Building the Future

Annual Report
2023

Hydro Québec

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Hydro-Québec in numbers

$3.3 billion

Net income in 2023

200.3 TWh

Electricity sales,
including 23.0 TWh outside Québec

$4.9 billion

Investments in Québec in 2023

10.3¢/kWh

Average price obtained on sales outside Québec

7.81¢/kWh

Residential rate,
the lowest in North America

$20.6 million

Donations and sponsorships
to 577 organizations in 2023

$4.7 billion

Contribution to the Québec government's revenue in 2023

Message from the Chair of the Board

Manon Brouillette
Chair of the Board of Directors

It is a great honor for me to chair the Board of Directors of Hydro-Québec, an organization that is so dear to Quebecers.

The past year has been full of extraordinary events. Unprecedented forest fires, low water levels in northern Québec after drought conditions, tornadoes, an ice storm: all symptoms of the climate crisis we are experiencing.

I quickly realized the scope of the challenge posed by the energy transition and the fight against climate change in Québec, as well as the important part Hydro-Québec would play as a utility with operations across the province.

Upon my arrival at Hydro-Québec, I worked to ensure that the Board successfully recruit a new President and Chief Executive Officer. At the close of the recruitment process, the Board recommended the nomination of Michael Sabia, who took office on August 1, 2023.

Further to Mr. Sabia's arrival, the Board closely followed and supported the development of a new vision for the company as expressed in the *Action Plan 2035 – Towards a Decarbonized and Prosperous Québec.*

This goal of decarbonizing Québec and making a long-term contribution to collective prosperity is a key element in the decisive role Hydro-Québec will play in the future of Québec.

Over the past year, the Board approved the partnership with the Mohawk community of Kahnawà:ke for the Hertel–New York interconnection project. It closely monitored the progress of the company's new organizational model and ensured that benefits stemming from it came to fruition. It also paid special attention to the challenges related to energy supply and the procurement of strategic goods.

As Chair, I will ensure that the Board of Directors displays the leadership necessary for an organization of the status of Hydro-Québec and that it rigorously exercise its decision-making for the benefit of all Quebecers.

In closing, I wish to salute and thank Jacynthe Côté, the first woman to chair Hydro-Québec's Board of Administration. During her term, Jacynthe demonstrated remarkable leadership that could be counted on by directors and the management team.

Message from the President and Chief Executive Officer

Michael Sabia
President and CEO

Several times since it was founded, Hydro-Québec has contributed to building a modern Québec. Today, we are writing another chapter of this history, one which will again call upon the organization's vast expertise, its courage and its ambition.

Why now? Because the time has come to undertake a major energy transition. Replacing polluting energy sources with cleaner options and adopting responsible consumption habits is a collective project that will require the efforts of all Quebecers. This transition will also be an economic one, as Québec must seize the opportunity to create sustainable prosperity.

It was in this context that Hydro-Québec launched the *Action Plan 2035 — Towards a Decarbonized and Prosperous Québec* in November 2023. Designed to provide Québec with the means to achieve its goals, the plan revolves around two main pillars: customer service and the energy and economic transition. It will allow us to offer customers reliable, simple and affordable service, reduce greenhouse gas emissions and meet expected growth in electricity demand.

For this collective project to succeed, everyone must work together. We are pursuing, with First Nations and Inuit, an innovative approach based on respect and partnership with a view to achieving economic reconciliation.

We will also put our customers at the heart of our actions. We must improve service quality and make interactions with our customers simpler. This means we will have to review how we do things and simplify our practices to become a more agile and innovative organization.

In 2023, Hydro-Québec supplied 200.3 TWh to Québec and neighboring markets. Thanks to our net income of $3.3 billion, compared to $4.6 billion in 2022, a dividend of $2.5 billion will be paid to its sole shareholder, the Québec government. This change in our income is due in large part to lower sales outside Québec and an increase in operational expenditure.

For almost 80 years, Hydro-Québec has been a public institution at the service of Québec society. Given the scope of the challenges we face, our organization is committed to continuing to play this essential role in the interest of our customers, the environment and the competitive position and collective prosperity of Québec.

I am honored to have the opportunity to add my contribution to the great Québec institution that is Hydro-Québec. I am certain that the company will achieve unprecedented growth, for the benefit of Québec society as a whole.

Our Management Team

Michael Sabia, President and Chief Executive Officer

Maxime Aucoin, Executive Vice President – Strategy and Finance

Claudine Bouchard, Executive Vice President and Chief Operating and Infrastructure Officer, Chief Executive Officer, Société d'énergie de la Baie James

Julie Boucher, Vice President – Sustainability, Community Relations and Communications

Nathalie Dubois, Vice President – Talent and Culture

Jean-Hugues Lafleur, Executive Vice President and Chief Financial Officer

Jean-François Morin, Vice President – Digital Technologies

François Ramsay, Acting Vice President – Corporate, Legal and Regulatory Affairs and Acting Chief Governance Officer

Dave Rhéaume, Executive Vice President – Energy Planning and Customer Experience

Planet-wide efforts for a successful energy transition

As climate impacts intensify across the globe, colossal investments are required for countries to decarbonize their economies. In 2022, $1.6 trillion was spent on the energy transition. It is estimated that by 2030, investments of over $40 trillion worldwide will be required. In the United States alone, over $660 billion will be spent yearly from now to 2035.

With its clean and affordable energy, Québec is in an enviable position, but it must seize this opportunity to decarbonize and create wealth while ensuring that Quebecers' expectations are met. In this context, our *Action Plan 2035 – Towards a Decarbonized and Prosperous Québec* will guide us over the coming years to meet our goals: reduce greenhouse gas emissions, respond to expected growth in electricity demand and offer customers reliable, simple and affordable service.

For Québec to meet its goal of becoming carbon neutral by 2050, we need to convert our greenhouse-gas emitting fossil-based systems and promote the use of clean electricity wherever possible. To handle this transition, we will need to add between 8,000 and 9,000 MW of capacity by 2035, 75% of which will be used to decarbonize Quebecers current consumption.

Our efforts will also help establish new industries, encourage young entrepreneurs to engage in promising sectors and create stimulating jobs across Québec, especially in relation to the development of energy infrastructures in many regions of the province.

In addition, climate change is having a very real impact on our power grid and affecting the daily lives of our customers. We know that the quality of the service has declined over the past few years. We must correct the situation and provide a better experience to our customers: they must be at the heart of our decisions.

To do so, we will significantly increase our investments in energy infrastructure, which will total from $45 to $50 billion by 2035. In addition, we will offer our customers a simplified experience when they interact with Hydro-Québec by deploying a portal providing a single point of access and simplifying our various online tools.

This will all be done without losing sight of our most precious assets: the steady and affordable electricity generated with Hydro-Québec's know-how.

Focusing on five priorities

Our *Action Plan 2035* proposes clear and ambitious initiatives that focus on five priorities to meet two challenges: the energy transition and the needs of our customers.

1 **Improve service quality.**	• **Reduce the number of power outages by 35% over the next 7 to 10 years** – The investments needed to make the power grid more durable over the long term will amount to $45 to $50 billion between now and 2035—almost double the annual investments made in network sustainability over the past three years. • **Management of power outages and planned service interruptions** – Improve communications with our customers during outages and planned service interruptions. – Offer resiliency solutions by providing backup electrical supply during service interruptions. • **New service connections** – Reduce the average completion time for the most common types of work by 40%. • **Offer a simplified experience with new digital tools**
2 **Help our customers make better use of electricity.**	• **Reduce and shift consumption** – Create a dedicated team so that all customers can benefit from customized support to make the best energy choices. – Double our customers' energy savings to free up a total of 3,500 MW of additional capacity by 2035, which will also mean savings for customers. – Offer tailored support to our customers. – Increase financial incentives to encourage energy-efficient renovations and cover up to 50% of the cost of high-efficiency equipment. – Expand our rate offerings in order to encourage desired behaviors.

Focusing on five priorities (continued)

3 **Increase our power generation capacity.**	• **Additional energy infrastructure** – Integrate new assets into the Hydro-Québec grid that, combined with our energy-efficiency and load-side management efforts, will help meet additional capacity requirements on the order of 8,000 to 9,000 MW. • **Other energy options** – Explore the potential of other energy options for Québec, taking all tested and emerging solutions into consideration. • **Transmission grid** – Deploy transmission infrastructures to connect additional generating facilities and promising new projects for Québec. • **Addition of 5,000 km of transmission lines** – Investments to meet demand growth will amount to between $90 and $110 billion by 2035.
4 **Partner with Indigenous communities.**	• **Financial partnerships** – Provide First Nations and Inuit with the opportunity to draw autonomous sources of income from new energy projects that they can allocate to priorities of their own choosing. – Facilitate the financial or economic participation of Indigenous communities in new infrastructure projects. • **Representation and cooperation** – Work with Indigenous communities to increase the representation of First Nations and Inuit in our activities.
5 **Become an agile, innovative and transparent organization.**	• **Expertise and innovation** – Create a center of expertise that will develop, in close collaboration with the Québec government, a roadmap to guide the energy and economic transition. • **Agility** – Adapt our work methods to get things done faster. • **Talent and culture** – Invest in our employees to stimulate innovation, work more efficiently and increase our capacity to meet the changing needs of our customers.

Weather events on an unprecedented scale

In 2023, the intensity of the episodes related to climate instability posed a threat to our infrastructure and operations. The scope and unpredictability of the weather events over the past year point to an acceleration of climate change. In light of this crisis, we must take the full measure of the risks to which we will be exposed going forward.

After a very dry spring, Québec experienced a record number of **forest fires** in several regions: Abitibi, Saguenay–Lac-Saint-Jean, Côte-Nord and Nord-du-Québec, very close to our facilities in Baie-James. The smoke triggered automatic service interruptions on certain transmission lines and reduced or prevented access to certain critical facilities, both generating stations and power lines.

A powerful **ice storm** accompanied by **high winds** swept across the Montréal, Montérégie, Lanaudière, Laurentides and Outaouais regions on April 5, 2023, causing close to 10,000 outages on Hydro-Québec's distribution system and leaving more than 1.3 million customers without power. Most of the damage and outages were caused by trees or branches falling on power lines.

On July 13, southern Québec was hit by **violent storms**, **torrential rains** and at least one **tornado**. In the evening, at the height of the storm, 392,000 customers were without power. By end-of-day on July 14, service had been restored to 85% of them. Nearly 150 transformers had to be replaced.

We will increase the robustness of our system by planning facilities that can withstand future climate events, work towards economic reconciliation with First Nations and Inuit in collaboration with the Québec government, and transform our ways of doing things to better meet our customers' needs.

Controlled burn at fire 334. © Geneviève Poirier, SOPFEU

Helping our customers make better use of electricity

The energy savings achieved by our customers will allow us to limit or postpone investments on the power system and to cut back on expensive electricity purchases during peak periods, thus reducing the associated impact on our customers' energy bill. To meet our objectives related to the energy transition, we will be offering energy-saving programs catered to individuals, companies and organizations.

To lower their bill, customers can sign up for our **turnkey smart home service, Hilo**. By participating in Hilo's winter challenges, customers could save an average of up to $140 on their annual consumption. In winter 2022–2023, the 19,500 customers who participated in Hilo challenges shifted 4,700,000 kWh of energy use to off-peak periods. That's enough energy to supply 215 homes for a year, do 634,000 loads of laundry or make 37,000 round trips between Montréal and Québec with an electric vehicle.

Customers can also save by signing up for **dynamic pricing** and reducing their energy use during periods of high demand. In winter 2022–2023, the fourth year of this program, the efforts of the 228,000 participating customers, 71,000 more than the year before, yielded a reduction of 206 MW per event, an increase of 49 MW compared to winter 2021–2022. The savings represent the equivalent of the consumption of 29,400 homes.

Our LogisVert program helps customers become more energy wise by offering them financial assistance to implement energy efficiency measures. These measures include the installation of equipment such as efficient heat pumps, induction ranges, heat-pump dryers and central heating systems. In addition, when customers combine more than one measure in a single application, their total financial assistance is increased by 5%. Because saving money while you save electricity is always a great idea!

In November 2023, we launched a major **ad campaign** that focused on reducing electricity use and the need to increase our generation capacity. Starring **Martin St-Louis**, the coach of the Montréal Canadiens hockey team, the campaign aimed to mobilize Quebecers around the importance of the game plan for a successful energy transition, which is laid out in our *Action Plan 2035*.

Diversified generation sources

Hydro-Québec is actively pursuing the expansion of wind power, in collaboration with local communities and Indigenous communities. The additional wind projects planned represent investments that will have major economic benefits across Québec by creating jobs and diversifying sources of income.

Wind power is a competitively priced energy source that offers synergies with our hydropower and can make a positive contribution to increasing our generation capacity by 2035. That is why we plan to triple **wind power generation** to meet our capacity requirements. We will be adding over 10,000 MW of new wind power generation by 2035.

Hydro-Québec is teaming up with Boralex and Énergir to carry out the Neiges project, which will consist of three 400-MW wind farms on the lands of the Seigneurie de la Côte-de-Beaupré, an area known for its wind power potential.

Subsequent to a call for tenders issued in 2021, whose results were made public at the start of the year, Hydro-Québec has partnered with EDF Renewables Canada and the Alliance de l'énergie de l'Est to develop the Madawaska wind farm project. Located in the regional county municipality (MRC) of Témiscouata, in the Bas-Saint-Laurent region, the Madawaska wind farm will have an installed capacity of 270 MW.

In light of the magnitude of future needs, we will carry out analyses to assess the potential of various technologies currently under development elsewhere in the world, such as **offshore wind generation**, which is on the rise in several countries.

Throughout the planning steps for these projects, we work in partnership with Indigenous and local communities to assess the potential of various sites and the best ways to harness it.

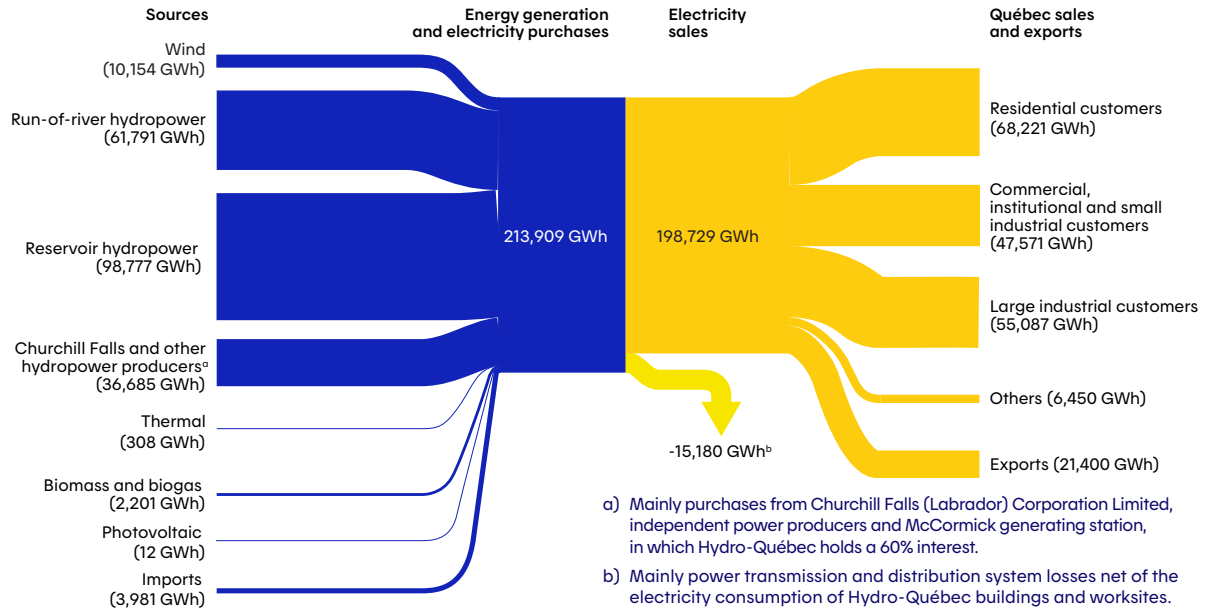
Major projects carried out in 2023

In 2023, we finalized the construction of a line that contributes to the robustness and reliability of our transmission system, and inaugurated a generating complex with an installed capacity of 1,550 MW.

With the close of construction of the new **735-kV Micoua–Saguenay line** in October, we wrapped up one of the largest work sites in recent years. The line will benefit customers and will contribute to the reliability and robustness of Québec's power transmission system. Stretching over 262 km, the new line will also help us meet the sharp rise in electricity demand expected in the coming years. The project called on the efforts of more than 1,600 workers, 25% of whom were from the host regions, including local Indigenous communities. The Micoua–Saguenay project generated significant regional economic spinoffs, reaching $81 million in Côte-Nord and $80 million in Saguenay–Lac-Saint-Jean.

In October of 2023, after nearly 15 years of construction, Hydro-Québec inaugurated the **Romaine hydroelectric complex**, the company's largest complex since the Baie-James facilities. The Romaine's four generating stations have a total installed capacity of 1,550 MW and generate 8 TWh of energy per year, enough to supply 470,000 households. The close collaboration of the Innu and Minganois communities enabled us to adapt our practices to the realities of this vast territory and to traditional Indigenous activities. The project generated economic spinoffs of approximately $5.5 billion in Québec, including about $1.4 billion for the Côte-Nord region.

The commissioning of the Romaine hydroelectric complex contributed to increasing the energy sources available and supported our electricity sales in 2023.



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

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

Transforming our ways of doing things

In response to this critical juncture in our history and to help us achieve the goals of our *Action Plan 2035*—including that of better serving our customers—we are simplifying our processes, stepping up the pace of project development by working efficiently and finding innovative solutions.

The energy transition will soon require great quantities of additional electricity. To tackle the significant large-scale challenges this will bring in the coming years, Hydro-Québec set up a **center of expertise**, which is working closely with the Québec government to develop a roadmap to guide the energy and economic transition. This new team will build strategies that will both contribute to decarbonizing Québec's economy and enhance economic prosperity.

To ensure efficient execution, we will intensify our efforts to **simplify our practices** while prioritizing activities that will generate the most value for our customers. We will also adopt management models that foster continuous learning and the mobility of workers in order to enhance our flexibility in a rapidly changing environment.

In accordance with our *Action Plan 2035*, we aim to **increase the representation of First Nations and Inuit** in Hydro-Québec's activities. Our efforts will include creating a work environment that takes into account the realities and culture of Indigenous peoples. We will actively work to increase our Indigenous workforce—for instance, by adapting our recruitment practices—and to ensure fair representation in a variety of fields, including management and governance positions.

A source of talent and know-how, the integration of people from diverse origins, identities and life experiences contributes to enriching our workforce. Although the representation of **women** is increasing in management positions, the percentage of women in the company as a whole has remained stable. More effort must be made to make room for women wherever they have the required skills. As for people belonging to **ethnocultural minorities** (visible and ethnic minorities), their overall numbers at Hydro-Québec are increasing, but they are underrepresented among the ranks of senior managers. In 2023, Hydro-Québec hired 43 employees of **Indigenous origin**. In addition, more than 40 employees or managers with disabilities requested the services provided by our special education advisor. Finally, to date, almost 400 employees have filled out a self-declaration form indicating that they belong to the **LGBTQ+ community**. People from remote and urban areas, working in offices and in the field, make up this community.

Hydro-Québec's first contingent at Montréal's Pride Parade. This was important not only for the employees who belong to the LGBTQ+ community, but also for all of our personnel, because it reflects the company's commitment to inclusivity.

Management's Discussion and Analysis

This Management's Discussion and Analysis should be read in conjunction with the consolidated financial statements of Hydro-Québec and the notes thereto. The financial information and tabular amounts presented herein are expressed in Canadian dollars, unless otherwise indicated. The consolidated financial statements take into account the decisions handed down by the Régie de l'énergie of Québec [Québec energy board] with respect to the transmission and distribution of electricity. They also reflect the provisions of *An Act to simplify the process for establishing electricity distribution rates* (S.Q. 2019, c. 27) and *An Act mainly to cap the indexation rate for Hydro-Québec domestic distribution rate prices and to further regulate the obligation to distribute electricity* (S.Q. 2023, c. 1).

This analysis, and especially the Outlook section, contains statements based on estimates and assumptions concerning future results and the course of events. Given the risks and uncertainties inherent in any forward-looking statements, Hydro-Québec's actual future results could differ from those anticipated. Lastly, the information contained herein takes into account any significant event that occurred on or before February 16, 2024, the date of approval of this Annual Report by Hydro-Québec's Board of Directors.

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2023 at a Glance

NET INCOME

$3,288M

In 2023, for a third consecutive year, Hydro-Québec's net income exceeded the $3-billion mark, reaching $3,288 million. This performance represents a decline of $1,269 million from the all-time high of $4,557 million recorded in 2022, when the company benefited from high export prices and very cold winter weather. The decrease is partly due to a decline in electricity sales in markets outside Québec as a result of natural water inflows which were much lower than normal and to an increase in operational expenditure attributable in part to growth in maintenance work to improve service quality and reliability. The company will pay a dividend of $2,466 million to the Québec government, its sole shareholder.

Context of low runoff

The results for 2023 are set against a backdrop of low runoff. As a result, Hydro-Québec reduced its exports to short-term markets, primarily in the second half of the year. In fact, scant snow cover in late winter 2022–2023, lower-than-usual spring runoff and modest summer and fall precipitation in northern Québec have reduced natural water inflows to the company's large reservoirs. With a view to optimum management of resources, Hydro-Québec therefore limited its electricity sales on external markets. Consequently, sales volume outside Québec totaled 23.0 TWh, a 12.6-TWh decrease compared to 2022, and the lowest level in the last 10 years. It is important to note, however, that this situation had no impact on Québec's energy supply or its long-term commitments with neighboring markets.

Lower prices on export markets

AVERAGE PRICE OBTAINED[1]

10.3¢/kWh

AVERAGE MARKET PRICE

5.2¢/kWh

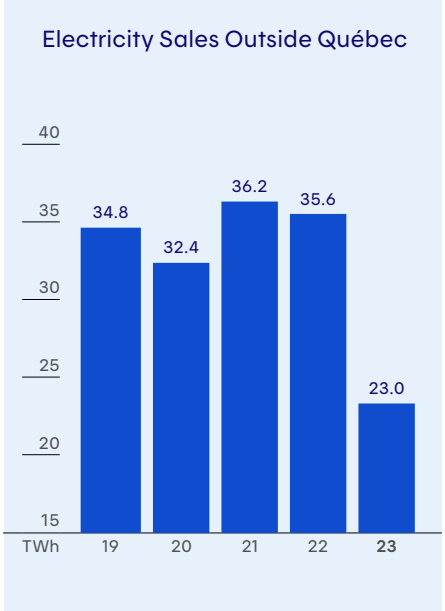
The year 2023 was also marked by the drop in prices on the energy markets. For example, in Hydro-Québec's main export market, New England, average electricity prices decreased by more than 50% compared to the previous year. It is important to remember that energy markets saw a marked rise in prices in 2022, in the midst of the energy crisis in Europe due to the conflict in Ukraine. Nevertheless, the company had a successful year thanks to the careful implementation of its risk management strategy to reduce price volatility through derivative financial instruments. The favorable effect of this strategy, which enabled Hydro-Québec to benefit from the high forward prices in 2022, had a positive impact on revenue in 2023 and more than offset the effect of the marked decrease in market prices.

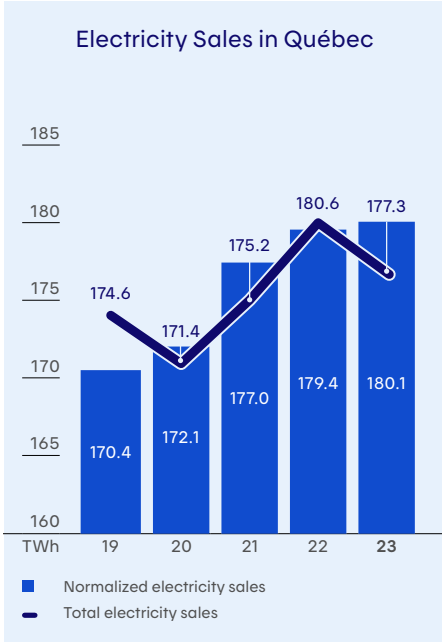
Growth in electricity demand in Québec

ELECTRICITY SALES IN QUÉBEC

177.3 TWh

In Québec, normalized electricity sales, i.e., excluding the temperature effect, rose for the fifth consecutive year, totaling 180.1 TWh—a historic high—due to growth in demand, primarily in the residential segment, as well as in the commercial, institutional and small industrial segment. As a result, the volume of normalized electricity sales in Québec has increased by nearly 10 TWh since 2019. Furthermore, taking into account the effect of temperatures, which were slightly milder this year and consequently led to a 2.8-TWh decrease, total sales volume stood at 177.3 TWh in 2023, a slight decline compared to the volume recorded the previous year.





