

## CONSISTENT VISION, SUSTAINABLE ACTION

The Sustainability Report 2020 is an eloquent tribute to our sustainability vision, which goes well beyond the environment. We encourage stakeholders to participate in our decisions and are committed to contributing to Québec's collective wealth while fostering a low-carbon economy. The report echoes our Sustainable Development Plan 2020–2024, in effect since January 2020. The plan sets out 12 strategies revolving around three pillars: governance, community and the environment. This **Quarterly Bulletin** is in keeping with the two documents mentioned above. In addition to a message from Sophie Brochu, it presents four initiatives that reflect our desire to be a catalyst for sustainable action, followed by our financial results for the first quarter of 2021.



## WORKING TOGETHER TO MAKE OUR DREAMS COME TRUE



**Sophie Brochu**  
President and Chief Executive Officer

In a context still marked by the public health crisis, Hydro-Québec posted encouraging first-quarter results. Our net income totaled \$1,641 million, compared to \$1,525 million a year ago. In Québec, electricity sales rose by \$17 million to \$3,843 million from \$3,826 million in the same period in 2020 due to slightly colder temperatures, particularly in February. On markets outside Québec, net electricity exports increased by \$53 million or 1.8 TWh over last year. They reached 10.5 TWh, a historic peak for a single quarter.

Because hope and action are powerful agents of change, we've decided not to wait until the pandemic is over to invite all Quebecers to rally around an ambitious project aimed at securing Québec's energy future.

Launched in April, the [Collective Energy](#) campaign seeks to establish an unprecedented dialogue between Hydro-Québec and the public at large.

To facilitate the gathering, analysis and development of your ideas, aspirations and expectations with regard to energy, we've created the [CollectiveEnergy.ca](#) website. The suggestions submitted on this site will help us choose and implement projects in our industry sector that will spark new possibilities and bring

us all closer to transforming our collective dreams into realities.

This broad-based consultation revolves around three key areas:

- a [green economy](#), in which the environment and Québec's prosperity will be top priorities;
- [sustainable mobility](#), through the accelerated electrification of personal, public and freight transportation;
- [responsible energy](#) use, which can be achieved by reimagining how our society consumes energy.

Through our combined efforts, we'll be able to drive the energy transition forward and foster Québec's economic recovery while also reducing GHG emissions. Moreover, we'll succeed in doing so at the lowest possible cost, in keeping with our vision of sustainable development.

Our history has taught us that by working together, we can achieve the impossible. Let's give ourselves the means today to make our dreams for a better tomorrow come true. Take a few moments now to visit [CollectiveEnergy.ca](#) and share your ideas.

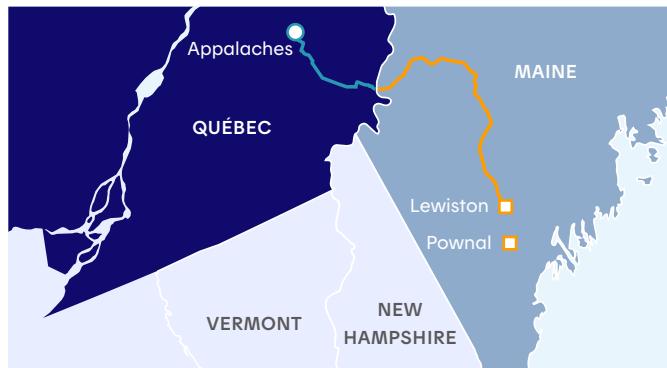
**Sophie Brochu**

**Previous page:**  
Impoundment of  
Romaine 4 reservoir.  
Construction of the dam  
is complete and  
concreting of the  
powerhouse is under way.  
Commissioning of the  
generating station has  
been postponed to 2022  
due to the pandemic.

