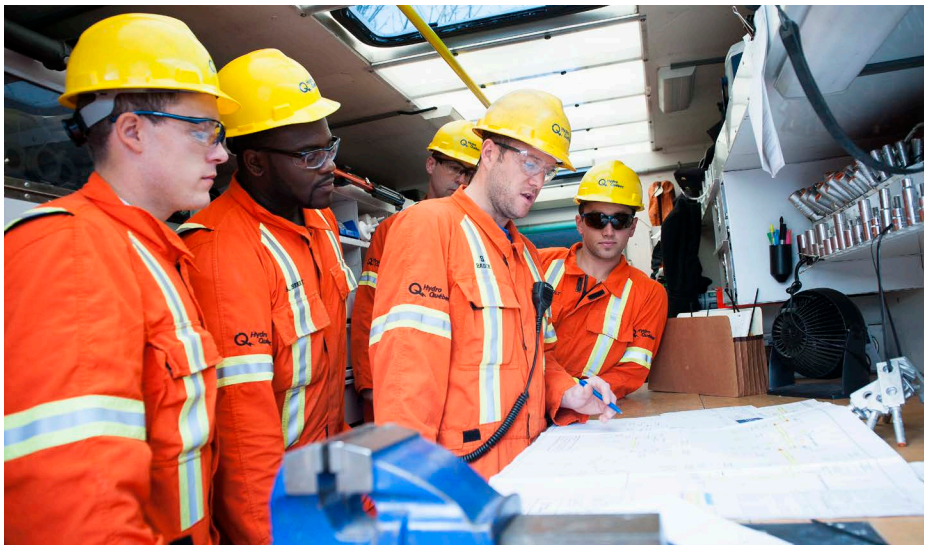
▸ We offered 290 internships to university students in undergraduate and graduate programs, and welcomed 40 college-level trainees, most of them enrolled in civil engineering. Over the past five years, the company has provided 1,800 internships.

▸ In accordance with its employment equity program, which was approved in 2013 by the Commission des droits de la personne et de la jeunesse, Hydro-Québec is maintaining its efforts to bring the composition of its workforce in line with the Québec labor force. In 2014, we hired 349 new employees belonging to one or more of the five groups targeted by the *Act Respecting Equal Access to Employment in Public Bodies*.

We continued to post job offers on the Web site of the Comité d'adaptation de la main-d'œuvre pour personnes handicapées to keep people with disabilities informed about job opportunities.



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WORK ENVIRONMENT

Hydro-Québec took various initiatives to maintain good labor relations in a safe, healthy work environment.

▸ We put into effect the commitments given at the end of 2013 when we renewed the collective agreements of Hydro-Québec employees, 84.5% of whom are unionized.

▸ In February 2015, we reached an agreement with the Syndicat des technologues d'Hydro-Québec. This new collective agreement, like those of the company's other unions, will expire in December 2018.

▸ The overall employee commitment index was 62% in 2014, as demonstrated by the company-wide survey *Écoute du personnel*. The survey results stem partly from ongoing communication efforts within the company. In addition, we kept up an awareness campaign begun last year to promote a healthy and stimulating work environment, which is a driving force behind the company's performance and success.

▸ We are continually innovating to provide a safe, healthy work environment and optimize work attendance. In 2014:

- We introduced best practices for managing work attendance. The various measures taken led to a reduction in absenteeism: 4% fewer absent days per employee, and an 8% reduction in the average duration of absences longer than three days.
- We finished updating the sixth edition of our Work Safety Code, which lays out the safety measures to be taken in situations that pose electrical risks. It is scheduled to come into effect on May 4, 2015. Accordingly, we instituted a plan to roll out training for about 12,000 workers, including subcontractors' employees. Sessions got under way in August, and 28% of workers were trained in 2014.

1

□ The administrative units continued implementing their health and safety management system, as planned. In 2014, 67% of the system elements were deployed.

In 2014, the frequency of work-related accidents was 2.38 per 200,000 hours worked, compared with 2.62 in 2013. This is one of our best performances in the last five years.

LEADERSHIP

In our business environment, managers must be able to make their employees aware of the company's vision and the importance of sustained performance. We introduced an action plan for 2013–2014 to bolster their leadership capabilities.

▶ We pursued our management leadership programs. Since 2010, more than 740 managers —584 supervisory managers and 156 middle managers—have completed the program.

ORGANIZATION

In the last few years, we have carried out several projects to improve our efficiency in response to the business issues and challenges facing us. With the same objective, a number of organizational structures have been overhauled. In 2014, efforts focused on developing and implementing technological tools that help managers provide optimal talent management.

REGIONAL DEVELOPMENT

Hydro-Québec is a major player in the Québec economy. Through its many activities—operation of generating stations, power lines and substations, construction and refurbishment of facilities, purchases from independent power producers, procurement of goods and services—the company contributes to the vitality of all the province's regions, even the most remote. Every year, its spending and investments add up to billions of dollars and generate thousands of jobs. The past year was no exception.

PROCUREMENT OF GOODS AND SERVICES ($B)

2014	2013	2012	2011	2010
3.3	3.5	3.0	2.9	3.0

HYDRO-QUÉBEC'S CONTRIBUTION TO THE QUÉBEC ECONOMY

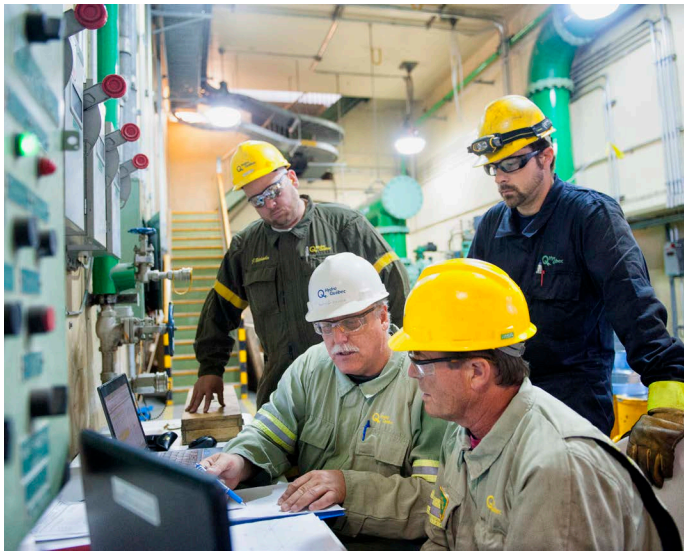
	2014	2013
Dividend ($M)[a]	**2,535**	2,207
Public utilities tax ($M)	**252**	245
Water-power royalties ($M)	**656**	669
Municipal, school and other taxes ($M)	**68**[b]	81
Guarantee fees paid to the shareholder for debt securities ($M)	**205**	200
Percentage of the value of goods and services procured from Québec-based companies	**94**	95
Contributions and commitments under the Integrated Enhancement Program ($M)[c]	**3.9**[d]	2.8

a) Under the *Hydro-Québec Act*, the dividend cannot exceed the distributable surplus, which corresponds to 75% of the net result.

b) This amount includes $34 million in municipal taxes, $3 million in school taxes and $31 million in other taxes, including $21 million under the *Act Respecting Energy Efficiency and Innovation*.

c) Under the company's Integrated Enhancement Program, communities affected by new transmission projects receive grants equivalent to 1% of the value initially approved for facilities covered by this program.

d) Prelimary figure. The final figure will be published in the *Sustainability Report 2014*.



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▶ In 2014, $664 million (financing excluded) was invested in the Romaine generating facilities. Employment amounted to 1,608 person-years, with Côte-Nord and Innu workers accounting for 42% and 12% of the labor force, respectively. Contracts awarded in the region totaled $105 million. From 2013 to 2016, the peak labor force will be in excess of 2,000 workers.

▶ Procurement of goods and services inside and outside Québec totaled $3,301 million[1] in 2014, compared with $3,533 million[1] in 2013:

- $1,251 million for the purchase of goods
- $29 million for rentals and leasing
- $1,675 million for specialized services and other work
- $346 million for professional services

▶ Goods and services procured from Québec-based companies totaled $3,112 million, or 94% of all procurement.

▶ The number of jobs in Québec supported by our overall procurement of goods and services is estimated at 17,700, including 12,300 direct jobs.

4

INTERNATIONAL INFLUENCE

▶ The company belongs to the World Energy Council (WEC), which is currently chaired by Hydro-Québec's Executive Vice President – Corporate Affairs and Secretary General. This gives Québec a high profile among energy players all around the world and has earned it an undeniable position of leadership in the industry. This is the first time in its 90-year history that WEC has been chaired by a woman.

▶ Hydro-Québec is also a member of the Global Sustainable Electricity Partnership, which brings together 11 of the world's largest electric utilities with a view to promoting sustainable development in the energy industry. In 2014, we took part in a training workshop to support renewable energies in the Mediterranean Basin.

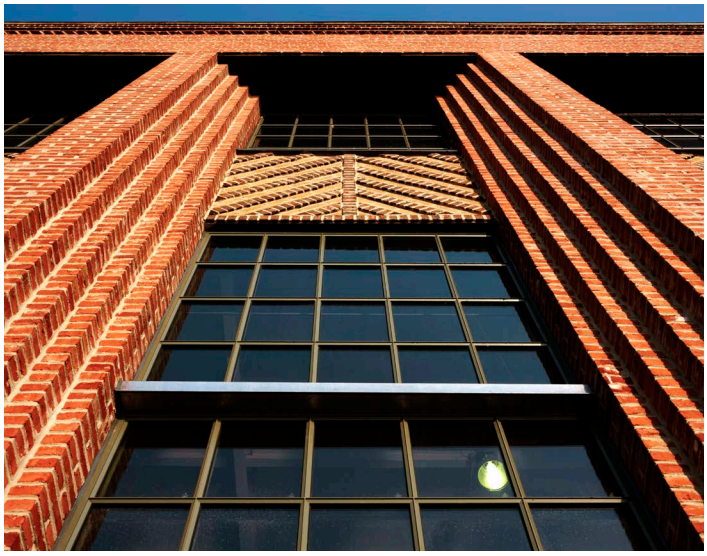
1 The Fondation de l'athlète d'excellence du Québec awarded 30 Hydro-Québec scholarships in 2014.

2 Expert technician Berthier Bérubé gives a crew at Beauharnois generating station guidance on measuring the verticality of unit 24. With him are powerhouse mechanics Jonathan Belchamber and Robert Jr Côté (standing) and mechanical maintenance technician John Bilton (foreground).

3 Hugues Raby, powerhouse mechanic, Michel Béland, chief powerhouse mechanic, Jérémy Rancourt, civil engineering worker, France Richer, prevention advisor, Yvan Amyot, civil engineering worker and Dominic Pilon, powerhouse mechanic, developing a rescue plan for work inside scrollcases as part of a project to ensure safe lockout procedures.

4 The Société Tshitassinu, set up to manage hunting and fishing in the area of the Romaine jobsite, periodically brings together representatives of Hydro-Québec, the regional county municipality of Minganie and local Aboriginal communities.

1. Excluding procurement by Société d'énergie de la Baie James.



1 In 2014, Hydro-Québec published the first of three guides for preserving the company's built heritage. The practices they outline will help ensure the preservation of elements like this architectural detail (windows) in Rivière-des-Prairies generating station in Montréal.

2 Hydro-Québec ceased operating its 25-Hz grid in Abitibi-Témiscamingue 25 years ago. On display in the Angliers municipal park is the last generating unit at Rapides-des-Quinze to have run at this frequency.

▶ In addition, Hydro-Québec is represented on the Board of Directors of the International Hydropower Association, a non-governmental organization that promotes the benefits of hydropower as a renewable and sustainable energy source. Among other activities, the company was involved in the project to redesign the organization's visual identity and Web site.

▶ Hydro-Québec hosted the first international conference on the use of olivines in rechargeable batteries. This conference, called OREBA 1.0, attracted researchers, students and manufacturers from over a dozen countries. They reviewed current research in the field of lithium-ion batteries and the different applications of this technology.

▶ SmartGrid Canada held its annual conference in Montréal on the topic of grid resiliency. Hydro-Québec made a number of presentations on its Smart Grid project.

▶ Finally, as in other years, Hydro-Québec experts and senior management participated in numerous technical exchanges and meetings with foreign companies and representatives of foreign governments.

REGIONAL SPINOFFS FROM HYDRO-QUÉBEC PROCUREMENT ($'000)[a]

Administrative region	Procurement of services[b]	Procurement of goods[c]	**Total**
Abitibi-Témiscamingue (08)[d]	19,697	7,036	**26,733**
Bas-Saint-Laurent (01)[d]	8,036	3,448	**11,484**
Capitale-Nationale (03)[d]	256,583	32,981	**289,564**
Centre-du-Québec (17)[d]	128,993	21,418	**150,411**
Chaudière-Appalaches (12)[d]	140,151	21,146	**161,297**
Côte-Nord (09)	147,329	6,504	**153,833**
Estrie (05)[d]	43,396	12,525	**55,921**
Gaspésie–Îles-de-la-Madeleine (11)[d]	7,285	872	**8,157**
Lanaudière (14)	28,952	36,324	**65,276**
Laurentides (15)	31,612	16,636	**48,248**
Laval (13)	222,280	53,527	**275,807**
Mauricie (04)[d]	103,447	34,623	**138,070**
Montérégie (16)[d]	240,956	205,622	**446,578**
Montréal (06)[d]	399,555	633,522	**1,033,077**
Nord-du-Québec (10)	15,470	1,623	**17,093**
Outaouais (07)[d]	5,754	2,001	**7,755**
Saguenay–Lac-Saint-Jean (02)[d]	204,059	19,070	**223,129**
Total	2,003,555	1,108,878	**3,112,433**

a) Amounts billed by suppliers located in the region, excluding procurement by Société d'énergie de la Baie James.

b) Specialized services, professional services and other work.

c) Purchases and rentals.

d) In addition to the amounts shown in the table, Hydro-Québec Distribution's calls for tenders for energy supplies generated the following estimated regional spinoffs in 2014: Abitibi-Témiscamingue, $128 million; Bas-Saint-Laurent, $55 million; Capitale-Nationale, $23 million; Centre-du-Québec, $14 million; Chaudière-Appalaches, $51 million; Estrie, $3 million; Gaspésie–Îles-de-la-Madeleine, $242 million; Lanaudière, $2 million; Mauricie, $5 million; Montérégie, $6 million; Montréal, $200 million; Outaouais, $6 million; Saguenay–Lac-Saint-Jean, $5 million.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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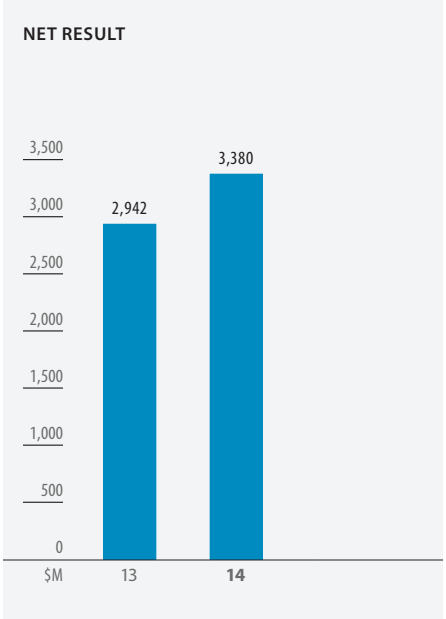
This Management's Discussion and Analysis should be read in conjunction with the consolidated financial statements of Hydro-Québec and the notes thereto. The financial information and tabular amounts presented herein are expressed in Canadian dollars, unless otherwise indicated. The consolidated financial statements reflect the decisions of the Régie de l'énergie.

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. It should also be noted that certain financial and operating data for previous years have been reclassified to conform to the presentation adopted for the current year. Finally, the information contained herein takes into account any significant event that occurred on or before the date of publication of this Annual Report.



In 2014, the **net result** broke the $3-billion mark to total $3,380 million, an increase of $438 million compared to 2013.

This exceptional result is due to the company's solid performance on all its markets, combined with sound management of operating expenses.

More specifically, the increase in the net result was mainly due to more favorable market conditions in 2014, especially early in the year, when intense cold gripped North America. Thanks to the skillful deployment of its sale programs and the robustness of its generating and transmission facilities, the company was able to capitalize on higher export market prices resulting, among other things, from congestion in New England's natural gas transmission system. On the Québec market, Hydro-Québec Production provided peak supplies to Hydro-Québec Distribution at market prices, which also contributed to the company's higher result.

Furthermore, through targeted initiatives at every level of the organization, Hydro-Québec was able to reduce its operating expenses in 2014 and again completely absorbed the increase in expenses resulting from inflation, salary indexing and asset growth. In this regard, it is worth noting that property, plant and equipment has increased by $11 billion since 2010, while operating expenses remained stable over the same period.

Hydro-Québec did not record any result from discontinued operations in 2014. Consequently, the net result corresponds to the result from continuing operations, i.e., $3,380 million.

The **dividend** payable to the Québec government amounts to $2,535 million, the highest in Hydro-Québec's history.

Cash flows from operating activities totaled $5,623 million. They allowed the company, among other things, to pay the 2013 dividend of $2,207 million and to finance a large portion of its investment program, which amounted to $3,918 million in 2014 due to the continuation of major projects in the generation and transmission segments. These include the construction and connection of the Romaine complex, which reached a milestone at year end with the commissioning of Romaine-2 generating station (640 MW). This new facility will allow the company to take advantage of business opportunities on wholesale markets inside and outside Québec.

Return on equity from continuing operations was 16.2%, compared to 14.6% in 2013, reflecting the company's solid financial performance.

In 2014, Hydro-Québec posted a net result of $3,380 million, an increase of $438 million compared to 2013.

Revenue totaled $13,638 million, compared to $12,878 million in 2013. Revenue from electricity sales increased by $574 million to $13,184 million. Sales in Québec accounted for $11,555 million of this amount, or $470 million more than in 2013. On markets outside Québec, revenue from electricity sales totaled $1,629 million, a $104-million increase. Other revenue amounted to $454 million, compared to $268 million in 2013.

The $470-million rise in revenue from electricity sales in Québec resulted mainly from a 2.0-TWh volume increase due to the harsh weather conditions in winter 2013–2014 as well as the April 1, 2013 and 2014 rate adjustments. The rise was mitigated, however, by a decrease in revenue from special contracts with certain large industrial customers due to lower demand from aluminum smelters and the less positive impact than in 2013 of hedging operations related to exchange rates and aluminum prices.

The $104-million increase in revenue from electricity sales on markets outside Québec resulted from growth in Hydro-Québec Production's export revenue. This was mainly attributable to more favorable market conditions in 2014, especially early in the year, when intense cold gripped North America.

Other revenue totaled $454 million, a $186-million increase due mainly to the change in the net amounts that Hydro-Québec is entitled to receive from customers or is required to pay to them in connection with such things as variances in supply costs for electricity in excess of the heritage pool and revenue variances related to climate conditions. The biggest underlying factor was the very cold weather in winter 2013–2014.

Variances in supply costs for electricity in excess of the heritage pool correspond to differences between the actual costs recorded in this regard and the costs recognized by the Régie de l'énergie for rate-setting purposes. These variances led to the recognition of $322 million receivable from customers in 2014, or $298 million more than in 2013.

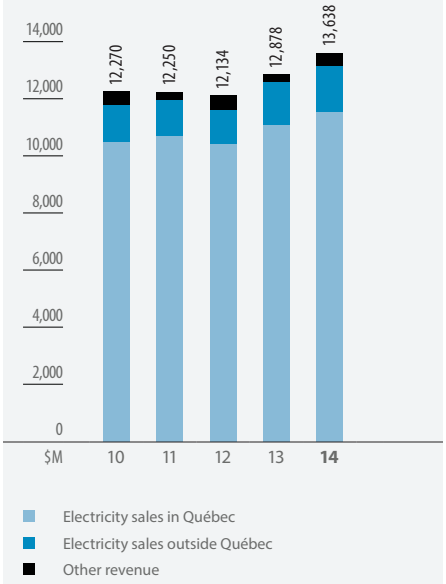
Revenue variances related to climate conditions correspond to differences between Hydro-Québec Distribution's actual transmission and distribution revenue and the revenue forecasts established on the basis of the climate normal for rate case purposes. These variances led to the recognition of $120 million payable to customers in 2014, or $78 million more than in 2013.

Total expenditure was $7,831 million, compared to $7,511 million in 2013.

Operating expenses amounted to $2,417 million, a $43-million decrease from the $2,460 million recorded in 2013. Through targeted initiatives at every level of the organization, Hydro-Québec was again able to absorb the increase in costs resulting from inflation, salary indexing and growth in operating assets.

Electricity and fuel purchases totaled $1,915 million, a $347-million increase over 2013. This increase is due to a $436-million rise in electricity purchases made by Hydro-Québec Distribution from third parties, mainly independent wind power producers, for $220 million, as well as short-term market purchases to meet ad hoc requirements resulting from the very cold temperatures in winter 2013–2014, for $179 million.

REVENUE



Depreciation and amortization expense amounted to $2,518 million, an increase of $35 million over 2013 that is partly due to the commissioning of property, plant and equipment, including the three generating units at Sarcelle powerhouse phased in during 2013 and the advanced metering infrastructure. The increase was mitigated, however, by a decrease in net costs related to the retirement of capital assets.

Taxes were $981 million, compared to $1,000 million the previous year. This decrease is primarily due to a $13-million reduction in water-power royalties on account of lower output, which was mitigated by the indexing of the applicable rate.

Financial expenses totaled $2,427 million in 2014, comparable to the $2,429 million recorded in 2013.

	2014	2013
OPERATIONS AND DIVIDEND ($M)		
Revenue	**13,638**	12,878
Operating result	**5,807**	5,367
Result from continuing operations	**3,380**	2,938
Result from discontinued operations[a]	**–**	4
Net result	**3,380**	2,942
Dividend	**2,535**	2,207
BALANCE SHEETS ($M)		
Total assets	**74,890**	73,110
Property, plant and equipment	**60,713**	59,077
Long-term debt, including current portion and perpetual debt	**44,744**	44,477
Equity	**20,618**	19,394
FINANCIAL RATIOS		
Interest coverage[b]	**2.25**	2.09
Return on equity from continuing operations (%)[c]	**16.2**	14.6
Profit margin from continuing operations (%)[d]	**24.8**	22.8
Capitalization (%)[e]	**31.8**	30.5
Self-financing (%)[f]	**51.6**	68.3

a) The discontinued operations are related to the 2012 decision to abandon the project to refurbish Gentilly-2 nuclear generating station and to terminate nuclear power operations.

b) Sum of operating result and net investment income divided by interest on debt securities.

c) Result from continuing operations divided by average equity less average accumulated result from discontinued operations for the current year and prior years and average accumulated other comprehensive income. For 2014 and 2013, average equity less average accumulated result from discontinued operations for the current year and prior years and average accumulated other comprehensive income amounted to $20,929 million and $20,141 million, respectively.

d) Result from continuing operations divided by revenue.

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

f) Cash flows from operating activities less dividend paid, divided by the sum of cash flows from investing activities, excluding net disposal or acquisition of short-term investments, and repayment of long-term debt.

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

OPERATING ACTIVITIES

Cash flows from operating activities totaled $5.6 billion in 2014, compared to $5.0 billion in 2013. These funds were mainly used to pay the dividend for 2013 and to finance a large portion of the investment program.

INVESTING ACTIVITIES

In 2014, Hydro-Québec invested $3.9 billion in property, plant and equipment and intangible assets, including the Energy Efficiency Plan (EEP), compared to $4.3 billion in 2013. Of this total, $2.0 billion was invested in development projects and $1.8 billion in maintaining or improving asset quality, while $0.1 billion went to the EEP.

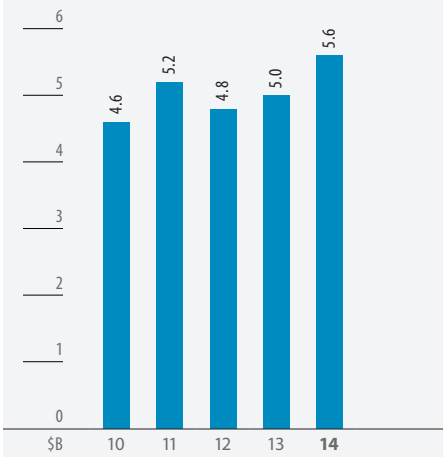
Hydro-Québec Production invested a total of $1,213 million, compared to $1,381 million in 2013. A large portion of this amount, $887 million, was devoted to development activities, mainly the continued construction of the Romaine hydroelectric complex. The amounts allocated to ongoing asset maintenance and improvement totaled $326 million. For instance, refurbishment continued at Beauharnois and Robert-Bourassa generating stations and the Manicouagan complex.

Capital spending at Hydro-Québec TransÉnergie totaled $1,627 million in 2014. Of this amount, $776 million was used to connect new hydroelectric and wind power facilities to the grid and increase transmission capacity. Projects included continued work to connect the Romaine complex as part of the expansion of the transmission system in Minganie, which reached a milestone at year end with the connection of Romaine-2 generating station (640 MW), and to integrate the output from wind farms built in response to the calls for tenders issued by Hydro-Québec Distribution in 2005 and 2009 (2,000 MW and 289.9 MW, respectively). Investments of $851 million were made in transmission asset sustainment and reliability, which mainly involved replacing equipment and modernizing facilities.

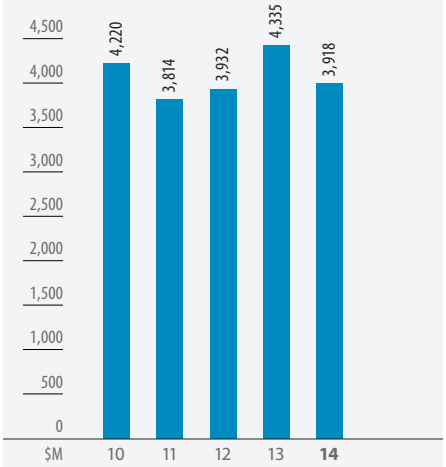
Hydro-Québec Distribution invested $826 million, mainly to handle its growing customer base, ensure the long-term operability of the distribution system and enhance service quality. An additional $89 million was allocated to the continued deployment of the EEP.

Hydro-Québec Équipement et services partagés and Société d'énergie de la Baie James carry out engineering, construction and refurbishment projects for Hydro-Québec Production and Hydro-Québec TransÉnergie. In addition, Hydro-Québec Équipement et services partagés offers company-wide shared services that include procurement of goods and services, real estate management, vehicle fleet management and materials management, as well as management of food, accommodation and air transportation services.

