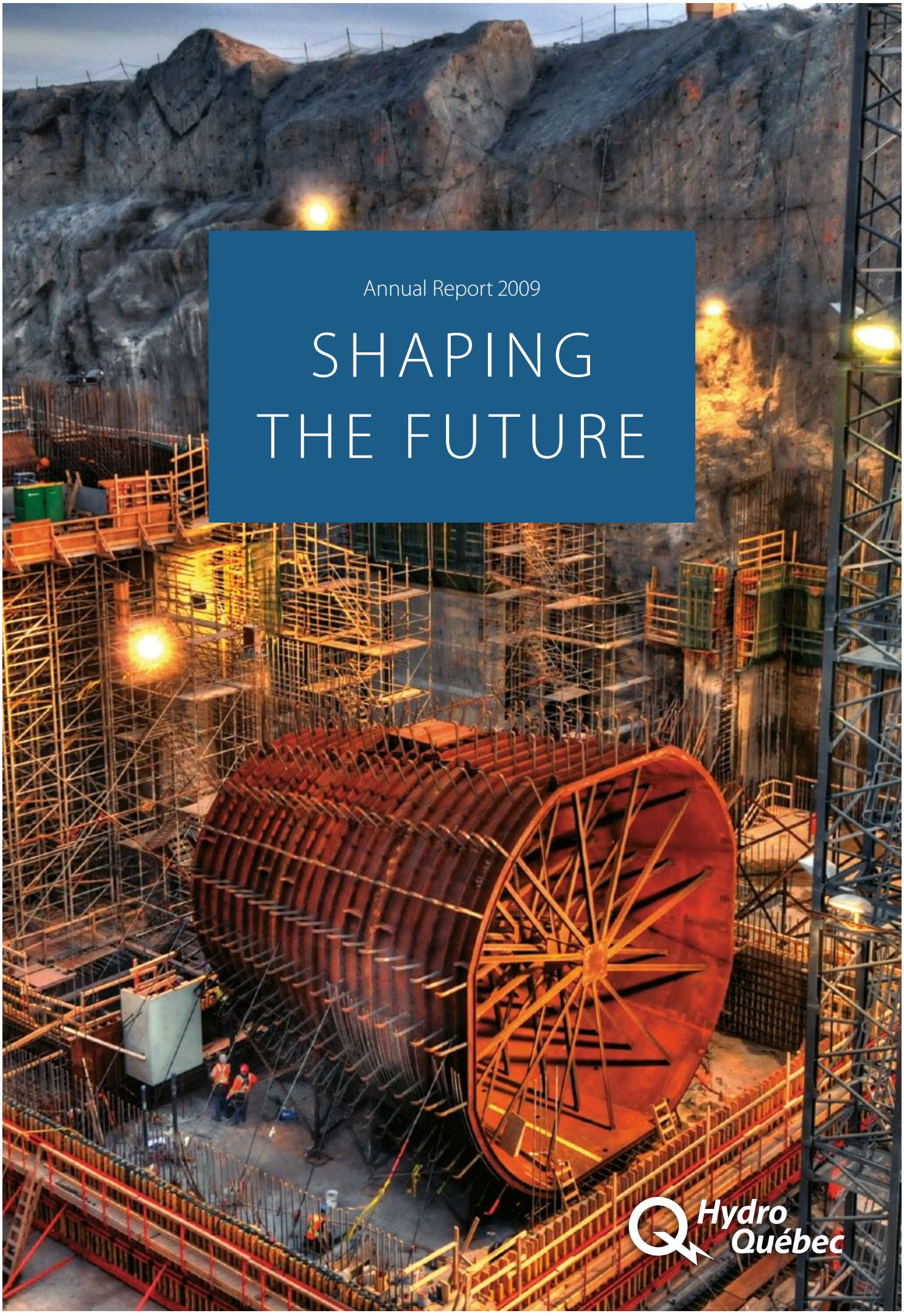

Annual Report 2009

SHAPING THE FUTURE

Hydro Québec

Hydro-Québec generates, transmits and distributes electricity. Its sole shareholder is the Québec government. It uses mainly renewable generating options, in particular hydropower, and supports the development of wind energy through purchases from independent power producers. It also conducts R&D in energy-related fields, including energy efficiency. The company has four divisions:

Hydro-Québec Production generates power for the Québec market and sells its surpluses on wholesale markets. It is also active in arbitraging and purchase/resale transactions.

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

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

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

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On the cover:
Installing a draft tube cone at the Sarcelle powerhouse jobsite (Baie-James).

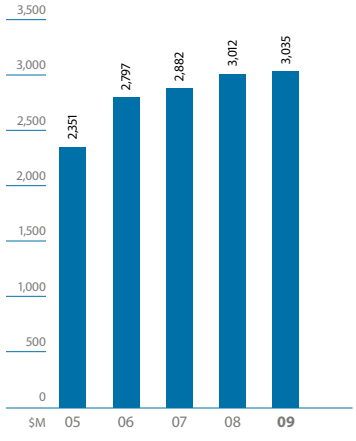
Opposite:
Reservoir and spillway of the Robert-Bourassa development in the La Grande complex. Output from this complex will increase by 5.3 TWh with the added flow from the Rupert diversion, which went into operation in fall 2009.

Hydro-Québec's primary mission is to ensure the long-term supply of electric power in Québec. That is why we are continuing to develop our hydropower fleet, as demonstrated by our Eastmain-1-A/Sarcelle/Rupert project and the more recent Romaine project. It's also why we are integrating a large volume of wind power into our transmission system. These renewables, combined with our ongoing efforts in energy efficiency, form the basis of energy security in Québec. They also enable us to continue developing our export markets and to pave the way for a sustainable future through ground transportation electrification.

HYDRO-QUÉBEC AT A GLANCE

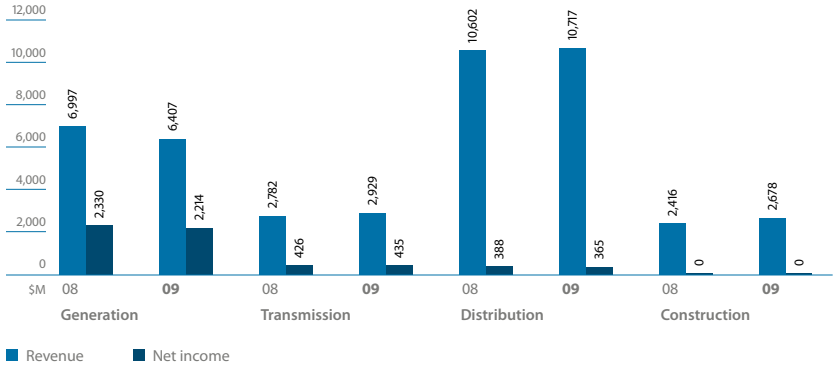
	2009	2008
Operations and Dividends ($M)		
Revenue	**12,334**	12,717
Operating income	**5,434**	5,457
Income from continuing operations	**3,035**	3,012
Income from discontinued operations	**–**	129
Net income	**3,035**	3,141
Dividends declared	**2,168**	2,252
Balance Sheets ($M)		
Total assets	**68,978**	66,789
Long-term debt, including current portion and perpetual debt	**38,002**	36,415
Equity	**22,395**	22,062
Cash Flows ($M)		
Operating activities	**4,781**	5,109
Investing activities	**(3,475)**	(4,185)
Financing activities	**(1,203)**	(611)
Cash and cash equivalents	**472**	385
Ratios		
Interest coverage	**2.17**	2.12
Return on equity (%)	**14.3**	15.4
Profit margin from continuing operations (%)	**24.6**	23.7
Capitalization (%)	**37.0**	37.7
Self-financing (%)	**41.2**	45.7

Income from Continuing Operations

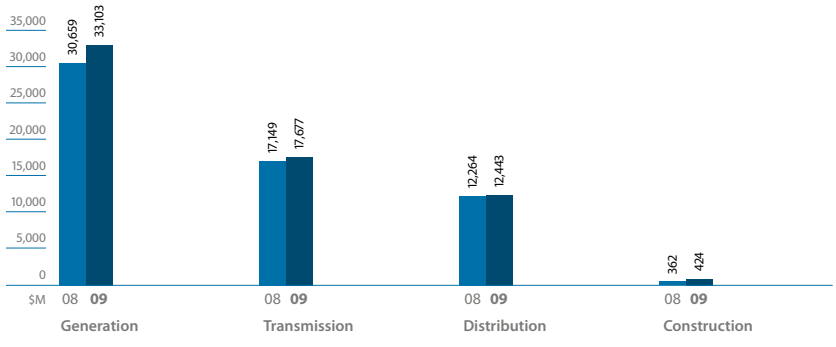


Income from continuing operations totaled $3,035 million, a $23-million increase from the $3,012 million in 2008, despite a difficult business environment in 2009. Active management of market risks enabled us to limit the impact of the drop in energy and aluminum prices that occurred in 2009.

Revenue and Net Income by Segment



Total Assets by Segment



Note: Certain comparative figures have been reclassified to reflect the presentation adopted for 2009.

	2009	2008	2007	2006	2005
Customers and Sales					
Total customer accounts in Québec	**3,960,332**	3,913,444	3,868,972	3,815,126	3,752,510
Electricity sales in Québec (TWh)	**165.3**	170.4	173.2	167.3	169.2
Electricity sales outside Québec (TWh)	**23.4**	21.3	19.6	14.5	15.3
Number of Employees[a]					
Permanent as at December 31	**19,536**	19,297	19,459	19,116	19,009
Temporary (year's average)	**4,080**	4,048	3,910	3,799	3,577
Facilities					
Number of hydroelectric generating stations	**60**	59	57	55	54
Total installed capacity (MW)[b]	**36,810**	36,429	35,647	35,315	34,571
Peak power demand in Québec (MW)[c]	**34,659**	37,230	35,352	36,251	33,636
Lines (overhead and underground)					
Transmission (km)	**33,244**	33,058	33,008	32,826	32,544
Distribution (km)[d]	**111,205**	110,127	109,618	108,883	108,344
Number of substations	**515**	510	509	508	505
Power Generation and Purchases					
Renewables (GWh)[e]	**196,633**	200,109	194,154	184,379	185,571
All generating sources (GWh)	**203,181**	206,603	208,156	196,236	195,035
Proportion of renewables (%)	**97**	97	93	94	95

a) Excludes employees of subsidiaries and joint ventures.

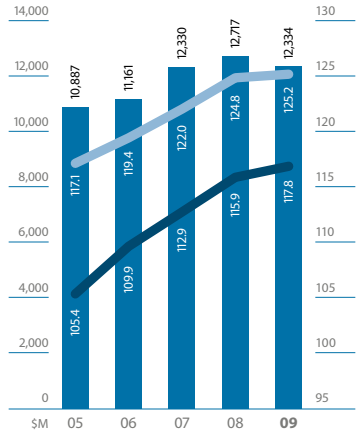
b) Hydro-Québec also has access to almost all the output from Churchill Falls generating station (5,428 MW) and purchases all the output from nine privately owned wind farms with a total installed capacity of 657 MW. In addition, 1,297 MW are available under agreements with other independent suppliers.

c) Total power demand at the annual domestic peak for the winter beginning in December, including interruptible power.

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

e) Does not include wind energy purchases for which renewable energy certificates were sold to third parties.

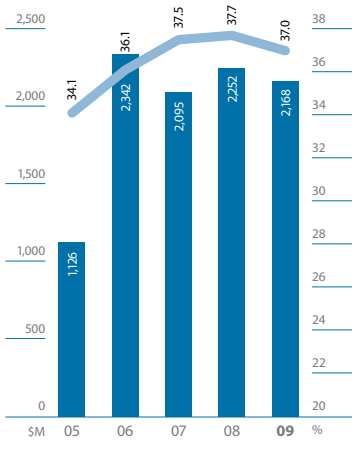
Revenue, Average Rate Increase Index and Consumer Price Index



Revenue
Average rate increase index (1998 = 100)
Consumer Price Index (1998 = 100)

Revenue totaled $12,334 million, compared to $12,717 million in 2008. This decrease is attributable to a $413-million decline in revenue from electricity sales outside Québec, partly offset by a $104-million increase in revenue from electricity sales in Québec. Other revenue totaled $279 million, as against $353 million in 2008.

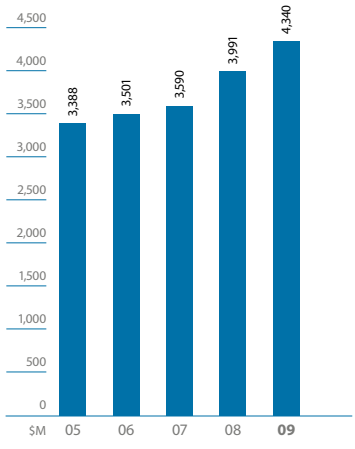
Dividends Declared and Capitalization



Dividends declared
Capitalization

Dividends declared from 2005 to 2009 total $10 billion.

Investments in Property, Plant and Equipment, Intangible Assets and the EEP[a]



a) EEP: Energy Efficiency Plan

Cash from operations totaled $4.8 billion. This enabled us to pay the dividends of $2,252 million declared for 2008 and to finance a large portion of our investments ($4.3 billion). In addition, Hydro-Québec invested $0.6 billion to acquire an interest in Manicouagan Power Limited Partnership, which owns and operates McCormick generating station.

MESSAGE FROM THE CHAIRMAN OF THE BOARD

At the summer 2009 peak of construction on Eastmain-1-A powerhouse in the Baie-James region, the Eastmain workcamp housed 1,046 workers, 13% of whom came from Cree and other local communities.

FORWARD-LOOKING DECISIONS

"Hydro-Québec is a driving force in the Québec economy and a leader in sustainable development."

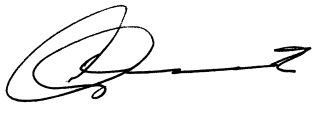
Hydro-Québec performed well in all its areas of operation in 2009, while pursuing its work to create value from Québec's energy resources. Among our many other accomplishments, we strengthened our generating capacity, extended the transmission system, and distributed and exported high-quality electricity. Through the company's actions and strategic choices, we continued to play a leading role in boosting Québec's economy and meeting ambitious goals for sustainable development.

The Board of Directors maintained its oversight of the many facets of Hydro-Québec's ongoing activities, with a particular focus on such key issues as the development of hydroelectric resources, long-term operability of generation, transmission and distribution facilities, human resources and continuous improvement of customer services.

In 2009, the Board approved Hydro-Québec's *Strategic Plan 2009–2013,* which was published in July. It authorized the start-up of construction on the Romaine complex and the extension of the transmission system in northeastern Québec in preparation for bringing this new output onto the grid.

In addition to the Chairman of the Board and the President and Chief Executive Officer, the Board currently comprises 14 members with diverse backgrounds, who are active on seven committees. The directors exercise a wide range of responsibilities, which include advising Management as it decides on and works toward Hydro-Québec's strategic objectives, ensuring the sound management and profitability of the company, approving major infrastructure projects, and seeing that they are completed on budget and in compliance with the objectives of sustainable development.

I wish to express my gratitude to all the directors, and in particular to Nathalie Le Prohon and Normand Bergeron, who left the Board in 2009. I would like to take this opportunity to welcome two new members: Michelle Cormier and Robert Sauvé. I am also grateful to Management and to all Hydro-Québec employees for their unfailing commitment and their contribution to the company's strong performance.



Michael L. Turcotte
Chairman of the Board

ROBUST RESULTS

In 2009, Hydro-Québec once again posted a very solid performance, as its financial results demonstrate. Income from continuing operations totaled $3,035 million, up $23 million from 2008—a new record for the company. Dividends paid to our shareholder, the Québec government, will amount to $2.2 billion.

Our performance is mainly the product of careful management of our operating expenses, which have remained stable since 2007 in a context marked by rapid growth in operations. In other words, we have been able to absorb all costs associated with our new facilities, as well as general inflation and salary indexation. Our employees' commitment has been a crucial factor in this remarkable achievement.

These robust results are also attributable to effective management of risks such as the appreciation of the Canadian dollar, the decline in energy prices on markets outside Québec and the drop in the price of aluminum, which affected revenue from electricity sales to smelters in the province. This prudent approach allowed us to limit the effect of the difficult economic conditions prevailing on all of our markets, especially the decrease in industrial demand in Québec during the year.

TAPPING QUÉBEC'S ENERGY POTENTIAL

Several major milestones were reached in 2009 in our development of Québec's hydroelectric potential. First, the Rupert diversion went into operation. This facility will add 5.3 TWh—5,300 million kilowatthours—to the annual output of the La Grande complex in the Baie-James region. Next, we signed a partnering agreement with the Innu community of Ekuanitshit regarding the Romaine complex in Minganie; this agreement followed in the wake of the agreements entered into in 2008 with the communities of Nutashkuan, Unamen Shipu and Pakua Shipi. After securing the necessary government approvals for this $6.5-billion project, we broke ground at the site in May. And finally, draft-design studies for the Petit-Mécatina complex (Basse-Côte-Nord) got under way in the fall.

A TOP-QUALITY SYSTEM

Hydro-Québec operates the most extensive transmission system in North America. In 2009, we invested $1.2 billion in expanding and reinforcing this infrastructure, mainly in order to ensure the long-term operability of our facilities, integrate new hydropower and wind farm output, and bolster the capacity of a number of substations. We also increased transmission capacity to neighboring systems with the commissioning of a 1,250-MW interconnection with Ontario.

A SUSTAINABLE POWER SUPPLY

In 2009, we issued two tender calls and initiated a purchasing program for Québec-generated renewable energies. The first call was for the purchase of 125 MW of electricity produced by new biomass cogeneration facilities. The second covers the purchase of two 250-MW blocks of wind power: one reserved for Aboriginal projects and one for other community projects. The purchasing program targets small hydro (plants of 50 MW or less), for a total capacity of 150 MW.

ENERGY EFFICIENCY: A MAJOR OBJECTIVE

While maintaining our target of 11 TWh in energy savings by 2015, we adapted our energy efficiency efforts to better meet the expectations of our different customer categories. New savings amounted to 946 GWh in 2009, for a total of 4.3 TWh of annual savings achieved under our initiatives in this regard. In April, our ENERGY WISE Home Diagnostic program achieved a milestone with more than one million personalized recommendation reports sent out.

"Effective management of risks and operating expenses, combined with the steadfast commitment of all our employees, allowed us to perform extremely well despite a difficult economy."

A RECORD VOLUME OF ACTIVITY ON OUR JOBSITES

Our many infrastructure projects represented a volume of activity of $2.7 billion for Hydro-Québec Équipement and Société d'énergie de la Baie James in 2009—an 11% increase over the previous year. Notable generation projects included the launch of construction on the Romaine complex, start-up of the Rupert diversion and completion of Chute-Allard and Rapides-des-Cœurs generating stations (Mauricie), while work on Eastmain-1-A and Sarcelle powerhouses (Baie-James) continued to make steady progress. In the transmission sector, we commissioned Outaouais substation, the linchpin in the 1,250-MW interconnection with Ontario, as well as Mont-Tremblant (Laurentides) and Vaudreuil-Soulanges (Montérégie) substations.

INNOVATION, A VITAL COMPONENT OF OUR GROWTH

Technological innovation plays an important role in all our areas of activity. It translates into substantial productivity gains, which contribute directly to the continuing improvement in our operating performance, and innovative maintenance strategies that ensure the smooth operation of our facilities and extend their service lives. The calibre of our research institute personnel is a key factor in these successes. As well, the skill of our computer specialists and telecommunications experts means that our customers benefit from the most advanced information and communication technologies available.

Electricity will become a driving force in ground transportation. To help reduce Québec's greenhouse gas emissions, we have drawn up an action plan for the electrification of public and personal transportation. This plan is intended to ensure that Hydro-Québec remains at the forefront of both electrical infrastructure and automotive technologies.

A STEADFAST COMMITMENT

I cannot say often enough how critical our employees are to the company's accomplishments. Our performance is directly proportional to the commitment shown by these energetic women and men who work, every day and in every region of the province, to provide Quebecers with reliable, high-quality electricity. On behalf of Management, I thank them all very sincerely for their indispensable contribution.

In closing, I would also like to thank the members of the Board of Directors for their dedication to the success of Hydro-Québec.

Thierry Vandal
President and Chief Executive Officer

HYDRO-QUÉBEC PRODUCTION

Work under way at Manic-2 generating station in the Manicouagan region will add approximately 30 MW in capacity by 2013.

CAREFUL MANAGEMENT ON ALL FRONTS

We owe our success to the commitment, skill and know-how of our employees.

Richard Cacchione
President, Hydro-Québec Production

Hydro-Québec Production posted an outstanding performance in 2009. Our success can be credited to two main factors: our employees' commitment to our objectives and careful management that continues to prove its worth. Development of Québec's hydropower potential reached an important milestone with the start-up of the Rupert diversion, which will add 5.3 TWh to the annual output of the La Grande complex. We also commissioned the last units at Chute-Allard and Rapides-des-Cœurs generating stations and finished refitting Outardes-4. In addition, after obtaining the necessary government approvals for the Romaine complex, we broke ground on the $6.5-billion project in May. Finally, we launched draft-design studies for two generating stations to be built on the Petit Mécatina.

We recorded net income of $2,214 million and paid $573 million in water-power royalties. Under unusually difficult market conditions, our net exports totaled $1,258 million for 18.5 TWh. Reservoir storage stood at 112.9 TWh as at December 31, 2009, a level well within the criteria set for managing the risks associated with security of energy supply.

OUR MISSION

Hydro-Québec Production generates electricity to supply the domestic market and sells its excess output on wholesale markets. We also offer balancing and firming capacity services to Hydro-Québec Distribution to offset variations in wind farm output and thereby facilitate the integration of this energy source.

OUR FACILITIES

Our generating fleet comprises 59 hydroelectric generating stations, 1 nuclear generating station, 4 thermal generating stations and 1 wind farm, representing assets worth $28.2 billion and installed capacity of 36.7 GW. We also have 26 large reservoirs with a storage capacity of 175 TWh, and 571 dams and control structures.

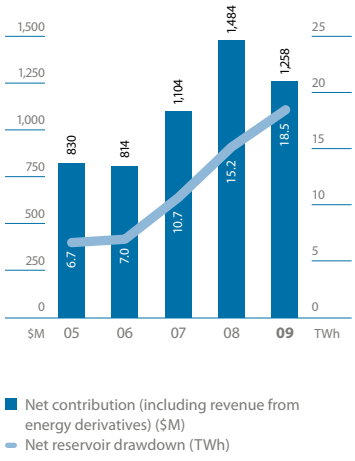
OUR ACTIVITIES

We supply Hydro-Québec Distribution with a heritage pool of 165 TWh of electricity per year. Above this volume, we sell our output in Québec in response to tender calls by Hydro-Québec Distribution and outside Québec on wholesale markets in northeastern North America.

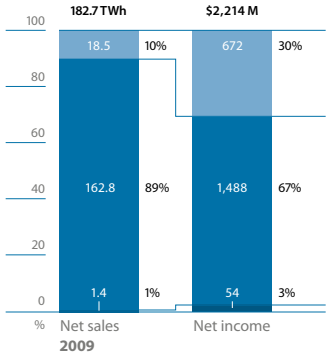
2009 IN FIGURES

Revenue	$6.4 billion
Net income	$2.2 billion
Customers (% of revenue from electricity sales)	
Hydro-Québec Distribution	76%
Other	24%
Sales volume	
Hydro-Québec Distribution	164.2 TWh
Other	23.2 TWh
Property, plant and equipment as at December 31 (including work in progress)	$31.8 billion
Investments	
Property, plant and equipment and intangible assets	$2.1 billion
Ownership interest (McCormick generating station)	$0.6 billion

Hydro-Québec Production's Net Electricity Exports



Hydro-Québec Production's Net Electricity Sales and Income, by Market



MAKING THE MOST OF OUR ENERGY RESOURCES

With its sustained focus on efficiency, Hydro-Québec Production is working to optimize its generating capacity in order to meet domestic requirements while maximizing profitability. The flexibility offered by hydroelectric generating stations, which can be started up in the space of a few minutes if necessary, means that our electricity can be sold on wholesale markets throughout northeastern North America under the best possible conditions.

> Electricity sales to Hydro-Québec Distribution totaled 164.2 TWh in 2009, compared with 170.2 TWh in 2008. Heritage pool sales generated net income of $1,488 million. Other deliveries and business transactions yielded net income of $54 million.

> Electricity sales outside Québec brought in $1,495 million for 23.0 TWh, versus $1,897 million for 21.1 TWh in 2008. The decrease in revenue is attributable to the more difficult market conditions encountered in 2009, compared with the highly favorable conditions seen during the first seven months of 2008. Net exports amounted to $1,258 million for net reservoir drawdown of 18.5 TWh—a unit contribution of 6.8¢/kWh—compared with $1,484 million and drawdown of 15.2 TWh in 2008. Net exports, less generating, procurement and transmission costs, yielded net income of $672 million in 2009.

> We operate our facilities in such a way as to maintain a sufficient energy reserve at all times to offset a potential natural inflow deficit equivalent to 64 TWh over two consecutive years and 98 TWh over four consecutive years. We also keep a capacity reserve approximately 8% higher than our contractual commitments, in line with the industry's reliability criteria.

> Under an agreement signed in 2006, we offer Hydro-Québec Distribution two services to facilitate the integration of wind power supplied by private producers: a balancing service to mitigate the impact of hourly fluctuations in the quantity of wind power carried on the Hydro-Québec TransÉnergie system; and firming capacity equivalent to 35% of the contractual capacity of the wind farms in commercial operation. The terms of this agreement will be renegotiated when it expires in 2011, according to the wind farms' actual output.

In 2009, net exports by Hydro-Québec Production accounted for only 10% of sales volume, but generated 30% of the division's net income and 22% of the company's net income.

The average cost of a kilowatthour was 2.0¢. This corresponds to the sum of our generating, procurement and sales costs divided by the net sales volume.

Continuing to develop hydropower, a clean, renewable energy source, will allow us to meet the energy needs of future generations.

In December, Hydro-Québec became the co-owner of McCormick generating station (Côte-Nord).

The last five generating units at Rapides-des-Cœurs, in the Mauricie region, came on stream in 2009.

DEVELOPING OUR GENERATING FLEET

Under its continuing program to develop Québec's hydropower potential, Hydro-Québec Production has inaugurated a number of facilities in the past few years: Sainte-Marguerite-3 and Rocher-de-Grand-Mère generating stations in 2004, Toulnustouc in 2005, Eastmain-1 in 2006, Mercier in 2007, Péribonka in 2008, and Chute-Allard, Rapides-des-Cœurs and the Rupert diversion in 2009. All our development projects must meet three fundamental criteria before they can proceed: they must be profitable, environmentally acceptable and favorably received by the local populations concerned.

> In December, the division invested $0.6 billion in Hydro-Québec's acquisition of a 60% interest in Manicouagan Power Limited Partnership, which owns and operates the 335-MW McCormick generating station in the Côte-Nord region.

> Commissioning of Chute-Allard and Rapides-des-Cœurs generating stations, on the Saint-Maurice, was completed in the fall. The first four units were started up in 2008, followed by the remaining eight in 2009: three at Chute-Allard and five at Rapides-des-Cœurs. With a combined installed capacity of 138 MW, the two facilities will generate 0.9 TWh per year for a total investment of $1.0 billion.

> The Eastmain-1-A/Sarcelle/Rupert project (Baie-James) reached a major milestone when the Rupert diversion went into operation in fall 2009, two months ahead of schedule and below budget. Construction also proceeded on Eastmain-1-A and Sarcelle powerhouses, to be commissioned in 2011 and 2012, respectively. This project, which will cost $5.0 billion to build, will add a total of 918 MW in installed capacity and 8.7 TWh in annual output, including additional output (5.3 TWh) stemming from the diversion of part of the flow of the Rupert to the La Grande complex.

> After we signed partnering agreements with Innu and other local communities affected by the project and obtained the necessary government approvals, we broke ground on the Romaine complex in May. The $6.5-billion project calls for the construction of four generating stations with a total capacity of 1,550 MW and annual output of 8.0 TWh on the Romaine, north of Havre-Saint-Pierre, in the Minganie region. The facilities will be commissioned in stages between 2014 and 2020.

> In the fall, we launched draft-design studies for two generating stations to be built on the Petit Mécatina, in the Basse-Côte-Nord region, about 250 km east of the Romaine. This complex would have a capacity of 1,200 MW and output of 6.2 TWh.

In the Manicouagan region, refitting was completed at Outardes-4.

Visitors tour the machine hall of Robert-Bourassa generating station (Baie-James). Based on the results of an innovative project for modeling head losses in the surge chamber, we modified the start-up sequence of the 16 generating units to achieve significant gains in output.

MAINTAINING AND UPGRADING OUR FACILITIES

In 2009, Hydro-Québec Production invested $644 million to ensure the long-term operability of its assets and increase their generating capacity. This calls for a detailed assessment of the condition of each facility, which is appraised by highly specialized employees.

- In the Manicouagan region, we finished the refitting of Outardes-4 generating station and began rehabilitation of a unit at Manic-2. The latter project, slated for completion in 2013, will yield additional capacity of around 30 MW.
- In the same region, auxiliary equipment at Manic-1 and the spherical valves at Manic-5 are undergoing a major overhaul to ensure their long-term reliability. These two projects should be completed by 2012 and 2013, respectively.
- In the Mauricie region, phase II of the La Tuque rehabilitation and refitting concluded with the commissioning of the third and final unit. This project added 60 MW to the facility's peak capacity.
- Rehabilitation at Beauharnois generating station (Montérégie) is proceeding as scheduled. This large-scale undertaking will considerably increase annual output.
- Several projects to ensure the long-term operability of Paugan generating station, in the Outaouais region, are under way.
- In Montréal, rehabilitation continued at Rivière-des-Prairies generating station.
- Rehabilitation was completed at Barrière dam (Abitibi-Témiscamingue) and Mercier dam (Outaouais), and is ongoing at Bourque dam (Outaouais), Melville dam (Mauricie), and Coteau-1, Coteau-3, Île-Juillet-1 and Île-Juillet-2 dams (Montérégie).
- As part of the project to refurbish Gentilly-2 nuclear generating station (Centre-du-Québec), we continued the engineering, procurement and planning activities begun in 2008. At the same time, we launched phase II of the project to build solid radioactive waste management facilities to store the waste generated by the plant's refurbishment. This work is scheduled for completion in summer 2010.

We use water to generate 98% of our output.

The 65 generating stations operated by Hydro-Québec Production have a total installed capacity of 36.7 GW.

Technician Mélanie Paquette takes monitoring measurements on Beauharnois dam (Montérégie).

Étienne Bergeron, powerhouse mechanic, and Pierre Deslauriers, mechanical technician, at the Gatineau mechanical workshop, which serves facilities in the Outaouais region.

INNOVATING TO IMPROVE OUTPUT

Our technological innovation efforts have essentially one objective: to optimize our generating assets in order to improve our performance on every level, always with a view to sustainability. Our innovation undertakings in 2009 were part of a portfolio of 25 projects worth a total of nearly $20 million.

> In light of a project initiated and carried out with the Hydro-Québec research institute (IREQ), which involved the numerical modeling of head losses in the surge chamber at Robert-Bourassa generating station using the finite element method, we modified the start-up sequence of the plant's 16 units. According to our estimates, this change should yield additional output of about 9 GWh/year.

> Using MATH technology (MATH is short for *modèles d'analyse des turbines hydrauliques,* or hydraulic turbine analysis models), we studied the wicket gates of three units at Beauharnois generating station and suggested altering their profile. This would enhance their efficiency and help reduce losses at the junction between the runners and the stationary part of the turbines.

> We continued to work with university and industry partners on a number of new technologies. These include LIBAR, which is a set of tools and technologies being developed to detect water infiltration in dams, and a project to demonstrate the feasibility and performance of a waterproof membrane for new or existing retaining structures.

> Finally, we embarked on a project to reduce the impact of hydroelectric developments on aquatic species through the installation of noise barriers (infrasound and ultrasound) to guide fish in their migration downstream.

Pierre Caron, Raphaël Gignac and Daniel Dufour of Installations de transport – Outaouais-Abitibi were involved in the start-up of the converters in the Outaouais substation valve room.

SOLUTIONS TO HANDLE THE CHALLENGES AHEAD

Thanks to our highly competent employees, we offer reliable transmission service meeting the most stringent quality standards.

Isabelle Courville
President, Hydro-Québec TransÉnergie

In 2009, we invested $1.2 billion in transmission grid development, reliability and long-term operability in order to continue to meet customer requirements in the areas of power quality and continuity of service.

We added to regional transmission facilities in order to integrate new sources of hydropower and wind power, and expanded our capacity over interconnections with neighboring systems by about 15%.

We do our utmost to keep our grid a globally recognized benchmark for reliability. System reliability is gauged by a continuity index, the system average interruption duration index (SAIDI). Based on third-party benchmarking, the SAIDI of the Hydro-Québec system compares favorably with that of other utilities.

To ensure system operation in compliance with the most stringent reliability standards, a mission with many highly technical challenges, we rely on our staff of extremely qualified specialists. Because maintaining this knowledge capital is critically important, we are actively preparing for successors in all job categories and carefully managing the transfer of knowledge. We are also aligning our work methods and processes with industry best practices.

OUR MISSION

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

OUR FACILITIES

Our system comprises 33,244 km of lines and 515 substations, as well as interconnections for interchanging electricity with grids in the Atlantic provinces, Ontario and the U.S. Northeast. Our rates and conditions of service, approved by the Régie de l'énergie, ensure non-discriminatory access to our system, in compliance with North American regulatory provisions.

OUR ACTIVITIES

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

2009 IN FIGURES

Revenue	$2.9 billion
Net income	$435 million
Customers (% of revenue)	
Hydro-Québec Distribution (native-load transmission service)	88%
North American wholesalers (point-to-point transmission services)	9%
Other	3%
Property, plant and equipment as at December 31 (including work in progress)	$16.9 billion
Investments	
Property, plant and equipment and intangible assets	$1.2 billion

Papineau MNA Norman MacMillan, Québec Premier Jean Charest, Québec Deputy Premier and Minister of Natural Resources and Wildlife Nathalie Normandeau, and Hydro-Québec President and CEO Thierry Vandal at the inauguration of Outaouais substation.

At the Saint-Hubert remote maintenance centre (Montérégie), Stéphane Després, Denis Nadeau, Éric Loiselle and Gaston Bazinet (foreground) work on deploying new technology to automate maintenance and to manage remote monitoring data as part of the IMAGINE project, with the ultimate goal of optimizing power system maintenance.

DEVELOPING THE TRANSMISSION SYSTEM

In 2009, we invested $493 million in the system in order to meet growing needs for the transmission of electricity. Our achievements include the commissioning of a 1,250-MW interconnection with Ontario, enabling us to send more power to that province and onward to New York State and the U.S. Midwest. We also continued discussions with U.S. transmission providers on building a 1,200-MW interconnection with New England. At the same time, we extended and strengthened the system to integrate new hydropower and wind power facilities. We have also built or upgraded a number of substations to meet increasing local demand.

> In the Gaspésie and Bas-Saint-Laurent regions, with the aim of integrating the 990 MW of wind power to be purchased by Hydro-Québec Distribution subsequent to tendering in 2003, we achieved the following milestones:

- Commissioning of the 230-kV Rimouski–Les Boules line (63 km)
- Commissioning of the 230-kV Saint-Ulric–Saint-Léandre line (7 km) and integration of the wind farm there
- Start of construction of the 230-kV Goémon–Mont-Louis–Gros-Morne line (106 km), a $142-million project to be completed in 2011

> We commissioned the first two components of the 1,250-MW interconnection with Ontario: Outaouais converter substation and the 230-kV line linking it to the Ontario grid. To reinforce Outaouais substation and improve security of supply to the region, we began building the 315-kV Chénier–Outaouais line (115 km), to be completed in 2010.

> We completed construction of the 120/25-kV Mont-Tremblant substation and two 120-kV lines 14 km long (Laurentides).

> We finished building the 120/25-kV Vaudreuil-Soulanges substation and looping the Dorion–Rigaud line connecting it to the grid, at a total cost of $26 million (Montérégie).

> In Montréal, we finished expanding the 315/25-kV Saraguay substation, a $30-million project.

> We began clearing the right-of-way for a 102-km, 315-kV line to link Eastmain-1-A and Sarcelle powerhouses to the system in 2011 (Baie-James).

> We launched construction of the 161/25-kV Waconichi substation and a 161-kV line (46 km), a $36-million project slated for completion in 2011 (Baie-James).

> In response to requests for transmission service to New Hampshire, Hydro-Québec and Northeast Utilities Service Company, a major New England transmission provider, signed a letter of understanding in 2008 for a project to build a 1,200-MW DC line between Des Cantons substation and a substation yet to be determined in southern New Hampshire. Discussions and studies by both parties continued in 2009. A milestone was reached in May when the Federal Energy Regulatory Commission (FERC) approved the commercial structure of the U.S. portion of the project.

Installing interphase spacers on the Eastmain-1–Nemiscau line (Baie-James) to maintain a constant distance between conductors and to counteract transmission line galloping.

At the Madawaska overhaul shop (Bas-Saint-Laurent), power system electrician Yves Olivier Ménard inspects a circuit breaker support column.

> We began clearing operations in preparation for building a 120-kV line 19 km long to supply the Canadian Malartic mining facilities of Osisko Mining Corporation (Abitibi-Témiscamingue). The line is to be commissioned in 2010 at an estimated cost of $16 million.

> A $76-million project is under way in Laval to increase the capacity of the 315/120-kV Chomedey substation and to replace equipment there by 2013.

> Near the city of Québec, we have undertaken construction of the 315/25-kV Anne-Hébert substation and a 315-kV line 13 km long (Capitale-Nationale). The project is expected to cost $84 million and end in 2010.

> In March, the Régie de l'énergie authorized our 2009 budget for projects of less than $25 million, including ones related to telecommunication facilities associated with the transmission system. Totaling $718 million, the budget is used to keep assets in good operating condition, improve the quality of service, meet legal and regulatory requirements, and respond to growing needs.

> In August, the Régie authorized a project running until 2012 to upgrade the main transmission system. The project involves increasing transmission capacity and improving power quality by adding static var compensators and series compensation, replacing circuit breakers, modifying protections and performing various jobs on related equipment and on the telecommunication network.

RELIABILITY AND LONG-TERM OPERABILITY

To provide high-quality electrical service throughout the province, we must safeguard the reliability and long-term operability of the transmission system. In 2009, we spent $703 million on refurbishment, upgrading and modernization projects designed to meet customer requirements and to ensure system reliability and compliance with standards and regulatory requirements.