1. For all markets outside Québec, including hedging effect.

Increase in weather events

Québec continued to experience major weather events in 2023. Following a derecho[1] and a winter storm in 2022, a major freezing rain event caused prolonged service interruptions in early April 2023, requiring major restoration work. In addition, a number of forest fires broke out over the summer, particularly in northern Québec. Hydro-Québec worked to ensure the safety of employees on the ground, and conducted a number of operations to protect facilities and ensure the continuity of the company's mission. Forest fires raging near transmission lines sometimes caused protective equipment to trip, resulting in numerous service interruptions. Then, in mid-July, a violent weather event gave rise to unusually severe thunderstorms combined with gusts of wind, torrential rain and hail. A tornado even struck part of the Laurentides region. All of this resulted in thousands of power outages across Québec.

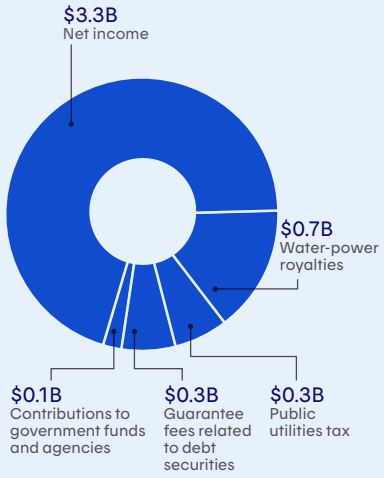
Due to these weather events, combined with others of a smaller scale, restoration costs of $77 million were recognized in operational expenditure. In accordance with the regulatory framework in effect, these costs are borne by Hydro-Québec, and will have no impact on the electricity rates. It should be noted that, according to the *Action Plan 2035* made public at the end of the year, the company aims to increase investments in the power grid to make it more reliable and robust, which is expected to result in a reduction of power outages in the medium term.

Strong contribution to Québec's economy

Hydro-Québec's contribution to the Québec government's revenue for 2023 amounts to $4.7 billion. In particular, this includes the company's net income of $3.3 billion, water-power royalties, the public utilities tax, and guarantee fees related to debt securities. This contribution to the Québec economy, combined with the company's $4.9-billion investment in property, plant and equipment and intangible assets, generates major economic spin-offs throughout the province and benefits all Quebecers.

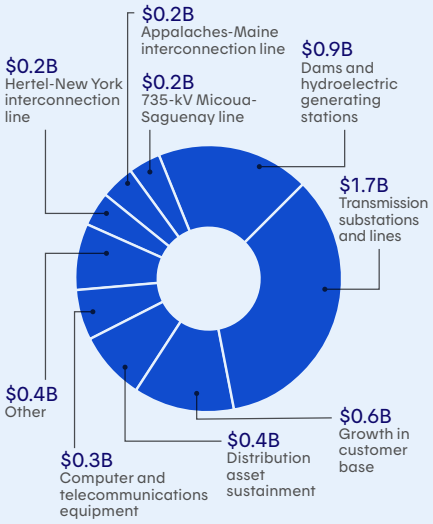
Hydro-Québec's Contribution to the Québec Government's Revenue for 2023

$4.7B



Investments in Québec in 2023

$4.9B



1. Storm system consisting of a fast-moving line of thunderstorms causing extensive damage to large areas in its path.

Consolidated Results

Net income

Hydro-Québec's net income totaled $3,288 million in 2023, a $1,269-million decrease compared to the historic high of $4,557 million recorded in 2022, when the company benefited from the sharp increase in prices on export markets and very cold winter weather at the beginning of the year. In 2023, however, the company faced headwinds due to a context of low runoff and a decrease in prices on the energy markets, resulting in a decline in electricity sales on markets outside Québec. These factors, combined with higher operational expenditure and increased depreciation and amortization expense, contributed to the decrease in net income.

As a result, electricity sales on markets outside Québec fell by $547 million, primarily due to export volume declining by more than one third and a significant decrease in market prices, mitigated by the positive impact of the risk management strategy implemented by the company.

Meanwhile, operational expenditure increased by $288 million. This increase is partly due to growth in maintenance work to improve service quality and reliability, which was partially offset by a decrease in the current service cost of the employee future benefit plans.

Depreciation and amortization expense rose by $261 million, mainly due to the commissioning of assets and the recognition of an expense related to the acquisition of Great River Hydro.

Revenue

Revenue totaled $16,086 million, compared to $16,567 million a year earlier. Revenue from ordinary activities reached $16,167 million, compared to $16,369 million in 2022. Electricity sales amounted to $15,880 million, or $263 million less than the $16,143 million recorded the previous year. This decline is attributable to a $547-million decrease in electricity sales on markets outside Québec, partially offset by a $284-million increase in sales in Québec. Other revenue from ordinary activities increased by $61 million, while revenue from other activities decreased by $279 million.

Revenue from ordinary activities

Electricity sales in Québec

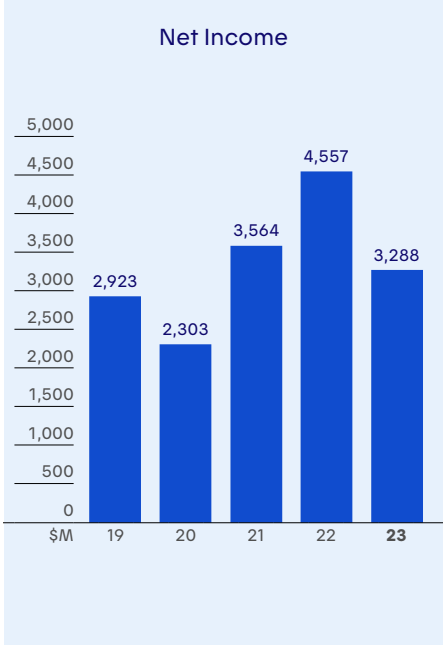
In Québec, electricity sales decreased by 3.3 TWh to total 177.3 TWh, compared to the historic volume of 180.6 TWh recorded in 2022. Nonetheless, associated revenue rose by $284 million due to the combined effect of four main factors.

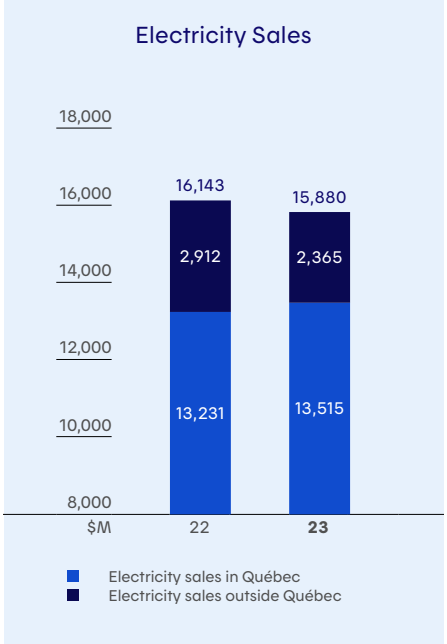
First, temperatures had a negative impact of 4.0 TWh or $349 million. First-quarter temperatures were milder in 2023 than 2022, leading to a decrease of 4.0 TWh or $343 million. As heating accounts for the vast majority of electricity consumption during the winter months, any rise in temperatures has an unfavorable impact on the volume of electricity sales and related revenue. The impact was greatest in January, when temperatures were an average of 9°C higher than in 2022.

Second, baseload demand rose by 0.7 TWh or $63 million due to increased energy needs, mainly in the residential segment and in the commercial, institutional and small industrial segment, where demographic change led to growth in the number of customer accounts.

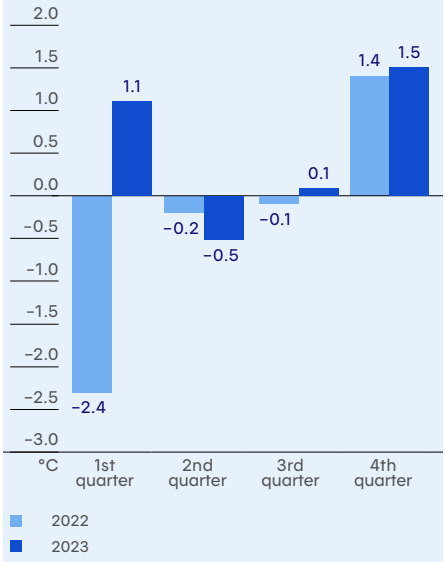
Third, the rate indexations that came into effect on April 1, 2022 and 2023, in accordance with the provisions of *An Act mainly to cap the indexation rate for Hydro-Québec domestic distribution rate prices and to further regulate the obligation to distribute electricity*, resulted in a $471-million increase in revenue.

Fourth, the positive impact of the aluminum price hedging strategy on revenues associated with certain special contracts more than offset the drop in prices of this raw material on the markets, which resulted in a $109-million increase in revenue from electricity sales in Québec. The hedges were the subject of contracts in 2022, in a context where prices were high on the aluminum market.

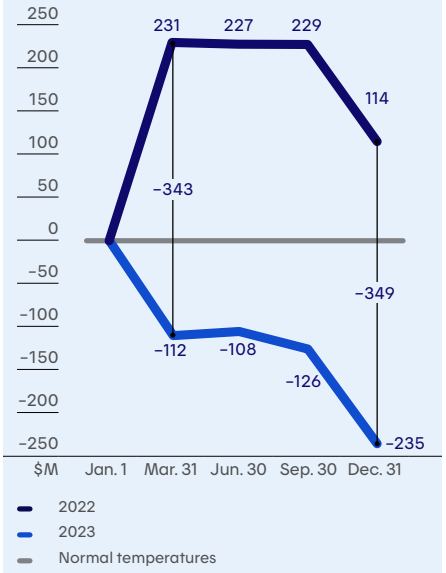




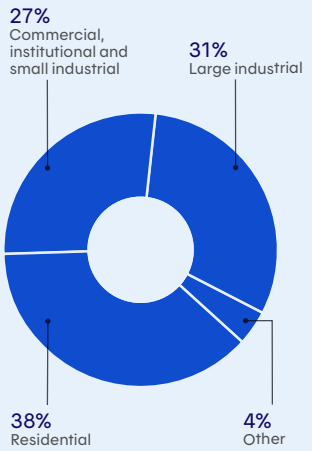
Variances in Actual Temperatures Compared to Normals – Montréal and Québec



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



Breakdown of Electricity Sales in Québec in 2023 by Segment (TWh)



Electricity Sales in Québec by Segment

	Sales volume			Revenue		
	2023	2023–2022 change		**2023**	2023–2022 change	
Segment	TWh	TWh	%	$M	$M	%
Residential	**68.1**	(2.8)	(3.9)	**5,852**	(122)	(2.0)
Commercial, institutional and small industrial	**47.6**	(0.4)	(0.8)	**4,406**	201	4.8
Large industrial	**55.1**	(0.3)	(0.5)	**2,852**	178	6.7
Other	**6.5**	0.2	3.2	**405**	27	7.1
Total	**177.3**	(3.3)	(1.8)	**13,515**	284	2.1

Factors Underlying the 2023–2022 Change in Sales by Segment

	Volume effects					Price effects			**Total**
	Baseload demand		Temperatures		**Total**	Rate adjustments	Other	**Total**	
Segment	TWh	$M	TWh	$M	$M	$M	$M	$M	$M
Residential	0.3	33	(3.1)	(274)	**(241)**	168	(49)	**119**	**(122)**
Commercial, institutional and small industrial	0.4	31	(0.8)	(69)	**(38)**	229	10	**239**	**201**
Large industrial	(0.3)	(17)	–	–	**(17)**	54	141	**195**	**178**
Other	0.3	16	(0.1)	(6)	**10**	20	(3)	**17**	**27**
Total	0.7	63	(4.0)	(349)	**(286)**	471	99	**570**	**284**

Electricity sales outside Québec

Revenue from electricity sales in markets outside Québec stood at $2,365 million in 2023, a $547-million decrease from the $2,912 million recorded in 2022. It remains the second-best performance in history, following the record set last year. The decline is mainly attributable to natural water inflows, which were well below the average recorded in the major hydroelectric reservoirs of northern Québec, on account of scant snow cover in late winter 2022–2023, lower-than-usual spring runoff and modest summer and fall precipitation in northern Québec. In this context, the company had to limit its exports in order to optimize resource management, resulting in a 12.6-TWh decrease in sales volume. As a result, the volume totaled 23.0 TWh[1] for the year.

However, the positive impact of the risk management strategy that Hydro-Québec implemented to reduce price volatility more than offset the decrease in prices on the energy markets. One example is Hydro-Québec's main export market, New England, where average electricity prices in 2023 have dropped by more than 50% compared to the previous year. Thanks to the implementation of this strategy, the company was able to benefit from the high forward prices in 2022 arising from the global geopolitical situation, which has had a positive impact on revenue this year. It should be noted that the post-pandemic economic recovery and the energy crisis in Europe due to the conflict in Ukraine drove up natural gas prices last year. This led to an increase in electricity prices in markets in the northeastern United States, where gas-fired electricity generation is prevalent.

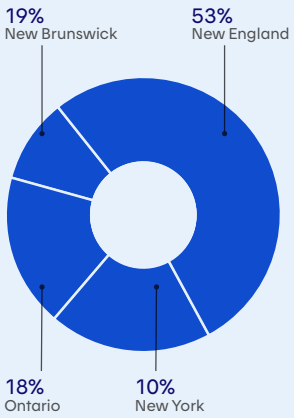
Other revenue from ordinary activities

Other revenue from ordinary activities amounted to $287 million, compared to $226 million in 2022. This $61-million increase is primarily due to higher sales of renewable energy certificates to third parties. These certificates provide proof of exclusive ownership, granted to a third party by Hydro-Québec, of the environmental attributes associated with the use of 100% renewable energy.

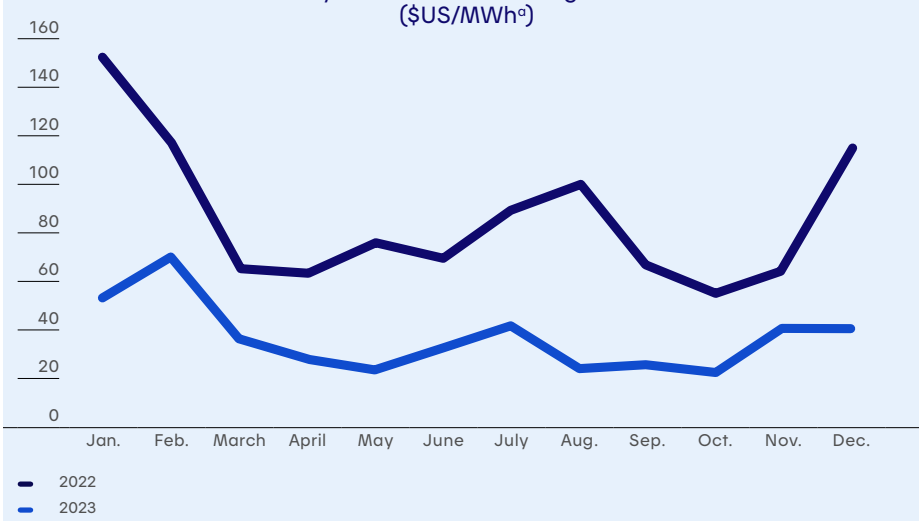
Revenue from other activities

Revenue from other activities declined by $279 million compared to the previous year. This is due to the recognition of a negative adjustment of $284 million in the share of the results of Hydro-Québec's investment in Innergex énergie renouvelable inc. This adjustment was made following a comparison of the carrying value of the investment with its fair value.

Breakdown of Sales Outside Québec in 2023 by Market (TWh)



Electricity Prices in the New England Market ($US/MWh[a])



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

1. This figure includes 1.6 TWh in sales by Great River Hydro. Since the acquisition of Great River Hydro in February 2023, its activities have been consolidated into Hydro-Québec's results.

Expenditure

Total expenditure reached $10,394 million in 2023, compared to $9,716 million a year earlier.

Operational expenditure

Operational expenditure amounted to $4,132 million, or $288 million more than the $3,844 million recorded in 2022, the result of several factors.

The increase is partly due to the expansion of the company's activities to improve service quality and reliability, more specifically the increase in servicing and maintenance activities and growth in expenditure related to digital services to meet Hydro-Québec's increased business needs and support the company's technological evolution. These elements are reflected in part in the growth of the workforce and greater costs related to the use of external services. The negative impact was mitigated, however, by a decrease in the current service cost of employee future benefit plans arising from the increase, in late 2022, in long-term interest rates on the capital markets, which determine the discount rates. This increase in interest rates led to a decline in the present value of services rendered.

Furthermore, the completion of the acquisition of Great River Hydro at the beginning of the year led to an increase in operational expenditure compared to the previous year, due to the recognition of costs related to the purchase transaction and the consolidation of Great River Hydro's activities as of the acquisition date, in February 2023. Great River Hydro owns and operates 13 hydropower generating stations located in the states of Vermont, New Hampshire and Massachusetts.

Other components of employee future benefit cost

In the line item Other components of employee future benefit cost, a credit amount of $689 million was recognized in 2023, compared to $1,020 million the previous year. This variance is particularly due to the increase in interest expense on obligations in the context of rising long-term interest rates, which had a negative effect on the amounts recognized under this line item in 2023.

Electricity purchases

Electricity purchases totaled $2,645 million, a decrease of $189 million compared to the $2,834 million recognized in 2022. This difference is mainly due to a $162-million decline in wind power supplies on account of lower output from wind farms under contract, as output from these farms fluctuates according to weather and climate conditions. It is also attributable to a $113-million decrease in short-term supplies purchased on the markets to meet Québec's ad hoc requirements. It is important to note that in winter 2021–2022, Hydro-Québec had to purchase large quantities of energy on the markets to meet increased demand resulting from the very cold winter temperatures. Lastly, purchases made for electricity export purposes rose by $79 million due to an increase in related supply volume, partly resulting from the low runoff conditions in 2023.

Depreciation and amortization

Depreciation and amortization expense amounted to $3,089 million, compared to $2,828 million a year earlier. This $261-million increase is mainly attributable to the $154-million increase in depreciation and amortization of property, plant and equipment and intangible assets, this being largely due to the commissioning of assets in 2022 and 2023, in particular Romaine-4 generating station, in addition to the consolidation of the depreciation of Great River Hydro's fixed assets following its acquisition by Hydro-Québec. It is also the result of the recognition of a subsequent expense of $140 million related to this acquisition. Considering the rise in interest rates since the acquisition date, in the fourth quarter, Hydro-Québec compared the total carrying amount of the net assets acquired with their aggregate fair value. The fair value was found to be lower than the recorded carrying value of the net assets, resulting in the recognition of an expense.

Taxes

Taxes amounted to $1,217 million, or $13 million less than the $1,230 million recognized in 2022, due in part to a decrease in water-power royalties attributable to lower output volume mitigated by the indexation of the applicable rate.

Financial expenses

Financial expenses stood at $2,404 million in 2023, a $110-million increase compared to the $2,294 million recorded the previous year. Interest on debt securities rose by $295 million, mainly on account of rising interest rates on the capital markets. However, this increase was mitigated by a $200-million increase in net investment income, attributable to rising interest rates and the increase in volume of short-term investments.

Key Figures

	2023	2022
OPERATIONS AND DIVIDEND ($M)		
Revenue	**16,086**	16,567
Income before financial expenses	**5,692**	6,851
Net income	**3,288**	4,557
Dividend	**2,466**	3,418
BALANCE SHEETS ($M)		
Total assets	**92,668**	89,374
Property, plant and equipment and intangible assets	**76,185**	71,080
Long-term debt, including current portion	**55,155**	51,541
Equity	**27,527**	26,877
FINANCIAL RATIOS		
Return on equity (%)[a]	**12.2**	17.6
Capitalization (%)[b]	**33.7**	34.6
Profit margin (%)[c]	**20.4**	27.5
Interest coverage[d]	**2.25**	2.94
Self-financing (%)[e]	**47.5**	55.4

a) Net income divided by average equity for the year less average accumulated other comprehensive income for the year. The decrease in this ratio compared to 2022 is mainly attributable to the decline in net income.

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

c) Net income divided by revenue. The decrease in this ratio compared to 2022 is mainly attributable to the decline in net income.

d) Sum of income before financial expenses and net investment income divided by interest on debt securities. The decrease in this ratio compared to 2022 is mainly attributable to the combined effect of the decline in income before financial expenses and the increase in interest on debt securities.

e) Cash flows from operating activities less dividend paid, divided by the sum of cash flows from investing activities—excluding acquisitions and disposals of short-term investments and sinking fund securities—and repayment of long-term debt. The decrease in this ratio compared to 2022 is mainly attributable to the increase in the dividend paid.

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

Cash and Capital Management

Operating activities

Cash flows from operating activities amounted to $7.2 billion in 2023, compared to $6.9 billion in 2022. The cash flows were used to pay the dividend for 2022 and to finance a portion of the investment program, among other things.

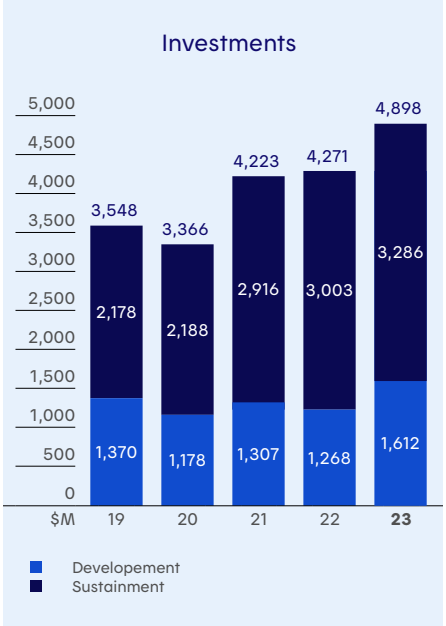
Investing activities

In 2023, Hydro-Québec invested $4.9 billion in property, plant and equipment and intangible assets, compared to $4.3 billion in 2022. More than two thirds of the amount invested in 2023 was allocated to large-scale asset sustainment initiatives, while the remaining investments were allocated to major development projects. It should be noted that the company's investments to ensure the sustainment of its generation, transmission and distribution assets have increased steadily in recent years. In fact, funds allocated to sustainment in 2023 have increased by more than 50% compared to five years ago. Similarly, one of the objectives of the *Action Plan 2035* includes increasing investments in the power grid to offer customers reliable, high-quality service at an affordable price.

The company allocated $3.3 billion to asset sustainment. In particular, it continued to invest in its generating facilities to ensure their long-term operability and maximize their output. Of note are projects underway at Rapide-Blanc and Carillon generating stations, as well as the Bersimis-2 development. The company has begun work on the first two generating stations to increase their capacity and thereby be better equipped to meet the anticipated increase in electricity demand. At the same time, Hydro-Québec dedicated significant funds to the construction of transmission lines designed to reinforce its system and enhance its operating flexibility. One of the largest such projects in recent years was completed with the commissioning of the 735-kV line that now connects Micoua substation, in the Côte-Nord region, to Saguenay substation, in the Saguenay–Lac-Saint-Jean region. This 262-km line is expected to help maintain the reliability and improve the operational flexibility of the transmission system and reduce electrical losses associated with the distances covered. In addition, the installation of two new converter units is underway at Châteauguay substation, in the Montérégie region. Furthermore, the company has continued to invest in upgrading and modernizing its transmission facilities, such as through the projects to replace the grid control systems, special protection systems and substation protections and controls, as well as work related to the architecture development plan for the 315-kV system on the island of Montréal. Lastly, it carried out work to optimize the operation of the distribution system and to maintain and improve the quality of its distribution assets.

Investments in development projects totaled $1.6 billion. In particular, significant funds were allocated to various projects to handle the growing customer base in Québec and increase output capacity. For example, work is underway at Outardes-2 generating station, in the Côte-Nord region, to increase its capacity. Other ongoing projects include the construction of the Hertel–New York interconnection line, to connect with the Champlain Hudson Power Express line, which will make it possible to supply New York City with electricity, as well as the deployment of a 320-kV direct-current line in the Chaudière-Appalaches and Estrie regions, as part of a larger project to build a new 1,200-MW interconnection between the Québec and New England grids. Lastly, work has been stepped up on a major project to meet growing demand in the Saguenay–Lac-Saint-Jean region. This project includes the creation of a section in Chamouchouane substation in order to lower the voltage level from 735 kV to 161 kV, as well as the construction of a new line between this substation and Saint-Félicien substation.