CASH FLOWS FROM OPERATING ACTIVITIES

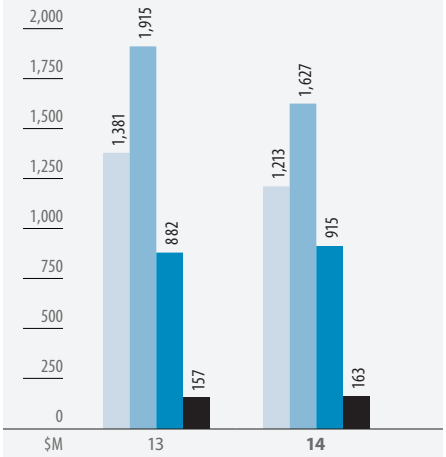


INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS[a]



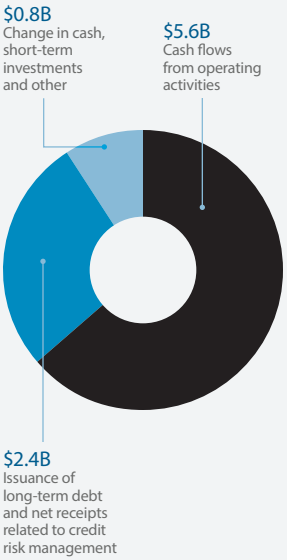
a) Including the Energy Efficiency Plan.

INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS[a] BY SEGMENT

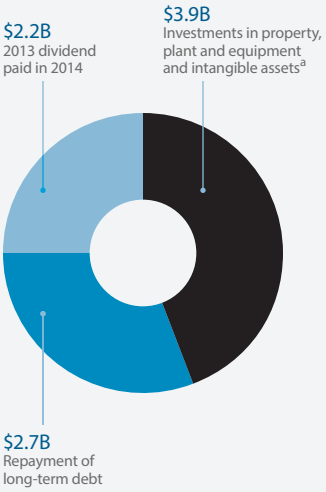


a) Including the Energy Efficiency Plan.

SOURCES OF FUNDS IN 2014



USES OF FUNDS IN 2014



a) Including the Energy Efficiency Plan.

FINANCING ACTIVITIES

In 2014, Hydro-Québec's financing activities raised $1.5 billion on the Canadian market.

In August, the company issued variable-rate notes for a total amount of $1.0 billion, maturing in 2019. In November, it issued a new series of bonds with a value of $500 million, maturing in 2055. The yield to maturity of these bonds is 3.62%.

The proceeds were used to support part of the investment program and to refinance maturing debt.

SOURCES OF FINANCING

Type of financing	Amount authorized by the Board of Directors	Market	Outstanding as at December 31, 2014
Credit lines	C$ or US$750 million[a]		–
Credit facility[b]	US$2,000 million		–
Commercial paper[b]	US$3,500 million or equivalent in C$	United States or Canada	C$23 million
Medium-term notes[b]	US$3,000 million or equivalent in other currencies C$20,000 million or equivalent in US$	United States Canada	US$340 million[c] C$14,223 million[c]

a) Of this amount, an available balance of $451 million, in C$ or US$, is covered by operating credit line agreements with financial institutions.

b) Guaranteed by the Québec government.

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

CREDIT RATINGS

	2014			2013		
	Commercial paper	Long-term debt	Outlook/ Trend	Commercial paper	Long-term debt	Outlook/ Trend
U.S. agencies						
Moody's	**P-1**	**Aa2**	**Stable**	P-1	Aa2	Stable
Standard & Poor's	**A-1+**	**A+**	**N/A**[a]	A-1+	A+	N/A[a]
Fitch Ratings	**F1+**	**AA–**	**Negative**	F1+	AA–	Negative
Canadian agency						
DBRS	**R-1 (middle)**	**A (high)**	**Stable**	R-1 (middle)	A (high)	Stable

a) Standard & Poor's does not provide an outlook for Hydro-Québec's credit rating. However, it has given the Québec government, Hydro-Québec's shareholder and guarantor, a "stable" outlook.

DIVIDEND AND CAPITALIZATION RATE

The dividend payable to the Québec government for 2014 is $2,535 million. Once this dividend is factored in, the capitalization rate was 31.8% as at December 31, 2014.

SEGMENTED INFORMATION

As in 2013, Hydro-Québec had four operating segments in 2014, namely Generation, Transmission, Distribution and Construction, as well as activities grouped under Corporate and Other Activities.

						2014
Segmented financial information ($M)	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Hydro-Québec[a]
Revenue	**6,737**	**3,253**	**11,792**	**2,281**	**1,554**	**13,638**
Result from continuing operations	**2,298**	**624**	**341**	**–**	**117**	**3,380**
Result from discontinued operations[b]	**–**	**–**	**–**	**–**	**–**	**–**
Net result	**2,298**	**624**	**341**	**–**	**117**	**3,380**
Total assets	**33,036**	**20,942**	**14,760**	**445**	**5,929**	**74,890**

						2013
Segmented financial information ($M)	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Hydro-Québec[a]
Revenue	6,598	3,049	11,244	2,574	1,503	12,878
Result from continuing operations	1,926	513	410	–	89	2,938
Result from discontinued operations[b]	4	–	–	–	–	4
Net result	1,930	513	410	–	89	2,942
Total assets	32,087	20,267	13,958	459	6,519	73,110

a) Includes the intersegment eliminations presented in Note 22 to the consolidated financial statements.

b) The discontinued operations are related to the 2012 decision to abandon the project to refurbish Gentilly-2 nuclear generating station and to terminate nuclear power operations.

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

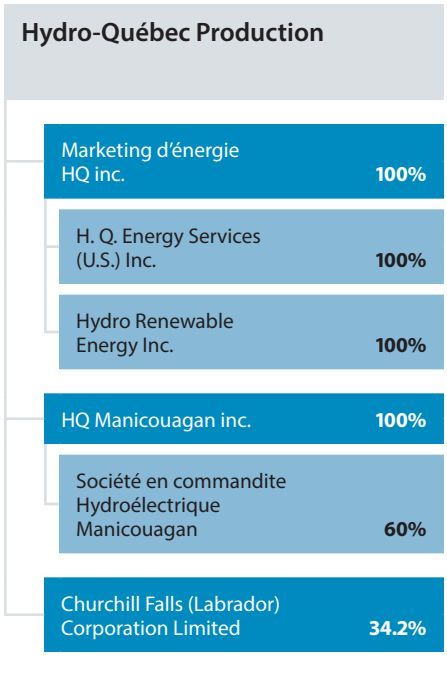
SEGMENT HIGHLIGHTS

The **Generation** segment posted a net result of $2,298 million in 2014, a $368-million increase over 2013 that is mainly due to more favorable market conditions in 2014, especially early in the year, when intense cold gripped North America. On the one hand, net electricity exports rose to $1,529 million, a $176-million increase. On the other hand, electricity sales to Hydro-Québec Distribution were $5,085 million, a $195-million increase that is primarily attributable to the peak supplies Hydro-Québec Production provided in Québec during the first few months of the year. The net result from special contracts with certain large industrial customers in Québec decreased by $109 million because of, among other things, lower demand from aluminum smelters and the less positive impact than in 2013 of hedging operations related to exchange rates and aluminum prices. Depreciation and amortization expense decreased by $35 million. Finally, water-power royalties decreased by $13 million, chiefly on account of lower output, which was mitigated by the indexing of the applicable rate.

The **Transmission** segment posted a net result of $624 million in 2014, a $111-million increase compared to the $513 million recorded in 2013 that is partly due to a $180-million increase in revenue from native-load transmission service. Depreciation and amortization expense rose by $51 million, mainly because of the commissioning of property, plant and equipment as well as an increase in net costs related to the retirement of capital assets.

The **Distribution** segment recorded a net result of $341 million in 2014, compared to $410 million in 2013, a decrease of $69 million. Revenue from electricity sales, excluding special contracts, increased by $563 million because of two main factors: temperatures that were colder in 2014 than in 2013, and the rate adjustments of April 1, 2013 and 2014. In addition, the change in the net amounts that Hydro-Québec is entitled to receive from customers or is required to pay to them in connection with such things as variances in supply costs for electricity in excess of the heritage pool and revenue variances related to climate conditions had a positive impact of $76 million on other revenue. Electricity purchases and transmission costs, excluding special contracts, increased by $734 million, mainly on account of a $436-million rise in electricity purchases made by Hydro-Québec Distribution from third parties, primarily independent wind power producers, as well as short-term market purchases to meet ad hoc requirements resulting from the very cold winter of 2014. Supplies from Hydro-Québec Production increased by $195 million. Moreover, depreciation and amortization expense increased by $23 million over 2013.

The **Construction** segment recorded a volume of activity of $2,281 million in 2014, compared to $2,574 million the previous year. As in 2013, its workload resulted from several large-scale projects.



Under the *Act respecting the Régie de l'énergie*, Hydro-Québec Production is required to provide Hydro-Québec Distribution with a base volume of up to 165 TWh of heritage pool electricity annually. It may also compete for contracts under Hydro-Québec Distribution's open tendering process and sells electricity on wholesale markets as well.

The division operates 62 generating stations. Its capital projects serve a twofold objective: to ensure the long-term operability of existing facilities and to continue development of Québec's hydroelectric potential.

OPERATING RESULTS

Hydro-Québec Production posted a net result of $2,298 million in 2014, a $368-million increase over 2013 that is mainly due to more favorable market conditions in 2014, especially early in the year, when intense cold gripped North America. On the one hand, net electricity exports rose to $1,529 million, a $176-million increase. On the other hand, electricity sales to Hydro-Québec Distribution were $5,085 million, a $195-million increase that is primarily attributable to the peak supplies Hydro-Québec Production provided in Québec during the first few months of the year. The net result from special contracts with certain large industrial customers in Québec decreased by $109 million because of, among other things, lower demand from aluminum smelters and the less positive impact than in 2013 of hedging operations related to exchange rates and aluminum prices. Depreciation and amortization expense decreased by $35 million. Finally, water-power royalties decreased by $13 million, chiefly on account of lower output, which was mitigated by the indexing of the applicable rate.

ELECTRICITY SALES IN QUÉBEC

Sales to Hydro-Québec Distribution

The total volume of electricity sales to Hydro-Québec Distribution was 165.5 TWh in 2014, compared to 167.2 TWh the previous year. Revenue generated by these sales increased by $195 million compared to the $4,890 million recorded in 2013, mainly due to the peak supplies provided at market conditions on account of the very cold temperatures in winter 2013–2014 as well as to the indexing of the price of the heritage pool.

Special contracts between Hydro-Québec Distribution and certain large industrial customers

The risks related to Hydro-Québec Distribution's special contracts with certain large industrial customers in Québec are assumed by Hydro-Québec Production. In 2014, the special contracts reduced Hydro-Québec's net result by $247 million, compared to $240 million in 2013. This change was mainly due to lower demand from aluminum smelters, a drop in aluminum prices and higher supply costs associated with these contracts, three factors that were mitigated by the positive impact of the depreciation of the Canadian dollar. Moreover, the hedging operations carried out by the company to manage risks related to exchange rates and aluminum prices had a positive impact of $125 million in 2014, compared to $227 million in 2013.

ELECTRICITY SALES OUTSIDE QUÉBEC

Electricity sales outside Québec amounted to $1,629 million, compared to $1,525 million in 2013.

Net electricity exports, which factor in short-term electricity purchases, generated $1,529 million, a $176-million increase compared to $1,353 million in 2013. The unit contribution rose to 6.0¢/kWh in 2014, compared to 4.4¢/kWh in 2013. In both cases, the increase was mainly on account of more favorable market conditions in 2014, especially early in the year, when intense cold gripped North America.

As at December 31, 2014, reservoir storage stood at 103.7 TWh, compared to 96.1 TWh a year earlier. This increase resulted from, among other things, natural water inflows that were higher than normal in 2014. The division's energy reserve continues to fully meet the criteria set for management of risks related to the security of the energy supply.

ELECTRICITY AND FUEL PURCHASES

Electricity and fuel purchases totaled $993 million in 2014, compared to $1,104 million in 2013. The decrease is partly due to a reduction in short-term electricity purchases made by the division as part of its business operations outside Québec.

DEPRECIATION AND AMORTIZATION

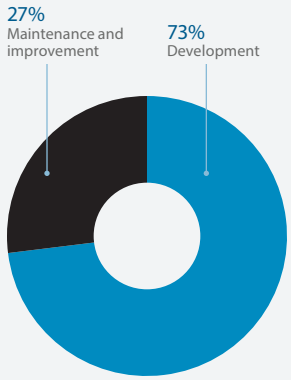
Depreciation and amortization expense totaled $730 million in 2014, compared to $765 million in 2013, a $35-million decrease that resulted, among other things, from a reduction in net costs associated with the retirement of capital assets. This reduction was mitigated by the impact of the commissioning of property, plant and equipment, including the three generating units at Sarcelle powerhouse, phased in during 2013.

INVESTING ACTIVITIES

Investments in property, plant and equipment and intangible assets affecting cash totaled $1,213 million in 2014. Of this amount, $887 million went toward development activities, mainly the construction of the Romaine hydroelectric complex, which reached a milestone at year end with the commissioning of Romaine-2 generating station (640 MW).

Hydro-Québec Production also invested $326 million in asset sustainment and optimization. For instance, refurbishment continued at Beauharnois and Robert-Bourassa generating stations and the Manicouagan complex.

BREAKDOWN OF 2014 INVESTMENTS BY HYDRO-QUÉBEC PRODUCTION



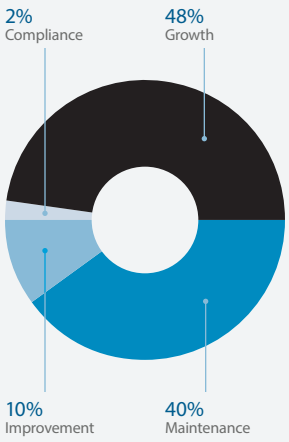
Hydro-Québec TransÉnergie

Société de transmission électrique de Cedars Rapids Limitée **100%**

Hydro-Québec division

Subsidiary held by Hydro-Québec and under the responsibility of Hydro-Québec TransÉnergie

BREAKDOWN OF 2014 INVESTMENTS BY HYDRO-QUÉBEC TRANSÉNERGIE



Hydro-Québec TransÉnergie operates and develops Hydro-Québec's power transmission system. It markets system capacity and manages power flows throughout Québec.

The operations of Hydro-Québec TransÉnergie are regulated by the Régie de l'énergie.

RATE CASE

For 2014, the revenue authorized by the Régie de l'énergie for transmission rate-setting purposes totaled $3,139 million, namely $2,765 million for native-load transmission and $374 million for short- and long-term point-to-point transmission services. These amounts represent increases of $180 million and $25 million, respectively, compared to 2013. The authorized 2014 revenue factors in the 8.2% rate of return recognized by the Régie in March 2014.

OPERATING RESULTS

Hydro-Québec TransÉnergie's net result was $624 million in 2014, a $111-million increase compared to the $513 million recorded in 2013 that is partly due to a $180-million increase in revenue from native-load transmission service. Depreciation and amortization expense rose by $51 million, mainly because of the commissioning of property, plant and equipment as well as an increase in net costs related to the retirement of capital assets.

INVESTING ACTIVITIES

In 2014, Hydro-Québec TransÉnergie invested $1,627 million in property, plant and equipment and intangible assets affecting cash, namely $776 million for growth projects and $851 million for asset sustainment and reliability projects.

The purpose of growth projects is to connect new hydroelectric facilities and wind farms to the grid and to increase transmission capacity in response to higher load demand or new customer requests. The asset sustainment and reliability projects involve keeping facilities in good operating condition, maintaining and improving service quality and complying with the legal and regulatory requirements for operating a power transmission system.

Growth projects under way in 2014 included continued work to connect the Romaine complex as part of the expansion of the transmission system in Minganie, which accounted for $328 million, and which reached a milestone at year end with the connection of Romaine-2 generating station (640 MW). The division also continued to integrate the output from wind farms built in response to the calls for tenders issued by Hydro-Québec Distribution in 2005 (2,000 MW) and 2009 (289.9 MW), for $99 million and $45 million, respectively.

In the asset sustainment and reliability category, Hydro-Québec TransÉnergie invested $691 million in equipment replacement and facility modernization, including $43 million for the rebuilding of Bélanger substation to raise the voltage to 315/120/25 kV (an amount that also includes the project's growth component) and $37 million to complete the replacement of two static var compensators at Nemiscau substation. The division also invested $160 million in enhancing service quality, including $56 million for the addition of a 735/315-kV section at Bout-de-l'Île substation.

Hydro-Québec Distribution provides electricity to the Québec market and delivers reliable power and quality services to its customers with a view to efficiency and sustainable development. In this context, it also promotes energy efficiency among its customers.

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

RATE CASES

In March 2014, the Régie de l'énergie authorized an average increase of 4.3% in all Hydro-Québec electricity rates except the large-power industrial rate (Rate L), for which the increase was set at 3.5%. In accordance with the *Act respecting the Régie de l'énergie*, the indexing of the price of heritage pool electricity does not apply to Rate L customers, which explains the smaller increase. The new rates, which went into effect on April 1, 2014, factor in the 8.2% rate of return recognized by the Régie in March 2014.

In August, Hydro-Québec Distribution filed an application with the Régie for a 3.9% rate adjustment for all customers except Rate L customers, for which the adjustment would be 3.5%. The new rates would take effect on April 1, 2015. The main reasons for the 3.9% adjustment are the costs related to new supplies, primarily wind power, and the indexing of the price of the heritage pool. It also takes into account the company's investments in the transmission and distribution systems to meet higher residential and commercial demand in Québec, ensure the long-term operability of assets and enhance service quality. Efficiency gains of $50 million made it possible to limit the increase requested. The ruling of the Régie de l'énergie on this application is expected in early 2015.

SUPPLYING THE QUÉBEC MARKET

Hydro-Québec Distribution depends on various sources to supply the Québec market. It relies primarily on the heritage pool of 165 TWh, which it purchases from Hydro-Québec Production, and 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 unforeseen needs that cannot be met otherwise, the division relies on a framework agreement with Hydro-Québec Production that covers the period from January 1, 2014, to December 31, 2016. The agreement was approved by the Régie in December 2013.

In December 2014, the Régie de l'énergie handed down a partial decision concerning the Electricity Supply Plan 2014–2023. Among other things, it authorized a long-term tender call for the purchase of 500 MW to meet capacity requirements as of winter 2018–2019.

Finally, Hydro-Québec Distribution is continuing its efforts to promote energy efficiency. In 2014, its customers' participation in Energy Efficiency Plan programs generated new savings of 504 GWh, enabling the division to reach the 8-TWh target set by the Québec government one year ahead of schedule.

Hydro-Québec Distribution

- Hydro-Québec division

OPERATING RESULTS

Hydro-Québec Distribution recorded a net result of $341 million in 2014, compared to $410 million in 2013, a decrease of $69 million. Revenue from electricity sales, excluding special contracts, increased by $563 million because of two main factors: temperatures that were colder in 2014 than in 2013, and the rate adjustments of April 1, 2013 and 2014. In addition, the change in the net amounts that Hydro-Québec is entitled to receive from customers or is required to pay to them in connection with such things as variances in supply costs for electricity in excess of the heritage pool and revenue variances related to climate conditions had a positive impact of $76 million on other revenue. Electricity purchases and transmission costs, excluding special contracts, increased by $734 million, mainly on account of a $436-million rise in electricity purchases made by Hydro-Québec Distribution from third parties, primarily independent wind power producers, as well as short-term market purchases to meet ad hoc requirements resulting from the very cold winter of 2014. Supplies from Hydro-Québec Production increased by $195 million. Moreover, depreciation and amortization expense increased by $23 million over 2013.

ELECTRICITY SALES IN QUÉBEC BY SEGMENT

	Sales volume			Sales revenue		
	2014	2014–2013 change		**2014**	2014–2013 change	
Market segment	TWh	TWh	%	$M	$M	%
Residential	**68.1**	2.1	3.2	**5,170**	345	7.2
Commercial, institutional and small industrial	**45.2**	0.6	1.3	**3,657**	153	4.4
Large industrial	**55.7**	(1.2)	(2.0)	**2,389**	(50)	(2.1)
Other	**5.2**	0.2	2.7	**308**	22	7.7
Total	**174.2**	1.7	1.0	**11,524**	470	4.3

FACTORS IN THE 2014–2013 CHANGE IN SALES BY SEGMENT

	Volume effects					Price effects			**Total**
	Baseload demand		Temperatures		**Total**	Rate adjustments	Other	**Total**	
Market segment	TWh	$M	TWh	$M	$M	$M	$M	$M	$M
Residential	0.4	30	1.7	134	**164**	171	10	**181**	**345**
Commercial, institutional and small industrial	0.3	2	0.3	17	**19**	128	6	**134**	**153**
Large industrial	(1.1)	(39)	–	–	**(39)**	55	(66)	**(11)**	**(50)**
Other	0.1	7	–	1	**8**	13	1	**14**	**22**
Total	(0.3)	–	2.0	152	**152**	367	(49)	**318**	**470**

ELECTRICITY SALES IN QUÉBEC

Revenue from electricity sales amounted to $11,524 million, a $470-million increase compared to 2013 due to colder temperatures in 2014 than in 2013 and to the rate adjustments of April 1, 2013 and 2014. Revenue from special contracts with certain large industrial customers in Québec decreased, mainly because of lower demand from aluminum smelters and the less positive impact than in 2013 of hedging operations related to exchange rates and aluminum prices. The risks related to special contracts are assumed by Hydro-Québec Production.

Sales volume rose by 1.7 TWh to 174.2 TWh, compared to 172.5 TWh in 2013. On the one hand, the colder temperatures recorded in 2014 resulted in a 2.0-TWh volume increase, for $152 million. Temperatures therefore had a positive impact of $232 million in 2014, compared to $80 million in 2013. On the other hand, there was a 1.2-TWh reduction in demand from large industrial customers, essentially because of reduced production capacity in the aluminum sector.

OTHER REVENUE

The change in the net amounts that Hydro-Québec is entitled to receive from customers or is required to pay to them, recognized in Other revenue, had a $76-million positive impact in 2014. The change is partly due to variances in supply costs for electricity in excess of the heritage pool and revenue variances related to climate conditions.

Variances in supply costs for electricity in excess of the heritage pool led to the recognition of $322 million receivable from customers, a

$298-million increase compared to 2013, given that actual supply costs were higher than the costs forecasted for rate-setting purposes, mainly because of the harsh weather conditions in winter 2013–2014.

Revenue variances related to climate conditions correspond to differences between Hydro-Québec Distribution's actual transmission and distribution revenue and the revenue forecasts established on the basis of the climate normal for rate case purposes. In 2014, these variances led to the recognition of $120 million payable to customers, or $78 million more than in 2013, owing to the fact that temperatures were colder in 2014 than in 2013.

ELECTRICITY PURCHASES AND TRANSMISSION COSTS

Electricity purchases and transmission costs increased by $750 million compared to 2013, essentially on account of a $436-million rise in supplies from third parties, primarily independent wind power producers, for $220 million, as well as short-term market purchases to meet ad hoc requirements during winter 2014, for $179 million. In addition, supplies from Hydro-Québec Production increased by $195 million, again because of the harsh winter, which necessitated peak supplies at market conditions.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense amounted to $732 million compared to $709 million in 2013, a $23-million increase resulting from the commissioning of property, plant and equipment, including the advanced metering infrastructure.

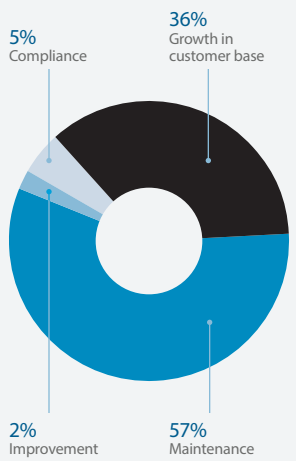
INVESTING ACTIVITIES

In 2014, Hydro-Québec Distribution's investments in property, plant and equipment and intangible assets affecting cash totaled $915 million.

Of this amount, $294 million went toward handling the growth of the Québec customer base, including $177 million for new customer connections. The division also invested $471 million in asset sustainment, which includes $275 million for the rollout of the advanced metering infrastructure. In addition, it allocated $15 million to enhancing service quality, including $7 million for the SOGEM line crew scheduling and management solutions project, which will enable the division to modernize, optimize and standardize scheduling, dispatching and repair work processes on the distribution network.

Hydro-Québec Distribution also invested $89 million in the Energy Efficiency Plan.

BREAKDOWN OF 2014 INVESTMENTS BY HYDRO-QUÉBEC DISTRIBUTION (EXCLUDING THE EEP[a])



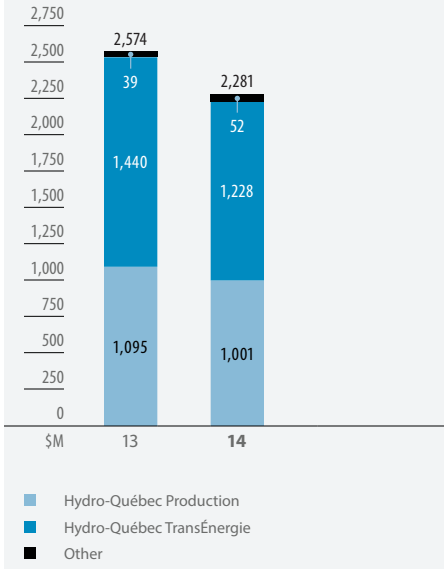
a) EEP: Energy Efficiency Plan

Hydro-Québec Équipement et services partagés

Société d'énergie de la Baie James **100%**

- Hydro-Québec division
- Subsidiary held by Hydro-Québec and under the responsibility of Hydro-Québec Équipement et services partagés

BREAKDOWN OF CONSTRUCTION SEGMENT ACTIVITIES



The Construction segment includes activities related to the projects carried out by Hydro-Québec Équipement et services partagés[1] and by Société d'énergie de la Baie James (SEBJ).

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

As engineering, construction and environmental specialists, Hydro-Québec Équipement et services partagés and SEBJ also offer Hydro-Québec Production and Hydro-Québec TransÉnergie a variety of services needed for draft-design studies, impact assessments and other undertakings in the context of energy-related projects. These services include technical and scientific surveys, planning, cost estimates, design, architecture, geomatics and quality control.