> In June, our Direction du contrôle des mouvements d'énergie, in its capacity as Reliability Coordinator for Québec, filed with the Régie de l'énergie the North American Electric Reliability Corporation (NERC) standards that will apply to power systems in Québec under the North America–wide framework of mandatory standards. The Régie filing also included an assessment of the pertinence and impact of these standards, registers of entities and facilities subject to them, and a guide for determining sanctions for noncompliance.

> At the 735/315/230-kV Lévis substation, the second synchronous condenser was recommissioned; the cost for refurbishing both condensers was $35 million (Capitale-Nationale).

INVESTMENT IN THE TRANSMISSION SYSTEM ($M)

	2009	2008	2007	2006	2005
System development	**493**	559	349	416	337
Reliability and long-term operability of assets	**703**	540	497	527	451
Total	**1,196**	1,099	846	943	788

At the administrative centre in Amos (Abitibi-Témiscamingue), power system electrician Alain Alarie and Mario Lachaine, Manager – Transmission Equipment Maintenance, discuss the refurbishment of Rapide-2 substation.

Refurbishment of Sorel substation (Montérégie). Michel Archambault, Chantal Findlay, Claude Turcotte, Martin Trottier, Yves Hardy, Christian Reid and Léodore Thibeault of Installations de transport – Richelieu.

> Refurbishment and expansion of the 315/161/69-kV Hauterive substation continued and should be completed in 2012 at an estimated cost of $79 million (Côte-Nord).

> In the same region, we launched Project 3M, which consists in digitizing the 20 microwave links forming the telecommunication network between Manicouagan substation, Montagnais substation and the Manic-5 hydroelectric development. Completion is slated for 2013.

> Progress continued on converting to a digital telecommunication network with the commissioning of new microwave links between Bergeronnes (Côte-Nord) and Lévis substations.

> We upgraded the microwave links between Micoua (Côte-Nord) and Saguenay (Saguenay–Lac-Saint-Jean) substations, including the links from Bersimis-1 and Bersimis-2 substations (Côte-Nord).

> As part of the modernization of the 735/315/120-kV Châteauguay substation (Montérégie), we replaced the control system of the back-to-back converters enabling interchanges with New York State (1,000 MW).

> The project to refurbish the 230/120/25-kV Sorel substation continued and should end in 2010 (Montérégie).

> An estimated $42 million of work to refurbish the 120/25-kV Saint-Maxime substation and increase its transformation capacity will be completed in 2010 (Montérégie).

> We completed reconstruction of the 120/25-kV Gatineau substation at a cost of $19 million (Outaouais).

> In Laval, we began building a new 120-kV substation on the site of Rivière-des-Prairies generating station and have nearly completed a 120-kV underground line that will replace the 69-kV overhead one. This project will be completed in 2010.

> We began refurbishing the synchronous condensers at the 735/315/161/44-kV Abitibi substation, a $71-million project set to end in 2011 (Abitibi-Témiscamingue).

It is because of technological innovation that Hydro-Québec TransÉnergie stays in the forefront of power transmission system design, operation and maintenance.

We increasingly rely on remote monitoring to track the status of equipment.

Accelerated deployment of digital technology is resulting in shorter equipment outages and lower repair costs.

At Des Hêtres substation in Shawinigan, technician Pierre Fafard inspects CapThor, a new capacitor bank protection.

Laboratory head technician Sylvie Mongrain checks the quality of insulating gloves to be worn by cable workers when performing live-line work.

The transformers at Langelier substation in Montréal are insulated with sulphur hexafluoride (SF_6). Support technician Luckner Verna, chief power system electrician Jean-Luc Gadoua, and electrical engineer Mathieu Lalonde monitor SF_6 quality using a sampling system and a hygrometer.

IMPROVING TRANSMISSION SERVICE THROUGH INNOVATION

In 2009, we invested $16 million in developing technological innovations designed to improve the performance of the power system or to ensure its long-term operability. We carry out our innovation initiatives in collaboration with the Hydro-Québec research institute (IREQ), and with specialized research centres and firms.

> We continued rolling out the IMAGINE project, designed to increase the efficiency of transmission system management through automated maintenance and enhanced processing of monitoring data. We can now better target maintenance work through such digital techniques as remote monitoring, telemetering, and remote uploading and diagnostics. In 2009, we connected 32 substations to a first remote maintenance centre and opened a second centre in the city of Québec. Most of our substations will ultimately be connected to a remote maintenance network.

> We have developed the AE-150, a partial-discharge and hot-spot locator for latest-generation power transformers. This diagnostic tool, soon to be marketed, enables us to detect the ultrasonic waves emitted by partial discharges and hot spots, which provide information on the nature of power transformer problems and faults. The AE-150 is the result of a joint effort by IREQ and a Québec firm.

> In collaboration with Hydro-Québec Équipement, we inaugurated a first modular protection, automation and control (MPAC) building at Joly substation (Laurentides) and a second at Grande-Vallée substation (Gaspésie). We are about to commission a third at Turcotte substation in Shawinigan. Unlike conventional control buildings, MPACs are standardized and factory-assembled in their entirety. With the experience from these projects, using MPACs will simplify engineering work and shorten lead times.

> We have developed SMCT, a transformer switching control system that reduces the risk of saturation of a power transformer when it is energized. The goal is to avoid excessive inrush currents, system disturbances and premature deterioration of equipment. We installed two SMCTs in 2009, one each at Sainte-Marguerite-3 and Toulnustouc generating stations.

HYDRO-QUÉBEC DISTRIBUTION

On January 16, 2009, a dense cloud of steam fog rose from the river in the Port of Montréal due to bitterly cold temperatures. At 8 a.m. that same day, Québec's demand for power reached a historic peak of 37,230 MW. The population responded to our public appeal to reduce consumption and the resulting savings of approximately 400 MW allowed us to handle the peak.

IN TOUCH WITH OUR CUSTOMERS

Our employees' commitment and expertise are key to our success.

André Boulanger
President, Hydro-Québec Distribution

In 2009, difficult economic conditions led to a marked decline in electricity sales to industrial customers, causing us to initiate or renew measures to suspend or defer a portion of our supply.

Nevertheless, we maintained our focus on continuous improvement and kept investing in the long-term operability and development of the distribution system.

We also launched two calls for tenders and a purchasing program for renewable energies, in accordance with the Québec Energy Strategy 2006–2015.

The economic downturn in the industrial sector slowed progress on the energy efficiency front, with new energy savings of 946 GWh in 2009. However, our target of 11 TWh in recurring energy savings by 2015 remains unchanged.

OUR MISSION

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

OUR ACTIVITIES

To meet demand, Hydro-Québec Distribution relies primarily on the heritage pool of 165 TWh, which it purchases from Hydro-Québec Production. To meet demand beyond that volume, it purchases electricity under market conditions. The division ensures that the distribution system operates efficiently, reliably and safely at all times. It offers customers products and services tailored to their needs, as well as a wide range of energy efficiency programs.

OUR FACILITIES

The division operates 111,205 km of lines, a nine-location customer relations centre providing telephone and online services, and five distribution control centres, as well as one hydroelectric generating station and 23 thermal generating stations supplying customers on off-grid systems.

2009 IN FIGURES

Revenue	$10.7 billion
Net income	$365 million
Customers (% of revenue from electricity sales)	
Residential customers	54%
Commercial and business customers	19%
Large-power customers	27%
Property, plant and equipment as at December 31 (including work in progress)	$8.7 billion
Investments	
Property, plant and equipment and intangible assets	$709 million
Energy Efficiency Plan	$257 million

CREDIT: JOAN SULLIVAN

The Saint-Ulric–Saint-Léandre wind farm, located in the Gaspésie region, was connected to Hydro-Québec's transmission system in 2009 and delivered its first kilowatthours in November.

The municipality of Sorel-Tracy, in the Montérégie region, purchased its first electric vehicle thanks to financial support from Hydro-Québec under the Go with the Flow campaign.

MANAGING SUPPLY RESOURCES

Hydro-Québec Distribution manages its supply resources to ensure reliable electrical service at the lowest possible cost. To do so, we rely on a flexible and diversified energy portfolio that enables us to deal with fluctuations in demand. The slowdown in the pulp and paper and smelting and refining sectors meant decreased sales to industrial customers. We therefore readjusted the measures we have implemented to balance supply and demand.

We ensure optimum management of our supply resources.

Energy efficiency is one of Hydro-Québec's three avenues of development.

We remain attentive to customer needs so as to maintain quality service.

> On October 30, a second progress report on the Electricity Supply Plan 2008–2017 was submitted to the Régie de l'énergie. This update integrates the most recent domestic demand forecasts and outlines the measures taken to suspend or defer contracted deliveries that exceed the requirements of the Québec market.

- On September 29, the Régie de l'énergie approved a new agreement between Hydro-Québec and TransCanada Energy (TCE) for the temporary suspension of generation at the TCE facility in Bécancour. Renewal of a similar agreement allowed Hydro-Québec Distribution to suspend delivery of 4.3 TWh in 2009.
- Under the agreements signed with Hydro-Québec Production for the deferral of a portion of baseload and cycling deliveries scheduled for 2008–2011, we deferred delivery of 4.2 TWh in 2009, for a cumulative total of 6.3 TWh since 2008.
- On August 21, the Régie de l'énergie approved a new framework agreement with Hydro-Québec Production regarding very short-term supply. Effective from January 1, 2009, to December 31, 2013, this agreement is a last-resort tool enabling us to cover unforeseen needs on the domestic market in real time, once all other means at our disposal have been applied.

> In 2009, Hydro-Québec Distribution launched two calls for tenders and a purchase program for renewable energies, in accordance with Québec government orders-in-council.

- On April 14, Hydro-Québec Distribution issued a call for 125 MW of power generated in Québec by new cogeneration plants with biomass accounting for at least 75% of the fuel used to generate power. We accepted eight bids from seven proponents for a total of 60.7 MW. Deliveries are scheduled to begin December 1, 2012. With terms ranging from 15 to 25 years, the contracts will be submitted to the Régie de l'énergie for approval in the spring of 2010.

2009 ENERGY STAR Award for Sustained Excellence. Marie-Claude Pomerleau, Hydro-Québec, and Carol Buckley from Natural Resources Canada's Office of Energy Efficiency.

Les Brasseurs du Nord was the grand prize winner of the 2009 ENERGY WISE Competition of Excellence. The microbrewery was recognized for having integrated various energy efficiency measures when it expanded its facilities in Blainville, in the Laurentides region.

Line worker Benoit Ouellette prepares to install a capacitor bank in Granby (Montérégie) as part of the Addition 1,000 Mvar project, which is being implemented to ensure transmission system reliability during periods of exceptional peak demand.

• On April 30, Hydro-Québec Distribution issued a call for two 250-MW blocks of Québec-generated wind power, one reserved for Aboriginal projects and one for other community projects. Bids must be submitted by May 19, 2010. Deliveries should begin between December 1, 2012, and December 1, 2014, under 20-year contracts.

• On July 15, Hydro-Québec Distribution launched a power purchase program targeting small hydro projects (50 MW or less), for a total capacity of 150 MW. This program is intended for Aboriginal, local and regional communities. Bids must be submitted by March 16, 2010. The facilities should be commissioned between 2011 and 2015, under 20-year contracts.

> The wind power projects resulting from the 2,000-MW call issued in 2005 are moving at a good pace. The proponents are continuing with the consultation process and impact assessments. The first deliveries are scheduled to come on stream between 2012 and 2015.

> The Saint-Ulric–Saint-Léandre wind farm began delivering power on November 20. This is the fourth wind farm to be commissioned in the Gaspésie region in response to the 2003 call for wind power, for a total cumulative capacity of 447 MW to date.

ONGOING EFFORTS IN ENERGY EFFICIENCY

In 2009, Hydro-Québec Distribution readjusted its energy efficiency efforts in light of the difficult economy. Nevertheless, our programs generated new savings of 946 GWh, for a total of 4.3 TWh in annual savings achieved to date. We are maintaining our goal of 11 TWh by 2015, including 2 TWh from the distribution system's enhanced energy efficiency performance.

> The RECYC-FRIGO Environnement™ program has met with great success since it was launched in March 2008. As at December 31, 2009, 186,162 energy-guzzling refrigerators and freezers had been collected throughout Québec for savings of 147 GWh, equivalent to 71% of the upwardly revised target set for the end of 2010.

> In April 2009, the ENERGY WISE Home Diagnostic program, launched in 2004, reached the one-million mark for reports sent out.

> In 2009, the Go with the Flow campaign received the STRAT Audacity Prize from the Association des professionnels de la communication et du marketing (APCM) and was also named Campaign of the Year at the 2009 gala of the Relationship Marketing Association.

> In May 2009, we received the government of Canada's ENERGY STAR Award for Sustained Excellence in recognition of our ongoing efforts to promote ENERGY STAR® qualification under our ENERGY WISE programs. This was Hydro-Québec's sixth ENERGY STAR Award in five years.

Line worker Simon Robichaud connects a new customer to the power grid. In 2009, nearly 53,000 hookup requests were fulfilled on schedule.

Operator Sylvain Sincerny at the distribution control centre in Saint-Jérôme.

TAILORING OUR SERVICES TO MEET CUSTOMERS' NEEDS

Hydro-Québec Distribution implemented various support measures to minimize the impact of the recession on its customers.

RESIDENTIAL, COMMERCIAL AND BUSINESS CUSTOMERS

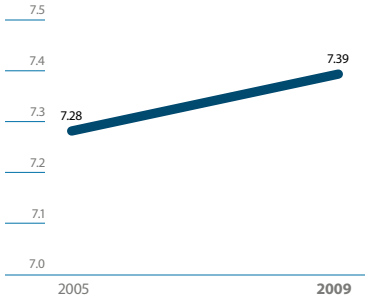
> Hydro-Québec offers special payment arrangements to low-income customers who are having trouble paying their electricity bills. In 2009, we entered into 32,107 such arrangements, for arrears of $189 million.

> We continued to improve access to our services in 2009. Average telephone response time was brought down to 190 seconds, from 379 seconds in 2008.

> In order to enhance our services to business customers, we developed a personalized customer relations approach adapted to their consumption profile.

> In March 2009, the Régie approved an across-the-board rate increase of 1.22%, effective April 1, 2009. In March 2010, further to an application filed in July 2009, it approved a 0.4% across-the-board increase, effective April 1, 2010.

RESIDENTIAL, COMMERCIAL AND BUSINESS CUSTOMER SATISFACTION



LARGE-POWER CUSTOMERS

Industrial, commercial and institutional customers with a power demand of 5 MW or more consume 38% of the electricity distributed in Québec.

> On July 8, 2009, the Québec government authorized Hydro-Québec Distribution to enter into special rate agreements with industrial customers (power consumption greater than 50 MW) affected by the recession. This measure resulted in savings of $21 million for these customers for the fiscal year.

> In 2009, we asked for the Régie's authorization to create an account for deferred expenses to facilitate the application of the Load Retention Rate, designed for companies experiencing financial difficulties. This rate applies to Rate L customers only. To be eligible, customers must demonstrate, among other things, that they obtained non-refundable deductions from their other suppliers or partners and that steps will be taken to improve their profitability.

SUSTAINED INVESTMENT IN THE DISTRIBUTION SYSTEM

Hydro-Québec Distribution continues to invest in its system. The division's efforts are focused on the long-term operability and performance of its facilities and the effective management of an increasing demand for hookups. Hydro-Québec Distribution is also pursuing its efforts to reduce the duration and scope of service interruptions.

HYDRO-QUÉBEC DISTRIBUTION INVESTMENTS (NON-EEP[a]) ($M)

	2009	2008	2007	2006	2005
Development	**325**	308	267	283	263
Reliability and long-term operability of assets	**384**	356	457	409	383
Total	**709**	664	724	692	646

a) EEP: Energy Efficiency Plan

Refurbishment of the underground distribution grid in Lorraine, in the Laurentides region. Frederic Vincent, cable worker, and Richard L. Robert, cable crew chief.

Roger Perron of Hydro-Québec (right) presents the Business of the Year Award to Yannick Laroche of Marmen Énergie at the Wind Energy Industry Conference hosted by TechnoCentre éolien in the Gaspésie region.

In 2009, Hydro-Québec Distribution adopted a system evolution plan, which provides an overall view of the distribution system's development requirements over a 15-year period. This plan targets the twofold objective of improving service quality and reliability and optimizing operating efficiency.

> We pursued the system automation program aimed at reducing outage durations. As at December 31, 2009, the division had deployed 48% of the 3,752 units of remote-controlled equipment scheduled for installation throughout Québec.

> We are presently conducting a pilot project on Montréal's south shore to test CATVAR, a voltage regulation and reactive power control system designed to reduce consumption and energy losses on the distribution system. Deployment of CATVAR is planned to start in 2010, subject to approval by the Régie de l'énergie.

> In response to a request by Hydro-Québec TransÉnergie aimed at ensuring transmission system reliability under exceptional peak demand, we accelerated the installation of a portion of the capacitor banks scheduled for deployment starting in 2010 under the CATVAR project. Under the Addition 1,000 Mvar project, roughly 800 capacitor banks with manual control boxes will be installed, primarily in the Montréal, Richelieu and Laurentides regions.

> In 2009, we fulfilled almost 53,000 hookup requests on schedule for a total investment of $203 million.

> On June 26, the Régie approved a project to connect the village of La Romaine, in the Basse-Côte-Nord region, to the Hydro-Québec Distribution grid. Since 1972, this village has been powered by a diesel generating station consuming 3.5 million litres of fossil fuel per year. Connecting it to the grid will enable Hydro-Québec to start supplying it with renewable energy as of fall 2012 at the latest.

> Hydro-Québec Distribution's program to prevent work-related accidents yielded good results in 2009, with an accident frequency rate of 3.56 for 200,000 hours worked. The division is well on its way to reaching its target of 3.5 by 2011.

INNOVATING TO IMPROVE DISTRIBUTION SERVICE AND ENERGY EFFICIENCY

Hydro-Québec's innovation efforts focus on two main thrusts: improving system performance and efficiency, and helping customers achieve energy savings under the Energy Efficiency Plan. In 2009, the division invested some $20 million in developing cutting-edge technological solutions in collaboration with Hydro-Québec's research institute, IREQ.

> We developed SimLoc, a highly effective tool for locating faults on underground lines. Deployment of the SimLoc system began in 2009 and will continue until the summer of 2010.

> We developed a remote manipulator to lift live conductors during certain types of operations, such as pole replacement.

> IREQ's energy technologies laboratory developed a diagnostic tool to help small to medium-sized industrial customers adopt energy-efficient measures. Based on a questionnaire filled out by the customer, this user-friendly tool automatically generates a consumption profile featuring tailored recommendations linked to Hydro-Québec's energy efficiency programs.

> In 2009, a new version of the software designed to simulate and predict building power and energy requirements was field-tested. It models the energy consumption of buildings in the industrial and commercial sectors, which amounts to 36 TWh a year in Québec.

Drilling for concrete pouring inside one of the three penstocks of Eastmain-1-A powerhouse (Baie-James).

STRIVING TO BUILD EXCELLENCE

With their drive to succeed, our teams guarantee the success of our projects.

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

Hydro-Québec Équipement and Société d'énergie de la Baie James (SEBJ) had a record volume of activity in 2009. While handling this exceptional workload, our teams managed to meet and occasionally get ahead of deadlines, resulting in considerable savings. This achievement was no small feat given that 2009 was a very busy year for the civil engineering sector.

Regarding generating assets, a number of our projects passed major milestones. The Rupert diversion (Baie-James) became operational, increasing the output of the La Grande complex. Construction of Eastmain-1-A and Sarcelle powerhouses also progressed steadily. Chute-Allard and Rapides-des-Cœurs generating stations (Mauricie) are now operating at full capacity. In Minganie (Côte-Nord), we began construction of the Romaine complex, a project that will extend until 2020.

As for transmission facilities, we continued activities to extend and strengthen the system, while initiating the study of many new line and substation projects. Several projects also came to a close in 2009, notably construction of Outaouais substation and work needed to increase transmission capacity and integrate new wind farms in Gaspésie. We also refurbished a number of substations and lines to achieve reliability and long-term operability targets.

OUR MISSION

Hydro-Québec Équipement and Société d'énergie de la Baie James design, engineer and carry out projects for the construction and refurbishment of generating and transmission facilities that meet the needs of their customers, Hydro-Québec Production and Hydro-Québec TransÉnergie, and that are of greatest benefit to the company. They offer high-quality, cost-effective solutions that apply best practices in social and environmental acceptability, and that involve the participation of communities and industry.

OUR ACTIVITIES

Our services cover all project stages and aspects: project management, communications with communities concerned, government permitting, geospatial data and mapping, field surveys, biophysical and human environment studies, engineering, procurement, construction, manufacturing quality assurance, and managing work up to handoff to the operator. We are constantly seeking new ways to maximize facility performance while reducing costs and lead times.

2009 IN FIGURES

Volume of activity	$2.7 billion
Main customers (% of volume)	
Hydro-Québec Production	65%
Hydro-Québec TransÉnergie	33%
Other	2%

May 2009 groundbreaking for the Romaine project in the presence of Québec Premier Jean Charest, ministers Claude Béchard and Pierre Corbeil, representatives of Innu and other communities in the region, and Hydro-Québec President and CEO Thierry Vandal.

The transfer tunnel before the impoundment of Rupert forebay and tailbay, which the tunnel connects.

MEETING EVERY CHALLENGE

Scattered across Québec, our projects present considerable technical, material, social and environmental challenges. We owe our success to the quality of our teams and those of our partners, who combine willing cooperation with prompt performance. In 2009, our volume of activity grew to $2.7 billion, up 11% over 2008.

TOTAL VOLUME OF HYDRO-QUÉBEC ÉQUIPEMENT AND SEBJ ACTIVITY ($B, FINANCING EXCLUDED)

2009	2008	2007	2006	2005
2.7	2.4	2.2	2.0	2.1

KEY ACHIEVEMENTS IN 2009 GENERATION PROJECTS

- As part of the Eastmain-1-A/Sarcelle/Rupert project (Baie-James), we completed the last Rupert diversion structures (Nemiscau-2 dam, all dikes, the canals and the instream flow release structures) two months ahead of schedule and under budget, and proceeded with impoundment of the Rupert diversion bays. Diverting part of the Rupert's flow to the Grande Rivière will increase by 5.3 TWh the generating capability of the La Grande complex, more specifically that of Robert-Bourassa, La Grande-2-A and La Grande-1 generating stations. At the same time, Eastmain-1-A and Sarcelle powerhouses will generate 3.4 TWh by 2012. Hydro-Québec will thus increase its annual output by 8.7 TWh thanks to this project.
- As part of the same project, we finished building the new Waskaganish drinking water plant, designed to meet that community's existing and future needs.
- We commissioned the last units at Chute-Allard and Rapides-des-Cœurs generating stations, which now have a total installed capacity of 138 MW (Mauricie).
- We completed the rehabilitation and refitting of La Tuque generating station, increasing its peak capacity by 60 MW, for total regional spinoffs of $41 million (Mauricie).
- We also finished refurbishment work at Chute-Hemmings generating station (Centre-du-Québec) and Bryson generating station (Outaouais).
- The Barrière dam (Abitibi-Témiscamingue) and Mercier dam (Outaouais) refurbishment projects were successfully completed.

In 2009, prevention programs and safety rules were applied very strictly on our jobsites, allowing us to maintain a record-low rate of work-related accidents.

The Romaine complex will be the largest construction project in Canada for the next several years.

In 2009, we worked on more than 1,000 projects, including over 800 in the area of transmission.

We rely on innovation to minimize project costs and lead times.

Installing a duct bank to run cabling for auxiliary services (lighting, fire alarm system, etc.) at the new Mont-Tremblant substation (Laurentides).

Workcamp at Kilometre 1 of Route de la Romaine (Minganie).

Powerhouse mechanics Rock Déziel and Denis Mongeon working to refurbish Hull-2 generating station (Outaouais).

KEY ACHIEVEMENTS IN 2009 TRANSMISSION PROJECTS

> We inaugurated the 1,250-MW interconnection with Ontario. After the 230-kV line to Ontario was operational, we commissioned Outaouais substation by starting up its first converter in June and its second in November. Work is continuing on the Chénier–Outaouais line.

> We successfully completed reconstruction of the 120/25-kV Gatineau substation (Outaouais).

> We finished relocating segments of three 735-kV lines that ran across land destined to become Rupert tailbay (Baie-James).

> We recommissioned the second synchronous condenser at the 735/315/230-kV Lévis substation across from the city of Québec (Capitale-Nationale).

> The 120/25-kV Mont-Tremblant substation and two 120-kV lines were commissioned (Laurentides).

> In Montréal, we finished expanding the 315/25-kV Saraguay substation.

> We completed construction of the 120/25-kV Vaudreuil-Soulanges substation (Montérégie) and the looping of the Dorion–Rigaud line connecting it to the grid.

> We replaced the control system of the back-to-back converters at the 735/315/120-kV Châteauguay substation (Montérégie), from which up to 1,000 MW can be exported to New York State.

> We completed the 230-kV Rimouski–Les Boules and Saint-Ulric–Saint-Léandre lines (Gaspésie), which carry the output of wind farms in the region.

RAMPING UP GENERATION AND PERFORMANCE

In 2009, construction was under way at four hydroelectric generating stations, two of which are part of the Eastmain-1-A/Sarcelle/Rupert project. In addition, we made final preparations for the Romaine complex and started the construction phase of the project. We also carried out 62 refitting and refurbishment projects to increase the capacity of generating assets and to ensure their long-term operability. All these projects amounted to $1.7 billion of activity in the course of the year.

> The workforce on the Eastmain-1-A/Sarcelle/Rupert jobsites peaked in 2009 at about 3,700 workers, including 332 from Cree communities. This $5.0-billion project will boost Hydro-Québec's installed capacity by 918 MW and increase annual output by 8.7 TWh.

• At Eastmain-1-A (768 MW), we assembled the prefabricated structural elements of the powerhouse and began assembling the turbines. We also laid concrete for the powerhouse, water intake, draft tubes and penstocks. The tailrace canal is now being excavated.

• At Sarcelle (150 MW), we finished constructing the building for the service bay and assembling prefabricated elements, started concrete work on the powerhouse and water intake, built the cofferdams and completed the headrace canal.

• Partial diversion of the Rupert has resulted in reduced flow downstream of Rupert dam. Among the mitigation measures designed to conserve fish habitats, facilitate navigation and protect the landscape, we built one weir and started work on seven other hydraulic structures. Spaced along some 314 km, these structures will maintain the level of the Rupert at various sensitive areas of its course.

In 2009, $1.1 billion was invested in the Eastmain-1-A/Sarcelle/Rupert project. Employment rose to 4,209 person-years, with Cree and Jamesian workers accounting for 15% of the workforce. Contracts and expenditures totaled $40 million in the Nord-du-Québec region, $75 million in Abitibi-Témiscamingue and $125 million in Saguenay–Lac-Saint-Jean.

Construction of a new power plant in Kuujjuaq (Nunavik) to replace the outdated one now in use.

Construction of the Chénier–Outaouais line, which will reinforce Outaouais substation and give the region a more secure supply of power.

Occupational safety advisor Marilyn Vaillancourt using the Work Safety Code to promote worker awareness of accident prevention at construction sites.

> In May 2009, we launched construction of the Romaine complex on the river of the same name in Minganie. This $6.5-billion project involves building four generating stations with a combined installed capacity of 1,550 MW and annual output of 8.0 TWh, in addition to a 150-km road to reach the structures from Highway 138. Work will last until 2020. Here are our main achievements to date:

- We first began building the road and set up a workcamp at Kilometre 1 to accommodate 371 people. We then built a temporary 161/34-kV substation, erected a line to supply the Romaine-2 jobsite and started building a second workcamp near that site. That workcamp will house up to 1,800 people in late 2012.
- We began engineering work for Romaine-2 generating station (640 MW), which will have the highest capacity of the four and in 2014 will be the first to be commissioned. We also put out tender calls for construction of the generating station.

Over its construction phase, the Romaine project will generate $3.5 billion in economic spinoffs for Québec, including $1.3 billion for the Côte-Nord region. It employed an average of 377 workers a month in 2009. Between 2012 and 2016, the peak workforce will exceed 2,000, with nearly 60% coming from the region.

> A number of hydroelectric generating stations are presently undergoing refurbishment, modernization or other work: Rivière-des-Prairies, Beauharnois and Les Cèdres (near Montréal); Hull-2, Carillon and Paugan (Outaouais); Rapide-2 and Rapide-7 (Abitibi-Témiscamingue); La Grande-1, La Grande-3 and La Grande-4 (Baie-James); and Manic-1, Manic-2, Manic-5, Manic-5-PA and Bersimis-2 (Manicouagan).

> Refurbishment work continued on Melville dam (Mauricie) and Bourque dam (Outaouais).

> In Bécancour (Centre-du-Québec), we moved forward with the engineering and procurement work for the refurbishment of Gentilly-2 nuclear power plant (675 MW). We continued to benefit from lessons learned from the refurbishment of Point Lepreau nuclear power plant in New Brunswick. At the same time, we continued to work on expanding the solid radioactive waste management facility in order to store the waste that refurbishing the plant will produce. The project will generate total economic spinoffs of $600 million in Québec, including $200 million in the region. Refurbishing the power plant alone will create some 800 jobs.

> We continued construction of the 6,425-kW Kuujjuaq thermal power plant (Nunavik), which will replace the existing one, now outdated. The project will be completed in 2010. Note that Nunavik power plants supply off-grid systems and are operated by Hydro-Québec Distribution.

> We began draft-design studies for the Petit-Mécatina hydroelectric complex (Basse-Côte-Nord). The studies are to determine the final configuration, characteristics, project schedule and costs. The two generating stations planned, Petit-Mécatina-3 and Petit-Mécatina-4, would have a combined capacity of 1,200 MW.

EXPANDING RELIABLE TRANSMISSION

Our transmission-related workload totaled $895 million in 2009. We carried out 832 projects aimed at extending the system, increasing transmission capacity, enhancing reliability and ensuring the long-term operability of facilities.

> In Laval, the capacity of the 315/120-kV Chomedey substation is being increased and equipment replaced as part of a project due to end in 2013.

> Also in Laval, we began building a new 120-kV substation on the site of Rivière-des-Prairies generating station and have nearly completed a 120-kV underground line to replace the 69-kV overhead one. This project will be completed in 2010.

The Prix Léonard, Energy category, from the Association of Consulting Engineers of Québec, presented by Louis-Régis Tremblay, Alcoa Canada, to Gaëtan Thibault of AECOM Tecsult and Pierre Geoffrion of Hydro-Québec for the Péribonka hydropower project.

Expansion of Saraguay substation in Montréal was completed in 2009.

> In Montérégie, work is proceeding on schedule to refurbish the 120/25-kV Saint-Maxime substation, increase its transformation capacity and refurbish the 230/120/25-kV Sorel substation. Both projects are slated to end in 2010.

> We began building the last component of the new Ontario interconnection, the 315-kV Chénier–Outaouais line, to be completed in 2010.

> Work continued to refurbish and expand the 315/161/69-kV Hauterive substation and is scheduled to end in 2012 (Côte-Nord).

> Near the city of Québec, we began the 315/25-kV Anne-Hébert substation and a 315-kV line, both to be completed in 2010 (Capitale-Nationale).

> We began clearing the right-of-way for the 315-kV line 102 km long that will link Sarcelle and Eastmain-1 powerhouses to the grid in 2011 (Baie-James).

> We started construction of the 161/25-kV Waconichi substation and of a 161-kV line to meet the growing needs of Mistissini under a project to end in 2011 (Baie-James).

> At the 735/315/161/44-kV Abitibi substation, we initiated the overhaul and upgrading of two synchronous condensers to be recommissioned in 2011.

> In the Gaspésie and Bas-Saint-Laurent regions, we began building the 230-kV Goémon–Mont-Louis–Gros-Morne line in order to integrate wind farm generation. The line will be completed in 2011.

> The environmental assessment on extending the transmission system in Minganie, and more specifically connecting the Romaine complex, was filed with the competent authorities in August 2009. The project involves building four substations and about 500 km of transmission lines. Work should begin in the second quarter of 2011, subject to the necessary approvals.

INNOVATION: THE KEY TO SUCCESSFUL CONSTRUCTION PROJECTS

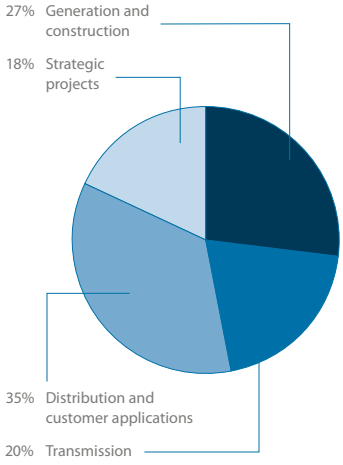
To successfully carry out projects that are often highly technical and logistically complex, our teams combine the use of state-of-the-art methods and technologies with an exceptional ability to innovate. They constantly pursue the same goal: meet the needs of Hydro-Québec Production and Hydro-Québec TransÉnergie while minimizing project costs and lead times.

> In 2009, we used CATIA® V5, an interactive 3D computer-aided design platform, to model reinforcing steel for powerhouse concrete, a world first. We developed a module for inserting and adjusting all types of steel rebars in structural elements such as floors, columns, straight walls, curved walls and arches. The module includes full information on rebar placement and produces conventional 2D placement drawings.

> At Eastmain-1-A, we used prefabricated elements extensively in building the downstream wall, generator floor and transformer platform of the powerhouse. Thanks to this quick, efficient process, we were able to finish construction of the building envelope before winter, enabling us to continue work sheltered from the elements. As a result, no temporary facilities had to be built, shaving several months off our initial schedule.

Researcher Alessandra Maria Serventi gets ready to insert a specimen prepared with a focused ion beam (FIB) system into the column of a scanning transmission electron microscope (STEM), both acquisitions of the Hydro-Québec research institute (IREQ). These devices are pushing back the frontiers of materials science.

BREAKDOWN OF INNOVATION EFFORTS BY HYDRO-QUÉBEC'S RESEARCH INSTITUTE IN 2009 (BY AMOUNT INVESTED)



LEVERAGING INNOVATION FOR GROWTH

Hydro-Québec relies on innovation and new technologies to improve performance in its operations, to develop areas of growth and to better serve its customers. Thanks to its exceptionally skilled teams of computer and communications experts and researchers, the company succeeds in meeting the many highly technical challenges that it faces not only in the area of electricity, but also in the indissociable field of information and communication technology.

We invest some $100 million annually in our research institute, IREQ. In 2009, researcher efforts focused on power system performance, reliability and long-term operability. They were also directed toward the integration of wind power into the grid, emerging renewables (e.g., hydrokinetic and salinity-gradient energy), geothermal energy and ground transportation electrification.

At the same time, we continued converting to a digital communication network and integrating the information and communication systems that support both power system functions and company office applications. Extensive work has also been done on computer security, and specifically cyber security.

IREQ uses the STEM to develop nanomaterials for batteries and study the aging of power system components, among other things.

At the telecommunications control centre, technician Sylvain Gagné manages the NG-SONET network.

Microwave links out of Micoua substation (Côte-Nord) were converted to digital in 2009.

IMPROVING ENERGY EFFICIENCY

Improving the energy performance of Hydro-Québec and customer facilities has always been at the forefront of IREQ activities.

> Using MATH technology to model hydraulic turbines, we studied how surge chamber energy losses at Robert-Bourassa generating station varied as a function of the configuration of its 16 generating units. The study enabled us to optimize the unit start-up sequence, improving the average efficiency of the generating station by 0.05% and increasing its annual output by about 9 GWh.

> A number of research projects were geared to helping customers reduce their consumption of electricity. In a joint effort with a paper mill, an equipment manufacturer and the Université du Québec à Trois-Rivières, for instance, IREQ's energy technologies laboratory (LTE) is working on an ozonization process for producing thermomechanical pulp. The projected annual savings may reach 340 GWh, a reduction of practically 9%.

WIND POWER AND NEW RENEWABLES

While continuing to develop its main generating option, hydropower, Hydro-Québec is also supporting the growth of wind power in Québec. IREQ is a leader in research on integrating wind generation into major power grids.

> We are working both on balancing hydro and wind power and on modeling the behavior of wind power systems connected to the grid. We have also developed models and methods for determining the hydroelectric generation capacity required to offset variations in wind generation in order to ensure transmission system stability.

> In an ongoing project with Environment Canada, we conducted studies to characterize and forecast wind generation in order to maximize output from this energy source without adversely affecting power grid reliability.

LTE also continued to study hydrokinetic power, salinity-gradient power and deep geothermal energy, as well as their generating potential and possible applications.

INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)

ICT plays a crucial role at Hydro-Québec both in managing the company, since it supports the work of some 23,000 employees, and in running the power system, since enormous amounts of data must be exchanged and processed in order to operate increasingly automated grid facilities.

The communication network must evolve in parallel with the power system because the need for data transmission and communication increases as Hydro-Québec adds new generation, increases its exports, etc. This is behind such projects as the deployment of an integrated ICT architecture, the implementation of an NG-SONET/IP-MPLS network and the move to a digital communication network.

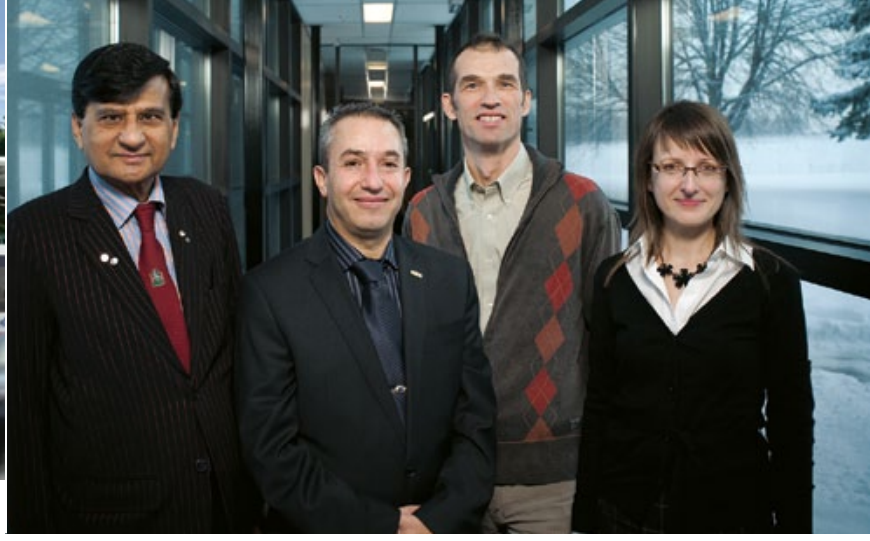
> Integrating wind power requires extensive conventional and special protection systems, which increase data transfers. We therefore continued to upgrade our communication network in 2009.