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



Financing activities

In a context marked by rising interest rates, Hydro-Québec carried out 7 fixed-rate issues on the Canadian capital market during the year: 3 medium-term note issues maturing in 2029, totaling $1.8 billion, at an average cost of 3.87%, and 4 bond issues maturing in 2063, totaling $1.9 billion, at an average cost of 4.27%.

The funds raised, in the total amount of $3.7 billion, were partly used to support a portion of the investment program and to repay maturing debt.

Sources of Financing

Type of financing	Amount authorized by the Board of Directors	Market	Outstanding as at December 31, 2023
Operating credit lines	C$ or US$1,000 million[a]		C$0.5 million
Credit facility[b]	US$2,000 million[c]		–
Commercial paper[b]	US$5,000 million or equivalent in C$	United States or Canada	–
Medium-term notes[b]	US$3,000 million or equivalent in other currencies	United States	US$202 million[d]
	C$20,000 million or equivalent in US$	Canada	C$14,128 million[d]

a) Of this amount, available balances of US$200 million, C$2 million and $335 million in Canadian or U.S. dollars are covered by operating credit line agreements with the financial institutions concerned.

b) Guaranteed by the Québec government.

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

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

Credit Ratings

	2023		
	Commercial paper	Long-term debt	Outlook
U.S. agencies			
Moody's	**P-1**	**Aa2**	**Stable**
S&P Global Ratings	**A-1+**	**AA–**	**N/A[a]**
Fitch Ratings	**F1+**	**AA–**	**Stable**
Canadian agency			
DBRS Morningstar	**R-1 (middle)**	**AA (low)**	**Stable**

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

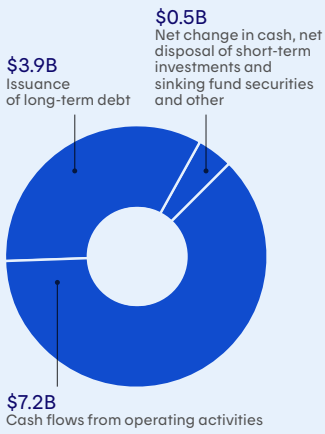
These credit ratings are identical to those in effect on December 31, 2022.

Dividend and capitalization rate

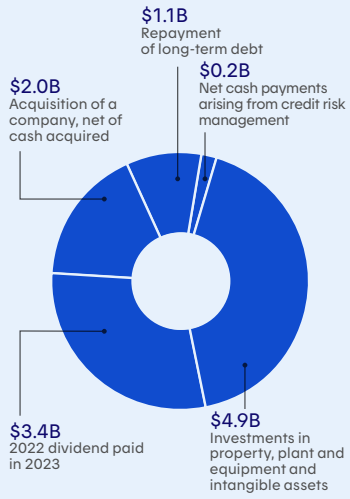
The dividend payable to the Québec government for 2023 is $2,466 million. The capitalization rate was 33.7% as at December 31, 2023.

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

Sources of Funds in 2023



Uses of Funds in 2023



Regulatory Framework

The *Act respecting the Régie de l'énergie* (CQLR, c. R-6.01) grants the Régie de l'énergie of Québec (the "Régie") exclusive authority to determine or modify the rates and conditions under which electricity is transmitted and distributed in Québec. Hydro-Québec's electricity transmission and distribution activities are therefore regulated.

Power transmission

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

Rate case

With regard to its transmission activities, Hydro-Québec has postponed filing the application to amend its rate application for the years 2023 and 2024, due to the change in the company's organizational structure initiated in 2022.

For 2023 and 2024, the Régie has authorized the provisional maintenance of 2022 rates. The revenue authorized for transmission rate-setting purposes for 2022 totaled $3,197 million, namely $2,813 million for native-load transmission and $384 million for short- and long-term point-to-point transmission services.

Electricity distribution

In its role as power distributor in Québec, Hydro-Québec has the mandate to provide electricity to the Québec market and to deliver reliable power and quality services to its customers with a view to efficiency and sustainable development. In this context, it also promotes energy efficiency.

Rate-setting

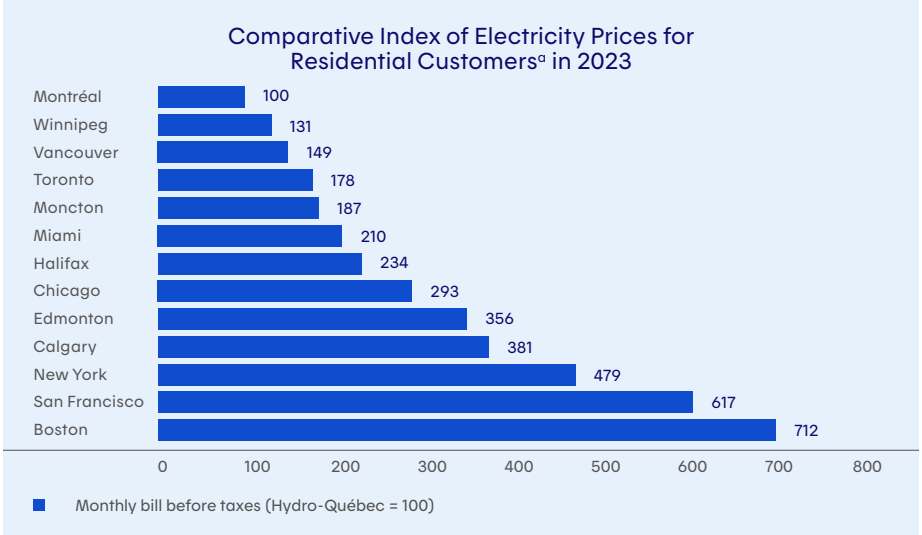
Since 2019, the *Act respecting the Régie de l'énergie* has provided that rates are to be set or modified by the Régie every five years commencing on April 1, 2025, and that, in the interim, they are to be adjusted each year based on the annual change as at September 30 in the average Québec Consumer Price Index, excluding alcoholic beverages, tobacco products and recreational cannabis (average CPI).

Process for establishing electricity distribution rates[a]

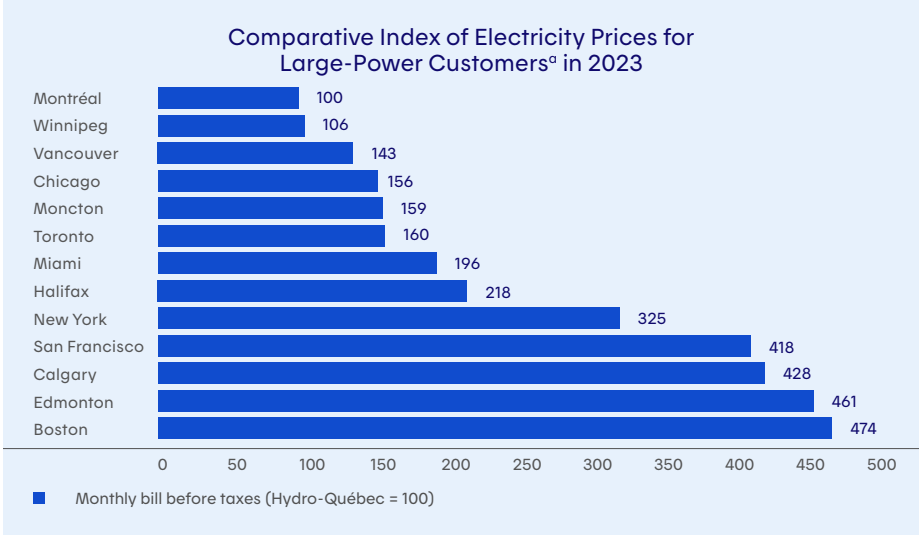
2020	2021-2024	2025	2026-2029
Rate freeze	Indexation based on inflation[b]	Régie de l'énergie to set rates based on cost of service for one year and start of new cycle	Indexation based on inflation[b]

a) Excluding Rate L.

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



a) On April 1, 2023 (for residential customers with monthly consumption of 1,000 kWh).



a) On April 1, 2023 (for large-power customers with a monthly consumption of 3,060,000 kWh and a power demand of 5,000 kW).

However, it authorizes Hydro-Québec to apply to the Régie, before the deadline, to modify its distribution rates if they do not allow for recovery of the cost of service. In February 2023, the National Assembly of Québec passed *An Act mainly to cap the indexation rate for Hydro-Québec domestic distribution rate prices and to further regulate the obligation to distribute electricity* (the "Act"). Among other things, the Act stipulates that the indexation rate for domestic electricity rates will be based on the lesser of the average CPI and the top rate of the Bank of Canada's inflation-control range.

On April 1, 2023, the increase in domestic rates was thus limited to 3% in accordance with the Act. The business customer rates were indexed at a rate of 6.5%, which is equal to the average CPI between September 30, 2021, and September 30, 2022. The large-power industrial rate ("Rate L") was increased by 4.2%, which is equal to the 0.65 rate set by the Régie in March 2023 multiplied by the general indexation factor of 6.5%.

All distribution rates were increased by 2.6% for the rate year ended March 31, 2023, with the exception of Rate L, which was increased by 1.7%.

For the rate year beginning April 1, 2024, the increase in domestic rates will be capped at 3% in accordance with the provisions of the Act. Rates for business customers will rise by 5.1%, which is equal to the average CPI between September 30, 2022, and September 30, 2023. As for the increase that applies to Rate L, a Régie decision on the matter is expected during the first quarter of 2024. If the Régie decides to maintain the rate at 0.65, as determined in 2023, this increase would rise to 3.3%.

Year after year, Hydro-Québec's electricity rates continue to be among the most affordable anywhere in North America.

Supplying electricity to the Québec market

In its distribution activities, Hydro-Québec relies on several sources to supply the Québec market, mainly the heritage pool of 165 TWh. It also issues short- and long-term calls for tenders to meet the needs that are not covered by the heritage pool.

For short-term needs, it may also buy electricity directly on the market, without tendering, under an authorization granted by the Régie de l'énergie. For unexpected needs that cannot be otherwise met, it relies on a framework agreement covering the period from January 1, 2023, to December 31, 2025. The Régie approved the renewal of this agreement in December 2022.

In November 2023, Hydro-Québec filed the first progress report on the *Electricity Supply Plan 2023–2032* with the Régie. This report provides an updated demand forecast for the Québec market, which projects 11.8-TWh growth over the period covered by the report, and outlines the events that have influenced supply planning as well as the measures taken since the Plan was filed in November 2022. Hydro-Québec is also continuing its efforts to promote energy efficiency. For example, it has developed an integrated offer based on raising awareness among customers and helping them make lasting changes in the way they use electricity. In addition, it constantly adjusts its programs according to market needs and the company's requirements, seeks to ensure that its initiatives are in line with those of its various partners and remains on the lookout for potential energy savings from new technologies.

Finally, in July 2021, Hydro-Québec entered into a partnership agreement with Énergir to reduce greenhouse gas emissions associated with heating residential, commercial and institutional buildings. The agreement seeks to implement a dual-energy solution combining electricity and natural gas in keeping with the *2030 Plan for a Green Economy*, which establishes the Québec government's electrification and climate change policy framework. Under this agreement, Hydro-Québec pays Énergir an annual contribution (the "GHG Contribution") based on actual volumes of natural gas converted to electricity. This contribution is expected to reach $85 million per year by 2030. In May 2022, the Régie adopted a general principle authorizing Hydro-Québec to include the GHG Contribution in the calculation of revenue requirements for distribution rate-setting purposes. In February 2023, a second Régie panel revoked its May 2022 decision, stating that the current regulatory framework does not allow for the GHG Contribution to be factored into its rate review scheduled for 2025 under an innovative approach to decarbonization. In March 2023, an application for judicial review of the decision rendered by the second Régie panel was filed before the Superior Court of Québec. The application was heard in December 2023. On February 16, 2024, the Superior Court restored the decision of the first panel which had adopted a general principle authorizing Hydro-Québec to include the GHG Contribution in the calculation of revenue requirements for distribution rate-setting purposes. The launch of the dual-energy offer for residential customers took place in June 2022, and the offer for commercial and institutional customers was launched in November 2023. For the latter customers, the launch took place after a dual-energy rate was set and then approved by the Régie in June 2023 (Rate CI).

Organizational Structure

According to the value chain model, i.e., the sequence of key activities that allow the company to carry out its mission and create value for its customers, there are three groups, or links, that constitute this chain at Hydro-Québec:

- Groupe – Stratégies et finances
- Groupe – Planification énergétique et expérience client
- Groupe – Exploitation et infrastructures

The mandate of the **Groupe – Stratégies et finances** is to develop Hydro-Québec's strategic objectives, allocate resources, and oversee financial and risk management, in such a way as to maximize Hydro-Québec's contribution to the decarbonization of the Québec economy and the enhancement of collective prosperity. In concrete terms, this group is responsible for energy transactions and commercialization strategies to promote the clean, renewable energy generated by Hydro-Québec for all the company's markets. It constantly monitors the energy sector and conducts strategic R&D projects, in addition to carrying out development activities and entering into partnerships as part of various projects. It is also responsible for financial planning and assessing performance in order to meet the company's strategic and operational objectives. In addition, it aims to protect the company's financial stability by developing strategies to carry out its financing, cash management and financial risk management activities. It is also tasked with establishing regulatory financial frameworks and handling the financial aspect of rate cases. Furthermore, it coordinates the business risk portfolio and monitors market and credit risk, as well as overseeing all the company's accounting and control activities and providing guidelines and advice regarding taxation and accounting expertise. Lastly, it aims to maximize the financial performance of the Pension Plan, based on a level of risk deemed acceptable.

The mandate of the **Groupe – Planification énergétique et expérience client** is to forecast Québec's electricity needs in the context of the energy transition and to manage energy supplies, including by leveraging agreements with partners. It is also tasked with overseeing the development of products and services for the customer base in Québec, particularly in terms of power management—specifically Hilo and dynamic pricing—as well as rate options, energy efficiency programs and the Electric Circuit. It conducts these activities with a view to striking a balance between supply and demand at the lowest possible cost, while maximizing Hydro-Québec's contribution to achieving the Québec government's decarbonization and economic development objectives. Lastly, it aims to always provide each customer with an optimal experience.

The **Groupe – Exploitation et infrastructures** oversees the design, management, operation and maintenance of the energy system, and aims to increase the system's resilience to climate change. Its mission is to ensure the development of the energy system and efficient infrastructure management, while offering high-quality electricity services that meet the needs of Québec customers. Accounting for more than two thirds of Hydro-Québec's total workforce, it is also tasked with providing extremely reliable service via the optimal performance of operating and support activities, developing an overall vision of energy system performance, overseeing the integration of new renewable energy sources, and developing and carrying out construction and refurbishment projects related to electricity generation, transmission and distribution as cost-effectively as possible. At the same time, it also aims to strengthen the supply chain and better manage the company's equipment to prepare for the significant challenges that will arise from the expected increase in investments, while maximizing sustainable wealth creation for Québec. Lastly, it is responsible for occupational health and safety and environmental activities.

These three groups are supported by five cross-functional groups in fulfilling Hydro-Québec's core mission: the **Groupe – Affaires corporatives, juridiques et réglementaires et gouvernance, Groupe – Développement durable, relations avec les communautés et communications, Groupe – Technologies numériques, Groupe – Audit interne** and **Groupe – Talents et culture**.

Outlook

For 2024, Hydro-Québec is targeting net income of between $2.2 and $2.7 billion. This range is primarily attributable to the context of low runoff, which requires proactive management of energy reserves and consequently results in a significant reduction in electricity sales forecast on markets outside Québec. In this context, the company will take a proactive approach in identifying opportunities to grow its profitability based on weather conditions and export markets, and aim for the top of the target range.

The company is planning to make investments in the order of $5.8 billion, which represents an increase of close to 20% compared to 2023. Nearly two-thirds of the amounts invested will be used to increase the reliability and resilience of the power system to provide improved customer service. The largest projects include the addition of two converter units to Châteauguay substation to increase its interconnection capacity with the New York system, and the refurbishment work underway at Rapide-Blanc and Carillon generating stations to optimize the generating activities.

The balance of the planned investments will be dedicated to development activities to meet the growth in demand in Québec, increase Hydro-Québec's activities on neighboring markets and support the decarbonization of the economy. Other activities include the connection of new customers to the distribution network, the completion of preparatory work on projects to increase the capacity of certain hydroelectric generating stations, including Outardes-2 generating station, and the improvement of transmission capacity via the construction of the Hertel–New York interconnection line, which will be connected to the Champlain Hudson Power Express line, and the construction of the Appalaches–Maine interconnection line, which will be connected to the New England Clean Energy Connect line.

The 2024 borrowing program is set at $5.0 billion. The funds collected will help finance the company's ongoing needs, including a large portion of the investment program.

Integrated Risk Management

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

All groups within the company have a role to play. As part of their activities, they manage the risks to which they are exposed and reassess them on a regular basis, daily in some cases, using the tools developed by the Groupe – Stratégies et finances, among other things. In concrete terms, each group must identify and assess its main risks and then develop and apply measures to manage them to ensure that residual risks are at a level acceptable to Hydro-Québec. The groups report periodically on their risk management and monitoring activities to the Management Committee, which then acts as a risk management committee to provide overall risk monitoring. This approach makes it possible to create an enterprise risk portfolio during the annual planning process. The portfolio is presented to the Board of Directors with the Business Plan, which includes a sensitivity analysis indicating the impact of certain risks on Hydro-Québec's capacity to attain its net income target.

Financial risks

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

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

Market risk

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

Hydro-Québec mainly uses derivative financial instruments to manage its market risks. The purpose of this management approach is to limit the impact of risk on its results, according to strategies and criteria that are established based on its 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.

Integrated risk management process

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

a) Acting as the risk management committee, with the Executive Vice President – Strategy and Finance as Chief Risk Officer.

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

Liquidity risk

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

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

Credit risk

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

Hydro-Québec is exposed to credit risk related to receivables through ongoing electricity sales in Québec.

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

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

Regulatory risks

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

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

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

Operational risks

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

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

Generation activities

One of the principal uncertainties related to generation activities relates to natural water inflows. Hydro-Québec must maintain sufficient energy reserves to meet its commitment to supply an annual base volume of up to 165 TWh of heritage pool electricity while still fulfilling its contractual obligations. In concrete terms, this means being able to cover a natural inflow deficit of 64 TWh over two consecutive years, and 98 TWh over four consecutive years. To manage this risk, the company relies on several mitigation measures that it adheres to rigorously. It manages its reservoir storage on a multiyear basis and maintains an adequate margin between its commitments and its generating capacity. This margin allows it to compensate for variations in runoff, replenish its reserves or take advantage of business opportunities. It regularly reports to the Régie de l'énergie on its generating capacity and its energy reserve.

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

Temperature variations and the difference between actual demand on the Québec market and projections represent another risk, as these factors impact energy sales in Québec and the volume available for export.

In addition to runoff and temperature uncertainties, export activities on wholesale markets are subject to market risk and the risk of unavailability of generating and transmission equipment. Market risk is the result of fluctuations in energy prices on markets outside Québec. It is mitigated by the ongoing monitoring of trends on wholesale markets and the use of hedging derivatives. The risk of unavailability of generating and transmission equipment is mitigated through the implementation of maintenance and upgrade programs.

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

Transmission activities

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

Hydro-Québec must ensure adequate transmission capacity to supply the company's distribution system and the facilities of other customers, as well as transmission system security and reliability. To do so, it applies optimal management of the annual peak load and invests in modernizing its transmission facilities based on an asset management model. It has also undertaken major projects to replace the grid control systems, special protection systems and substation protections and controls.

Distribution activities

The continuity of the electricity distribution service is a critical issue for Hydro-Québec. However, as climate change becomes apparent around the world, it is also having a very real impact on its power grid and on the daily lives of its customers due to the power outages that come with it, among other things. That is why the company is planning to increase investments in its power grid to offer reliable, high-quality service at an affordable price.

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

Construction activities

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

In the preliminary design phase, the company identifies the risks and implements mitigation measures. During the execution of the work, it continually monitors the application of these measures, through systematic jobsite inspections, to ascertain their efficacy and uncover any residual risks in order to put the appropriate means of oversight in place. It also intervenes regularly with the contractors. In light of workforce turnover, orientation, qualification and support for new workers are emphasized. All the teams work together to achieve a common goal: offering a safe, healthy and respectful work environment. The institution of the Principal contractor's safety program, which defines Hydro-Québec's health and safety expectations for contractors, is the first step in the deployment of standards to manage the main risks on jobsites.

Pressure on construction project costs is another risk to which Hydro-Québec is constantly exposed. This pressure stems from such factors as a labor shortage due in part to the boom in Québec's construction industry, the increase in prices for certain materials and products, as well as issues such as late deliveries, poor quality and work stoppages, which affect project schedules. In 2023, inflation, supply challenges in many sectors of the economy and post-pandemic recovery plans had an impact on project costs and the availability of labor.

To meet its commitments and continue to apply high safety and quality standards, the company implemented a number of measures to reduce its exposure to risk. For instance, teams analyze health and safety risks and then develop integrated solutions to eliminate or mitigate these risks in the early stages of engineering. In addition, the company closely monitors project schedules, costs, accidents and risks specific to each project or key deliverable, an approach that enables it to ensure that projects are progressing as planned and to take any necessary corrective action. Hydro-Québec also maintains ongoing relations with the relevant organizations and government departments to stay abreast of future amendments to laws and regulations that could affect its activities. Finally, it monitors markets and develops strategies to foster competition, increase its attractiveness (as a customer), ensure the sustainability of supplies and maintain expertise in its markets. It also adjusts its project completion strategies based on economic conditions, in consultation with its partners.

Corporate and other activities

Occupational health and safety

Hydro-Québec is continuing the company-wide shift it initiated to change its culture and improve its performance in occupational health and safety (OHS) in order to protect all staff members and suppliers. At the heart of its efforts is to make overall health, including psychological health, a pillar of operational performance, in order to reduce risk and protect the well-being of all.

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

Safety of individuals and security of assets, reputation and revenue

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

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

Concerning protection of revenue and reputation, the company pays special attention to electricity theft, fraud, intellectual property infringement and possible attacks on the grid. To counter these risks, it relies on a series of measures, including an analytical method for detecting electricity theft, the creation of a team dedicated to investigating collusion, corruption, fraud and economic integrity, the proactive verification of security risks, as well as continued active surveillance in collaboration with its partners. To minimize the risk of damage to Hydro-Québec's reputation in relation to the establishment of a business relationship with an external company or partner, the company carries out risk assessments when necessary.

In addition, Hydro-Québec has a corporate emergency response plan to ensure the continuity of its operations and its mission in case of an exceptional occurrence. The corporate plan serves to align the actions and effective implementation of the emergency response plans of all the groups during such events with the aim of strengthening and improving coordination of the efforts of all internal and external responders, including public authorities.

Security of digital technologies

Cybersecurity is a key concern for Hydro-Québec. To manage this issue, it relies on a multidisciplinary team that works closely with a network of external collaborators. Together, these stakeholders protect technological assets, anticipate and analyze threats, and rigorously monitor related risks. The company regularly assesses the mitigation measures in place and deploys new strategies based on changes in the business environment and emerging trends in security.

Growth in demand

Hydro-Québec is called on to play a central role in the electrification of Québec and intends to leverage its expertise in clean, renewable energy to contribute to the continuing reduction of the use of fossil fuels. The energy transition presents its own unique challenges, such as the tightening of energy and capacity balances, the increased investments required to meet the growth in demand and the need to use energy wisely. To this end, in 2023, the company published its *Action Plan 2035*, which aims to reduce greenhouse gases, meet expected growth in electricity demand and offer customers a simpler, more reliable and affordable service.

Environment

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

Climate change

To manage the risks it faces in relation to climate change, Hydro-Québec conducted a study assessing human risks as well as risks related to its infrastructure and activities. This assessment measured the impact of climate change and established concrete measures, with targets and indicators, in each action category: facility design and operations, power outages and impacts on assets, and worker health and safety. At the end of this exercise, the company released its first *Climate Change Adaptation Plan* in 2022, which provides a governance framework to manage physical climate change risks. In 2023, it focused on implementing and monitoring actions to mitigate the risks identified in the adaptation plan.

MANAGEMENT'S REPORT ON FINANCIAL INFORMATION

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

Management maintains an internal control system whose objective is to provide reasonable assurance that financial information is relevant and reliable and that Hydro-Québec's assets are appropriately recorded and safeguarded. In particular, this system includes Hydro-Québec's policies and directives, as well as the Code of Ethics applicable to all Hydro-Québec employees, which aim to ensure the proper management of resources and the orderly conduct of business, in compliance with the applicable laws and regulations. The controls relating to financial information are subject to an evaluation by a team that supports Management. The goal of this evaluation is to ensure the proper functioning of the controls. Further, an internal audit process also assists in establishing that the controls exercised by the business in its activities are sufficient and effective. Recommendations ensuing from this process are submitted to Management and the Audit Committee.