VOLUME OF ACTIVITY

Hydro-Québec Équipement et services partagés and SEBJ carried out activities amounting to a total of $2,281 million in 2014, compared to $2,574 million the previous year. As in 2013, their workload can be attributed to several large-scale projects. Work done for Hydro-Québec Production totaled $1,001 million, compared to $1,095 million in 2013, while work done for Hydro-Québec TransÉnergie totaled $1,228 million, compared to $1,440 million in 2013.

MAIN ACHIEVEMENTS

In the area of power generation, Hydro-Québec Équipement et services partagés continued the construction of the Romaine complex, which reached a milestone at year end with the commissioning of Romaine-2 generating station (640 MW). Progress was also made on the refurbishment of Beauharnois and Robert-Bourassa generating stations and various facilities in the Manicouagan complex. For Hydro-Québec TransÉnergie, the division continued work related to connecting the Romaine complex, integrating the output from wind farms, rebuilding Bélanger substation with a view to its commissioning in 2015, and adding a 735/315-kV section and a static var compensator at Bout-de-l'Île substation. It also completed the replacement of two static var compensators at Nemiscau substation. In addition, it worked on upgrading various facilities in the main transmission system while pursuing other projects to increase transmission system capacity.

1. The operations of the Direction principale – Centre de services partagés are included under Corporate and Other Activities.

This heading includes corporate activities, the Direction principale – Centre de services partagés and the Groupe – Technologie.

RESULTS

Corporate and Other Activities recorded a net result of $117 million in 2014.

CORPORATE ACTIVITIES

Corporate activities consist of the Vice-présidence – Ressources humaines; financial services, which are provided by two departments; and the Groupe – Affaires corporatives et secrétariat général.

The Vice-présidence – Ressources humaines develops strategies, guidelines, frameworks, corporate programs and objectives in matters pertaining to human resources management, labor relations, compensation and employee benefits, organizational performance, health and safety, as well as training and skills development. In addition, it makes sure that Management can count on optimum human resources conditions.

The Vice-présidence – Comptabilité et contrôle is responsible for overseeing financial, regulatory and management accounting frameworks as well as integrated business risk management. It also has the task of producing and analyzing the company's consolidated financial statements. Its other duties include financial planning, taxation, control, accounting for revenue other than from electricity sales, human resources–related financial transactions and disbursements related to employees, retirees and suppliers.

The Vice-présidence – Financement, trésorerie et caisse de retraite is in charge of meeting the company's financing requirements, managing its treasury and maintaining relations with Hydro-Québec bondholders and rating agencies. It also acts as trustee of Hydro-Québec's pension fund. In 2014, thanks to the strong performance of most of the asset classes in the pension fund portfolio, its rate of return was 14.1%, compared to 13.8% in 2013. Over the past 10 years, it has posted an average annual return of 8.0%, placing it in the first quartile of Canadian pension funds of comparable size. As at December 31, 2013, the date of the most recent actuarial valuation, the pension plan showed a funding surplus of $2.5 billion, which means that the assets held were sufficient to cover future pension costs. On that date, the pension plan's funding ratio was 115%. As a result of the pension fund's excellent performance in 2014, Hydro-Québec expects the next actuarial valuation to show an appreciable increase in this surplus.

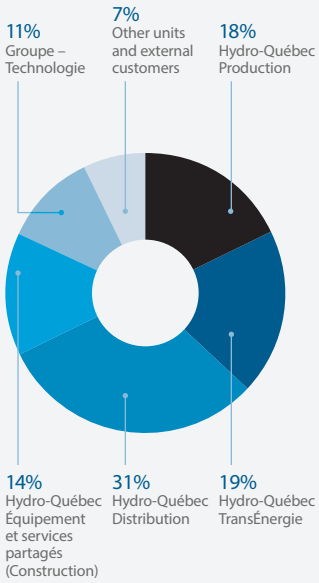
The Groupe – Affaires corporatives et secrétariat général provides strategies as well as support and advisory services in the areas of communications, public affairs, environment and ethics, as well as relations with governments, communities and partner organizations. It is also responsible for services and expertise related to legal affairs as well as the safety and security of persons and property. In addition, it coordinates strategic planning and the company's contribution to the electrification of ground transportation. The Secrétariat général provides administrative support to the Board of Directors and Board committees as well as to Hydro-Québec subsidiaries. The Secretary General also assists the President and Chief Executive Officer in carrying out the company's mandate.

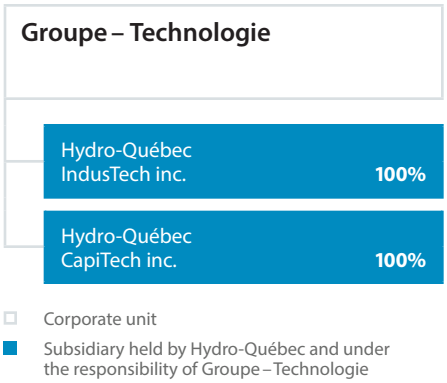
DIRECTION PRINCIPALE – CENTRE DE SERVICES PARTAGÉS

The Direction principale – Centre de services partagés, which is part of Hydro-Québec Équipement et services partagés, develops strategies, guidelines and frameworks pertaining to procurement and services common to the entire company. It provides divisions and corporate units with support services adapted to their needs, so that they can focus on their core activities. These services include procurement of goods and services, real estate management, vehicle fleet management and materials management, as well as management of food, accommodation and air transportation services.

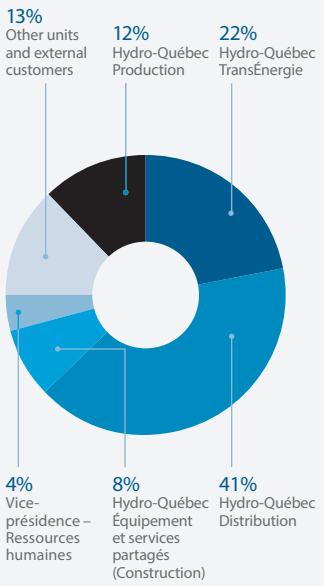
Its revenue totaled $509 million in 2014, compared to $490 million in 2013.

BREAKDOWN OF 2014 REVENUE: DIRECTION PRINCIPALE – CENTRE DE SERVICES PARTAGÉS





BREAKDOWN OF 2014 REVENUE RELATED TO INFORMATION AND COMMUNICATION TECHNOLOGY ACTIVITIES



GROUPE – TECHNOLOGIE

The Groupe – Technologie is composed primarily of the Direction principale – Télécommunications, the Direction principale – Technologie de l'information, Hydro-Québec's research institute and the subsidiaries Hydro-Québec IndusTech and Hydro-Québec CapiTech. The group's mandate is to ensure the integrated management of technological innovation and the optimal management of telecommunications and information system infrastructure. With this in mind, it has continued to implement a comprehensive vision for systems governance, architecture and security in order to capitalize on the convergence of technologies and thereby contribute to improving the company's overall performance.

In the area of technological innovation, the research institute has been focusing some of its efforts on line robotics and has developed LineScout, a remote-controlled robot designed to inspect high-voltage transmission lines. In 2014, Hydro-Québec signed a 10-year licensing agreement with the British utility National Grid Electricity Transmission allowing use of LineScout technology in the United Kingdom. The related transfer of technology started in 2014.

Direction principale – Télécommunications and Direction principale – Technologie de l'information

The Direction principale – Télécommunications and the Direction principale – Technologie de l'information enhance the efficiency of all divisions and corporate units by offering technology solutions in line with Hydro-Québec's business priorities.

In 2014, these two units posted revenue of $570 million, compared to $596 million in 2013.

Research institute

Hydro-Québec's research institute, IREQ, provides technical assistance to the divisions and carries out technological innovation projects to support their operations and ensure the long-term development of Hydro-Québec.

Hydro-Québec IndusTech

The mission of Hydro-Québec IndusTech is to partner with the private sector in industrializing and marketing technologies resulting from Hydro-Québec's research activities. Among other things, it is responsible for TM4, a company active in the field of electric powertrain systems.

In 2014, Prestolite E-Propulsion Systems (PEPS), a Beijing-based joint venture between TM4 and Prestolite Electric (Beijing), made its first significant breakthrough in China. More specifically, PEPS has received orders from China's two largest bus manufacturers for several hundred SUMO electric powertrain systems.

In addition, two new entities controlled by Hydro-Québec IndusTech were established in 2014. First, Technologies Esstalion, an R&D joint venture held in equal shares by Hydro-Québec IndusTech and Japan's Sony Corporation, was created and set up in Québec to design large-scale energy storage systems for power grids. Second, SCE France, a wholly owned subsidiary of Hydro-Québec IndusTech, was established in the French region of Aquitaine. It will focus on research in transportation electrification as well as energy storage and conversion.

Investing activities

In 2014, the Groupe – Technologie's investments totaled $128 million, of which $118 million was allocated to maintaining asset quality and $10 million to development activities.

OUTLOOK

Hydro-Québec is targeting a net result of $2.7 billion for the 2015 financial year.

The company plans to invest approximately $3.9 billion in 2015, most of which will be allocated to the operations of Hydro-Québec TransÉnergie ($1.6 billion) and Hydro-Québec Production ($1.2 billion). Nearly half of Hydro-Québec's investments will be earmarked for development and growth activities. The remainder will go toward facility maintenance and improvements.

Hydro-Québec Production will continue its work on the Romaine complex jobsites in the course of developing Québec's hydroelectric potential. Romaine-2, the first of the four generating stations in this major project, was commissioned in 2014, while the others will follow at intervals until 2020. In addition, the division will continue investing to ensure the long-term operability of its facilities and optimize their efficiency. One such project involves the refurbishment of the generating units at Beauharnois generating station, which will go on for several years.

Hydro-Québec TransÉnergie will devote a large part of its investments to development in order to integrate new hydroelectric and wind capacity into its grid. Specifically, it will continue connecting various wind farms built in response to Hydro-Québec Distribution's calls for tenders and working on the project to expand the transmission system in Minganie in order to connect the Romaine complex. The division will also continue to invest in maintenance and improvement activities to ensure the reliability and long-term operability of its transmission assets and enhance service quality. Among other initiatives in this regard is the ongoing plan to develop the transmission system on the island of Montréal, which includes the construction of the new Fleury and De Lorimier substations and their 315-kV tap lines.

Hydro-Québec Distribution will continue to deliver reliable power and high-quality services to Québec customers. It will make further investments to handle the growth of the Québec customer base and to maintain and improve the quality of its facilities. It will also continue to implement the Energy Efficiency Plan, which includes measures for low-income households. In addition, it will continue to install next-generation meters as part of the rollout of an advanced metering infrastructure. Upon completion of this project, in 2016, the division will have replaced its entire meter fleet, some 3.8 million units in total.

INTEGRATED BUSINESS RISK MANAGEMENT

Hydro-Québec applies an integrated business risk management process as part of its ongoing activities. This process is supported by various control, communication and assessment mechanisms that enable it to monitor risk developments on a dynamic basis.

The company's divisions and corporate units are central to the process. As part of their ongoing activities, they manage the risks to which they are exposed and reassess them on a regular basis, daily in some cases. In concrete terms, each division or corporate unit must determine and assess its main risks and then develop and apply mitigation measures to ensure that residual business risks are at a level acceptable to Hydro-Québec. This exercise leads to the creation of a consolidated portfolio of residual business risks during the annual planning process. This consolidated portfolio is presented to the Board of Directors with the Business Plan, which includes an analysis of the sensitivity of the net result to the principal risks. The divisions and corporate units report on their risk management activities and follow-up to the Management Committee, which acts as a risk management committee to provide overall monitoring of business risks.

ANNUAL INTEGRATED BUSINESS RISK MANAGEMENT PROCESS

January 1 — April 30 — August 31 — December 31

	1st four-month period	2nd four-month period	3rd four-month period
			Business Plan
Hydro-Québec Units	Division or corporate unit monitoring plans covering main business risks		
	Division or corporate unit risk management reports – April review in the form of highlights	Division or corporate unit risk management reports – August review in the form of highlights	
		Identification of risks and validation by managers reporting to the President and CEO	Preparation or revision of division or corporate unit business risk portfolios – Supporting documents for evaluation
Hydro-Québec Management	**Management Committee and Segment Committees** (in risk management mode)	**Management Committee and Segment Committees** (in risk management mode)	**Management Committee and Segment Committees** (in risk management mode)
	Review of risk management reports	Review of risk management reports	Review and discussion of each division's or corporate unit's risk portfolio
			Management Committee acting as the Risk Management Committee with the President and CEO as CRO[a]
			Review of the company's consolidated risk portfolio, risk map, probability of reaching net result
Board of Directors			**Finance Committee**
			Presentation of the company's consolidated risk portfolio, risk map, probability of reaching net result
			Audit Committee
			President and CEO's report on the company's integrated business risk management process
			Board of Directors
			Presentation of the company's consolidated risk portfolio, risk map, probability of reaching net result

a) 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, credit and liquidity risk. Systematic follow-up and the adoption of strategies that include the use of derivative instruments considerably reduce exposure to such risks and their impact on results.

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

MARKET RISK

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

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

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

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. These sales are billed at rates that provide for cost recovery according to conditions approved by the Régie de l'énergie. The company is also exposed to credit risk related to the cash equivalents, short-term investments and derivative instruments traded with financial institutions and other issuers and, to a lesser extent, with North American energy companies under Hydro-Québec Distribution supply contracts and Hydro-Québec Production energy transactions on markets outside Québec.

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

LIQUIDITY RISK

Liquidity risk is the risk that a company may have difficulty meeting commitments related to its financial liabilities. This type of risk may translate into difficulties accessing sources of financing for 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. Given the mitigation measures in place, the company considers its level of exposure to liquidity risk to be low.

OPERATIONAL RISKS

GENERATION

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

In addition to runoff uncertainties, Hydro-Québec Production's export activities on wholesale markets are subject to market risk and the risk of unavailability of generating and transmission equipment. Market risk results from fluctuations in electricity and fuel prices, and is mitigated by ongoing monitoring of trends in wholesale markets and the use of hedging derivative instruments. The risk of unavailability of generating and transmission equipment is maintained at a level deemed acceptable through maintenance and upgrade programs.

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

TRANSMISSION

Several factors, such as extreme weather 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 TransÉnergie to prevent these problems includes implementing the standards of the North American Electric Reliability Corporation and the Northeast Power Coordinating Council, as well as measures to maintain and improve transmission facilities and optimize their useful life. In 2007, the Régie de l'énergie confirmed the reliability expertise of Hydro-Québec TransÉnergie by designating its Direction – Contrôle des mouvements d'énergie, the unit responsible for system control, as Reliability Coordinator for transmission systems in Québec.

Hydro-Québec TransÉnergie must ensure adequate transmission capacity to supply Hydro-Québec Distribution and other customers, as well as transmission system security and reliability. To do so, the division relies, among other things, on a strategy of ensuring long-term operability of transmission assets and on a process for optimal management of annual peak load.

DISTRIBUTION

Hydro-Québec Distribution's activities are subject to uncertainty related to fluctuations in demand (under normal climate conditions) due to the economic and energy situation, which have an impact on results. When demand is lower than the forecasts presented in the rate case, the division cannot recover from customers all the costs related to power distribution and power transmission through the Hydro-Québec TransÉnergie system. To counter the impact of this risk, the division constantly fine-tunes its method of forecasting demand for electricity.

Hydro-Québec Distribution applies a series of measures to ensure long-term operability of the distribution system, and hence service quality. These measures include compliance with applicable standards for overhead and underground systems, the implementation of an asset maintenance program and a strategy for asset renewal, as well as vegetation control. Moreover, the adoption of new technologies enables the division to modernize its business processes and ensure the continuity of distribution service.

CONSTRUCTION

One of the principal risks that Hydro-Québec Équipement et services partagés must deal with is pressure on project costs, due to such factors as the rising cost of labor in the construction industry, higher prices for certain materials or products and events that affect project schedules. There is also a risk related to the quality and delivery time for components.

Regarding construction time, the division makes respecting schedules a top priority despite the constraints inherent in large-scale capital projects. This is particularly important in the current context of the construction industry in Québec, in which new legislative and regulatory measures may have an impact on workflows and on Hydro-Québec's ability to deal with certain suppliers. An active monitoring process and contingency measures have been put in place to mitigate the most probable impacts of this situation.

To meet its commitments and continue to apply high quality and safety standards, Hydro-Québec Équipement et services partagés has implemented a number of measures that reduce its risk exposure. Specifically, the division closely monitors project schedules, costs and the main deliverables, an approach that enables it to ensure that projects are progressing as planned or to take any necessary corrective action. In addition, it maintains ongoing relations with the relevant organizations and government departments to stay abreast of future amendments to laws and regulations that could affect construction costs and deadlines, among other things. It also monitors key indicators for trends in prices and the rate of activity in the construction industry. Finally, it develops procurement strategies that promote competition, sustainable supplies and maintaining expertise in its markets, and it adjusts its project completion strategies according to economic conditions, in consultation with its customers.

CORPORATE AND OTHER ACTIVITIES

Environmental protection and conservation are among Hydro-Québec's central concerns. The majority of activities that have a significant impact on the environment are governed by an ISO 14001–certified environmental management system. In addition, every year, the company reviews its management of environmental issues and provides an overview of the situation in this regard in its Sustainability Report.

Hydro-Québec is also concerned with information security and the risks associated with data confidentiality and with the loss of availability or integrity of systems and data as a result of a malicious act, error or natural disaster. It regularly assesses how well its information systems are protected against threats and implements the necessary security measures. These measures include an information and communication technology security program, an antivirus expertise centre, a process for anticipating security threats, Internet filtering mechanisms, a security monitoring centre, management of identities and access, and management of incidents and vulnerabilities.

Furthermore, Hydro-Québec has implemented a series of physical, technological and human measures to ensure the security of its facilities. Based on risk and threat assessment and analysis, these measures vary according to the strategic importance of the asset concerned, developments in the company's business environment and various external factors.

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

MANAGEMENT REPORT

Hydro-Québec's consolidated financial statements and all additional financial 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 Canadian generally accepted accounting principles and take into account the decisions handed down by the Régie de l'énergie 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 which includes communicating Hydro-Québec's rules of ethics and Code of Conduct to employees, primarily to ensure the proper management of resources and the orderly conduct of business. The objective of this system is to provide reasonable assurance that the financial information is pertinent and reliable and that the assets of Hydro-Québec are adequately recorded and safeguarded. An internal auditing process allows evaluation of the sufficiency and effectiveness of controls, as well as of Hydro-Québec's policies and procedures. Recommendations ensuing from this process are submitted to Management and the Audit Committee.

The Board of Directors is responsible for corporate governance. It assumes its responsibility for the consolidated financial statements principally 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 ensuring that the consolidated financial statements present fairly Hydro-Québec's financial position, results of operations and cash flows, and for recommending the consolidated financial statements to the Board of Directors for approval. The Audit Committee meets with Management, the Internal Auditor and the independent auditors to discuss the results of their audits and the resulting findings with respect to the integrity and quality of Hydro-Québec's financial reporting as well as its internal control system. The Internal Auditor and the independent auditors have full and unrestricted access to the Audit Committee, with or without Management present.

The 2014 and 2013 consolidated financial statements have been audited jointly by the Auditor General of Québec, KPMG LLP and Ernst & Young LLP.

/s/ Michael D. Penner
Chairman of the Board

/s/ Thierry Vandal
President and Chief Executive Officer

/s/ Lise Croteau
Vice President – Accounting and Control

Montréal, Québec
February 20, 2015

INDEPENDENT AUDITORS' REPORT

To the Minister of Finance of Québec:

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Hydro-Québec, which comprise the consolidated balance sheets as at December 31, 2014 and 2013, and the consolidated statements of operations, retained earnings, cash flows and comprehensive income for the years then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hydro-Québec as at December 31, 2014 and 2013, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

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, for the year ended December 31, 2014, these principles have been applied on a basis consistent with that of the preceding year.

/s/ KPMG LLP[1]

/s/ Ernst & Young LLP[2]

/s/ Michel Samson, CPA auditor, CA
Acting Auditor General of Québec

Montréal, Québec
February 20, 2015

1. CPA auditor, CA, public accountancy permit No. A120220
2. CPA auditor, CA, public accountancy permit No. A109499

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31 In millions of Canadian dollars	Notes	2014	2013
Revenue	3	**13,638**	12,878
Expenditure			
Operations		**2,417**	2,460
Electricity and fuel purchases		**1,915**	1,568
Depreciation and amortization	4	**2,518**	2,483
Taxes	5	**981**	1,000
		7,831	7,511
Operating result		**5,807**	5,367
Financial expenses	6	**2,427**	2,429
Result from continuing operations		**3,380**	2,938
Result from discontinued operations		**–**	4
Net result		**3,380**	2,942

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended December 31 In millions of Canadian dollars	Note	2014	2013
Balance, beginning of year		**15,568**	14,833
Net result		**3,380**	2,942
		18,948	17,775
Dividend	17	**2,535**	2,207
Balance, end of year		**16,413**	15,568

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	2014	2013
ASSETS			
Current assets			
Cash and cash equivalents	15	**1,275**	1,695
Short-term investments		**1,664**	1,689
Accounts receivable and other receivables	15	**2,184**	2,177
Derivative instruments	15	**507**	883
Regulatory assets	2	**182**	1
Materials, fuel and supplies		**201**	194
		6,013	6,639
Property, plant and equipment	7	**60,713**	59,077
Intangible assets	8	**2,278**	2,323
Investments	9	**151**	146
Derivative instruments	15	**1,047**	659
Regulatory assets	2	**372**	8
Other assets	10	**4,316**	4,258
		74,890	73,110
LIABILITIES			
Current liabilities			
Borrowings	15	**126**	23
Accounts payable and accrued liabilities		**2,099**	2,229
Dividend payable	17	**2,535**	2,207
Accrued interest		**907**	890
Asset retirement obligations	11	**79**	118
Derivative instruments	15	**896**	576
Current portion of long-term debt	12	**906**	1,157
		7,548	7,200
Long-term debt	12	**43,571**	43,067
Asset retirement obligations	11	**804**	834
Derivative instruments	15	**623**	1,295
Other liabilities	13	**1,459**	1,067
Perpetual debt	14	**267**	253
		54,272	53,716
EQUITY	17		
Share capital		**4,374**	4,374
Retained earnings		**16,413**	15,568
Accumulated other comprehensive income		**(169)**	(548)
		16,244	15,020
		20,618	19,394
		74,890	73,110
Commitments and contingencies	21		

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

On behalf of the Board of Directors,

/s/ Jacques Leblanc
Chair of the Audit Committee

/s/ Michael D. Penner
Chairman of the Board

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 In millions of Canadian dollars	Notes	2014	2013
Operating activities			
Net result		**3,380**	2,942
Adjustments to determine net cash flows from operating activities			
Depreciation and amortization	4	**2,518**	2,483
Amortization of premiums, discounts and issue expenses related to debt securities		**147**	148
Other		**(199)**	19
Change in non-cash working capital items	19	**(286)**	(131)
Net change in accrued benefit assets and liabilities	20	**63**	(444)
		5,623	5,017
Investing activities			
Additions to property, plant and equipment		**(3,680)**	(4,055)
Additions to intangible assets		**(238)**	(280)
Net disposal (acquisition) of short-term investments		**43**	(1,067)
Other		**–**	16
		(3,875)	(5,386)
Financing activities			
Issuance of long-term debt		**1,511**	2,176
Repayment of long-term debt		**(2,702)**	(2,083)
Cash receipts arising from credit risk management	15	**3,521**	5,016
Cash payments arising from credit risk management	15	**(2,596)**	(4,726)
Net change in borrowings		**87**	1
Dividend paid		**(2,207)**	(645)
Other		**199**	134
		(2,187)	(127)
Foreign currency effect on cash and cash equivalents		**19**	8
Net change in cash and cash equivalents		**(420)**	(488)
Cash and cash equivalents, beginning of year		**1,695**	2,183
Cash and cash equivalents, end of year		**1,275**	1,695
Supplementary cash flow information	19		

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31 In millions of Canadian dollars	**2014**	2013
Net result	**3,380**	2,942
Other comprehensive income		
Change in deferred gains (losses) on items designated as cash flow hedges	**339**	(218)
Reclassification to operations of deferred losses (gains) on items designated as cash flow hedges	**40**	(105)
	379	(323)
Comprehensive income	**3,759**	2,619

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

Years ended December 31, 2014 and 2013
Tabular amounts are in millions of Canadian dollars, unless otherwise indicated.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

As authorized by the Canadian Accounting Standards Board, Hydro-Québec opted to prepare its 2014 and 2013 consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in Part V of the *CPA Canada Handbook*, "Pre-Changeover Accounting Standards" (Canadian GAAP).

As of January 1, 2015, Hydro-Québec's consolidated financial statements will be prepared in accordance with United States generally accepted accounting principles.

Hydro-Québec's consolidated financial statements also reflect the decisions of the Régie de l'énergie (the Régie). These decisions may affect the timing of the recognition of certain transactions in the consolidated operations, resulting in the recognition of regulatory assets and liabilities, which Hydro-Québec considers it is likely to recover or settle subsequently through the rate-setting process.

REGULATION

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

The Régie and Hydro-Québec are both part of the Québec government reporting entity. However, the Régie is an independent, quasi-judicial economic regulatory agency accountable to the National Assembly of Québec through the Minister of Energy and Natural Resources.

In decision D-2012-021, the Régie authorized changes to certain accounting policies applied by the Transmission Provider and the Distributor for rate-setting purposes, effective in 2012, in order to ensure their conformity with IFRS. These changes concern the recognition of asset retirement obligations according to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, and the recognition of employee benefits according to IAS 19, *Employee Benefits*. In addition, the net amount of accrued benefit assets and liabilities is no longer included in the rate base. In decisions D-2013-037 and D-2014-035, the Régie authorized the application of IAS 19R, *Employee Benefits*, for the Distributor's and the Transmission Provider's rate-setting purposes, effective in 2013.

Transmission

Hydro-Québec's power transmission rates for 2013 and 2014 were determined in decision D-2014-049 of the Régie, effective January 1, 2013, and January 1, 2014, respectively. The authorized return on the rate base was set at 6.50% in 2013 and 7.05% in 2014, assuming a capitalization with 30% equity.

Distribution

Hydro-Québec's electricity rates were determined in decisions D-2014-052 and D-2013-043, in which the Régie authorized, respectively, an average rate increase of 4.27% in all rates, effective April 1, 2014, except Rate L, for which the increase was set at 3.45%, and an across-the-board increase of 2.41%, effective April 1, 2013. The authorized return on the rate base was set at 7.14% in 2014 and 6.38% in 2013, assuming a capitalization with 35% equity.