> We continued a major project to implement a next-generation synchronous optical network (NG-SONET) based on Internet protocol – multiprotocol label switching (IP-MPLS). Having successfully concluded the Montréal Centre project in 2008, we began the Montréal–Québec project, which involves close to 40 telecommunication sites.

> Upgrading the communication network progressed with the deployment of digital microwave links between Lévis (Capitale-Nationale) and Bergeronnes (Côte-Nord) substations as part of the Lévis–Manic project.

• We upgraded the microwave links between Micoua (Côte-Nord) and Saguenay (Saguenay–Lac-Saint-Jean) substations, including the links from Bersimis-1 and Bersimis-2 substations (Côte-Nord). This project entailed building a new telecommunication site and a road to it, modernizing other sites involved and constructing related buildings.

Hydro-Québec is participating in a feasibility study for a trolleybus project by the Société de transport de Laval in order to determine the kind of electrical infrastructure it will require.



Three generations of IREQ researchers earned distinctions in 2009: Ashok Vijh, named Honorary Fellow of the Chemical Research Society of India; Karim Zaghib, winner of the Electrochemical Society's Energy Technology Division Research Award; Christophe Comte, recipient of the International Electrotechnical Commission's 1906 Award; and Marie Minville, honored by the École de technologie supérieure as the author of the best PhD thesis.

• In the Côte-Nord region, we launched Project 3M, which consists in digitizing the 20 microwave links forming the communication network between Manicouagan substation, Montagnais substation and the Manic-5 hydroelectric development. This project will be completed in 2013.

> We continued our efforts to reduce the number of ICT platforms through server consolidation, standardization and virtualization. We also conducted a major project to upgrade our SAP software (from version R/3 4.6 to ERP 6.0), and for this project we worked with an external supplier under a new partnering formula that yielded considerable reductions in costs and lead times.

> ICT system security is considered vital and was the focus of numerous projects related mainly to system access control, detection of intrusion attempts and identification of potential threats.

PARTNERING FOR GREATER BENEFIT

We adhere to the principle of open innovation, that is, an R&D partnering approach, in order to draw upon complementary areas of expertise or new technologies and share both the means deployed and any risks involved. In 2009, we strengthened our involvement with universities, government agencies, and both Québec and out-of-province firms and research centres.

> Hydro-Québec contributed $5.9 million to Québec universities for research contracts and 21 research chairs.

> We renewed for five years our participation in the work of the Ouranos consortium on regional climatology and adaptation to climate change. Our goal is to assess the impact of climate conditions on energy demand in Québec and on generating potential up to 2050.

> In June 2009, LTE became host to the Centre of Excellence in Energy Efficiency (C3E), which is one of the centres of excellence for commercialization and research supported by the Natural Sciences and Engineering Research Council. C3E's mission is to support the transfer and commercialization of new energy technologies and energy efficiency solutions. It will benefit from LTE's expertise in these areas and from its leading-edge R&D tools, while LTE will capitalize on the technological progress resulting from the collaboration.

> In 2009, the Shandong Electric Power Research Institute purchased the marketing and industrial development rights for our LineROVer robot in order to produce, sell or modify this technology, which has many maintenance applications.

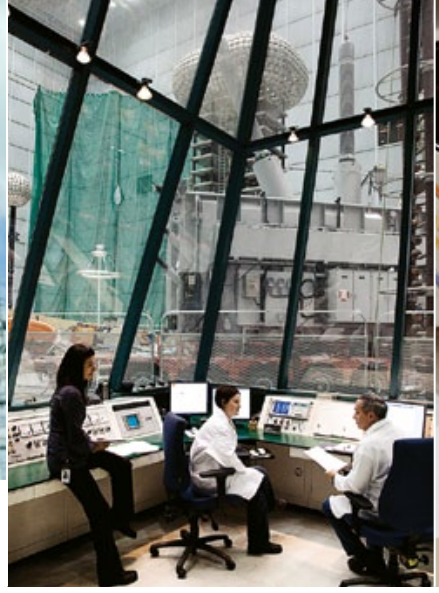
> We reached R&D partnering agreements with several major electricity sector players. By participating in the work of both Canadian and foreign research groups, IREQ gains significant insight into strategic issues for Hydro-Québec, which may benefit the company greatly.

• As part of a collaborative project with Électricité de France on the paper-oil complex used in transformers, we have developed a method for analyzing the condition of solid transformer insulation that costs much less than conventional inspections.

• Our LineScout robot, used to inspect live lines, can cross a range of obstacles, including insulator strings, vibration dampers and grading rings. In 2009, we partnered with British Columbia Transmission Corporation to push the technology a step farther.

• Our Hypersim simulator lets us perform real-time simulations of various phenomena that may occur on transmission systems, such as short-circuits, load shedding and voltage spikes. It also lets us test control and protection systems prior to their deployment on the grid. Over the next three years, we will be working with the China Electric Power Research Institute to develop a new-generation simulator. We will also be evaluating other power system simulation technologies.

The LineROVer robot, for which the marketing and industrial development rights have been purchased by the Shandong Electric Power Research Institute.



Test engineer Mona Chaaban, electrical technician Rebecca Pomerleau and expert electrical technician Roger Dubé at the IREQ high-voltage laboratory.

At the Montréal International Auto Show 2010, Hydro-Québec and Mitsubishi Canada announced the launch of Canada's largest all-electric vehicle pilot project. As many as 50 Mitsubishi i-MiEVs will be tested in Boucherville.

• In partnership with Natural Resources Canada, we will be participating in the work of IEA WIND Task 25, an International Energy Agency task force on wind power that is mandated to further knowledge about the design and operation of power systems with large amounts of wind power.

GROUND TRANSPORTATION ELECTRIFICATION: A PROMISING FUTURE

While oil has dominated the ground transportation sector for the last century, electricity will play an increasingly important role in both public and personal transportation in the future. Desirable in terms of energy security and necessary for reducing greenhouse gas emissions, this transformation is now under way. Hydro-Québec has what it takes to help make the shift: clean, renewable energy, a reliable grid, recognized expertise and attractive technologies.

In its *Strategic Plan 2009–2013,* made public in July 2009, the company set out a broad action plan guiding its efforts in the area of electric ground transportation. A number of specific steps were taken in 2009 under the plan.

PUBLIC TRANSIT

> Hydro-Québec is participating in a feasibility study for a trolleybus project by the Société de transport de Laval and in a study by the Agence métropolitaine de transport to convert Montréal commuter trains to electricity. The company also agreed to provide financial support for phase 2 studies of Montréal's streetcar project.

PERSONAL TRANSPORTATION

> The Indian automaker Tata Motors and its Norwegian subsidiary Miljø Grenland/Innovasjon selected the latest-generation motor of our subsidiary TM4, the MΦTIVE™ series, for some 100 all-electric vehicles undergoing trials as part of a demonstration program in Europe.

> Through its work on advanced materials, particularly molten salts, lithium iron phosphate and nanotitanates, IREQ is contributing to the development of safe, high-performance lithium-ion batteries that can be recharged more often and more quickly.

> In June 2009, Hydro-Québec signed a three-year agreement with Ford Motor Company and the Electric Power Research Institute in the U.S. under which it is participating in a North American test and demonstration program for plug-in hybrid electric vehicles (PHEVs), specifically Ford Escape PHEV prototypes. Hydro-Québec is the only Canadian company taking part in these tests.

> At the Montréal International Auto Show 2010, Hydro-Québec and Mitsubishi Canada announced the fall 2010 launch of Canada's largest all-electric vehicle pilot project. Under this $4.5-million project, to be carried out in collaboration with the city of Boucherville and local companies, up to 50 Mitsubishi i-MiEV electric vehicles will be tested. The tests are to assess vehicle performance, particularly under winter conditions, and to help Hydro-Québec plan the necessary charging infrastructure for homes, offices and public places.

> In January 2010, Hydro-Québec launched a Web portal on land transportation electrification: **www.hydroquebec.com/transportation-electrification**.

In the Îles de la Madeleine (Île du Havre Aubert), financial support from the Fondation Hydro-Québec pour l'environnement will allow recreational activities to coexist with environmental protection.

A RESPONSIBLE APPROACH

Over the years, Hydro-Québec has laid the foundations of a sustainability culture that now encompasses all aspects of the company's activities, from its overall business objectives to operations in the field, including the day-to-day work of its employees, all of whom are committed to a responsible approach. To meet the needs of the present while preserving the natural heritage and energy future of generations to come, Hydro-Québec relies mainly on renewable energies, energy efficiency and technological innovation. We systematically incorporate economic growth into our infrastructure projects, without ever losing sight of environmental imperatives.

Hydro-Québec's *Sustainable Development Action Plan 2009–2013,* published in March 2009, outlines the company's contribution to Québec's *Government Sustainable Development Strategy 2008–2013.* It lays out 10 actions consistent with Hydro-Québec's main business objectives and accompanied by indicators and improvement targets. The results from the Plan's first year of implementation are presented on page 39 of this Annual Report.

Planting jack pines to speed up the re-vegetation process on the Rupert diversion jobsite (Baie-James).

Hydro-Québec was awarded first prize in the 2009 *Leaders in Sustainable Transportation* contest. From left to right: Joël Gauthier, Agence métropolitaine de transport, Maryse Lambert and Maria Vaccaro, Hydro-Québec, and Bernadette Brun, Voyagez futé.

Charles Sarthou, forest engineer, rides his bicycle to work.

THE ENVIRONMENT: AN IMPORTANT ASPECT OF OUR ACTIVITIES

When it comes to preserving the environment, Hydro-Québec is active on many fronts—in the field and in day-to-day operations—because we know that every action counts. From construction sites to administrative buildings, our activities are governed by a desire for sustainable development that is demonstrated in our increasing efforts in every sphere: environmental impact assessments, environmental compliance monitoring at jobsites, archaeological digs, site rehabilitation, management of the vehicle fleet and employee travel, recycling and sustainable procurement, employee and public education about energy efficiency and environmental issues, etc.

> We continued the ambitious archaeological inventory program undertaken in 2002 as part of the Eastmain-1-A/Sarcelle/Rupert project. Digs were conducted at 29 sites, one of which contains 20 areas of human occupation spanning more than four millennia. Another remarkable site contains a collection of artifacts related to the fur trade and vestiges of longhouses whose shape is reminiscent of a *shaputuan*. Workers at the Rupert workcamp were invited to an open house where experts explained various aspects of field archaeology, talked about First Nations culture and history, and presented the results of the latest excavations.

> Under the multipartner program for undergrounding of cabled systems on cultural and heritage sites, a joint initiative with telecommunications companies and the Association des Compagnies de Téléphone du Québec, we undergrounded the distribution system along Rue Principale in the Aylmer sector of the city of Gatineau. Because a prior study had shown high archaeological potential in this area, the excavation was overseen by archaeologists. They discovered an Aboriginal firepit dating from the mid-19th century, confirming that Aboriginal people were still spending time on their former lands despite the growing Euro-Canadian presence.

> Hydro-Québec is aware of the impact of employee travel on greenhouse gas emissions in Québec. That is why in 2009 the company replaced 200 of its light-duty vehicles (44% of those replaced during the year) with more energy-efficient models. The result is a 139,888-litre reduction in annual fuel consumption and a 342-tonne reduction in CO_2 emissions from these vehicles. In total, CO_2 emissions from the company's vehicle fleet have decreased by 1,833 tonnes since 2005, despite the increase in the number of vehicles.

> Hydro-Québec has been involved in the *allégo* program since 2006. The goal of this initiative by the Agence métropolitaine de transport is to reduce emissions of CO_2 and other atmospheric pollutants by encouraging the use of means of transportation other than single-occupant vehicles for travel between home and work. Under the *allégo* program, we provide bicycles for our employees' use and offer various incentives to promote public transit, carpooling and active modes of transport, such as walking and cycling. In 2009, Hydro-Québec joined The Carpooling Network, an organization that works as a facilitator for people interested in carpooling for the commute to work and business-related travel.

> We recover insulating oil from our facilities. In 2009, we decontaminated 88% of our recovered oil for reuse, mainly in our transformers, reactors and circuit breakers. The remainder was reclaimed for other purposes.

> The Fédération Québécoise des Municipalités and the company Peintures récupérées du Québec received a $100,000 grant from Hydro-Québec to establish the Fonds RecycFluo. The goal of this initiative—the first of its kind in Canada—is to help municipalities that want to enable consumers to recycle compact fluorescent lightbulbs. As at December 31, 2009, 159 municipal organizations representing 389 municipalities had taken advantage of the service and 15,722 compact fluorescents had been recovered, diverting 47,166 mg of mercury from landfill sites.

The Rallye Énergie Alternative hits the road in Gatineau. The goal of this annual event is to increase public awareness of the high performance of the latest propulsion technologies and alternative fuels. The Ford Escape Plug-In Hybrid currently being tested at Hydro-Québec came in second.

Lookout built by the RCM of Argenteuil on the site of Carillon generating station, in the Outaouais region, with financial support from Hydro-Québec.

> We introduced the *Mérite de l'environnement et du développement durable* contest in 2003 to recognize employees for their outstanding actions or praiseworthy accomplishments in the area of environment and sustainability, whether on the job or in the community. In 2009, Raynald Charest won the environmental initiative award for applying sustainable methods in re-roofing the Victoriaville administrative centre. His innovative, targeted approach led to an 86% reduction at source of residual materials, and savings of $752,500.

> The 22nd edition of Environment Month, held in May, revolved around the theme *L'environnement: l'énergie d'une passion!* Hydro-Québec organized various activities and talks to publicize its achievements and increase employees' awareness of the importance of every action they take to protect the environment.

> Finally, *Corporate Knights* magazine ranked Hydro-Québec as the fifth-best corporate citizen in all of Canada in 2009, based on environmental, social and governance indicators.

A PARTNERING APPROACH

Prompted by a strong sense of social responsibility, we actively support community initiatives to improve people's quality of life, preserve the natural heritage and develop a culture of sustainability. Through our major infrastructure projects, we also play a decisive role in regional land use, following an approach of partnering with the communities concerned.

> In 2009, the Fondation Hydro-Québec pour l'environnement allocated $1.0 million to 19 projects in 11 of the province's administrative regions. For example, we supported a project by the Îles-de-la-Madeleine ZIP Committee to protect the archipelago's inland water bodies without interfering with recreational activities. Among other initiatives, this organization plans to develop an access road, a parking lot, a dock and a boat launch at Pointe-des-Canots on Île du Havre Aubert to channel the movements of hunters and anglers using the Baie du Havre aux Basques.

> Hydro-Québec fully subscribes to the principle of corporate responsibility, and considers it a duty to help improve the well-being of Québec society in many ways. In 2009, it provided $22.5 million in donations and sponsorships to support organizations and projects throughout the province. For more information, see our Web site at **www.hydroquebec.com/donations-sponsorships**.

> In September, Hydro-Québec and the municipality of Saint-Octave-de-Métis, in the Bas-Saint-Laurent region, marked the completion of community projects made possible by the company's Integrated Enhancement Program (IEP). After the Rimouski–Les Boules line was built, the town received $135,364 from Hydro-Québec—equal to 1% of the capitalized cost of the line project—to renovate community, sports and recreation facilities. Altogether, the company paid $697,900 to eight towns in the regional county municipalities (RCMs) of La Mitis, Rimouski-Neigette and Matane in connection with this project.

> In October, the municipality of Canton de Roxton (Montérégie) celebrated the conclusion of several projects accomplished thanks to the IEP: improvements to the community hall, restoration of the banks of the Rivière Noire, upgrade of the Oxy-bulle youth centre, construction of a soccer field, and more. Under the IEP, Hydro-Québec allocated $2,558,500 to municipalities and RCMs affected by the construction of the Des Cantons–Hertel and Montérégie–Acton lines, including $253,420 to the municipality of Canton de Roxton.

> With financial support from Hydro-Québec, the RCM of Argenteuil built a lookout on the site of Carillon generating station, near the Brownsburg-Chatham municipal campground. This rest stop just next to the Route verte offers a panoramic view of the generating station and the Rivière des Outaouais (Ottawa River).

Jean-Pierre Grenier, chief powerhouse mechanic at the mechanical workshop in Shawinigan (Mauricie), uses a horizontal lathe to machine the shaft of one of the turbines at Beauharnois generating station. The steel chips and scraps of aluminum and bronze from the shop are recycled rather than sent to landfill.

Work to characterize Romaine spawning grounds in order to develop mitigation measures.

HYDRO-QUÉBEC'S SUSTAINABLE DEVELOPMENT ACTION PLAN 2009–2013

The *Sustainable Development Action Plan 2009–2013* consists of a series of actions to preserve the environment and promote collective well-being and economic development. They are aligned with the company's business objectives, which focus on energy efficiency, renewable energies and technological innovation. Hydro-Québec reports formally on these initiatives in its *Sustainability Report 2009*.

	Action	Indicator	2009 results
1	Build hydropower projects and contribute to the development of wind power.	Capacity and energy available (MW and GWh)	138 MW
2	Increase the capacity of existing hydroelectric generating stations.	Gains in peak capacity (MW)	52 MW
3	Step up energy efficiency initiatives.	Annual energy savings achieved (TWh)	4.3 TWh
4	Continue to help low-income customers.	Number of arrangements with low-income customers[a]	32,107
5	Reduce transport-related GHG emissions.	Atmospheric emissions from the vehicle fleet (tonnes)	55,016 t
6	Promote reduction at source, reuse and recycling.	Number of at-source reduction or reclamation programs introduced or optimized	4
7	Establish specifications for sustainable procurement.	Number of product purchasing guides that include sustainable specifications	2
8	Inform and educate employees regarding sustainability and the company's approach. Help employees learn to apply sustainability principles to their daily activities.	Percentage of employees educated	72%
		Percentage of employees having sufficient knowledge about sustainability	10.5%
9	Improve vegetation control methods on the distribution system to better protect biodiversity.	Percentage of vegetation control operations per year with integrated measures for promoting biodiversity	89%
10	Organize sustainable events and promote responsible management of events sponsored by Hydro-Québec.	Average number of contributing measures implemented among the 25 measures selected for the sustainable management of events	10.7/25

a) Including long-term arrangements.

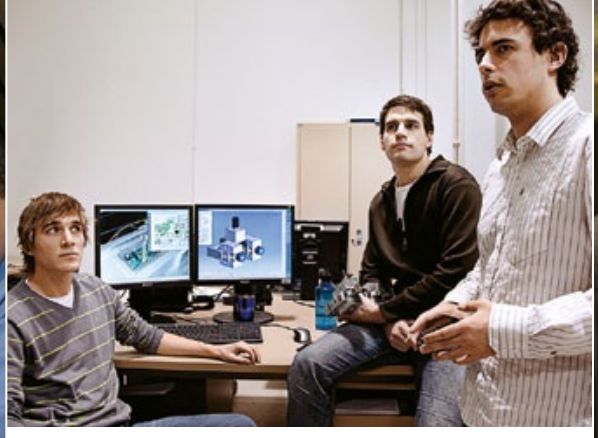
With baby boomers retiring at a growing rate, Hydro-Québec has set up an interactive recruitment system and targeted training programs to renew its knowledge capital. Maxime Thibodeau, Gabriel Trudeau and Ahen Bui are part of the next generation.

A MAINSPRING OF THE QUÉBEC ECONOMY

Hydro-Québec plays a leading role in the Québec economy: as an employer, with about 23,000 employees and 150 places of business located all over the province, as well as through its construction projects and its work to refurbish or upgrade the power system. In 2009 alone, the company managed over 1,000 jobsites, large and small, some with budgets of hundreds of millions of dollars.

In addition, we are actively involved in research and other initiatives carried out by national and international organizations working in the field of electricity. Under various cooperation projects, we also share our know-how with developing countries.

At the beginning of 2009, Gabriel Bournival, Manager – Real Estate Management, took part in the rollout of the emergency biohazard response plan instituted by Hydro-Québec to ensure service continuity in the event of an influenza A (H1N1) pandemic.



Joël Lessard, Jean-Philippe Miron and Frédérick Blais interned at our research institute as part of their university studies.

Arthur Lamoureux (right) retired at the age of 82, after setting a record for longevity with 67 years of faithful service in system control. Standing next to him is Michel Martinez, Vice President – Human Resources.

THE PEOPLE WHO ARE BUILDING OUR FUTURE

Our employees' knowledge and commitment are an essential ingredient in the company's success. For this reason, we take particular care in welcoming and supervising new employees and measuring their job satisfaction so that we can improve our integration efforts. Our top priorities are to ensure the replacement of our management personnel and maintain critical know-how, especially if it is rare or unique. Furthermore, we are working to renew our knowledge capital through an interactive recruitment system and targeted training programs.

We are also putting substantial efforts into workplace health and safety, an issue that is of central importance to us. Elimination of hazards at source, risk reduction and control, and employee information and training are among our main areas of focus.

> Maintaining a harmonious working atmosphere is crucial to our success. We therefore renewed our collective agreements with seven of our eight unions, or 91% of our unionized employees, before the expiry dates. These agreements, which will run for five years, will be in effect until December 2013 or 2014, as the case may be.

> According to our projections, as much as 20% of our workforce could retire between now and 2013. In anticipation of this change, we are making efforts to safeguard and renew the knowledge base associated with management positions and the trades most at risk. We have consequently established plans targeting specialized skill sets deemed vulnerable by the divisions and corporate units.

> To provide a succession at different levels of management, we have taken a number of steps including various programs that will be rolled out in 2010. As well, managers' expertise profiles have been updated on the basis of the company's business objectives.

> Of the 3,036 permanent employees eligible for retirement in 2009, 1,072 left the company, compared with 896 out of 2,835 in 2008.

> According to our annual survey, new hires rated their satisfaction with employee induction and integration procedures at 8.4 out of 10, the same result as in 2008. Of the 1,844 new hires in 2009, 70% were under 35 years of age.

> Hydro-Québec is a founding partner of the Institute of Electrical Power Engineering (IEPE). In 2009, we awarded 15 general scholarships and 42 traveling scholarships to 52 IEPE students, for a total contribution of $102,838. Altogether, 125 IEPE graduates—including 18 in 2009—have joined the company's ranks since the Institute was established in 2001.

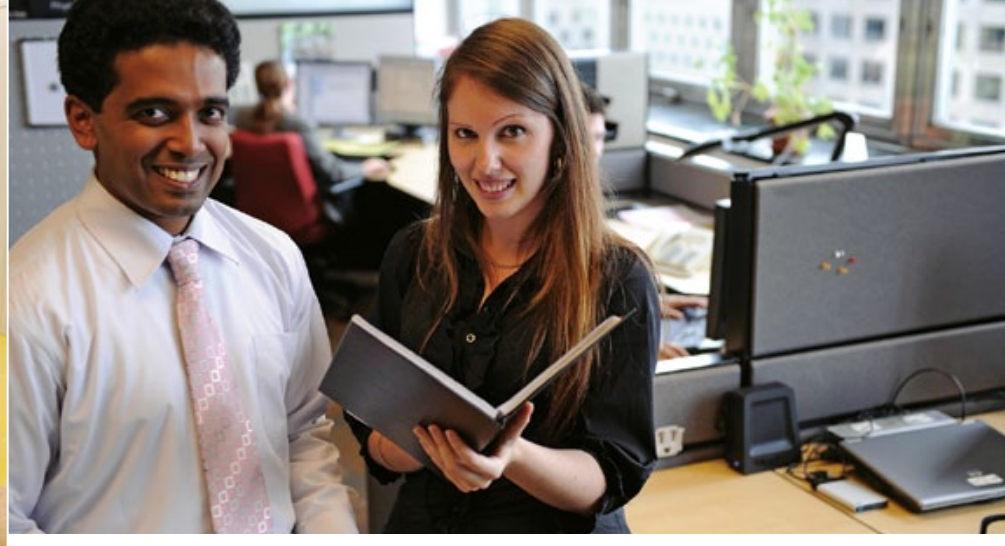
> We offered internships to 241 university students in graduate and undergraduate programs. We also received 51 college-level trainees, most of them enrolled in industrial electronics. In order to welcome more students in the coming years, we have introduced annual targets for the number of internships.

> In 2009, we devoted 3.9% of the total payroll to training programs, and 16,326 employees took part in at least one training activity. In preparation for the number of retirements anticipated, we centralized our training and skill development activities to better suit the needs, optimize our efforts and hold down rising costs.

> As regards diversity, we submitted our equal access to employment program to the Commission des droits de la personne et des droits de la jeunesse. The goal of the program is to bring the profile of our workforce into line with the market reality, based on the rates of availability established for the five groups targeted by the *Act respecting equal access to employment in public bodies,* namely women, Aboriginal people, ethnic minorities, visible minorities and people with disabilities.

> The frequency of work-related accidents was down 14% relative to 2008, at 2.83 per 200,000 hours worked.

IREQ researcher Paul Labbé with his dog Pruneau.



Sri Shan, of the recruitment centre in Montréal, in discussion with Anne-Marie Otis of the Internet team. Hydro-Québec's workforce will become more diversified as a result of the equal access to employment program, which targets women, Aboriginal people, ethnic and visible minorities, and people with disabilities.

> Senior Management strengthened management standards and reaffirmed its commitment to workplace health and safety. In late 2009, a campaign was launched in cooperation with the unions to educate employees about the fact that prevention is a shared responsibility and to emphasize the importance of making adherence to safety and security rules standard behavior.

A MAJOR PLAYER IN REGIONAL DEVELOPMENT

Hydro-Québec works to ensure that all of the province's regions reap the benefits of its development projects and day-to-day operations. Every year, its expenditures and investments generate billions of dollars in spinoffs and support thousands of jobs. The current construction projects alone are sizable factors in the vitality of a number of regional economies.

> The Eastmain-1-A/Sarcelle/Rupert project employed 3,700 people at the peak of construction, in 2009. This past year, contracts and expenditures associated with the project amounted to $40 million for the Nord-du-Québec region, $75 million for Abitibi-Témiscamingue and $125 million for Saguenay–Lac-Saint-Jean.

> The Romaine project will generate spinoffs of $3.5 billion in Québec, including $1.3 billion for the Côte-Nord. Between 2012 and 2016, the peak labor force will be in excess of 2,000 workers, most of whom will come from the region.

Hydro-Québec endeavors to spread its purchasing throughout the province, always at the best possible cost and according to strict procurement criteria. We also try to buy sustainable products such as recycled ink cartridges and paper.

PROCUREMENT OF GOODS AND SERVICES ($B)[a]

2009	2008	2007	2006	2005
2.9	2.7	2.6	2.7	2.4

> Procurement of goods and services inside and outside Québec totaled $2,925 million in 2009, compared with $2,660 million in 2008:

- $1,431 million for the purchase of goods
- $27 million for rentals
- $1,036 million for specialized services and other work
- $431 million for professional services

> Goods and services procured from companies in Québec totaled $2,557 million, or 87% of all procurement.

> The number of jobs in Québec supported by our overall procurement of goods and services is estimated at 18,291, including 12,333 direct jobs.

> Given the substantial increase in our investments in the power system, we have made efforts to ensure the security of our procurement of goods and services for the coming years. For example, we have lengthened the planning cycle for long-term needs and standardized many commonly used products and pieces of equipment. We have also diversified our sources of supply and increased the number of firm orders. Taken together, these measures enabled us to cut overall procurement costs.

> In 2009, our capital spending on various hydroelectric projects generated 3,992 on-site jobs for contractors.[b]

a) Excluding procurement by Société d'énergie de la Baie James.
b) Including projects carried out by Société d'énergie de la Baie James.

Michel Dufour, mechanical technician, and Gervais Bellavance, chief powerhouse mechanic, worked together during the refitting of Outardes-4 generating station to ensure transfer of know-how.

Cable workers Mélissa Chaperon and Nicolas Dancause prepare a cable to be laid in the conduits of the underground system.

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

Administrative region	Procurement of services[b]	Procurement of goods[c]	**Total**
Abitibi-Témiscamingue (08)	22,376	12,040	34,416
Bas-Saint-Laurent (01)	13,330	4,036	17,366
Capitale-Nationale (03)	149,035	43,092	192,127
Centre-du-Québec (17)	92,254	39,881	132,135
Chaudière-Appalaches (12)	40,165	38,298	78,463
Côte-Nord (09)	61,524	10,657	72,181
Estrie (05)	11,790	19,788	31,578
Gaspésie–Îles-de-la-Madeleine (11)[d]	15,277	768	16,045
Lanaudière (14)	28,634	76,485	105,119
Laurentides (15)	21,902	22,665	44,567
Laval (13)	152,714	33,494	186,208
Mauricie (04)	127,525	52,068	179,593
Montérégie (16)	130,496	243,431	373,927
Montréal (06)	407,265	473,265	880,530
Nord-du-Québec (10)	17,778	2,445	20,223
Outaouais (07)	10,162	20,993	31,155
Saguenay–Lac-Saint-Jean (02)	133,060	28,719	161,779
Total	**1,435,287**	**1,122,125**	**2,557,412**

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

b) Specialized services, professional services and other work.

c) Purchases and rentals.

d) In the regional county municipality of Matane and the Gaspésie–Îles-de-la-Madeleine region, contracts awarded under the first Hydro-Québec Distribution call for wind power resulted in spinoffs estimated at $94 million in 2009.

To form an idea of the job opportunities created by the Romaine project in the Côte-Nord region, an Innu delegation visited an Eastmain-1-A/Sarcelle/Rupert jobsite (Baie-James).

Agrologist Louis Lesage (right), of Acquisitions et projets immobiliers, received the Mérite award from the Québec Interprofessional Council for his outstanding contribution to the development and visibility of his profession. Shaking hands with him is Éric Lavoie of the Ordre des agronomes du Québec.

HYDRO-QUÉBEC'S CONTRIBUTION TO THE QUÉBEC ECONOMY

	2009	2008
Dividends declared ($M)	**2,168**	2,252
Capital tax ($M)	**132**	202
Public utilities tax ($M)	**188**	302
Water-power royalties ($M)	**567**	546
Municipal, school and other taxes ($M)	**35**	37
Loan guarantee fees paid to the shareholder ($M)	**174**	167
Percentage of goods and services procured from Québec companies	**87**	89
Direct jobs supported by procurement, including procurement outside Québec (person-years)	**12,333**	11,462
Integrated Enhancement Program grants ($M)[a]	**1.7**	0.2

a) Under the company's Integrated Enhancement Program, communities affected by major transmission projects receive grants equivalent to 1% of the capitalized cost of the facilities.

INTERNATIONAL INFLUENCE

On the international scene, Hydro-Québec is involved in the activities of a number of prestigious organizations such as the World Energy Council, International Hydropower Association (IHA), International Council on Large Electric Systems (CIGRÉ), e8 and Centre Jacques Cartier.

> Under a research project on greenhouse gases (GHGs) coordinated by UNESCO and the IHA, Hydro-Québec organized a workshop on methods for measuring anthropogenic GHG emissions from artificial freshwater reservoirs. Specialists from 10 different countries took part in this workshop held in Montréal in September.

> Since fall 2009, Hydro-Québec has headed up a working group of e8 experts on the technical, commercial and regulatory issues entailed by the introduction of electric vehicles onto the market.

> In 2009, Hydro-Québec continued to play an active part in organizing the 21st World Energy Congress, which will be held in Montréal from September 12 to 16, 2010. The conference will revolve around four main issues: the accessibility and availability of energy, the acceptability of energy solutions and the accountability of each of the players involved. As at the end of January 2010, more than 50 speakers from all over the world had confirmed their attendance.

> In the sphere of cooperation, the Fonds Hydro-Québec pour la Francophonie financed 17 projects in 2009. Among other things, the fund

- renewed the funding for an assistance program for Électricité d'Haïti and local communities in that country to encourage the use of clean energy, and established a similar program in Senegal,
- renewed financial support for the Institut de l'énergie et de l'environnement de la Francophonie for its program to bolster its energy and environment capabilities,
- funded a number of scholarships awarded to African representatives of the power industry under three energy-related training programs.

Financial Review

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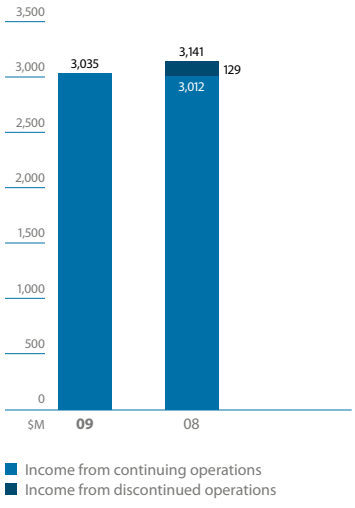
The Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements of Hydro-Québec and the notes thereto. The financial information and tabular amounts presented herein are expressed in Canadian dollars, unless otherwise indicated. The Consolidated Financial Statements take into account certain accounting practices that are specific to regulated enterprises. These practices are detailed in Note 3 to the Consolidated Financial Statements.

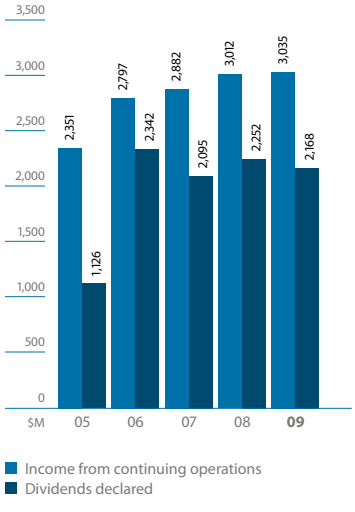
Hydro-Québec would like to point out that this analysis, and especially the Outlook section, contains statements based on estimates and assumptions concerning future results and the course of events. Given the risks and uncertainties inherent in any forward-looking statements, Hydro-Québec's actual future results could differ materially from those anticipated. It should also be noted that certain financial and operating data for previous years have been reclassified to respect the presentation adopted for the current year. Finally, the information contained herein takes into account any significant event that occurred on or before March 12, 2010.

OVERVIEW

Net Income



Income from Continuing Operations and Dividends Declared



Income from continuing operations totaled $3,035 million, a $23-million increase from the $3,012 million recorded in 2008, despite a difficult business environment in 2009. On the one hand, a decrease in revenue from net electricity exports by Hydro-Québec Production, due to a drop in energy prices, was considerably mitigated by the application of hedging strategies based on the use of derivative instruments for wholesale market activities, and was thereby limited to $226 million. On the other hand, the drop in aluminum prices led to a negative impact of $254 million, or $180 million more than in 2008, from special contracts signed with large industrial customers in Québec under conditions agreed to some 20 years ago. This impact was, however, more than offset by the positive effect, totaling $391 million, or $273 million more than in 2008, of hedging by the company on aluminum prices and exchange rates. These results demonstrate the effectiveness of our active management of market risks.

Strict control of operating expenses enabled us to keep them at a level comparable to 2007 and 2008 notwithstanding growth in operations; in addition, depreciation and amortization expense and capital tax decreased by $122 million and $70 million, respectively. Finally, it should be remembered that regulatory deferrals in 2008 led to the recognition of a $129-million non-recurring regulatory asset for revenue variances related to climate conditions in 2006 and 2007.

Hydro-Québec did not record any income from discontinued operations in 2009, after recording $129 million in this regard in 2008, chiefly because of a non-recurring gain of $126 million related to the price adjustments provided for in the contract for the sale of the interest in Transelec, in Chile, concluded in 2006. Thus, 2009 net income corresponds to income from continuing operations, namely $3,035 million, compared to net income of $3,141 million in 2008.

Revenue totaled $12,334 million, compared to $12,717 million in 2008. Revenue from electricity sales amounted to $12,055 million, versus $12,364 million in 2008. This decrease is attributable to a $413-million decline in revenue from electricity sales outside Québec, partly offset by a $104-million increase in revenue from electricity sales in Québec.

Total expenditure amounted to $6,900 million, or $360 million less than in 2008. This decrease is due to reductions of $199 million in electricity and fuel purchases, $122 million in depreciation and amortization expense and $70 million in capital tax as a result of a reduction in the tax rate. However, the change in regulatory deferrals compared to 2008 increased expenditure by $102 million, taking into account the recognition, in June 2008, of a $129-million regulatory asset for revenue variances related to climate conditions in 2006 and 2007.

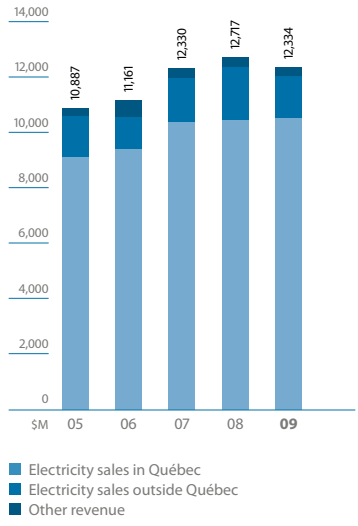
Return on equity remained at a level comparable to 2008 despite a difficult business environment in 2009, totaling 14.3%, compared to 15.4% in 2008.

Cash from operations totaled $4.8 billion. Among other things, this cash allowed us to pay the dividends of $2,252 million declared for 2008 and to finance a major part of our investments. Our capital program reached $4.3 billion in 2009, compared to $4.0 billion in 2008, reflecting our continued involvement in several major projects in the Generation and Transmission segments, including the Eastmain-1-A/Sarcelle/Rupert hydroelectric development, which reached a milestone with the start of operation of the Rupert diversion in November, and the 1,250-MW interconnection with Ontario, which was officially inaugurated in September.

Dividends declared from 2005 to 2009 total $10 billion, including $2,168 million for 2009.

CONSOLIDATED RESULTS

Revenue



Revenue totaled $12,334 million, compared to $12,717 million in 2008. Revenue from electricity sales decreased by $309 million to $12,055 million. Sales in Québec accounted for $10,549 million of this amount, or $104 million more than in 2008. On markets outside Québec, revenue from electricity sales totaled $1,506 million, a decrease of $413 million. Other revenue totaled $279 million, compared to $353 million in 2008. This $74-million decrease was mainly due to a decline in revenue from natural gas sales following a drop in market prices.

The $104-million increase in revenue from electricity sales in Québec resulted mainly from the April 1, 2008 and 2009, rate adjustments, which were partly offset by a decrease in industrial demand, counterbalanced to some extent by increased demand in the Residential and farm category. Revenue from special contracts with large industrial customers decreased by $208 million, mainly due to a drop in aluminum prices. However, the derivative instruments used to manage risks related to aluminum prices and exchange rates generated a $273-million positive impact. Risks related to special contracts are absorbed by Hydro-Québec Production.