# QUARTERLY HIGHLIGHTS IN SUSTAINABLE DEVELOPMENT

## Environment

Strategy 9 – Work toward decarbonizing all of our business activities and markets



### A project in support of the regional energy transition

Thanks to the storage capacity of our vast reservoirs and to our green, renewable, abundant and competitive energy, we've got what it takes to play a major role in the ongoing energy transition. This was confirmed in 2018, when Massachusetts selected Hydro-Québec's bid in response to the request for proposals it launched to green its electricity supply.

The power purchase agreement signed with Massachusetts—9.45 terawatthours each year over 20 years—brings us one step closer to our goal of becoming the battery powering northeastern North America. Its fulfillment hinges on the completion of two complementary transmission projects: the New England Clean Energy Connect (NECEC) line in the U.S., and the Appalaches-Maine interconnection line in Québec.

The NECEC has obtained all the necessary regulatory approvals and our partner, Central Maine Power, has launched construction, erecting a first tower in February. This transmission line will carry our energy to Massachusetts by way of Maine and will deliver power to that state as well. By replacing energy from polluting sources in New England, Québec's clean power will help avoid greenhouse gas (GHG) emissions equivalent to those generated by over 700,000 cars annually. The project will thus make an important contribution to New England's fight against climate change.

For its part, the Appalaches-Maine interconnection line project recently received the green light from the Québec government. This authorization was obtained after a 20-month-long environmental assessment process and sustained collaboration between Hydro-Québec and the communities concerned.

## Community

Strategy 7 – Generate more sustainable value in the community



### A firm commitment to social economy enterprises

In March, in keeping with our efforts to purchase more goods and services from social economy enterprises and create sustainable value in communities, we signed a commitment letter under the "*L'économie sociale, j'achète!*" initiative of the Conseil d'économie sociale de l'île de Montréal (CESIM).

Social economy enterprises sell goods and services, but also have a social mission. They include cooperatives, as well as organizations that help people integrate into the labor market or that employ people with functional limitations. Their activities support job creation, the fight against poverty, social inclusion, academic completion, gender equality and the integration of immigrants.

We are aware that social economy enterprises contribute to the vitality of the Montréal region and we aim to increase our purchases from these types of businesses. However, we must ensure that we do so in compliance with existing laws, regulations and procurement guidelines.

Hydro-Québec already works with several social economy enterprises throughout the province, including Tétabex (housekeeping) in Rouyn-Noranda, Groupe RCM (waste collection) in Trois-Rivières and Services Industriels RC (manufacturing of utility bags and tool holders) in Rimouski.

## Community

**Strategy 8 – Take steps to include Indigenous peoples and encourage their input into our development**



### **A wind power purchase agreement with multiple spinoffs**

In February, Hydro-Québec signed a 30-year agreement with the future operator of the Apuiat wind farm to purchase the power generated by the facility at a rate of approximately 6 cents per kilowatthour. This is the most competitive rate of any wind power agreement in Québec to date. The project marks a major milestone in our relations with Innu communities and reflects our willingness to listen to the ambitions of Québec's Indigenous peoples.

With an installed capacity of about 200 megawatts, the wind farm will be built on the traditional territory (nitassinan) of the First Nation of Uashat mak Mani-Utenam, on public land owned by the town of Port-Cartier and on part of the unorganized territory of Lac-Walker in the regional county municipality of Sept-Rivières. The Innu communities and Boralex are equal partners in this venture, which is expected to cost nearly \$600 million.

The project will generate substantial spinoffs for the region. As partners in this venture, the Innu communities will receive 50% of sales revenue for the next 30 years. In addition, 300 jobs will be created during construction, along with 10 permanent positions for wind farm operation.

## Governance

**Strategy 4 – Offer an inclusive work environment that reflects Québec's diversity and rally our employees around sustainable development**



### **Towards a more diversified and inclusive workforce**

At Hydro-Québec, we believe that our workforce must reflect Québec's diversity and we're committed to fostering a culture of inclusion, which we regard as a source of collective energy.

In the first quarter of 2021, senior management made adjustments to the corporate structure to increase our focus on equity, diversity and inclusion, so that these values may become central to our corporate culture. The changes included the creation of the Groupe – Talents, culture et évolution, which will be in charge of assessing the progress achieved by the company in each of these three areas and reporting on the matter to the Management Committee.