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

The 2023 and 2022 consolidated financial statements have been audited jointly by the Auditor General of Québec, KPMG LLP and Ernst & Young LLP.

/s/ Manon Brouillette
Chair of the Board

/s/ Michael Sabia
President and Chief Executive Officer

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

Montréal, Québec
February 16, 2024

INDEPENDENT AUDITORS' REPORT

To the Minister of Finance of Québec

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Hydro-Québec and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2023 and 2022, and the consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2023 and 2022, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with United States generally accepted accounting principles (U.S. GAAP).

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	How our audit adressed the key audit matter
Capitalization of labor costs to property, plant and equipment	
Description of the matter As discussed in notes 1 and 9 to the consolidated financial statements, property, plant and equipment are carried at cost, which comprises the cost of materials and labor, other costs directly related to projects that meet capitalization criteria, as well as financial expenses capitalized during construction. Maintenance and repair costs are recognized in results when incurred. **Why the matter is a key audit matter** Given the magnitude and volume of capitalized self-build projects to which a number of employees are assigned, we made significant efforts in conducting our audit procedures regarding the Group's determination of the portion of labor costs directly attributable to projects that meet the capitalization criteria. Accordingly, we identified the capitalization of labor costs to property, plant and equipment as a key audit matter.	Our audit procedures conducted to address this key audit matter included the following: • We obtained an understanding, evaluated the design and tested the operating effectiveness of key controls over the process for capitalizing labor costs to property, plant and equipment; • For a selection of hours capitalized in projects, we discussed with the managers responsible the hours capitalized and the nature of the project; • For a sample of capitalized labor costs, we compared the number of hours spent by an employee to the number of hours charged to this project in the approved time sheet; • For a selection of capitalized projects, we investigated certain variances between the actual capitalized costs and the approved budgeted costs by examining the supporting documents.

Key audit matter	How our audit adressed the key audit matter
Determining the projected benefit obligation of the pension plan	
Description of the matter As stated in notes 1 and 17 to the consolidated financial statements, projected benefit obligation of the pension plan amounted to $25,290 million as at December 31, 2023. The projected pension obligation of the pension plan is calculated according to the projected benefit method prorated on years of service. The calculation is based on Management's best estimates, including the following significant assumptions: discount rate, salary escalation, mortality rate and employee retirement age. **Why the matter is a key audit matter** Given the magnitude and sensitivity of the Group's calculation of the pension plan's projected benefit obligation to minor changes in certain significant assumptions, significant judgments on our part and specialized actuarial expertise and knowledge were required to assess the results of our audit procedures with respect to Management's material assumptions. Accordingly, we identified the determination of the projected benefit obligation of the pension plan as a key audit matter.	Our audit procedures conducted to address this key audit matter included the following: • We compared a selection of data used by actuarial experts chosen by Management to the Group's records. • We assessed the appropriateness of significant assumptions by assessing in particular: - The salary escalation rate compared with historical data and collective agreements; - Employee retirement age compared with historical data. • We involved our actuarial professionals with specialized skills and knowledge to help us assess: - The method used to determine the discount rate and its calculation, by comparing the discount rate with the published external rates; - The adjustments made by the Group to the published Canadian mortality table based on historical plan data; - Appropriateness of the Group's actuarial model.

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained the Annual Report prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

On behalf of the Auditor General of Québec,

/s/ KPMG LLP[1]

/s/ Ernst & Young LLP[2]

/s/ Patrick Dubuc, CPA auditor
Assistant Auditor General

Montréal, Québec
February 16, 2024

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

Consolidated Statements of Operations

Years ended December 31 In millions of Canadian dollars	Notes	2023	2022
Revenue	5	**16,086**	16,567
Expenditure			
Operations		**4,132**	3,844
Other components of employee future benefit cost	17	**(689)**	(1,020)
Electricity purchases		**2,645**	2,834
Depreciation and amortization	4, 9	**3,089**	2,828
Taxes	6	**1,217**	1,230
		10,394	9,716
Income before financial expenses		**5,692**	6,851
Financial expenses	7	**2,404**	2,294
Net income		**3,288**	4,557

Consolidated Statements of Comprehensive Income

Years ended December 31 In millions of Canadian dollars	Notes	2023	2022
Net income		**3,288**	4,557
Other comprehensive income	15		
Net change in items designated as cash flow hedges	14	**488**	874
Net change in translation differences		**(23)**	23
Net change in items designated as net investment hedges	14	**26**	–
Net change in employee future benefits	17	**(665)**	1,534
Other		**2**	47
		(172)	2,478
Comprehensive income		**3,116**	7,035

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	2023	2022
ASSETS			
Current assets			
Cash and cash equivalents		**2,111**	1,773
Short-term investments		**1,206**	2,015
Accounts receivable and other assets	8	**3,767**	4,292
		7,084	8,080
Property, plant and equipment and intangible assets	9	**76,185**	71,080
Regulatory assets	3	**1,819**	1,026
Employee future benefit assets	17	**4,656**	5,911
Other assets	10	**2,924**	3,277
		92,668	89,374
LIABILITIES			
Current liabilities			
Borrowings		**–**	4
Accounts payable and other liabilities	11	**4,134**	3,944
Dividend payable	15	**2,466**	3,418
Current portion of long-term debt	12	**1,416**	1,011
		8,016	8,377
Long-term debt	12	**53,739**	50,530
Employee future benefit liabilities	17	**1,275**	1,173
Other liabilities	13	**2,111**	2,417
		65,141	62,497
EQUITY	15		
Share capital		**4,374**	4,374
Retained earnings		**22,910**	22,088
Accumulated other comprehensive income		**243**	415
		27,527	26,877
		92,668	89,374
Commitments and contingencies	18		

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

On behalf of the Board of Directors,

/s/ Geneviève Brouillette
Chair of the Audit Committee

/s/ Manon Brouillette
Chair of the Board

Consolidated Statements of Changes in Equity

Years ended December 31 In millions of Canadian dollars	Note	Share capital	Retained earnings	Accumulated other comprehensive income	Total equity
Balance as at December 31, 2022		**4,374**	**22,088**	**415**	**26,877**
Net income			**3,288**		**3,288**
Other comprehensive income	15			**(172)**	**(172)**
Dividend	15		**(2,466)**		**(2,466)**
Balance as at December 31, 2023		**4,374**	**22,910**	**243**	**27,527**
Balance as at December 31, 2021		4,374	20,949	(2,063)	23,260
Net income			4,557		4,557
Other comprehensive income	15			2,478	2,478
Dividend	15		(3,418)		(3,418)
Balance as at December 31, 2022		4,374	22,088	415	26,877

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

Consolidated Statements of Cash Flows

Years ended December 31 In millions of Canadian dollars	Notes	2023	2022
Operating activities			
Net income		**3,288**	4,557
Adjustments to determine net cash flows from operating activities			
Depreciation and amortization		**3,089**	2,828
Deficit of net cost recognized with respect to amounts paid for employee future benefits		**(452)**	(424)
Other		**637**	77
Regulatory assets and liabilities		**(173)**	(525)
Change in non-cash working capital items	16	**814**	339
		7,203	6,852
Investing activities			
Additions to property, plant and equipment and intangible assets		**(4,898)**	(4,271)
Acquisition of a company, net of cash acquired	4	**(2,019)**	–
Acquisition of short-term investments and sinking fund securities		**(5,218)**	(4,395)
Disposal of short-term investments and sinking fund securities		**6,028**	2,778
Other		**58**	(29)
		(6,049)	(5,917)
Financing activities			
Issuance of long-term debt		**3,872**	5,445
Repayment of long-term debt		**(1,102)**	(3,246)
Cash receipts arising from credit risk management		**3,513**	5,550
Cash payments arising from credit risk management		**(3,670)**	(5,575)
Dividend paid		**(3,418)**	(2,673)
Other		**9**	21
		(796)	(478)
Foreign currency effect on cash and cash equivalents		**(20)**	19
Net change in cash and cash equivalents		**338**	476
Cash and cash equivalents, beginning of year		**1,773**	1,297
Cash and cash equivalents, end of year		**2,111**	1,773
Supplementary cash flow information	16		

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

Years ended December 31, 2023, and 2022

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

Hydro-Québec was established under the Hydro-Québec Act *(CQLR, c. H-5). Its mission is to provide reliable electric power to the Québec market by using primarily clean and renewable sources of energy and operating an integrated electricity generation, transmission and distribution system. It also exports electricity to neighboring markets in Canada and the United States. As a government corporation, Hydro-Québec is exempt from paying income taxes in Canada.*

Note 1 – Significant Accounting Policies

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

Hydro-Québec has only one operating segment. It manages its activities using a cross-functional approach, and its results are analyzed on a consolidated basis.

Management has reviewed events occurring until February 16, 2024, the date of approval of these consolidated financial statements by the Board of Directors, to determine whether circumstances warranted consideration of events subsequent to the balance sheet date.

Regulation

The *Act respecting the Régie de l'énergie* (CQLR, c. R-6.01) grants the Régie de l'énergie of Québec (the "Régie") exclusive authority to determine or modify the rates and conditions under which electricity is transmitted and distributed by Hydro-Québec. Hydro-Québec's electricity transmission and distribution activities in Québec are therefore regulated. Under this legislation, rates are to be set on a basis that allows for recovery of the cost of service and provides a reasonable return on the rate base.

Since January 1, 2019, the power transmission rates have been subject to performance-based regulation (PBR), applicable for a four-year period. Under PBR, rates for the 2019 rate year were set using the cost-of-service method, while those from the 2020 to 2022 rate years were determined using a parametric formula specifically for transmission activities. This parametric formula provides that some unpredictable costs are to be set based on the cost-of-service method, while the other cost components are to be calculated using an indexation formula. In decision D-2022-157 rendered on December 21, 2022, the Régie authorized the provisional renewal, effective January 1, 2023, of Hydro-Québec's power transmission rates for 2022.

The electricity distribution rates are governed by *An Act to simplify the process for establishing electricity distribution rates* (S.Q. 2019, c. 27). This Act, which came into force in December 2019, effectively amended the *Act respecting the Régie de l'énergie*. In particular, it specifies that electricity distribution rates are to be set by the Régie every five years commencing on April 1, 2025, and that, in the interim, they will be adjusted each year based on the annual change in the average Québec Consumer Price Index. More specifically, the indexation rate for residential electricity rates has been capped at the top rate of the Bank of Canada's inflation-control range since the coming into force in February 2023 of *An Act mainly to cap the indexation rate for Hydro-Québec domestic distribution rate prices and to further regulate the obligation to distribute electricity* (S.Q. 2023, c. 1). Lastly, the *Act to simplify the process for establishing electricity distribution rates* authorizes Hydro-Québec to apply to the Régie, before the deadline, to modify its electricity distribution rates if they do not allow for recovery of the cost of service.

Under U.S. GAAP, it is acknowledged that rate regulation may affect the timing of the recognition of certain transactions in the consolidated results, giving rise to the recognition of regulatory assets and liabilities.

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

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

Scope of consolidation

The consolidated financial statements include the accounts of Hydro-Québec and its subsidiaries. All intercompany balances and transactions are eliminated at the time of consolidation.

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

Note 1 – Significant Accounting Policies (continued)

Use of estimates

The preparation of financial statements in accordance with U.S. GAAP requires that Management make estimates and assumptions that affect the amounts recognized as assets and liabilities, the disclosures regarding contingent assets and liabilities at the date of the consolidated financial statements and the amounts recognized as revenue and expenditure for the years at issue. The estimates relate, among other things, to the carrying amount of regulatory assets; fair value measurements of financial instruments; as well as the useful life of property, plant and equipment and intangible assets for calculating the depreciation and amortization expense. They also concern cash flows, the expected timing of payments, and the discount rates used to determine asset retirement obligations and employee future benefit obligations, which are based on different economic and actuarial assumptions. Actual results could differ from those estimates and such differences could be significant.

Revenue

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

Foreign currency translation

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

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

Cash and cash equivalents

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

Short-term investments

Short-term investments consist of money market instruments mainly issued by Canadian provincial governments and Canadian banks with a maturity of more than three months from the date of acquisition. As at December 31, 2023 all the counterparties with which Hydro-Québec dealt had a credit rating of A or higher. These investments are classified as available-for-sale debt securities, and are recognized at fair value. Changes in fair value are recorded in Other comprehensive income until they are realized, at which time they are reclassified to results.

Accounts receivable

Accounts receivable are recognized at the amount invoiced, net of the allowance for credit losses. This allowance is based on the status and risk profile of customer files, the recovery experience for each age group of accounts, the current economic conditions and the future economic forecasts on the balance sheet date.

Other financial assets and liabilities

Other financial assets and liabilities are measured at amortized cost using the effective interest method. Amortized cost includes issue expenses as well as premiums and discounts, if applicable. Interest is recognized in results.

Derivative instruments

Derivative instruments are recognized at fair value at the balance sheet date, except those for which Hydro-Québec chose to apply the normal purchases and normal sales scope exemption. When they are subject to enforceable master netting arrangements, the derivative instruments are presented at the net amount, net of the balance of cash exchanged as collateral.

Hydro-Québec applies cash flow, net investment or fair value hedge accounting to eligible hedging relationships that it designates as hedges. It ensures that hedging relationships are highly effective in hedging the designated risk exposure. In addition, for hedges of anticipated transactions, it assesses the probability of the occurrence of those transactions designated as hedged items at least on a quarterly basis.

In the case of cash flow or net investment hedges, changes in the fair value of an instrument designated as a hedge are recognized under Other comprehensive income. Thus, for cash flow hedges, these amounts are reclassified to results, in the line item affected by the hedged item, during the periods in which the hedged item affects results. For net investment hedges, the amounts will be reclassified to results when Hydro-Québec disposes of its net investment in the foreign establishment.

In the case of fair value hedges, changes in the fair value of the hedged item attributable to the hedged risk are recognized in results during the hedging period. Changes in the fair value of the instrument designated as a hedge are also recognized in results, under the same line item as the fair value of the hedged item. Derivatives that are not designated as hedges are recognized in results.

Fair value

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

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

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

Note 1 – Significant Accounting Policies (continued)

Materials and supplies

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

Property, plant and equipment

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

Property, plant and equipment also include draft-design costs for projects whose technical feasibility has been demonstrated, whose profitability has been estimated, and for which Management deems that it will in all likelihood have the necessary resources for completion. The present value of retirement obligations related to property, plant and equipment, as well as that of agreements with local communities concerned by certain investment projects, are added to the carrying amount of the property, plant and equipment at issue. Contributions from third parties are applied against the cost of the related property, plant and equipment.

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

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

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

Maintenance and repair costs are recognized in results when incurred.

Intangible assets

Intangible assets are recognized at cost.

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

Intangible assets with an indefinite useful life are not amortized. These assets are tested for impairment annually or more frequently if events indicate a potential impairment loss.

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

Leases

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

Right-of-use assets and lease liabilities where the lease is for a term of more than 12 months are recognized at the lease commencement date, using the present value of the lease payments for the term of the lease. The discount rate used is the interest rate implicit in the lease to the extent that it can be readily determined. If such is not the case, Hydro-Québec uses its incremental borrowing rate at the commencement date of the lease. The costs associated with variable lease payments are not taken into account in measuring the lease liabilities and are recognized in results as and when they are incurred. If a lease has both lease and nonlease components, Hydro-Québec has elected to group them together and recognize them as a single lease component.

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

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

Impairment of long-lived assets

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

Employee future benefits

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

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

Pension Plan and other post-retirement benefits

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

The other post-retirement benefits are provided by group life, medical and hospitalization insurance plans, which are contributory plans with contributions adjusted annually.

Benefit costs and obligations under the Pension Plan and other post-retirement benefits provided in exchange for current service are calculated according to the projected benefit method prorated to years of service. They are determined using a discount rate and are based on Management's best estimates, in particular concerning the expected return on plan assets, salary escalation, the increase in health care costs, the mortality rate, and employee retirement age.

Note 1 – Significant Accounting Policies (continued)

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

- Discount rates used to determine the projected benefit obligations and to estimate the current service cost and the interest on obligations are based on the interest rate curve on the measurement date, namely December 31, of high-quality Canadian corporate bonds. These discount rates take into account the amount and different payment maturity dates of the projected benefit obligations for each plan.
- Actuarial gains and losses are initially recognized in Other comprehensive income. Thereafter, amortization of actuarial gains or losses is recognized under Other components of employee future benefit cost if the unamortized net actuarial gain or loss at the beginning of the year exceeds 10% of the value of the projected benefit obligations or 10% of the market-related value of the Plan assets, whichever is greater. The amortization corresponds to the excess divided by active employees' average remaining years of service.
- The expected return on Pension Plan assets is based on a market-related value determined by using a five-year moving average value for equity securities and by measuring other asset classes at fair value.

Asset retirement obligations

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

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

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

Asset retirement obligations may be adjusted to reflect the revision of expected timing and estimated cash flow amounts. The resulting change in costs is recognized as an increase or decrease in the carrying amount of an item of property, plant and equipment.

Agreements with local communities

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

Related party transactions

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

Note 2 – Change to Accounting Policy

Recent change

Financial instruments

On January 1, 2023, Hydro-Québec adopted, on a modified retrospective basis, the Accounting Standard Codification 326, *Financial Instruments—Credit Losses* issued by the Financial Accounting Standards Board.

This standard provides new guidance on the impairment of financial assets that are not accounted for at fair value in results. It replaces the method based on incurred losses by a method based on expected losses, and it did not have a significant impact on Hydro-Québec's consolidated financial statements.

Note 3 – Regulation

Distribution activities

Electricity distribution rates were indexed at a rate of 6.5% on April 1, 2023, with the exception of residential rates and Rate L, which were indexed at a rate of 3% and 4.2%, respectively.

Regulatory assets and liabilities

	Expected years of amortization	2023	2022
Regulatory assets			
Employee future benefits[a]	Various	**827**	–
Costs related to energy efficiency initiatives[b]	2024–2033	**495**	383
Costs related to a suspension agreement[c]	2024–2026	**341**	479
Financial aid related to public transit electrification[d]	2024–2047	**268**	274
Other	2024–2047	**14**	21
		1,945	1,157
Less			
Current portion		**126**	131
		1,819	1,026
Regulatory liabilities			
Depreciation of property, plant and equipment[e]	2024–2115	**300**	308
Employee future benefits[a]	Various	**–**	307
		300	615

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

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

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

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

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

Note 4 – Acquisition of a Company

Acquisition of Great River Hydro NE LLC

On February 10, 2023, Hydro-Québec acquired 100% of the units of Great River Hydro NE LLC, a company which owns and operates 13 hydropower generating stations located in the states of Vermont, New Hampshire and Massachusetts, for a cash consideration of $2,056 million (US$1,539 million), including the final adjustments made to the purchase price. This acquisition will mainly enable Hydro-Québec to diversify its revenue streams in New England, its main export market.

The transaction was accounted for as a business combination based on the acquisition method.

The following table presents the purchase price allocation among the assets acquired and the liabilities assumed, measured at fair value on the acquisition date.

Assets	
Current assets	**60**
Property, plant and equipment	**2,502**
Intangible assets	**524**
Goodwill	**138**
	3,224
Liabilities	
Current liabilities	**31**
Long-term debt	**986**
Other long-term liabilities	**151**
	1,168
Total purchase price	**2,056**
Less	
Cash acquired	**37**
Total purchase price, net of cash acquired	**2,019**

The determination of the fair value of assets acquired and liabilities assumed is based on Management's estimates and assumptions and reflects the fair value of the consideration paid.

Goodwill represents the excess of the purchase price over the aggregate fair value of the net assets acquired, and largely represents future growth. Goodwill is tax deductible. Given the rise of interest rates since the acquisition date, Hydro-Québec performed a comparison of the total carrying amount of the net assets acquired with the aggregate fair value, determined using the discounted future cash flow method, and recognized a $140-million expense in Depreciation and amortization.

Property, plant and equipment are depreciated over their estimated useful life, using the straight-line method. The weighted average useful life of property, plant and equipment is 67 years.

Intangible assets primarily represent licences, permits and other acquired rights. The operation of a hydropower generating station is subject to obtaining a renewable licence issued by the U.S. Federal Energy Regulatory Commission. As at December 31, 2023, the licences associated with three hydropower generating stations were in the process of being renewed, for anticipated periods of approximately 40 years. With regard to the other licences, their average residual term before the next renewal is 16 years. Intangible assets are subject to straight-line amortization over their estimated useful life of 70 years.

The acquisition resulted in transaction costs of $21 million that were recognized in operational expenditure, namely $15 million in 2023, and $6 million in 2022, as well as transfer taxes of $4 million that were recognized in Taxes in 2023.

The results are presented in the Consolidated Statements of Operations, since the acquisition date. In 2023, revenue and the net loss recognized in the Consolidated Statements of Operations totaled $136 million and $179 million, respectively.

The impact of pro forma information on Hydro-Québec's consolidated revenue and net income was not significant for the 12-month periods ended December 31, 2023, and 2022.

Note 5 – Revenue

	2023	2022
Revenue from ordinary activities		
Electricity sales		
In Québec	**13,515**	13,231
Outside Québec	**2,365**	2,912
	15,880	16,143
Other revenue from ordinary activities	**287**	226
	16,167[a, b]	16,369[a, b]
Revenue from other activities	**(81)**[c]	198
	16,086	16,567

a) In 2023, revenue from ordinary activities in the United States amounted to $1,784 million ($1,852 million in 2022).

b) This revenue includes gains and losses on derivative instruments whose amounts are presented in Note 14, Financial Instruments.

c) Including an adjustment of $(284) million relating to an investment at equity. Additional information is presented in Note 10, Other Assets.

Note 6 – Taxes

	2023	2022
Water-power royalties[a]	**740**	780
Public utilities tax[b]	**333**	330
Other	**144**	120
	1,217	1,230

a) Water-power royalties payable to the Québec government totaled $734 million in 2023 ($774 million in 2022).

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

Note 7 – Financial Expenses

	2023	2022
Interest on debt securities	**2,660**	2,365
Net foreign exchange loss (gain)	**5**	(2)
Guarantee fees related to debt securities[a]	**246**	235
Capitalized financial expenses	**(207)**	(204)
Net investment income	**(300)**	(100)
	2,404	2,294

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

Note 8 – Accounts Receivable and Other Assets

	Notes	2023	2022
Accounts receivable[a, b]		**2,020**	2,108
Deposits[c]		**81**	654
Materials and supplies		**590**	430
Prepaid expenses		**384**	342
Regulatory assets	3	**126**	131
Derivative instruments	14	**334**	454
Other financial assets		**232**	173
		3,767	4,292

a) Including unbilled electricity deliveries, which totaled $1,382 million as at December 31, 2023 ($1,449 million as at December 31, 2022), as well as an allowance for credit losses of $385 million as at December 31, 2023 ($362 million as at December 31, 2022).

b) Including amounts receivable from the Québec government totaling $171 million as at December 31, 2023 ($168 million as at December 31, 2022).

c) Including amounts paid to clearing agents on margin calls. Additional information is presented in Note 14, Financial Instruments.

Note 9 – Property, Plant and Equipment and Intangible Assets

		2023		
	Depreciation period	Cost	Accumulated depreciation	Net carrying amount
Property, plant and equipment				
Dams and hydroelectric generating stations	40–120 years	55,174	22,682	**32,492**
Transmission substations and lines	30–85 years	38,992	16,370	**22,622**
Distribution substations and lines	25–70 years	18,069	8,325	**9,744**
Administrative buildings, telecommunications equipment and other	5–50 years	10,156	6,260	**3,896**
Property, plant and equipment under construction		5,595		**5,595**
		127,986	53,637	**74,349**[a, b]
Intangible assets				
Amortizable				
Software and licences	3–10 years	2,669	1,991	**678**
Rights related to water management and other	20–70 years	607	30	**577**
		3,276	2,021	**1,255**
Non-amortizable				
Easements and other				**581**
				1,836
				76,185[c]

		2022		
	Depreciation period	Cost	Accumulated depreciation	Net carrying amount
Property, plant and equipment				
Dams and hydroelectric generating stations	40–120 years	51,991	21,866	30,125
Transmission substations and lines	30–85 years	37,238	15,610	21,628
Distribution substations and lines	25–70 years	17,329	8,042	9,287
Administrative buildings, telecommunications equipment and other	5–50 years	9,729	5,927	3,802
Property, plant and equipment under construction		5,014		5,014
		121,301	51,445	69,856[a, b]
Intangible assets				
Amortizable				
Software and licences	3–10 years	2,487	1,896	591
Rights related to water management and other	20–24 years	86	16	70
		2,573	1,912	661
Non-amortizable				
Easements and other				563
				1,224
				71,080[c]

a) As at December 31, 2023, the cost and accumulated depreciation of property, plant and equipment under finance leases amounted to $1,080 million and $486 million, respectively ($1,061 million and $439 million as at December 31, 2022).

b) Including an amount of $1,456 million ($1,538 million as at December 31, 2022) relative to the regulatory practice authorized by the Régie in 2010 regarding the change in the depreciation method.

c) In 2023, the amortization and depreciation expense of property, plant and equipment and intangible assets amounted to $2,586 million and $115 million, respectively ($2,445 million and $102 million in 2022), and retirements amounted to $172 million ($207 million in 2022). These amounts were recognized in Depreciation and amortization.