The $413-million decrease on markets outside Québec is due to a reduction in revenue from Hydro-Québec Production's exports.

Total expenditure was $6,900 million, a decrease of $360 million compared to 2008.

Operating expenses totaled $2,521 million in 2009. Strict control of operating expenses enabled us to keep them at a level comparable to 2007 and 2008 notwithstanding growth in operations. The impact of indexation and inflation, net of efficiency gains, accounted for a $40-million increase in operating expenses. Growth in operations, related mainly to the commissioning of Chute-Allard and Rapides-des-Cœurs generating stations, the expansion of the transmission and distribution systems and an increase in the number of customer accounts, resulted in a $45-million increase. However, these factors were partly offset by a $58-million decline in pension costs on account of the actuarial effect of higher long-term interest rates on capital markets.

Electricity and fuel purchases totaled $1,207 million in 2009, as against $1,406 million in 2008. This $199-million decrease is mainly due to a reduction in the volume of electricity purchases made by Hydro-Québec Production.

Depreciation and amortization expense totaled $2,214 million, a decrease of $122 million from 2008. The difference is due to a $255-million decrease in depreciation and amortization other than for regulatory assets and liabilities, mainly because of the revision of the useful life of some property, plant and equipment used for hydroelectric generation beyond 50 years. The expense related to regulatory assets and liabilities, recognized in accordance with the conditions established by the Régie de l'énergie, increased by $133 million. First, amortization of the regulatory asset in connection with the net costs related to retirement of property, plant and equipment and intangible assets translated into a $171-million increase. Moreover, amortization of the regulatory asset recognized in 2008 for revenue variances related to climate conditions resulted in a $75-million increase. Finally, amortization of the regulatory asset related to the cost of native load transmission service decreased by $139 million, totaling $104 million in 2009, compared to $243 million in 2008. It should be noted that amortization of these last items was taken into account in setting the electricity transmission and distribution rates that came into force in 2009.

Taxes were $928 million, compared to $1,093 million in 2008. This decrease resulted mainly from a reduction in capital tax due to a lower rate of taxation, which went from 0.36% in 2008 to 0.24% in 2009.

The change in regulatory deferrals compared to 2008 increased expenditure by $102 million, primarily as a result of revenue variances related to climate conditions and cost variances in electricity purchases in excess of the heritage pool.

Revenue variances related to climate conditions correspond to differences between Hydro-Québec Distribution's actual transmission and distribution revenue and the revenue forecasts established on the basis of the climate normal for rate application purposes. A $10-million regulatory asset was recognized in this regard in 2009 compared to $126 million in 2008, for a negative variance of $116 million. It should be mentioned that the 2008 regulatory asset, related mainly to milder temperatures in 2006, was recognized as a result of the inclusion of a mechanism for amortizing these differences in Hydro-Québec Distribution's 2009–2010 rate application.

As for cost variances related to electricity purchases in excess of the heritage pool, a $31-million regulatory liability was recorded in 2009 to take into account the fact that the actual cost of supplying electricity in excess of the heritage pool was lower than the cost forecasted for the purpose of rate-setting by the Régie de l'énergie. In 2008, a $58-million regulatory liability had been recognized, for a $27-million positive variance.

REGULATORY DEFERRALS – IMPACT ON INCOME ($M)

	2009	2008	Variance
Regulatory deferrals	**30** ↓	72 ↑	102 ↓
Revenue variances related to climate conditions (asset)	**10** ↑	126 ↑	116 ↓
Cost variances related to electricity purchases in excess of the heritage pool (liability)	**31** ↓	58 ↓	27 ↑
Other deferrals	**9** ↓	4 ↑	13 ↓

Financial expenses totaled $2,399 million compared to $2,445 million in 2008, a $46-million reduction due mainly to lower interest rates on capital markets. This was partly offset by the negative effect of converting U.S. dollar–denominated working capital into Canadian dollars, given the appreciation of the Canadian dollar in 2009, as opposed to its depreciation in 2008.

Hydro-Québec did not record any income from discontinued operations in 2009, after recording $129 million in this regard in 2008, chiefly because of a non-recurring gain of $126 million related to the price adjustments provided for in the contract for the sale of the interest in Transelec, in Chile, concluded in 2006. Thus, 2009 net income corresponds to income from continuing operations, namely $3,035 million, compared to net income of $3,141 million in 2008.

	2009	2008
OPERATIONS AND DIVIDENDS ($M)		
Revenue	**12,334**	12,717
Operating income	**5,434**	5,457
Income from continuing operations	**3,035**	3,012
Net income	**3,035**	3,141
Dividends declared	**2,168**	2,252
BALANCE SHEETS ($M)		
Total assets	**68,978**	66,789
Property, plant and equipment	**57,760**	54,920
Long-term debt, including current portion and perpetual debt	**38,002**	36,415
Equity	**22,395**	22,062
RATIOS		
Interest coverage	**2.17**	2.12
Return on equity (%)	**14.3**	15.4
Income from continuing operations (%)	**24.6**	23.7
Capitalization (%)	**37.0**	37.7
Self-financing (%)	**41.2**	45.7

Note: Certain comparative figures have been reclassified to reflect the presentation adopted for 2009.

FINANCIAL POSITION

Operating activities

Cash from operating activities totaled $4.8 billion in 2009, compared to $5.1 billion in 2008. These funds were mainly used to finance a large part of our investments and to pay the dividends declared for 2008.

Investing activities

In 2009, Hydro-Québec invested $4.3 billion in property, plant and equipment, intangible assets and the Energy Efficiency Plan (EEP), compared to $4.0 billion in 2008. Of this total, $2.2 billion was invested in development projects and $1.8 billion in maintaining or improving the quality of assets, while $0.3 billion went to the EEP. In addition, Hydro-Québec invested $0.6 billion as part of the acquisition of an interest in Manicouagan Power Limited Partnership.

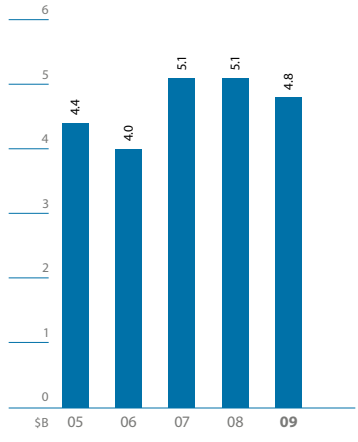
Hydro-Québec Production invested a total of $2,066 million in 2009, compared to $1,891 million in 2008. As expected, a large portion of this amount, $1,422 million, was invested in development projects, such as Eastmain-1-A/Sarcelle/Rupert, which reached a milestone with the start of operation of the Rupert diversion in November; the Romaine project, which began in May; and Chute-Allard and Rapides-des-Cœurs hydroelectric developments (commissioning of the last units at the two generating stations). The amounts allocated to asset maintenance and improvement totaled $644 million. In this regard, the engineering work and planning and procurement activities related to the refurbishment of Gentilly-2 nuclear generating station continued, along with rehabilitation work at La Tuque, Beauharnois and Paugan generating stations. In December, the division also invested $0.6 billion as part of Hydro-Québec's acquisition (through its subsidiary HQ Manicouagan inc.) of a 60% interest in Manicouagan Power Limited Partnership, which owns and operates a hydroelectric generating station (McCormick) located on the Rivière Manicouagan.

Capital spending at Hydro-Québec TransÉnergie totaled $1,196 million in 2009, with more than 40% used to increase transmission capacity and integrate the output from new hydroelectric and wind power facilities. These projects included the 1,250-MW interconnection with Ontario inaugurated on September 25 at Outaouais substation, where the two converters were commissioned during the year, and the continuing work to integrate output from wind farms in the Gaspé peninsula. The remainder was devoted to long-term transmission system operability and improving service quality.

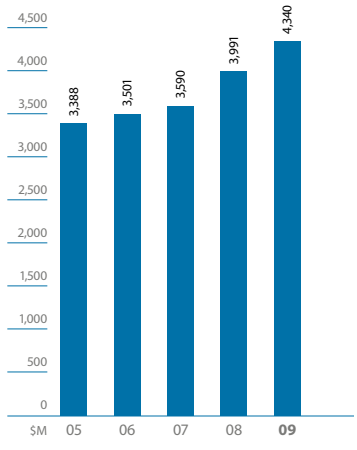
Hydro-Québec Distribution invested $709 million in order to handle the growth in the number of customer accounts, ensure the long-term operability of the distribution system and enhance service quality. An additional $257 million was allocated to the EEP.

Hydro-Québec Équipement and Société d'énergie de la Baie James carry out engineering, construction and refurbishment projects for Hydro-Québec Production and Hydro-Québec TransÉnergie.

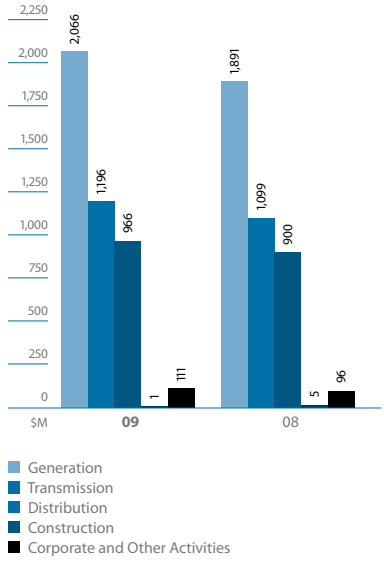
Cash from Operations



Investments in Property, Plant and Equipment, Intangible Assets and the EEP[a]



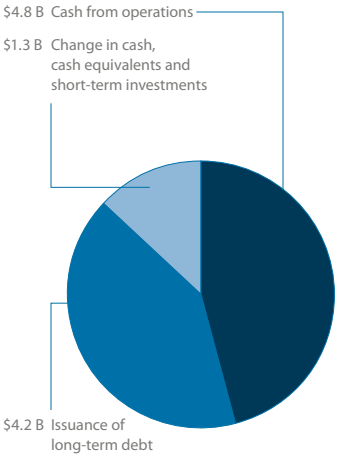
Investments in Property, Plant and Equipment, Intangible Assets and the EEP[a] by Segment



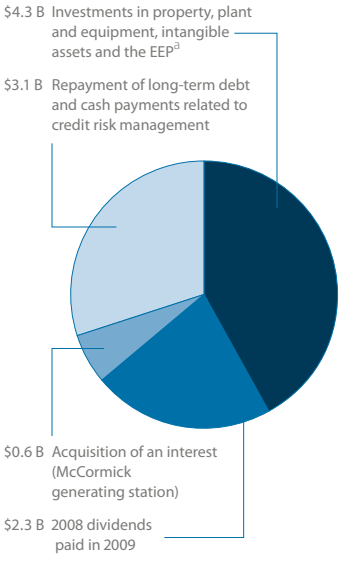
a) EEP: Energy Efficiency Plan

Note: Certain comparative figures have been reclassified to reflect the presentation adopted for 2009.

Sources of Funds in 2009



Uses of Funds in 2009



a) EEP: Energy Efficiency Plan

Financing activities

In 2009, issuance of long-term debt totaled $4.2 billion.

Some of these funds were raised through the issue, on January 15, of new fixed-rate bonds maturing in February 2050 and the reopening of this offering on January 29, November 12 and December 10, raising $2.0 billion at an average rate of 4.86%. In addition, three financings for a total of $2.1 billion were carried out through the issue of variable-rate notes maturing in 2014. All 2009 issues were made exclusively on the Canadian market.

The proceeds from all these activities financed a portion of our investments and were also used to repay maturing debts.

Hydro-Québec manages its credit risk using a number of methods, including the adoption of credit limits for each counterparty and the implementation of risk mitigation agreements. Changes in the market value of the financial instruments subject to these agreements beyond an agreed level give rise to a cash receipt or payment. In 2009, net cash payments of $1.8 billion were recognized in this regard.

PREAUTHORIZED CAPITAL RESOURCES

Type of financing	Authorized volume	Market	Outstanding as at December 31, 2009
Credit lines	US$350 million or C$350 million C$40 million US$110 million		– – –
Standby credit[a]	US$2,000 million		–
Commercial paper[a]	US$2,250 million or equivalent in C$	United States or Canada	C$21 million
Medium-term notes[a]	US$3,000 million or equivalent in other currencies C$20,000 million or equivalent in US$	United States Canada	US$415 million C$12,652 million

a) Guaranteed by the Québec government.

CREDIT RATINGS

	2009		2008	
	Commercial paper	Long-term	Commercial paper	Long-term
U.S. agencies				
Moody's	**P-1**	**Aa2 stable**	P-1	Aa2 stable
Fitch Ratings	**F1+**	**AA- stable**	F1+	AA- positive
Standard & Poor's	**A-1+**	**A+**	A-1+	A+
Canadian agency				
DBRS	**R-1 (middle)**	**A (high) stable**	R-1 (middle)	A (high) stable

Dividends and capitalization rate

Since Hydro-Québec has met all the requisite conditions, dividends totaling $2,168 million were declared for 2009. When these dividends are factored in, the capitalization rate is 37.0%.

Dividends declared from 2005 to 2009 total $10 billion.

SEGMENTED INFORMATION

As in 2008, Hydro-Québec had four operating segments, namely Generation, Transmission, Distribution and Construction, as well as activities grouped under Corporate and Other Activities.

Segmented financial information ($M)	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	2009 Hydro-Québec[a]
Revenue	**6,407**	**2,929**	**10,717**	**2,678**	**1,265**	**12,334**
Net income	**2,214**	**435**	**365**	**–**	**9**	**3,035**
Total assets	**33,103**	**17,677**	**12,443**	**424**	**5,584**	**68,978**

Segmented financial information ($M)	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	2008 Hydro-Québec[a]
Revenue	6,997	2,782	10,602	2,416	1,256	12,717
Net income	2,230	426	388	–	85	3,141
Total assets	30,659	17,149	12,264	362	6,661	66,789

a) Includes the intersegment eliminations presented in Note 24 to the consolidated financial statements.

Note: Certain comparative figures have been reclassified to reflect the presentation adopted for 2009.

Segment highlights

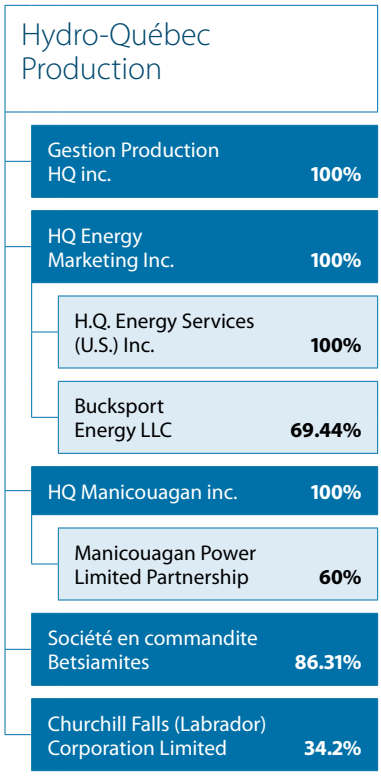
The **Generation** segment recorded net income of $2,214 million, which is stable compared to the $2,230 million recorded in 2008, despite a difficult business environment in 2009. The decrease in revenue from net electricity exports, due to a drop in energy prices, was considerably mitigated by the application of hedging strategies based on the use of derivative instruments for wholesale market activities, and was thereby limited to $226 million. Revenue from electricity sales to Hydro-Québec Distribution decreased by $207 million, mainly as a result of lower demand from industrial customers in Québec, while electricity purchases decreased by $63 million. Furthermore, the drop in aluminum prices led to a negative impact of $254 million, or $180 million more than in 2008, from special contracts signed with large industrial customers in Québec under conditions agreed to some 20 years ago. This impact was, however, more than offset by the positive effect, totaling $391 million, or $273 million more than in 2008, of hedging by the company on aluminum prices and exchange rates. Transmission system reservation costs paid to Hydro-Québec TransÉnergie increased by $56 million, while depreciation and amortization expense and capital tax decreased by $267 million and $40 million, respectively.

The **Transmission** segment recorded net income of $435 million, a $9-million increase from $426 million in 2008. Revenue from point-to-point transmission services provided to Hydro-Québec Production increased by $56 million over 2008. Since these services generated revenue of $268 million, which exceeded the forecast of $249 million approved by the Régie de l'énergie, the division recorded a regulatory liability of $19 million as revenue variances in point-to-point transmission services. In 2008, a $1-million regulatory asset was recorded in this regard, giving rise to a $20-million negative variance. In addition, revenue from native load transmission service increased by $46 million, while amortization expense for the net costs related to retirement of property, plant and equipment and intangible assets, recognized in accordance with the new conditions established by the Régie, increased by $79 million. Capital tax decreased by $19 million.

The **Distribution** segment recorded net income of $365 million, compared to $388 million in 2008. This $23-million decrease is mainly due to the recognition, in June 2008, of a $129-million regulatory asset for revenue variances related to climate conditions in 2006 and 2007. The effect of this non-recurring item was partly offset by an increase in revenue from electricity sales, a net decrease in electricity purchases and transmission costs, and a reduction in capital tax. There was also a positive variance in regulatory deferrals related to supply costs for electricity in excess of the heritage pool. A $31-million regulatory liability was recorded in this regard in 2009, compared to a $58-million liability in 2008.

The **Construction** segment recorded a volume of activity of $2,678 million, compared to $2,416 million in 2008. As in 2008, this high volume stemmed from work on several major projects.

GENERATION



Under the *Act respecting the Régie de l'énergie,* Hydro-Québec Production is required to provide Hydro-Québec Distribution with up to 165 TWh a year of heritage pool electricity, at an average price of 2.79¢/kWh. The division sells its excess output on deregulated markets in northeastern North America, including Québec, at market prices. It may also compete for contracts under Hydro-Québec Distribution's open tendering process.

The division operates 65 generating stations. Its capital projects serve a twofold objective: to ensure the long-term operability of existing facilities and to continue development of Québec's hydroelectric potential.

Operating results

Hydro-Québec Production recorded net income of $2,214 million, which is stable compared to the $2,230 million recorded in 2008, despite a difficult business environment in 2009. The decrease in revenue from net electricity exports, due to a drop in energy prices, was considerably mitigated by the application of hedging strategies based on the use of derivative instruments for wholesale market activities, and was thereby limited to $226 million. Revenue from electricity sales to Hydro-Québec Distribution decreased by $207 million, mainly as a result of lower demand from industrial customers in Québec, while electricity purchases decreased by $63 million. Furthermore, the drop in aluminum prices led to a negative impact of $254 million, or $180 million more than in 2008, from special contracts signed with large industrial customers in Québec under conditions agreed to some 20 years ago. This impact was, however, more than offset by the positive effect, totaling $391 million, or $273 million more than in 2008, of hedging by the company on aluminum prices and exchange rates. Transmission system reservation costs paid to Hydro-Québec TransÉnergie increased by $56 million, while depreciation and amortization expense and capital tax decreased by $267 million and $40 million, respectively.

Electricity sales in Québec

SALES TO HYDRO-QUÉBEC DISTRIBUTION

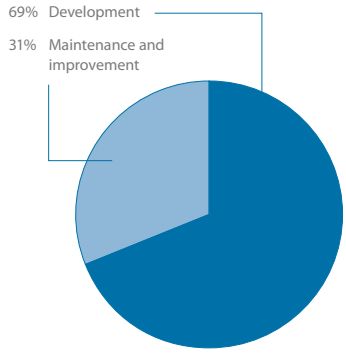
In 2009, the total volume of electricity sales to Hydro-Québec Distribution was 164.2 TWh, compared to 170.2 TWh in 2008, for a decrease of 6.0 TWh. Revenue generated by these sales decreased by $207 million to $4,632 million, mainly due to a reduction in industrial demand related to the difficult business environment in 2009.

SPECIAL CONTRACTS BETWEEN HYDRO-QUÉBEC DISTRIBUTION AND LARGE INDUSTRIAL CUSTOMERS

The risks inherent in Hydro-Québec Distribution's special contracts are absorbed by Hydro-Québec Production. Revenue from Hydro-Québec Distribution's special contracts with large industrial customers in Québec decreased by $208 million for a total of $743 million, mainly because of a nearly 40% decrease in the market price of aluminum in 2009. The negative impact prior to hedging totaled $254 million, or $180 million more than in 2008.

However, hedging operations carried out by the company, as part of its risk management strategy related to aluminum prices and exchange rates, generated a $391-million positive impact, or $273 million more than in 2008.

Breakdown of 2009 Investments by Hydro-Québec Production



Electricity sales outside Québec

Electricity sales outside Québec generated revenue of $1,495 million for 23.0 TWh in 2009, compared to $1,897 million for 21.1 TWh in 2008. Short-term electricity sales earned $1,239 million for 20.4 TWh, compared to $1,677 million for 18.6 TWh in 2008.

Net electricity exports earned $1,258 million in 2009 for a net reservoir drawdown of 18.5 TWh, compared to $1,484 million for 15.2 TWh in 2008. This represented a unit contribution of 6.8¢/kWh in 2009 against 9.8¢/kWh in 2008. It should be remembered that in 2008, Hydro-Québec Production had benefited from particularly favorable market conditions.

As at December 31, 2009, reservoir storage stood at 112.9 TWh, compared to 116.5 TWh a year earlier. This slight decrease is due to the fact that natural water inflows were below the normal level by approximately 2 TWh. It should be noted that the present level is more than sufficient to meet the criteria set for management of risks related to security of energy supply.

Electricity and fuel purchases

Electricity and fuel purchases totaled $1,043 million in 2009, a decrease of $234 million from 2008, due to a drop in market prices for energy and a reduction in purchase volume. Specifically, short-term purchases for export amounted to $223 million for 3.7 TWh, compared to $380 million for 5.2 TWh in 2008. Transmission system reservation costs paid to Hydro-Québec TransÉnergie increased by $56 million, mainly because of the higher volume of sales outside Québec.

Depreciation and amortization

Depreciation and amortization expense totaled $510 million compared to $777 million in 2008, a decrease of $267 million. The difference stems primarily from the revision of the useful life of some property, plant and equipment used for hydroelectric generation beyond 50 years.

Investing activities

Investments in property, plant and equipment and intangible assets affecting cash totaled $2,066 million in 2009. Of this amount, $1,422 million went to development activities, including work on Eastmain-1-A/Sarcelle/Rupert (with the start of operation of the Rupert diversion in 2009), Chute-Allard and Rapides-des-Cœurs (where the last eight generating units were commissioned in 2009), and Romaine.

Hydro-Québec Production also invested $644 million in rehabilitating and refitting its facilities. Most of this amount was earmarked for engineering work and planning and procurement activities related to the refurbishment of Gentilly-2 nuclear generating station, along with rehabilitation work at La Tuque, Beauharnois and Paugan generating stations.

In December, the division also invested $0.6 billion as part of Hydro-Québec's acquisition (through its subsidiary HQ Manicouagan inc.) of a 60% interest in Manicouagan Power Limited Partnership, which owns and operates a hydroelectric generating station (McCormick) located on the Rivière Manicouagan.

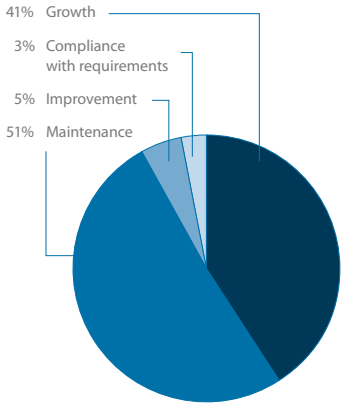
TRANSMISSION

Hydro-Québec TransÉnergie

Cedars Rapids Transmission Company, Limited **100%**

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

Breakdown of 2009 Investments by Hydro-Québec TransÉnergie



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

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

Rate case

For 2009, the revenue authorized by the Régie de l'énergie for transmission rate-setting purposes totaled $2,824 million, including $2,575 million in native load transmission revenue (representing a $46-million increase over 2008) and $249 million for short- and long-term point-to-point transmission services.

Operating results

Hydro-Québec TransÉnergie recorded net income of $435 million, a $9-million increase from $426 million in 2008. Revenue from point-to-point transmission services provided to Hydro-Québec Production increased by $56 million over 2008. Since these services generated revenue of $268 million, which exceeded the forecast of $249 million approved by the Régie de l'énergie, the division recorded a regulatory liability of $19 million as revenue variances in point-to-point transmission services. In 2008, a $1-million regulatory asset was recorded in this regard, giving rise to a $20-million negative variance. In addition, revenue from native load transmission service increased by $46 million, while amortization expense for the net costs related to retirement of property, plant and equipment and intangible assets, recognized in accordance with the new conditions established by the Régie, increased by $79 million. Capital tax decreased by $19 million.

Investing activities

In 2009, Hydro-Québec TransÉnergie invested $1,196 million in property, plant and equipment and intangible assets affecting cash, including $493 million for growth and $703 million for ongoing operations. Ongoing operations involve ensuring the long-term operability of facilities, improving service quality and complying with the legal and regulatory requirements for operating a power transmission system.

The purpose of growth projects is to increase transmission capacity and bring new hydropower plants and wind farms onto the grid.

In 2009, the division invested $184 million in the construction of the 1,250-MW interconnection between Québec and Ontario, which began at the end of 2006 under an agreement between Hydro-Québec TransÉnergie and Hydro One Networks. Most of this amount went into building the 315-kV line between Chénier and Outaouais substations, scheduled for commissioning in 2010. The two 315/230-kV converters at Outaouais substation were commissioned in 2009. The total cost of the project will be lower than the initial budget of $654 million.

Other major projects in 2009 included construction of Mont-Tremblant substation (120/25 kV), commissioned in December, and the refurbishment of Sorel substation (230/120/25 kV). At the same time, the division continued to work on integrating the output from wind farms in the Gaspé peninsula.

DISTRIBUTION

Hydro-Québec Distribution

☐ Hydro-Québec division

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

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

Rate cases

In March 2009, the Régie approved an across-the-board rate increase of 1.22%, effective April 1, 2009. In March 2010, it approved an across-the-board rate increase of 0.4% for 2010–2011.

Supplying the Québec market

Hydro-Québec Distribution relies on various sources to supply the Québec market. To meet requirements in excess of the heritage pool (165 TWh) reserved for it by Hydro-Québec Production, the division issues short- and long-term calls for tenders. For requirements of less than three months, it may also buy electricity directly on the market, without tendering, under an exemption granted by the Régie de l'énergie. For unforeseen needs that cannot be met otherwise, the division relies on a framework agreement with Hydro-Québec Production. Since the previous agreement expired on December 31, 2008, the two divisions signed a new agreement covering the period from January 1, 2009, to December 31, 2013, which was approved by the Régie de l'énergie in 2009.

In 2009, Hydro-Québec Distribution filed a second progress report with the Régie de l'énergie on the Electricity Supply Plan 2008–2017. The report presented a significant downward revision in the forecast of the electricity needs of the Québec market, especially in the industrial category, given the economic context.

To balance supply and demand, Hydro-Québec Distribution signed an agreement with TransCanada Energy to suspend, for 2010, the deliveries of power provided for in the contract with this supplier. Approved by the Régie de l'énergie in September 2009, the agreement can be renewed on an annual basis, subject to the Régie's approval.

The Saint-Ulric–Saint-Léandre wind farm made its first deliveries in November 2009. Combined with the supply from the wind farms at L'Anse-à-Valleau, Baie-des-Sables and Carleton, this brings the division's wind power purchases to some 1.5 TWh per year, for an installed capacity of 447 MW.

Finally, Hydro-Québec Distribution is continuing its efforts to promote energy efficiency. In 2009, its programs generated new energy savings of 0.9 TWh, for a total of 4.3 TWh of annual savings achieved to date. The division has a target of 11 TWh by 2015.

Operating results

Hydro-Québec Distribution recorded net income of $365 million, compared to $388 million in 2008. This $23-million decrease is mainly due to the recognition, in June 2008, of a $129-million regulatory asset for revenue variances related to climate conditions in 2006 and 2007. The effect of this non-recurring item was partly offset by an increase in revenue from electricity sales, a net decrease in electricity purchases and transmission costs, and a reduction in capital tax. There was also a positive variance in regulatory deferrals related to supply costs for electricity in excess of the heritage pool. A $31-million regulatory liability was recorded in this regard in 2009, compared to a $58-million liability in 2008.

Electricity sales in Québec

Electricity sales revenue totaled $10,541 million, an increase of $101 million over 2008. The rate adjustments that came into effect on April 1, 2008 and 2009, which, among other things, enabled the division to absorb the net costs related to the retirement of property, plant and equipment and intangible assets and to recover part of the regulatory asset charged to the revenue variance account related to climate conditions, had a positive impact on revenue. However, the decrease in industrial demand, which was partly offset by increased demand in the Residential and farm category, reduced revenue. Revenue from special contracts with large industrial customers decreased by $208 million, mainly because of the drop in aluminum prices. However, the derivative instruments used to manage risks related to aluminum prices and exchange rates generated a $273-million positive impact. Risks related to special contracts are absorbed by Hydro-Québec Production.

Sales volume was 165.1 TWh, a decrease of 5.2 TWh from 170.3 TWh in 2008, mainly the result of a decline in baseload demand (–4.4 TWh). Sales to industrial customers declined by 5.7 TWh because of the economic slowdown in the pulp and paper and smelting and refining sectors. In contrast, sales in the Residential and farm category increased by 2.2 TWh, mainly because of growth in the number of customer accounts and in the number of households converting to electric heating.

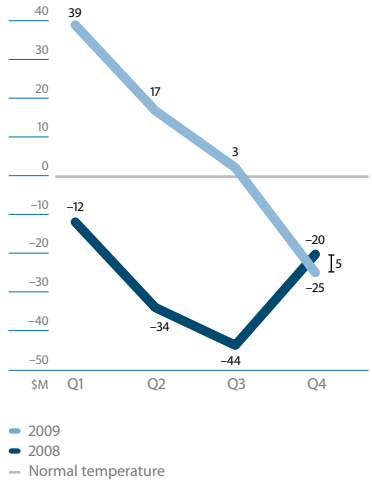
ELECTRICITY SALES IN QUÉBEC BY CATEGORY

		Sales volume			Sales revenue	
	2009	2009–2008 change		**2009**	2009–2008 change	
Customer category	TWh	TWh	%	$M	$M	%
Residential and farm	**62.5**	1.8	3.0	**4,500**	200	4.7
General and institutional	**34.1**	(1.1)	(3.1)	**2,662**	(25)	(0.9)
Industrial	**63.3**	(5.9)	(8.5)	**3,092**	(82)	(2.6)
Other	**5.2**	–	–	**287**	8	2.9
Total	**165.1**	(5.2)	(3.1)	**10,541**	101	1.0

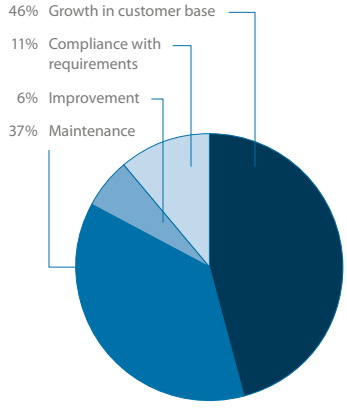
FACTORS IN THE 2009–2008 CHANGE IN SALES BY CATEGORY

	Volume effects							Price effects			**Total**
		Baseload demand	Temperature		February 29		**Total**	Rate adjust-ments	Other	**Total**	
Customer category	TWh	$M	TWh	$M	TWh	$M	$M	$M	$M	$M	$M
Residential and farm	2.2	145	(0.1)	–	(0.3)	(18)	**127**	85	(12)	**73**	**200**
General and institutional	(0.9)	(58)	(0.1)	(4)	(0.1)	(10)	**(72)**	44	3	**47**	**(25)**
Industrial	(5.7)	(231)	–	(1)	(0.2)	(9)	**(241)**	38	121	**159**	**(82)**
Other	–	(1)	–	–	–	(1)	**(2)**	5	5	**10**	**8**
Total	(4.4)	(145)	(0.2)	(5)	(0.6)	(38)	**(188)**	172	117	**289**	**101**

Cumulative Impact of Temperatures Compared to Normal



Breakdown of 2009 Investments by Hydro-Québec Distribution (Excluding the EEP[a])



a) EEP: Energy Efficiency Plan

Electricity purchases and cost of transmission

Net electricity purchases decreased by $120 million from 2008 due to a reduction in domestic demand.

The cost of native load transmission service increased by $46 million. It should also be noted that Hydro-Québec Distribution annually recognizes an adjustment to its transmission costs as a result of the recognition of Hydro-Québec TransÉnergie's variance account for revenue from point-to-point transmission services. In 2009, a $3-million reduction was recognized, while a $41-million reduction was recognized in 2008, for a negative variance of $38 million.

Depreciation and amortization

Depreciation and amortization expense totaled $868 million, compared to $828 million in 2008, a $40-million increase stemming mainly from an increase in amortization for regulatory assets and liabilities recognized in accordance with the conditions set by the Régie de l'énergie. First, amortization of the regulatory asset in connection with the net costs related to retirement of property, plant and equipment and intangible assets translated into a $92-million increase. Moreover, amortization of the regulatory asset recognized in 2008 for revenue variances related to climate conditions resulted in a $75-million increase. Finally, amortization of the regulatory asset related to the cost of native load transmission service decreased by $139 million, totaling $104 million in 2009, compared to $243 million in 2008.

Regulatory deferrals

The change in regulatory deferrals compared to 2008 increased expenditure by $82 million, primarily as a result of revenue variances related to climate conditions and cost variances related to electricity purchases in excess of the heritage pool.

Revenue variances related to climate conditions correspond to differences between Hydro-Québec Distribution's actual transmission and distribution revenue and the revenue forecasts established on the basis of the climate normal for rate application purposes. A $10-million regulatory asset was recognized in this regard in 2009 compared to $126 million in 2008, for a negative variance of $116 million. It should be mentioned that the 2008 regulatory asset, related mainly to milder temperatures in 2006, was recognized as a result of the inclusion of a mechanism for amortizing these differences in Hydro-Québec Distribution's 2009–2010 rate application.

As for cost variances related to electricity purchases in excess of the heritage pool, a $31-million regulatory liability was recorded in 2009 to take into account the fact that the actual cost of supplying electricity in excess of the heritage pool was lower than the cost forecasted for the purpose of rate-setting by the Régie de l'énergie. In 2008, a $58-million regulatory liability was recognized, for a $27-million positive variance.

Investing activities

Under the category of investments affecting cash, Hydro-Québec Distribution invested $709 million in property, plant and equipment and intangible assets in 2009.

Of this amount, $325 million went toward handling the growth of its Québec customer base, including $203 million to hook up new customers. The division also invested $263 million to ensure long-term distribution system operability, and $46 million to improve service quality, including $34 million for the system automation program, which will permit remote monitoring of equipment and improvements to the service continuity index.

Hydro-Québec Distribution also invested $257 million in the Energy Efficiency Plan.

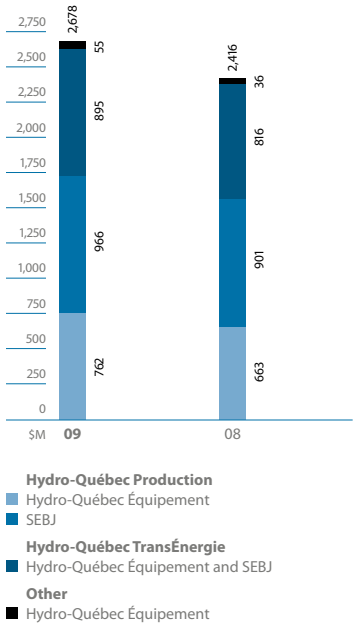
CONSTRUCTION

Hydro-Québec Équipement

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

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

Breakdown of Construction Segment Activities



Hydro-Québec Équipement carries out engineering, construction and refurbishment projects for power generating facilities throughout Québec, except in the territory governed by the *James Bay and Northern Québec Agreement,* where such work is handled by Société d'énergie de la Baie James (SEBJ). The division is also in charge of power transmission line and substation projects for the company.

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

Volume of activity

Hydro-Québec Équipement and SEBJ carried out activities worth a total of $2,678 million in 2009, compared to $2,416 million in 2008. As in 2008, this high volume can be attributed to several large-scale projects. Work done for Hydro-Québec Production totaled $1,728 million, compared to $1,564 million in 2008, while work done for Hydro-Québec TransÉnergie totaled $895 million, compared to $816 million in 2008.

Hydro-Québec Équipement

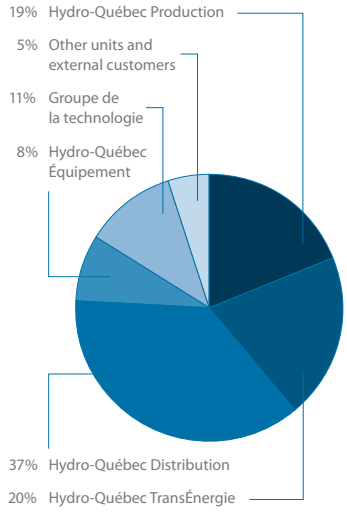
In 2009, Hydro-Québec Équipement carried out activities worth a total of $1,712 million, compared to $1,512 million in 2008. This work related to a number of power generation and transmission projects. Projects for Hydro-Québec Production included the Chute-Allard and Rapides-des-Cœurs hydroelectric developments (completion of construction and commissioning of the last generating units at the two stations), refurbishment of Gentilly-2 nuclear generating station (engineering work and planning and procurement activities), the Romaine project (opening of the first jobsite and start of construction on the road leading to the future facilities) and rehabilitation of several generating stations, including La Tuque, Beauharnois and Paugan. The division also continued work for Hydro-Québec TransÉnergie on the 1,250-MW interconnection with Ontario (commissioning of the two converters at Outaouais substation and construction of the 315-kV Chénier–Outaouais line, to be commissioned in 2010), along with work to integrate output from wind farms in the Gaspé peninsula and other projects to increase transmission system capacity.

Société d'énergie de la Baie James

SEBJ's activities, carried out on behalf of Hydro-Québec Production, represented a total of $966 million, compared to $904 million in 2008. This increase is due to additional work at the Eastmain-1-A/Sarcelle/Rupert jobsites, where the Rupert diversion began operation in November 2009.

CORPORATE AND OTHER ACTIVITIES

Breakdown of 2009 Revenue – Groupe des ressources humaines et des services partagés



This heading includes corporate activities, the Groupe des ressources humaines et des services partagés, the Groupe de la technologie and the subsidiary Hydro-Québec International.

Results

Corporate and Other Activities recorded net income of $9 million in 2009, compared to $85 million in 2008. The decrease is mainly due to the recognition, in 2008, of a non-recurring gain of $126 million related to the price adjustments provided for in the contract for the sale of the interest in Transelec, in Chile, concluded in 2006.