In addition, a member of the Management Committee was assigned to each of the five groups that are currently under-represented within Hydro-Québec's workforce: women, ethnocultural communities, people with disabilities, Indigenous people, and LGBTQ+. The Committee members will report on the progress and challenges related to their designated group, raise awareness among their colleagues on the Committee about matters related to their group, and represent the company at different events and forums. They will also, in turn, be able to count on the support of Hydro-Québec's spokespeople for each of these groups.

To improve our actions in the day to day and ensure that all members of our personnel participate in this shift towards more openness, we have created a new position and are currently recruiting someone to establish and implement a diversity strategy for the company. This manager will be our main expert on issues regarding equity, diversity and inclusion.

# FINANCIAL RESULTS FOR FIRST QUARTER 2021

## Management's Discussion and Analysis

### Summary of results

For the first quarter of 2021, Hydro-Québec posted **net income** of \$1,641 million, compared to \$1,525 million a year ago. This \$116-million increase is due to two main factors.

On markets outside Québec, net electricity exports rose by \$53 million or 1.8 TWh compared to the corresponding quarter in 2020. They reached 10.5 TWh, a historic peak for a single quarter.

Financial expenses fell by \$62 million. This decrease is primarily attributable to the maturity of certain high-interest debts and the issuance of new debt at a much lower rate, given the favorable market conditions.

### Consolidated results

**Revenue** totaled \$4,447 million, compared to \$4,371 million in first quarter 2020.

Revenue from ordinary activities was \$4,406 million, compared to \$4,287 million for the same period last year, due to a \$119-million increase in electricity sales. In Québec, these amounted to \$3,843 million, or \$17 million more than the \$3,826 million posted a year earlier, mainly because of slightly colder temperatures in winter 2021, particularly in February. The rise in sales was mitigated, however, by a decrease in baseload demand resulting from a combination of three factors. In the residential segment, demand increased, partly because many customers continued to work from home in the context of the COVID-19 pandemic. Conversely, the pandemic led to lower consumption in the commercial, institutional and small industrial segment on account of the shutdown of a large number of businesses for several weeks during the winter. Moreover, the fact that the 2020 leap year included an additional day of sales led to a negative variance in all customer categories in 2021. Revenue from electricity sales on markets outside Québec was \$529 million, a \$102-million increase from first quarter 2020.

Revenue from other activities declined by \$43 million as a result of the impact of the derivative instruments related to electricity exports, which was less favorable in 2021 than in 2020.

**Total expenditure** amounted to \$2,197 million, which is comparable to the \$2,175 million recognized in the corresponding period last year.

**Financial expenses** totaled \$609 million, a \$62-million decrease from the \$671 million recorded a year earlier.

### Segmented results

At the beginning of the year, Hydro-Québec made changes to its organizational structure, replacing its divisions and other first-tier units with groups. The adjustments came into effect on February 22, 2021. As a result, the company now comprises 11 groups, including the following:

- Innovation, generation, health, safety and environment;
- TransÉnergie and construction;
- Distribution, procurement and shared services.

This restructuring had no impact on the company's business segments or the reporting of segmented information in the consolidated financial statements. Hydro-Québec therefore continues to carry out its principal activities in four reportable business segments—Generation, Transmission, Distribution and Construction—its other activities being grouped together under the heading Corporate and Other Activities.

#### Generation

The Generation segment (the "Generator") posted net income of \$1,016 million, or \$107 million more than the \$909 million recorded in first quarter 2020. Net electricity exports rose by \$53 million compared to last year, essentially because of a 1.8-TWh increase in volume that led to a new quarterly record of 10.5 TWh. Electricity supplies provided to the Distribution segment increased by \$33 million.

#### Transmission

The Transmission segment (the "Transmission Provider") recorded net income of \$183 million, comparable to the \$172 million posted a year earlier.