Note 10 – Other Assets

	Note	2023	2022
Investments		**1,725**	2,056
Sinking fund[a]		**646**	647
Contract fulfillment costs[b]		**296**	302
Operating lease assets		**117**	137
Derivative instruments	14	**19**	34
Other		**121**	101
		2,924	3,277

a) The sinking fund, allocated to repaying the long-term debt, consists of bonds issued by the Québec government, namely long-term bonds maturing in 2026 as well as short-term bonds presented in Short-term investments, which totaled $74 million as at December 31, 2023 and 2022.

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

Investments

	2023	2022
At equity		
Innergex		
Innergex énergie renouvelable inc. (19.8%)[a]	**372**	688
Innergex HQI USA LLC (50.0%)	**159**	189
Société en commandite Hydroélectrique Manicouagan (60.0%)[b]	**558**	565
Other	**636**	614
	1,725	2,056

a) This investment includes the unamortized excess of the purchase price over the underlying carrying amount of the net assets of Innergex énergie renouvelable inc. as at the acquisition date, which consisted of net amortizable assets of $119 million as at December 31, 2023 (goodwill of $243 million and net amortizable assets of $165 million as at December 31, 2022). Hydro-Québec proceeded to a comparison of the carrying value of the investment with its fair value and recognized an adjustment of $284 million in its share of the results.

b) This investment includes the unamortized excess of the purchase price over the underlying carrying amount of the net assets of Société en commandite Hydroélectrique Manicouagan as at the acquisition date, which consisted of unamortizable intangible assets of $282 million as well as property, plant and equipment of $189 million as at December 31, 2023 ($282 million and $198 million, respectively, as at December 31, 2022).

Note 11 – Accounts Payable and Other Liabilities

	Note	2023	2022
Accounts payable and accrued liabilities[a, b]		**3,063**	2,655
Accrued interest		**890**	829
Derivative instruments	14	**115**	404
Asset retirement obligations		**66**	56
		4,134	3,944

a) Including an amount of $96 million ($178 million as at December 31, 2022) to be paid to a Québec government corporation, as financial aid related to public transit electrification.

b) Including amounts received from clearing agents pursuant to margin calls. Additional information is presented in Note 14, Financial Instruments.

Note 12 – Long-Term Debt

During the year, Hydro-Québec carried out a number of fixed-rate issues on the Canadian capital market: medium-term notes maturing in 2029, for an amount of $1.8 billion, at an average cost of 3.87%, and bonds maturing in 2063 for an amount of $1.9 billion, at an average cost of 4.27%.

The following table presents a breakdown of the debt, including the current portion:

		2023		2022[b]	
	Maturity	Effective interest rate[a] (%)	Carrying amount	Effective interest rate[a] (%)	Carrying amount
Canadian dollars					
Medium-term notes – fixed rate[c]	2024–2060	**5.10**	**13,513**	5.25	11,701
Medium-term notes – variable rate[c]	–	**–**	**–**	4.65	1,000
Long-term bonds – fixed rate[c]	2031–2063	**3.77**	**30,516**	3.73	28,516
U.S. dollars					
Medium-term notes – fixed rate[c]	2024–2028	**7.42**	**264**	7.42	271
Long-term bonds – fixed rate[c, d]	2024–2030	**8.73**	**4,622**	8.73	4,736
Redeemable perpetual notes at Hydro-Québec's option – variable rates[c, e]		**5.92**	**264**	4.25	272
Redeemable Great River Hydro NE LLC notes – fixed rate[f]	2032	**5.14**	**990**	–	–
			50,169		46,496
Plus					
Net premiums and unamortized issue expenses[c]			**3,085**		3,189
Adjustment for fair value hedged risk			**56**		14
Finance leases[g]	2036–2044		**112**		118
Other[h]	2024–perpetual		**1,733**		1,724
			55,155		51,541
Less					
Current portion			**1,416**		1,011
			53,739		50,530

a) Weighted average effective interest rates take into account contractual rates as well as premiums, discounts and issue expenses.

b) The prior year's data have been reclassified to conform to the presentation adopted in the current year.

c) As at December 31, 2023, $51,741 million in long-term debt and borrowings, net of the sinking fund, and added to the notes held by a Hydro-Québec trust was guaranteed by the Québec government ($49,143 million as at December 31, 2022).

d) These debts carry sinking fund requirements. This fund, accounted for in Short-term investments and Other assets, totaled $720 million as at December 31, 2023 ($721 million as at December 31, 2022).

e) In 2023, following the end of publication of the U.S. London Interbank Offered Rate ("U.S. LIBOR"), tranches of $177 million (US$128 million) of perpetual notes were exchanged for perpetual notes bearing interest at the Secured Overnight Financing Rate ("SOFR"), plus 0.0625% with an additional adjustment of 0.42826%, calculated semi-annually. In addition, tranches of $1 million (US$0.7 million) were subsequently redeemed and cancelled.

f) The subsidiary Great River Hydro NE LLC, acquired in February 2023, holds senior notes totaling $990 million (US$750 million), bearing interest at a fixed rate of 4.94%. They are guaranteed by the entirety of the subsidiary's property, plant and equipment. Under the terms of the agreement, the subsidiary is required to meet certain financial requirements and conditions, all of which had been met by December 31, 2023.

g) These debts are composed of finance leases for regional offices and certain facilities. The average weighted discount rate is 4.53% in 2023 and 2022.

h) These debts are mainly composed of liabilities under agreements entered into with local communities. The average weighted discount rate is 4.51% in 2023 (4.69% in 2022).

Note 12 – Long-Term Debt (continued)

Capital repayments

The capital repayments maturing over the 2024–2028 period are as follows:

2024	1,416
2025	104
2026	755
2027	397
2028	2,488

Credit facility and lines of credit

Hydro-Québec has an undrawn credit facility of US$2,000 million, including a US$750-million swing loan, which will expire in 2026.

Any related debt securities will bear interest at a rate based on the SOFR, as of May 30, 2023 (US LIBOR rate before this date) except for the swing loan, which is at the U.S. base rate.

Hydro-Québec also has access to operating lines of credit, which are renewed automatically in the absence of notice to the contrary and bear interest at the prime rate. As at December 31, the available balances on these lines of credit were as follows:

	2023	2022
C$ or US$ million	**337**	498
US$ million	**200**	200

Note 13 – Other Liabilities

	Notes	**2023**	2022
Asset retirement obligations[a]		**1,043**	930
Accounts payable[b]		**543**	660
Regulatory liabilities	3	**300**	615
Operating lease liabilities		**99**	118
Derivative instruments	14	**–**	94
Other		**126**	–
		2,111	2,417

a) The rates used to determine the present value of the estimated cash flows ranged from 0.2% to 6.4% as at December 31, 2023 and 2022. Following the annual review of the asset retirement obligations, in 2023 Hydro-Québec recorded an $87-million increase ($33 million in 2022) of these liabilities, resulting in the revision of estimated cash flows and expected timing of payments. Furthermore, in compliance with the *Nuclear Fuel Waste Act* (S.C. 2002, c. 23), Hydro-Québec has established a trust fund to finance the cost of long-term management of its nuclear fuel waste. As at December 31, 2023, the fair value of the investments held in this trust fund amounts to $183 million ($174 million as a December 31, 2022). These investments were composed of debt securities issued by Hydro-Québec.

b) Including an amount of $96 million to be paid as at December 31, 2022 to a Québec government corporation, as financial aid related to public transit electrification. As at December 31, 2023, it is shown under Accounts payable and other liabilities.

Note 14 – Financial Instruments

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

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices.

Currency risk

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

Hydro-Québec also uses forward currency sales contracts to cover its net investment in a foreign operation whose functional currency is the U.S. dollar. When designated as hedging items, these derivative instruments are recognized as net investment hedges.

Interest rate risk

Hydro-Québec uses interest rate swaps to convert certain fixed-rate debts into variable-rate debts and interest rate forward contracts to set the interest rate for certain future debt issues. When designated as hedging items, these derivative instruments are recognized based on the type of hedge, cash flow hedge or fair value hedge. In light of the hedging strategy used, the variable-rate portion of the bonds was 3.4% as at December 31, 2023 (5.7% as at December 31, 2022).

Price risk

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

Note 14 – Financial Instruments (continued)

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

	2023	2022
Currency risk		
Sale (US$ million)	**3,734**	5,652
Purchase (US$ million)	**3,949**	3,907
Interest rate risk		
Variable-rate payer (C$ million)	**1,500**	1,500
Fixed-rate payer (C$ million)	**3,000**	3,000
Price risk		
Electricity – Sale (TWh)	**5.9**	20.5
Electricity – Purchase (TWh)	**1.2**	–
Aluminum (tonnes)	**279,600**	367,475
Petroleum (millions of litres)	**–**	17.3
Congestion (TWh)	**4.9**	7.7

Credit risk

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

Hydro-Québec is exposed to credit risk related to accounts receivable and other financial assets such as cash and cash equivalents, short-term investments, the sinking fund, deposits and derivative instruments.

In terms of accounts receivable, this risk arises primarily from ongoing electricity sales inside and outside Québec. The risk exposure is limited due to Hydro-Québec's large and diverse customer base in addition to measures put in place such as security deposits, scheduled prepayments, payment arrangements and service interruptions. Management therefore believes that Hydro-Québec is not exposed to a high credit risk, particularly because sales in Québec are billed at rates that allow for recovery of costs based on the terms and conditions set by the Régie.

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

Fair value

Fair value of derivative instruments

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

					2023
	Fair value hedges	Cash flow hedges	Net investment hedges	Derivatives not designated as hedges	Total
Assets					
Currency contracts	–	675	39	30	**744**
Interest rate contracts	110	–	–	–	**110**
Price contracts	–	313	–	214	**527**
Gross amounts recognized	110	988	39	244	**1,381**
Less					
Impact of gross amounts offset[a]					**273**
Impact of cash received as collateral[b]					**755**
Net assets					**353**[c]
Liabilities					
Currency contracts	–	114	–	19	**133**
Interest rate contracts	–	218	–	–	**218**
Price contracts	–	3	–	112	**115**
Gross amounts recognized	–	335	–	131	**466**
Less					
Impact of gross amounts offset[a]					**273**
Impact of cash paid as collateral[b]					**78**
Net liabilities					**115**[d]

Note 14 – Financial Instruments (continued)

	2022				
	Fair value hedges	Cash flow hedges	Net investment hedges	Derivatives not designated as hedges	Total
Assets					
Currency contracts	–	767	–	19	786
Interest rate contracts	83	48	–	–	131
Price contracts	–	419	–	283	702
Gross amounts recognized	83	1,234	–	302	1,619
Less					
Impact of gross amounts offset[a]					231
Impact of cash received as collateral[b]					900
Net assets					488[c]
Liabilities					
Currency contracts	–	270	–	14	284
Interest rate contracts	–	17	–	–	17
Price contracts	–	463	–	35	498
Gross amounts recognized	–	750	–	49	799
Less					
Impact of gross amounts offset[a]					231
Impact of cash paid as collateral[b]					70
Net liabilities					498[d]

a) The impact of gross amounts offset is related to contracts traded according to ISDA guidelines and constituting enforceable master netting arrangements. Such master netting arrangements apply to all derivative instrument contracts traded over the counter.

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

c) As at December 31, 2023, $334 million was recorded in Accounts receivable and other assets ($454 million as at December 31, 2022) and $19 million in Other assets ($34 million as at December 31, 2022).

d) As at December 31, 2023, $115 million was recorded in Accounts payable and other liabilities ($404 million as at December 31, 2022) and nil in Other liabilities ($94 million as at December 31, 2022).

Moreover, although certain derivatives cannot be offset for lack of enforceable master netting arrangements, margin calls may result in amounts received from or paid to clearing agents, based on the fair value of the instruments concerned. As at December 31, 2023, nil was receivable in consideration of net payments was included in Accounts receivable and other assets ($346 million as at December 31, 2022), while $227 million to be paid in consideration of net cash receipts was included in Accounts payable and other liabilities (nil as at December 31, 2022).

Note 14 – Financial Instruments (continued)

Fair value hierarchy

Fair value measurements of derivative instruments are classified according to a three-level hierarchy, based on the inputs used.

	2023				2022			
	Level 1[a]	Level 2[b]	Level 3[c]	Total	Level 1[a]	Level 2[b]	Level 3[c]	Total
Assets	281	1,037	63	**1,381**	275	1,153	191	1,619
Liabilities	115	351	–	**466**	498	301	–	799
				915				820

a) Fair values are derived from the closing price on the balance sheet date.

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

c) Fair values are not based on observable inputs. The valuation technique used to classify the derivatives related to transmission system congestion is determined based on a two-year moving average of spot prices and forward prices for energy at the measurement date, while the technique used for fixed price power purchase agreements of variable volumes is based on forward energy prices, taking the counterparty's historical consumption into consideration.

Impact of derivative instruments on results and Other comprehensive income

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

	2023	2022
Gains (losses) on derivatives recognized in results		
Fair value hedges		
Interest rate contracts[a]	**36**	(282)
Derivatives not designated as hedges		
Currency contracts[b]	**45**	156
Price contracts[b]	**229**	165
	310[c]	39[c]
Gains (losses) on derivatives reclassified from Other comprehensive income to results		
Cash flow hedges		
Currency contracts[d]	**(249)**	214
Interest rate contracts[a]	**(1)**	(4)
Price contracts[e]	**871**	(768)
	621[c]	(558)[c]
Gains (losses) on derivatives recognized in Other comprehensive income		
Cash flow hedges		
Currency contracts	**(73)**	(190)
Interest rate contracts	**(24)**	723
Price contracts	**1,206**	(217)
	1,109	316
Net investment hedges		
Currency contracts	**26**	–
	1,135	316

a) These amounts were recognized in Financial expenses.

b) These derivatives are essentially traded as part of integrated risk management. Their impact on results is recognized in the line items affected by the managed risk. Therefore, in 2023, $368 million was recognized in Revenue ($161 million in 2022), $(136) million in Electricity purchases [$(9) million in 2022], and $42 million in Financial expenses ($169 million in 2022).

c) In 2023, the items Revenue, Electricity purchases, and Financial expenses totaled $16,086 million, $2,645 million and $2,404 million, respectively ($16,567 million, $2,834 million and $2,294 million in 2022).

d) In 2023, $(138) million was recognized in Revenue [$(88) million in 2022], and $(111) million in Financial expenses ($302 million in 2022).

e) In 2023, $858 million was recognized in Revenue [$(779) million in 2022], and $13 million in Electricity purchases ($11 million in 2022).

Note 14 – Financial Instruments (continued)

In 2023, Hydro-Québec reclassified a net gain of $25 million from Accumulated other comprehensive income to results after having discontinued cash flow hedges (net loss of $11 million in 2022).

As at December 31, 2023, Hydro-Québec estimated the net amount of gains in Accumulated other comprehensive income that would be reclassified to results in the next 12 months to be $302 million (net amount of losses of $145 million as at December 31, 2022).

As at December 31, 2023, the maximum period during which Hydro-Québec hedged its exposure to the variability of cash flows related to anticipated transactions was six years (seven years as at December 31, 2022).

Fair value of other financial instruments

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

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

		2023		2022	
	Notes	Carrying amount	Fair value	Carrying amount	Fair value
Assets					
Sinking fund[a]	10	**646**	**631**	647	621
Liabilities					
Long-term debt[b]	12	**55,155**[c]	**58,329**	51,541[c]	52,543

a) The sinking fund, allocated to repaying the long-term debt, consists of bonds issued by the Québec government.

b) Including the current portion.

c) Including an amount of $1,489 million as at December 31, 2023 ($1,492 million as at December 31, 2022) for debts subject to a fair value hedge, which resulted in an adjustment of $114 million ($79 million as at December 31, 2022) with respect to existing hedging relationships and of $(58) million [$(65) million as at December 31, 2022] for hedging relationships terminated by Hydro-Québec.

Note 15 – 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, 2023 and 2022.

Retained earnings

Under the *Hydro-Québec Act*, the dividends to be paid by Hydro-Québec are declared once a year by the Québec government, which also determines the payment terms.

For a given year, the dividend cannot exceed the distributable surplus, equal to 75% of net income. This calculation is based on the consolidated financial statements. However, in respect of a given year, no dividend may be declared in an amount that would have the effect of reducing the capitalization rate to less than 25% at the end of the year. All or a portion of the distributable surplus that has not been subject to a dividend declaration may no longer be distributed to the shareholder as a dividend.

For 2023, the dividend is $2,466 million ($3,418 million for 2022).

Accumulated other comprehensive income

						2023
	Cash flow hedges	Translation differences	Net investment hedges	Employee future benefits	Other	Accumulated other comprehensive income
Balance, beginning of year	168	22	–	180	45	**415**
Other comprehensive income before reclassifications	1,109	(23)	26	(664)	2	**450**
Amounts reclassified outside of Accumulated other comprehensive income	(621)	–	–	(1)	–	**(622)**
Other comprehensive income	488	(23)	26	(665)	2	**(172)**
Balance, end of year	656	(1)	26	(485)	47	**243**

						2022
	Cash flow hedges	Translation differences	Net investment hedges	Employee future benefits	Other	Accumulated other comprehensive income
Balance, beginning of year	(706)	(1)	–	(1,354)	(2)	(2,063)
Other comprehensive income before reclassifications	316	23	–	1,490	47	1,876
Amounts reclassified outside of Accumulated other comprehensive income	558	–	–	44	–	602
Other comprehensive income	874	23	–	1,534	47	2,478
Balance, end of year	168	22	–	180	45	415

Note 16 – Supplementary Cash Flow Information

	2023	2022
Change in non-cash working capital items		
Accounts receivable and other assets	**435**	(18)
Accounts payable and other liabilities	**379**	357
	814	339
Activities not affecting cash		
Increase in property, plant and equipment and intangible assets	**114**	131
Interest paid	**2,210**	1,993

Note 17 – Employee Future Benefits

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

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

	Pension Plan		Other plans		Total	
	2023	2022	**2023**	2022	**2023**	2022
Projected benefit obligations						
Balance, beginning of year	**23,129**	30,415	**1,349**	1,812	**24,478**	32,227
Current service cost	**283**	631	**44**	52	**327**	683
Employee contributions	**256**	226			**256**	226
Benefit payments and refunds	**(1,226)**	(1,205)	**(84)**	(76)	**(1,310)**	(1,281)
Interest on obligations	**1,156**	815	**67**	49	**1,223**	864
Actuarial loss (gain)[a]	**1,692**	(7,753)	**71**	(488)	**1,763**	(8,241)
Acquisition of a company	**–**	–	**27**	–	**27**	–
Balance, end of year	**25,290**	23,129	**1,474**	1,349	**26,764**	24,478
Plan assets, at fair value						
Balance, beginning of year	**29,040**	32,228	**111**	111	**29,151**	32,339
Actual return on plan assets	**1,876**	(2,212)	**–**	(5)	**1,876**	(2,217)
Employee contributions	**256**	226			**256**	226
Contributions by Hydro-Québec	**–**[b]	3[b]	**22**	21	**22**	24
Benefit payments and refunds	**(1,226)**	(1,205)	**(22)**	(16)	**(1,248)**	(1,221)
Acquisition of a company	**–**	–	**18**	–	**18**	–
Balance, end of year	**29,946**	29,040	**129**	111	**30,075**	29,151
Funded status – Plan surplus (deficit)	**4,656**	5,911	**(1,345)**	(1,238)	**3,311**	4,673
Presented as:						
Employee future benefit assets	**4,656**	5,911	**–**	–	**4,656**	5,911
Accounts payable and other liabilities	**–**	–	**70**	65	**70**	65
Employee future benefit liabilities	**–**	–	**1,275**	1,173	**1,275**	1,173

a) The actuarial loss as at December 31, 2023, is primarily due to the lower discount rates resulting from the decrease in long-term interest rates on financial markets. Conversely, the actuarial gain as at December 31, 2022, was mainly due to the higher discount rates resulting from the increase in long-term interest rates.

b) Actuarial valuations as at December 31, 2022 and 2021, for Pension Plan funding purposes triggered a contribution holiday for Hydro-Québec in 2023 and 2022. However, during 2022, Hydro-Québec made contributions as salary adjustments for previous years.

As at December 31, 2023, accumulated benefit obligations under the Pension Plan totaled $23,721 million ($21,444 million as at December 31, 2022). Unlike projected benefit obligations, accumulated benefit obligations do not take into account the future salary assumption.

Pension Plan assets

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

The target allocation of Pension Plan investments, as established by the Investment Policy in effect as at December 31, 2023, was as follows:

%	Target allocation
Fixed-income securities	41
Equities	43
Alternative investments[a]	16
	100

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

Note 17 – Employee Future Benefits (continued)

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

	2023				2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash	2,010	–	–	**2,010**	1,458	–	–	1,458
Short-term investments[a]	–	959	–	**959**	–	252	–	252
Bonds[a, b]	551	6,941	–	**7,492**	538	7,867	–	8,405
Listed shares	12,332	–	–	**12,332**	12,195	–	–	12,195
Real estate investments[a, c]	–	198	4,506	**4,704**	–	181	4,525	4,706
Private investments[d]	–	–	3,355	**3,355**	–	–	2,853	2,853
Hedge funds[e]	–	4,099	–	**4,099**	–	3,473	–	3,473
Investment assets[a, f]	25	962	–	**987**	211	1,193	–	1,404
Investment liabilities[a, g]	(237)	(5,626)	–	**(5,863)**	(34)	(5,526)	–	(5,560)
	14,681	7,533	7,861	**30,075**[h]	14,368	7,440	7,378	29,186[h]

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

b) Pension Plan assets include securities issued by Hydro-Québec, as well as by the Québec government and some of its agencies, for a total of $866 million ($930 million as at December 31, 2022).

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

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

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

f) Investment assets mainly consist of securities purchased under resale agreements, for an amount of $612 million ($1,106 million as at December 31, 2022), derivative financial instruments, for an amount of $154 million ($40 million as at December 31, 2022), and amounts due from pending trades, for an amount of $152 million ($3 million as at December 31, 2022). As at December 31, 2022, this also included collateral pledged totaling $186 million. Securities purchased under repurchase agreements are not recognized in assets given that the counterparty retains substantially all the risks and rewards incidental to ownership.

g) Investment liabilities mainly consist of securities sold under repurchase agreements, for an amount of $4,931 million ($4,697 million as at December 31, 2022), bonds sold short, for an amount of $677 million ($818 million as at December 31, 2022), and collateral received, for an amount of $237 million ($33 million as at December 31, 2022). The securities sold under repurchase agreements are presented in assets given that the Pension Fund retains nearly all the risks and rewards incidental to their ownership. The bonds sold short represent the Pension Fund's commitments to purchase securities from another party to hedge its positions.

h) The fair value of investments does not take into account the net amount of payables and receivables, which is an amount payable of $129 million ($146 million as at December 31, 2022).

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

	2023			2022		
	Real estate investments	Private investments	Total	Real estate investments	Private investments	Total
Balance, beginning of year	4,525	2,853	**7,378**	3,795	2,317	6,112
Acquisitions	400	781	**1,181**	601	688	1,289
Disposals	(164)	(194)	**(358)**	(165)	(236)	(401)
Realized net gains (losses)	2	4	**6**	1	(1)	–
Unrealized net (losses) gains	(257)	(89)	**(346)**	293	85	378
Balance, end of year	4,506	3,355	**7,861**	4,525	2,853	7,378

In 2023 and 2022, there was no reclassification between Level 3 and Levels 1 and 2.