Corporate activities

Corporate activities consist of financial services, which are divided into two departments, and corporate affairs.

The Vice-présidence à la comptabilité et au contrôle is responsible for overseeing accounting (financial, regulatory and management), internal control and taxation. It also has the task of producing and analyzing the consolidated financial statements. Its other duties include financial planning and risk management.

The Vice-présidence au financement, à la trésorerie et à la caisse de retraite is in charge of meeting the company's financing requirements, managing its treasury and maintaining relations with Hydro-Québec bondholders and rating agencies. It also acts as trustee of Hydro-Québec's pension plan.

The Groupe des affaires corporatives et du secrétariat général provides support services and strategic consulting in the areas of communications, public affairs, environment, ethics and government relations. It is also responsible for services and expertise related to legal affairs as well as safety and security of persons and property. It also coordinates strategic planning and the company's contribution to the electrification of ground transportation. Finally, this group acts as Secretary to the Board of Directors and the Board committees at Hydro-Québec and its subsidiaries.

Groupe des ressources humaines et des services partagés

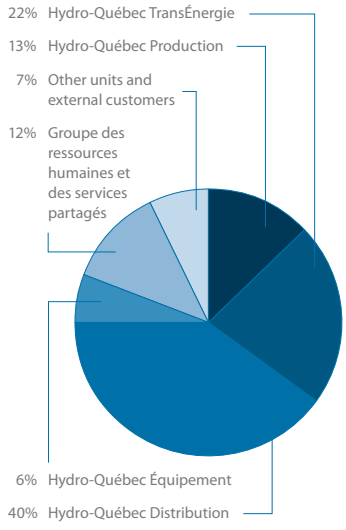
The Groupe des ressources humaines et des services partagés develops strategies, guidelines, frameworks, corporate programs and objectives in matters pertaining to human resources, procurement and services common to the entire company. Its mission includes ensuring that Management can count on optimum human resources conditions and providing products and advisory services in this area, including company-wide training. In addition, its Centre de services partagés provides divisions and corporate units with support services, at least cost and adapted to their needs, so that they can focus on their core activities. These services include procurement of goods and services, property management, accounting services, document management, material management and transportation services.

The group's revenue totaled $580 million in 2009, compared to $562 million in 2008, a 3% increase.

Corporate unit

Subsidiary held by Hydro-Québec and under the responsibility of the Groupe de la technologie

Breakdown of 2009 Revenue Related to Information and Communication Technology Activities



Groupe de la technologie

The Groupe de la technologie is composed primarily of the Direction principale des télécommunications, the Direction principale de la technologie de l'information, Hydro-Québec's research institute and the subsidiaries Hydro-Québec IndusTech and Hydro-Québec CapiTech. The group's mandate is to ensure the integrated management of technological innovation and the optimal management of telecommunications and information technology infrastructure. With this in mind, it has continued to develop and implement an overall vision for systems governance, architecture and security in order to capitalize on the convergence of technologies.

■ **Direction principale des télécommunications and Direction principale de la technologie de l'information**

The telecommunications and information technology units enhance the efficiency of divisions and corporate units by offering technology solutions in line with Hydro-Québec's business priorities.

These units recorded revenue of $491 million in 2009, compared to $500 million in 2008.

■ **Research institute**

Hydro-Québec's research institute provides technical assistance to the divisions and carries out technological innovation projects to support their operations and ensure the long-term development of Hydro-Québec. The company allocates approximately $100 million annually to the institute's activities.

■ **Hydro-Québec IndusTech**

The mission of Hydro-Québec IndusTech is to partner with the private sector in industrializing and marketing technologies resulting from Hydro-Québec's research activities. Among other things, it is responsible for TM4, a company active in the field of electric powertrain systems. In January 2009, Hydro-Québec bought out the interest held by Groupe Industriel Marcel Dassault in TM4.

INVESTING ACTIVITIES

In 2009, the Groupe de la technologie's investments totaled $82 million, of which $74 million was earmarked for maintaining asset quality and $8 million for meeting growth in demand.

Hydro-Québec International

The $131-million decrease in Hydro-Québec International's net income is mainly due to the recognition, in 2008, of a non-recurring gain of $126 million related to the price adjustments provided for in the contract for the sale of the interest in Transelec, in Chile, concluded in 2006. These adjustments were made following a Chilean ministerial order establishing the value of the regulated trunk transmission asset base of Transelec, and also took into account the retrospective effect of this revised valuation on Transelec's revenue for the period from March 13, 2004, to June 30, 2006.

OUTLOOK

In 2010, Hydro-Québec expects to earn net income of $2.4 billion entirely from continuing operations. This projection is consistent with the 2010 outlook of the *Strategic Plan 2009–2013*.

Hydro-Québec plans to invest close to $5 billion in 2010. More than 50% of this amount will be devoted to development and growth activities and to the Energy Efficiency Plan. The remainder will go toward facility maintenance and improvements.

Hydro-Québec Production will continue its major hydroelectric development projects, including concreting and construction at the Eastmain-1-A and Sarcelle jobsites in the Baie-James region, as well as building the road and the first structures at Romaine-2 in the Minganie region. It also began draft-design studies in fall 2009 to build a complex on the Petit Mécatina, some 250 km east of the Romaine. In addition, the division will carry on with engineering work and planning and procurement activities related to the refurbishment of Gentilly-2 nuclear generating station.

Hydro-Québec TransÉnergie will invest a considerable amount in development to integrate new hydroelectric and wind capacity in Québec. It will therefore continue connecting new hydroelectric and wind power facilities, in particular Eastmain-1-A and Sarcelle powerhouses and the wind farms built in response to Hydro-Québec Distribution's calls for tenders. The division will also continue to invest in maintenance and improvement activities in order to ensure the reliability and long-term operability of its transmission assets and enhance service quality. These activities include the project to upgrade the bulk transmission system, which involves boosting system performance and reinforcing the supply of energy to major load centres in order to reduce energy losses and make system management more flexible.

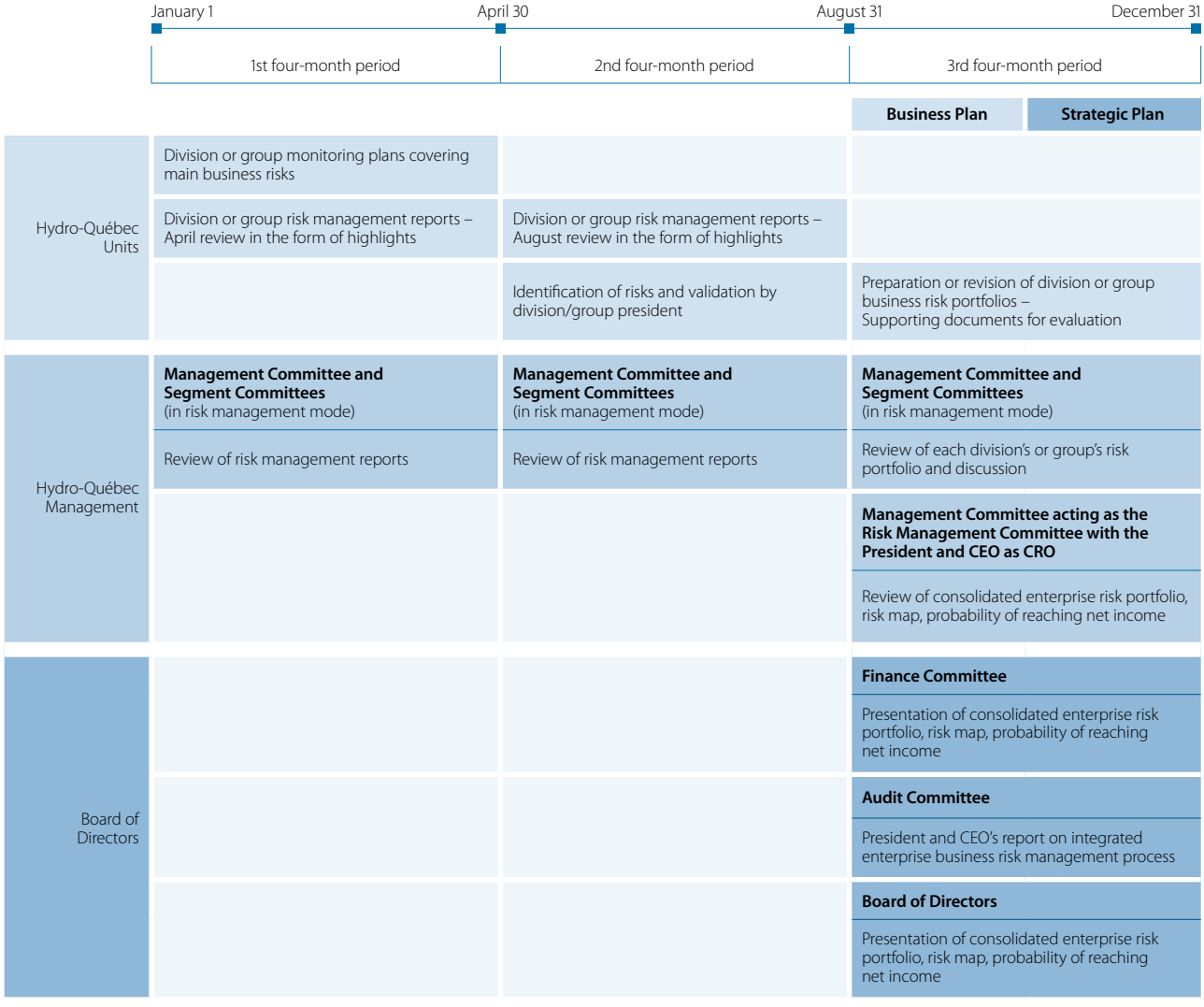
Hydro-Québec Distribution will continue to deliver reliable power and high-quality services to its Québec customers. It will continue investing to handle the growth of its Québec customer base and to maintain and improve its facilities, especially those involved in grid automation. It will also continue to implement the Energy Efficiency Plan, which includes measures for low-income households, to achieve the objective of 11 TWh in energy savings set for 2015. In addition, it will commission the new Kuujjuaq thermal generating station to replace the existing one.

INTEGRATED ENTERPRISE RISK MANAGEMENT

For several years, Hydro-Québec has applied an integrated enterprise risk management process that is now part of its ongoing business practices. This process is supported by various control, communication and assessment mechanisms that enable it to monitor risk developments on a dynamic basis.

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

ANNUAL INTEGRATED RISK MANAGEMENT PROCESS



Financial risks

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

Market risk

Hydro-Québec's results are subject to different types of market risk associated mainly with fluctuations in the Canadian dollar's exchange rate compared to the U.S. dollar as well as fluctuations in interest rates and aluminum prices. Exchange rate fluctuations affect revenue from sales denominated in U.S. dollars as well as the cost of U.S. dollar–denominated debt and swaps. Interest rate fluctuations affect financial expenses, pension costs and the authorized return on equity of regulated divisions. Aluminum price fluctuations have an impact on the revenue from special contracts with large industrial customers in Québec.

The three types of market risk are subject to active integrated management, in particular through derivative financial products. The purpose of such management is to limit the impact of market risk on Hydro-Québec's short-term results, according to strategies and criteria established based on the company's risk tolerance. Furthermore, Hydro-Québec can count on certain offsetting factors that mitigate its market risk over the medium and long term. For example, it holds debt and swaps denominated in U.S. dollars as a hedge against sales in that currency. The effect of exchange rate fluctuations on sales is thus offset by exchange gains or losses on debt in U.S. dollars. There is also an 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 and the authorized return on equity of regulated divisions, on the other.

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

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

Operational risks

Generation

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

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

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

Transmission

Several factors, such as extreme weather and equipment failure, may cause service interruptions or result in the unavailability of part of the transmission system. The multifaceted strategy adopted by Hydro-Québec TransÉnergie to prevent these problems includes implementing the standards of the North American Electric Reliability Corporation (NERC) and the Northeast Power Coordinating Council (NPCC), as well as measures to maintain and improve transmission facilities and extend their useful life. In 2007, the Régie de l'énergie confirmed the reliability expertise of Hydro-Québec TransÉnergie by designating its Direction du contrôle des mouvements d'énergie (CMÉ), the unit responsible for system control, as Reliability Coordinator for Québec. In this capacity, the CMÉ filed the reliability standards applicable to generation facilities and transmission systems in Québec, as well as a register of entities subject to these standards, with the Régie in June 2009.

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

Distribution

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

In addition, Hydro-Québec Distribution applies a series of measures to ensure long-term operability of the distribution system, and hence service quality. These measures include compliance with applicable standards for overhead and underground systems, the implementation of an asset maintenance program and a strategy for asset renewal, as well as vegetation control.

In order to promote better energy use, the division is also pursuing its efforts in the area of energy efficiency.

Construction

Strong demand in the area of civil engineering and market-specific inflation may have an impact on current and future project costs. That is why Hydro-Québec has developed strategies to mitigate the impact of economic conditions on procurement and on project completion. Moreover, it applies strict management to contain costs but still meet deadlines, its high standards of quality and safety, and the requirements of each project.

Corporate and Other Activities

Environmental protection and conservation are a central concern of Hydro-Québec. Most activities that have a significant impact on the environment are governed by an ISO 14001–certified environmental management system. In addition, every year, the company reviews its management of environmental issues and details them in its Sustainability Report.

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

Finally, Hydro-Québec has a corporate emergency response plan to ensure the continuity of its operations and its mission in case of an exceptional event. The plan defines the material, technical and organizational means required to restore electrical service. It also provides for effective coordination of all internal and external responders, including public authorities.

Changeover to International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board confirmed that the full changeover to International Financial Reporting Standards (IFRS) will take effect for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, with comparative information presented for fiscal 2010. On October 28, 2009, the Public Sector Accounting Board confirmed that public sector enterprises such as Hydro-Québec will be required to follow IFRS for periods beginning January 1, 2011.

Like Canadian generally accepted accounting principles (GAAP), IFRS is a single, summary set of standards based on professional judgment. Since 2005, they have been applied in about 100 countries around the world, primarily in the European Union and Australia. Japan and China are also implementing an IFRS convergence plan.

Hydro-Québec has prepared an IFRS conversion plan and set up a work team to complete this task. In 2009, it completed the first phase of the conversion, namely the diagnostic study. Through this study, the main differences between Canadian GAAP and IFRS were established and IFRS implementation strategies were devised. The other phases are continuing on schedule. To date, the main issues identified have to do with property, plant and equipment, regulatory accounting practices and employee future benefits. These issues were taken into consideration in preparing the *Strategic Plan 2009–2013*.

The company will adopt IFRS as required as at January 1, 2011. In order to make the transition more seamless, the following schedule has been drawn up:

2008	2009	2010	2011
Diagnostic study	Diagnostic study (completion) Systems modification Disclosure (sample financial statements and complete review of the notes to financial statements) Preparation of an employee training plan	Preparation of 2010 comparative data in accordance with IFRS Employee training	Changeover to IFRS (disclosure of 2010 comparative data in accordance with IFRS)

Hydro-Québec examines all proposed and current drafts of the International Accounting Standards Board, particularly the one concerning rate-regulated activities, and evaluates the impacts of these drafts on its IFRS changeover plan.

MANAGEMENT REPORT

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

Management maintains an internal control system which includes communicating Hydro-Québec's code of ethics and code of conduct to employees, primarily to ensure the proper management of resources and the orderly conduct of business. The objective of this system is to provide reasonable assurance that the financial information is pertinent and reliable and that the assets of Hydro-Québec are adequately recorded and safeguarded. An internal auditing process allows evaluation of the sufficiency and effectiveness of control, as well as of Hydro-Québec's policies and procedures. Recommendations ensuing from this process are submitted to Management and the Audit Committee.

The Board of Directors is responsible for corporate governance. It assumes its responsibility for the consolidated financial statements principally through its Audit Committee, composed solely of independent directors, who do not hold full-time positions within Hydro-Québec or in one of its subsidiaries. The Audit Committee's mandate is to ensure that the consolidated financial statements present fairly Hydro-Québec's financial position, the results of its operations, its cash flows and its comprehensive income, and to recommend the financial statements to the Board of Directors for approval. The Audit Committee meets regularly with Management, the Internal Auditor and the external auditors 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 the effectiveness of its internal control system. The Internal Auditor and the external auditors have full and unrestricted access to the Audit Committee, with or without Management present.

The external auditors are appointed by the Québec government, the sole shareholder of Hydro-Québec. The 2009 and 2008 consolidated financial statements have been audited jointly by the external auditors, KPMG LLP and Ernst & Young LLP.

Michael L. Turcotte
Chairman of the Board

Thierry Vandal
President and Chief Executive Officer

Lise Croteau
Vice President – Accounting and Control

Montréal, Québec
February 5, 2010

AUDITORS' REPORT

To the Minister of Finance of Québec:

We have audited the consolidated balance sheets of Hydro-Québec as at December 31, 2009 and 2008, and the consolidated statements of operations, retained earnings, cash flows and comprehensive income for the years then ended. These financial statements are the responsibility of Hydro-Québec's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Hydro-Québec as at December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), we report that, in our opinion, except for the application of changes in accounting policies described in Note 2 to the consolidated financial statements, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP[a]

Ernst & Young LLP[b]

Montréal, Québec
February 5, 2010

a) CA auditor permit No. 6992
b) CA auditor permit No. 13764

Consolidated Statements of Operations

Years ended December 31 In millions of Canadian dollars	Notes	2009	2008
Revenue		**12,334**	12,717
Expenditure			
Operations		**2,521**	2,497
Electricity and fuel purchases		**1,207**	1,406
Depreciation and amortization	4	**2,214**	2,336
Taxes	5	**928**	1,093
Regulatory deferrals	3	**30**	(72)
		6,900	7,260
Operating income		**5,434**	5,457
Financial expenses	6	**2,399**	2,445
Income from continuing operations		**3,035**	3,012
Income from discontinued operations	16	**–**	129
Net income		**3,035**	3,141

Consolidated Statements of Retained Earnings

Years ended December 31 In millions of Canadian dollars	Note	2009	2008
Balance, beginning of year		**16,445**	15,556
Net income		**3,035**	3,141
		19,480	18,697
Dividends declared	18	**2,168**	2,252
Balance, end of year		**17,312**	16,445

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	2009	2008
ASSETS			
Current assets			
Cash and cash equivalents		**472**	385
Short-term investments		**2,117**	3,545
Accounts receivable and other receivables	15	**1,982**	1,965
Derivative instruments		**1,324**	659
Regulatory assets	3	**71**	324
Materials, fuel and supplies		**339**	290
		6,305	7,168
Property, plant and equipment	7	**57,760**	54,920
Investments	8	**109**	108
Derivative instruments		**753**	1,428
Goodwill and intangible assets	9	**1,212**	958
Regulatory assets	3	**883**	843
Other assets	10	**1,956**	1,364
		68,978	66,789
LIABILITIES			
Current liabilities			
Borrowings		**29**	106
Accounts payable and accrued liabilities		**2,034**	1,948
Dividends payable	18	**2,168**	2,252
Accrued interest		**899**	915
Regulatory liabilities	3	**3**	56
Current portion of long-term debt	11	**586**	770
Derivative instruments		**246**	82
		5,965	6,129
Long-term debt	11	**37,113**	35,290
Derivative instruments		**1,960**	1,887
Asset retirement obligations	12	**371**	300
Regulatory liabilities	3	**23**	6
Other long-term liabilities	13	**848**	760
Perpetual debt	14	**303**	355
		46,583	44,727
EQUITY	18		
Share capital		**4,374**	4,374
Retained earnings		**17,312**	16,445
Accumulated other comprehensive income		**709**	1,243
		18,021	17,688
		22,395	22,062
		68,978	66,789
Commitments and contingencies	22		

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

On behalf of the Board of Directors,

Jacques Leblanc
Chair of the Audit Committee

Michael L. Turcotte
Chairman of the Board

Consolidated Statements of Cash Flows

Years ended December 31 In millions of Canadian dollars	Notes	2009	2008
Operating activities			
Net income		**3,035**	3,141
Income from discontinued operations	16	**–**	(129)
Income from continuing operations		**3,035**	3,012
Adjustments			
Depreciation and amortization	4	**2,214**	2,336
Amortization of debt premiums, discounts and issue expenses	6	**118**	109
Regulatory deferrals	3	**30**	(72)
Other		**(17)**	115
Change in non-cash working capital items	20	**(38)**	(149)
Net change in accrued benefit assets and liabilities		**(561)**	(242)
		4,781	5,109
Investing activities			
Additions to property, plant and equipment		**(4,022)**	(3,686)
Additions to intangible assets	9	**(61)**	(69)
Cash receipts from the government reimbursement for the 1998 ice storm		**19**	17
(Acquisition) disposal of investments		**(15)**	70
(Acquisition) disposal of interests	16	**(580)**	154
Costs related to Energy Efficiency Plan		**(257)**	(236)
Net disposal (acquisition) of short-term investments		**1,430**	(435)
Other		**11**	–
		(3,475)	(4,185)
Financing activities			
Issuance of long-term debt		**4,191**	2,027
Repayment of long-term debt		**(1,233)**	(2,853)
Cash receipts arising from credit risk management	15	**1,125**	2,955
Cash payments arising from credit risk management	15	**(2,950)**	(676)
Net change in short-term borrowings		**(82)**	33
Dividends paid		**(2,252)**	(2,095)
Other		**(2)**	(2)
		(1,203)	(611)
Foreign currency effect on cash and cash equivalents		**(16)**	17
Cash flows from continuing operations		**87**	330
Cash flows from discontinued operations		**–**	1
Net change in cash and cash equivalents		**87**	331
Cash and cash equivalents, beginning of year		**385**	54
Cash and cash equivalents, end of year		**472**	385
Supplementary cash flow information	20		

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

Consolidated Statements of Comprehensive Income

Years ended December 31 In millions of Canadian dollars	**2009**	2008
Net income	**3,035**	3,141
Other comprehensive income		
Change in deferred gains on items designated as cash flow hedges	**9**	389
Reclassification to operations of deferred gains on items designated as cash flow hedges	**(543)**	(111)
	(534)	278
Other	**–**	3
Comprehensive income	**2,501**	3,422

Years ended December 31, 2009 and 2008

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

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

Note 1 Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and reflect the decisions of the Régie de l'énergie (the "Régie"). These decisions affect the timing of the recognition of certain transactions in the consolidated operations, resulting in the recognition of regulatory assets and liabilities, which Hydro-Québec considers it is likely to recover or settle subsequently through the rate-setting process.

Regulation

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

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

TRANSMISSION

Hydro-Québec's power transmission rates for 2009 and 2008 were determined in Régie decisions D-2009-023 and D-2008-027, respectively. The authorized return on the rate base was set at 7.65% in 2009 and 7.84% in 2008, assuming a capitalization with 30% equity.

DISTRIBUTION

Hydro-Québec's electricity rates were determined in decisions D-2009-021 and D-2008-033, in which the Régie granted across-the-board rate increases of 1.22% and 2.90%, effective April 1, 2009, and April 1, 2008, respectively. The authorized return on the rate base was set at 7.42% in 2009 and 7.81% in 2008, assuming a capitalization with 35% equity.

Scope of consolidation

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

Use of estimates

The preparation of consolidated financial statements in accordance with 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 to revenue, depreciation and amortization expenses, asset retirement obligations and employee future benefits, among other things. Actual results could differ from those estimates.

Revenue

Substantially all the revenue comes from electricity sales. Revenue from these sales is recognized on the basis of cyclical billings. It also includes estimated amounts for electricity delivered but not billed.

Foreign currency translation

SELF-SUSTAINING FOREIGN OPERATIONS

The financial statements of foreign operations that are self-sustaining in terms of financial and operational management are translated according to the current rate method using the foreign currency as the measuring unit. Under this method, assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date, and revenue and expenditure are translated at the average exchange rate in effect during the period. The exchange gains or losses resulting from the translation of the financial statements of these foreign operations are presented in Accumulated other comprehensive income under Equity on the balance sheet.

INTEGRATED FOREIGN OPERATIONS AND FOREIGN CURRENCY TRANSACTIONS

In the case of foreign operations that are integrated in terms of financial and operational management, as well as foreign currency transactions, accounts stated in foreign currencies are translated according to the temporal method. Under this method, monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date, and non-monetary items are translated at the historical rate. Revenue and expenditure arising from foreign currency transactions are translated into Canadian dollars at the exchange rate in effect at the transaction date. The exchange gains or losses resulting from the translation of monetary items are included in operations, unless they relate to hedging items for future sales in U.S. dollars, in which case they are deferred to Other comprehensive income until the year in which such sales are made.

Materials, fuel and supplies

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

Property, plant and equipment

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

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

Property, plant and equipment are depreciated over their useful life, primarily using the sinking fund method, at a rate of 3%. The depreciation periods for the principal categories of property, plant and equipment are as follows:

Hydraulic generation	40 to 100 years
Thermal generation, including nuclear	15 to 50 years
Transmission substations and lines	30 to 50 years
Distribution substations and lines	25 to 40 years
Corporate and other activities	3 to 50 years

When property, plant and equipment are retired, their cost, net of accumulated depreciation and salvage value, is charged to operations for the year. Information concerning the recognition of the net retirement costs of property, plant and equipment related to regulated activities is provided in Note 3, Effects of Rate Regulation on the Consolidated Financial Statements.

Maintenance and repair costs are recognized in operations when incurred.

Investments

Investments in companies over which Hydro-Québec can exercise significant influence are accounted for on an equity basis.

Intangible assets

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

Internally developed computer software and development costs are capitalized when they meet capitalization criteria. Development costs that are not capitalizable and research costs are recognized in operations as incurred.

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

Intangible assets with a finite useful life are amortized over their useful life according to the straight-line method over the following periods:

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

Impairment of long-lived assets

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

Employee future benefits

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

The cost of pension benefits and other post-retirement benefits provided in exchange for current service is calculated using the projected benefit method prorated on years of service. It is based on Management's best assumptions of the discount rate, the expected return on plan assets, salary escalation, the increase in health care costs, retirement ages of employees and other actuarial factors.

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

- Past service costs arising from plan amendments and transitional balances relating to the pension plan and post-retirement benefits as at January 1, 1999, are amortized using the straight-line method over periods not exceeding active employees' average remaining years of service, which was 12 years as at January 1, 2009 and 2008.

- Amortization of actuarial gains or losses is recognized in operations for the year if the unamortized net actuarial gain or loss at the beginning of the year exceeds 10% of the value of the accrued benefit obligations or 10% of the market-related value of the plan assets, whichever is greater. The amortization corresponds to the excess divided by active employees' average remaining years of service.

- The expected return on pension plan assets is based on a market-related value determined by using a five-year moving average for equity securities and by valuing other asset classes at fair value.

Asset retirement obligations

Hydro-Québec accounts for asset retirement obligations in the period in which these legal obligations are incurred when a reasonable estimate of their fair value can be made. The corresponding costs of asset retirement are added to the carrying amount of the related asset and are amortized over its useful life. In subsequent financial years, any change due to the passage of time is recognized in operating expenses for the current year (accretion expense) and the corresponding amount is added to the carrying amount of the liability. Changes resulting from revisions to the timing or the amount of the undiscounted cash flows are recognized as an increase or decrease in the carrying amount of the liability arising from asset retirement obligations, and the corresponding offsetting item is accounted for at the carrying amount of the related asset.

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

Agreements with local communities

Hydro-Québec has entered into various agreements with the local communities concerned by certain capital projects and intangible asset 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 or Intangible assets, as the case may be.

Financial instruments

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

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

Category	Financial Instruments
Financial assets and liabilities held for trading	
Designated	Cash equivalents (with initial maturities of three months or less)
Classified	Derivative instruments
Available-for-sale financial assets	Short-term investments (maturing in more than three months)
Loans and receivables	Accounts receivable and other receivables
	Government reimbursement for the 1998 ice storm (presented in Other assets)
Other financial liabilities	Borrowings
	Accounts payable and accrued liabilities
	Dividends payable
	Accrued interest
	Current portion of long-term debt
	Long-term debt
	Perpetual debt

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

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

Available-for-sale financial assets are recorded at fair value at the balance sheet date. Changes in fair value are recorded in Other comprehensive income until they are realized, at which time they are reclassified to operations. Commodity futures that can be settled net in cash are recorded at the date of settlement if there is a probability of delivery or receipt in accordance with expected needs.

Loans and receivables, less any impairment losses, as well as other financial liabilities are measured at amortized cost using the effective interest method.

As part of its integrated enterprise risk management, Hydro-Québec uses various financial instruments to manage its market risk, consisting of currency risk, interest rate risk and risk resulting from fluctuating energy and commodity prices. Hydro-Québec applies cash flow or fair value hedge accounting to the eligible hedging relationships. It formally documents all relationships between hedging instruments and hedged items. This process involves associating all derivative instruments with specific assets and liabilities on the balance sheet, or with probable anticipated transactions. Hydro-Québec also measures the effectiveness of hedging relationships initially and then monthly thereafter.

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

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

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

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

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

Cash equivalents, short-term investments and derivative instruments are recognized at fair value.

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

Note 2

Changes to Accounting Policies

Recent changes

2009

GOODWILL AND INTANGIBLE ASSETS

On January 1, 2009, Hydro-Québec adopted the recommendations of Section 3064 of the *Canadian Institute of Chartered Accountants (CICA) Handbook*, "Goodwill and Intangible Assets," which superseded Section 3062, "Goodwill and Other Intangible Assets," and Section 3450, "Research and Development Costs." Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of these recommendations had no material impact on the consolidated financial statements.

RATE-REGULATED ACTIVITIES

On January 1, 2009, the temporary exemption provided for in *CICA Handbook* Section 1100, "Generally Accepted Accounting Principles," which allowed the recognition and measurement of regulatory assets and liabilities, was withdrawn. Pursuant to a practice allowed by Canadian GAAP, Hydro-Québec will, however, rely on *Accounting Standards Codification (ASC) 980,* "Regulated Operations," issued by the U.S. Financial Accounting Standards Board (FASB), to maintain the current accounting treatment for regulatory assets and liabilities. The withdrawal of the exemption therefore had no impact on the consolidated financial statements.

CREDIT RISK AND THE FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

On January 20, 2009, the Emerging Issues Committee (EIC) of the CICA issued *Abstract of Issue Discussed EIC-173,* "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." EIC-173 clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of the recommendations in this abstract had no impact on the consolidated financial statements.

FINANCIAL INSTRUMENTS – DISCLOSURES

In June 2009, the CICA amended *CICA Handbook* Section 3862, "Financial Instruments – Disclosures." The purpose of the amendments is to improve disclosures about fair value measurements and the liquidity risk associated with financial instruments. The information required is provided in Note 1, Significant Accounting Policies – Financial Instruments, and Note 15, Financial Instruments.

2008

FINANCIAL INSTRUMENTS

On January 1, 2008, Hydro-Québec adopted two new disclosure and presentation standards of the *CICA Handbook:* Section 3862 and Section 3863, "Financial Instruments – Presentation," which superseded Section 3861, "Financial Instruments – Disclosure and Presentation." These new standards modify disclosure requirements regarding the nature and extent of risks arising from financial instruments as well as how Hydro-Québec manages these risks. The presentation rules remain unchanged. The adoption of these new standards had no impact on the recognition or measurement of financial instruments. The required information is provided in Note 15, Financial Instruments.

CAPITAL DISCLOSURES

On January 1, 2008, Hydro-Québec adopted the recommendations of *CICA Handbook* Section 1535, "Capital Disclosures," requiring disclosure of how capital is managed by Management. The required information is provided in Note 19, Capital Management.

INVENTORIES

On January 1, 2008, Hydro-Québec adopted the recommendations of *CICA Handbook* Section 3031, "Inventories," which establishes standards for the measurement of inventories, including determination of their cost. The adoption of these recommendations did not affect net income but required the reclassification of $65 million as Property, plant and equipment on the balance sheet as at December 31, 2008.

Future changes

DEPRECIATION METHOD FOR PROPERTY, PLANT AND EQUIPMENT

On January 1, 2010, Hydro-Québec amended the accounting policy on the depreciation of property, plant and equipment in order to adopt the straight-line method. These assets were previously depreciated using the sinking fund method, at a rate of 3%. Hydro-Québec has applied this change in accounting policy retrospectively with restatement of prior periods for assets related to non-regulated activities. For assets related to regulated activities, it has applied the change prospectively in compliance with standard ASC 980.

The impact of this change in accounting policy on Hydro-Québec's financial position as at January 1, 2010, corresponds to a decline of approximately $4 billion in property, plant and equipment and retained earnings.

BUSINESS COMBINATIONS

In January 2009, the CICA issued Section 1582, "Business Combinations," which superseded Section 1581, "Business Combinations." Section 1582 establishes the principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. It will apply prospectively to business combinations for which the acquisition date is in a fiscal year beginning on or after January 1, 2011.

CONSOLIDATED FINANCIAL STATEMENTS AND NON-CONTROLLING INTERESTS

In January 2009, the CICA issued Section 1601, "Consolidated Financial Statements," and Section 1602, "Non-Controlling Interests," which superseded Section 1600, "Consolidated Financial Statements." Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These sections will apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

Note 3

Effects of Rate Regulation on the Consolidated Financial Statements

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

Regulatory assets and liabilities

COSTS RELATED TO THE ENERGY EFFICIENCY PLAN (EEP)

The costs related to implementation of the EEP, such as specific energy conservation programs, are recognized in a separate account and amortized over 10 years on a straight-line basis, except for the costs incurred prior to January 1, 2006, which are amortized over five years. The amortization period begins in the year after the costs were recorded. Financial expenses arising from these costs are capitalized at the rate of return authorized by the Régie on the rate base until such time as they are included in the rate base and amortization begins. This accounting practice was authorized by the Régie in decisions D-2002-25, D-2002-288, D2003-93 and D-2006-56, which relate to Hydro-Québec's power distribution activities. Were these activities not regulated, certain costs not associated with intangible assets as defined in the accounting standards would be recognized in operations for the year in which they are incurred. Had none of the costs incurred been related to an intangible asset, net income for 2009 would have been $178 million lower ($178 million in 2008).

NET COSTS RELATED TO RETIREMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

In decisions D-2009-023 and D-2009-021, the Régie accepted the Distributor's and the Transmission Provider's proposal to recognize net retirement costs for property, plant and equipment and intangible assets, except for the costs related to Des Cantons substation, in operations for the year in which they are incurred. Most of the balance in the related account, which totaled $267 million as at December 31, 2008, was therefore expensed in 2009.

VARIANCES IN REVENUE RELATED TO CLIMATE CONDITIONS

Variances between the Distributor's actual transmission and distribution revenue and the revenue projections established on the basis of the climate normal for purposes of rate cases are recognized in a separate account and amortized on a straight-line basis over a five-year period, except for $62 million related to a review of the climate normal, which was expensed in 2009. Financial expenses arising from these variances are capitalized at the rate of return authorized by the Régie on the rate base until such time as they are included in the rate base and amortization begins. This accounting practice was authorized by the Régie in decisions D-2006-34 and D-2009-016, which relate to Hydro-Québec's power distribution activities. Were these activities not regulated, Hydro-Québec's expenditure would have been lower and net income for 2009 would have been $65 million higher ($141 million lower in 2008).

VARIANCES IN ANNUAL COST OF TRANSMISSION SERVICE FOR NATIVE LOAD

Variances resulting from any modification of the annual cost of native load transmission service that has not been taken into account in the setting of electricity rates are recognized in a separate account and amortized according to conditions set by the Régie. Financial expenses arising from these costs are capitalized at the rate of return authorized by the Régie on the rate base until such time as they are included in the rate base and amortization begins. This accounting practice was authorized by the Régie in decisions D-2003-93, D-2006-34, D-2007-12 and D-2008-024, which relate to Hydro-Québec's power distribution activities. Were these activities not regulated, Hydro-Québec's expenditure would have been lower and net income for 2009 would have been $104 million higher ($240 million in 2008).

COSTS INCURRED UNTIL THE RESCISSION OF DUAL-ENERGY RATE BT

The costs incurred until the rescission of dual-energy Rate BT were charged to a separate account and have been amortized on a straight-line basis over five years since the rescission date of April 1, 2006. These costs mainly include the deficit resulting from the variance between the supply cost recognized by the Régie and energy prices in effect, multiplied by the quantity of electricity delivered to customers at Rate BT between January 1, 2004, and March 31, 2006. Financial expenses arising from these costs were capitalized at the rate of return authorized by the Régie on the rate base until March 31, 2006. This accounting practice was authorized by the Régie in decisions D-2004-47, D-2004-170 and D-2006-34, which relate to Hydro-Québec's power distribution activities. Were these activities not regulated, the costs would have been recognized in operations for the year in which they were incurred, and net income for 2009 would have been $29 million higher ($29 million in 2008).

COSTS RELATED TO THE DE-ICING SYSTEM AT LÉVIS SUBSTATION

Certain costs related to the Lévis substation de-icing system, a project designed in the wake of the 1998 ice storm to secure the transmission lines supplying the greater Québec area, were recognized in a separate account. These costs have been depreciated using the sinking fund method at a rate of 3%, starting from the date of commissioning of the de-icing system, over a period corresponding to the average remaining useful life of the assets enhanced by the project. Financial expenses arising from these costs were capitalized at the rate of return authorized by the Régie on the rate base until such time as they were included in the rate base and amortization began. The Régie authorized this accounting practice in decision D-2004-175, which relates to Hydro-Québec's power transmission activities. Were these activities not regulated, the costs would have been recognized in operations for the year in which they were incurred, and net income for 2009 would have been $1 million higher ($5 million in 2008).

COST VARIANCES RELATED TO ELECTRICITY PURCHASES IN EXCESS OF THE HERITAGE POOL

Volume and price variances between the actual costs of electricity purchases in excess of the heritage pool and the costs forecasted in the rate cases and accepted by the Régie for rate-setting purposes are recognized in a separate account and amortized according to conditions set by the Régie. Financial expenses arising from these variances are capitalized at the rate of return authorized by the Régie on the rate base until such time as amortization begins. This accounting practice was authorized by the Régie in decisions D-2005-34, D-2005-132, D-2006-34, D-2007-12 and D-2008-024, which relate to Hydro-Québec's power distribution activities. Were these activities not regulated, the actual costs would be recognized in operations for the year in which they are incurred, and net income for 2009 would have been $63 million lower ($2 million in 2008).

VARIANCES IN COST OF FUEL PURCHASES

The variances between the actual costs of fuel purchases and the costs forecasted in the rate cases and recognized by the Régie for rate-setting purposes are recognized in a separate account. Financial expenses arising from these variances are capitalized at the rate of return authorized by the Régie on the rate base until such time as they are included in the rate base. This accounting practice was authorized by the Régie in decision D-2009-016, which relates to Hydro-Québec's power distribution activities, and led to a request for an amortization mechanism in the 2010 rate application. Were these activities not regulated, the actual costs would be recognized in operations for the year in which they are incurred, and net income for 2009 would have been $10 million lower (nil in 2008).