SCOPE OF CONSOLIDATION

The consolidated financial statements include the accounts of Hydro-Québec, its subsidiaries and its joint ventures as well as those of variable interest entities where Hydro-Québec is the primary beneficiary. Interests in joint ventures are accounted for using the proportionate consolidation method.

USE OF ESTIMATES

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

REVENUE

Hydro-Québec supplies the Québec market with electricity and also sells power on wholesale markets in Canada and the United States. In addition, it is active in arbitraging transactions. Revenue from electricity sales and arbitraging transactions is recognized on delivery. Arbitraging transactions are recognized net of related electricity purchases.

Revenue also includes certain amounts that Hydro-Québec is entitled to receive from customers or is required to pay to them in the future. These amounts relate, among other things, to the supply of electricity in excess of the heritage pool, to transmission services and to climate conditions. These items give rise to financial assets and liabilities that are reported in Accounts receivable and other receivables and Other assets or in Accounts payable and accrued liabilities and Other liabilities, based on their maturities, which range from one to six years.

Other revenue is recognized on delivery of the goods or services.

FOREIGN CURRENCY TRANSLATION

Self-sustaining foreign operations

The financial statements of foreign operations that are self-sustaining in terms of financial and operational management are translated according to the current rate method using the foreign operations' currency as the measuring unit. Under this method, assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date, and 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 Accumulated other comprehensive income under Equity on the balance sheet.

Integrated foreign operations and foreign currency transactions

In the case of foreign operations that are integrated in terms of financial and operational management, as well as foreign currency transactions, accounts stated in foreign currencies are translated according to the temporal method. Under this method, monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date, and non-monetary items 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 operations, unless they relate to hedging items for future sales in U.S. dollars, in which case they are recognized in Other comprehensive income until the period in which such sales are made.

FINANCIAL INSTRUMENTS

Financial instruments are measured at fair value on initial recognition. Their measurement in subsequent periods and the recognition of any changes in fair value depend on the category in which they are classified.

The following table presents the classification of financial instruments in the various categories:

Category	Financial Instruments
Financial assets and liabilities held for trading	
Designated	Cash and cash equivalents
Classified	Derivative instruments
Available-for-sale financial assets	Short-term investments
Loans and receivables	Accounts receivable and other receivables
	Government reimbursement for the 1998 ice storm, presented in Other assets
	Receivables presented in Other assets
Other financial liabilities	Borrowings
	Accounts payable and accrued liabilities
	Dividend payable
	Accrued interest
	Current portion of long-term debt
	Long-term debt
	Accounts payable presented in Other liabilities
	Perpetual debt

Financial assets and liabilities are offset when certain criteria are met. The net amount is therefore reported in the balance sheet when Hydro-Québec has a legally enforceable right to set off the recognized amounts and it intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Financial assets and liabilities held for trading are recorded at fair value at the balance sheet date. Changes in fair value are recognized in operations for the period in which they occur, except in the case of derivative instruments designated as hedges in a cash flow hedging relationship.

Available-for-sale financial assets are recorded at fair value at the balance sheet date. Changes in fair value are recorded in Other comprehensive income until they are realized, at which time, they are reclassified to operations. Interest on these assets, calculated using the effective interest method, is recognized in operations.

Loans and receivables, less any impairment losses, as well as other financial liabilities, are measured at amortized cost using the effective interest method. Amortized cost includes transaction costs, premiums and discounts, if applicable. Interest is recognized in operations.

Futures or forward contracts on non-financial items that can be settled on a net basis are recorded at the date of settlement if there is a probability of receipt or delivery in accordance with expected requirements.

As part of its integrated business risk management, Hydro-Québec uses various financial instruments to manage its market risk, consisting of currency risk, interest rate risk and risk resulting from fluctuating energy and aluminum prices. Hydro-Québec applies cash flow or fair value hedge accounting to eligible hedging relationships and formally documents these relationships. Among other things, this process involves associating derivative instruments with specific assets or liabilities on the balance sheet, or with probable anticipated transactions. Hydro-Québec also measures the effectiveness of hedging relationships initially and then monthly thereafter. In addition, for hedges of anticipated transactions, it regularly assesses the probability of the occurrence of those transactions designated as hedged items.

In the case of a cash flow hedge, the effective portion of changes in the fair value of an instrument designated as a hedge is recognized under Other comprehensive income, while the ineffective portion is immediately recognized in operations, under the line item affected by the hedged item. Amounts included in Accumulated other comprehensive income are reclassified to operations, also under the line item affected by the hedged item, during the periods in which the hedged item affects operations. If a derivative instrument no longer satisfies hedging conditions or is sold or liquidated, or if Hydro-Québec terminates its designation as a hedging item, hedge accounting ceases to be applied on a prospective basis. Previously recognized gains and losses continue to be carried forward to be recognized in operations during the same periods as the hedged item. If the hedged item ceases to exist, the gains or losses carried forward are immediately reclassified to operations.

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

In addition, an embedded derivative must be separated from its host contract and recognized at fair value on the balance sheet if certain conditions are met. Hydro-Québec has opted to apply this accounting treatment to all host contracts issued, acquired or substantively amended on or after January 1, 2003.

Hydro-Québec must classify the fair value measurements of financial instruments according to a three-level hierarchy, based on the type of inputs used in making these measurements:

- Level 1: Quoted prices on active markets for identical instruments;
- Level 2: Significant inputs and value drivers that are observable on markets; and
- Level 3: One or more significant inputs or value drivers that are not observable market data.

Cash, as well as cash equivalents, short-term investments and derivative instruments are recognized at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Cash equivalents consist of investments with a maturity of three months or less from the date of acquisition. Investments with a maturity of more than three months are presented in Short-term investments.

Except for cash and measurements of exchange-traded derivative instruments, which are Level 1 measurements, fair value measurements for financial instruments are Level 2 measurements. These measurements are obtained by discounting future cash flows, which are estimated on the basis of the spot rates or the forward rates or prices (foreign exchange rates, interest rates, and energy or aluminum prices) in effect on the balance sheet date and take into account the credit risk assessment. The valuation techniques make use of observable market data.

MATERIALS, FUEL AND SUPPLIES

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

PROPERTY, PLANT AND EQUIPMENT

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

Financial expenses capitalized to property, plant and equipment under construction are determined using the average cost of Hydro-Québec's long-term debt. When the property, plant and equipment under construction relate to regulated transmission and distribution activities, such financial expenses take return on equity into account. The portion that corresponds to return on equity is included in Revenue in consolidated operations.

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

Hydraulic generation	40 to 120 years
Thermal generation	15 to 50 years
Transmission substations and lines	30 to 85 years
Distribution substations and lines	25 to 60 years
Other property, plant and equipment	5 to 50 years

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

Maintenance and repair costs are recognized in operations when incurred.

INTANGIBLE ASSETS

Intangible assets are recorded at cost. Financial expenses are capitalized over the development period.

The costs related to the Energy Efficiency Plan (EEP), and internally developed computer software and development costs are capitalized when they meet capitalization criteria.

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. The excess of the carrying amount over the fair value is recognized in operations for the period in which the impairment is determined.

Intangible assets with a finite useful life, namely the EEP, software and licences, development costs and patents, are amortized over their useful life according to the straight-line method over the following periods:

EEP	10 years
Software and licences	3 to 10 years
Development costs	5 years
Patents	20 years

IMPAIRMENT OF LONG-LIVED ASSETS

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

INVESTMENTS

Investments in companies over which Hydro-Québec can exercise significant influence are accounted for on an equity basis. These investments are initially recognized at cost, and the carrying amount is increased or decreased by an amount equal to Hydro-Québec's share of the changes in the investees' net assets after the date of acquisition. Hydro-Québec's share of the investees' operations is recognized in the net result. Dividends received from the investees are applied against the carrying amount of the investment.

EMPLOYEE FUTURE BENEFITS

Hydro-Québec offers all its employees a contributory defined-benefit pension plan based on final pay, as well as other post-retirement and post-employment benefits.

The cost of pension benefits and other post-retirement benefits provided in exchange for current service is calculated according to the projected benefit method prorated on years of service. It is determined using a discount rate and is based on Management's best estimates, in particular concerning the expected return on plan assets, salary escalation, the increase in health care costs, and employees' retirement ages. Plan assets are measured at fair value at the balance sheet date.

In order to establish the cost of benefits and its employee future benefit obligations, Hydro-Québec has adopted the following policies:

- The discount rate is based on the average rate of the interest rate curve on the measurement date of high-quality Canadian corporate bonds and takes into account the expected cash flows associated with the accrued benefit obligations.
- Past service costs arising from amendments to the pension plan and post-retirement benefits are amortized using the straight-line method over periods not exceeding active employees' average remaining years of service, which was 12 years as at January 1, 2014 and 2013.
- Amortization of actuarial gains or losses is recognized in operations for the year if the unamortized net actuarial gain or loss at the beginning of the year exceeds 10% of the value of the accrued 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.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASSET RETIREMENT OBLIGATIONS

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

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

AGREEMENTS WITH LOCAL COMMUNITIES

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

RELATED PARTY TRANSACTIONS

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

NOTE 2 EFFECTS OF RATE REGULATION ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

REGULATORY ASSETS

Costs related to the de-icing system at Lévis substation

Certain costs related to the Lévis substation de-icing system, designed in the wake of the 1998 ice storm to secure the transmission lines supplying the greater Québec area, were recognized in a separate account. These costs have been amortized using the straight-line method starting from the date of commissioning of the de-icing system, over a period corresponding to the average remaining useful life of the assets enhanced by the system. Financial expenses arising from these costs were capitalized at the rate of return authorized by the Régie on the rate base until such time as they were included in the rate base and amortization began. This accounting practice was authorized by the Régie in decision D-2004-175, which relates to Hydro-Québec's power transmission activities. Were these activities not regulated, the costs would have been recognized in operations for the year in which they were incurred, and the net result for 2014 and 2013 would have been $1 million higher.

Costs related to projects pending approval by the Régie

Costs related to projects that were included in a rate application, but that are pending approval at the time the decision on the rate application is handed down, are recognized in a separate account until the projects are approved by the Régie and amortized over the subsequent financial year. Financial expenses arising from these costs are capitalized at the rate of return authorized by the Régie on the rate base until such time as amortization begins. This accounting practice was authorized by the Régie in decisions D-2011-039, D-2012-024, D-2012-059 and D-2014-035, which relate to Hydro-Québec's power transmission and distribution activities. Were these activities not regulated, the costs would be recognized in operations for the year in which they are incurred, and the net result for 2014 would have been $37 million lower ($14 million higher in 2013).

Costs related to a suspension agreement

The Régie authorized an agreement regarding the temporary suspension of deliveries from a generating station in May 2014. The offsetting entry for the financial liability recorded with regard to this agreement was recognized in a separate non-interest-bearing account, and the adjustments related to subsequent changes in this liability are recognized in the same account. The costs related to the suspension agreement are recovered in the rates on an annual basis, depending on the amounts billed. This accounting practice was approved by the Régie in decision D-2014-086, which relates to Hydro-Québec's electricity distribution activities. Were these activities not regulated, the purchases of electricity and financial expenses would have been $504 million and $6 million higher, respectively, in 2014, while the net result for 2014 would have been $510 million lower (nil in 2013).

REGULATORY ASSETS

	Expected years of amortization	2014	2013
Costs related to the de-icing system at Lévis substation	2015–2047	**7**	8
Costs related to projects pending approval by the Régie	2015	**37**	–
Costs related to a suspension agreement	2015–2018	**510**	–
Other	–	**–**	1
		554	9
Current portion		**182**	1
		372	8

Risks and uncertainties

The risks and uncertainties related to the above regulatory assets are subject to periodic monitoring and assessment. Once Hydro-Québec considers that it is no longer likely that the net carrying amount of a regulatory asset will be taken into account in setting future rates, this amount is recognized in operations for the year in which the conclusion is reached.

OTHER REGULATORY PRACTICES

Under Régie decisions D-2002-95 and D-2003-93, the compensation granted by the Québec government for the 1998 ice storm was applied against the cost of newly constructed property, plant and equipment. It is amortized over the remaining life of the retired assets, with the exception of the portion equivalent to the unamortized cost of these assets, which is amortized over 10 years. The straight-line method is used in both cases. Were these activities not regulated, the compensation would be amortized over the useful life of the newly constructed property, plant and equipment.

In decisions D-2002-95 and D-2004-47, the Régie prescribed capitalizing financial expenses to property, plant and equipment under construction and intangible assets under development related to regulated activities, according to the authorized rates of return on the rate bases. These rates, which are set using methods approved by the Régie, take into account a component associated with the cost of the debt and a component associated with the return on equity. Were these activities not regulated, financial expenses would be capitalized using the average cost of Hydro-Québec's long-term debt.

Under Régie decisions D-2002-95 and D-2003-93, the cost of dismantling retired and replaced assets for which no asset retirement obligation was recognized is added, net of the salvage value, to the cost of the newly constructed assets. Under Régie decision D-2011-039, which relates to Hydro-Québec's power transmission activities, the costs of restoring sites associated with replaced assets are also added to the cost of newly constructed assets. Were these activities not regulated, the related costs would be charged to operations in the year in which they are incurred.

Under Régie decisions D-2006-76 and D-2006-76R, contributions received for relocation or modification projects relating to certain transmission grid assets are recognized in a separate account and applied against property, plant and equipment. These contributions are amortized over the average useful life of assets for each project, using the straight-line method. Were these activities not regulated, the contributions would be amortized over the useful life of each item of property, plant and equipment concerned.

Under Régie decisions D-2002-25, D-2002-288, D-2003-93 and D-2006-56, advertising and promotional costs, entertainment expenses, training costs and other EEP general expenses incurred until December 31, 2011, were recognized in the costs related to this intangible asset and will be amortized over 10 years on a straight-line basis. Were these activities not regulated, the costs and expenses would have been recognized in operations for the year in which they were incurred. As of January 1, 2012, under Régie decision D-2012-021, these costs are recognized in operations for the year in which they are incurred.

Finally, the legal and regulatory context in which Hydro-Québec operates gives it the right to receive from its customers or the obligation to pay to them, as the case may be, the amounts corresponding to any variance between the actual amount of certain specific items and the amount provided in rate cases for these items. These items therefore give rise to financial assets or liabilities. They include the supply of electricity in excess of the heritage pool (decisions D-2005-34, D-2005-132, D-2006-34, D-2007-12 and D-2008-024), fuel purchases (decisions D-2009-016 and D-2010-022), native-load transmission service (decisions D-2003-93, D-2006-34, D-2007-12 and D-2008-024), climate conditions (decisions D-2006-34, D-2009-016 and D-2014-037), point-to-point transmission service (decisions D-2007-08 and D-2008-019), pension costs (decisions D-2011-028, D-2011-039, D-2012-024 and D-2012-059), costs of major outages (decisions D-2009-016 and D-2013-037) and the expense related to the activities of the Bureau de l'efficacité et de l'innovation énergétiques (decisions D-2013-037 and D-2014-037).

NOTE 3 REVENUE

	2014	2013
Electricity sales	**13,184**	12,610
Other	**454**	268
	13,638	12,878

NOTE 4 DEPRECIATION AND AMORTIZATION

	2014	2013
Property, plant and equipment	**2,112**	2,067
Intangible assets	**309**	274
Regulatory assets	**2**	8
Retirement of capital assets	**95**	134
	2,518	2,483

NOTE 5 TAXES

	2014	2013
Water-power royalties[a]	**661**	674
Public utilities tax[b]	**252**	245
Municipal, school and other taxes[c]	**68**	81
	981	1,000

a) Water-power royalties payable to the Québec government totaled $656 million in 2014 ($669 million in 2013), including a balance receivable of $2 million as at December 31, 2014 (balance due of $52 million as at December 31, 2013).

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

c) Including $21 million payable to the Québec government under the *Act respecting Energy Efficiency and Innovation* in 2014 ($30 million in 2013).

NOTE 6 FINANCIAL EXPENSES

	2014	2013
Interest on debt securities	**2,593**	2,584
Net exchange gain	**(33)**	(21)
Guarantee fees related to debt securities[a]	**205**	200
	2,765	2,763
Less		
Capitalized financial expenses	**314**	294
Net investment income	**24**	40
	338	334
	2,427	2,429

a) Guarantee fees related to debt securities are paid to the Québec government.

NOTE 7 PROPERTY, PLANT AND EQUIPMENT

	2014			
	In service	Accumulated depreciation	Under construction	Net carrying amount
Generation				
Hydraulic	44,729	16,185	2,012	**30,556**
Thermal	665	640	–	**25**
Other	759	467	10	**302**
	46,153	17,292	2,022	**30,883**
Transmission				
Substations and lines	27,750	10,514	1,505	**18,741**
Other	2,334	1,352	133	**1,115**
	30,084	11,866	1,638	**19,856**
Distribution				
Substations and lines	13,444	5,967	411	**7,888**
Other	3,141	1,672	136	**1,605**
	16,585	7,639	547	**9,493**
Construction	40	20	–	**20**
Corporate and Other Activities	1,134	768	95	**461**
	93,996[a]	37,585[a]	4,302	**60,713**

	2013			
	In service	Accumulated depreciation	Under construction	Net carrying amount
Generation				
Hydraulic	41,782	15,509	3,614	29,887
Thermal	708	679	–	29
Other	737	447	11	301
	43,227	16,635	3,625	30,217
Transmission				
Substations and lines	26,304	9,917	1,702	18,089
Other	2,330	1,340	101	1,091
	28,634	11,257	1,803	19,180
Distribution				
Substations and lines	13,111	5,701	370	7,780
Other	2,977	1,672	135	1,440
	16,088	7,373	505	9,220
Construction	32	18	–	14
Corporate and Other Activities	1,135	774	85	446
	89,116[a]	36,057[a]	6,018	59,077

a) As at December 31, 2014, the cost and accumulated depreciation of property, plant and equipment in service under capital leases amounted to $616 million and $96 million, respectively ($525 million and $70 million as at December 31, 2013).

NOTE 8 INTANGIBLE ASSETS

	2014			2013		
	Cost	Accumulated amortization	Net carrying amount	Cost	Accumulated Amortization	Net carrying amount
Intangible assets						
Subject to amortization						
EEP	1,751	847	**904**	1,662	696	966
Software and licences	1,749	1,133	**616**	1,645	1,014	631
Development costs	68	35	**33**	58	28	30
Patents	24	13	**11**	24	11	13
	3,592	2,028	**1,564**	3,389	1,749	1,640
Not subject to amortization						
Servitudes			**419**			396
Rights			**295**			287
			714			683
			2,278			2,323

The additions of internally generated intangible assets subject to amortization totaled $214 million in 2014 ($270 million in 2013).

NOTE 9 INVESTMENTS

	2014	2013
At equity		
Churchill Falls (Labrador) Corporation Limited	**131**	125
CITEQ inc.	**(5)**	(5)
	126	120
Other	**25**	26
	151	146

NOTE 10 OTHER ASSETS

	Note	2014	2013
Accrued benefit assets	20	**3,855**	3,886
Government reimbursement for the 1998 ice storm[a]		**66**	66
Receivables[b]		**380**	281
Other		**15**	25
		4,316	4,258

a) In accordance with the terms and conditions in effect since January 1, 2013, the full amount of the reimbursement will be paid no later than October 15, 2019, and interest calculated at the Bankers' Acceptance Rate for a 12-month term will be paid on an annual basis. The fair value of this financial asset was $66 million as at December 31, 2014 and 2013.

b) Including assets of $379 million related to variances between the actual amount of certain specific items and the amount provided in rate cases for these items ($281 million as at December 31, 2013). Financial expenses related to these assets are capitalized at the rate of return authorized by the Régie, such that their carrying amount approximates their fair value. They are recovered over a one- to six-year period.

NOTE 11 ASSET RETIREMENT OBLIGATIONS

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

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

	2014			
	Dismantling of nuclear generating station[a]	Removal of spent nuclear fuel[a]	Dismantling of other assets	Total
Balance, beginning of year	529	248	175	**952**
Liabilities incurred	–	–	5	**5**
Accretion expense	30	14	5	**49**
Liabilities settled	(76)	(3)	(17)	**(96)**
Revision of estimated cash flows and expected timing of payments	–	(17)	(10)	**(27)**
Balance, end of year	483	242	158	**883**
Less				
Current portion	36	5	38	**79**
	447	237	120	**804**

	2013			
	Dismantling of nuclear generating station[a]	Removal of spent nuclear fuel[a]	Dismantling of other assets	Total
Balance, beginning of year	588	229	135	952
Liabilities incurred	–	–	50	50
Accretion expense	33	20	6	59
Liabilities settled	(92)	(1)	(17)	(110)
Revision of estimated cash flows and expected timing of payments	–	–	1	1
Balance, end of year	529	248	175	952
Less				
Current portion	93	4	21	118
	436	244	154	834

a) The Québec government has provided an irrevocable financial guarantee of up to $685 million to the Canadian Nuclear Safety Commission for the performance of Hydro-Québec's obligations with regard to the cost of dismantling Gentilly-2 generating station and the removal of spent nuclear fuel.

The carrying amount of the asset retirement obligations is based on the following key assumptions:

	Dismantling of nuclear generating station	Removal of spent nuclear fuel	Dismantling of other assets
Estimated cash flows (in constant dollars) required to settle the obligations[a]			
As at December 31, 2014	1,180	647	194
As at December 31, 2013	1,232	677	213
Expected timing of payment of the cash flows required to settle the obligations			
As at December 31, 2014	Between 2015 and 2066	Between 2015 and 2164	Between 2015 and 2092
As at December 31, 2013	Between 2014 and 2066	Between 2014 and 2164	Between 2014 and 2092
Credit quality–adjusted, risk-free rate (%)			
Initial recognition of obligations	6.4	6.4	Between 1.1 and 6.4
Subsequent recognition of obligations	Between 4.3 and 5.7	Between 3.6 and 5.7	Between 1.1 and 4.4

a) Inflation rates varying between 1.9% and 3.7% were used to determine the asset retirement obligations.

NOTE 11 ASSET RETIREMENT OBLIGATIONS (CONTINUED)

HYDRO-QUÉBEC TRUST FOR MANAGEMENT OF NUCLEAR FUEL WASTE

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

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

Hydro-Québec has made all the payments required under the NFWA. As at December 31, 2014, the investments held in the Hydro-Québec trust fund were composed of debt securities issued by Hydro-Québec, the fair value of which totaled $140 million ($117 million as at December 31, 2013).

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

NOTE 12 LONG-TERM DEBT

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

	2014				2013			
			At time of issue	At time of repayment			At time of issue	At time of repayment
	In Canadian dollars and other currencies	At closing exchange rates as at the balance sheet date	%	%	In Canadian dollars and other currencies	At closing exchange rates as at the balance sheet date	%	%
Hydro-Québec's debt								
Canadian dollars[a]	34,295	**34,295**	**78**	**100**	35,058	35,058	80	100
U.S. dollars	8,094	**9,388**	**21**	**–**	8,091	8,601	19	–
Other currencies								
Euros	60	**85**	**–**	**–**	60	88	–	–
Pounds sterling	200	**361**	**1**	**–**	199	352	1	–
Yen	1,000	**10**	**–**	**–**	1,000	10	–	–
		44,139				44,109		
Subsidiaries' debt								
U.S. dollars	–	**–**	**–**	**–**	10	11	–	–
		44,139	**100**	**100**		44,120	100	100
Plus								
Adjustment for fair value hedged risk		**338**				104		
		44,477				44,224		
Less								
Current portion		**906**				1,157		
		43,571				43,067		

a) Including non-interest-bearing debts other than bonds and medium-term notes for a discounted amount of $1,317 million as at December 31, 2014 ($1,123 million as at December 31, 2013).

INTEREST RATES

The following table shows interest rates on bonds and medium-term notes, which take into account contractual rates, premiums, discounts and issue expenses, as well as the effect of forward contracts and swaps traded to manage long-term risks related to debt. As at December 31, 2014, the variable rate portion of these bonds and notes totaled 15.1% (10.1% as at December 31, 2013).

%				2014	2013
Maturity	Canadian dollars	U.S. dollars	Other currencies	Weighted average	Weighted average
1 to 5 years	2.00	1.31	8.93	**1.89**	2.28
6 to 10 years	10.03	8.42	–	**9.34**	9.76
11 to 15 years	5.91	9.06	–	**8.94**	8.27
16 to 20 years	3.55	10.42	–	**7.05**	7.55
21 to 25 years	5.62	–	–	**5.62**	5.62
26 to 30 years	5.11	–	–	**5.11**	5.11
31 to 35 years	4.89	–	–	**4.89**	4.89
36 to 40 years	4.47	–	–	**4.47**	4.47
41 to 45 years	3.98	–	–	**3.98**	–
46 to 50 years	6.53	–	–	**6.53**	6.53
Weighted average	5.10	8.64	8.93	**5.43**	5.50

FAIR VALUE

As at December 31, 2014, the fair value of the long-term debt, including the current portion, amounted to $60,569 million ($54,556 million as at December 31, 2013). Including forward contracts and swaps traded for long-term currency risk and interest rate risk management purposes related to debt, it totaled $60,861 million ($55,027 million as at December 31, 2013). Fair value is obtained by discounting future cash flows, and is calculated on the basis of forward interest rates derived from interest rates at the balance sheet date for similar instruments traded on capital markets. Changes in fair value reflect sensitivity to capital market interest rates. However, Management's primary intention is to hold these debt securities until maturity.

CREDIT FACILITY AND LINES OF CREDIT

Hydro-Québec has an undrawn credit facility of US$2,000 million ($2,320 million), including a US$750-million ($870 million) swing loan, which will expire in 2019. Any debt securities will bear interest at a rate based on the London Interbank Offered Rate (LIBOR), except for the swing loan, which is at the U.S. base rate. Hydro-Québec also has access to undrawn 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, 2014, the available balance on these lines of credit totaled $451 million in C$ or US$.

NOTE 13 OTHER LIABILITIES

	Note	2014	2013
Accrued benefit liabilities	20	**941**	909
Accounts payable[a, b]		**518**	158
		1,459	1,067

a) Including a balance of $10 million as at December 31, 2014 ($20 million as at December 31, 2013) payable to the Québec government under the *Act to establish the Northern Development Fund*. The current portion, presented under Accounts payable and accrued liabilities, totaled $10 million as at December 31, 2014 and 2013. These amounts will be paid in installments of $10 million per year in 2015 and in 2016.

b) Including a $365-million financial liability related to an agreement regarding the temporary suspension of deliveries from a generating station, which was approved by the Régie in May 2014. The current portion, presented under Accounts payable and accrued liabilities, totaled $145 million as at December 31, 2014. This financial liability, including the current portion, represents a discounted amount of $510 million and contained an outstanding amount, payable in U.S. dollars, of $38 million (US$33 million) as at December 31, 2014. The effective rate of this liability is 1.58%.