#### Distribution

The Distribution segment (the "Distributor") posted net income of \$487 million, compared to \$521 million for the same period in 2020. Electricity sales in Québec rose by \$17 million, mainly because of the positive impact of temperatures. Electricity purchases and the related transmission costs increased by \$58 million. More specifically, supplies from the Generator were up by \$33 million, while electricity purchases from third parties rose by \$26 million, due in part to an increase in wind power purchases resulting from higher output from wind farms under contract.

#### Construction

The Construction segment includes activities related to the design and execution of construction and refurbishment projects involving power generation and transmission facilities. The volume of activity in this segment totaled \$452 million, compared to \$497 million in first quarter 2020.

## Investments

In the first three months of 2021, Hydro-Québec invested \$717 million in property, plant and equipment and intangible assets, compared to \$738 million a year earlier.

The Generator allotted a large portion of its investments to ongoing work at the Romaine-4 jobsite, in the Minganie region. At the same time, it continued investing to ensure the long-term operability of its generating facilities and optimize their output. For instance, projects are under way at the Robert-Bourassa, Rapide-Blanc, Carillon and Beauharnois generating stations. In keeping with the energy transition, the Generator also continued to build two photovoltaic solar power plants in the Montérégie region.

The Transmission Provider allocated part of its investments to building substations and transmission lines. It also pursued upgrading and modernization projects to ensure the reliability and long-term operability of its assets and enhance service quality. Some examples of this include construction of the 735-kV Micoua-Saguenay line, the projects to replace the transmission grid control and special protection systems, as well as ongoing work under the architecture development plan for the 315-kV system on the island of Montréal.

The Transmission Provider also continued to invest in the deployment of a 320-kV direct-current line in the Chaudière-Appalaches and Estrie regions, as part of a larger project aimed at building a new 1,200-MW interconnection between Québec and the New England grid.

The Distributor continued to invest to better meet the needs of its customers. This includes connecting the village of La Romaine and the Innu community of Unamen Shipu, both located in Basse-Côte-Nord region and currently served by an off-grid system, to the main grid, as well as building a new generating station to supply the Inuit village of Tasiujaq, in the Nord-du-Québec region. The Distributor is also pursuing projects to maintain and improve the quality of its facilities, such as replacing the distribution grid control system.

## Financing

During the first quarter, Hydro-Québec made two fixed-rate bond issues on the Canadian capital market, at an average cost of 2.52%. These bonds will mature in 2060. The issues raised \$0.9 billion.

The proceeds were used to support part of the investment program and to repay higher-rate maturing debt.

# CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## Consolidated Statements of Operations

In millions of Canadian dollars (unaudited)	Notes	2021	2020
Three months ended March 31			
<b>Revenue</b>	11	<b>4,447</b>	4,371
<b>Expenditure</b>			
Operations		<b>768</b>	738
Other components of employee future benefit cost	8	<b>(186)</b>	(124)
Electricity purchases		<b>631</b>	594
Depreciation and amortization	4	<b>652</b>	647
Taxes		<b>332</b>	320
		<b>2,197</b>	2,175
<b>Income before financial expenses</b>		<b>2,250</b>	2,196
Financial expenses	5	<b>609</b>	671
<b>Net income</b>		<b>1,641</b>	1,525

## Consolidated Statements of Comprehensive Income

In millions of Canadian dollars (unaudited)	Notes	2021	2020
Three months ended March 31			
<b>Net income</b>		<b>1,641</b>	1,525
<b>Other comprehensive income</b>	9		
Net change in items designated as cash flow hedges	6	<b>241</b>	158
Net change in employee future benefits		<b>37</b>	31
Other		<b>(9)</b>	4
		<b>269</b>	193
<b>Comprehensive income</b>		<b>1,910</b>	1,718