VARIANCES IN REVENUE FROM POINT-TO-POINT TRANSMISSION SERVICES

Variances between actual revenue from point-to-point transmission services and revenue forecasted in the rate cases and accepted by the Régie for rate-setting purposes are recognized in a separate account and amortized according to conditions set by the Régie. Financial expenses arising from these variances are capitalized at the rate of return authorized by the Régie on the rate base until such time as amortization begins. This accounting practice was authorized by the Régie in decisions D-2007-08 and D-2008-019, which relate to Hydro-Québec's power transmission activities. Were these activities not regulated, Hydro-Québec's expenditure would have been lower and net income for 2009 would have been $17 million higher ($41 million lower in 2008).

REGULATORY ASSETS

	Expected years of amortization	**2009**	2008
Costs related to EEP	2010–2019	**737**	559
Net costs related to retirement of property, plant and equipment and intangible assets	2010	**51**	267
Variances in revenue related to climate conditions[a]	2010–2015	**76**	141
Variances in annual cost of transmission service for native load[a]	–	**–**	104
Costs incurred until rescission of dual-energy Rate BT	2010–2011	**37**	66
Costs related to de-icing system at Lévis substation	2010–2047	**12**	13
Cost variances related to electricity purchases in excess of heritage pool[a]	2010	**10**	–
Variances in cost of fuel purchases[a]	2010	**10**	–
Other	2010–2029	**21**	17
		954	1,167
Current portion		**71**	324
		883	843

REGULATORY LIABILITIES

	Expected years of amortization	**2009**	2008
Cost variances related to electricity purchases in excess of heritage pool[a]	–	**–**	(53)
Variances in revenue from point-to-point transmission services[a]	2010–2011	**(26)**	(9)
		(26)	(62)
Current portion		**(3)**	(56)
		(23)	(6)

a) The change in the variance accounts, net of an amortization expense of $87 million ($141 million in 2008) and capitalized financial expenses of $4 million ($13 million in 2008), corresponds to the amount recorded under Regulatory deferrals in the Consolidated Statements of Operations, namely, an increase in expenditure of $30 million (decrease of $72 million in 2008).

RISKS AND UNCERTAINTIES

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

Other regulatory practices

Under Régie decisions D-2002-95 and D-2003-93, the compensation granted by the Québec government for the 1998 ice storm was applied against the cost of newly constructed property, plant and equipment; it is amortized over the remaining life of the retired assets, with the exception of the portion equivalent to the unamortized cost of these assets, which is amortized over 10 years. The sinking fund method, at a rate of 3%, is used in both cases. Were these activities not regulated, the compensation would be amortized over the useful life of the newly constructed property, plant and equipment.

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

Under Régie decisions D-2002-95 and D-2003-93, the cost of dismantling assets that were retired and replaced, net of the salvage value, is added to the cost of the newly constructed assets. Were these activities not regulated, these costs would be recognized in operations.

Under Régie decisions D-2006-76 and D-2006-76R, contributions received for relocation or modification projects relating to certain transmission grid assets are recognized in a separate account and applied against property, plant and equipment. These contributions are amortized over the average useful life of assets for each project, using the sinking fund method, at a rate of 3%. Were these activities not regulated, the contributions would be amortized over the useful life of each fixed asset concerned.

In decision D-2008-114, the Régie authorized the renewal for 2009 of an agreement whereby energy deliveries provided for in a power purchase contract with an independent power producer were suspended. As at December 31, 2008, a $57-million commitment was recorded on the balance sheet but had no impact on operating results for 2008. In decision D-2009-125 handed down on September 29, 2009, the Régie approved a new agreement to suspend such energy deliveries for 2010. As at December 31, 2009, a $49-million commitment regarding this agreement was recorded on the balance sheet but had no impact on operating results for 2009.

Note 4 Depreciation and Amortization

	2009	2008
Property, plant and equipment[a]	**1,684**	1,820
Intangible assets	**97**	126
Regulatory assets and liabilities	**419**	286
Deferred charges	**–**	5
Write-offs	**14**	99
	2,214	2,336

a) Revision of the useful life of property, plant and equipment resulted in a $170-million decrease in the depreciation and amortization expense ($71 million in 2008). For some property, plant and equipment used for hydroelectric generation, this revision was carried out in 2009 and resulted in the increase of the maximum amortization period from 50 to 100 years.

Note 5 Taxes

	2009	2008
Water-power royalties	**573**	552
Public utilities tax	**188**	302
Capital tax	**132**	202
Municipal, school and other taxes	**35**	37
	928	1,093

Note 6 Financial Expenses

	2009	2008
Interest		
Interest on debt securities	**2,411**	2,587
Amortization of debt premiums, discounts and issue expenses	**118**	109
	2,529	2,696
Net exchange loss (gain)	**40**	(25)
Loan guarantee fees	**174**	167
	214	142
Less		
Capitalized financial expenses	**318**	306
Net investment income	**26**	87
	344	393
	2,399	2,445

Note 7 Property, Plant and Equipment

	In service	Accumulated depreciation	Under construction	2009 Net carrying amount
Generation				
Hydraulic	36,865	9,261	2,627	**30,231**
Thermal, including nuclear	2,622	2,007	520	**1,135**
Other	753	348	6	**411**
	40,240	11,616	3,153	**31,777**
Transmission				
Substations and lines	22,607	7,409	698	**15,896**
Other	2,108	1,214	69	**963**
	24,715	8,623	767	**16,859**
Distribution				
Substations and lines	12,306	4,898	301	**7,709**
Other	1,891	1,039	91	**943**
	14,197	5,937	392	**8,652**
Construction	28	16	–	**12**
Corporate and Other Activities	1,078	673	55	**460**
	80,258	26,865	4,367	**57,760**

	In service	Accumulated depreciation	Under construction	2008 Net carrying amount
Generation				
Hydraulic	33,829	8,833	3,457	28,453
Thermal, including nuclear	2,573	1,999	248	822
Other	747	330	24	441
	37,149	11,162	3,729	29,716
Transmission				
Substations and lines	21,393	6,932	906	15,367
Other	1,981	1,150	107	938
	23,374	8,082	1,013	16,305
Distribution				
Substations and lines	11,850	4,550	232	7,532
Other	1,858	1,018	82	922
	13,708	5,568	314	8,454
Construction	28	14	–	14
Corporate and Other Activities	1,030	644	45	431
	75,289	25,470	5,101	54,920

Note 8 Investments

	2009	2008
At equity		
Churchill Falls (Labrador) Corporation Limited	**86**	87
CITEQ inc.	**(5)**	(5)
	81	82
Other	**28**	26
	109	108

Note 9 Goodwill and Intangible Assets

	2009			2008		
	Cost	Accumulated amortization	Net carrying amount	Cost	Accumulated amortization	Net carrying amount
Intangible assets						
Subject to amortization[a]						
Software and licences	1,296	754	**542**	1,319	744	575
Development costs	36	18	**18**	32	16	16
Patents	11	5	**6**	10	4	6
	1,343	777	**566**	1,361	764	597
Not subject to amortization						
Servitudes[a]			**354**			351
Water-power rights[b]			**282**			–
			636			351
Goodwill			**10**			10
			1,212			958

a) The additions for the year totaled $61 million as at December 31, 2009 ($69 million as at December 31, 2008), including $56 million ($64 million as at December 31, 2008) in internal development costs.

b) The amount indicated is the fair value of the water-power rights upon allocation of the purchase price of the Manicouagan Power Limited Partnership. Information concerning this acquisition is presented in Note 16, Acquisition and Disposal of Interests.

Note 10 Other Assets

	Note	2009	2008
Accrued benefit assets	21	**1,736**	1,133
Deferred charges		**89**	91
Government reimbursement for the 1998 ice storm[a]		**71**	90
Nuclear fuel waste management trust fund[b]		**60**	50
		1,956	1,364

a) Payable in quarterly installments of $6 million until January 15, 2014, and a final installment of $1 million on April 15, 2014. These installments include interest at an annual rate of 7.2%. The current portion, presented under Accounts receivable and other receivables, totaled $20 million as at December 31, 2009 ($19 million as at December 31, 2008). The fair value of this financial asset, including the current portion, was $100 million as at December 31, 2009 ($126 million as at December 31, 2008).

b) On November 15, 2002, the *Nuclear Fuel Waste Act* came into force. Under this Act, nuclear energy corporations in Canada were required to set up a waste management organization whose role would be to propose a long-term approach for managing spent nuclear fuel to the Government of Canada. Nuclear energy corporations were also required to set up a trust fund to finance the costs of long-term nuclear fuel waste management. In November 2005, the Nuclear Waste Management Organization (NWMO) filed its report with the Government of Canada and recommended an approach which was adopted in June 2007.

In October 2007, the members of the NWMO ratified an agreement that sets forth a formula for financing the costs of long-term nuclear fuel waste management. This formula, approved by the Canadian Minister of Natural Resources in April 2009, is used to determine each member's share for the coming years, based on the number of spent nuclear fuel bundles produced at a given date. It also takes into account the date on which each member plans to start shipping spent nuclear fuel bundles to the future national repository site.

Note 11

Long-Term Debt

The following table presents the debt, at amortized cost, including the current portion of long-term debt, by currency at the time of issue. Swaps were taken into account in determining the percentages of debt by currency at the time of repayment.

	2009				2008			
			At time of issue	At time of repayment			At time of issue	At time of repayment
	In Canadian dollars and other currencies	At closing exchange rates as at the balance sheet date	%	%	In Canadian dollars and other currencies	At closing exchange rates as at the balance sheet date	%	%
Hydro-Québec's debt								
Canadian dollars	28,860	**28,860**	**77**	**96**	25,482	25,482	71	95
U.S. dollars	8,050	**8,410**	**22**	**4**[a]	8,076	9,888	28	5[a]
Other currencies								
Euros	59	**89**	**–**	**–**	59	101	–	–
Yen	2,004	**22**	**–**	**–**	2,506	34	–	–
Pounds sterling	238	**403**	**1**	**–**	238	425	1	–
		37,784				35,930		
Plus								
Adjustment for fair-value hedged risk		**(109)**	**–**	**–**		98	–	–
Subsidiaries' debt								
U.S. dollars	23	**24**	**–**	**–**	26	32	–	–
		37,699	**100**	**100**		36,060	100	100
Less								
Current portion		**586**				770		
		37,113				35,290		

a) Of this amount, 99.4% was used to hedge sales in U.S. dollars as at December 31, 2009 and 2008.

Interest rates

The following table shows interest rates, which take into account stated interest rates on borrowings, debt premiums, discounts and issue expenses, and the effect of debt-related swaps:

%				2009	2008
Maturity	Canadian dollars	U.S. dollars	Other currencies	Weighted average	Weighted average
1 to 5 years	4.59	8.15	7.47	**5.67**	7.71
6 to 10 years	4.78	7.07	8.93	**7.04**	7.58
11 to 15 years	10.16	8.50	–	**9.44**	9.96
16 to 20 years	5.53	8.91	–	**8.74**	8.27
21 to 25 years	4.67	9.81	–	**7.43**	8.10
26 to 30 years	5.99	–	–	**5.99**	5.99
31 to 35 years	5.17	–	–	**5.17**	5.17
36 to 40 years	4.92	–	–	**4.92**	4.93
41 to 45 years	4.96	–	–	**4.96**	6.44
46 to 50 years	–	–	–	**–**	–
51 to 55 years	6.62	–	–	**6.62**	6.62
Weighted average	5.94	8.79	8.86	**6.56**	6.93

As at December 31, 2009, the variable-rate portion of long-term debt amounted to 9.4%, or 10.1% including perpetual debt (10.1%, or 11.0% including perpetual debt, as at December 31, 2008).

Note 11 Long-Term Debt (continued)

Fair value

As at December 31, 2009, the fair value of the long-term debt, including the current portion, amounted to $46,678 million ($46,166 million as at December 31, 2008). Including debt-related swaps, total indebtedness stood at $47,514 million ($46,950 million as at December 31, 2008). Fair value is obtained by discounting future cash flows, based on forward interest rates derived from interest rates at the close of business on the balance sheet date for similar instruments available on capital markets. Changes in fair value reflect sensitivity to capital market interest rates. However, Management's primary intention is to hold these debt securities until maturity.

Standby credit

Hydro-Québec has undrawn standby credit facilities of US$2,000 million, composed of two tranches, one of US$360 million and the other of US$1,640 million, which will expire in 2012 and 2013, respectively. Any borrowings will bear interest at a rate based on the London Interbank Offered Rate (LIBOR). A US$750-million swing loan at the U.S. base rate is included in the US$2,000-million credit facility.

Note 12 Asset Retirement Obligations

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

In 2008, the Board of Directors approved the project to refurbish Gentilly-2 generating station, which will extend its useful life by 28 years. Therefore, the main assumptions for calculating the obligation related to the dismantling of Gentilly-2 generating station at the end of its useful life were revised in 2008, resulting primarily in a 28-year deferral of the expected timing for the settlement of the obligation.

Hydro-Québec has also identified asset retirement obligations relating to thermal generating stations and transmission substations and lines for which no liability has been recognized since it expects to use these assets for an undetermined period. These relate to property, plant and equipment for which Hydro-Québec does not have sufficient information to accurately establish a schedule for the obligations. A liability resulting from these asset retirement obligations will be recognized in the period in which there is sufficient information to establish such a schedule.

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

	Dismantling of nuclear generating station[a]	Removal of spent nuclear fuel[a]	Dismantling of other assets	2009 Total
Balance, beginning of year	129	155	16	**300**
Liabilities incurred	–	2	3	**5**
Accretion expense	9	14	2	**25**
Liabilities settled	–	(1)	(2)	**(3)**
Revision of estimated cash flows and expected timing of payments	47	–	(3)	**44**
Balance, end of year	185	170	16	**371**

	Dismantling of nuclear generating station[a]	Removal of spent nuclear fuel[a]	Dismantling of other assets	2008 Total
Balance, beginning of year	306	141	17	464
Liabilities incurred	–	2	–	2
Accretion expense	15	13	1	29
Liabilities settled	–	(1)	(2)	(3)
Revision of estimated cash flows and expected timing of payments	(192)[b]	–	–	(192)
Balance, end of year	129	155	16	300

a) The Québec government has provided an irrevocable financial guarantee of up to $685 million to the Canadian Nuclear Safety Commission (CNSC) for the performance of Hydro-Québec's obligations with regard to the cost of dismantling Gentilly-2 nuclear generating station at the end of its useful life and the removal of spent nuclear fuel. This financial guarantee is required under the CNSC licence issued to Hydro-Québec for operation of the generating station until December 31, 2010. Hydro-Québec will seek renewal of this licence upon its expiry.

b) The decrease in the carrying amount of the obligation in 2008 is mainly due to the deferral of the dismantling of Gentilly-2 generating station.

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

	Dismantling of nuclear generating station	Removal of spent nuclear fuel	Dismantling of other assets
Estimated cash flows (in constant dollars) required to settle the obligations[a]			
As at December 31, 2009	914	598	16
As at December 31, 2008	761	598	17
Expected timing of payment of the cash flows required to settle the obligations			
As at December 31, 2009	Between 2040 and 2071	Between 2010 and 2159	Between 2010 and 2031
As at December 31, 2008	Between 2040 and 2071	Between 2009 and 2159	Between 2009 and 2031
Credit quality–adjusted, risk-free rate at which the estimated cash flows have been discounted (%)			
Initial recognition of obligations	6.4	6.4	Between 3.3 and 6.4
Subsequent recognition of obligations	Between 5.0 and 5.5	5.5	5.7 and 6.1

a) Inflation rates varying between 1.8% and 3.6% were used to determine the asset retirement obligations.

Note 13 Other Long-Term Liabilities

	Notes	2009	2008
Accrued benefit liabilities	21	**705**	663
Accounts payable		**113**	97
Balance of purchase price	16	**30**	–
		848	760

Note 14 Perpetual Debt

Perpetual notes in the amount of $303 million (US$289 million) as at December 31, 2009, and $355 million (US$289 million) as at December 31, 2008, bear interest at a rate determined semiannually based on LIBOR, plus 0.0625%. They are redeemable at Hydro-Québec's option. No portion was redeemed in 2009 and 2008. Various derivative instruments recorded at fair value are used to mitigate the currency risk associated with this debt.

As at December 31, 2009 and 2008, the rates applicable to the perpetual notes were 0.8% and 3.6%, respectively. As at December 31, 2009, the fair value of these notes was $255 million ($246 million as at December 31, 2008). Fair value is obtained by discounting future cash flows, based on forward interest rates derived from interest rates at the close of business on the balance sheet date for similar instruments available on capital markets.

Note 15 Financial Instruments

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

Market risk

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

Management of long-term risk

MANAGEMENT OF RISK ASSOCIATED WITH SALES IN U.S. DOLLARS

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

MANAGEMENT OF RISK ASSOCIATED WITH LONG-TERM DEBT

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

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

Maturity	1 to 5 years	6 to 10 years	11 to 15 years	16 to 20 years	More than 20 years	**2009**[a] Total	2008[a] Total
Swaps							
Canadian dollars	1,236	(705)	(3,604)	(2,122)	(1,271)	**(6,466)**	(8,017)
U.S. dollars	(197)	312	3,055	1,675	1,000	**5,845**	5,660
Other currencies							
Yen	1,000	1,000	–	–	–	**2,000**	2,500
Euros	–	61	–	–	–	**61**	61
Pounds sterling	40	200	–	–	–	**240**	240

a) Figures in parentheses represent amounts to be paid.

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

	2009	2008
Instruments designated as cash flow hedges for U.S.-dollar sales[a]	**441**	452
Instruments designated as cash flow hedges for debt	**(1,684)**	(36)
Instruments designated as fair value hedges for debt	**(129)**	104
	(1,372)	520
Instruments not designated as hedges[b]	**1,182**	(695)
	(190)	(175)

a) A portion of the long-term debt, with a nominal amount of US$1,403 million as at December 31, 2009 (US$1,437 million as at December 31, 2008), was also designated as a cash flow hedge for U.S.-dollar sales.

b) Transactions carried out as part of Hydro-Québec's risk management, including $977 million in consideration of amounts received or disbursed with respect to credit risk mitigation agreements in 2009 (($852 million) in 2008).

Management of short-term risk

Currency risk – Hydro-Québec uses options and forward contracts to manage its foreign currency risk exposure over the short term. When designated as hedging items, these derivative instruments are recognized as cash flow hedges. The impact of currency risk hedging transactions on operating results is recognized in the line item corresponding to the hedged item, namely Revenue, Electricity and fuel purchases, or Financial expenses. The nominal amount of the open positions as at December 31, 2009, was US$625 million, with US$923 million in sales contracts and US$298 million in purchase contracts (US$258 million as at December 31, 2008, that is, US$310 million in sales contracts and US$52 million in purchase contracts).

Interest rate risk – Hydro-Québec uses options, interest rate swaps and forward rate agreements to manage short-term interest rate risk. When designated as hedging items, these derivative instruments are recognized as cash flow hedges. The impact on operating results of transactions to hedge short-term interest rate risk is recognized in Financial expenses.

Market risk – Hydro-Québec uses mainly options, swaps and commodity futures to manage risk resulting from fluctuations in energy and aluminum prices. When designated as hedging items, these derivative instruments are recognized as cash flow hedges. The impact on operating results of transactions to hedge the risk of variability in energy and aluminum prices is recognized in the line item corresponding to the hedged item, namely Revenue. Hydro-Québec regularly assesses the probability of realizing these transactions. To hedge exposure to variability in energy and aluminum prices, Hydro-Québec has traded derivative instruments for which open positions as at December 31, 2009, totaled 244,900 tonnes of aluminum (152,625 tonnes as at December 31, 2008); electricity swaps for which open positions as at December 31, 2009, were 10.3 TWh (3.5 TWh as at December 31, 2008); and natural gas futures for which open positions as at December 31, 2009, were 17.2 million MBtu (nil as at December 31, 2008).

The following table presents the fair value of derivative instruments used to manage short-term financial risk, depending on whether or not they are designated as hedges:

	2009	2008
Instruments designated as cash flow hedges	**43**	295
Instruments not designated as hedges	**18**	(2)
	61[a]	293[a]

a) Of which $3 million ($1 million in 2008) corresponds to the total of financial instruments measured on the basis of quoted market prices (Level 1) and $58 million ($292 million in 2008) to instruments measured through techniques based on observable market inputs (Level 2).

Effect of hedges

EFFECT OF HEDGES ON OPERATING RESULTS

EFFECT OF CASH FLOW HEDGES

As at December 31, 2009, the net loss related to the ineffectiveness of cash flow hedges recognized in operations totaled $12 million ($15 million as at December 31, 2008).

As at December 31, 2009, Hydro-Québec estimated at $337 million the amount of net gains presented in Accumulated other comprehensive income that would be reclassified to operations in the next 12 months ($401 million as at December 31, 2008).

In 2009, Hydro-Québec reclassified a net gain of $6 million from Accumulated other comprehensive income to operations (no amount reclassified in 2008) as a result of the discontinuance of cash flow hedges.

As at December 31, 2009, the maximum period over which Hydro-Québec hedged its exposure to the variability of future cash flows for anticipated transactions was 7 years (8 years as at December 31, 2008).

EFFECT OF FAIR VALUE HEDGES

As at December 31, 2009, the net gain related to the ineffectiveness of fair value hedges recognized in operations totaled $16 million (net loss of $25 million as at December 31, 2008).

EFFECT OF REVALUATION OF DERIVATIVE INSTRUMENTS NOT DESIGNATED AS HEDGES

As at December 31, 2009, the net gain recognized in operations as a result of the revaluation, at fair value, of derivative instruments not subject to hedge accounting totaled $4 million ($143 million as at December 31, 2008). These instruments are essentially related to risk management transactions.

SENSITIVITY ANALYSES

The risks associated with variability in foreign exchange rates, interest rates and aluminum prices are the subject of integrated management aimed at limiting the impact of such risks on operating results. Most of the derivative instruments traded are designated as cash flow hedges or fair value hedges and therefore reduce the volatility in operating results, except for the ineffective portion of the hedges, which is insignificant. Derivative instruments which are not designated as hedges, but which nonetheless serve to hedge at-risk opposite positions, also reduce the volatility in operating results. The sensitivity of operating results is thus limited to net exposure to unhedged risks.

As at December 31, 2009, had the exchange rate ($C/$US) been 5% higher or lower, net income would have been $19 million higher or lower, respectively ($17 million higher or $7 million lower as at December 31, 2008), while Other comprehensive income would have been $11 million lower or higher, respectively ($100 million higher or $104 million lower as at December 31, 2008). The analysis is based on financial assets and liabilities denominated in U.S. dollars, including a cash amount of US$82 million (US$80 million as at December 31, 2008). It also takes into account the impact of hedged sales.

In 2009, had interest rates been 50 basis points higher or lower, net income would have been $11 million lower or higher, respectively ($2 million in 2008), while Other comprehensive income would have been $72 million higher or $77 million lower ($3 million higher or $4 million lower in 2008).

In 2009, had the price of aluminum been 5% higher or lower, net income would have been $1 million higher or lower, respectively ($3 million in 2008), taking into account the impact of hedged sales, and Other comprehensive income would have been $29 million lower or higher, respectively ($15 million in 2008).

Liquidity risk

Liquidity risk is the risk that Hydro-Québec will have difficulty meeting commitments related to its financial liabilities.

Hydro-Québec's exposure is reduced by a large volume of cash from operations, a diversified portfolio of highly liquid or readily convertible instruments traded with high-quality counterparties, preauthorized capital resources, the quality of Hydro-Québec's signature on financial markets, diversified capital resources and its management of the proportions of variable-rate debt and debt repayable in foreign currency.

In addition, as at December 31, 2009, $36,518 million in long-term debt, perpetual debt and borrowings was guaranteed by the Québec government ($34,881 million as at December 31, 2008).

Note 15 — Financial Instruments (continued)

Maturities of financial liabilities are presented in the following table. The amounts reported are contractual undiscounted cash flows, representing payments of principal and interest for financial liabilities as at December 31, 2009.

Maturity	Borrowings[a]	Accounts payable and accrued liabilities	Dividends payable	Long-term debt	Derivative instruments[b]
2010	29	1,702	2,168	3,040	368
2011	–	83	–	4,568	255
2012	–	23	–	3,390[c]	123
2013	–	24	–	3,195	244
2014	–	5	–	4,166	102
1 to 5 years	29	1,837	2,168	18,359	1,092
6 to 10 years	–	–	–	11,149	600
11 to 15 years	–	–	–	17,218	758
16 to 20 years	–	–	–	7,895[c]	593
21 to 25 years	–	–	–	7,429	240
26 to 30 years	–	–	–	8,586	–
31 to 35 years	–	–	–	7,136	–
36 to 40 years	–	–	–	7,109	–
41 to 45 years	–	–	–	3,726	–
46 to 50 years	–	–	–	1,452	–
51 to 55 years	–	–	–	592	–
56 years and over	–	–	–	1,567	–
Total	**29**	**1,837**	**2,168**	**92,218**	**3,283**
Carrying amount	29[d]	1,837[d,e]	2,168[d]	37,699[f]	2,206

a) As at December 31, 2009, the weighted average interest rate on short-term borrowings was 0.88% (2.59% as at December 31, 2008).

b) Agreements entered into with certain counterparties to limit the market value of these financial instruments could result in cash receipts or payments at dates different from the initially scheduled maturity dates.

c) Certain debts carry sinking fund requirements.

d) Because of their short-term maturities, the carrying amount of these financial liabilities approximates their fair value.

e) Of this amount, $1,702 million is recorded in Accounts payable and accrued liabilities and $135 million in Other long-term liabilities.

f) Including the current portion.

Contractual maturities of perpetual debt result in biennial interest flows. Perpetual notes in the amount of $303 million (US$289 million) bear interest at a rate determined semiannually based on LIBOR, plus 0.0625%. As at December 31, 2009, the applicable rate was 0.8%.

Credit risk

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

Hydro-Québec is exposed to credit risk related to cash equivalents, short-term investments and derivative instruments traded with financial institutions. It is also exposed to credit risk related to accounts receivable and other receivables arising primarily from its day-to-day energy sales in and outside Québec. It should be noted that sales in Québec are billed at rates that allow for recovery of costs based on conditions approved by the Régie. Credit risk is limited to the carrying amount presented under assets on the balance sheet, which approximates fair value.

CASH EQUIVALENTS, SHORT-TERM INVESTMENTS AND DERIVATIVE INSTRUMENTS

In order to reduce its credit risk exposure, Hydro-Québec deals with Canadian and international issuers and financial institutions with high credit ratings. In addition, it applies policies to limit risk concentration as well as various monitoring programs and sets credit limits for each counterparty. Through prior agreements, it can also limit the market value of the main derivative instrument portfolios. Any variation in market value beyond the agreed-upon limit results in a cash receipt or payment. As at December 31, 2009, substantially all counterparties with whom Hydro-Québec dealt had a rating over A- and none of them had defaulted on their obligations to Hydro-Québec.

CUSTOMERS – ENERGY SALES (CLASSIFIED IN ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES)

Exposure to credit risk from energy sales is limited due to Hydro-Québec's large and diverse customer base. Management is of the opinion that Hydro-Québec is not exposed to a major credit risk. Moreover, Hydro-Québec holds as collateral customer deposits of $53 million ($39 million as at December 31, 2008), of which $12 million ($9 million as at December 31, 2008) is recognized in Accounts payable and accrued liabilities and $41 million ($30 million as at December 31, 2008) in Other long-term liabilities.

The value of accounts receivable, by age and net of the related bad debt provision, is presented in the following table:

	2009	2008
Accounts receivable		
Under 30 days[a]	**1,414**	1,481
30 to 60 days	**62**	62
61 to 90 days	**35**	30
Over 90 days	**190**	140
	1,701	1,713
Other receivables[b]	**281**	252
Accounts receivable and other receivables[c]	**1,982**	1,965

a) Including unbilled electricity deliveries.

b) Including a $31-million financial guarantee ($4 million in 2008) covering certain financial instruments held at year end.

c) Including US$127 million (US$109 million in 2008) translated at the exchange rate in effect at the balance sheet date.

In 2009, the bad debt provision increased by $48 million to $249 million as at December 31 ($201 million as at December 31, 2008). The provision is based on account age and customer standing.

Note 16 Acquisition and Disposal of Interests

Acquisition

On December 9, 2009, Hydro-Québec acquired, through its subsidiary HQ Manicouagan inc., a 60% interest in Manicouagan Power Limited Partnership, which owns and operates a hydroelectric generating station on the Rivière Manicouagan, for a consideration of $616 million, including cash, a balance of purchase price and acquisition fees. Hydro-Québec has consequently acquired joint control over this limited partnership with Alcoa Ltd, which has a 40% interest, because under a contractual agreement, major operating, investment and financing decisions must be approved by all the directors. The transaction was accounted for using the purchase method.

The purchase price is broken down as follows:

Current assets	**9**
Property, plant and equipment	**373**
Water-power rights	**282**
	664
Current liabilities	**47**
Long-term liabilities	**1**
	48
Purchase price	**616**

Consideration consists of:

Cash	**580**
Balance of purchase price	**30**
Acquisition fees	**3**
Other	**3**
	616

Disposal

In 2008, Hydro-Québec recognized a gain of $121 million, net of $26 million in related income taxes, for the price adjustment provided for in the contract for the sale of its interest in HQI Transelec Chile S.A. (Transelec). This adjustment was made following the ministerial order issued on January 15, 2008, establishing the value of the regulated trunk transmission asset base of Transelec. The retrospective effect of this revised valuation on Transelec's revenue for the period from March 13, 2004, to June 30, 2006, resulted in an additional $5-million adjustment of the selling price, net of $1 million in related income taxes. This transaction is presented as a discontinued operation in the Consolidated Statements of Operations and the Consolidated Statements of Cash Flows.

For purposes of segmented information, the results of foreign holdings are classified under Corporate and Other Activities.

Note 17 Interests in Joint Ventures

The proportionate share of the joint venture items included in the consolidated financial statements is presented in the following table. These joint ventures consist of the interests managed by Groupe de la technologie and Hydro-Québec Production.

	2009[a]	2008
Operations		
Revenue	**14**	26
Expenditure and financial expenses	**11**	30
Net income (loss)	**3**	(4)
Balance Sheets		
Current assets	**16**	9
Long-term assets	**678**	35
Current liabilities	**45**	9
Long-term liabilities	**25**	35
Net assets	**624**	–
Cash Flows		
Operating activities	**3**	–
Investing activities	**–**	(2)
Financing activities	**(10)**	(3)
Net change in cash and cash equivalents	**(7)**	(5)

a) Hydro-Québec's share in the balance sheet, operations and cash flows of Manicouagan Power Limited Partnership has been included in the consolidated financial statements since the acquisition date, December 9, 2009. Information concerning this acquisition is presented in Note 16, Acquisition and Disposal of Interests.

Note 18 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, 2009 and 2008.

Retained earnings

Under the *Hydro-Québec Act,* the dividends to be paid by Hydro-Québec are declared once a year by the Québec government, which also determines the terms and conditions of payment. For a given financial year, they cannot exceed the distributable surplus, equal to 75% of the year's net operating revenue and net investment income, less interest on debt securities and amortization of debt premiums, discounts and issue expenses. This calculation is based on the consolidated financial statements.

However, in respect of a given financial year, no dividend may be declared in an amount that would have the effect of reducing the capitalization rate to less than 25% at the end of the year. The Québec government declares the dividends for a given year within 30 days after Hydro-Québec has sent it the financial data related to the distributable surplus. Upon expiry of the prescribed period, 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 2009, the Québec government declared dividends of $2,168 million ($2,252 million in 2008).

ACCUMULATED OTHER COMPREHENSIVE INCOME

			2009
	Cash flow hedges	Other	Total
Balance, beginning of year	1,243	–	**1,243**
Change for the year	(534)	–	**(534)**
Balance, end of year	709	–	**709**

			2008
	Cash flow hedges	Other	Total
Balance, beginning of year	965	(3)	962
Change for the year	278	3	281
Balance, end of year	1,243	–	1,243

Note 19 Capital Management

Hydro-Québec manages its capital in such a way as to meet its shareholder's expectations, safeguard its funds at all times and sustain its growth. It fosters a management environment allowing it to enhance the long-term value of its assets and equity, ensure its financial sustainability, preserve its financing capability and safeguard its funds and securities.

In addition to equity, capital includes long-term debt, perpetual debt, short-term borrowings and derivative instruments.

Hydro-Québec uses its capitalization rate to monitor its capital structure. It aims to maintain capitalization at no less than 25%.

CAPITALIZATION

	2009	2008
Equity	**22,395**	22,062
Long-term debt, including current portion	**37,699**	36,060
Perpetual debt	**303**	355
Short-term borrowings	**29**	106
Derivative instruments	**129**	(118)
Total	**60,555**	58,465
Capitalization rate (%)[a]	**37.0**	37.7

a) Equity divided by the sum of equity, long-term debt (including current portion), perpetual debt, short-term borrowings and derivative instrument liabilities, less derivative instrument assets.

In 2009, Hydro-Québec's capital management objectives were unchanged from 2008.

Note 20 Supplementary Cash Flow Information

	2009	2008
Change in non-cash working capital items		
Accounts receivable and other receivables	**(49)**	(175)
Materials, fuel and supplies	**(51)**	6
Accounts payable and accrued liabilities	**87**	–
Accrued interest	**(25)**	20
	(38)	(149)
Investing activities not affecting cash		
Increase (decrease) in property, plant and equipment	**162**	(91)
Interest paid	**2,115**	2,093

Note 21 Employee Future Benefits

Hydro-Québec's pension plan (the "Pension Plan") is a funded plan that ensures pension benefits based on the number of years of service and an average of the best five years of earnings. These benefits are indexed annually based on a rate which is the greater of the inflation rate, up to a maximum of 2%, and the inflation rate less 3%.

Hydro-Québec also offers other post-retirement and post-employment benefits. Post-retirement benefits are provided by group life, medical and hospitalization insurance plans, which are contributory plans with contributions adjusted annually. Post-employment benefits are under non-contributory salary insurance plans, which pay short- and long-term disability benefits. Most of these plans are not funded, with the exception of the long-term disability salary insurance plan, which is fully funded, and the supplementary group life insurance plan, which is partially funded.

Hydro-Québec's employee benefit plans are defined-benefit plans. The accrued benefit obligations of these plans, valued by independent actuaries, and assets, at fair value, are valued as at December 31 of each year. The most recent actuarial valuation for funding of the Pension Plan was as at December 31, 2008, and the next valuation, to be dated December 31, 2009, is currently in progress.

The following table presents information concerning Hydro-Québec's employee future benefit plans:

	Pension Plan		Other plans	
	2009	2008	**2009**	2008
Accrued benefit obligations				
Balance, beginning of year	**10,208**	12,607	**773**	929
Current service cost	**161**	285	**37**	42
Employee contributions	**118**	84	**–**	–
Benefit payments and refunds	**(551)**	(510)	**(54)**	(51)
Interest on obligations	**760**	712	**51**	51
Actuarial losses (gains)	**2,046**	(3,138)	**81**	(198)
Amendments to the Pension Plan	**–**	168	**–**	–
Balance, end of year	**12,742**	10,208	**888**	773
Plan assets at fair value				
Balance, beginning of year	**10,475**	12,926	**60**	58
Actual return on plan assets	**1,713**	(2,434)	**2**	2
Employee contributions	**118**	84	**–**	–
Current contributions by Hydro-Québec	**295**	291	**14**	11
Special contribution by Hydro-Québec	**370**	149	**–**	–
Benefit payments and refunds	**(551)**	(510)	**(11)**	(11)
Administrative fees	**(30)**	(31)	**(1)**	–
Balance, end of year	**12,390**	10,475	**64**	60
(Deficit) surplus, end of year	**(352)**	267	**(824)**	(713)
Unamortized past service costs	**285**	335	**–**	–
Unamortized net actuarial loss (gain)	**2,412**	1,292	**65**	(17)
Unamortized transitional (asset) obligation	**(609)**	(761)	**54**	67
Accrued benefit assets (liabilities)	**1,736**	1,133	**(705)**	(663)

In 2008, some amendments were made to the Pension Plan following agreements reached between Hydro-Québec and its unions. These amendments, which came into force on January 1, 2009, concern temporary and permanent provisions. The main temporary provisions concern retirement without pension reduction and the bridging benefit, whereas the main permanent provisions apply to the cost of optional pension forms and the broadening of the definition of the surviving spouse upon a retiree's death. Amendments to the funding rules of the Pension Plan were also adopted under these agreements. As a result, in 2009, the employee and employer contribution rates were 6.0% and 6.9%, respectively. These rates will be increased annually by 0.5% and 0.9% until they reach up to 7.5% and 10.5% of pensionable earnings in 2013.

Additional disclosures with respect to plan assets

At year end, assets of the plans at fair value consisted of:

	Pension Plan		Other plans	
%	**2009**	2008	**2009**	2008
Bonds	**54**	54	**100**	91
Equities	**33**	32	**–**	–
Real estate investments	**8**	10	**–**	–
Short-term investments	**3**	4	**–**	–
Other	**2**	–	**–**	9
	100	100	**100**	100

Assets of the plans include the following securities issued by Hydro-Québec and the Québec government:

	Pension Plan		Other plans	
	2009	2008	**2009**	2008
Bonds	**1,626**	1,359	**64**	56

Cash payments

Cash payments made by Hydro-Québec for employee benefit plans consist of the contributions paid to the funded plans and the benefits paid to employees and pensioners under unfunded plans. The cash payment details are as follows:

	2009	2008
Contributions by Hydro-Québec		
Pension Plan	**665**	440
Other funded plans	**14**	11
Benefit payments		
Unfunded plans	**43**	41
Cash payments	**722**	492

In compliance with the actuarial valuation for funding purposes as at December 31, 2008, Hydro-Québec made a current contribution of $295 million in 2009, including an additional contribution of $186 million, to cover the current service cost, and a special contribution of $370 million to cover part of the unfunded actuarial liability. In 2008, Hydro-Québec had made a current contribution of $291 million, including an additional contribution of $208 million, to cover the current service cost, and a special contribution of $149 million to cover the entire unfunded actuarial liability established by the actuarial valuation as at December 31, 2007. The special contribution for 2009 takes into account certain temporary relief measures introduced by *An Act to amend the Supplemental Pension Plans Act and other legislative provisions in order to reduce the effects of the financial crisis on plans covered by the Act,* assented to on January 15, 2009, and, in particular, the extension of the period to cover the unfunded actuarial liability established as at December 31, 2008. The regulation for application of this act came into force on November 26, 2009.