Note 17 – Employee Future Benefits (continued)

Plan costs

Net cost components recognized for the year

	Pension Plan		Other plans		Total	
	2023	2022	**2023**	2022	**2023**	2022
Current service cost[a]	**283**	631	**44**	52	**327**	683
Other components of employee future benefit cost[b]						
Interest on obligations	**1,156**	815	**67**	49	**1,223**	864
Expected return on plan assets	**(1,904)**	(1,996)	**(3)**	(2)	**(1,907)**	(1,998)
Amortization of net actuarial loss (gain)	**–**	89	**(1)**	25	**(1)**	114
Amortization of past service costs (credits)	**–**	4	**(4)**	(4)	**(4)**	–
	(748)	(1,088)	**59**	68	**(689)**	(1,020)
Net (credit) cost recognized for the year	**(465)**	(457)	**103**	120	**(362)**	(337)

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

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

Components of Other comprehensive income for the year

	Pension Plan		Other plans		Total	
	2023	2022	**2023**	2022	**2023**	2022
Actuarial (loss) gain	**(1,720)**	3,545	**(74)**	481	**(1,794)**	4,026
Amortization of net actuarial loss (gain)	**–**	89	**(1)**	25	**(1)**	114
Amortization of past service costs (credits)	**–**	4	**(4)**	(4)	**(4)**	–
Change in Other comprehensive income	**(1,720)**	3,638	**(79)**	502	**(1,799)**	4,140
Less						
Change in the employee future benefit regulatory asset and liability	**(1,084)**	2,289	**(50)**	317	**(1,134)**	2,606
Net change in Other comprehensive income	**(636)**	1,349	**(29)**	185	**(665)**	1,534

Components of Accumulated other comprehensive income

	Pension Plan		Other plans		Total	
	2023	2022	**2023**	2022	**2023**	2022
Unamortized net actuarial (loss) gain	**(1,252)**	468	**(58)**	17	**(1,310)**	485
Unamortized past service (costs) credits	**–**	–	**(2)**	2	**(2)**	2
Aggregate of amounts recognized in Accumulated other comprehensive income	**(1,252)**	468	**(60)**	19	**(1,312)**	487
Less						
Employee future benefit regulatory (asset) liability	**(790)**	294	**(37)**	13	**(827)**	307
Net amount recognized in Accumulated other comprehensive income	**(462)**	174	**(23)**	6	**(485)**	180

Note 17 – Employee Future Benefits (continued)

Significant actuarial assumptions

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

	Pension Plan		Other plans	
	2023	2022	**2023**	2022
Projected benefit obligations				
Rate at end of year (%)				
Discount rate – Projected benefits	**4.63**	5.08	**4.63**	5.06
Salary escalation rate[a]	**3.20**	3.15		
Net cost recognized				
Rate at end of prior year (%)				
Discount rate – Current service cost	**5.09**	3.12	**5.08**	3.05
Discount rate – Interest on obligations	**5.08**	2.69	**5.07**	2.79
Expected long-term rate of return on plan assets	**6.50**[b]	6.50[b]	**2.10**	1.80
Salary escalation rate[a]	**3.15**	3.25		
Active employees' average remaining years of service	**14**	14	**12**	13

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

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

As at December 31, 2023, health care costs were based on an annual growth rate of 5.0% for 2024. According to the assumption used, this rate will continue to increase until 2026 to reach 5.3% until 2030, then gradually decrease until it reaches a final rate of 4.0% in 2040.

Benefits expected to be paid in next 10 years

	Pension Plan	Other plans
2024	1,249	82
2025	1,265	83
2026	1,283	84
2027	1,300	85
2028	1,319	87
2029–2033	6,960	468

In 2024, Hydro-Québec expects to make contributions of $21 million to Other plans, but does not plan to make contributions to the Pension Plan.

Note 18 – Commitments and Contingencies

Commitments

Electricity purchases

Hydro-Québec has concluded electricity purchase agreements with companies over which it has joint control or significant influence. In 2023, electricity purchases from these companies amounted to $399 million ($450 million in 2022).

As at December 31, 2023, Hydro-Québec was also committed under contracts to purchase electricity and transmission services from counterparties. Based on the renewal clauses, the terms of these contracts extend through 2066.

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

2024	2,140
2025	2,175
2026	2,512
2027	2,962
2028	3,005
2029 and thereafter	67,652

Investments

As part of its development projects and activities aimed at sustaining its assets, Hydro-Québec plans to make purchases of materials and services for an estimated amount of $25 billion over the period from 2024 to 2028. In addition, under finance leases that are not yet in force, but under which Hydro-Québec has already made commitments, it expects to make lease payments for a total undiscounted amount of $497 million from 2024 to 2064.

Contingencies

Litigation

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

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

In addition, proceedings have been instituted against Hydro-Québec and Churchill Falls (Labrador) Corporation Limited ["CF(L)Co"] relative to the Churchill Falls hydroelectric complex in Labrador, which is owned and operated by CF(L)Co. In an action brought before the courts of Newfoundland and Labrador in October 2020, Innu Nation Inc. alleges that the construction and operation of this hydroelectric complex amount to a "common enterprise" of CF(L)Co and Hydro-Québec, and allegedly infringe on the Aboriginal rights and title of the Labrador Innu. Innu Nation Inc. seeks a disgorgement of the profits that CF(L)Co and Hydro-Québec have derived from the operation of this hydroelectric complex or, failing that, monetary compensation of $4 billion with regard to Hydro-Québec. In another action brought in January 2023 before the Québec Superior Court, the Innu of Uashat mak Mani-utenam allege that the Churchill Falls complex infringes on their Aboriginal rights and title, as well as their treaty rights. In addition to various judicial declarations and permanent injunction orders, they are claiming from Hydro-Québec $2 billion in compensatory damages, $200 million in punitive damages, and additional damages in the form of an annual payment equivalent to 12.5% of 15% of Hydro-Québec's annual profits from the date of the commencement of the proceedings. Hydro-Québec is contesting the merits of these claims.

FIVE-YEAR REVIEW

Consolidated Financial Information

$M	2023	2022	2021	2020	2019
OPERATIONS					
Revenue	**16,086**	16,567	14,526	13,594	14,021
Expenditure					
Operations	**4,132**	3,844	3,288	3,146	2,818
Other components of employee future benefit cost	**(689)**	(1,020)	(743)	(494)	(557)
Electricity purchases	**2,645**	2,834	2,169	2,204	2,227
Depreciation and amortization	**3,089**	2,828	2,689	2,694	2,782
Taxes	**1,217**	1,230	1,191	1,138	1,133
	10,394	9,716	8,594	8,688	8,403
Income before financial expenses	**5,692**	6,851	5,932	4,906	5,618
Financial expenses	**2,404**	2,294	2,368	2,603	2,695
Net income	**3,288**	4,557	3,564	2,303	2,923
DIVIDEND	**2,466**	3,418	2,673	1,727	2,192
BALANCE SHEET SUMMARY					
Total assets	**92,668**	89,374	82,698	80,895	78,563
Long-term debt, including current portion	**55,155**	51,541	49,698	48,413	45,767
Equity	**27,527**	26,877	23,260	21,322	21,448
INVESTMENTS AFFECTING CASH					
Property, plant and equipment and intangible assets	**4,898**	4,271	4,223	3,366	3,548
FINANCIAL RATIOS					
Return on equity (%)[a]	**12.2**	17.6	14.3	9.5	12.4
Capitalization (%)[b]	**33.7**	34.6	32.0	31.0	32.3
Profit margin (%)[c]	**20.4**	27.5	24.5	16.9	20.8
Interest coverage[d]	**2.25**	2.94	2.52	1.89	2.07
Self-financing (%)[e]	**47.5**	55.4	52.7	12.9	49.0

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

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

c) Net income divided by revenue.

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

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

Operating Statistics

	2023	2022	2021	2020	2019
GWh					
Electricity sales					
In Québec, by segment					
Residential	**68,221**	70,941	67,572	68,647	70,688
Commercial, institutional and small industrial	**47,571**	47,983	46,157	45,146	47,894
Large industrial	**55,087**	55,357	55,779	52,096	50,358
Other	**6,450**	6,279	5,721	5,557	5,640
	177,329	180,560	175,229	171,446	174,580
Outside Québec					
Canada and United States	**23,001**	35,634	36,190	32,397	34,789
Total electricity sales	**200,330**	216,194	211,419	203,843	209,369
$M					
Revenue from electricity sales					
In Québec, by segment					
Residential	**5,852**	5,974	5,522	5,535	5,752
Commercial, institutional and small industrial	**4,406**	4,205	3,957	3,853	4,056
Large industrial	**2,852**	2,674	2,498	2,208	2,279
Other	**405**	378	342	333	342
	13,515	13,231	12,319	11,929	12,429
Outside Québec					
Canada and United States	**2,365**	2,912	1,826	1,466	1,571
Total revenue from electricity sales	**15,880**	16,143	14,145	13,395	14,000
As at December 31					
Number of customer accounts					
In Québec, by segment					
Residential	**4,223,163**	4,178,346	4,128,692	4,076,286	4,032,426
Commercial, institutional and small industrial	**327,790**	325,498	323,501	321,562	319,225
Large industrial	**201**	194	193	189	186
Other	**4,938**	4,868	4,812	4,763	4,705
Total customer accounts	**4,556,092**	4,508,906	4,457,198	4,402,800	4,356,542

Operating Statistics (continued)

	2023	2022	2021	2020	2019
MW					
Installed capacity – Québec					
Hydroelectric	**36,885**	36,882	36,694	36,687	36,700
Thermal	**541**	547	544	544	543
Photovoltaic	**10**	10	10	–	–
	37,436[a]	37,439	37,248	37,231	37,243
Installed capacity – United States					
Hydroelectric	**619**	30	30	–	–
Total installed capacity	**38,055**	37,469	37,278	37,231	37,243
GWh					
Total energy requirements[b]	**217,217**	235,717	231,913	223,869	229,959
MW					
Peak power demand in Québec[c]	**36,590**	42,601	40,537	36,450	36,160
km					
Lines (overhead and underground)					
Transmission	**34,922**	34,678	34,775	34,826	34,802
Distribution	**228,568**	227,796	226,949	226,752	225,304
Total lines (overhead and underground)	**263,490**	262,474	261,724	261,578	260,106

a) In addition to the generating capacity of its own facilities, Hydro-Québec has access to almost all the output from Churchill Falls generating station (5,428 MW) under a contract with Churchill Falls (Labrador) Corporation Limited that will remain in effect until 2041. It also purchases all the output from 44 wind farms (3,933 MW) and 55 hydroelectric generating stations (706 MW) and almost all the output from 13 biomass and 5 biogas cogeneration plants (419 MW) operated by independent power producers. Moreover, 525 MW are available under long-term contracts.

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

c) The 2023 figure is the best estimate as at February 16, 2024. The values indicated reflect demand at the annual domestic peak for the winter beginning in December. The 2023–2024 winter peak occurred at 8:00 a.m. on January 19, 2024.

Other Information

	2023	2022	2021	2020	2019
%					
Residential rate increase as at April 1	**3.0**	2.6	1.3	–	0.9
As at December 31					
Total number of employees[a]					
Permanent	**19,841**	18,808	18,163	17,414	16,977
Temporary	**2,965**	3,243	3,005	2,597	2,500
	22,806	22,051	21,168	20,011	19,477
%					
Representation of underrepresented groups					
Women	**28.5**	28.7	28.5	28.5	29.2
Other[b]	**13.0**	12.6	11.9	10.7	10.4

a) Excluding employees of subsidiaries and joint ventures.

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

CONSOLIDATED RESULTS BY QUARTER

					2023
$M	1st quarter	2nd quarter	3rd quarter	4th quarter	12-month period
Revenue	5,484	3,488	3,226	3,888	**16,086**
Expenditure					
Operations	962	993	937	1,240	**4,132**
Other components of employee future benefit cost	(172)	(172)	(173)	(172)	**(689)**
Electricity purchases	812	608	508	717	**2,645**
Depreciation and amortization	705	708	720	956	**3,089**
Taxes	366	283	269	299	**1,217**
	2,673	2,420	2,261	3,040	**10,394**
Income before financial expenses	2,811	1,068	965	848	**5,692**
Financial expenses	580	612	602	610	**2,404**
Net income	2,231	456	363	238	**3,288**

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

Board of Directors

Top row: **Manon Brouillette, Michael Sabia**

Second row: **David Bahan, geneviève bich, Geneviève Biron, Sarin Boivin-Picard, Geneviève Brouillette**

Third row: **Anne-Marie Croteau, Hanane Dagdougui, Marco Dodier, Luc Doyon, Dominique Fagnoule**

Bottom row: **Hélène V. Gagnon, Marie-Josée Morency, Claude Séguin, Paul Stinis**

Hydro-Québec's Board of Directors has 16 members, 14 of whom sit as independent directors. The Québec government appoints the Chair of the Board of Directors for a term of up to five years, which can be renewed twice, consecutively or not. The other Board members are also appointed by the Québec government, in keeping with the expertise and experience profile established by the Board. Directors hold their position for a term of up to four years that can be renewed twice, consecutively or not.

Women make up 8 of the 16 members, one of the members was 35 years of age or younger when appointed, and two of the members voluntarily self-identified as belonging to one of the diversity groups reflecting the various segments of Québec society.

Manon Brouillette

Chair of the Board of Directors, Hydro-Québec

Appointment: June 2, 2023
Term: June 2, 2028
Status: Independent director
Place of residence: Montréal

Manon Brouillette holds a bachelor's degree in public communications (marketing profile) from Université Laval and also completed the Ivey Executive Program at the University of Western Ontario's Richard Ivey School of Business. Ms. Brouillette has over 20 years of experience as a senior executive in the telecommunications, media and high-tech sectors. Among other things, she served as President and Chief Executive Officer of Vidéotron as well as Executive Vice President at Verizon and Chief Executive Officer of Verizon Consumer Group. She also has extensive experience as a corporate director, having sat on the boards of several Québec and international companies, both public and private, including Banque Nationale, Cirque du Soleil, BFA Industries, Sonder, Lightspeed, Altice France and Altice USA. In addition, her social engagement has led her to sit on the boards of the École de technologie supérieure, Montréal's Quartier de l'innovation and the Centre hospitalier universitaire Sainte-Justine. She is committed to developing women's leadership skills and promoting mental health in the workplace.

Michael Sabia

President and Chief Executive Officer, Hydro-Québec

Appointment: August 1, 2023
Term: August 1, 2028
Status: Non-independent director
Place of residence: Montréal

Michael Sabia holds a bachelor's degree in economics and political science from the University of Toronto and a master's in those fields from Yale University, where he also pursued doctoral studies. He has extensive experience as an executive in both the public and private sectors. After having spent 10 years in the Canadian civil service at the start of his career, he joined the Canadian National Railway, where he later became Chief Financial Officer. He then held a number of senior positions at BCE, including that of President and Chief Executive Officer. His tenure as President and Chief Executive Officer of Caisse de dépôt et placement du Québec (CDPQ) from 2009 to 2020 was marked by growth of the investment group's assets and global presence and the consolidation of its role as a leader of the Québec economy. He went on to serve as Canada's Deputy Minister of Finance until 2023. He has also served as Chair of the Board of the Canada Infrastructure Bank and Director of the University of Toronto's Munk School of Global Affairs and Public Policy. Deeply committed to community involvement, he is a member of the Board of Directors of the Mastercard Foundation, one of the largest foundations in the world, whose mission is to advance learning and financial inclusion in Africa and to support Indigenous youth in Canada. Mr. Sabia is an Officer of the Order of Canada.

David Bahan

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

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

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

geneviève bich

Vice President, Human Resources, Metro Inc.

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

geneviève bich holds a bachelor of arts with a major in psychology from McGill University and a law degree from Université de Montréal. She is a member of the Barreau du Québec and the Ordre des conseillers en ressources humaines agréés du Québec. From 1991 to 2008, she held various management positions at Bell Canada, including Vice President, Human Resources and Labour Relations. Before joining Metro in 2013 as its Vice President of Human Resources, Ms. bich worked at Groupe Dynamite and Aimia. Ms. bich also sits on the Advisory Committee of Attraction Inc.

Geneviève Biron

Founder and President, Propulia Capital

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

Geneviève Biron holds a bachelor of science degree in management from HEC Montréal and received her Certified Director accreditation from the Institute of Corporate Directors. She worked in the health services sector for over 30 years at Biron Health Group, spending more than 15 of those years as President and Chief Executive Officer and managing teams of over 1,000 people. Ms. Biron's areas of expertise include governance, change leadership, digital transformation, mergers and acquisitions, strategy, compliance, and public and government relations. She is the founder of Imagix, the largest network of radiology clinics in Québec. Under her direction, Biron Health Group became a leader in medical diagnostic services within a

few short years. Since 2021, as founder and President of Propulia Capital, she has played an active role in the development of growth-stage companies. Propulia Capital supports companies with transformative business models focused on making a positive impact. Ms. Biron has served and continues to serve on the executive boards of a variety of public and private companies.

Sarin Boivin-Picard

Consultant in private practice

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

Sarin Boivin-Picard holds a bachelor's degree in business administration from HEC Montréal, a master's degree in finance from IE Business School (Spain) and a master's degree in business administration from Oxford University (United Kingdom). Mr. Boivin-Picard began his career as a structured products analyst at the Banque Nationale du Canada while simultaneously serving as a reserve officer in the Canadian Armed Forces. He then joined the Lucie and André Chagnon Foundation as an investment analyst and taught business administration as a lecturer at Université de Moncton. He also worked as a product manager for Altitude-sports.com before joining Nextgen Venture Partners, a venture capital firm. He is currently a consultant in private practice.

Geneviève Brouillette

Chief Financial Officer, ALDO Group

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

With a Bachelor of Commerce from McGill University and a bachelor's degree in accounting from Université du Québec à Montréal, Geneviève Brouillette is a member of the Ordre des comptables professionnels agréés du Québec, of which she was made a Fellow (FCPA) in February 2021, and is certified by the Institute of Corporate Directors. Ms. Brouillette is an experienced leader who has held key finance and senior management positions in both Canada and the United States with such renowned companies as Keurig Dr Pepper, Groupe St-Hubert, Reader's Digest and Kraft Heinz. She joined Groupe ALDO in January 2019 as Chief Financial Officer. She also sits on the executive boards of Previan, where she chairs the Audit Committee, and Transat.

Anne-Marie Croteau

Dean, John Molson School of Business, Concordia University

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

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

Hanane Dagdougui

Associate Professor, Department of Mathematical and Industrial Engineering, Polytechnique Montréal

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

Hanane Dagdougui holds a bachelor's degree in engineering physics and a master's in energetics and automation from Université Cadi Ayyad in Marrakech, Morocco, as well as a PhD in high-risk activities engineering from the École nationale supérieure des mines de Paris (France), and a PhD in energy systems engineering from the École Polytechnique at the University of Genoa (Italy). Prior to joining Polytechnique Montréal in 2017, she was a research assistant at the Department of Informatics, Bioengineering, Robotics and Systems Engineering at the University of Genoa's Faculty of Engineering, and then an institutional researcher in the electrical engineering department of Montréal's École de technologie supérieure. Ms. Dagdougui is a member of the Group for Research in Decision Analysis (GERAD), Mila (the Quebec Artificial Intelligence Institute), the Réseau québécois sur l'énergie intelligente (RQEI) and the Energy Modelling Hub (EMH). She has published numerous papers on the energy industry, most of which explore the links between operations research, artificial intelligence and the various actors in the power system and power grid stakeholders. She has also participated in several major international conferences.

Marco Dodier

Consultant in private practice

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

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

Luc Doyon

Corporate Director

Appointment: September 4, 2019
Term: September 4, 2023[1]
Status: Independent director
Place of residence: Montréal

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

Dominique Fagnoule

Executive Advisor, Banque Nationale du Canada

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

Dominique Fagnoule has a civil engineering degree in electricity, with a specialization in electronics, from Université de Liège in Belgium. He was Chief Information Officer and a member of the executive committee of BNP Paribas Personal Finance from 2009 to 2013. Prior to that, he held various positions at FORTIS in the Netherlands and Belgium, including General Manager – Retail Banking Information Systems (personal banking). Mr. Fagnoule has also held a number of senior-level positions in major financial institutions, including Générale de Banque in Belgium. In 2013, he joined Banque Nationale, where he was Executive Vice-President – Information Technology and a member of the Office of the President before being named Executive Advisor in 2020. Since retiring in April 2022, he has continued to work as a private consultant.

Hélène V. Gagnon

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

Appointment: April 22, 2015
Term: September 4, 2023[1]
Status: Independent director
Place of residence: Montréal

A graduate of McGill University in both civil law and common law, Hélène V. Gagnon also has a master's degree in public administration and public policy from the London School of Economics (United Kingdom). She is a member of the Barreau du Québec and a Fellow of the Canadian Public Relations Society. Ms. Gagnon joined CAE in 2015 as Senior Vice President, Public Affairs, Global Communications and Corporate Social Responsibility after holding similar positions at Bombardier Aerospace, Bombardier Transportation and Noranda. Since 2022, she has been Chief Sustainability Officer and Senior Vice President, Stakeholder Engagement at CAE. She sits on the boards of the Aerospace Industries Association of Canada and the Aéro Montréal aerospace cluster, and is Vice-Chair of the Board of Directors of the Canadian American Business Council. She also served on the board of Aéroports de Montréal from 2014 to 2023, including as Vice Chair. In 2022, Ms. Gagnon was featured in the list of Canada's Top 50 CEOs issued by the Globe and Mail's "Report on Business."

Marie-Josée Morency

President and CEO, Chambre de commerce et d'industrie du Grand Lévis

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

Marie-Josée Morency holds a bachelor's degree in communications from Université Laval and received a certificate in corporate governance from the Collège des administrateurs de société in 2023. Ms. Morency boasts diversified leadership experience, acquired throughout her extensive career in Québec's business world. Ms. Morency's began as an entrepreneur and then worked in communications in Saguenay for the regional divisions of Cystic Fibrosis Québec and the Association provinciale des constructeurs d'habitations (APCHQ), followed by Promotion Saguenay, before becoming Executive Director of the Chambre de commerce et d'industrie Saguenay-Le Fjord, a position she held for seven years. Currently Executive Vice-President and General Manager of the Chambre de commerce et d'industrie du Grand Lévis, Ms. Morency is actively involved with a variety of organizations in her community and has received several prizes honoring her contributions. She sits on several committees and executive boards, including those of the Société Alzheimer de Québec, the Fédération des chambres de commerce du Québec, the Alliance des chambres de commerce de Chaudière-Appalaches, the Pôle Québec logistique, the Carrefour d'innovation et d'entrepreneuriat de Lévis and the Conseil des partenaires du marché du travail de la Chaudière-Appalaches.

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

Claude Séguin

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

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

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

Paul Stinis

Corporate Director

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

With a bachelor's in mining engineering from McGill University and an MBA from Concordia University, Paul Stinis began his career as an engineer in the oil and gas industry. He has held various management positions at two major banks and was Vice-President, Finance and Treasurer at Bell Canada International. In 2003, he joined the BCE/Bell Canada group as Vice-President and Assistant Treasurer, then served as Senior Vice-President and Treasurer from 2009 to 2018. Among other duties, he was in charge of all operations related to treasury and capital markets, including risk management, insurance, pension funds, pension plans, group benefits and investor relations. From 2015 to 2018, he headed Bimcor, the pension fund investment manager for the BCE/Bell Canada group. At the start of 2021, he joined the advisory committee that manages the investment strategy for the McGill University Pension Plan. Since February 7, 2024, he has sat on the board of the Banque Laurentienne du Canada as an independent director.

Activity Report of the Committees of the Board of Directors

Executive Committee (A)

The Executive Committee did not hold any meetings in 2023.

Governance and Social Responsibility Committee (B)

The Governance and Social Responsibility Committee, chaired by Hélène V. Gagnon, made occupational health and safety (OHS) a priority in 2023, receiving regular updates on Hydro-Québec's OHS-related initiatives and its health and wellness strategies.

The Committee closely monitored Hydro-Québec's environmental performance, oversaw the rollout of the hazardous materials program and helped accelerate the implementation of the program to characterize contaminated lands. To deepen their knowledge on biodiversity, Committee members received a detailed presentation on the topic. They also commented on the *Sustainability Report 2022*.

The Committee devoted considerable attention to presentations on relations with Indigenous communities and monitored the impact of the financial assistance Hydro-Québec provided to First Nations and Inuit women entrepreneurs. The Committee also supported the company through the process of obtaining a higher certification level under the Progressive Aboriginal Relations (PAR) program. As for the Hertel–New York interconnection line project, the Committee recommended that the Board approve the partnership agreement with the Mohawk community of Kahnawà:ke.

In keeping with its mandate, the Committee reviewed the findings of the municipality satisfaction survey, the citizen brand strategy, the continuing education program for the Board of Directors, regulatory and legislative developments and the newsletter on integrity and ethics. It also conducted relevant follow-ups on the performance of the framework in social acceptability applicable to generation projects and on the respect of human rights in the company's supply chain.