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

## Consolidated Balance Sheets

In millions of Canadian dollars (unaudited)	Notes	As at March 31, 2021	As at December 31, 2020
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		<b>2,475</b>	1,467
Short-term investments		<b>707</b>	304
Accounts receivable and other receivables		<b>3,222</b>	2,313
Derivative instruments	6	<b>124</b>	147
Regulatory asset		<b>121</b>	123
Materials and supplies		<b>333</b>	316
		<b>6,982</b>	4,670
Property, plant and equipment		<b>66,977</b>	66,900
Intangible assets		<b>1,074</b>	1,053
Investments		<b>1,705</b>	1,717
Derivative instruments	6	<b>52</b>	11
Regulatory assets		<b>5,600</b>	5,700
Other assets		<b>842</b>	844
		<b>83,232</b>	80,895
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings		<b>3,389</b>	—
Accounts payable and accrued liabilities		<b>2,022</b>	2,080
Dividend payable		<b>—</b>	1,727
Accrued interest		<b>486</b>	933
Asset retirement obligations		<b>79</b>	84
Derivative instruments	6	<b>11</b>	14
Current portion of long-term debt	6	<b>2,046</b>	1,900
		<b>8,033</b>	6,738
Long-term debt	6	<b>45,591</b>	46,257
Asset retirement obligations		<b>867</b>	838
Derivative instruments	6	<b>14</b>	3
Regulatory liabilities		<b>328</b>	331
Other liabilities		<b>4,915</b>	5,150
Perpetual debt	6	<b>252</b>	256
		<b>60,000</b>	59,573
<b>EQUITY</b>			
Share capital		<b>4,374</b>	4,374
Retained earnings		<b>21,699</b>	20,058
Accumulated other comprehensive income	9	<b>(2,841)</b>	(3,110)
		<b>23,232</b>	21,322
		<b>83,232</b>	80,895
Contingencies	10		

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

On behalf of the Board of Directors,

**/s/ Geneviève Brouillette**  
Chair of the Audit Committee

**/s/ Jacynthe Côté**  
Chair of the Board

## Consolidated Statements of Changes in Equity

In millions of Canadian dollars  
(unaudited)

Three months ended  
March 31

	Note	Share capital	Retained earnings	Accumulated other comprehensive income	Total equity
Balance as at December 31, 2020		<b>4,374</b>	<b>20,058</b>	<b>(3,110)</b>	<b>21,322</b>
Net income		–	<b>1,641</b>	–	<b>1,641</b>
Other comprehensive income	9	–	–	<b>269</b>	<b>269</b>
<b>Balance as at March 31, 2021</b>		<b>4,374</b>	<b>21,699</b>	<b>(2,841)</b>	<b>23,232</b>
Balance as at December 31, 2019		4,374	19,482	(2,408)	21,448
Net income		–	1,525	–	1,525
Other comprehensive income	9	–	–	193	193
<b>Balance as at March 31, 2020</b>		<b>4,374</b>	<b>21,007</b>	<b>(2,215)</b>	<b>23,166</b>

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

## Consolidated Statements of Cash Flows

In millions of Canadian dollars (unaudited)	Notes	2021	Three months ended March 31 2020
<b>Operating activities</b>			
Net income		<b>1,641</b>	1,525
Adjustments to determine net cash flows from operating activities			
Depreciation and amortization	4	<b>652</b>	647
Amortization of premiums, discounts and issue expenses related to debt securities		<b>1</b>	49
Deficit of net cost recognized with respect to amounts paid for employee future benefits		<b>(82)</b>	(36)
Interest and other	7	<b>43</b>	(186)
Regulatory assets and liabilities		<b>(14)</b>	(9)
Change in non-cash working capital items	7	<b>(1,394)</b>	(1,405)
		<b>847</b>	585
<b>Investing activities</b>			
Additions to property, plant and equipment		<b>(675)</b>	(702)
Additions to intangible assets		<b>(42)</b>	(36)
Acquisition of an investment		<b>–</b>	(661)
Net change in short-term investments and sinking fund		<b>(399)</b>	(231)
Other		<b>2</b>	–
		<b>(1,114)</b>	(1,630)
<b>Financing activities</b>			
Issuance of long-term debt		<b>1,066</b>	1,278
Repayment of long-term debt		<b>(1,079)</b>	(190)
Cash receipts arising from credit risk management		<b>549</b>	2,252
Cash payments arising from credit risk management		<b>(908)</b>	(1,255)
Net change in borrowings		<b>3,418</b>	3,209
Dividend paid		<b>(1,727)</b>	(2,192)
Other		<b>(38)</b>	26
		<b>1,281</b>	3,128
<b>Foreign currency effect on cash and cash equivalents</b>		<b>(6)</b>	54
<b>Net change in cash and cash equivalents</b>		<b>1,008</b>	2,137
<b>Cash and cash equivalents, beginning of period</b>		<b>1,467</b>	1,115
<b>Cash and cash equivalents, end of period</b>		<b>2,475</b>	3,252
Supplementary cash flow information	7		