ELEMENTS OF ACCRUED BENEFIT COST RECOGNIZED FOR THE YEAR

	Pension Plan		Other plans	
	2009	2008	**2009**	2008
Current service cost[a]	**161**	285	**37**	42
Administrative fees[b]	**30**	31	**1**	–
Interest on obligations	**760**	712	**51**	51
Actual return on plan assets	**(1,713)**	2,434	**(2)**	(2)
Actuarial losses (gains)	**2,046**	(3,138)	**81**	(198)
Amendments to the Pension Plan	**–**	168	**–**	–
Cost (credit) before adjustments required to recognize the long-term nature of employee future benefits	**1,284**	492	**168**	(107)
Difference between actual and expected return on assets	**926**	(3,237)	**–**	–
Difference between actuarial losses (gains) on accrued benefit obligations and actuarial losses (gains) recognized	**(2,046)**	3,150	**(82)**	207
Difference between amendments to the Pension Plan and amortization of past service cost	**50**	(118)	**–**	–
Amortization of transitional (asset) obligation	**(152)**	(152)	**13**	14
	(1,222)	(357)	**(69)**	221
Cost recognized for the year	**62**	135	**99**	114

a) For the long-term disability salary insurance plan, the current service cost corresponds to the cost of new disability cases for the year.

b) Administrative fees billed to the Pension Plan by Hydro-Québec amounted to $13 million in 2009 ($12 million in 2008).

Significant actuarial assumptions

The following actuarial assumptions, used to determine the accrued benefit obligations and cost of the plans, result from a weighted average:

	Pension Plan		Other plans	
%	**2009**	2008	**2009**	2008
Accrued benefit obligations				
Rate at end of year				
Discount rate	**6.17**	7.49	**6.17**	7.49
Salary escalation rate[a]	**2.97**	2.86	**–**	–
Accrued benefit cost recognized				
Rate at end of prior year				
Discount rate	**7.49**	5.53	**7.49**	5.53
Expected long-term rate of return on plan assets	**6.25**	6.25	**3.72**	3.81
Salary escalation rate[a]	**2.86**	3.26	**–**	–

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

As at December 31, 2009, health care costs were based on an annual growth rate of 7.80% for 2010. Thereafter, based on the assumption used, this rate will gradually decrease until it ultimately reaches 4.60% in 2018. A change of 1% in this annual growth rate would have had the following impact for 2009:

	1% increase	1% decrease
Impact on current service cost and interest cost on accrued benefit obligations for the year	**4**	**(3)**
Impact on accrued benefit obligations at end of year	**42**	**(34)**

Note 22

Commitments and Contingencies

Electricity purchases

On May 12, 1969, Hydro-Québec signed a contract with Churchill Falls (Labrador) Corporation Limited [CF(L)Co] whereby Hydro-Québec undertook to purchase substantially all the output from Churchill Falls generating station, which has a rated capacity of 5,428 MW. Expiring in 2016, this contract will be automatically renewed for a further 25 years under agreed-upon terms and conditions. On June 18, 1999, Hydro-Québec and CF(L)Co entered into a contract to guarantee the availability of 682 MW of additional power until 2041 for the November 1 to March 31 winter period.

As at December 31, 2009, Hydro-Québec was committed under 123 contracts to purchase electricity from other power producers, for an installed capacity of about 5,430 MW. It expects to purchase approximately 20 TWh of energy annually over the terms of these contracts, which extend through 2045. The majority of these contracts include renewal clauses.

Hydro-Québec expects to make the following minimum payments on all its electricity purchase contracts over the next five years:

2010	677
2011	797
2012	1,013
2013	1,252
2014	1,435

Guarantees

Hydro-Québec grants guarantees to third parties for indemnification purposes in connection with its energy-related transactions on markets outside Québec. These guarantees are issued under long-term agreements and agreements governing its involvement in organized markets. These markets require that each participant provide guarantees enabling it to meet its obligations in the event of a default of payment by another participant. Hydro-Québec also grants guarantees as part of its international operations and in the field of electrotechnology.

As at December 31, 2009, the potential maximum amount Hydro-Québec could have had to pay under letters of credit or guarantees provided as security totaled $395 million. Of this amount, $293 million was related to energy purchases. Guarantees amounting to $151 million will expire between 2010 and 2018, while others totaling $244 million do not have maturity dates.

In accordance with the terms and conditions of certain debt securities issued outside Canada, Hydro-Québec has undertaken to increase the amount of interest paid to non-residents in the event of changes to Canadian tax legislation governing the taxation of non-residents' income. Hydro-Québec cannot estimate the maximum amount it might have to pay under such circumstances. Should an amount become payable, Hydro-Québec has the option of redeeming most of the securities in question. As at December 31, 2009, the amortized cost of these debts was $4,298 million.

Under the contract signed on May 12, 1969, with CF(L)Co, Hydro-Québec could be required to provide additional funding if CF(L)Co were unable to pay its expenses and service its debt. The maximum amount that Hydro-Québec could be required to pay cannot be reasonably evaluated, however, since it is not stated in the contract and since the amount payable would depend on the outcome of future events whose nature and probability cannot be determined. To date, Hydro-Québec has not had to pay any amount under this contract.

As part of the implementation of the plan to capitalize on its interests abroad, which ended in 2008, Hydro-Québec provided guarantees to the purchasers of its interests with regard to contingent tax liabilities and certain other customary representations. These guarantees, for which no liability was recognized, will be in effect until the applicable limitation periods expire, namely until June 30, 2013.

Investments

Hydro-Québec expects to invest approximately $4.5 billion in property, plant and equipment and intangible assets in 2010.

Litigation

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

Note 23 Related Party Transactions

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

The main transactions, other than electricity sales, as well as the balances owing to related parties or owed by them, are as follows:

	2009	2008
Québec government		
Accounts receivable	**3**	5
Accounts payable	**35**	26
Water-power royalties	**567**	546
Public utilities tax	**188**	302
Capital tax	**132**	202
Guarantee fees	**174**	167
Significantly influenced enterprises		
Accounts receivable	**6**	–
Accounts payable	**16**	9
Electricity purchases	**83**	98

Note 24 Segmented Information

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

Generation: Hydro-Québec Production operates and develops Hydro-Québec's generating facilities. This division also sells electricity on external markets and engages in energy trading. Hydro-Québec Production provides Hydro-Québec Distribution with a base volume of up to 165 TWh of heritage pool electricity annually at an average price of 2.79¢/kWh. In excess of this volume, it can participate in Hydro-Québec Distribution's calls for tenders in a context of free market competition.

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

Distribution: Hydro-Québec Distribution operates and develops Hydro-Québec's distribution system and is responsible for sales and services to Québec customers. It also promotes energy efficiency and ensures the security of the supply of electricity to the Québec market.

Construction: Hydro-Québec Équipement carries out engineering, construction and refurbishment work related to hydroelectric development projects throughout Québec, except on the territory governed by the *James Bay and Northern Québec Agreement*, where Société d'énergie de la Baie James assumes this responsibility. Hydro-Québec Équipement also builds power transmission lines and substations throughout the province.

Corporate and Other Activities: The corporate units support the divisions in the achievement of their business objectives. They include Groupe de la technologie, Groupe des affaires corporatives et du secrétariat général, Groupe des ressources humaines et des services partagés, Vice-présidence à la comptabilité et au contrôle and Vice-présidence au financement, à la trésorerie et à la caisse de retraite. The Centre de services partagés brings together internal company-wide shared services including goods and services procurement, real estate management, and material and transportation service management.

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

Intersegment transactions related to electricity sales are recorded based on the supply and transmission rates provided for by the *Act respecting the Régie de l'énergie*. The Act sets a commodity rate for an annual base volume of up to 165 TWh of heritage pool electricity for the Québec market.

Other intersegment products and services are measured at full cost.

Most of Hydro-Québec's revenue is from Québec, and substantially all its property, plant and equipment, as well as its goodwill, are related to its Québec operations. In 2009, revenue from outside Québec amounted to $1,610 million, with $1,311 million coming from the U.S. ($2,099 million and $1,776 million, respectively, in 2008).

Note 24 Segmented Information (continued)

OPERATIONS AND ASSETS BY SEGMENT

	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Intersegment eliminations and adjustments	2009 Total
Revenue							
External customers	1,589	61	10,648	–	25	11[a]	**12,334**
Intersegment	4,818	2,868	69	2,678	1,240	(11,673)	**–**
Depreciation and amortization	510	778	868	3	67	(12)	**2,214**
Financial expenses	1,019	851	502	–	27	–	**2,399**
Income from continuing operations	2,214	435	365	–	9	12	**3,035**
Net income	2,214	435	365	–	9	12	**3,035**
Total assets	33,103	17,677	12,443	424	5,584	(253)	**68,978**
Investing activities							
Increase in property, plant and equipment and intangible assets							
Affecting cash	2,066	1,196	709	1	111	–	**4,083**
Not affecting cash	139	23	–	–	–	–	**162**

	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Intersegment eliminations and adjustments	2008 Total
Revenue							
External customers	2,067	52	10,541	–	30	27[a]	12,717
Intersegment	4,930	2,730	61	2,416	1,226	(11,363)	–
Depreciation and amortization	777	611	828	5	127	(12)	2,336
Financial expenses[b]	1,008	876	519	–	42	–	2,445
Income (loss) from continuing operations	2,230	426	388	–	(44)	12	3,012
Net income	2,230	426	388	–	85	12	3,141
Total assets	30,659	17,149	12,264	362	6,661	(306)	66,789
Investing activities							
Increase (decrease) in property, plant and equipment and intangible assets							
Affecting cash	1,891	1,099	664	5	96	–	3,755
Not affecting cash	(112)	17	4	–	–	–	(91)

a) Resales of excess supply by Hydro-Québec Distribution on outside markets are presented as offsets of electricity purchases rather than in Revenue.

b) In 2009, Hydro-Québec revised its method for allocating financial expenses. Figures for 2008 have been reclassified to conform to the presentation adopted in the current year.

Note 25 Comparative Information

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

Consolidated Financial Information

$M	2009	2008	2007	2006	2005
OPERATIONS					
Revenue	**12,334**	12,717	12,330	11,161	10,887
Expenditure					
Operations	**2,521**	2,497	2,541	2,389	2,245
Electricity and fuel purchases	**1,207**	1,406	1,555	1,315	1,496
Depreciation and amortization	**2,214**	2,336	1,991	2,007	2,023
Taxes	**928**	1,093	820	534	597
Regulatory deferrals	**30**	(72)	29	(93)	(11)
	6,900	7,260	6,936	6,152	6,350
Operating income	**5,434**	5,457	5,394	5,009	4,537
Financial expenses	**2,399**	2,445	2,512	2,212	2,186
Income from continuing operations	**3,035**	3,012	2,882	2,797	2,351
Income (loss) from discontinued operations	**–**	129	25	944	(99)
Net income	**3,035**	3,141	2,907	3,741	2,252
DIVIDENDS DECLARED	**2,168**	2,252	2,095	2,342	1,126
BALANCE SHEET SUMMARY					
Total assets	**68,978**	66,789	64,866	63,254	60,431
Long-term debt, including current portion and perpetual debt	**38,002**	36,415	34,534	34,427	33,007
Equity	**22,395**	22,062	20,892	18,840	17,376
INVESTMENTS FOR CONTINUING OPERATIONS AFFECTING CASH					
Property, plant and equipment and intangible assets	**4,083**	3,755	3,418	3,352	3,297
Costs related to Energy Efficiency Plan	**257**	236	172	149	91
Total investments	**4,340**	3,991	3,590	3,501	3,388
FINANCIAL RATIOS					
Interest coverage[a]	**2.17**	2.12	2.13	2.06	2.00
Return on equity (%)[b]	**14.3**	15.4	15.0	20.6	13.3
Profit margin from continuing operations (%)[c]	**24.6**	23.7	23.4	25.1	21.6
Capitalization (%)[d]	**37.0**	37.7	37.5	36.1	34.1
Self-financing (%)[e]	**41.2**	45.7	63.1	69.8	51.1

a) Sum of operating income and net investment income divided by gross interest expense.

b) Net income divided by average equity less average accumulated other comprehensive income.

c) Net income from continuing operations divided by revenue.

d) Equity divided by the sum of equity, long-term debt (including current portion), perpetual debt, short-term borrowings and derivative instrument liabilities, less derivative instrument assets.

e) Cash flows from operating activities less dividends paid, divided by the sum of cash flows from investing activities [excluding net disposal (acquisition) of short-term investments] and repayment of long-term debt.

Note: Throughout the Five-Year Review, certain comparative figures have been reclassified to reflect the presentation adopted in the current year.

Operating Statistics

	2009	2008	2007	2006	2005
GWh					
Electricity sales					
In Québec, by category					
Residential and farm	**62,484**	60,747	60,046	56,722	57,269
General and institutional	**34,151**	35,228	34,751	32,440	33,463
Industrial	**63,310**	69,144	73,005	73,297	73,447
Other	**5,371**	5,278	5,353	4,878	4,998
	165,316	170,397	173,155	167,337	169,177
Outside Québec					
Canada/U.S. (long-term)	**2,604**	2,516	2,384	2,384	2,068
Canada/U.S. (short-term)	**20,753**	18,783	17,240	12,074	13,274
	23,357	21,299	19,624	14,458	15,342
Total electricity sales	**188,673**	191,696	192,779	181,795	184,519
$M					
Revenue from electricity sales					
In Québec, by category					
Residential and farm	**4,500**	4,300	4,144	3,775	3,690
General and institutional	**2,662**	2,687	2,602	2,356	2,284
Industrial	**3,092**	3,174	3,336	3,022	2,892
Other	**295**	284	286	249	255
	10,549	10,445	10,368	9,402	9,121
Outside Québec					
Canada/U.S. (long-term)	**256**	220	225	198	174
Canada/U.S. (short-term)	**1,250**	1,699	1,392	951	1,290
	1,506	1,919	1,617	1,149	1,464
Total revenue from electricity sales	**12,055**	12,364	11,985	10,551	10,585
As at December 31					
Number of customer accounts					
In Québec, by category					
Residential and farm	**3,649,470**	3,603,330	3,554,443	3,501,709	3,450,455
General and institutional	**297,380**	296,504	299,524	295,618	283,616
Industrial	**9,829**	10,111	11,565	12,032	12,796
Other	**3,653**	3,499	3,440	5,767	5,643
Total customer accounts	**3,960,332**	3,913,444	3,868,972	3,815,126	3,752,510
kWh/customer account					
Average annual consumption					
In Québec, by category					
Residential and farm	**17,230**	16,974	17,019	16,318	16,720
General and institutional	**115,009**	118,209	116,782	112,010	118,168
Industrial	**6,350,050**	6,379,775	6,187,651	5,904,382	5,668,738
Other	**1,501,957**	1,521,257	1,162,811	855,039	886,406

	2009	2008	2007	2006	2005
MW					
Installed capacity[a]					
Hydroelectric	**34,499**	34,118	33,305	32,973	32,299
Nuclear	**675**	675	675	675	675
Thermal	**1,634**	1,634	1,665	1,665	1,595
Wind	**2**	2	2	2	2
Total installed capacity	**36,810**	36,429	35,647	35,315	34,571
GWh					
Total energy requirements[b]	**208,524**	211,228	209,818	199,447	200,179
MW					
Peak power demand in Québec[c]	**34,659**	37,230	35,352	36,251	33,636
km					
Lines (overhead and underground)					
Transmission	**33,244**	33,058	33,008	32,826	32,544
Distribution[d]	**111,205**	110,127	109,618	108,883	108,344
	144,449	143,185	142,626	141,709	140,888

a) Hydro-Québec also has access to almost all the output from Churchill Falls generating station (5,428 MW) and purchases all the output from nine privately owned wind farms with a total installed capacity of 657 MW. In addition, 1,297 MW are available under agreements with other independent suppliers.

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

c) Total power demand at the annual domestic peak for the winter beginning in December, including interruptible power. The 2009–2010 winter peak for Québec occurred on January 29, 2010, at 6 p.m.

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

Other Information

	2009	2008	2007	2006	2005
%					
Rate increases					
Average increase from January 1 to December 31	**1.6**	2.7	2.8	4.3	1.3
Number of employees[a]					
Permanent as at December 31	**19,536**	19,297	19,459	19,116	19,009
Temporary (year's average)	**4,080**	4,048	3,910	3,799	3,577
Women (%)	**30.6**	30.9	31.3	30.6	29.8

a) Excludes employees of subsidiaries and joint ventures.

CONSOLIDATED RESULTS BY QUARTER

$M	1st quarter	2nd quarter	3rd quarter	4th quarter	**2009** 12-month period
				(unaudited)	(audited)
Revenue	3,872	2,634	2,558	3,270	**12,334**
Expenditure					
Operations	613	650	566	692	**2,521**
Electricity and fuel purchases	419	258	233	297	**1,207**
Depreciation and amortization	590	522	554	548	**2,214**
Taxes	292	145	233	258	**928**
Regulatory deferrals	–	–	–	30	**30**
	1,914	1,575	1,586	1,825	**6,900**
Operating income	1,958	1,059	972	1,445	**5,434**
Financial expenses	551	624	634	590	**2,399**
Income from continuing operations	1,407	435	338	855	**3,035**
Income from discontinued operations	–	–	–	–	**–**
Net income	1,407	435	338	855	**3,035**

$M	1st quarter	2nd quarter	3rd quarter	4th quarter	2008 12-month period
				(unaudited)	(audited)
Revenue	3,771	2,960	2,814	3,172	12,717
Expenditure					
Operations	614	629	601	653	2,497
Electricity and fuel purchases	337	329	364	376	1,406
Depreciation and amortization	575	577	525	659	2,336
Taxes	298	230	239	326	1,093
Regulatory deferrals	(1)	(116)	–	45	(72)
	1,823	1,649	1,729	2,059	7,260
Operating income	1,948	1,311	1,085	1,113	5,457
Financial expenses	615	595	598	637	2,445
Income from continuing operations	1,333	716	487	476	3,012
Income from discontinued operations	117	5	4	3	129
Net income	1,450	721	491	479	3,141

Thierry Vandal
President and Chief Executive Officer

Marie-José Nadeau
Executive Vice President,
Corporate Affairs and Secretary General

Élie Saheb
Executive Vice President,
Technology

Michel Martinez
Vice President,
Human Resources

Jean-Hugues Lafleur
Vice President,
Financing, Treasury and Pension Fund

Lise Croteau
Vice President,
Accounting and Control

BOARD OF DIRECTORS

Michael L. Turcotte
Chairman of the Board, Hydro-Québec
Appointment: November 17, 2005
Term: November 16, 2009[a]
Status: Independent director

Michael L. Turcotte holds a Bachelor of Arts degree from the University of Montréal and a Master's degree from Laval University School of Business. He enjoyed a lengthy career with the Royal Bank of Canada where he held various senior positions. He was Chairman of the Board of Management of the Canada Customs and Revenue Agency from 1999 to 2004. Mr. Turcotte also sits on the boards of various not-for-profit organizations.

Thierry Vandal
President and
Chief Executive Officer, Hydro-Québec
Appointment: April 6, 2005
Term: October 3, 2012
Status: Non-independent director

With a Bachelor of Engineering from the École Polytechnique de Montréal and an MBA from HEC Montréal, Thierry Vandal has worked in the energy sector for more than 25 years. In particular, he participated in the operations, marketing and strategic planning aspects of the petroleum, petrochemical and natural gas industries before joining Hydro-Québec in 1996. Mr. Vandal is Chairman of the Board of The Conference Board of Canada and is a director of HEC Montréal and McGill University.

Robert Sauvé
Deputy Minister of Natural Resources and Wildlife, Gouvernement du Québec
Appointment: November 4, 2009
Term: November 4, 2013
Status: Non-independent director

With a Bachelor's degree in Architecture from the Université de Montréal and a Master's degree in Urban and Regional Planning from Oxford Polytechnic in England, Robert Sauvé also studied planning and regional development at the doctoral level at the Université de Montréal. Mr. Sauvé joined the Québec public service in 1987 and held many executive positions in various departments. After serving as Associate Secretary General for Aboriginal Affairs and Deputy Minister of Regions, he became Associate Deputy Minister of Regional and Municipal Affairs before his appointment as Deputy Minister of Natural Resources and Wildlife in June 2009.

Gaston Blackburn
President, G. Blackburn Inc.
Appointment: September 10, 2003
Term: February 11, 2012
Status: Independent director

A merchant and businessman, Gaston Blackburn was elected MNA for Roberval in 1988. He was successively Parliamentary Secretary to the Premier, Minister for the Environment and Minister of Recreation, Fish and Game. He has served on the boards of companies in various sectors, including the food industry and natural resources.

Anik Brochu
Lawyer, Cain Lamarre Casgrain Wells, LLP/Barristers & Solicitors
Appointment: September 13, 2006
Term: September 13, 2010
Status: Independent director

A graduate of the University of Ottawa in Law and member of the Barreau du Québec, Anik Brochu was General Manager of the Chambre de commerce de Val-d'Or from 1997 to 2008 before she joined the law firm Cain Lamarre Casgrain Wells. She chairs the board of the Université du Québec en Abitibi-Témiscamingue and sits on the board of the Association de l'exploration minière du Québec. She is also a member of various committees involved in the field of socioeconomic development.

Carl Cassista
President, Axion Technologies Ltd.
Appointment: September 26, 2007
Term: September 26, 2011
Status: Independent director

A graduate of Université Laval and member of the Ordre des ingénieurs du Québec, Carl Cassista has worked in electrical engineering and in R&D, mainly for the Axion Technologies group. He joined that company in 1982 and has served there as President since 1994.

Michelle Cormier
Vice-President and Chief Financial Officer, TNG Corporation
Appointment: November 4, 2009
Term: November 4, 2013
Status: Independent director

Michelle Cormier has a Bachelor's degree in Administration from Bishop's University and a Graduate Diploma in Public Accountancy from McGill University and is a member of the Ordre des comptables agréés du Québec. She held executive positions with Alcan Aluminium and Repap Enterprises before her appointment as Vice-President and Chief Financial Officer of TNG Corporation in 2001. Ms. Cormier is Chairman of the Board of Société immobilière du Québec and the Orchestre Métropolitain.

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

Bernard Gaudreault
Corporate Director
Appointment: December 5, 2001
Term: September 26, 2010
Status: Independent director

With a diploma in commerce from the Noranda Business School, Bernard Gaudreault has more than 30 years' experience in corporate management in real estate and the food industry. He is Chairman of the Board of the municipal housing bureau in Rouyn-Noranda.

Suzanne Gouin
President and
Chief Executive Officer, TV5 Québec Canada
Appointment: September 26, 2007
Term: September 26, 2011
Status: Independent director

Suzanne Gouin has a Bachelor's degree in Political Science from Concordia University, where she also took graduate courses in media studies. She completed an MBA at the University of Western Ontario and has certification from the Institute of Corporate Directors. She has held several management positions in media companies and joined TV5 Québec Canada in 2002 as President and Chief Executive Officer. Ms. Gouin sits on the boards of various not-for-profit organizations.

Louis Lagassé
Chairman of the Board, Lagassé Group
Appointment: September 10, 2003
Term: February 11, 2012
Status: Independent director

Louis Lagassé is a member of the Chambre des notaires du Québec. He completed a law degree at the Université de Montréal, an MBA at the University of Western Ontario and a German language diploma at the University of Salzburg in Austria. Mr. Lagassé heads an industrial group that is active on the Canadian and European markets, and he serves on the boards of several telecommunications companies as well as various not-for-profit organizations.

Jacques Leblanc
President, Gestion Jacques Leblanc inc.
Appointment: April 7, 2004
Term: September 26, 2010
Status: Independent director

A graduate of Université Laval in administration, Jacques Leblanc is a chartered accountant and a Fellow of the Ordre des comptables agréés du Québec. He also has certification from the Collège des administrateurs de sociétés. Mr. Leblanc was a partner in the firm Leblanc Bourque Arsenault for 25 years. Currently, he sits on the board of the Canada Employment Insurance Financing Board.

Michel Plessis-Bélair
Vice-Chairman,
Power Corporation of Canada
Appointment: April 7, 2004
Term: September 26, 2011
Status: Independent director

Michel Plessis-Bélair holds a Bachelor of Arts from the Université de Montréal, a business and accounting degree from HEC Montréal and an MBA from Columbia University in New York. In 1986, he joined Power Corporation of Canada. From 1986 to 2006, he successively served as Senior Vice-President, Finance and Administration, as Executive Vice-President and Chief Financial Officer and as Vice-Chairman and Chief Financial Officer. Currently, he is Vice-Chairman and a director of Power Corporation and several of its subsidiaries. Mr. Plessis-Bélair also sits on the boards of various not-for-profit organizations.

Marie-France Poulin
Executive Vice President, Camada Group Inc..
Appointment: April 7, 2004
Term: September 26, 2011
Status: Independent director

Marie-France Poulin has a Bachelor of Business Administration with an option in Marketing from Université Laval, as well as certification from the Collège des administrateurs de sociétés. She has held several executive positions, including that of Vice President, Sales and Marketing, of MAAX. Ms. Poulin is a director of the Laurentian Bank and also sits on the boards of various not-for-profit organizations.

Marie-Anne Tawil
President and Chief Executive Officer,
Les Investissements Iron Hill Inc.
Appointment: December 7, 2005
Term: December 7, 2010
Status: Independent director

With a Licentiate in Civil Law and a Bachelor of Common Law from the University of Ottawa and an MBA from Concordia University, Marie-Anne Tawil has earned certification from the Institute of Corporate Directors and is a member of the Barreau du Québec. She has practised law with two major law firms in Montréal, was Legal Counsel and Secretary of Quebecor and has held management positions in various other companies. Ms. Tawil is Chairman of the SAAQ (Société d'assurance automobile du Québec).

Emmanuel Triassi
President, Groupe T.E.Q. Inc.
Appointment: September 26, 2007
Term: September 26, 2011
Status: Independent director

A member of the Ordre des ingénieurs du Québec, Emmanuel Triassi holds a Bachelor's degree from McGill University and a Master's degree in Building Engineering from Concordia University. He is the founding president of a general contracting company specializing in construction project management.

Gilles Vaillancourt
Mayor, Ville de Laval
Appointment: September 26, 2007
Term: September 26, 2011
Status: Independent director

Following studies in science and business management, Gilles Vaillancourt launched his career in business. At the same time, he became involved in municipal affairs. He was elected Mayor of Laval in 1989 and serves in this capacity on the boards of various representational organizations at the local, regional, provincial and national levels. Mr. Vaillancourt also sits on the boards of various not-for-profit organizations.

Among its decisions in 2009, the Board authorized the Romaine project, in the Minganie region. This will be the largest construction site in Canada. A railway bridge spans the river at Chute de l'Église, a waterfall 16 km from the mouth.

BOARD OF DIRECTORS

Hydro-Québec's Board of Directors is made up of 16 members, including the Chairman of the Board and the President and Chief Executive Officer. The directors' diverse professional backgrounds are a definite asset for the seven Board committees: Executive, Governance and Ethics, Audit, Human Resources, Environment and Public Affairs, Finance, and Pension Plan Financial Management. The Board is chaired by Michael Turcotte.

Mandate: The Board administers the company's business efficiently, in accordance with the *Hydro-Québec Act,* the *Companies Act* and the applicable regulations. Its principal functions include reviewing and approving the Strategic Plan and the annual Business Plan, setting the company's annual performance targets, reviewing financial results on a monthly basis, and performing the cyclical review of integrated enterprise risk management. It also approves the appointment of executives other than the President and Chief Executive Officer and the policies governing compensation and working conditions for Hydro-Québec's employees and executives. In addition, it approves the company's major capital projects in generation, transmission and distribution as well as matters submitted to the Régie de l'énergie.

Activities: *The Board met 14 times in 2009, while its committees held 35 meetings in all. It approved the* Strategic Plan 2009–2013 *based on detailed presentations given by Management on the company's sales forecasts and supply strategies for all its markets; issues pertaining to its generation, transmission and distribution activities; and the principal risks it must manage. The Board also examined the expertise and experience profiles established for the selection of new directors, reviewed the mandates of its committees and assessed its own performance.*

The Board's decisions in 2009 included its authorization of the Romaine hydroelectric complex and expansion of the transmission grid in northeastern Québec to integrate output from this complex, as well as other generation, transmission and distribution capital projects. It also approved the acquisition of AbitibiBowater's interest in the Manicouagan Power Company (which subsequently became the Manicouagan Power Limited Partnership), which owns and operates McCormick hydroelectric generating station. Moreover, the Board recommended that the Québec government sign a memorandum of understanding regarding the company's acquisition of some of the assets of NB Power.

The Board's recurring deliberations dealt with the quarterly and annual objectives and financial results of the company and certain wholly owned subsidiaries, as well as with the financial management of the pension plan. It reviewed the progress of the company's capital projects and examined the risk management process and consolidated enterprise risk portfolio. It also approved the annual internal audit plan and the external auditors' plan and fees in connection with the audit of the financial statements of the company and of the pension plan.

EXECUTIVE (A)

Mandate: The Executive Committee is vested with all of the powers of the Board of Directors, except those powers that are expressly reserved for the Board by law and under the company's bylaws. The Executive Committee, which meets only in emergencies, did not hold any meetings in 2009. It is chaired by Michael Turcotte.

The Romaine, some 45 km from its mouth.

The mouth of the Romaine, which flows into the Gulf of St. Lawrence near Havre-Saint-Pierre, in the Minganie region. The most frequented stretch of the river is between the mouth and the Grande Chute waterfall located 52 km upstream, where Romaine-1 generating station will be built. The construction project will hardly affect this area, enabling Innu and other local inhabitants to pursue their traditional activities.

DIRECTOR ATTENDANCE AT MEETINGS OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES IN 2009

			Board[1]	A[2]	B	C	D	E	F	G
DIRECTORS	Notes	**Number of meetings**	**14**		**8**	**8**	**5**	**6**	**5**	**3**
Michael L. Turcotte A B C D E F G			14		7	8	4	5	4	3
Thierry Vandal A E F G	3		14		7	7	5	3	5	2
Robert Sauvé	4		2							
Gaston Blackburn E			12					6		
Anik Brochu E			12					6		
Carl Cassista D			13				5			
Michelle Cormier	4		2							
Bernard Gaudreault C			13			7				
Suzanne Gouin D E	5		13				4	6	1	
Louis Lagassé A F G	6		9		1				3	2
Jacques Leblanc B C			13		8	8				
Michel Plessis-Bélair A B F G	6		9		4				5	3
Marie-France Poulin B D			13		8		5			
Marie-Anne Tawil B C	7		14		8	7	1			
Emmanuel Triassi C F	6, 8		14		1	8			4	
Gilles Vaillancourt G			13							3
OUTGOING DIRECTORS		**Number of meetings**	**6**							
Normand Bergeron (end of term: August 3, 2009)			4							
		Number of meetings	**10**				**3**			
Nathalie Le Prohon A D (resignation: September 23, 2009)			6				3			

Board Committees

A Executive
B Governance and Ethics
C Audit
D Human Resources
E Environment and Public Affairs
F Finance
G Pension Plan Financial Management

1) Including three conference calls.
2) The Executive Committee meets when necessary. It did not hold any meetings in 2009.
3) Thierry Vandal attends meetings of the Governance and Ethics, Audit and Human Resources committees as a guest.
4) Robert Sauvé and Michelle Cormier were appointed to the Board of Directors on November 4, 2009.
5) Suzanne Gouin was appointed to the Human Resources Committee, replacing Marie-Anne Tawil, on April 17, 2009.
6) For a presentation of the *Strategic Plan 2009–2013,* the members of the Finance Committee attended a meeting of the Governance and Ethics Committee on June 18, 2009, as guests.
7) Marie-Anne Tawil was appointed to the Audit Committee on April 17, 2009.
8) Emmanuel Triassi was appointed to the Finance Committee on April 17, 2009.

GOVERNANCE AND ETHICS (B)

Mandate: The role of the Governance and Ethics Committee is to develop the rules of governance and codes of ethics applicable to directors, senior executives appointed by the company and employees of Hydro-Québec and its wholly owned subsidiaries; the expertise and experience profiles used in appointing Board members; the criteria for assessing the performance of directors and the Board's functioning; the induction and training program for directors; and the measures for evaluating the company's efficiency and performance. This committee also makes recommendations to the Board regarding the company's policies and Strategic Plan and the composition and mandate of the Board committees. The Governance and Ethics Committee is chaired by Michael Turcotte.

Activities: *In 2009, the Governance and Ethics Committee met eight times, including one joint meeting with the Audit Committee. While carefully ensuring application of the governance measures in the* Hydro-Québec Act, *the Governance and Ethics Committee assessed the performance of the Board of Directors and reviewed the mandates of the Board committees and the expertise and experience profiles of the Board members. It also made recommendations concerning approval of the* Strategic Plan 2009–2013, *appointments to Board committees and updating of the* Code of Ethics and Rules of Professional Conduct for Directors, Executives and Controllers of Hydro-Québec. *In addition, it examined the* Follow-Up to the Strategic Plan 2006–2010, *as well as annual reviews of the company's policies.*

Summary of the assessment of Board performance: *In accordance with the* Hydro-Québec Act, *in 2009 the Governance and Ethics Committee assessed the performance of the Board of Directors. The directors completed a questionnaire based on the assessment criteria approved by the Board, to which the results were submitted.*

AUDIT (C)

Mandate: The Audit Committee's role is to make recommendations to the Board of Directors on the approval of the financial statements of Hydro-Québec and of its pension plan. It ensures that the financial statements accurately reflect the financial positions and changes therein, and that internal controls are adequate and effective. It is also responsible for reviewing the relevance of its mandate on an annual basis, issuing an opinion prior to the Board's approval of the annual internal audit plan, supervising internal audit activities, ensuring that the company has a plan to optimize the use of its resources and monitoring this plan. The Audit Committee also makes recommendations to the Board on the external auditors' fees and meets periodically with the external auditors. In addition, it examines the integrated enterprise risk management process. It can also act as the audit committee of any of the company's wholly owned subsidiaries. The Audit Committee is composed solely of independent directors who have the necessary expertise for the performance of its mandate. It is chaired by Jacques Leblanc.

Activities: *The Audit Committee held eight meetings in 2009, including a meeting with the Pension Plan Financial Management Committee and another meeting with the Governance and Ethics Committee. As part of its recurring deliberations, the committee ensured the independence of the external auditors. It also examined internal and external audit results and internal audit reports on control and optimization of the company's operations and resources as well as management of the related risks. It examined the quarterly and annual financial statements of Hydro-Québec and the annual financial statements of its pension plan, of Hydro-Québec International and of Société d'énergie de la Baie James. The committee also monitored progress in Hydro-Québec's migration to the International Financial Reporting Standards. Moreover, it examined the company's 2010 internal audit plan and recommended its approval by the Board. The plan addresses the effectiveness, efficiency and profitability of operations; the reliability, integrity and availability of financial and operational information; the protection of assets; and compliance of the company's activities with laws, regulations and its own guidelines. It specifically targets the optimization of the company's resources and the tracking of performance indicators.*

HUMAN RESOURCES (D)

Mandate: The Human Resources Committee is responsible for establishing human resources policies as well as standards and rate scales applicable to the compensation of senior executives and employees of the company and its wholly owned subsidiaries. It is also responsible for developing the expertise and experience profile to be used in selecting the President and Chief Executive Officer and for proposing a candidate for that position to the Board of Directors, which will then make a recommendation to the government of Québec. In addition, it develops and suggests criteria for assessing the performance of the President and Chief Executive Officer and makes recommendations to the Board regarding his compensation. It also participates in selecting the senior executives of the company and its subsidiaries and in developing a succession plan. The committee is chaired by Marie-France Poulin.

Activities: *In 2009, the Human Resources Committee held five meetings, including a joint meeting with the Finance Committee to examine Hydro-Québec's Business Plan, objectives and corporate risk management. It evaluated whether or not the company had met its annual performance objectives and examined the overall compensation of its employees, executives and President and Chief Executive Officer and of the employees and senior executives of its wholly owned subsidiaries. In addition, it closely monitored the succession plan for Senior Management. It also studied the* Report of Activities of the Corporate Ombudsman 2008, *examined the annual report on the corporate policy Our Human Resources and analyzed the results of the 2008 employee survey on job satisfaction and employee motivation.*

ENVIRONMENT AND PUBLIC AFFAIRS (E)

Mandate: The role of the Environment and Public Affairs Committee is to provide opinions and make recommendations to the Board of Directors on environmental management and compliance; integration of sustainable development principles; environmental incident reports and related claims, opinions, investigations and legal proceedings; public health and safety; community relations; the company's social responsibility and its contribution to the community; and its public image. The committee is chaired by Gaston Blackburn.

Activities: *The Environment and Public Affairs Committee met six times in 2009. It studied the summary of environmental management assessments prepared by the President and Chief Executive Officer as well as the semiannual reports on environmental compliance and legislation. Moreover, the Committee recommended that the Board approve the company's new Donation and Sponsorship Policy and amendments to the policy titled Our Social Role, and the granting of donations and sponsorships according to the criteria and rules in effect. As well, it examined the 2008 results with respect to Hydro-Québec's public image, the company's communication and public relations activities, financing of university research chairs and the Fonds Hydro-Québec pour la Francophonie. The committee also examined the* Sustainability Report 2008, *the* Annual Report 2008 *of the Fondation Hydro-Québec pour l'environnement and the 2008 regional profile of Hydro-Québec's activities. In addition, the committee reviewed the annual activity reports of the liaison committees established by the company with groups representing Québec agricultural producers and municipalities.*

FINANCE (F)

Mandate: The role of the Finance Committee is to advise the Board on Hydro-Québec's directions, policies, strategies and overall objectives related to financing, borrowing, insurance, banking and risk management, on major investment projects outside Québec and on important matters related to technology marketing. In addition, every year, it examines the company's consolidated portfolio of internal and external risks. The committee is chaired by Michel Plessis-Bélair.

Activities: *In 2009, the committee held five meetings, including a joint meeting with the Human Resources Committee for the purpose of analyzing the company's Business Plan, objectives and corporate risk management. It also examined various annual programs (borrowing, guarantee, financial risk management, swap and sinking fund) before recommending their approval by the Board, and it reviewed financial tracking reports on capital projects worth more than $50 million. Moreover, it recommended that the Board approve and submit to the shareholder a memorandum of understanding with respect to the acquisition of some of the assets of NB Power.*

PENSION PLAN FINANCIAL MANAGEMENT (G)

Mandate: The role of the Pension Plan Financial Management Committee is to advise the Board on the directions, policies, strategies and overall objectives established by Hydro-Québec for its pension plan: the Pension Plan Funding Policy, the Pension Fund Investment Management Policy, actuarial valuations of the plan, choice of the benchmark portfolio, the plan's financial situation and plan expenses. It also expresses its opinion on any other aspect of pension fund management. The committee is chaired by Louis Lagassé.