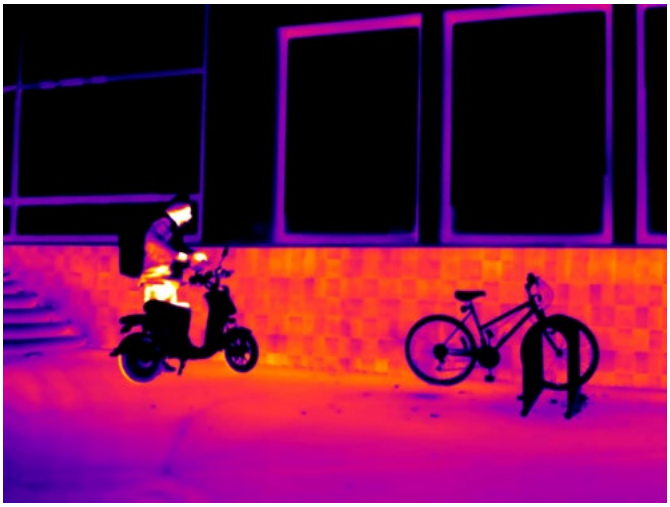
The Committee also studied the report on compliance with the *Act to modernize legislative provisions as regards the protection of personal information* and were given a presentation on the principles of data ethics.

Finally, the Committee recommended that the Board support the 2023 Centraide campaign. It also reviewed changes to the company's list of decision-making powers to ensure sound governance.

Audit Committee (C)

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

To ensure sound governance, the Committee fulfilled its role in overseeing business risk management in support of the company's



Emmanuelle Léonard, one of three finalists for the prestigious Scotiabank Photography Award in 2020, used the pandemic as inspiration for her "Black Out" series. "While Quebecers had to stay home to avoid spreading COVID-19, meal deliveries (almost) became an essential service . . . By using a thermal camera, the artist focused her attention on these [usually invisible] nocturnal workers, highlighting all the energy they put into plying their trade." Source: Gabrielle Sarthou, "Emmanuelle Léonard : Black Out : Les livreurs/The Deliverers – Ceux qui attendent pour nous," Ciel variable, No. 122, "Rondes de nuit," Montréal, 2023, p. 32-41 [our translation].

Emmanuelle Léonard (1971-)

Le livreur à mobylette – heat-sensitive image, inkjet print, 2022
56 x 76 cm
© Emmanuelle Léonard

Le livreur au sac – heat-sensitive image, inkjet print, 2022
56 x 76 cm
© Emmanuelle Léonard

decision-making. It kept a close watch on changes in the enterprise risk portfolio, taking into account factors such as climate change, the labor shortage, cybersecurity incidents and the decrease in export revenue.

The Committee carefully monitored the management of risks related to the Hydro-Québec Pension Fund, the Fund's performance compared to its peers, and the structure of its portfolio. It recommended that the Board approve the Pension Fund Investment Management Policy and the actuarial valuation of Pension Plan funding and solvency. Committee members attended a presentation on the consequences of asset liability matching for the Pension Plan.

The Committee closely tracks any activity potentially detrimental to the company's financial health that is brought to its attention by the Vice President – Internal Audit or another member of the management team. In addition, the Committee recommended that the Board review the mandate of the Groupe – Audit interne, carefully examined the improvement plan developed for the group's practices, and studied the external evaluation report on the quality of Hydro-Québec's internal auditing and its compliance with professional standards and best practices. The Committee also reviewed the report on corporate compliance.

The Audit Committee carried out its other responsibilities, namely ensuring the sound management of the company's finances and internal controls. It also studied the reports related to the application of the company's policies on finances and financial disclosure (titled *Nos finances* and *Divulgation financière*).

The Committee's members attended a range of presentations related to the structure of Hydro-Québec and its subsidiaries, dam safety and the impacts of organizational changes on the company's regulatory and accounting activities. All Audit Committee members are independent.

Human Resources Committee (D)

Working with the Chair of the Board of Directors and with the support of the chairs of the other Board committees, the Human Resources Committee, chaired by geneviève bich, spearheaded the process to fill the position of President and Chief Executive Officer and recommended the appointment of new officers.

The Committee monitored the changes in the company's organizational culture and the indicators for measuring the advantages of the new organizational model.

Integrated talent management initiatives, including development strategies for management succession planning, were prioritized by the Committee. It also followed up on the company's 2022 goals and achievements in terms of equity, diversity and inclusion.

The Committee examined the overall compensation of Hydro-Québec's employees and executives, and of the employees and executives of its wholly owned subsidiaries, and recommended approval by the Board.

It also monitored the file for the upcoming renewal of several collective agreements and recommended Board approval of the negotiation mandate for the first collective agreement for worksite nurses.

To fulfill its mandated responsibilities, the Committee regularly reviews a dashboard of strategic indicators. This year, it also examined the report on the application of the company's human resources and safety policies (titled *Nos ressources humaines* and *Notre sécurité*).

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

Investments and Financial Affairs Committee (E)

In accordance with its mandate, the Investments and Financial Affairs Committee, chaired by Paul Stinis, reviewed all projects involving major investments, equity acquisitions or the commercialization of technologies, advising the Board on each. It recommended Board approval of projects to expand the energy system and ensure its long-term operability, including the work planned for La Prairie, Côte-Saint-Luc and Marie-Victorin substations.

The Committee worked with the Digital Technologies Committee to follow up on the progress of the major power system upgrade projects and on the project to upgrade the company's enterprise resource planning (ERP) software.

It also studied the investment and execution strategies for the project to rehabilitate retaining structures on the Saint-Laurent, and the acquisition strategies for securing supply to the power grid's various components, and recommended approval by the Board.

The Committee's members attended presentations on the company's energy efficiency programs and wind power procurement model. They also reviewed the strategy and mission of the innovations portfolio.

The Committee monitored the progress of the project to overhaul legislative and regulatory guidelines and received regular updates on the company's U.S. export projects and strategic business intelligence information.

Hydro-Québec's supply plan was studied by the Committee, with a focus on anticipated needs in the coming years and the 2024 capital spending request related to transmission operations. The Committee also reviewed the business plans for Hydro-Québec's IndusTech subsidiaries (including Hilo and EVLO), and the plan for Great River Hydro NE, LLC. In addition, it examined the review of the company's investment program.

The Committee recommended that the Board review two policies: the goods and services acquisitions policy (titled Nos acquisitions de biens meubles et de services et la gestion des contrats) and the system reliability policy (titled *Fiabilité de notre système énergétique*). The latter was also the subject of a report, which was read by the Committee.

Digital Technologies Committee (F)

In accordance with its mandate, the Digital Technologies Committee, chaired by Anne-Marie Croteau, monitored the performance of the activities and projects involving digital technologies. It examined the actual and planned financial commitments required for the development and implementation of major IT systems and infrastructure that will enable the company to carry out its mission and achieve its business objectives.

The Committee kept a close watch on cybersecurity issues, the management program for major cybersecurity incidents and the management of the main digital technology risks.

It reviewed the master plan of the Groupe – Technologies numériques, advised on the execution of a range of projects, including the mobile radiocommunication program, and examined the report on the application of the IT policy (titled *Nos technologies de l'information*).

The Committee also reviewed several audit reports related to digital technologies.

Finally, the Digital Technologies Committee worked with the Investments and Financial Affairs Committee to conduct regular follow-ups on the major power system upgrade projects and on the project to upgrade the company's enterprise resource planning (ERP) software.

Director Attendance at Meetings of the Board of Directors and Board Committees in 2023

Director	Notes	Board[1]	Committees					
			A[2]	B	C	D	E	F
	Number of meetings	16		5	5	9	12[3]	9[4]
Jacynthe Côté	A B C D E F 5	8/8		3/3	2/2	3/3	5/5	2/2
Manon Brouillette	A B C D E F 6	8/8		2/2	3/3	6/6	7/7	3/3
Sophie Brochu	A E F 7	5/5		2/2	1/1	2/2		
Pierre Despars	A E F 8	3/3		1/1	1/1	1/1		
Jean-Hughes Lafleur	A E F 9							
Michael Sabia	A E F 10	6/6		1/2	3/3	2/4		
David Bahan		10/12						
geneviève bich	B D	16/16		3/5		9/9		
Geneviève Biron	B F	13/16		4/5				8/9
Sarin Boivin-Picard	F	15/16						9/9
Geneviève Brouillette	C D	14/16			5/5	9/9		
Anne-Marie Croteau	D F	14/16				8/9		9/9
Hanane Dagdougui	C F	14/16			5/5			8/9
Marco Dodier	D E	14/16				8/9	11/12	
Luc Doyon	B E	9/16		5/5			11/12	
Dominique Fagnoule	C F	16/16			5/5			9/9
Hélène V. Gagnon	B	16/16		5/5				
Marie-Josée Morency	B D	12/16		3/5		6/9		
Claude Séguin	E	15/16					10/12	
Paul Stinis	A C E	15/16			5/5		12/12	
Claude Tessier	C 11	11/15			4/5			

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

Notes
1. The Board of Directors held 16 meetings, including 8 special meetings.
2. The Executive Committee did not hold any meetings in 2023.
3. Including 4 joint meetings with the Digital Technologies Committee (F). Attendance of members of committee F at the joint meetings is indicated in this column.
4. Including 4 joint meetings with the Investments and Financial Affairs Committee (E). Attendance of members of committee E at the joint meetings is indicated in this column.
5. Jacynthe Côté's term ended on June 1, 2023.
6. Manon Brouillette was appointed effective June 2, 2023.
7. Sophie Brochu held her position until April 11, 2023.
8. Pierre Despars was Acting President and Chief Executive Officer from April 11, 2023, until June 20, 2023.
9. Jean-Hugues Lafleur was Acting President and Chief Executive Officer from June 21, 2023, until July 31, 2023.
10. Michael Sabia was appointed effective August 1, 2023.
11. Claude Tessier resigned on December 5, 2023.

Governance

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

Independence

The independent members of the Board of Directors have no direct or indirect relations or interests—in particular of a financial, commercial, professional or philanthropic nature—that could affect the quality of their decision-making with regard to the interests of the company.

Rules of ethics

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

Directors' compensation and benefits

Compensation of Members of the Board of Directors for the Year Ended December 31, 2023

	Compensation for serving on the Board[a]		Compensation for serving on committees[a]		Benefits	Total compensation for the year
Director	Chair	Member	Chair	Member		
David Bahan[b]	–	–	–	–	–	–
geneviève bich[c]	–	$34,633	$6,617	$11,397	–	$52,646
Geneviève Biron	–	$32,137	–	$11,397	–	$43,534
Sarin Boivin-Picard	–	$34,117	–	$7,928	$3,718	$45,763
Sophie Brochu[b, d]	–	–	–	–	–	–
Geneviève Brouillette[e]	–	$33,144	$6,617	$13,379	–	$53,139
Manon Brouillette[f]	$105,849	–	–	–	$815	$106,664
Pierre Despars[b, g]	–	–	–	–	–	
Jacynthe Côté[h]	$35,457	–	–	$12,883	–	$48,340
Anne-Marie Croteau	–	$33,137	–	$15,856	–	$48,993
Hanane Dagdougui	–	$32,633	–	$11,892	–	$44,525
Marco Dodier	–	$33,139	–	$16,847	–	$49,986
Luc Doyon	–	$29,662	–	$14,370	$942	$44,974
Dominique Fagnoule	–	$34,620	–	$12,883	–	$47,503
Hélène V. Gagnon[i]	–	$34,622	$6,617	$4,955	–	$46,194
Jean-Hughes Lafleur[b, j]	–	–	–	–	–	–
Marie-Josée Morency	–	$31,138	–	$8,424	–	$39,562
Michael Sabia[b, k]	–	–	–	–	–	–
Claude Séguin	–	$34,120	–	$9,415	–	$43,535
Paul Stinis	–	$34,126	–	$15,361	–	$49,487
Claude Tessier[l]	–	$30,482	–	$3,964	–	$34,446

a) Compensation and benefits for all independent directors is set out in Order-in-Council No. 610-2006 and is indexed periodically by the government. It consists of a basic annual retainer of $21,168 plus a fee of $991 for each Board or committee meeting attended. A yearly supplement of $6,617 is paid to chairs of the Audit, Governance and Social Responsibility and Human Resources committees.

b) Receives no compensation as a member of the Board of Directors.

c) Chair of the Human Resources Committee.

d) Sophie Brochu was in office until April 11, 2023.

e) Chair of the Audit Committee.

f) Manon Brouillette took office on June 2, 2023. She receives an annual compensation of $195,000 as Chair of the Board of Directors. She receives no other compensation. She was paid for 14 pay periods plus one day out of a yearly total of 26 pay periods. Hydro-Québec reimbursed Manon Brouillette for costs incurred for items required in the exercise of her duties, specifically $569 for travel and accommodation, and $246 for representation.

g) Pierre Despars was Acting President and Chief Executive Officer from April 11 to June 20, 2023.

h) Jacynthe Côté's term as Chair of the Board ended on June 1, 2023. She received a flat-sum remuneration of $64,292 and was paid for 11 pay periods plus 9 days. In addition, she received $991 in meeting fees per committee.

i) Chair of the Governance and Social Responsibility Committee.

j) Jean-Hughes Lafleur was Acting President and Chief Executive Officer from June 21 to July 31, 2023.

k) Michael Sabia took office on August 1, 2023.

l) Claude Tessier resigned on December 5, 2023. His base annual remuneration was $21,168. He was paid for 25 pay periods plus 2 days. In addition, he received $991 in meeting fees per committee.

Hiring of independent experts

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

Director induction and training program

When Board members are first appointed, they receive training on their roles and responsibilities, the nature and business context of Hydro-Québec's main activities, and the company's legal and regulatory framework. New directors also receive training providing them with a solid grasp of basic notions of electricity and another on Hydro-Québec's Indigenous relations. In addition, they are invited to tour the system control center, cybersecurity monitoring center and energy trading floor. By the end of the induction program, they will have received some 15 hours of training.

Continuing development activities for Board members during the year included presentations on topics such as current electricity rates and future rate initiatives, the history of the agreement between Hydro-Québec and Newfoundland and Labrador regarding the Churchill Falls generating station, the workplace of the future and environmental, social and governance (ESG) criteria. Board members also participated in an exploration of the major works included in Hydro-Québec's art collection.

Regulatory requirements and internal guidelines

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

- *Transmission Provider Code of Conduct*:[2] Governs relations between the Transmission Provider[3] and its affiliates, and is intended to prevent any form of preferential treatment or cross-subsidization.
- *Reliability Coordinator Code of Conduct*:[4] Ensures that the reliability of the transmission system remains the Reliability Coordinator's top priority and prevents any form of preferential treatment in favor of the Transmission Provider's affiliates or other system users.
- *Code of Ethics on Conducting Calls for Tenders*:[5] Ensures that the reliability of the transmission system remains the Reliability Coordinator's top priority and prevents any form of preferential treatment in favor of the Transmission Provider's affiliates or other system users.
- *Distributor Code of Conduct*:[7] Regulates transactions between the Distributor and the Generator for non-tendered electricity supply to ensure that the Generator does not benefit from any unfair advantage; also governs dealings between the Distributor and its affiliates, with the aim of preventing affiliates' business operations from being subsidized, in whole or in part, by electricity service customers.

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

Internal control system

Hydro-Québec's Management maintains an internal control system. The financial information component of this system is based on the internationally recognized framework developed by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission, and includes the implementation of an annual control plan. The objective of this component is to provide reasonable assurance that the financial information is relevant and reliable, and that Hydro-Québec's assets are appropriately recorded and safeguarded. The control system includes an integrated business risk management process, and the company has also established a process for assessing the compliance of its operations in various fields such as the fight against corruption. The Audit interne group assesses the primary management, control and governance processes to determine if they are sufficient and appropriate, and issues recommendations for improving their economy, efficiency and effectiveness.

Auditors' fees and independence

KPMG LLP, Ernst & Young LLP and the Auditor General of Québec are Hydro-Québec's independent auditors for 2023. The professional fees billed by KPMG LLP and Ernst & Young LLP in 2023 for services other than auditing and certification accounted for 25.0% of the total $5.5 million in fees billed. Hydro-Québec uses various mechanisms to enable the Audit Committee to ensure that independent auditors remain independent, including a process whereby any engagement that could be assigned to them is analyzed beforehand. No professional service engagement may be assigned to the Auditor General of Québec, since that office serves the National Assembly exclusively.

1. Permission to sell electricity at market prices on U.S. wholesale markets was granted by the FERC.
2. *Transmission Provider Code of Conduct*.
3. Hydro-Québec when conducting electric power transmission activities as defined in the *Act respecting the Régie de l'énergie* (RLRQ, c. R-6.01.).
4. *Reliability Coordinator Code of Conduct*.
5. *Code of Ethics on Conducting Calls for Tenders*.
6. Hydro-Québec when conducting electric power distribution activities as defined in the *Act respecting the Régie de l'énergie* (CQLR, c. R-6.01.).
7. *Code de conduite du Distributeur*.
8. Hydro-Québec when conducting electric power generation activities.

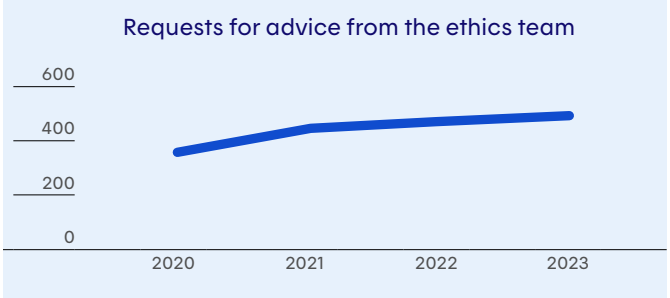
Access to information, privacy protection and data ethics

All requests for access to information received by Hydro-Québec are handled in accordance with the *Act respecting access to documents held by public bodies and the protection of personal information* (the "Access Act"). In 2023, Hydro-Québec received 528 requests for access to administrative documents or personal information and processed 509 of these requests. Of these, 169 were granted in full, 229 were granted in part and 68 were turned down. The most common reason for denying requests was that the documents contained either confidential personal information or sensitive information that, if shared, could impact the company's finances, public safety or administrative decisions. As for the other 43 requests, they could not be fulfilled either because they were not admissible or applicable, they were withdrawn, they were redirected to another or other public organization(s) or the company did not have the documents in question. In total, 215 requests for access were processed within 20 days, 171 in 21 to 30 days, and 123 in 31 days or more, for an average processing time of 24 days. In addition, 23 review notices were received from the Commission d'accès à l'information; no requests were the subject of reasonable accommodation measures under the government policy on equal access for persons with disabilities to publicly available documents and services. Decisions on access requests and the report on requests processed in 2023 are available (in French only) on the company's website. Hydro-Québec posts documents and information whose publication is prescribed by the *Regulation respecting the distribution of information* and the protection of personal information on its website to facilitate access by the population.

Hydro-Québec continued offering training and awareness-raising initiatives. Introductory training videos covering the entire life cycle of personal information were shared with all employees. We also offered advanced training to target groups on the topics of access to information and privacy protection. As part of our efforts to ensure compliance with the new requirements set out in the *Act to modernize legislative provisions as regards the protection of personal information*, the Data and Information Governance Committee adopted the company's governance rules, including a complaint-handling process. In addition, to improve our privacy protection program and bring it in line with the new legal requirements, the Committee adopted new guidelines addressing matters such as biometrics and the assessment of privacy-related factors.

Ethical culture at Hydro-Québec

At Hydro-Québec, we are deeply committed to our values of inclusion, courage, innovation and the common good. They guide our daily decisions and are at the heart of the major projects proposed in our *Action Plan 2035 – Towards a Decarbonized and Prosperous Québec*. To help our managers and personnel bring these values to life and implement the commitments in our *Code of Ethics*, Hydro-Québec's ethics team sends out regular internal communications and provides training catered to the company's different teams. All of these teams make frequent references to Hydro-Québec's values and to our *Code of Ethics* in their cross-functional company exchanges, demonstrating the degree of importance ethics are to our employees.



The *Code of Ethics* is updated every five years (or earlier if needed) by our ethics team, who ensures that the document remains relevant and current. Through monitoring and benchmarking activities, the ethics team stays abreast of best practices and aims for the highest standards in the area of ethics.

Finally, the ethics team is also responsible for replying to employees' ethical questions and concerns to support them in their day-to-day decisions and actions. In 2023, 498 questions were received and processed. This number, which increases every year, reflects our personnel's awareness and their motivation to reflect on the right behaviors to adopt, as well as the strength of the ethical culture at Hydro-Québec.

Combatting corruption

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

- Ensure sound governance specific to the fight against corruption
- Assess the risks associated with some of its processes (procurement, managing sensitive information)
- Implement mitigation measures to reduce these risks
- Raise awareness and train employees
- Ensure that personnel, stakeholders and citizens have access to a confidential and anonymous reporting mechanism, and provide protection against retaliation in the event of disclosure

In spring 2023, the Bureau de normalisation du Québec (BNQ) completed a second maintenance audit. The outcome was very positive, as no lack of compliance was found. In addition, the audit highlighted a number of strengths, including the commitment and expertise of the personnel involved. The first certification cycle was a three-year period that ended in 2023, and a second cycle will span 2024 to 2026.

Language guidelines

Hydro-Québec continued its activities to promote the quality of the French language among its personnel. Our initiatives this year included the development of a guide on gender-neutral writing, which is available on our intranet site. We also closely followed the changes made to the *Charter of the French Language* and informed our employees about its new provisions, which came into effect on June 1, 2023. In addition, selected teams were asked to assess how our company practices and processes need to be adjusted to comply with the Charter's new obligations. We also took action to inform our customers and the public about the modernization of the *Charter of the French Language*, including the two following initiatives:

- We added a banner to the English version of most of the pages on the Hydro-Québec website inviting readers to visit the Québec government's page on the Modernization of the Charter of the French Language.
- We updated the message on our main interactive voice response systems.

Our work to analyze and integrate the changes to the *Charter of the French Language* will continue in 2024.

Montréal artist Erin Shirreff explores the sculptural possibilities afforded by photographic printing on aluminum: after digitizing and magnifying reproductions from old art books, she prints these images on sheets of aluminum, cuts them out with a laser and arranges them in shadow boxes. At once photographic and sculptural, the resulting hybrid works seem to depict physical objects that bear little resemblance to the original images.

Erin Shirreff (1975-)

Midday dilemma – sublimation print on aluminum and latex paint, 2022
185.8 x 180.7 x 14.5 cm

© Erin Shirreff

Compensation of Officers

Compensation of Hydro-Québec Officers for the Year Ended December 31, 2023

Names and positions of the most highly compensated officers	Base compensation paid	Annual incentive pay[a]	Pension plan contributions paid by the employer	Other benefits paid or granted	Total compensation for the year
Claudine Bouchard Executive Vice President and Chief Operating and Infrastructure Officer	$517,076	$141,707	$144,517	$37,773	$841,073
Jean-Hugues Lafleur[b] Executive Vice President and Chief Financial Officer	$479,557	$136,630	$100,017	$50,742	$766,946
Sophie Brochu[c] President and Chief Executive Officer	$331,326	$306,676	$102,384	$10,829	$751,215
Pierre Despars[d] Executive Vice President – Strategy and Development	$430,474	$132,449	$104,759	$39,678	$707,360
Nathalie Dubois Vice President – Talent and Culture	$373,965	$108,753	$80,817	$35,837	$599,372
Éric Filion[e] Executive Vice President and Chief Operating and Customer Experience Officer	$86,188	$145,210	$20,657	$6,883	$258,938
Michael Sabia[f] President and Chief Executive Officer	$243,312	$0	$0	$16,992	$260,304
Maxime Aucoin[g] Executive Vice President – Strategy and Finance	$107,423	$0	$22,383	$6,249	$136,055

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

b) Jean-Hugues Lafleur served as Executive Vice President and Chief Financial Officer reporting directly to the President and Chief Executive Officer until October 7, 2023. He also served as Acting President and Chief Executive Officer from June 21 to July 31, 2023. Since October 10, 2023, he has served as Executive Vice President and Chief Financial Officer reporting to the Executive Vice President – Strategy and Finance.

c) Sophie Brochu served as President and Chief Executive Officer until April 11, 2023, and left Hydro-Québec on June 30, 2023. The annualized value of her total compensation amounts to $1,136,696 (i.e., the annualized values of her base compensation of $615,320, the pension plan contribution of $190,317 made by Hydro-Québec and other benefits paid or granted of $24 383).

d) Pierre Despars served as Executive Vice President – Strategy and Development from January 1 to April 10, 2023, and then served as Acting President and Chief Executive Officer until June 20, 2023. He left Hydro-Québec on September 30, 2023. The annualized value of his total compensation amounts to $767,700 (i.e., the annualized values of his base compensation of $470,459, the pension plan contribution of $120,017 made by Hydro-Québec and other benefits paid or granted of $44,775).

e) Éric Filion served as Executive Vice President and Chief Operating and Customer Experience Officer until February 17, 2023, when he left Hydro-Québec. The annualized value of his total compensation amounts to $796,622 (i.e., the annualized values of his base compensation of $497,978, the pension plan contribution of $119,417 made by Hydro-Québec and other benefits paid or granted of $34,017).

f) Michael Sabia has been serving as President and Chief Executive Officer since August 1, 2023. The annualized value of his total compensation amounts to $677,232 (i.e., the annualized values of his base compensation of $639,000 and other benefits paid or granted of $38,232).

g) Maxime Aucoin has been serving as Executive Vice-President – Strategy and Finance since October 10, 2023. The annualized value of his total compensation amounts to $724,292 (i.e., the annualized values of his base compensation of $570,000, the pension plan contribution of $119,017 made by Hydro-Québec and other benefits paid or granted of $35,275).