NOTE 14 PERPETUAL DEBT

Perpetual notes in the amount of $267 million (US$230 million) as at December 31, 2014, and of $253 million (US$238 million) as at December 31, 2013, bear interest at LIBOR, plus 0.0625%, as calculated semiannually. The notes are redeemable at Hydro-Québec's option. In 2014, portions totaling $9 million (US$8 million) were repurchased on the secondary market and then canceled ($40 million, or US$38 million, in 2013). Various derivative instruments are used to mitigate the currency risk associated with this perpetual debt.

As at December 31, 2014 and 2013, the rate applicable to the perpetual notes was 0.4%. As at December 31, 2014, the fair value of these notes was $217 million ($214 million as at December 31, 2013). Fair value is obtained by discounting future cash flows, and is calculated on the basis of forward interest rates derived from interest rates at the balance sheet date for similar instruments traded on capital markets.

NOTE 15 FINANCIAL INSTRUMENTS

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

MARKET RISK

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

MANAGEMENT OF LONG-TERM RISK

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

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

Management of risk associated with debt

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

The following table shows the notional amounts of forward contracts and swaps used to manage risk associated with U.S.-dollar sales and with the debt, expressed in Canadian dollars and foreign currencies:

					2014[a]	2013[a]
Maturity	1 to 5 years	6 to 10 years	11 to 15 years	16 to 20 years	Total	Total
Forward contracts						
U.S. dollars	2,233	–	–	–	**2,233**	2,241
Swaps						
Canadian dollars	(1,213)	(3,520)	(2,037)	(1,171)	**(7,941)**	(6,504)
U.S. dollars	312	3,055	1,675	1,000	**6,042**	5,718
Other currencies						
Euros	61	–	–	–	**61**	61
Pounds sterling	200	–	–	–	**200**	200
Yen	1,000	–	–	–	**1,000**	1,000

a) Figures in parentheses represent amounts to be paid.

The following table shows the fair value of forward contracts and swaps used to manage risk associated with U.S.-dollar sales and with the debt, expressed in Canadian dollars:

	2014	2013
Derivative instruments designated as cash flow hedges for U.S.-dollar sales	**–**	172
Derivative instruments designated as cash flow hedges for debt	**(224)**	(1,079)
Derivative instruments designated as fair value hedges for debt	**446**	190
	222	(717)
Derivative instruments not designated as hedges[a]	**(314)**	620
	(92)	(97)

a) These instruments were traded as part of Hydro-Québec's risk management, and $(508 million) was in consideration of amounts received or disbursed with respect to credit risk mitigation agreements in 2014 ($417 million in 2013).

MANAGEMENT OF SHORT-TERM RISK

Currency risk – Hydro-Québec uses forward contracts to manage its foreign currency risk exposure over the short term. When designated as hedging items, these derivative instruments are recognized as cash flow hedges. The impact of currency risk hedging transactions on results is recognized in the line item affected by the hedged item, namely Revenue, Electricity and fuel purchases, or Financial expenses. The nominal amount of open positions as at December 31, 2014, was US$500 million in sales contracts (US$509 million as at December 31, 2013).

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

Price risk – Hydro-Québec uses mainly commodity futures and swaps to manage risk resulting from fluctuations in energy and aluminum prices. When designated as hedging items, these derivative instruments are recognized as cash flow hedges. The impact on results of transactions to hedge the risk related to energy and aluminum prices is recognized in the line item affected by the hedged item, namely Revenue or Electricity and fuel purchases. In this context, Hydro-Québec has traded commodity futures and electricity swaps for which open positions as at December 31, 2014, were 14.9 TWh (15.6 TWh as at December 31, 2013), and natural gas futures for which open positions as at December 31, 2014, totaled 1.3 million MMBtu (4.1 million MMBtu as at December 31, 2013), as well as aluminum swaps for which open positions as at December 31, 2014, totaled 100,000 tonnes (no open position as at December 31, 2013).

The fair value of derivative instruments used to manage short-term financial risks, depending on whether or not they are designated as hedges, is shown in the table below:

	2014	2013
Derivative instruments designated as cash flow hedges	**127**	(230)
Derivative instruments not designated as hedges	**–**	(2)
	127[a,b]	(232)[a,b]

a) This amount includes financial instruments measured on the basis of quoted stock market prices (Level 1) of $(1 million) ($1 million in 2013).

b) Margin calls on derivative instruments may result in amounts received from or paid to clearing agents, based on the fair value of the instruments concerned. As at December 31, 2014, $103 million had been received on this basis; the offsetting item is presented in Borrowings under Current liabilities on the balance sheet. As at December 31, 2013, $248 million had been paid on this basis; the offsetting item, subject to restrictions, is presented in Cash and cash equivalents under Current assets on the balance sheet.

EFFECT OF HEDGES

Effect of hedges on results

Effect of cash flow hedges

As at December 31, 2014, the net loss related to the ineffectiveness of cash flow hedges recognized in operations totaled $6 million ($2 million as at December 31, 2013).

As at December 31, 2014, Hydro-Québec estimated at $115 million the amount of net gains presented in Accumulated other comprehensive income that would be reclassified to operations in the next 12 months ($1 million as at December 31, 2013).

In 2014, Hydro-Québec reclassified a net loss of $11 million from Accumulated other comprehensive income to operations ($7 million in 2013) as a result of the discontinuance of cash flow hedges.

As at December 31, 2014 and 2013, the maximum period during which Hydro-Québec hedged its exposure to the variability of cash flows related to anticipated transactions was three years.

Effect of fair value hedges

As at December 31, 2014, the net gain related to the ineffectiveness of fair value hedges recognized in operations totaled $17 million (net loss of $5 million as at December 31, 2013).

Effect of revaluation of derivative instruments not designated as hedges

As at December 31, 2014, the net gain recognized in operations as a result of the revaluation, at fair value, of derivative instruments to which hedge accounting was not applied totaled $224 million ($122 million as at December 31, 2013). These instruments are essentially related to risk management transactions.

Sensitivity analyses

The risks associated with variability in foreign exchange rates, interest rates, and energy and aluminum prices are the subject of integrated management aimed at limiting the impact of such risks on results. Most of the derivative instruments traded are designated as cash flow hedges or fair value hedges and therefore reduce the volatility of results, except for the ineffective portion of the hedges, which is insignificant. Derivative instruments which are not designated as hedges, but which nonetheless serve to hedge at-risk opposite positions, also reduce the volatility of results. The sensitivity of results is thus limited to net exposure to unhedged risks.

As at December 31, 2014, had the exchange rate (C$/US$1) been 5% higher or lower, the net result would have been $13 million higher or lower, respectively ($14 million as at December 31, 2013), while Other comprehensive income would have been $191 million higher or lower, respectively ($125 million as at December 31, 2013). The analysis is based on financial assets and liabilities denominated in U.S. dollars, including a cash and cash equivalents amount of US$239 million (US$246 million as at December 31, 2013).

As at December 31, 2014, had interest rates been 50 basis points higher or lower, the net result would have been $14 million lower or $11 million higher, respectively ($3 million higher or $4 million lower, respectively, as at December 31, 2013), while Other comprehensive income would have been $12 million higher or $13 million lower, respectively ($52 million higher or $56 million lower as at December 31, 2013). The analysis is based on cash and cash equivalents, short-term investments, borrowings and floating-rate debt as well as on interest-rate-sensitive derivative instruments.

As at December 31, 2014 and 2013, had the price of aluminum been 5% higher or lower, the impact on the net result would have been nil, whereas Other comprehensive income would have been $11 million lower or higher, respectively (no impact as at December 31, 2013).

LIQUIDITY RISK

Liquidity risk is the risk that an entity will have difficulty meeting commitments related to its financial liabilities.

Hydro-Québec's exposure to this risk is reduced by a large volume of cash flows from operating activities, a diversified portfolio of highly liquid or readily convertible instruments traded with high-quality counterparties, preauthorized sources of financing, the quality of Hydro-Québec's signature on financial markets, diversified sources of financing and its management of the proportions of floating-rate debt and debt repayable in foreign currency.

Moreover, as at December 31, 2014, $40,939 million in long-term debt, perpetual debt and borrowings, net of the sinking fund, was guaranteed by the Québec government ($41,085 million as at December 31, 2013).

Maturities of financial liabilities are presented in the table below. The amounts reported are contractual undiscounted cash flows, representing payments of principal and interest for financial liabilities as at December 31, 2014.

Maturity	Borrowings[a]	Accounts payable and accrued liabilities	Dividend payable	Long-term debt	Derivative instruments[b]
2015	126	1,638	2,535	3,364	946
2016	–	161	–	4,130	69
2017	–	151	–	3,552	45
2018	–	159	–	3,503	36
2019	–	–	–	3,444	33
1 to 5 years	126	2,109	2,535	17,993	1,129
6 to 10 years	–	–	–	19,219	235
11 to 15 years	–	–	–	9,609[c]	243
16 to 20 years	–	–	–	9,036	74
21 to 25 years	–	–	–	10,092	–
26 to 30 years	–	–	–	8,656	–
31 to 35 years	–	–	–	8,642	–
36 to 40 years	–	–	–	9,168	–
41 to 45 years	–	–	–	2,214	–
46 to 50 years	–	–	–	879	–
51 to 55 years	–	–	–	373	–
56 years and over	–	–	–	26,629	–
Total	**126**	**2,109**	**2,535**	**122,510**	**1,681**
Carrying amount	**126**[d, e]	**2,094**[d, f]	**2,535**[d]	**44,477**[g]	**1,519**

a) As at December 31, 2014, the weighted average interest rate on interest-bearing borrowings was 1.03% (1.13% as at December 31, 2013).

b) Agreements entered into with certain counterparties to limit the market value of these financial instruments could result in cash receipts or payments at dates different from the initially scheduled maturity.

c) Certain debts carry sinking fund requirements. An amount of $588 million ($594 million as at December 31, 2013) was reported under Short-term investments for this purpose.

d) The carrying amount of these financial liabilities approximates their fair value.

e) Including US$89 million (nil in 2013) translated at the exchange rate in effect at the balance sheet date.

f) Of this amount, $1,638 million was recorded in Accounts payable and accrued liabilities, and $456 million in Other liabilities.

g) Including current portion.

Contractual maturities of perpetual debt, whose terms and conditions are described in Note 14, Perpetual Debt, result in semiannual interest flows.

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

Cash and cash equivalents, short-term investments and derivative instruments

In order to reduce its credit risk exposure, Hydro-Québec deals with Canadian and international issuers and financial institutions with high credit ratings. In addition, it applies policies to limit risk concentration as well as various monitoring programs and sets credit limits for each counterparty. Through prior agreements, it can also limit the market value of the main derivative instrument portfolios. Any variation in market value beyond the agreed-upon limit results in a cash receipt or payment. As at December 31, 2014, substantially all counterparties dealing with Hydro-Québec had a credit rating of A– or better, and none of them had defaulted on their obligations to Hydro-Québec.

Accounts receivable and other receivables

Exposure to credit risk from electricity sales is limited due to Hydro-Québec's large and diverse customer base. Management believes that Hydro-Québec is not exposed to a significant credit risk, particularly because sales in Québec are billed at rates that allow for recovery of costs based on the terms and conditions set by the Régie. Moreover, Hydro-Québec holds as collateral customer deposits totaling $103 million ($98 million as at December 31, 2013), of which $27 million ($24 million as at December 31, 2013) is recognized in Accounts payable and accrued liabilities and $76 million ($74 million as at December 31, 2013) in Other liabilities.

The value of accounts receivable, by age and net of the related allowance for doubtful accounts, is presented in the table below:

	2014	2013
Accounts receivable		
Under 30 days[a]	**1,622**	1,664
30 to 60 days	**47**	50
61 to 90 days	**20**	21
Over 90 days	**141**	138
	1,830	1,873
Other receivables[b]	**354**	304
Accounts receivable and other receivables[c]	**2,184**	2,177

a) Including unbilled electricity deliveries, which totaled $1,212 million as at December 31, 2014 ($1,309 million as at December 31, 2013).

b) Including a $105-million financial guarantee ($67 million in 2013) covering certain derivative instruments held at year end.

c) Including US$166 million (US$180 million in 2013) translated at the exchange rate in effect at the balance sheet date.

In 2014, the allowance for doubtful accounts increased by $8 million ($12 million in 2013) to $336 million as at December 31 ($328 million as at December 31, 2013). The allowance is based on a specific percentage deemed appropriate for each account age group and customer standing.

NOTE 16 INTERESTS IN JOINT VENTURES

The proportionate share of the joint venture items included in the consolidated financial statements is presented in the table below. These joint ventures consist of the interests managed by Hydro-Québec Production and the Groupe – Technologie.

	2014	2013
Operations		
Revenue	**91**	169
Expenditure and financial expenses	**29**	141
Net result	**62**	28
Balance Sheets		
Current assets	**17**	35
Long-term assets	**617**	624
Current liabilities	**7**	43
Net assets	**627**	616
Cash Flows		
Operating activities	**77**	80
Investing activities	**(33)**	(7)
Financing activities	**(66)**	(65)
Net change in cash and cash equivalents	**(22)**	8

NOTE 17 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, 2014 and 2013.

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 terms and conditions of payment. For a given financial year, the dividend cannot exceed the distributable surplus, equal to 75% of the net result. This calculation is based on the consolidated financial statements. However, in respect of a given financial 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 2014, the dividend was $2,535 million ($2,207 million for 2013).

ACCUMULATED OTHER COMPREHENSIVE INCOME

CASH FLOW HEDGES

	2014	2013
Balance, beginning of year	**(548)**	(225)
Change for the year	**379**	(323)
Balance, end of year	**(169)**	(548)

NOTE 18 CAPITAL MANAGEMENT

Hydro-Québec manages its capital in such a way as to meet its shareholder's expectations, safeguard its funds at all times and sustain its growth. It fosters a management environment allowing it to enhance the long-term value of its assets and equity, ensure its financial sustainability, preserve its financing capability and safeguard its funds and securities.

In addition to equity, capital includes long-term debt, less the sinking fund, plus perpetual debt, borrowings and derivative instruments.

Hydro-Québec uses its capitalization rate to monitor its capital structure. It aims to maintain capitalization at no less than 25%.

CAPITALIZATION

	2014	2013
Equity	**20,618**	19,394
Long-term debt, including current portion	**44,477**	44,224
Sinking fund[a]	**(588)**	(594)
Perpetual debt	**267**	253
Borrowings	**126**	23
Derivative instruments	**(35)**	329
Total	**64,865**	63,629
Capitalization rate (%)[b]	**31.8**	30.5

a) The sinking fund is reported under Short-term investments.

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

In 2014, Hydro-Québec's capital management objectives were unchanged from 2013.

NOTE 19 SUPPLEMENTARY CASH FLOW INFORMATION

	2014	2013
Change in non-cash working capital items		
Accounts receivable and other receivables	**9**	(259)
Materials, fuel and supplies	**(7)**	(17)
Accounts payable and accrued liabilities	**(269)**	128
Accrued interest	**(19)**	17
	(286)	(131)
Investing activities not affecting cash		
Increase in property, plant and equipment and intangible assets	**248**	110
Interest paid	**2,097**	2,041

NOTE 20 EMPLOYEE FUTURE BENEFITS

Hydro-Québec's pension plan (the Pension Plan) is a fully funded contributory plan that ensures 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%.

Hydro-Québec also offers other post-retirement benefits as well as post-employment benefits. Post-retirement benefits are provided by group life, medical and hospitalization insurance plans, which are contributory plans with contributions adjusted annually. Post-employment benefits are under non-contributory salary insurance plans, which pay short- and long-term disability benefits. Most of these plans are not funded, with the exception of the long-term disability salary insurance plan, which is fully funded, and the supplementary group life insurance plan, which is partially funded.

All Hydro-Québec's plans are defined benefit plans. The accrued benefit obligations of these plans, valued by independent actuaries, and their assets, at fair value, are valued as at December 31 of each year. The most recent actuarial valuation of the Pension Plan for funding purposes was as at December 31, 2013, at which date the plan was funded at 115.1%. The next valuation must be as at December 31, 2014.

CHANGES IN ACCRUED BENEFIT OBLIGATIONS AND IN PLAN ASSETS AT FAIR VALUE

	Pension Plan		Other plans	
	2014	2013	**2014**	2013
Accrued benefit obligations				
Balance, beginning of year	**18,628**	19,173	**1,125**	1,197
Current service cost	**344**	379	**42**	48
Employee contributions	**131**	131	**–**	–
Benefit payments and refunds	**(869)**	(819)	**(61)**	(59)
Interest on obligations	**879**	829	**53**	52
Actuarial loss (gain)	**3,162**	(1,091)	**184**	(64)
Plan amendments	**–**	26	**(4)**	(49)
Balance, end of year	**22,275**	18,628	**1,339**	1,125
Plan assets at fair value				
Balance, beginning of year	**18,732**	16,414	**72**	68
Actual return on plan assets	**2,521**	2,197	**3**	2
Employee contributions	**131**	131	**–**	–
Contributions by Hydro-Québec	**263**	809	**13**	14
Benefit payments and refunds	**(869)**	(819)	**(12)**	(12)
Balance, end of year	**20,778**	18,732	**76**	72
(Deficit) surplus, end of year	**(1,497)**	104	**(1,263)**	(1,053)
Unamortized past service cost (credit)	**88**	125	**(48)**	(49)
Unamortized net actuarial loss	**5,264**	3,657	**370**	193
Accrued benefit assets (liabilities)	**3,855**	3,886	**(941)**	(909)

ADDITIONAL DISCLOSURES WITH RESPECT TO PLAN ASSETS

As at December 31, plan assets, at fair value, consisted of:

	Pension Plan		Other plans	
%	**2014**	2013	**2014**	2013
Bonds	**38**	41	**90**	93
Equities	**43**	44	**–**	–
Real estate investments	**12**	12	**–**	–
Other	**7**	3	**10**	7
	100	100	**100**	100

Assets of the plans include the following securities issued by Hydro-Québec and by the Québec government and some of its agencies:

	Pension Plan		Other plans	
	2014	2013	**2014**	2013
Bonds	**1,124**	1,136	**69**	68

Administrative and management expenses billed to the Pension Plan by Hydro-Québec amounted to $15 million in 2014 ($14 million in 2013).

CASH PAYMENTS

Cash payments made by Hydro-Québec for employee benefit plans consist of contributions made to the funded plans and the benefits paid to employees and pensioners under unfunded plans. The cash payment details are as follows:

	2014	2013
Contributions by Hydro-Québec		
Pension Plan	**263**	809
Other funded plans	**13**	14
Benefit payments		
Unfunded plans	**49**	46
	325	869

In accordance with the actuarial valuation for funding purposes, Hydro-Québec made current contributions of $263 million in 2014 ($261 million in 2013), including additional contributions of $76 million ($73 million in 2013) to cover the current service cost. It also provided a $69 million irrevocable letter of credit in favor of the Pension Plan (a special contribution of $548 million was made in 2013).

The letter of credit and special contribution take into account certain temporary relief measures introduced by the *Act to amend the Supplemental Pension Plans Act and other legislative provisions in order to reduce the effects of the financial crisis on plans covered by the Act* and, in particular, the extension of the period provided to cover the unfunded actuarial liability.

ELEMENTS OF ACCRUED BENEFIT COST RECOGNIZED FOR THE YEAR

	Pension Plan		Other plans	
	2014	2013	**2014**	2013
Current service cost[a]	**344**	379	**42**	48
Interest on obligations	**879**	829	**53**	52
Actual return on plan assets	**(2,521)**	(2,197)	**(3)**	(2)
Actuarial loss (gain)	**3,162**	(1,091)	**184**	(64)
Plan amendments	**–**	26	**(4)**	(49)
Cost (credit) before adjustments required to recognize the long-term nature of employee future benefits	**1,864**	(2,054)	**272**	(15)
Difference between actual and expected return on assets	**1,332**	1,071	**–**	–
Difference between actuarial loss (gain) on accrued benefit obligations and actuarial loss recognized	**(2,939)**	1,427	**(177)**	76
Difference between plan amendments and amortization of past service cost	**37**	12	**(1)**	49
Amortization of transitional (asset) obligation	**–**	(153)	**–**	13
	(1,570)	2,357	**(178)**	138
Cost recognized for the year	**294**	303	**94**	123

a) For the long-term disability salary insurance plan, the current service cost corresponds to the cost of new disability cases for the year.

SIGNIFICANT ACTUARIAL ASSUMPTIONS

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

	Pension Plan		Other plans	
%	**2014**	2013	**2014**	2013
Accrued benefit obligations				
Rate at end of year				
Discount rate	**3.98**	4.77	**3.98**	4.77
Salary escalation rate[a]	**3.23**	3.31	**–**	–
Accrued benefit cost recognized				
Rate at end of prior year				
Discount rate	**4.77**	4.36	**4.77**	4.36
Expected long-term rate of return on plan assets	**6.75**	6.75	**3.73**	3.91
Salary escalation rate[a]	**3.31**	2.39	**–**	–

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

As at December 31, 2014, health care costs were based on an annual growth rate of 5.55% for 2015. According to the assumption used, this rate will then decrease to a final rate of 4.90% in 2030. A change of 1% in this annual growth rate would have had the following impact for 2014:

	1% increase	1% decrease
Impact on current service cost and interest cost on accrued benefit obligations for the year	8	(5)
Impact on accrued benefit obligations at end of year	98	(77)

NOTE 21 COMMITMENTS AND CONTINGENCIES

ELECTRICITY PURCHASE TRANSACTIONS

On May 12, 1969, Hydro-Québec signed a contract with Churchill Falls (Labrador) Corporation Limited [CF(L)Co] whereby Hydro-Québec undertook to purchase substantially all the output from Churchill Falls generating station, which has a rated capacity of 5,428 MW. In 2016, this contract will be automatically renewed for a further 25 years under agreed-upon terms and conditions. On June 18, 1999, Hydro-Québec and CF(L)Co entered into a contract to guarantee the availability of 682 MW of additional power until 2041 for the November 1 to March 31 winter period.

As at December 31, 2014, Hydro-Québec was also committed under contracts to purchase electricity from other power producers. Based on the renewal clauses, the terms of these contracts extend through 2052. Hydro-Québec has also undertaken to purchase power transmission rights.

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

2015	1,479
2016	1,637
2017	1,712
2018	1,703
2019	1,853
2020 and thereafter	30,085

GUARANTEES

In accordance with the terms and conditions of certain debt securities issued outside Canada, Hydro-Québec has undertaken to increase the amount of interest paid to non-residents in the event of changes to Canadian tax legislation governing the taxation of non-residents' income. Hydro-Québec cannot estimate the maximum amount it might have to pay under such circumstances. Should an amount become payable, Hydro-Québec has the option of redeeming most of the securities in question. As at December 31, 2014, the amortized cost of the long-term debts concerned was $5,805 million.

INVESTMENTS

Hydro-Québec anticipates investing approximately $3.9 billion in property, plant and equipment and intangible assets in 2015.

In addition, Hydro-Québec has entered into various agreements with the local communities concerned by certain capital projects. As at December 31, 2014, the amounts related to all of these agreements were recognized under Long-term debt. As at December 31, 2013, the amounts related to some of the agreements were not recognized under this line item because they did not meet all the applicable criteria for the recognition of a liability. As at December 31, 2013, the agreements not recognized under Long-term debt provided for annual payments as of 2021, for a maximum term of 51 years and a total amount of $618 million.

LITIGATION

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

Among other ongoing actions, some Aboriginal communities have instituted proceedings against the governments of Canada and Québec, as well as against Hydro-Québec, based on demands concerning their ancestral rights. Thus, the Innus of Uashat mak Mani-Utenam are claiming an amount of $1.5 billion. In June 2009, they served notice that they had filed for an injunction to suspend work at the Romaine complex jobsite, and in May 2010, an application was added for an interlocutory injunction to suspend work on the related tie lines. As well, in November 2006, the Innus of Pessamit reactivated a case instituted in 1998 aimed at obtaining, among other things, the recognition of ancestral rights related to Québec lands on which certain hydroelectric generating facilities belonging to the Manic-Outardes complex are located. The Innus of Pessamit are claiming $500 million. The judicial proceedings are progressing, and Hydro-Québec is challenging the legitimacy of all these claims.

NOTE 22 SEGMENTED INFORMATION

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

Generation: Hydro-Québec Production operates and develops Hydro-Québec's generating facilities. The division provides Hydro-Québec Distribution with a base volume of up to 165 TWh of heritage pool electricity annually. In addition, it can participate in Hydro-Québec Distribution's calls for tenders in a context of free market competition, and also sells electricity on external markets as well as engaging in arbitraging transactions.

Transmission: Hydro-Québec TransÉnergie operates and develops Hydro-Québec's power transmission system. It markets system capacity and manages power flows throughout Québec.

Distribution: Hydro-Québec Distribution operates and develops Hydro-Québec's distribution system and is responsible for sales and services to Québec customers. It also promotes energy efficiency and ensures the security of the supply of electricity to the Québec market.

Construction: Hydro-Québec Équipement et services partagés and Société d'énergie de la Baie James (SEBJ) design, build and refurbish generating and transmission facilities. Hydro-Québec Équipement et services partagés is responsible for projects throughout Québec, except in the territory governed by the *James Bay and Northern Québec Agreement* (JBNQA). SEBJ builds generating facilities in the territory governed by the JBNQA (north of the 49th parallel) and may also carry out certain projects elsewhere in Québec or outside the province.

Corporate and Other Activities: The corporate units support the divisions in the achievement of their business objectives. They include the Groupe – Technologie, Groupe – Affaires corporatives et secrétariat général, Vice-présidence – Comptabilité et contrôle, Vice-présidence – Financement, trésorerie et caisse de retraite and Vice-présidence – Ressources humaines, as well as the Direction principale – Centre de services partagés, which reports to Hydro-Québec Équipement et services partagés. The Centre de services partagés brings together internal company-wide shared services, including procurement of goods and services, real estate management, vehicle fleet management, materials management, as well as management of food, accommodation and air transportation services.