Activities: *In 2009, the Pension Plan Financial Management Committee met three times, including a joint meeting with the Audit Committee to evaluate Hydro-Québec Pension Fund risk management. It recommended that the Board approve the annual pension fund management and pension plan administration budgets, updating of the Pension Fund Investment Management Policy, the annual actuarial valuation for purposes of pension plan funding and solvency, and the reappointment of the actuary for the next annual valuation. The Committee reviewed the long-term asset mix and the pension plan management structure. It also evaluated the performance of the pension plan portfolio and specialized portfolio managers. Lastly, it closely monitored changes in the Pension Plan's financial position.*

Christian G. Brosseau, Vice President – Wholesale Markets, sits on the Hydro-Québec art collection selection committee. The collection comprises some 1,000 works, mostly by Québec artists. *Il y eut un rouge,* the painting shown here, was created by Jacques Hurtubise in 1963. © Jacques Hurtubise / SODRAC (2010)

Hydro-Québec's Board of Directors complies with the requirements of the *Hydro-Québec Act* with regard to governance. It also follows the guidelines of the Canadian Securities Administrators applicable to state-owned enterprises, even though it is not legally bound to do so because Hydro-Québec is not publicly traded.

INDEPENDENCE

A total of 14 of the 16 directors of Hydro-Québec, including the Chairman of the Board, are independent directors, that is, they have no direct or indirect relationships or interests, for example of a financial, commercial, professional or philanthropic nature, which are likely to interfere with the quality of their decisions as regards the interests of the company. The two Board members who are not independent are Thierry Vandal, the company's President and Chief Executive Officer, and Robert Sauvé, Deputy Minister of Natural Resources and Wildlife.

The Québec government appoints the members of the Board based on the expertise and experience profiles established by the company. Directors are appointed for a term of up to four years and the Chairman for a term of up to five years; they may be reappointed twice, successively or not.

RULES OF ETHICS

The Board is responsible for compliance with the rules set out in the *Code of Ethics and Rules of Professional Conduct for Directors, Executives and Controllers of Hydro-Québec,* which are based on the *Regulation respecting the ethics and professional conduct of public office holders.*

COMPENSATION AND OTHER BENEFITS PAID TO DIRECTORS

Compensation for all independent directors, except the Chairman, is set out in Order-in-Council No. 610-2006. Compensation consists of a basic annual retainer of $16,979, plus a meeting fee of $796 for each Board or committee meeting. A yearly supplement of $5,306 is paid to the chairs of Board committees. Pursuant to Order-in-Council No. 1099-2005, the Chairman of the Board receives annual compensation of $125,000. Board members are also entitled to reimbursement of travel expenses incurred in the performance of their duties.

DIRECTORS' COMPENSATION AND BENEFITS IN 2009

	Base compensation[a, b]	Meeting fees[b]	Benefits[c]
Michael L. Turcotte[d]	$125,000	–	–
Thierry Vandal[e]	–	–	–
Robert Sauvé[e]	–	–	–
Gaston Blackburn	$12,714	$13,086	$3,537
Anik Brochu	$16,887	$13,086	$64
Carl Cassista	$16,887	$13,102	$4,426
Michelle Cormier	$2,155	$1,592	$0
Bernard Gaudreault	$16,887	$15,076	$3,537
Suzanne Gouin	$16,887	$17,464	$64
Louis Lagassé	$22,164	$11,080	$3,537
Jacques Leblanc	$22,164	$20,648	$3,537
Michel Plessis-Bélair	$22,164	$15,458	$64
Marie-France Poulin	$22,164	$19,040	$64
Marie-Anne Tawil	$16,887	$21,428	$4,426
Emmanuel Triassi	$16,887	$19,056	$3,861
Gilles Vaillancourt	$16,887	$11,494	$3,537

a) Pursuant to Orders-in-Council Nos. 1099-2005 and 610-2006.

b) Includes indexing from April 1, 2008.

c) Insurance premiums paid by Hydro-Québec.

d) Michael Turcotte also receives a car allowance of $15,486.

e) Thierry Vandal, President and Chief Executive Officer, and Robert Sauvé, Deputy Minister of Natural Resources and Wildlife, may not receive compensation as members of Hydro-Québec's Board of Directors.

Serge Lemoyne's *Les Hanches* (1975) is displayed in Hydro-Québec's head office lobby. Employees and visitors passing through this area can also admire the luminous mural by Jean-Paul Mousseau (1962), which hangs above the elevators. *Les hanches:* © Serge Lemoyne Estate/ SODRAC (2010). *Lumière et mouvement dans la couleur:* © SODRAC (2004)

Hydro-Québec proudly supports Québec's visual arts community, which is why it displays part of its art collection in high-traffic areas for passers-by to enjoy. *Exercice d'empathie 3 (Piano nobile pour Louis Archambault),* the photograph shown here, was created by Yann Pocreau in 2008. © Yann Pocreau

DIRECTOR INDUCTION AND TRAINING PROGRAM

When Board members are first appointed, they receive training on their roles and responsibilities as well as the nature and business context of Hydro-Québec's principal activities. Board members are also informed about the company's legal and regulatory context, with particular emphasis on the governance of a government-owned utility. They are given documents designed to help them perform their functions. Board committee members also receive documents regarding the mandate of their committee and the matters it handles. The director induction and training program also includes presentations on major issues and projects, as well as tours of the company's facilities. In 2009, Board members visited the Eastmain-1-A/Sarcelle/Rupert construction sites. As well, to complement their knowledge, some directors took advantage of training programs offered by educational institutions.

DEINTEGRATION

In 1997, Hydro-Québec implemented an organizational structure that allows some units to work independently from each other while remaining part of the same company. This is the principle of deintegration, or unbundling.

The operations of these units are subject to set rules of conduct and ethics. The Distributor's electricity procurement process is governed by the *Code of Ethics on Conducting Calls for Tenders,* which was approved by the Board of Directors and the Régie de l'énergie. The code ensures that the tendering process is conducted fairly for all electricity suppliers. The Régie follows up annually on its application. Moreover, the Régie de l'énergie approved the *Code de conduite du Distributeur* (Distributor Code of Conduct) in March 2006. This code applies to transactions between the Distributor and the Generator for procurement not subject to the tendering process. It also governs dealings between the Distributor and its affiliates, with the aim of preventing affiliates' business operations from being financed, in whole or in part, by electricity service customers. The Distributor provides details on the application of the code in its annual report to the Régie. The code is available for consultation, in French only, on the company's Web site.

Hydro-Québec TransÉnergie is subject to the *Transmission Provider Code of Conduct* approved by the Régie in 2004. This code governs relations between the Transmission Provider and Hydro-Québec affiliates, and its purpose is to prevent any form of preferential treatment or cross-subsidization. The information that must be made public pursuant to the *Transmission Provider Code of Conduct* is published on the OASIS (Open Access Same-Time Information System) Web site at **www.transenergie.com/oasis/hqt/en/entree.htmlx**. The OASIS Web site includes information on staff transfers and on violations of the code deemed likely to confer a business advantage on certain clients of the transmission service. It is possible to consult this information by simply registering as a guest on the OASIS Web site.

The *Reliability Coordinator Code of Conduct,* which was approved by the Régie de l'énergie in December 2007 after Hydro-Québec TransÉnergie's Direction du contrôle des mouvements d'énergie (System Control) was designated as Reliability Coordinator for Québec, came into force in January 2008. Its purpose is to ensure that the reliability of the transmission system remains a top priority and to prohibit any form of preferential treatment in favor of other branches of the Transmission Provider, its affiliates or other system users.

INTERNAL CONTROL SYSTEM

The company's Management maintains an internal control system that meets the demanding requirements of the internationally recognized framework developed by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. This includes communicating Hydro-Québec's code of ethics and code of conduct to employees, primarily to ensure the proper management of resources and the orderly conduct of business. The objective of this system is to provide reasonable assurance that financial information is relevant and reliable and that Hydro-Québec's assets are appropriately recorded and safeguarded. The system includes an enterprise risk management process. The internal audit helps to determine whether the internal control system is sufficient and effective and to assess the company's policies and procedures. It includes a performance audit to ensure the efficiency, effectiveness and cost-effectiveness of operations. The internal auditor and the external auditors have full and unrestricted access to the Audit Committee, without Management present.

POLICY ON THE INDEPENDENCE OF EXTERNAL AUDITORS

Hydro-Québec has introduced various mechanisms to enable the Audit Committee to ensure that external auditors remain independent:

> A process whereby any assignment to be given to external auditors is analyzed first to prevent any interference with their independence; external auditors are not authorized to provide services that fall within the prohibited category

> Rules requiring prior approval of all requisitions for service sent to the external auditors

> Reports to the Audit Committee on the fees billed by the external auditors

EXTERNAL AUDITORS' FEES

KPMG LLP and Ernst & Young LLP are the joint auditors for Hydro-Québec for 2009. Professional fees billed by the external auditors in 2009 for services other than auditing and certification amounted to 4.2% of the total $6.1 million in fees billed.

ACCESS TO DOCUMENTS AND PROTECTION OF PERSONAL INFORMATION

Hydro-Québec carefully protects the personal information of its customers, suppliers and employees and respects the public's right of access to information. It takes all the necessary measures to comply with the *Act respecting Access to documents held by public bodies and the Protection of personal information,* or the "Access Act."

To facilitate access to information, Hydro-Québec publishes many documents on its Web site at **www.hydroquebec.com/profile/** in accordance with the *Regulation respecting the distribution of information and the protection of personal information.* Moreover, it provides explanations regarding access to documents and the protection of personal information at **www.hydroquebec.com/publications/en/act-access**, including an explanation of the procedure for requesting access to a document.

The documents of public interest available on Hydro-Québec's Web site include a senior management organization chart, a list of the company's directors, the names and contact information of persons in charge of access to documents and the protection of personal information, the inventory of personal information, the register of personal information released and a description of services and programs offered to customers. Other information includes the *Hydro-Québec Act* and the company's regulations, codes and policies.

In accordance with the *Regulation respecting the distribution of information and the protection of personal information,* Hydro-Québec's document classification plan was made available on the company's Web site.

In 2009, Hydro-Québec received 302 requests for access to information under the Access Act. Most applicants were looking for documents (such as corporate reports and contracts) or wanted to know what personal information the company held about them. All the requests were processed within the prescribed time limit; 151 were granted in full, 102 were granted in part and 49 were denied. Request denials were due mainly to security issues, to opposition by a third party to the disclosure of information belonging to it, or to the commercial nature of the documents requested.

ETHICS

Hydro-Québec attaches great importance to ethics in all aspects of its activities. The concept of ethics has been included in official company guidelines since 1988, with the aim of setting high standards of judgment and behavior in professional activities.

As a government-owned utility, Hydro-Québec must demonstrate exemplary probity, and it can do so only with the consistent support of its employees. Loyalty, integrity, respect, discretion and fairness are fundamental values reflecting Hydro-Québec's social commitment to its customers and the community. Ethical standards and rules resulting from these values are set out in the *Code of Ethics and Rules of Professional Conduct for Directors, Executives and Controllers of Hydro-Québec* (see page 110 of this Annual Report) and in the *Code of Conduct* for employees. This document, which is available at **www.hydroquebec.com/profile/**, has a twofold purpose: facilitate an understanding of the ethical principles set out in the policy Our Management and approved by the Board of Directors, and help all employees perform their duties in keeping with Hydro-Québec's values.

Hydro-Québec managers at all reporting levels play a key role in applying the company's ethical principles. They see to it that the *Code of Conduct* is applied and observed, thereby upholding the company's values. The Executive Vice President, Corporate Affairs and Secretary General, who is responsible for interpreting the *Code of Conduct,* may issue opinions on ethical questions with a view to preventing or rectifying a situation.

LANGUAGE GUIDELINES

In 2009, Hydro-Québec continued its efforts to maintain the quality of the French used within the company. Various proficiency courses (grammar, business correspondence and specialized writing) were offered to employees and six terminology bulletins were published on the intranet. A trilingual general vocabulary (French-English-Spanish) of the power industry was published for the benefit of company tour guides, along with a vocabulary related to the segmentation of energy-efficient markets. In addition, the office automation and telecommunication vocabularies were updated. Various promotional and awareness activities were organized to highlight Francofête, a celebration of French language and culture. Finally, the guidelines regarding application of the Charter of the French Language were reviewed and updated.

SUSTAINABLE DEVELOPMENT

The Sustainability Report discusses the company's main sustainable development initiatives, the progress made in this area and the company's sustainable energy choices. The report is based on the Global Reporting Initiative Guidelines. It is published at **www.hydroquebec.com/sustainable-development**, where additional information is provided on the company's performance with regard to sustainable development.

COMPENSATION AND OTHER BENEFITS PAID TO THE COMPANY'S FIVE MOST HIGHLY COMPENSATED OFFICERS IN 2009

				Automobile		Life insurance and health insurance premiums paid by Hydro-Québec[b]
	Base compensation	Variable compensation	Perquisites used[a]	Description of benefit	Cost-in-use	
Vandal, Thierry President and Chief Executive Officer	$421,008	$125,267	$15,521	Executive vehicle	$1,623	$6,677
Boulanger, André President, Hydro-Québec Distribution	$369,129	$102,097	$4,714	Car allowance or vehicle, plus parking	$16,849	$6,457
Cacchione, Richard President, Hydro-Québec Production	$367,045	$100,038	$5,000		$11,517	$5,514
Courville, Isabelle President, Hydro-Québec TransÉnergie	$354,819	$89,565	$5,000		$16,849	–
Saheb, Élie Executive Vice President, Technology	$335,797	$98,014	$1,602		$12,667	$23,084
	Pension Plan and Supplementary Benefits Program					
	Basic Hydro-Québec Pension Plan (HQPP) - Usual contribution under the plan - Pension calculated on the basis of average salary for the best five years - Credit of 2.25% per contribution year - Recognition of 66.67% of the maximum bonus as pensionable earnings for purposes of the HQPP **Supplementary Benefits Program** - Contribution assumed by Hydro-Québec - Additional benefits to offset the tax limits under the HQPP (lifting of ceiling on the permitted maximum amount) - Payment of benefits according to the same terms as those applicable under the HQPP *Other provisions applicable to the President and Chief Executive Officer* - Pension calculated on the basis of average salary for the best three years (less pension payable under the HQPP) - Credit of 3.5% per contribution year (less pension credit under the HQPP) - Recognition of two years for each year of participation - Recognition of 100% of the maximum bonus as pensionable earnings (less portion of bonus recognized under the HQPP) - Pension limited to 70% of the average of base salary and variable compensation for the best three years					

a) Health assessment, financial and succession planning, sports clubs and professional dues.

b) Applicable to officers who participate in the plans.

COMPENSATION AND OTHER BENEFITS PAID TO THE ONLY OFFICER COMPENSATED BY ONE OF THE COMPANY'S WHOLLY OWNED SUBSIDIARIES IN 2009

	Base compensation	Variable compensation	Perquisites used[a]	Employee benefits
Girouard, Yves General Manager, Cedars Rapids Transmission Company, Limited	$117,268	$22,046	$2,000	Hydro-Québec Pension Plan and group insurance plans

a) Financial and succession planning and sports clubs.

Part I – Interpretation and application

1. In this Code, unless the context indicates otherwise:
   a) **"director"** means, with respect to the Company, a member of the Board of Directors of the Company, whether or not working full-time within the Company;
   b) **"Committee"** or "Ethics and Corporate Governance Committee" means the Ethics and Corporate Governance Committee established by resolution of the Board of October 17, 1997 (HA-173/97), a copy of which is attached in Schedule D. A copy of the Committee's mandate as amended by resolution of the Board of June 13, 2008 (HA-104/2008) is attached in Schedule D;
   c) **"spouse"** includes marriage partners and persons living as if married for more than one year;
   d) **"Board"** means the Board of Directors of the Company;
   e) **"contract"** includes a proposed contract;
   f) **"control"** means the direct or indirect ownership of securities, including shares, conferring more than 50% of voting rights or economic interest without this right depending on the occurrence of a particular event or allowing the election of the majority of directors;
   g) **"controller"** means the controller of the Company and the controllers of divisions or groups or units reporting to the President and Chief Executive Officer of the Company;
   h) **"executive"** with respect to the Company means any contractual manager whose employment conditions are subject to the approval of the Board;
   i) **"enterprise"** means any form that can be taken by the organization for the production of goods or services or any other business of a commercial, industrial or financial nature or any group seeking to promote certain values, interests or opinions or to exercise an influence on public officials; however, this does not include the Company or a non-profit association or group that has no financial link with the Company or is not incompatible with the objects of the Company;
   j) **"affiliated enterprise"** means a legal person or company in which the Company owns, directly or indirectly, securities, including shares, conferring more than 10% of voting rights or economic interest;
   k) **"immediate family"** means spouse and dependent children;
   l) **"subsidiary"** means a legal person or company controlled directly or indirectly by the Company;
   m) **"Regulation"** means the *Regulation respecting the ethics and professional conduct of public office holders* [Order-in-Council 824-98 of June 17, 1998 (1998) 130 G.O. II., 3474, pursuant to sections 3.01 and 3.02 of the *Act respecting the Ministère du Conseil exécutif,* R.S.Q., c. M-30], as amended from time to time;
   n) **"Company"** means Hydro-Québec.
2. In this Code, the prohibition to perform an act also applies to any attempt to perform it and any participation in it or incitement to perform it.

2.1 This Code applies to the directors, the President and Chief Executive Officer, other executives of the Company and its controllers.

The directors and the President and Chief Executive Officer are also subject to the Regulation.

Part II – Ethical principles and general rules of professional conduct

3. The director, executive or controller is appointed to contribute to the achievement of the Company's mission in the best interest of Québec. Accordingly, he is expected to use his knowledge, abilities and experience in a way that will promote the effective, fair and efficient accomplishment of the objectives assigned to the Company by law and the good administration of the property it owns as mandatary of the State.

   His contribution shall be made with respect for the law and with honesty, loyalty, prudence, diligence, efficiency, application and fairness.

3.1 The director, executive or controller respects the following principles in the performance of his duties:
   – the values underlying the activities of the Company as a government-owned business company, which include customer satisfaction, a "business first" approach, respect for employees, quality improvement, respect for the environment, partnership with local communities and safeguarding the future; and
   – the principles set out in the basic policies of the Company, expressing commitments and conveying a business culture with regard to customers, human resources, acquisition of assets and services, business partners, finance, assets, the environment, social role, management, security and financial disclosure.

3.2 The director, executive or controller is required, in the performance of his duties, to respect the ethical principles and rules of professional conduct provided by law, the Regulation as applicable, and those defined in this Code. In case of discrepancy, the more stringent rules and principles apply.

   When in doubt, act according to the spirit of these principles and rules.

   A director, executive or controller who, at the request of the Company, serves as director or member of an undertaking or a company, is held to the same standards.

4. The director, executive or controller shall not merge the assets of the Company with his own; he may not use the assets of the Company or information he obtains as a result of his duties for his own profit or the profit of others. These obligations continue even after the director, executive or controller has ceased to hold his position.
5. The director, executive or controller shall seek, in the performance of his duties, only the interest of the Company to the exclusion of his own interest or that of others.

5.1 The director, executive or controller is bound to discretion in regard to anything that comes to his knowledge in or during the performance of his duties and is at all times bound to maintain the confidentiality of such information.

5.2 In the performance of his duties, the director, executive or controller shall make decisions without regard for any partisan political considerations.

   The Chairman of the Board, the director working full-time within the Company, the executive and the controller shall demonstrate reserve in the public expression of their political opinions.

6. The director, executive or controller may not directly or indirectly grant, solicit or accept a favor or an undue advantage for himself or for a third party.

   In particular, he may not accept or solicit an advantage from a person or undertaking doing business with the Company or a subsidiary or acting in the name of or on behalf of such a person or undertaking if this advantage is intended or likely to influence him in the performance of his duties or generate expectations of this nature.

6.1 The director, executive or controller shall, in making decisions, avoid allowing himself to be influenced by offers of employment.

6.2 The director, executive or controller may not accept any gift or hospitality except what is customary and modest in value.

   Any other gift or hospitality shall be returned to the giver.

7. The director may not make a commitment to a third party or grant them any guarantee relative to a vote he may be asked to make or any decision whatsoever that the Board may be asked to make.

7.1 The director, executive or controller may not, in the performance of his duties, deal with a person who has ceased to be a director, executive or controller of the Company for less than one year if this person is acting on behalf of a third party with respect to a proceeding, negotiation or other transaction to which the Company is a party and about which he has information not available to the public.

7.2 After ceasing his duties, no director, executive or controller may disclose confidential information he has obtained or give anyone advice based on information not available to the public concerning the Company or any other undertaking or company with which he had direct and substantial dealings during the year preceding the date on which he ceased his duties.

   In the year following that date, he may not act on behalf or on account of another party with respect to a procedure, negotiation or other transaction to which the Company is a party and about which he has information not available to the public.

8. The director, executive or controller shall collaborate with the Chairman of the Board or the Ethics and Corporate Governance Committee on an issue of ethics or professional conduct when asked to do so.

8.1 The director, executive or controller who intends to be a candidate for elective office shall inform the Chairman of the Board of this intention.

   The Chairman of the Board or President and Chief Executive Officer with the same intention shall inform the Secretary General of the Conseil exécutif.

Part III – Duties and obligations of directors, executives and controllers with respect to conflicts of interest

Prevention of conflicts of interest

9. The director, executive or controller shall avoid placing himself in a situation in which his personal interest is in conflict with the duties of his position or in which reasonable doubt is cast on his ability to perform these duties with undivided loyalty.

   In the event that this Code does not include provisions for a certain situation, the director, executive or controller must determine whether his conduct is in accordance with how the Company could reasonably expect a director, executive or controller to conduct himself in such circumstances. He must also determine whether a reasonably well-informed person would conclude that the situation might influence his decisions and impair his objectivity and impartiality in the performance of his duties for the Company.

10. A director who is employed full-time within the Company or one of its subsidiaries shall also avoid performing duties or being bound by commitments that prevent him from devoting the time and attention that the normal exercise of his duties requires.

   As for other directors, they shall be sure to devote the time and attention reasonably required in the circumstances for the execution of their duties.

10.1 No director holding a full-time office with the Company, under pain of forfeiture of office, may have any direct or indirect interest in an undertaking, company or association that puts his personal interest in conflict with that of the Company.

   However, such forfeiture is not incurred if that interest devolves to him by succession or gift, provided that he renounces or disposes of it with all possible dispatch. Meanwhile, sections 12, 13, 15 and 18 apply to this director.

   Every other director who has an interest in an undertaking shall, on pain of forfeiture of his office, comply with the provisions of sections 12, 13, 15 and 18.

11. A director, executive or controller of the Company who serves as director, executive or controller of an affiliated enterprise shall be specifically authorized by the Board to:

   a) hold shares, rights or any other security issued by such enterprise and conferring voting rights or economic interest in it or the right to subscribe or buy such shares, rights or securities;

   b) benefit from any profit-sharing program, unless this director, executive or controller works full-time for the enterprise and the profit-sharing program is closely linked with the individual performance of the director, executive or controller within the affiliated enterprise;

   c) benefit from a pension plan granted by the affiliated enterprise if he does not hold a full-time position within the enterprise; or

   d) benefit from any advantage granted in advance in the case of a change of control of the affiliated enterprise.

12. A director, executive or controller who:

a) is party to a contract with the Company or a subsidiary; or

b) has a direct or indirect interest in an enterprise that is a party to a contract with the Company or a subsidiary or is a director, executive, controller or employee of this enterprise, except, in the latter case, if it is an enterprise that belongs to the same group as the Company;

shall disclose the nature and extent of his interest in writing to the Chairman of the Board.

The same applies to a director who has a direct or indirect interest in any issue being considered by the Board of Directors.

The director shall at all times abstain from conveying any information of any kind to any employee, controller, executive or director of the Company with respect to this contract or interest.

The director shall abstain from deliberating or voting on any question linked to this interest and avoid trying to influence the related decision. The director shall also withdraw from the meeting for the duration of deliberations and voting on this question. These restrictions do not apply when the decision concerns an enterprise belonging to the same group as the Company.

12.1 A director who is a member of the Audit Committee of the Board of Directors may not have an interest in the Company or a subsidiary. In particular, he may not accept from the Company or a subsidiary fees with respect to consulting, consulting services or any other similar service.

13. The disclosure required by section 12 occurs, in the case of a director, during the first meeting:

a) in the course of which the contract or question concerned is under study;

b) following the time at which the director who had had no interest in the contract or question concerned acquires such interest;

c) following the time at which the director acquires an interest in the already concluded contract; or

d) following the time at which any person with an interest in a contract or a question under study becomes a director.

14. An executive or controller who is not a director shall make the disclosure required in section 12 immediately after:

a) having learned that the contract or question concerned was or will be studied at a meeting;

b) having acquired the interest, if it is acquired after the contract was concluded or the decision made; or

c) having become an executive or controller, if he becomes one after acquiring the interest.

The executive or controller may not try to influence the directors' decision in any way.

15. The director, executive or controller shall make the disclosure required in section 12 as soon as he has knowledge of a contract contemplated by this section which, as part of the normal business of the Company, does not require the approval of the directors.

16. Sections 12 to 15 apply also when the interest concerned is held by a member of the immediate family of the director, executive or controller.

17. The director, executive or controller shall notify the Chairman of the Board in writing of the rights he may invoke against the Company, by indicating their nature and their value, as soon as these rights come into existence or when he acquires knowledge of them.

18. The director, executive or controller shall submit to the Chairman of the Board, within 60 days of being appointed and on January 31 of each year in which he remains in office, an attestation in the form provided in Schedule B and containing the following information:

a) the name of any enterprise (including its area of activity and place of operations), in which he owns directly or indirectly securities or assets, including common shares, when the holding of securities is greater than 5% of the total issued capital and shares outstanding, specifying the nature and proportion of securities owned and value of assets;

b) the name of any enterprise for which he performs functions or in which he has an interest in the form of a debt, right, priority, mortgage or significant commercial or financial benefit; and

c) any other fact, situation or event of which he has knowledge and that could put him in a conflict of interest situation or be perceived as such.

A director, executive or controller to whom the provisions of paragraphs a) to c) do not apply shall fill out an attestation to that effect and present it to the Chairman of the Board.

The director, executive or controller shall also produce such an attestation within 60 days of the occurrence of a significant change in its content.

The attestations presented pursuant to this section are treated as confidential.

19. The Chairman of the Board submits the attestations received pursuant to sections 12 to 18 to the Secretary of the Company, who keeps them at the disposal of the members of the Board and the Ethics and Corporate Governance Committee.

Moreover, the Secretary of the Company notifies the Chairman of the Board and the Ethics and Corporate Governance Committee of any failure to satisfy the obligations provided for in sections 12 to 18 as soon as the Secretary becomes aware of them.

Waivers

20. This Code does not apply:

a) to owning securities representing 5% or less of the total issued capital and shares outstanding;

b) to owning an interest by way of a mutual fund in whose management the director, executive or controller plays no role directly or indirectly;

c) to owning interests through a blind trust whose beneficiary cannot know its makeup;

d) to owning a minimum number of shares required to be eligible as director of a corporation;

e) to an interest which, by its nature and extent, is common to the public at large or a particular sector in which the director, executive or controller operates;

f) to a directors' liability insurance agreement; or

g) to the owning of shares issued or guaranteed by the Company, a government or municipality under the same conditions for everyone.

Attestation

20.1 Within sixty days of the adoption of this Code by the Board, each director, executive or controller shall submit to the Chairman of the Board and the Secretary of the Company the attestation appearing in Schedule C.

Each new director, executive or controller shall do the same within sixty days of his appointment to this position.

Part IV – Remuneration

20.2 The director, executive or controller, for the exercise of his duties, is entitled solely to the remuneration related to those duties. Such remuneration may not include, even partially, monetary advantages such as those established, in particular, by a profit-sharing plan based on the variation in the value of shares or on a stake in the capital stock of the Company.

20.3 A director, executive or controller dismissed for just and sufficient cause may not receive a severance allowance or payment.

20.4 A director, executive or controller who quits his duties, who has received or is receiving a severance allowance or payment and who holds an office, employment or any other remunerated position in the public sector during the period corresponding to that allowance or payment shall refund the part of the allowance or payment covering the period for which he receives a salary or shall cease to receive it during that period.

However, if the salary he receives is lower than that he received previously, he shall be required to refund the allowance or payment only up to the amount of his new salary, or he may continue to receive the part of the allowance or payment that exceeds his new salary.

20.5 Anyone who has received or is receiving a severance allowance or payment from the public sector and receives a salary as director, executive or controller during the period corresponding to that allowance or payment shall refund the part of the allowance or payment covering the period for which he receives a salary or shall cease to receive it during that period.

However, if the salary he receives as director, executive or controller is lower than that he was receiving previously, he shall be required to refund the allowance or payment only up to the amount of his new salary, or he may continue to receive the part of the allowance or payment that exceeds his new salary.

20.6 A President and Chief Executive Officer who has ceased to perform his duties, who has received so-called assisted departure measures and who, within two years after his departure, accepts an office, employment or any other remunerated position in the public sector shall refund the sum corresponding to the value of the measures received by him, up to the amount of the remuneration received, by the fact of his return to the public sector, during that two-year period.

20.7 Part-time teaching by a director, executive or controller is not covered by sections 20.4 to 20.6.

20.8 For the application of sections 20.4 to 20.6, "public sector" means the bodies, institutions and companies referred to in the Regulation in Schedule A.

The period covered by the severance allowance or payment referred to in sections 20.4 and 20.5 shall correspond to the period that would have been covered by the same amount if the person had received it as salary in his prior office, employment or position.

Part V – Application of the Code

Competent authorities

20.9 The Associate Secretary General for Senior Positions of the Ministère du Conseil exécutif is the competent authority for the application of this Code with respect to the Chairman of the Board and the other directors of the Company appointed by the Government.

The Chairman of the Board is the competent authority with respect to all directors of wholly owned subsidiaries, executives or controllers of the Company.

The Chairman of the Board shall ensure observance of the ethical principles and rules of professional conduct by the directors, executives and controllers of the Company.

21. The Ethics and Corporate Governance Committee has as its mission to advise the competent authority with respect to ethics and professional conduct.

The Committee also performs the duties invested in it by the resolution appearing in Schedule D and performs any other duties related to ethics entrusted to it by the Board.

In the performance of its duties, the Ethics and Corporate Governance Committee may become acquainted with the attestations contemplated by section 19.

22. When a director, executive or controller is accused of a violation of ethics or the rules of professional conduct, the Committee is responsible for collecting all relevant information. It makes a report of its findings to the competent authority and recommends appropriate measures, if any.

The competent authority notifies the director, executive or controller of the alleged violations and the possible penalties. It informs him that he has seven days in which to respond and if he requests, to be heard on this matter.

23. The Committee may render advisory opinions to directors, executives or controllers on the provisions of this Code and their application to specific cases, even hypothetical ones. It is not required to limit its views to the terms contained in the request.

23.1 In order to allow an appropriate decision to be made in the case of an urgent situation requiring fast response or in an alleged case of serious misconduct, the competent authority may temporarily relieve of his duties, with remuneration, the director, executive or controller who is accused of violations of ethics or the rules of professional conduct.

24. The Secretary of the Company keeps records in which are stored the statements, disclosures and attestations that must be submitted to it under this Code, the reports and advisory opinions of the Committee and the decisions of the competent authority with respect to ethics and professional conduct.

The Secretary shall also take the necessary steps to ensure the confidentiality of the information provided by the directors, executives and controllers pursuant to this Code.

25. The Committee may consult and receive opinions from outside counsel or experts on any issue it considers appropriate.

26. A director, executive or controller does not violate the provisions of this Code if he has obtained in advance a favorable decision from the Committee on the following conditions:

a) the decision was obtained before the facts on which it was based became a reality;

b) the decision was submitted to the Board;

c) all of the relevant facts were fully disclosed to the Committee exactly and completely; and

d) the director, executive or controller has complied with all the requirements of the decision.

27. The Committee and the competent authority preserve the anonymity of complainants, applicants and informers unless there is a clear intention to do otherwise. They may not be forced to reveal information likely to disclose their identity except if the law or a court so requires.

Penalties

28. Upon concluding that a provision of the law, the Regulation or this Code has been violated, the competent authority may impose either of the following penalties:

a) for an executive or a controller, the appropriate penalty, which can extend as far as termination of employment; and

b) for a director, reprimand, suspension without remuneration for a maximum of three months, or removal from the Board.

However, when the competent authority is the Associate Secretary General contemplated by section 20.9, the penalty is imposed by the Secretary General of the Conseil exécutif. If the penalty proposed consists of the removal of a public office holder appointed or designated by the Government, it can only be imposed by the latter; in this case, the Secretary General of the Conseil exécutif may immediately suspend the public office holder without remuneration for a period not exceeding 30 days.

Any penalty imposed on a director and the decision to temporarily relieve him of his duties must be in writing and give the reasons therefor.

29. In the case of a violation of section 10, the competent authority records in writing the forfeiture of office of the violator.

30. The director, executive or controller shall render an account and restore to the Company any profits earned or benefits received as a result of or on the occasion of a violation of the provisions of this Code.

31. A director's vote shall not be a casting vote if it is made in violation of the provisions of this Code or associated with such a violation, or if the director fails to produce the attestation contemplated by section 18.

The schedules may be consulted on Hydro-Québec's Web site: **www.hydroquebec.com**.

Generation Installed capacity in MW

Hydroelectric generating stations
34,499 MW

The installed capacity of a hydroelectric generating station is equivalent to that of its generating units operating in winter conditions (water temperature 5°C).

Robert-Bourassa	5,616
La Grande-4	2,779
La Grande-3	2,417
La Grande-2-A	2,106
Beauharnois	1,903
Manic-5	1,596
La Grande-1	1,436
Manic-3	1,244
Bersimis-1	1,178
Manic-2	1,145
Manic-5-PA	1,064
Outardes-3	1,026
Sainte-Marguerite-3	884
Laforge-1	878
Bersimis-2	869
Outardes-4	785
Carillon	753
Toulnustouc	526
Outardes-2	523
Eastmain-1	507
Brisay	469
Péribonka	405
Laforge-2	319
Trenche	302
La Tuque	294
Beaumont	270
McCormick	235
Rocher-de-Grand-Mère	230
Rapide-Blanc	204
Paugan	204
Shawinigan-2	200
Shawinigan-3	194
Manic-1	184
Rapides-des-Îles	176
Chelsea	152
La Gabelle	131
Première-Chute	131
Les Cèdres	122
Rapides-Farmer	104
Rapides-des-Quinze	103
Other (20 generating stations rated less than 100 MW)	835

Nuclear
675 MW

Gentilly-2	675

Thermal
1,634 MW

Tracy (steam)	660
Bécancour, La Citière and Cadillac (gas turbine)	852
Other (23 diesel plants)	122

Wind
2 MW

Saint-Ulric (3 wind turbines)	2

Hydroelectric generating stations planned or under construction
2,468 MW

Eastmain-1-A and Sarcelle	918
Romaine (4 generating stations)	1,550

Installed capacity of Hydro-Québec's generating fleet
36,810 MW

Hydroelectric (60)	**34,499**
Nuclear (1)	**675**
Thermal (27)	**1,634**
Wind farm (1)	**2**

Other sources of supply
7,382 MW

Churchill Falls generating station [Churchill Falls (Labrador) Corporation Limited][a]	**5,428**
Nine privately owned wind farms[b]	**657**
Agreements with other independent power producers[c]	**1,297**

a) Hydro-Québec has access to almost all the output.
b) Hydro-Québec purchases all the output.
c) Hydro-Québec has access to this output.

Transmission

Voltage	Lines (km)	Substations (number)
765 and 735 kV	11,422	38
450 kV dc	1,218	2
315 kV	5,127	63
230 kV	3,120	52
161 kV	2,013	41
120 kV	6,738	216
69 kV or less	3,606	103
Total	**33,244**	**515**

Distribution

Voltage	Lines (km)
34 kV	711
25 kV	105,031
12 kV	5,109
4 kV or less	354
Total	**111,205**

Generating station rated 300 MW or more
Hydro
Nuclear
Thermal
Other facilities
Generating station under construction
Planned generating station
735-kV substation
735-kV line
450-kV direct-current line
Interconnection
Neighboring system facility
Baie d'Hudson
(Hudson Bay)
Baie James
(James Bay)
QUÉBEC
La Grande-1
La Grande-2-A
Robert-Bourassa
La Grande-3
La Grande-4
Laforge-1
Laforge-2
Brisay
Sarcelle
Eastmain-1
Eastmain-1-A
1927 Privy Council border
(not final)
Sainte-Marguerite-3
Manic-5-PA
Manic-5
Romaine-2
Toulnustouc
Manic-3
Outardes-4
Outardes-3
Manic-2
Outardes-2
Péribonka
Bersimis-1
Bersimis-2
Île d'Anticosti
(St. Lawrence River)
Fleuve Saint-Laurent
Trenche
Îles de la Madeleine
Québec
Gentilly-2
Bécancour
Tracy
Carillon
Montréal
La Citière
Beauharnois
NEW BRUNSWICK
PRINCE EDWARD ISLAND
NOVA SCOTIA
ONTARIO
MAINE
VERMONT
Toronto
Lake Ontario
UNITED STATES
NEW HAMPSHIRE
NEW YORK
MASSACHUSETTS
Boston
Atlantic Ocean
PENNSYLVANIA
CONNECTICUT
R.I.
NEW JERSEY
New York
0 75 150 km
78°
72°
66°
55°
50°
45°
40°

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UNITS OF MEASURE

¢/kWh	cents ($0.01) per kilowatthour
$M	millions of dollars
$B	billions of dollars
V	volt (a unit for measuring voltage)
kV	kilovolt (one thousand volts)
W	watt (a unit for measuring power)
kW	kilowatt (one thousand watts)
MW	megawatt (one million watts)
GW	gigawatt (one million kilowatts)
Wh	watthour (a unit for measuring electric energy)
kWh	kilowatthour (one thousand watthours)
MWh	megawatthour (one million watthours)
GWh	gigawatthour (one million kilowatthours)
TWh	terawatthour (one billion kilowatthours)
mg	milligram
MBtu	million Btu *(British thermal units)*
t	tonne (metric ton)
km	kilometre

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