Annual incentive pay

Under Hydro-Québec's incentive compensation policy, non-unionized employees may receive an annual performance bonus. In the case of officers, it is based on corporate objectives that are predetermined and approved annually and is conditional upon the attainment of the financial performance threshold approved by the Board of Directors. The main factors determining the amount of the annual incentive pay are the degree to which each group met its corporate objectives and the officer's annual salary, prorated to the period during which the officer held that position during the year.

The maximum incentive pay for officers other than the President and Chief Executive Officer is 30% of their annual base salary. For the President and Chief Executive Officer, the maximum is 50%. The financial performance threshold for 2022—net income of at least $3,100 million—was attained.

Pension plan contributions paid by Hydro-Québec

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

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

Supplementary Benefits Program (unfunded plan):

- Current service cost borne entirely by Hydro-Québec
- Additional benefits to offset the HQPP tax limits (ceiling lifted on permitted maximum amount)
- Benefit payment terms the same as for the HQPP
- Other provision applicable to former President and Chief Executive Officer of Hydro-Québec Sophie Brochu: Recognition of 100% of the maximum incentive compensation as pensionable earnings (less the portion recognized for purposes of the HQPP).

For the Basic Hydro-Québec Pension Plan (HQPP, funded plan), the amounts disclosed are the contributions that should have been paid by Hydro-Québec without taking into account the contribution reductions based on the Plan's financial situation The amounts disclosed are equal to 10.55% of pensionable earnings under the Plan. For the Supplementary Benefits Program (unfunded plan), the amounts disclosed represent the current service cost calculated by Hydro-Québec's external actuary, based on the following:

- Assumptions: Same as those used for the HQPP's actuarial valuation on a funding basis as at December 31, 2023.
- Current service cost calculated on the basis of the earnings rates in effect in 2023.

Other benefits paid

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

- Annual automobile allowance (for executive vice presidents: $18,415 for a gas-powered vehicle or $23,030 for a plug-in electric vehicle; for vice presidents: $12,145 for a gas-powered vehicle or $15,167 for a plug-in electric vehicle).
- Automobile usage expenses for executive vice presidents or vice presidents: parking, gasoline or access to an electric charging station at the workplace, kilometrage allowance for business needs. This may also apply to the President and Chief Executive Officer.
- The President and Chief Executive Officer is provided with a company car (the value of this benefit is equal to the amortization of the cost of the vehicle, plus maintenance and charging costs). This value, included in the amount reported as other benefits paid or granted, is not a taxable benefit.
- Group insurance plan premiums – life, health, travel and disability insurance. The premium paid by Hydro-Québec for long-term disability insurance, included in the amount reported as other benefits paid or granted, is not a taxable benefit for the officer. In addition, the monetary value of salary continuation in the event of short-term disability cannot be determined.
- Gratuity account allowing for the reimbursement of expenses related to financial, tax or estate planning, sports clubs and professional dues up to $5,000 per year for executive vice presidents and up to $4,000 for vice presidents. The annual maximum for the President and Chief Executive Officer is $10,000.
- Access to an annual health assessment.

Compensation of Officers of Entities in Which Hydro-Québec Holds at Least a 90% Stake, for the Year Ended December 31, 2023

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

Names and positions of the five most highly compensated officers	Name of the entity in which Hydro-Québec holds at least a 90% stake	Base compensation paid	Annual incentive pay[a]	Pension plan contributions paid by the employer	Other benefits paid or granted	Total compensation for the year
Claudine Bouchard President and Chief Executive Officer	Société d'énergie de la Baie James	$517,076	$141,707	$144,517	$37,773	$841,073
Jean-Hugues Lafleur[b] President and Chief Executive Officer	Groupe financier HQ inc.	$479,557	$136,630	$100,017	$50,742	$766,946
Pierre Despars[c] President	Hydro-Québec IndusTech inc.	$430,474	$132,449	$104,759	$39,678	$707,360
Pierre Gagnon[d] Vice President – Legal Affairs and Compliance	Gestion HQI inc. and Marketing d'énergie HQ inc.	$290,700	$100,740	$63,413	$37,136	$491,989
Andrée Boucher Vice President – Finance	Hydro-Québec IndusTech inc. and Hydro-Québec International inc.	$297,500	$69,802	$63,217	$30,565	$461,084

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

b) Jean-Hugues Lafleur has also served as President of Hydro-Québec IndusTech inc. since June 21, 2023.

c) Pierre Despars served as President of Hydro-Québec IndusTech inc. until June 20, 2023, and then left the company on September 30, 2023.

d) Pierre Gagnon served as Vice President – Legal Affairs and Compliance for Gestion HQI inc. and Marketing d'énergie HQ inc. until May 30, 2023, and he then left the company on September 30, 2023.

Details regarding incentive pay, pension plan contribution and other benefits paid or granted to officers who are also employed by Hydro-Québec are presented on pages 80 and 81.

Sustainable development

Hydro-Québec's *Sustainability Report* provides an in-depth look at our sustainability programs, actions and initiatives, including the indicators we use to measure our alignment with sustainable development principles. The report also covers the economic, environmental and social impacts of Hydro-Québec's operations, demonstrating how sustainability concerns are integrated into the company. The information presented in the report is verified internally and by an independent third-party firm, in line with the AccountAbility AA1000 principles.

Published in April 2020, the *Sustainable Development Plan 2020–2024* is a framework that sets out concrete objectives to help focus our sustainability efforts. The plan revolves around the three pillars of sustainability, with specific guidelines for each.

Governance We undertake to become sustainable development leaders by keeping to the highest sustainability standards, both internally and with our partners.

Community Our goal is to contribute to Québec's social and economic development while improving the social acceptability of our projects and operations.

Environment We aim to become environmental leaders through our choices, innovative practices and expertise in environmental matters.

The plan incorporates the Québec government's orientations and actions, as well as 7 of the 17 Sustainable Development Goals of the United Nations Development Programme (UNDP).

A new plan covering the period from 2024 to 2028 will be published in 2024, incorporating the information obtained from the materiality analysis and stakeholder comments. Our commitment to sustainability remains a cornerstone of our work and we will continue to collaborate with stakeholders to reach our goals while meeting the emerging challenges of our time.

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

	Strategy	Target	2023 results
Governance			
1	Make sustainability principles integral to our governance, operations and projects	1.1 Integrate sustainability principles into our corporate guidelines	Sustainability principles integrated into 45% of our policies and directives (13/29) and 7 guidelines pending approval.
		1.2 Earn public recognition for our leadership in responsible governance	Four new recognitions obtained.
2	Do business with responsible suppliers	2.1 Identify and apply occupational health and safety requirements to risk-sensitive work categories	OHS questionnaire integrated into our external evaluation tool (Cognibox).
3	Significantly improve our occupational health and safety performance while fostering employee wellness	3.1 Obtain ISO 45001:2018 health and safety certification by 2023	Target and indicator removed in 2023.
		3.2 Implement or showcase health and wellness initiatives	34 health and wellness initiatives implemented.
4	Offer an inclusive work environment that reflects Québec's diversity and rally our employees around sustainable development	4.1 Continue to improve equal access to employment by raising target group representation	28.5% women (2022: 28.7%), 1.5% Indigenous people (2022: 1.6%), 2.2% ethnic minorities (2022: 2.1%), 8.2% visible minorities (2022: 8.0%), 1.0% people with disabilities (2022: 0.9%).
		4.2 Increase target group representation in management positions	27.3% women (2022: 27.2%), 1.2% Indigenous people (2022: 1.1%), 1.7% ethnic minorities (2022: 1.4%), 4.9% visible minorities (2022: 4.4%), 1.0% people with disabilities (2022: 0.7%).
		4.3 Implement a sustainability awareness program that promotes employee engagement	Sustainable development awareness program 100% implemented among employees.
		4.4 Launch an action plan for disabled groups	90% of the commitments in the plan have been implemented.

Sustainable development (continued)

	Strategy	Target	2023 results
Community			
5	Foster Québec's development as a society through our financial contribution	5.1 Contribute $23.4 billion to Québec's gross domestic product (GDP) by 2024	$24 billion contributed to GDP (2022: $25 billion).
6	Build and operate sustainable, resilient infrastructure while adapting our activities to climate change	6.1 Implement a climate change adaptation plan by 2021	Implementation of actions in the Climate Change Action Plan: Completed: 72% In progress: 20% About to begin: 8%
		6.2 Expand the integration of sustainability principles in infrastructure projects	A detailed analysis grid was integrated into the impact study for a major infrastructure project.
		6.3 Obtain or maintain BOMA BEST certification for targeted administrative buildings and rented office premises of over 1,000 m^2 in Montréal and Québec	BOMA BEST certification attained for the 21 targeted buildings and office spaces (100%).
7	Generate more sustainable value in the community	7.1 Develop indicators and optimize certain programs to maximize their social and economic benefits for the community	Objectives reached for the two targeted programs, i.e., the Integrated Enhancement Program (IEP) and the Social Responsibility Directive.
8	Take steps to include Indigenous peoples and encourage their input into our development	8.1 Obtain Silver-level certification from the Canadian Council for Aboriginal Business's Progressive Aboriginal Relations (PAR) program	Silver-level PAR program certification obtained.
Environment			
9	Work toward decarbonizing all of our business activities and markets	9.1 Avoid 4.6 Mt Co_2 eq. of emissions through our long-term export contracts	1.3 Mt CO_2 eq. of GHG emissions avoided (2022: 2.3 Mt CO_2 eq.).
		9.2 Cut direct emissions of our operations by 35% by 2027	Unavailable.[1]
		9.3 Aim for carbon neutrality by 2030	The basis for a compensation strategy has been established. Target and indicator under review.
10	Equip Quebecers to lower their consumption through better electricity use	10.1 Propose electricity management solutions to our business and residential customers that aim to cut energy use by 2.49 TWh and potentially reduce power demand by 1,523 MW compared to 2019	Reduction of 0.795 TWh of energy use by business and residential customers (2022: 0.824 TWh). Potential reduction in power demand of 789 MW (2022: 621 MW).
11	Enhance and protect biodiversity	11.1 Develop a corporate strategy for enhancing and protecting biodiversity	Hydro-Québec's Biodiversity Strategy 2022–2026 adopted and published.
12	Reduce resource use by applying the principles of the circular economy	12.1 Draft and deploy a logistics strategy that applies the best practices of the circular economy	Objective of 1,100 all-electric, plug-in hybrid or hybrid. Indicator under review.
		12.2 Use tools to integrate a total cost analysis (TCA) of goods and services at time of procurement into our governance	Five calls for tenders were launched, incorporating total cost of ownership methods.

1. The final data will be published in the *Sustainability Report 2023*.

Occupation and vitality of territories

As a government corporation, Hydro-Québec supports the Québec government's efforts to ensure the occupancy and vitality of territories. The following are the main measures in the company's new action plan, in compliance with the Act to ensure the occupancy and vitality of territories (CQLR, c. O-13).

Measures to ensure the occupancy and vitality of territories	Indicator
Continue efforts in the field of transportation electrification Hydro-Québec is actively expanding the Electric Circuit, the largest public charging network in Québec, which currently includes nearly 3,500 charging stations for electric vehicles (EVs). The rollout of the Electric Circuit to all of Québec's regions is guided by a plan based on strict criteria. The goal is to increase the use of EVs by offering users high-quality service and a network that covers the entire province. In 2018, to cater its offer to market needs, the Electric Circuit undertook to add 1,600 fast-charge stations to its fleet by 2027. In addition, under the *2030 Plan for a Green Economy* launched by the Québec government in November 2020, Hydro-Québec has committed to installing 2,500 fast-charge stations and 4,500 standard stations by 2030. The Electric Circuit will consequently be central to the strategy to accelerate transportation electrification. With the number of EV drivers growing exponentially every year, the expansion of the Electric Circuit will facilitate EV travel and contribute to stimulating tourism and economic activity in all of the province's regions. Transportation electrification is a promising green sector in which Hydro-Québec intends to play a leading role.	At present, the Electric Circuit has almost 5,000 public charging stations across Québec, including some 900 fast-charge stations.
Support the greenhouse industry in Québec In July 2020, Hydro-Québec filed an application with the Régie de l'énergie to expand the measures offered since 2013 to greenhouse growers. As a result, the Additional Electricity rate option for photosynthetic lighting now also applies to space heating to raise crops and is available to all producers whose maximum power demand exceeded 50 MW in the last 12 months. These measures will help support the development of the greenhouse industry in a number of regions, while also increasing Québec's food self-sufficiency.	No indicator
Roll out an information program on the integration of Hydro-Québec's facilities into the host environment and the coordination of planning To optimize the integration of its projects throughout the province, Hydro-Québec set out to provide training on its operations and land management practices. From 2016 to 2020, this training was offered to the land-use planners of regional county municipalities (MRCs) and of the cities and agglomerations that perform some of the functions of MRCs. As at December 31, 2020, more than 20 training sessions had taken place in-person or remotely.	The company reached out to all of Québec's MRCs and invited their land-use planners to at least one of the training sessions offered since 2016. Altogether, 90 MRCs, or 89% of all MRCs in Québec, registered for at least one training session. This action was completed in 2020.
Offer free guided tours of some facilities By showcasing its built and technological heritage in Québec's various regions and offering free tours of some of its facilities, Hydro-Québec helps promote tourism in different parts of the province. The integration of the company's facilities into their host environments is one of the topics visitors learn about during the tours.	86,612 people visited Hydro-Québec's facilities in 2023.
Convert off-grid systems Hydro-Québec has undertaken to gradually convert its off-grid systems to cleaner, less costly energy sources. The company is also committed to working with local communities on promising initiatives while ensuring that it meets its financial and environmental goals. The specific features of each system and the needs of each community will be considered to help select a technological solution that ensures system reliability and is also optimal from the social, environmental and economic standpoints.	No indicator
Participating in the Lac-Mégantic microgrid project Québec's first islandable microgrid, inaugurated in July 2021, features a range of components, such as solar panels for local energy generation, energy storage units and tools to manage buildings' energy use to best meet user needs. It is the only technology showcase of its kind in Québec. In 2022, the project was recognized with top honors in the energy category at the 2022 Grands Prix du génie-conseil québecois. This year was marked by the inauguration of the new fire station, which is equipped with storage batteries and solar generation. Construction also got under way for a new building, located within the perimeter of the microgrid, that will be used to test a unique technological mix to better serve lower-income customers. Finally, in the summer, the microgrid was islanded several times: it was supplied solely from its batteries and solar generation while disconnected from the main grid for periods of up to six hours.	No indicator

Disclosure of wrongdoings

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

The Policy for reporting on Hydro-Québec's activities and requesting support or mediation in the event of a difficult situation in the workplace encourages the disclosure of irregular situations and ensures protection from reprisal. With the policy, the company meets its obligations under the *Act to facilitate the disclosure of wrongdoings relating to public bodies* (CQLR, c. D-11.1). In 2023, we received 36 reports that qualified as wrongdoing, distributed as follows:

2023 report	
Cases covered by Section 25 of the *Act to facilitate the disclosure of wrongdoings relating to public bodies*	Number
1 Disclosures received by the designated officer	36
2 Cases in which processing or examination of the disclosure was ended under subparagraph 3 of Section 22	0
3 Well-founded disclosures (concluded in 2023)	13
4 Disclosures broken down by category of wrongdoing set out in Section 4:	36
• a contravention of a Québec law, of a federal law applicable in Québec or of a regulation made under such a law	13
• a serious breach of the standards of ethics and professional conduct	16
• a misuse of funds or property belonging to a public body, including the funds or property it manages or holds for others	5
• gross mismanagement within a public body, including an abuse of authority	2
• any act or omission that seriously compromises or may seriously compromise a person's health or safety or the environment	0
• directing or counselling a person to commit any of the wrongdoings described above	0
5 Information forwarded under the first paragraph of Section 23	0

Act respecting workforce management and control within government departments, public sector bodies and networks and state-owned enterprises

On December 5, 2014, the Québec government adopted the *Act respecting workforce management and control within government departments, public sector bodies and networks and state-owned enterprises*. The purpose of this Act is to strengthen workforce management and control mechanisms within public bodies, in particular through workforce planning and measures to control staffing and service contracts.

In accordance with the Act, Hydro-Québec adopted a directive establishing the situations in which the authorization of its Chief Executive Officer is not required for the signing of service contracts during the application period of the Act. The directive was submitted to the Conseil du Trésor and has been in effect since December 1, 2017. For the period from April 1, 2022, to March 31, 2023, the President and Chief Executive Officer of Hydro-Québec authorized 115 contracts falling within the scope of the Act, for a total of 1,054,215,305.

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

Paid hours	
Management	4,050,710
Professionals	15,706,601
Clerical staff, technicians and similar	9,217,338
Peace officers	31,205
Laborers, maintenance and service personnel	13,665,953
Students and interns	168,665
Total	42,840,471

OUR GENERATING, TRANSMISSION AND DISTRIBUTION FACILITIES

Generation

Installed capacity in Québec — 37,436 MW

62 hydroelectric generating stations — 36,885 MW

Robert-Bourassa	5,616	Sainte-Marguerite-3	882	Péribonka	385	Shawinigan-3	194
La Grande-4	2,779	Laforge-1	878	Laforge-2	319	Manic-1	184
La Grande-3	2,417	Bersimis-2	845	Trenche	302	Rapides-des-Îles	176
La Grande-2-A	2,106	Outardes-4	785	La Tuque	294	Chelsea	152
Beauharnois	1,864	Bernard-Landry	768	Romaine-1	270	Sarcelle	150
Manic-5	1,596	Carillon	756	Beaumont	270	La Gabelle	131
La Grande-1	1,436	Romaine-2	640	Romaine-4	245	Première-Chute	131
René-Lévesque	1,326	Toulnustouc	526	McCormick	235	Les Cèdres	113
Jean-Lesage	1,229	Outardes-2	523	Rocher-de-Grand-Mère	230	Rapides-des-Quinze	109
Bersimis-1	1,178	Eastmain-1	480	Paugan	216	Rapides-Farmer	104
Manic-5-PA	1,064	Brisay	469	Rapide-Blanc	211	Other (16 generating stations rated less than 100 MW)	680
Outardes-3	1,026	Romaine-3	395	Shawinigan-2	200		

23 thermal generating stations — 541 MW

Bécancour (gas turbine)	411
Other (22 diesel plants on off-grid systems)	130

2 photovoltaic generating stations — 10 MW

Gabrielle-Bodis	8
Robert-A.-Boyd	2

Other sources of supply - Power purchase agreements — 11,011 MW

Churchill Falls generating station [Churchill Falls (Labrador) Corporation Limited][a]	5,428
44 wind farms operated by independent power producers[b]	3,933
55 hydroelectric generating stations operated by independent power producers[b]	706
13 biomass and 5 biogas cogeneration plants operated by independent power producers[c]	419
Other	525

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.

Installed capacity in the United States — 619 MW

13 hydroelectric generating stations operated by Great River Hydro, a wholly owned subsidiary of Hydro-Québec	589
2 hydroelectric generating stations jointly owned with Innergex énergie renouvelable inc.	30

Transmission

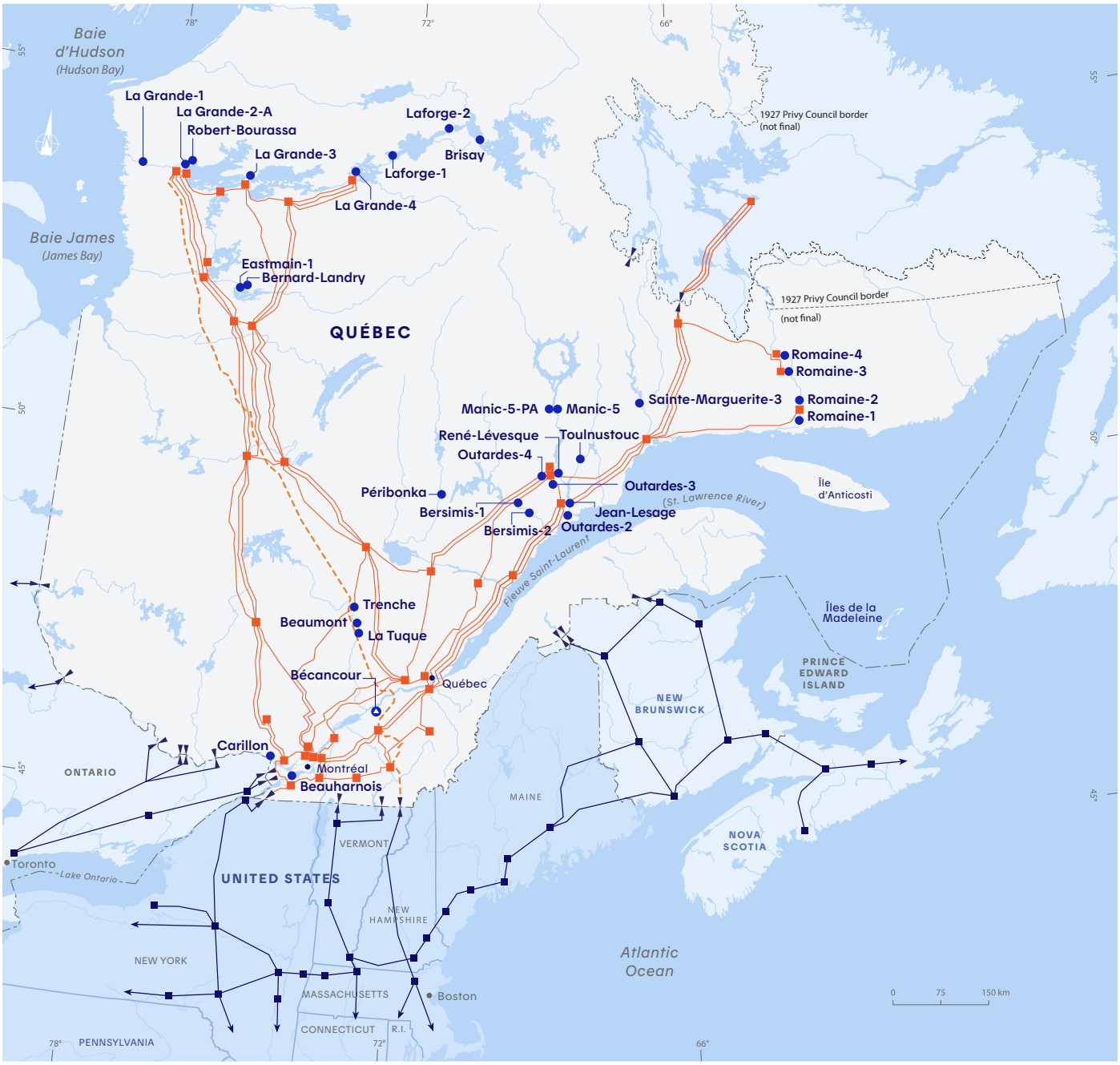
Voltage	Lines (km)	Substations (number)
765 and 735 kV	12,581[a]	41
450 kV DC	1,218	2
315 kV	5,509	85
230 kV	3,252[b]	54
161 kV	2,128	43
120 kV	6,969	223
69 kV or less	3,265	88
Total	**34,922**	**536**

a) Including 469 km of 735-kV lines operated at 315 kV.
b) Including 33 km of 230-kV lines operated at 120 kV.

Distribution

Medium voltage	Lines (km)
34 kV	835
25 kV	115,028
12 kV	4,406
4 kV or less	203
Total	120,472
Low voltage	108,096
Total	**228,568**

Our major facilities



Hydro-Québec operates the most extensive transmission system in North America. It includes 34,922 km of power lines at varying voltages.

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

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Hydro-Québec wishes to thank all
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