The amounts presented for each segment are based on the financial information used to prepare the consolidated financial statements. The accounting policies used to calculate these amounts are as described in Note 1, Significant Accounting Policies, and Note 2, Effects of Rate Regulation on the Consolidated Financial Statements.

Intersegment transactions related to electricity sales are recorded based on the supply and transmission rates provided for by the *Act respecting the Régie de l'énergie*. The Act sets a supply rate for an annual base volume of up to 165 TWh of heritage pool electricity for the Québec market.

Other intersegment products and services are measured at full cost, which includes all costs directly associated with product or service delivery.

Most of Hydro-Québec's revenue is from Québec, and substantially all its property, plant and equipment are related to its Québec operations. In 2014, revenue from outside Québec amounted to $1,732 million, with $1,385 million originating from the United States ($1,658 million and $1,365 million, respectively, in 2013).

NOTE 22 SEGMENTED INFORMATION (CONTINUED)

The following tables contain information related to operations, assets and investing activities by segment:

							2014
	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Intersegment eliminations and adjustments	Total
Revenue							
External customers	1,729	129	11,710	–	70	–	**13,638**
Intersegment customers	5,008	3,124	82	2,281	1,484	(11,979)	**–**
Depreciation and amortization	730	957	732	4	95	–	**2,518**
Financial expenses	1,141	794	470	–	27	(5)	**2,427**
Result from continuing operations	2,298	624	341	–	117	–	**3,380**
Result from discontinued operations	–	–	–	–	–	–	**–**
Net result	2,298	624	341	–	117	–	**3,380**
Total assets	33,036	20,942	14,760	445	5,929	(222)	**74,890**
Investing activities							
Increase in property, plant and equipment and intangible assets							
Affecting cash	1,213	1,627	915	11	152	–	**3,918**
Not affecting cash	201	36	11	–	–	–	**248**

							2013
	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Intersegment eliminations and adjustments	Total
Revenue							
External customers	1,674	44	11,160	–	–	–	12,878
Intersegment customers	4,924	3,005	84	2,574	1,503	(12,090)	–
Depreciation and amortization	765	906	709	3	100	–	2,483
Financial expenses	1,170	787	450	–	27	(5)	2,429
Result from continuing operations	1,926	513	410	–	89	–	2,938
Result from discontinued operations	4	–	–	–	–	–	4
Net result	1,930	513	410	–	89	–	2,942
Total assets	32,087	20,267	13,958	459	6,519	(180)	73,110
Investing activities							
Increase in property, plant and equipment and intangible assets							
Affecting cash	1,381	1,915	882	5	152	–	4,335
Not affecting cash	20	82	8	–	–	–	110

NOTE 23 COMPARATIVE INFORMATION

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

CONSOLIDATED FINANCIAL INFORMATION

$M	2014	2013	2012	2011	2010
OPERATIONS					
Revenue	**13,638**	12,878	12,134	12,250	12,270
Expenditure					
Operations	**2,417**	2,460	2,375	2,417	2,427
Electricity and fuel purchases	**1,915**	1,568	1,183	1,154	1,282
Depreciation and amortization	**2,518**	2,483	2,405	2,603	2,559
Taxes	**981**	1,000	997	864	906
	7,831	7,511	6,960	7,038	7,174
Operating result	**5,807**	5,367	5,174	5,212	5,096
Financial expenses	**2,427**	2,429	2,438	2,526	2,553
Result from continuing operations	**3,380**	2,938	2,736	2,686	2,543
Result from discontinued operations[a]	**–**	4	(1,876)	(75)	(28)
Net result	**3,380**	2,942	860	2,611	2,515
DIVIDEND	**2,535**	2,207	645	1,958	1,886
BALANCE SHEET SUMMARY					
Total assets	**74,890**	73,110	70,508	69,594	65,794
Long-term debt, including current portion and perpetual debt	**44,744**	44,477	43,524	42,050	38,660
Equity	**20,618**	19,394	18,982	18,834	18,566
INVESTMENTS FOR CONTINUING OPERATIONS AFFECTING CASH					
Property, plant and equipment and intangible assets[b]	**3,918**	4,335	3,932	3,814	4,220
FINANCIAL RATIOS					
Interest coverage[c]	**2.25**	2.09	2.02	1.97	1.93
Return on equity from continuing operations (%)[d]	**16.2**	14.6	14.6	15.5	15.3
Profit margin from continuing operations (%)[e]	**24.8**	22.8	22.5	21.9	20.7
Capitalization (%)[f]	**31.8**	30.5	30.6	31.4	32.1
Self-financing (%)[g]	**51.6**	68.3	55.4	48.7	47.0

a) The discontinued operations are related to the 2012 decision to abandon the project to refurbish Gentilly-2 nuclear generating station and to terminate nuclear power operations.

b) Including the Energy Efficiency Plan.

c) Sum of operating result and net investment income divided by interest on debt securities.

d) Result from continuing operations divided by average equity less average accumulated result from discontinued operations for the current year and prior years and average accumulated other comprehensive income. For the period from 2010 to 2014, average equity less average accumulated result from discontinued operations for the current year and prior years and average accumulated other comprehensive income amounted to $16,627 million, $17,319 million, $18,729 million, $20,141 million and $20,929 million, respectively.

e) Result from continuing operations divided by revenue.

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

g) Cash flows from operating activities less dividend paid, divided by the sum of cash flows from investing activities, excluding net disposal or acquisition of short-term investments, and repayment of long-term debt.

Note: Throughout the Five-Year Review and the Consolidated Results by Quarter, certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

OPERATING STATISTICS

	2014	2013	2012	2011	2010
GWh					
Electricity sales[a]					
In Québec, by segment					
Residential	**68,074**	65,983	61,956	62,402	59,348
Commercial, institutional and small industrial	**45,189**	44,620	43,775	43,683	43,009
Large industrial	**55,738**	56,855	56,875	58,210	59,828
Other	**5,919**	5,818	5,795	5,671	7,300
	174,920	173,276	168,401	169,966	169,485
Outside Québec					
Canada/U.S. (long-term)	**2,495**	2,519	2,683	2,617	2,677
Canada/U.S. (short-term)	**24,129**	29,689	25,406	21,063	17,477
	26,624	32,208	28,089	23,680	20,154
Total electricity sales	**201,544**	205,484	196,490	193,646	189,639
$M					
Revenue from electricity sales[a]					
In Québec, by segment					
Residential	**5,170**	4,825	4,452	4,508	4,287
Commercial, institutional and small industrial	**3,657**	3,504	3,370	3,377	3,335
Large industrial	**2,389**	2,439	2,317	2,533	2,534
Other	**339**	317	303	302	350
	11,555	11,085	10,442	10,720	10,506
Outside Québec					
Canada/U.S. (long-term)	**226**	229	211	253	247
Canada/U.S. (short-term)	**1,403**	1,296	983	999	1,057
	1,629	1,525	1,194	1,252	1,304
Total revenue from electricity sales	**13,184**	12,610	11,636	11,972	11,810
As at December 31					
Number of customer accounts					
In Québec, by segment					
Residential	**3,857,782**	3,821,012	3,777,196	3,731,047	3,684,966
Commercial, institutional and small industrial	**317,671**	316,585	314,895	313,468	311,149
Large industrial	**183**	186	188	189	192
Other	**4,214**	4,207	3,988	4,004	3,861
Total customer accounts	**4,179,850**	4,141,990	4,096,267	4,048,708	4,000,168

a) Data related to continuing operations.

	2014	2013	2012	2011	2010
MW					
Installed capacity					
Hydroelectric	**36,100**	35,364	35,125	35,285	34,490
Nuclear[a]	**–**	–	–	675	675
Thermal	**543**	704	704	1,011	1,506
Total installed capacity	**36,643**[b]	36,068	35,829	36,971	36,671
GWh					
Total energy requirements[c]	**222,045**	226,576	221,004	214,764	209,108
MW					
Peak power demand in Québec[d]	**38,743**	39,031	38,797	35,481	37,717
km					
Lines (overhead and underground)					
Transmission	**34,187**[e]	33,885	33,911	33,902	33,725
Distribution[f]	**115,583**	114,843	114,649	113,525	112,089
	149,770	148,728	148,560	147,427	145,814

a) Gentilly-2 generating station ceased to operate on December 28, 2012.

b) 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 31 wind farms (2,857 MW) and 4 small hydropower plants (48 MW) and almost all the output from 7 biomass and 3 biogas cogeneration plants (206 MW) operated by independent power producers. Moreover, 1,132 MW are available under long-term contracts with other suppliers.

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

d) The 2014 figure was valid on February 20, 2015. The values indicated correspond to the needs for the winter beginning in December, including interruptible power. The peak for a given period is based on measurements at fixed intervals. The 2014–2015 winter peak was 38,743 MW and occurred on January 8, 2015, at 8:00 a.m., after the system load momentarily reached 38,950 MW at 7:21 a.m.

e) 33,915 km of lines operated by Hydro-Québec TransÉnergie and 272 km by Hydro-Québec Distribution.

f) These figures include off-grid systems but exclude private systems, lines under construction and 44-kV lines (transmission).

OTHER INFORMATION

	2014	2013	2012	2011	2010
%					
Average rate increase (decrease) from January 1 to December 31	**3.8**[a]	1.7	(0.4)	(0.2)	0.6
As at December 31					
Salaried employees[b]	**19,505**	19,692	21,032	21,977	22,590
Total number of employees[b]					
Permanent	**17,793**	17,861	18,926	19,415	19,521
Temporary	**2,250**	2,382	2,670	3,086	3,571
	20,043	20,243	21,596	22,501	23,092
Women (%)	**29.4**	30.0	30.6	31.1	30.9

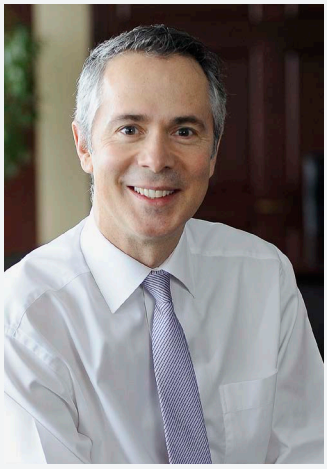
a) Excluding Rate L.

b) Excluding employees of subsidiaries and joint ventures.

CONSOLIDATED RESULTS BY QUARTER

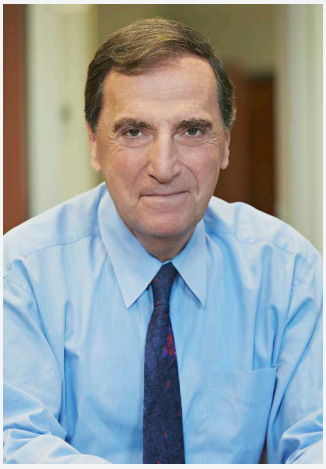
					2014
$M	1st quarter	2nd quarter	3rd quarter	4th quarter	12-month period
Revenue	4,625	2,865	2,660	3,488	**13,638**
Expenditure					
Operations	611	569	544	693	**2,417**
Electricity and fuel purchases	753	352	335	475	**1,915**
Depreciation and amortization	613	623	607	675	**2,518**
Taxes	284	228	230	239	**981**
	2,261	1,772	1,716	2,082	**7,831**
Operating result	2,364	1,093	944	1,406	**5,807**
Financial expenses	601	626	593	607	**2,427**
Result from continuing operations	1,763	467	351	799	**3,380**
Result from discontinued operations	–	–	–	–	**–**
Net result	1,763	467	351	799	**3,380**

					2013
$M	1st quarter	2nd quarter	3rd quarter	4th quarter	12-month period
Revenue	3,912	2,788	2,658	3,520	12,878
Expenditure					
Operations	629	600	568	663	2,460
Electricity and fuel purchases	449	328	320	471	1,568
Depreciation and amortization	576	599	601	707	2,483
Taxes	282	225	230	263	1,000
	1,936	1,752	1,719	2,104	7,511
Operating result	1,976	1,036	939	1,416	5,367
Financial expenses	607	601	620	601	2,429
Result from continuing operations	1,369	435	319	815	2,938
Result from discontinued operations	(9)	29	(7)	(9)	4
Net result	1,360	464	312	806	2,942



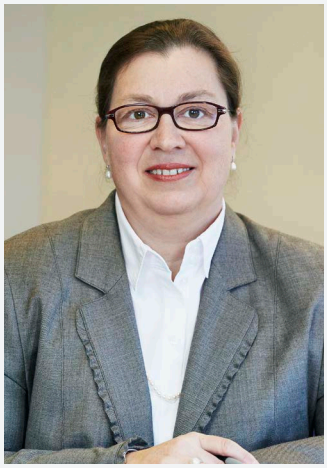
Thierry Vandal
President and
Chief Executive Officer

Marie-José Nadeau
Executive Vice President –
Corporate Affairs
and Secretary General



Élie Saheb
Executive Vice President –
Technology

Jean-Hugues Lafleur
Vice President – Financing,
Treasury and Pension Fund



Lise Croteau
Vice President –
Accounting and Control

Bruno Gingras
Vice President –
Human Resources

Michael D. Penner
President and Chief Executive Officer,
Peds Chaussettes et Cie
Appointment: October 8, 2014
Term: May 14, 2018
Status: Independent director

With a Bachelor of Arts degree from McGill University and a Juris Doctor of Law degree from Hofstra University in New York, Michael D. Penner is President and Chief Executive Officer of Peds Chaussettes, a garment manufacturing company. In 2011, he spearheaded the acquisition of some of the assets of International Legwear Group in Hildebran, North Carolina. He is a member of the New York State Bar.

Thierry Vandal
President and Chief Executive Officer,
Hydro-Québec
Appointment: April 6, 2005
Term: October 3, 2017[1]
Status: Non-independent director

With a Bachelor of Engineering from the École Polytechnique de Montréal and an MBA from HEC Montréal, Thierry Vandal has worked in the energy sector for more than 30 years. He participated in the operations, marketing and strategic planning aspects of the petroleum, petrochemical and natural gas industries prior to joining Hydro-Québec in 1996. Mr. Vandal is Chairman of the Board of BioFuelNet Canada and also sits on the boards of HEC Montréal and McGill University, among other organizations.

Anik Brochu
Director of Human Resources, Groupe T.A.P.
Appointment: September 13, 2006
Term: November 30, 2015
Status: Independent director

A graduate of the University of Ottawa in law and member of the Barreau du Québec, Anik Brochu was General Manager of the Chambre de commerce de Val-d'Or from 1997 to 2008 and, from 2008 to 2010, a lawyer with Cain Lamarre Casgrain Wells, a firm for which she continues to provide consulting services. In 2011, she joined Groupe T.A.P. as Director of Human Resources. Ms. Brochu sits on the board of the Université du Québec en Abitibi-Témiscamingue and on various committees that are active in the field of socioeconomic development.

Carl Cassista
President, Technologies Axion
Appointment: September 26, 2007
Term: December 17, 2018
Status: Independent director

A graduate of Université Laval and member of the Ordre des ingénieurs du Québec, Carl Cassista has worked in electrical engineering with Technologies Axion since 1982. He has served as president of Axion since 1994 and has piloted the company's expansion in North America and Europe. Mr. Cassista has also sat on the boards of numerous economic development organizations.

Gilbert Charland
Deputy Minister of Energy and Natural Resources
Appointment: January 5, 2015
Term: February 19, 2017
Status: Non-independent director

With a Bachelor's degree in history from the Université du Québec à Trois-Rivières as well as a Master's and a PhD in political science from Université Laval, Gilbert Charland has held many senior positions in various departments of the Québec government. He was Deputy Minister of Higher Education, Research and Science, then Deputy Minister of Sustainable Development, the Environment and the Fight Against Climate Change before being appointed Deputy Minister of Energy and Natural Resources.

Michelle Cormier
Operating Partner, Wynnchurch Capital, Ltd.
Appointment: November 4, 2009
Term: December 17, 2018
Status: Independent director

With a Bachelor of Business Administration from Bishop's University and a Graduate Diploma in Public Accountancy from McGill, Michelle Cormier is a member of the Ordre des comptables professionnels agréés du Québec and has certification from the Collège des administrateurs de sociétés. She held executive positions with Alcan Aluminium and Entreprises Repap before her appointment as Vice-President and Chief Financial Officer of TNG Corporation, a position she held from 2001 to 2014. Ms. Cormier has been an Operating Partner at Wynnchurch Capital since June 2014. She also chairs the board of the Orchestre Métropolitain.

Laurent Ferreira
Executive Vice-President and Managing Director,
Derivatives and Proprietary Trading,
Banque Nationale du Canada
Appointment: December 17, 2014
Term: December 17, 2018
Status: Independent director

Laurent Ferreira holds a Bachelor's degree in economics from Université du Québec à Montréal and an MSc in administration with a specialization in finance from HEC Montréal. Mr. Ferreira was formerly an Associate – Investment Banking – Marketing and Derivatives, at the U.S. firm Bankers Trust. In 1998 he joined Banque Nationale du Canada, where he is now Executive Vice-President and Managing Director, Derivatives and Proprietary Trading.

1. On January 30, 2015, Thierry Vandal announced that he would be resigning from his position as President and Chief Executive Officer of Hydro-Québec on May 1, 2015.

Éric Forest Mayor, Rimouski *Appointment: December 17, 2014* *Term: December 17, 2018* *Status: Non-independent director*	After earning a Bachelor's degree in recreation and leisure studies from the Université du Québec à Trois-Rivières, Éric Forest served as General Director of the Office du tourisme et des congrès de Rimouski. From 1986 to 1995, he was the General Manager and then Vice-President of Sales at Boulevard Chevrolet automotive dealership before being named General Manager of the Rimouski Oceanic hockey club, a position he held from 1995 to 2005. Mr. Forest has been Mayor of the city of Rimouski since 2005 and was President of the Union des municipalités du Québec from 2010 to 2014.
Suzanne Gouin President and Chief Executive Officer, TV5 Québec Canada *Appointment: September 26, 2007* *Term: November 30, 2015* *Status: Independent director*	Suzanne Gouin has a Bachelor's degree in political science from Concordia University, where she also pursued graduate courses in media studies. She completed an MBA at the University of Western Ontario and has earned certification from the Institute of Corporate Directors. She has held several management positions in media companies and joined TV5 Québec Canada in 2002 as President and Chief Executive Officer. Ms. Gouin sits on the boards of St. Mary's Hospital Center and various not-for-profit organizations.
Isabelle Hudon Executive Chair, Québec and Senior Vice-President, Client Solutions, Financière Sun Life *Appointment: November 30, 2011* *Term: November 30, 2015* *Status: Independent director*	Isabelle Hudon first had a career in communications before joining the Board of Trade of Metropolitan Montréal as President and Chief Executive Officer, a position she held from 2004 to 2008. She was President of the advertising agency Marketel/McCann-Erickson from 2008 to 2010, then joined Financière Sun Life in 2010 to head up their Québec operations. Since 2014, Ms. Hudon has been combining the roles of Executive Chair, Québec and Senior Vice-President, Client Solutions for Financière Sun Life. She sits on the boards of the Canada Council for the Arts and Holt Renfrew.
Jacques Leblanc President, Gestion Jacques Leblanc *Appointment: April 7, 2004* *Term: November 30, 2014*[1] *Status: Independent director*	A graduate of Université Laval in administration, Jacques Leblanc is a chartered professional accountant and a Fellow of the Ordre des comptables professionnels agréés du Québec. He has also received certification from the Collège des administrateurs de sociétés. Mr. Leblanc was a partner in the firm of Leblanc Bourque Arsenault for 25 years.
Yvon Marcoux Corporate Director *Appointment: December 17, 2014* *Term: December 17, 2018* *Status: Independent director*	Yvon Marcoux holds a licentiate and a graduate diploma in law from Université Laval, as well as a Master of Laws from the University of Toronto, and is a member of the Barreau du Québec. He served as court clerk, Assistant Secretary at the Treasury Board Secretariat and Assistant Deputy Minister of Municipal Affairs of Québec. Following stints in management at various financial institutions, he sat in the Québec National Assembly, where he was Transport Minister from 2003 to 2005, then Justice Minister and Attorney General from 2005 to 2007.
Marie-Anne Tawil President and Chief Executive Officer, Les Investissements Iron Hill *Appointment: December 7, 2005* *Term: November 30, 2015* *Status: Independent director*	With a Licentiate in Civil Law and a Bachelor of Common Law from the University of Ottawa and an MBA from Concordia University, Marie-Anne Tawil is a member of the Barreau du Québec and has earned certification from the Institute of Corporate Directors. She has practised law with two major Montréal law firms and was the Legal Counsel and Secretary of Québecor. Since 2000, she has been President and Chief Executive Officer of Les Investissements Iron Hill. She sits on the Board of Directors of Centraide of Greater Montréal and on the Governance Committee of ONE DROP.

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

Hydro-Québec is proud to support the visual arts in Québec. Some pieces from our collection are displayed in high-traffic areas of our premises, where they can be enjoyed by as many people as possible.

Left
Le Bouclier perdu,
animation/performance video, 1/5
by Diane Landry, 2005
© Diane Landry

Right
Shudder,
oil and acrylic on canvas
by Dil Hildebrand, 2009
© Dil Hildebrand

Next page
Nids d'aube,
gouache on cardboard
by Léon Bellefleur, 1952

BOARD OF DIRECTORS

Hydro-Québec's Board of Directors is made up of the Chairman of the Board, the President and Chief Executive Officer, and directors whose diverse professional backgrounds are a definite asset for the seven Board committees: Executive, Governance and Ethics, Audit, Human Resources, Environment and Public Affairs, Finance, and Pension Plan Financial Management. The Board is chaired by Michael D. Penner.

Mandate: The Board administers the company's business efficiently, in accordance with the *Hydro-Québec Act*, the *Companies Act* and the applicable regulations. Its principal functions include reviewing and approving the Strategic Plan and the annual Business Plan, setting the company's annual performance targets, reviewing financial results on a monthly basis, and performing the cyclical review of integrated business risk management. The Board also approves the appointment of executives other than the President and Chief Executive Officer as well as the policies governing compensation and working conditions for Hydro-Québec's employees and executives. In addition, it approves the company's major capital projects in power generation, transmission and distribution, as well as important matters submitted to the Régie de l'énergie.

Activities: The Board met 10 times in 2014, while its committees held 29 meetings in all. The Board approved numerous capital projects in power generation, transmission and distribution, including construction of a 735-kV line between Chamouchouane substation and the metropolitan Montréal region and rerouting of a 735-kV line towards Bout-de-l'Île substation (Chamouchouane–Bout-de-l'Île project), connection of Mesgi'g Ugju's'n wind farm (Rivière Nouvelle) to the grid, replacement of the 735/315-kV transformers at Manicouagan substation, as well as construction of Judith-Jasmin and Saint-Jérôme substations and their connection to the distribution network. The Board also authorized capital projects aimed at ensuring the long-term operability of Hydro-Québec TransÉnergie's telecommunications assets. In addition, Board members benefited from presentations on vehicle fleet management and the use of information and communication technologies to support the company's overall performance.

In the course of its recurring deliberations, the Board examined the company's objectives and approved its quarterly and annual financial results, as well as the financial statements of the Hydro-Québec pension plan. It reviewed the progress of the company's main capital projects and examined the consolidated residual business risk portfolio. It also approved the company's Business Plan and annual internal audit plan, as well as the independent auditors' plan and fees in connection with the audit of the financial statements of the company and of its pension plan.

EXECUTIVE (A)

Mandate: The Executive Committee is vested with all of the powers of the Board of Directors, except those powers that are expressly reserved for the Board by law and under the company's bylaws. It is chaired by Michael D. Penner.

Activities: The Executive Committee held one meeting in 2014.

GOVERNANCE AND ETHICS (B)

Mandate: The role of the Governance and Ethics Committee is to develop the company's rules of governance and the codes of ethics applicable to directors, senior executives appointed by the company and employees of Hydro-Québec and its wholly owned subsidiaries; the expertise and experience profiles of the Board members; the criteria for assessing the performance

of directors and the Board's functioning; the induction and training program for directors and the measures for evaluating the company's efficiency and performance. The Committee also makes recommendations to the Board regarding the company's Strategic Plan and Annual Report and the composition and mandate of the Board committees. The Governance and Ethics Committee is chaired by Michael D. Penner.

Activities: In 2014, the Governance and Ethics Committee met three times. While carefully ensuring the application of the governance measures in the *Hydro-Québec Act*, the Committee reviewed the mandates of the Board committees. In addition, it examined Hydro-Québec's *Annual Report 2013*, the annual report on induction and training programs for Board members, and the annual reviews of several company policies. The Committee also recommended that the Board appoint Carl Cassista as Chair of the Human Resources Committee.

AUDIT (C)

Mandate: The Audit Committee's role is to make recommendations to the Board of Directors on the approval of the financial statements of Hydro-Québec and its pension plan. It ensures that the financial statements accurately reflect the financial position and changes therein, and that accounting practices and internal controls are adequate and effective. It issues an opinion prior to the Board's approval of the annual audit plan, engagement letters and independent auditors' fees. The Committee oversees the planning of internal audit activities, ensures that the company has a plan to optimize the use of its resources and monitors this plan. Furthermore, it examines the integrated business risk management process. It can also act as the audit committee of any of the company's wholly owned subsidiaries. The Audit Committee is composed solely of independent directors who have the necessary expertise for the performance of its mandate. It is chaired by Jacques Leblanc.

Activities: The Audit Committee held nine meetings in 2014. As part of its recurring deliberations, it examined the quarterly and annual financial statements of Hydro-Québec and its pension plan, as well as the annual financial statements of Société d'énergie de la Baie James. It also reviewed the company's annual control plan and the annual report on the previous year's plan. It monitored the independence of the independent auditors and met with them in order to plan the annual audit and receive its results. The Committee recommended that the Board approve the financial year's audit plans and engagement letters for the company and its pension plan. It examined the internal audit results and reports regarding control and optimization of the company's operations and resources as well as management of the related risks. It also monitored the management of Hydro-Québec Distribution's accounts receivable and reviewed the summary of the commercial operations of the company and its first-tier interests. In particular, the Committee focused on the process of contract award and management by the company. Committee members attended a detailed presentation on the subject by the President of Hydro-Québec Équipement et services partagés. In 2014, the Internal Auditor carried out 38 audit projects. Five audit reports dealt with the management of contracts related to refurbishment projects, the installation and refurbishment of underground civil works in the distribution network, the advanced metering infrastructure, professional technology services and the evaluation of suppliers for strategic goods and specialized services. Lastly, the Committee examined the company's 2015 internal audit plan and recommended its approval by the Board. It also recommended that the Board approve a change in the basis of accounting (to U.S. GAAP) effective January 1, 2015.

HUMAN RESOURCES (D)

Mandate: The Human Resources Committee is responsible for establishing human resources policies as well as standards and rate scales applicable to the compensation of senior executives and employees of the company and its wholly owned

subsidiaries. It is also responsible for developing the expertise and experience profile to be used in selecting the President and Chief Executive Officer and for proposing a candidate for that position to the Board of Directors, which will then make a recommendation to the Québec government. In addition, it develops and suggests criteria for assessing the performance of the President and Chief Executive Officer and makes recommendations to the Board regarding his compensation. It also participates in selecting the senior executives of the company and its subsidiaries and in developing a succession plan. The Committee is chaired by Carl Cassista.

Activities: In 2014, the Human Resources Committee held four meetings, including a joint meeting with the Finance Committee to examine Hydro-Québec's Business Plan, objectives and corporate risk management. It evaluated whether or not the company had met its annual performance objectives. The Committee also examined the overall compensation of Hydro-Québec's employees, executives and President and Chief Executive Officer and of the employees and executives of its wholly owned subsidiaries, and recommended approval by the Board. In addition, it closely monitored the business risks related to human resources. Lastly, it studied the Report of Activities of the Corporate Ombudsman 2013 and examined the annual report on the application of the corporate policy Our Human Resources.

ENVIRONMENT AND PUBLIC AFFAIRS (E)

Mandate: The role of the Environment and Public Affairs Committee is to provide opinions and make recommendations to the Board of Directors on environmental management and compliance, the integration of sustainable development principles, public health and safety, community relations, the company's social responsibility, its contribution to the community, and public image. It also receives environmental incident reports and the related claims, opinions, investigations and legal proceedings. The Committee is chaired by Suzanne Gouin.

Activities: The Environment and Public Affairs Committee met five times in 2014. It specifically studied the results of the President and Chief Executive Officer's annual environmental management review as well as the semi-annual reports on environmental compliance. The Committee recommended that the Board approve the granting of donations and sponsorships according to Hydro-Québec's Donation and Sponsorship Policy. As well, it examined the annual results with respect to the company's communication and public relations activities, the breakdown of contributions in the form of donations and sponsorships, and the funding of university research chairs and of international cooperation initiatives in French-speaking nations. It reviewed the annual activity reports of the Fondation Hydro-Québec pour l'environnement and of the liaison committees established by the company with the Union des producteurs agricoles and the Fédération québécoise des municipalités. Finally, the Committee met with the auditor of the Hydro-Québec Sustainability Report and examined his management report.

FINANCE (F)

Mandate: The Finance Committee's role is to advise the Board on Hydro-Québec's guidelines, policies, strategies and overall objectives related to financing, borrowings, insurance, banking and risk management, as well as on any major capital projects outside Québec or important matters related to technology marketing. In addition, every year, it examines the company's consolidated portfolio of residual business risks. The chair of this Committee is currently vacant.

Activities: The Finance Committee held four meetings in 2014, including a joint meeting with the Human Resources Committee for the purpose of analyzing the company's Business Plan, objectives and corporate risk management. It examined various annual programs and files of a financial nature before recommending their approval by the Board: borrowings, guarantees, financial risk management, swaps, sinking fund management, derivatives and underlying instruments, and counterparty risk management for energy trades performed by Hydro-Québec Production on wholesale markets. It also recommended Board approval of credit limits for each counterparty, based on credit rating, for each of the company's functions concerned. It periodically followed up on the company's financial programs and major capital projects.

PENSION PLAN FINANCIAL MANAGEMENT (G)

Mandate: The role of the Pension Plan Financial Management Committee is to advise the Board on the guidelines, policies, strategies and overall objectives established by Hydro-Québec for its pension plan, including the Pension Plan Funding Policy, the Pension Fund Investment Management Policy, actuarial valuations of the plan, choice of the benchmark portfolio, the plan's financial position and plan expenses. It also expresses its opinion on any other aspect of pension fund management. The chair of this Committee is currently vacant.

Activities: In 2014, the Pension Plan Financial Management Committee met three times. It examined the annual actuarial valuation for pension plan funding and solvency purposes, and recommended its approval by the Board. The Committee also recommended that the Board approve amendments to the Pension Fund Investment Management Policy, the annual pension fund management and pension plan administration budgets, and the reappointment of the actuary for the next annual valuation. The Committee monitored the implementation of the Pension Fund Investment Management Policy, and it evaluated the performance and structure of the pension fund portfolio as well as the performance of specialized portfolio managers. Lastly, it closely monitored changes in the pension plan's financial position.

DIRECTOR ATTENDANCE AT MEETINGS OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES IN 2014

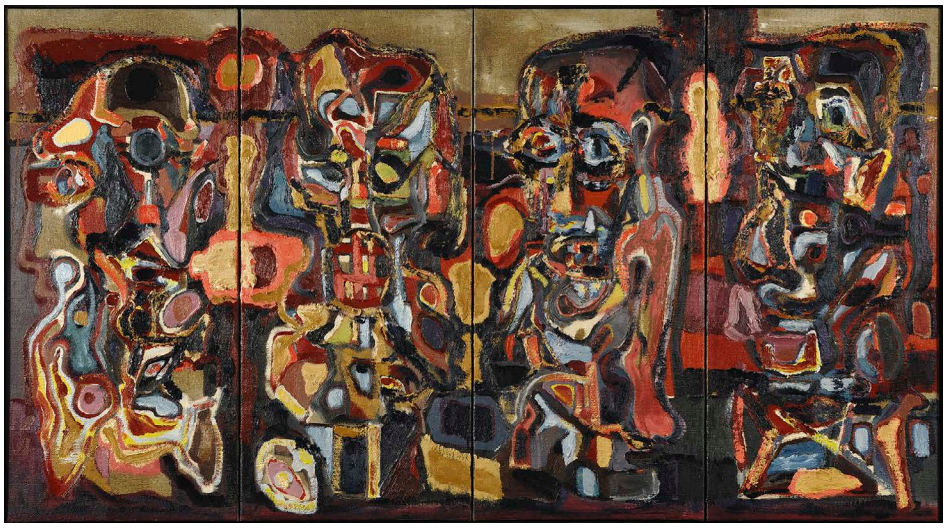
DIRECTORS	Notes	Board	A	B	C	D	E	F	G
	Number of meetings	**10**	**1**	**3**	**9**	**4**	**5**	**4**	**3**
Michael D. Penner A B C D E F G	1	3		2	2	2	1	2	1
Thierry Vandal A E F G	2	10	1				4	4	3
Anik Brochu E	3	8				1	4		
Carl Cassista C D		9			9	4			
Gilbert Charland	4								
Michelle Cormier C	5	10	1		8			2	1
Laurent Ferreira	6								
Éric Forest	6								
Suzanne Gouin D E		9				4	5		
Isabelle Hudon E		8					5		
Jacques Leblanc B C	7	10	1	3	9	1		4	3
Yvon Marcoux	6								
Marie-Anne Tawil B C		10		3	9				

OUTGOING DIRECTORS	Board	A	B	C	D	E	F	G
Number of meetings	**1**		**1**		**1**			
Marie-France Poulin A B D (term: February 24, 2014)	1		1		1			
Number of meetings	**1**		**1**	**2**	**1**	**1**		
Pierre Karl Péladeau A B C D E F G (term: March 9, 2014)	1		1	2	1	1		
Number of meetings	**3**	**1**					**1**	**1**
Louis Lagassé A F G (term: April 30, 2014)	3	1					1	1
Number of meetings	**8**		**1**				**3**	**2**
Michel Plessis-Bélair A B F G (term: November 11, 2014)	4		1				2	2
Number of meetings	**10**							
Patrick Déry (term: December 17, 2014)	10							
Number of meetings	**10**							
Martine Rioux (term: December 17, 2014)	8							
Number of meetings	**10**							
Christyne Tremblay (term: January 5, 2015)	8							

Committees of the Board of Directors

A Executive
B Corporate Governance and Ethics
C Audit
D Human Resources
E Environment and Public Affairs
F Finance
G Pension Plan Financial Management

1. Michael D. Penner was appointed Chairman of the Board effective October 8, 2014.
2. Thierry Vandal attended meetings of the Governance and Ethics, Audit and Human Resources committees as a guest.
3. Anik Brochu participated in the Human Resources Committee meeting held on June 19, 2014, as a substitute member.
4. Under Order-in-Council No. 1148-2014 of December 17, 2014, Gilbert Charland was appointed to the Board effective January 5, 2015.
5. Michelle Cormier participated as a substitute member in the Executive Committee meeting held on March 31, the Finance Committee meetings held on October 16 and December 11, and the Pension Plan Financial Management Committee meeting held on December 10.
6. Laurent Ferreira, Éric Forest and Yvon Marcoux joined the Board on December 17, 2014.
7. Jacques Leblanc participated as a substitute member in the Pension Plan Financial Management Committee meetings held on March 20, May 22 and December 10, the Finance Committee meetings held on March 20, June 5, October 16 and December 11, the Executive Committee meeting held on March 31, and the Human Resources Committee meeting held on June 19.



Above
Untitled, Montreal, 2009, oil on linen canvas mounted on wood panels, by Harold Klunder, 2007–2009
© Harold Klunder

Hydro-Québec's Board of Directors complies with the requirements of the *Hydro-Québec Act* with regards to governance. It also follows the Canadian Securities Administrators' guidelines applicable to state-owned enterprises, even though it is not legally bound to do so because Hydro-Québec is not publicly traded.

INDEPENDENCE

With the exception of Thierry Vandal, President and Chief Executive Officer, Gilbert Charland, Deputy Minister of Energy and Natural Resources, and Éric Forest, Mayor of Rimouski, the members of the Board are independent directors, which means that they have no direct or indirect relations or interests—financial, commercial, professional or philanthropic in nature, for example—that could affect the quality of their decision-making with regard to the interests of the company.

APPOINTMENT

The Québec government appoints the members of the Board based on the expertise and experience profiles established by the company. Directors are appointed for a term of up to four years and the Chairman for a term of up to five years; they may be reappointed twice, successively or not.

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, Executives and Controllers of Hydro-Québec*, which are based primarily on the *Regulation respecting the ethics and professional conduct of public office holders*.

COMPENSATION AND BENEFITS PAID TO DIRECTORS

Compensation for all independent directors is set out in Order-in-Council No. 610-2006 and is indexed periodically by the government. Compensation consists of a basic annual retainer of $18,110 plus a meeting fee of $849 for each Board or committee meeting. A yearly supplement of $5,659 is paid to the chairs of the Board committees. Under Order-in-Council No. 877-2014, the Chairman of the Board receives annual compensation of $55,000 and earns the same compensation as the independent directors for participating in the 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 connection with the performance of their duties.

DIRECTOR INDUCTION AND TRAINING PROGRAM

When Board members are first appointed, they receive training on their roles and responsibilities as well as the nature and business context of Hydro-Québec's principal activities. Board members are informed about the company's legal and regulatory context, with particular emphasis on the governance of a government-owned corporation. In addition, Board committee members receive documents regarding the mandate of their committee and the matters it handles. The director induction and training program also includes presentations on major issues and projects, as well as tours of the company's facilities.

In 2014, Board members visited the telecommunications network operations centre, the IT operations centre and the data processing centre. They also visited the jobsites of Bélanger and Bout-de-l'Île substations. They attended presentations on the progress of the work being done at the Romaine complex, information technologies, vehicle fleet management and IT security at Hydro-Québec.

DEINTEGRATION

In 1997, Hydro-Québec implemented an organizational structure that allows some units to work independently from each other while remaining part of the same company. This is the principle of deintegration, or unbundling.

The operations of these units are subject to set rules of conduct and ethics. The Distributor's electricity procurement process is governed by the *Code of Ethics on Conducting Calls for Tenders*, which was approved by the Board of Directors and the Régie de l'énergie. The code ensures that the tendering process is conducted fairly for all electricity suppliers. The Régie follows up annually on its application. Moreover, the Régie de l'énergie approved the *Code de conduite du Distributeur* (Distributor Code of Conduct) in March 2006. This code applies to transactions between the Distributor and the Generator for procurement not subject to the tendering process. It also governs dealings between the Distributor and its affiliates, with the aim of preventing affiliates' business operations from being financed, in whole or in part, by electrical service customers. The Distributor provides details on the application of the code in its annual report to the Régie. The *Code of Ethics on Conducting Calls for Tenders* and the *Code de conduite du Distributeur* (in French only) are available for consultation on the company's Web site.

Hydro-Québec TransÉnergie is subject to the *Transmission Provider Code of Conduct* approved by the Régie in 2004. This code governs relations between the Transmission Provider and its affiliates, and its purpose is to prevent any form of preferential treatment or cross-subsidization. The information that must be made public pursuant to the *Transmission Provider Code of Conduct* is published online at OATI webOASIS™ (**www.oatioasis.com/hqt**). The Transmission Provider reports on the application of the *Transmission Provider Code of Conduct* in its annual report to the Régie.

The *Reliability Coordinator Code of Conduct*, which was approved by the Régie de l'énergie in December 2007 after Hydro-Québec TransÉnergie's Direction – Contrôle des mouvements d'énergie—the unit responsible for system control—was designated as Reliability Coordinator for Québec, came into force in January 2008 and was amended in September 2011. The purpose of this code is to ensure that the reliability of the transmission system remains a top priority and to prevent any form of preferential treatment in favor of other branches of the Transmission Provider, its affiliates or other system users. The application of the *Reliability Coordinator Code of Conduct* is the subject of an annual report to the Régie.

INTERNAL CONTROL SYSTEM

Hydro-Québec's Management maintains an internal control system that meets the demanding requirements of the internationally recognized framework developed by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. The company communicates its rules of ethics and Code of Conduct to its employees, primarily to ensure the proper management of resources as well as the orderly conduct of business. The objective of this system is to provide reasonable assurance that financial information is relevant and reliable and that Hydro-Québec's assets are appropriately recorded and safeguarded. The system includes a business risk management process and the development of an annual internal control plan that requires the involvement of all divisions and corporate units. Internal auditing helps to determine whether the internal control system is sufficient and effective and to assess the company's policies and procedures. It includes a performance audit to ensure the efficiency, effectiveness and cost-effectiveness of the company's activities. The Internal Auditor and the independent auditors have full and unrestricted access to the Audit Committee to discuss any aspect of their mandate, with or without Management present.

MONITORING OF AUDITOR INDEPENDENCE

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. This process is governed by rules setting out conditions for approval of engagements; among other things, certain services cannot be provided by the auditors. Reporting to the Audit Committee on this subject includes the tabling of reports on fees billed by the auditors. With respect to the Auditor General of Québec, who is one of Hydro-Québec's auditors, no professional service engagement may be assigned to him because he serves the National Assembly exclusively. Since his independence is ensured by the *Auditor General Act*, he is not subject to the mechanisms described above.

DIRECTORS' COMPENSATION AND BENEFITS IN 2014[a]

	Base compensation[b,c]	Meeting fees[c]	Taxable benefits[d]
Anik Brochu	$18,020	$10,986	$117
Carl Cassista	$18,281	$18,576	$5,724
Michelle Cormier	$18,020	$18,177	$3,206
Suzanne Gouin	$23,651	$15,214	$197
Isabelle Hudon	$18,020	$11,003	$117
Jacques Leblanc	$23,651	$25,750	$5,573
Michael D. Penner[e]	$12,269	$11,037	$1,291
Marie-Anne Tawil	$18,020	$18,576	$5,724

a) By law, non-independent directors—Thierry Vandal, Éric Forest and Gilbert Charland—receive no compensation or meeting fees as members of Hydro-Québec's Board of Directors. Independent directors Laurent Ferreira and Yvon Marcoux received no compensation in 2014, since they joined the Board on December 17.

b) Pursuant to Orders-in-Council Nos. 1099-2005 and 610-2006.

c) Includes indexing from April 1, 2014.

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

e) Under Order-in-Council No. 877-2014, Michael D. Penner receives an annual base compensation of $55,000, plus a meeting fee of $849 for each Board or committee meeting attended, and a $5,659 yearly supplement as Chair of the Governance and Ethics Committee.

AUDITORS' FEES

KPMG LLP, Ernst & Young LLP and the Auditor General of Québec are Hydro-Québec's independent auditors for 2014. The professional fees billed by KPMG LLP and by Ernst & Young LLP in 2014 for services other than auditing and certification amounted to 7.8% of the total $5.5 million in fees billed.

ACCESS TO DOCUMENTS AND PROTECTION OF PERSONAL INFORMATION

Hydro-Québec does its utmost to maintain the confidentiality of its employees', customers' and suppliers' personal information, in accordance with the *Act Respecting Access to Documents Held by Public Bodies and the Protection of Personal information*, while respecting the public's right to information.

To facilitate access to documents whose publication is prescribed by the *Regulation respecting the distribution of information and the protection of personal information*, Hydro-Québec publishes them on its Web site, **www.hydroquebec.com/publications**. This site also provides information about the right to information and the protection of personal information, including instructions for requesting access to a document. In addition, the company's key official publications, as well as documents and information of interest to the public, are available on the site.

In 2014, Hydro-Québec received 310 requests for access to information, of which 240 were granted in full or in part and 47 were turned down. Most of the request denials were motivated primarily by protection of third-party personal information or by commercial, strategic or security concerns that prevented disclosure of the document. As for the 23 remaining requests, either Hydro-Québec was unable to fulfill them, for instance because it did not have the document, or the request was withdrawn. Thirteen Hydro-Québec responses were the subject of requests for review by the Commission d'accès à l'information, and none required any specific accommodation measures for persons with disabilities. All information requests were processed within the prescribed timeframe.

ETHICS

Hydro-Québec attaches great importance to ethics in all aspects of its activities. As a government-owned corporation, Hydro-Québec must demonstrate exemplary probity, and it can do so only with the consistent support of its employees, who must meet the highest standards with respect to ethics and irreproachable conduct. Loyalty, integrity, respect, discretion and fairness are fundamental values reflecting Hydro-Québec's social commitment to its customers and the community. Ethical rules resulting from these values are set out in the *Code of Ethics and Rules of Professional Conduct for Directors, Executives and Controllers of Hydro-Québec* (see page 112) and in the employees' Code of Conduct. The latter document, which is available at **www.hydroquebec.com/publications**, has a two-fold purpose: facilitate the understanding of the ethical precepts set out in the policy Our Management and approved by the Board of Directors, and help all employees fulfill their duties in accordance with Hydro-Québec's values.

Hydro-Québec managers at all reporting levels play a key role in ensuring respect for the company's ethical principles. They see to it that the Code of Conduct is observed, thereby upholding the company's values. The Executive Vice President – Corporate Affairs and Secretary General, who is responsible for interpreting the Code of Conduct, may issue opinions on ethical questions with a view to preventing or rectifying a situation.

LANGUAGE GUIDELINES

In 2014, Hydro-Québec revised and updated the directive on the application of the *Charter of the French Language*, in accordance with the 2011 governmental policy regarding the use and quality of the French language in the administration, with a view to adopting it in 2015. Hydro-Québec's standing committee on language was consulted on a number of occasions throughout the revision process. The Officer responsible for the application of the *Charter of the French Language* answers any questions Hydro-Québec employees have regarding its application and collaborates with the Office québécois de la langue française (OQLF) to resolve any complaints.

Just as in past years, Hydro-Québec continued its efforts to promote the quality of the French language used in its internal and external communications. Company documents intended for publication were subjected to linguistic revision. Various proficiency courses were offered to employees, who also have access to a vast energy-related terminology database as well as to a terminology assistance service.

SUSTAINABLE DEVELOPMENT

The Sustainability Report discusses the company's primary sustainable development initiatives, the progress made in this area and the company's sustainable energy choices. The report is based on the Global Reporting Initiative Guidelines and is available on the Web site **www.hydroquebec.com/sustainable-development**, where additional information is provided on the company's performance with regard to sustainable development.

COMPENSATION AND BENEFITS PAID TO THE COMPANY'S FIVE MOST HIGHLY COMPENSATED OFFICERS IN 2014

	Base salary as at December 31	Incentive compensation[a]	Perquisites used[b]	Taxable benefits			
					Automobile		Life insurance and health insurance
				Nature of benefit	Allowance	Usage and parking	
Thierry Vandal President and Chief Executive Officer, Hydro-Québec	$469,188	$113,421	–	Executive vehicle	–	$2,422	$8,223
André Boulanger President, Hydro-Québec TransÉnergie	$393,722	$92,641	$2,735	Car allowance or provision of a vehicle, plus parking	$15,346	$5,690	$10,204
Richard Cacchione President, Hydro-Québec Production	$392,071	$92,252	$5,000		–	$14,458	$7,669
Réal Laporte President, Hydro-Québec Équipement et services partagés President and Chief Executive Officer, Société d'énergie de la Baie James[c]	$378,774	$89,123	$1,221		–	$14,639	$8,245
Daniel Richard President, Hydro-Québec Distribution	$366,072	$82,454	$4,456		$15,346	$4,842	$26,514
	Pension Plan and Supplementary Benefits Program						
	Basic Hydro-Québec Pension Plan (HQPP) - Usual contribution under the plan - Pension calculated on the basis of average salary for the best five years - Credit of 2.25% per contribution year - Recognition of 66.67% of the maximum incentive compensation as pensionable earnings for purposes of the HQPP **Supplementary Benefits Program** - Contribution assumed by Hydro-Québec - Additional benefits to offset the tax limits under the HQPP (lifting of ceiling on the permitted maximum amount) - Payment of benefits according to the same terms as those applicable under the HQPP *Other provisions applicable to the President and Chief Executive Officer of Hydro-Québec* - Pension calculated on the basis of average salary for the best three years (less pension payable under the HQPP) - Credit of 3.5% per contribution year (less pension credit under the HQPP) - Recognition of two years for each year of participation - Recognition of 100% of the maximum incentive compensation as pensionable earnings (less portion recognized for purposes of the HQPP) - Pension limited to 80% of the average of the base salary and incentive compensation for the best three years						

a) Incentive compensation paid in 2014. As for incentive compensation linked to the 2014 targets, it will be paid on attainment of the performance threshold set by the Québec government, i.e., a net result of $3,050 million for the period from April 1, 2014 to March 31, 2015.

b) Taxable benefits related to financial and estate planning, sports clubs and professional dues.

c) Réal Laporte does not receive any separate compensation as President and Chief Executive Officer, Société d'énergie de la Baie James.

COMPENSATION AND BENEFITS PAID TO THE ONLY OFFICER COMPENSATED BY A WHOLLY OWNED SUBSIDIARY IN 2014

	Base salary	Incentive compensation[a]	Perquisites[b]	Benefits
Sylvain Perron	$117,509	$16,143	$2,000	Hydro-Québec Pension Plan and group insurance plan

a) Incentive compensation paid in 2014. As for incentive compensation linked to the 2014 targets, it will be paid on attainment of the performance threshold set by the Québec government, i.e., a net result of $3,050 million for the period from April 1, 2014 to March 31, 2015.

b) Taxable benefits related to financial and estate planning and sports clubs.

CODE OF ETHICS AND RULES OF PROFESSIONAL CONDUCT

FOR DIRECTORS, EXECUTIVES AND CONTROLLERS OF HYDRO-QUÉBEC

PART I – INTERPRETATION AND APPLICATION

1. In this Code, unless the context indicates otherwise:

a) **"director"** means, with respect to the Company, a member of the Board of Directors of the Company, whether or not working full-time within the Company;

b) **"Governance and Ethics Committee"** means the Governance and Ethics Committee established in its present form by resolution of the Board of March 16, 2007 (HA-33/2007[1]);

c) **"spouse"** includes marriage partners and persons living as if married for more than one year;

d) **"Board"** means the Board of Directors of the Company;

e) **"contract"** includes a proposed contract;

f) **"control"** means the direct or indirect ownership of securities, including shares, conferring more than 50% of voting rights or economic interest without this right depending on the occurrence of a particular event or allowing the election of the majority of directors;

g) **"controller"** means the controller of the Company and the controllers of divisions or groups or units reporting to the President and Chief Executive Officer of the Company;

h) **"executive"** with respect to the Company means any contractual manager whose employment conditions are subject to the approval of the Board;

i) **"enterprise"** means any form that can be taken by the organization for the production of goods or services or any other business of a commercial, industrial or financial nature or any group seeking to promote certain values, interests or opinions or to exercise an influence on public officials; however, this does not include the Company or a non-profit association or group that has no financial link with the Company or is not incompatible with the objects of the Company;

j) **"subsidiary"** means a legal person or company controlled directly or indirectly by the Company;

k) **"related party"** means any Company subsidiary, including a subsidiary of the Hydro-Québec Pension Fund, any partnership (joint venture or common enterprise in which the parties exercise joint control) and any associate (an entity in which the investor holds 20% or more of the voting rights) of the Company;

l) **"associated person"** with reference to a director, executive or controller of the Company means:

1° his spouse, children and relatives, and the children and relatives of his spouse;

2° his partner;

3° a succession or trust in which he has a substantial interest similar to that of a beneficiary or in respect of which he serves as liquidator, trustee or other administrator of the property of others, mandatary or depositary; or

4° a legal person of whom he owns securities making up more than 10% of a class of shares carrying voting rights at any shareholders meeting or the right to receive any declared dividend or a share of the remaining property of the legal person in the event of liquidation.

m) **"Regulation"** means the *Regulation respecting the ethics and professional conduct of public office holders* [Order-in-Council 824-98 of June 17, 1998 (1998) 130 G.O. II., 3474, pursuant to sections 3.01 and 3.02 of the *Act Respecting the Ministère du Conseil Exécutif*, R.S.Q., c. M-30], as amended from time to time;

n) **"Company"** means Hydro-Québec.

2. In this Code, the prohibition to perform an act also applies to any attempt to perform it and any participation in it or incitement to perform it.

2.1 This Code applies to the directors, the President and Chief Executive Officer, other executives of the Company and its controllers. The executives and controllers of the Company are also governed by the *Code of Conduct* or other similar guidelines that may exist from time to time within the Company. In the event of divergence between this Code and any such document, the more restrictive text shall apply.

The directors and the President and Chief Executive Officer are also subject to the Regulation.

PART II – ETHICAL PRINCIPLES AND GENERAL RULES OF PROFESSIONAL CONDUCT

3. The director, executive or controller is appointed to contribute to the achievement of the Company's mission in the best interest of Québec. Accordingly, he is expected to use his knowledge, abilities and experience in a way that will promote the effective, fair and efficient accomplishment of the objectives assigned to the Company by law and the good administration of the property it owns as mandatary of the State.

His contribution shall be made with respect for the law and with honesty, loyalty, prudence, diligence, efficiency, application and fairness.

3.1 The director, executive or controller respects the following principles in the performance of his duties:

– the values underlying the activities of the Company as a government-owned business company, which include customer satisfaction, a "business first" approach, respect for employees, equitable treatment of customers, suppliers and employees, quality improvement, respect for the environment, partnership with local communities and safeguarding the future; and

– the principles set out in the basic policies of the Company, expressing commitments and conveying a business culture with regard to customers, human resources, acquisition of assets and services, business partners, finance, assets, the environment, social role, management, security and financial disclosure.

3.2 The director, executive or controller is required, in the performance of his duties, to respect the ethical principles and rules of professional conduct provided by law, the Regulation as applicable, and those defined in this Code. In case of discrepancy, the more stringent rules and principles apply.

When in doubt, act according to the spirit of these principles and rules.

A director, executive or controller who, at the request of the Company, serves as director or member of an undertaking or a company, is held to the same standards.

3.3 Every director, executive and controller must report any violation to this Code of which he has knowledge or which he suspects has occurred, or is occurring, to the Chairman of the Board and to the Secretary.

This report shall be treated on a confidential basis.

4. The director, executive or controller shall not merge the assets of the Company with his own; he may not use the assets of the Company or information he obtains as a result of his duties for his own profit or the profit of others. These obligations continue even after the director, executive or controller has ceased to hold his position.

Specifically, a director, executive or controller may not engage in transactions involving securities the value of which could be influenced by certain actions of the Company, specifically with clients, suppliers or other partners if he has information unknown to the public in that respect.

1. The committee's mandate was amended by the Board on June 13, 2008 (HA-104/2008).

5. The director, executive or controller shall seek, in the performance of his duties, only the interest of the Company to the exclusion of his own interest or that of others.

5.1 The director, executive or controller is bound to discretion in regard to anything that comes to his knowledge in or during the performance of his duties and is at all times bound to maintain the confidentiality of such information.

5.2 In the performance of his duties, the director, executive or controller shall make decisions without regard for any partisan political considerations.

The Chairman of the Board, the director working full-time within the Company, the executive and the controller shall demonstrate reserve in the public expression of their political opinions.

6. The director, executive or controller may not directly or indirectly grant, solicit or accept a favor or an undue advantage for himself or for a third party.

In particular, he may not accept or solicit an advantage from a person or undertaking doing business with the Company or a subsidiary or acting in the name of or on behalf of such a person or undertaking if this advantage is intended or likely to influence him in the performance of his duties or generate expectations of this nature.

6.1 The director, executive or controller shall, in making decisions, avoid allowing himself to be influenced by offers of employment.

6.2 The director, executive or controller may not accept any gift or hospitality except what is customary and modest in value.

Any other gift or hospitality shall be returned to the giver.

7. The director may not make a commitment to a third party or grant them any guarantee relative to a vote he may be asked to make or any decision whatsoever that the Board may be asked to make.

7.1 The director, executive or controller may not, in the performance of his duties, deal with a person who has ceased to be a director, executive or controller of the Company for less than one year if this person is acting on behalf of a third party with respect to a proceeding, negotiation or other transaction to which the Company is a party and about which he has information unknown to the public.

7.2 After ceasing his duties, no director, executive or controller may disclose confidential information he has obtained or give anyone advice based on information unknown to the public concerning the Company or any other undertaking or company with which he had direct and substantial dealings during the year preceding the date on which he ceased his duties.

In the year following that date, he may not act on behalf or on account of another party with respect to a procedure, negotiation or other transaction to which the Company is a party and about which he has information unknown to the public.

8. The director, executive or controller shall collaborate with the Chairman of the Board or the Governance and Ethics Committee on an issue of ethics or professional conduct when asked to do so.

8.1 The director, executive or controller who intends to be a candidate for elective office shall inform the Chairman of the Board of this intention.

The Chairman of the Board or President and Chief Executive Officer with the same intention shall inform the Secretary General of the Conseil exécutif.

PART III – DUTIES AND OBLIGATIONS OF DIRECTORS, EXECUTIVES AND CONTROLLERS WITH RESPECT TO CONFLICTS OF INTEREST

PREVENTION OF CONFLICTS OF INTEREST

9. The director, executive or controller shall avoid placing himself in a situation in which his personal interest is in conflict with the duties of his position or in which reasonable doubt is cast on his ability to perform these duties with undivided loyalty.

In the event that this Code does not include provisions for a certain situation, the director, executive or controller must determine whether his conduct is in accordance with how the Company could reasonably expect a director, executive or controller to conduct himself in such circumstances. He must also determine whether a reasonably well-informed person would conclude that the situation might influence his decisions and impair his objectivity and impartiality in the performance of his duties for the Company.

10. A director who is employed full-time within the Company or one of its subsidiaries shall also avoid performing duties or being bound by commitments that prevent him from devoting the time and attention that the normal exercise of his duties requires.

As for other directors, they shall be sure to devote the time and attention reasonably required in the circumstances for the execution of their duties.

10.1 No director holding a full-time office with the Company, under pain of forfeiture of office, may have any direct or indirect interest in an undertaking, company or association that puts his personal interest in conflict with that of the Company.

However, such forfeiture is not incurred if that interest devolves to him by succession or gift, provided that he renounces or disposes of it with all possible dispatch. Meanwhile, sections 12, 13, 15 and 18 apply to this director.

Every other director who has an interest in an undertaking shall, on pain of forfeiture of his office, comply with the provisions of sections 12, 13, 15 and 18.

11. A director, executive or controller of the Company who serves as director, executive or controller of an affiliated enterprise shall be specifically authorized by the Board to:

a) hold shares, rights or any other security issued by such enterprise and conferring voting rights or economic interest in it or the right to subscribe or buy such shares, rights or securities;

b) benefit from any profit-sharing program, unless this director, executive or controller works full-time for the enterprise and the profit-sharing program is closely linked with the individual performance of the director, executive or controller within the affiliated enterprise;

c) benefit from a pension plan granted by the affiliated enterprise if he does not hold a full-time position within the enterprise; or

d) benefit from any advantage granted in advance in the case of a change of control of the affiliated enterprise.

For purposes of this section, "affiliated enterprise" means a legal person or company in which the Company owns, directly or indirectly, securities, including shares, conferring more than 10% of voting rights or economic interest.

12. A director, executive or controller who:

a) is party to a contract or a transaction with the Company or a related party;

b) has a direct or indirect interest in an enterprise that is a party to a contract or a transaction with the Company or a related party or is a director, executive, controller or employee of this enterprise, except, in the latter case, if it is an enterprise that belongs to the same group as the Company; or

c) enjoys a direct or indirect benefit in relation to a contract or transaction that reasonably may be considered likely to influence decision-making;

shall disclose the nature and extent of his interest in writing to the Chairman of the Board and to the Secretary as soon as he has knowledge.

For the purposes of this section, a proposed contract or a proposed transaction, including the negotiations related thereto, is considered a contract or transaction.

The same applies to a director who has a direct or indirect interest in any issue being considered by the Board of Directors.

The director shall at all times abstain from conveying any information of any kind to any employee, controller, executive or director of the Company with respect to this contract or interest.

The director shall abstain from deliberating or voting on any question linked to this interest and avoid trying to influence the related decision. The director shall also withdraw from the meeting for the duration of deliberations and voting on this question. These restrictions do not apply when the decision concerns an enterprise belonging to the same group as the Company.

12.1 A director who is a member of the Audit Committee of the Board of Directors may not have an interest in the Company or a subsidiary. In particular, he may not accept from the Company or a subsidiary fees with respect to consulting, consulting services or any other similar service.

13. The disclosure required by section 12 occurs, in the case of a director, during the first meeting:

a) in the course of which the contract, the transaction or question concerned is under study;

b) following the time at which the director who had had no interest in the contract, the transaction or question concerned acquires such interest;

c) following the time at which the director acquires an interest in the already concluded contract or a transaction; or

d) following the time at which any person with an interest in a contract, a transaction or a question under study becomes a director.

14. An executive or controller who is not a director shall make the disclosure required in section 12 immediately after:

a) having learned that the contract, the transaction or question concerned was or will be studied at a meeting;

b) having acquired the interest, if it is acquired after the contract or the transaction was concluded or the decision made; or

c) having become an executive or controller, if he becomes one after acquiring the interest.

The executive or controller may not try to influence the directors' decision in any way.

15. The director, executive or controller shall make the disclosure required in section 12 as soon as he has knowledge of a contract or a transaction contemplated by this section which, as part of the normal business of the Company, does not require the approval of the directors.

16. Sections 12 to 15 apply also when the interest concerned is held by a person associated with the director, executive or controller.

17. The director, executive or controller shall notify the Chairman of the Board or the Secretary in writing of the rights he may invoke against the Company, by indicating their nature and their value, as soon as these rights come into existence or when he acquires knowledge of them.

18. The director, executive or controller shall submit to the Chairman of the Board, within 30 days of being appointed and on January 31 of each year in which he remains in office, an attestation in the form provided in Schedule B and containing the following information:

a) the name of any enterprise (including its area of activity and place of operations), in which he owns directly or indirectly securities or assets, including common shares, when the holding of securities is greater than 10% of the total issued capital and shares outstanding, specifying the nature and proportion of securities owned and value of assets;

b) the name of any enterprise for which he performs functions or in which he has an interest in the form of a debt, right, priority, mortgage or significant commercial or financial benefit; and

c) any other fact, situation or transaction of which he has knowledge and that could put him in a conflict of interest situation or be perceived as such including the situations mentioned in section 12 a), b) and c) of the Code, which concern also an associated person.

A director, executive or controller to whom the provisions of paragraphs a) to c) do not apply shall fill out an attestation to that effect and present it to the Chairman of the Board and to the Secretary.

The director, executive or controller shall also produce such an attestation within 30 days of the occurrence of a significant change in its content.

The attestations presented pursuant to this section are treated as confidential.

19. The Secretary of the Company shall ensure that the declarations received pursuant to section 12 to 18 are made available to the Directors and the Governance and Ethics Committee.

Moreover, the Secretary of the Company notifies the Chairman of the Board and the Governance and Ethics Committee of any failure to satisfy the obligations provided for in sections 12 to 18 as soon as the Secretary becomes aware of them.

WAIVERS

20. This Code does not apply:

a) to owning an interest by way of a mutual fund in whose management the director, executive or controller plays no role directly or indirectly;

b) to owning interests through a blind trust whose beneficiary cannot know its makeup;

c) to owning a minimum number of shares required to be eligible as director of a corporation;

d) to an interest which, by its nature and extent, is common to the public at large or a particular sector in which the director, executive or controller operates;

e) to a directors' liability insurance agreement; or

f) to the owning of shares issued or guaranteed by the Company, a government or municipality under the same conditions for everyone.

ATTESTATION

20.1 Within thirty days of the adoption of this Code by the Board, thereafter, no later than January 31 of each year, each director, executive or controller shall submit to the Chairman of the Board and the Secretary of the Company the attestation appearing in Schedule C.

Each new director, executive or controller shall do the same within thirty days of his appointment to this position.

PART IV – REMUNERATION

20.2 The director, executive or controller, for the exercise of his duties, is entitled solely to the remuneration related to those duties. Such remuneration may not include, even partially, monetary advantages such as those established, in particular, by a profit-sharing plan based on the variation in the value of shares or on a stake in the capital stock of the Company.

20.3 A director, executive or controller dismissed for just and sufficient cause may not receive a severance allowance or payment.

20.4 A director, executive or controller who quits his duties, who has received or is receiving a severance allowance or payment and who holds an office, employment or any other remunerated position in the public sector during the period corresponding to that allowance or payment shall refund the part of the allowance or payment covering the period for which he receives a salary or shall cease to receive it during that period.

However, if the salary he receives is lower than that he received previously, he shall be required to refund the allowance or payment only up to the amount of his new salary, or he may continue to receive the part of the allowance or payment that exceeds his new salary.

20.5 Anyone who has received or is receiving a severance allowance or payment from the public sector and receives a salary as director, executive or controller during the period corresponding to that allowance or payment shall refund the part of the allowance or payment covering the period for which he receives a salary or shall cease to receive it during that period.

However, if the salary he receives as director, executive or controller is lower than that he was receiving previously, he shall be required to refund the allowance or payment only up to the amount of his new salary, or he may continue to receive the part of the allowance or payment that exceeds his new salary.

20.6 A President and Chief Executive Officer who has ceased to perform his duties, who has received so-called assisted departure measures and who, within two years after his departure, accepts an office, employment or any other remunerated position in the public sector shall refund the sum corresponding to the value of the measures received by him, up to the amount of the remuneration received, by the fact of his return to the public sector, during that two-year period.

20.7 Part-time teaching by a director, executive or controller is not covered by sections 20.4 to 20.6.

20.8 For the application of sections 20.4 to 20.6, "public sector" means the bodies, institutions and companies referred to in the section 33 of the Regulation in Schedule A.

The period covered by the severance allowance or payment referred to in sections 20.4 and 20.5 shall correspond to the period that would have been covered by the same amount if the person had received it as salary in his prior office, employment or position.

PART V – APPLICATION OF THE CODE

COMPETENT AUTHORITIES

20.9 The Associate Secretary General for Senior Positions of the Ministère du Conseil exécutif is the competent authority for the application of this Code with respect to the Chairman of the Board and the other directors of the Company appointed by the Government.

The Chairman of the Board is the competent authority with respect to all directors of wholly owned subsidiaries, executives or controllers of the Company.

The Chairman of the Board shall ensure observance of the ethical principles and rules of professional conduct by the directors, executives and controllers of the Company.

21. The Governance and Ethics Committee has as its mission to advise the competent authority with respect to ethics and professional conduct.

The Governance and Ethics Committee also performs the duties invested in it by the Board and performs any other duties related to ethics entrusted to it by the Board.

In the performance of its duties, the Governance and Ethics Committee may become acquainted with the attestations contemplated by section 19.

22. When a director, executive or controller is accused of a violation of ethics or the rules of professional conduct, the Governance and Ethics Committee is responsible for collecting all relevant information. It makes a report of its findings to the competent authority and recommends appropriate measures, if any.

The competent authority notifies the director, executive or controller of the alleged violations and the possible penalties. It informs him that he has seven days in which to respond and if he requests, to be heard on this matter.

23. The Governance and Ethics Committee may render advisory opinions to directors, executives or controllers on the provisions of this Code and their application to specific cases, even hypothetical ones. It is not required to limit its views to the terms contained in the request.

23.1 In order to allow an appropriate decision to be made in the case of an urgent situation requiring fast response or in an alleged case of serious misconduct, the competent authority may temporarily relieve of his duties, with remuneration, the director, executive or controller who is accused of violations of ethics or the rules of professional conduct.

24. The Secretary of the Company keeps records in which are stored the statements, disclosures and attestations that must be submitted to it under this Code, the reports and advisory opinions of the Governance and Ethics Committee and the decisions of the competent authority with respect to ethics and professional conduct.

The Secretary shall also take the necessary steps to ensure the confidentiality of the information provided by the directors, executives and controllers pursuant to this Code.

25. The Governance and Ethics Committee may consult and receive opinions from outside counsel or experts on any issue it considers appropriate.

26. A director, executive or controller does not violate the provisions of this Code if he has obtained in advance a favorable decision from the Governance and Ethics Committee on the following conditions:

a) the decision was obtained before the facts on which it was based became a reality;

b) the decision was submitted to the Board;

c) all of the relevant facts were fully disclosed to the Governance and Ethics Committee exactly and completely; and

d) the director, executive or controller has complied with all the requirements of the decision.

27. The Governance and Ethics Committee and the competent authority preserve the anonymity of complainants, applicants and informers unless there is a clear intention to do otherwise. They may not be forced to reveal information likely to disclose their identity except if the law or a court so requires.

PENALTIES

28. Upon concluding that a provision of the law, the Regulation or this Code has been violated, the competent authority may impose either of the following penalties:

a) for an executive or a controller: the appropriate penalty, which can extend as far as termination of employment; and

b) for a director: reprimand, suspension without remuneration for a maximum of three months, or removal from the Board.

However, when the competent authority is the Associate Secretary General contemplated by section 20.9, the penalty is imposed by the Secretary General of the Conseil exécutif. If the penalty proposed consists of the removal of a public office holder appointed or designated by the Government, it can only be imposed by the latter; in this case, the Secretary General of the Conseil exécutif may immediately suspend the public office holder without remuneration for a period not exceeding 30 days.

Any penalty imposed on a director and the decision to temporarily relieve him of his duties must be in writing and give the reasons therefor.

29. In the case of a violation of section 10.1, the competent authority records in writing the forfeiture of office of the violator.

30. The director, executive or controller shall render an account and restore to the Company any profits earned or benefits received as a result of or on the occasion of a violation of the provisions of this Code.

31. A director's vote shall not be a casting vote if it is made in violation of the provisions of this Code or associated with such a violation, or if the director fails to produce the attestation contemplated by section 18.

GENERATION INSTALLED CAPACITY IN MW

HYDROELECTRIC GENERATING STATIONS — 36,100 MW

Robert-Bourassa	5,616	Sainte-Marguerite-3	882	Laforge-2	319	Chelsea	152
La Grande-4	2,779	Laforge-1	878	Trenche	302	Sarcelle	150
La Grande-3	2,417	Bersimis-2	869	La Tuque	294	La Gabelle	131
La Grande-2-A	2,106	Outardes-4	785	Beaumont	270	Première-Chute	131
Beauharnois	1,853	Eastmain-1-A	768	McCormick	235	Les Cèdres	113
Manic-5	1,596	Carillon	753	Rocher-de-Grand-Mère	230	Rapides-Farmer	104
La Grande-1	1,436	Romaine-2	640	Paugan	226	Rapides-des-Quinze	103
René-Lévesque (Manic-3)	1,326	Toulnustouc	526	Rapide-Blanc	204	Other (19 generating stations rated less than 100 MW)	798
Jean-Lesage (Manic-2)	1,229	Outardes-2	523	Shawinigan-2	200		
Bersimis-1	1,178	Eastmain-1	480	Shawinigan-3	194		
Manic-5-PA	1,064	Brisay	469	Manic-1	184		
Outardes-3	1,026	Péribonka	385	Rapides-des-Îles	176		

THERMAL — 543 MW

Bécancour (gas turbine)	411
Other (24 diesel plants on off-grid systems)	132

HYDROELECTRIC GENERATING STATIONS PLANNED OR UNDER CONSTRUCTION — 910 MW

Romaine-1	270
Romaine-3	395
Romaine-4	245

INSTALLED CAPACITY OF HYDRO-QUÉBEC'S GENERATING FLEET — 36,643 MW

Hydroelectric (62)[a]	**36,100**
Thermal (25)[b]	**543**

a) 61 operated by Hydro-Québec Production and 1 by Hydro-Québec Distribution.
b) 1 operated by Hydro-Québec Production and 24 by Hydro-Québec Distribution.

OTHER SOURCES OF SUPPLY — 9,671 MW

Churchill Falls generating station [Churchill Falls (Labrador) Corporation Limited][a]	**5,428**
31 wind farms operated by independent power producers[b]	**2,857**
7 biomass and 3 biogas cogeneration plants operated by independent power producers[c]	**206**
4 small hydropower plants operated by independent power producers[b]	**48**
Other suppliers[d]	**1,132**

a) Hydro-Québec has access to almost all the output until 2041.
b) Hydro-Québec purchases all the output.
c) Hydro-Québec purchases almost all the output.
d) Hydro-Québec has access to the output of these suppliers.

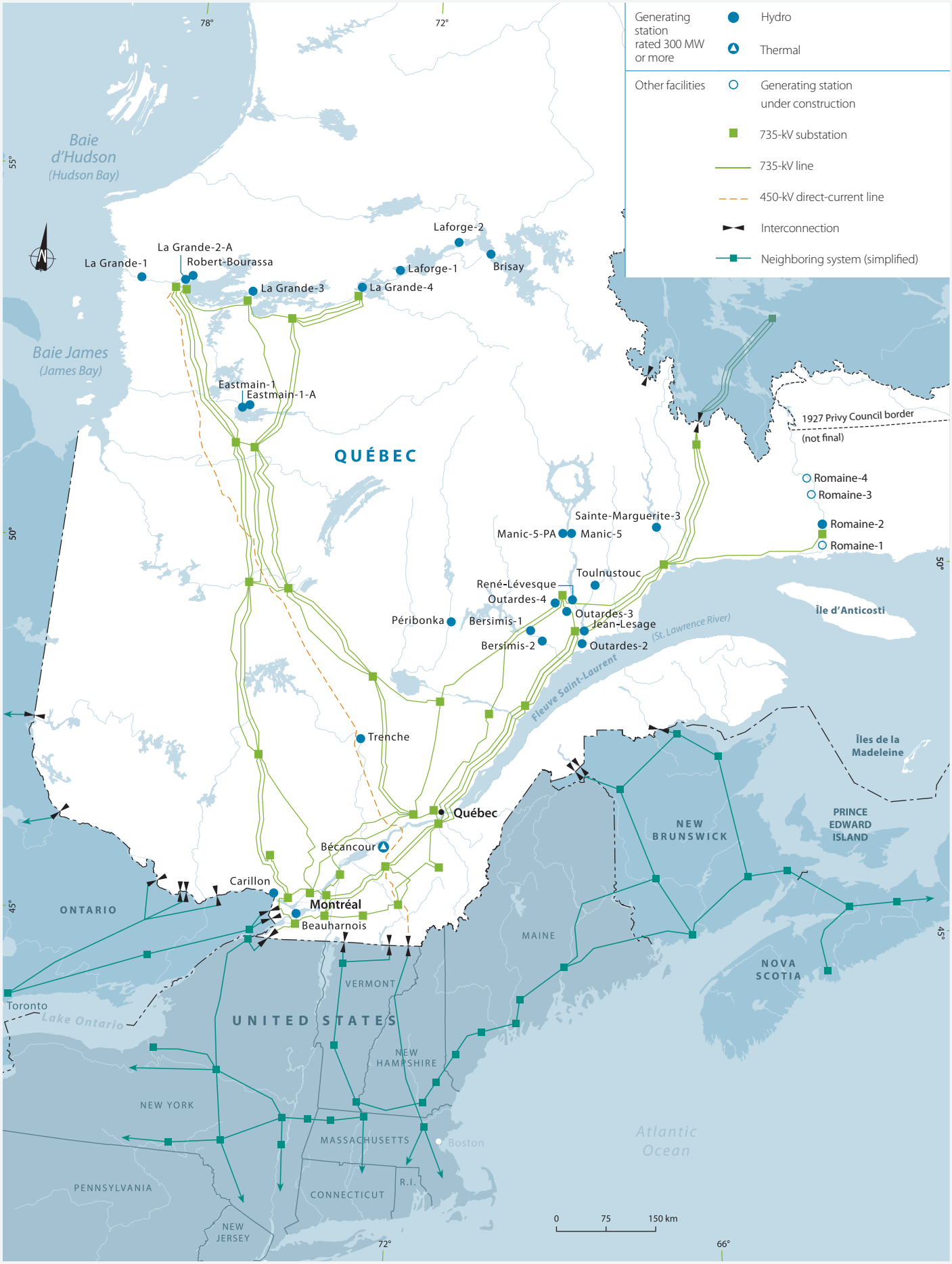
TRANSMISSION

Voltage	Lines (km)	Substations (number)
765 and 735 kV	11,683[a]	39
450 kV DC	1,218	2
315 kV	5,438	70
230 kV	3,230[b]	54
161 kV	2,125	43
120 kV	6,938	218
69 kV or less	3,555[c]	104[d]
Total	**34,187**	**530**

a) Including 261 km of 735-kV lines operated at 315 kV.
b) Including 33 km of 230-kV lines operated at 120 kV.
c) 3,283 km of lines operated by Hydro-Québec TransÉnergie and 272 km by Hydro-Québec Distribution.
d) 93 substations operated by Hydro-Québec TransÉnergie and 11 by Hydro-Québec Distribution.

DISTRIBUTION

Voltage	Lines (km)
34 kV	737
25 kV	109,752
12 kV	4,853
4 kV or less	241
Total	**115,583**


Generating station rated 300 MW or more
Hydro
Thermal
Other facilities
Generating station under construction
735-kV substation
735-kV line
450-kV direct-current line
Interconnection
Neighboring system (simplified)
Baie d'Hudson
(Hudson Bay)
Baie James
(James Bay)
La Grande-1
La Grande-2-A
Robert-Bourassa
La Grande-3
La Grande-4
Laforge-1
Laforge-2
Brisay
Eastmain-1
Eastmain-1-A
QUÉBEC
1927 Privy Council border
(not final)
Romaine-4
Romaine-3
Romaine-2
Romaine-1
Sainte-Marguerite-3
Manic-5-PA
Manic-5
Toulnustouc
René-Lévesque
Outardes-4
Outardes-3
Jean-Lesage
Outardes-2
Bersimis-1
Bersimis-2
Péribonka
Île d'Anticosti
(St. Lawrence River)
Fleuve Saint-Laurent
Trenche
Québec
Bécancour
Carillon
Montréal
Beauharnois
Îles de la Madeleine
NEW BRUNSWICK
PRINCE EDWARD ISLAND
NOVA SCOTIA
ONTARIO
MAINE
VERMONT
NEW HAMPSHIRE
UNITED STATES
Toronto
Lake Ontario
NEW YORK
MASSACHUSETTS
Boston
Atlantic Ocean
PENNSYLVANIA
CONNECTICUT
R.I.
NEW JERSEY
0 75 150 km
78°
72°
66°
55°
50°
45°

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CANADA

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UNITS OF MEASURE

¢/kWh	cents ($0.01) per kilowatthour
$M	millions of dollars
$B	billions of dollars
V	volt (a unit for measuring voltage)
kV	kilovolt (one thousand volts)
MVA	megavoltampere or one million voltamperes (voltampere: a unit for measuring apparent power)
W	watt (a unit for measuring power)
kW	kilowatt (one thousand watts)
MW	megawatt (one million watts)
GW	gigawatt (one billion watts)
Wh	watthour (a unit for measuring electric energy)
kWh	kilowatthour (one thousand watthours)
MWh	megawatthour (one million watthours)
GWh	gigawatthour (one billion watthours)
TWh	terawatthour (one trillion watthours)
km	kilometre
MMBtu	million Btu (British thermal units)
t	tonne (metric ton)
t CO_2 eq.	tonnes of CO_2 equivalent

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

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