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month periods ended March 31, 2021 and 2020

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

## Note 1 Basis of Presentation

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

These quarterly consolidated financial statements, including these notes, do not contain all the required information regarding annual consolidated financial statements and should therefore be read in conjunction with the consolidated financial statements and accompanying notes in Hydro-Québec's *Annual Report 2020*.

The accounting policies used to prepare the quarterly consolidated financial statements are consistent with those presented in Hydro-Québec's *Annual Report 2020*.

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

Hydro-Québec's quarterly results are not necessarily indicative of results for the year on account of seasonal temperature fluctuations. Because of higher electricity demand during

winter months, revenue from electricity sales in Québec is higher during the first and fourth quarters.

Management has reviewed events occurring until May 14, 2021, the date of approval of these quarterly consolidated financial statements by the Board of Directors, to determine whether circumstances warranted consideration of events subsequent to the balance sheet date.

### COVID-19 pandemic

The global COVID-19 pandemic has continued to evolve and to affect Hydro-Québec's activities due to the extension of the public health emergency declared by the Québec government in 2020.

However, it did not have a significant impact on the quarterly consolidated financial statements. At the present time, it is impossible to estimate precisely the duration and scope of the health crisis and the extent of the resulting economic downturn, or the repercussions on Hydro-Québec's operations and results over the short and long term.

## Note 2 Change to Accounting Policy

### Standard issued but not yet adopted

#### *Financial instruments*

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*.

This ASU provides new guidance on the impairment of financial assets that are not accounted for at fair value in results. It will be applied on a modified retrospective basis to the financial statements for interim and annual periods beginning on or after January 1, 2023. Hydro-Québec is currently examining the impact of this ASU on its consolidated financial statements.

## Note 3 Regulation

### Distribution

Under the *Act to simplify the process for establishing electricity distribution rates* (S.Q. 2019, c. 27), electricity distribution rates were indexed by 1.3% on April 1, 2021, with the exception of Rate L, which was indexed by 0.8%.

### Transmission

In decision D-2020-179 of December 21, 2020, the Régie de l'énergie of Québec (the "Régie") authorized the extension of Hydro-Québec's 2020 power transmission rates on a provisional basis commencing on January 1, 2021. These rates were set by decision D-2020-063 and came into effect on January 1, 2020. The authorized return on the rate base was set at 6.78%, assuming a capitalization with 30% equity. The Transmission Provider's rate applications for 2021 and 2022 will be reviewed simultaneously by the Régie.

## Note 4 Depreciation and Amortization

	Three months ended March 31	
	2021	2020
Property, plant and equipment	<b>594</b>	589
Intangible assets	<b>25</b>	25
Regulatory assets and liabilities	<b>21</b>	27
Retirement of capital assets	<b>12</b>	6
	<b>652</b>	647

## Note 5 Financial Expenses

	Three months ended March 31	
	2021	2020
Interest on debt securities	<b>597</b>	686
Net foreign exchange loss (gain)	<b>1</b>	(2)
Guarantee fees related to debt securities <sup>a</sup>	<b>57</b>	54
	<b>655</b>	738
Less		
Capitalized financial expenses	<b>39</b>	45
Net investment income	<b>7</b>	22
	<b>46</b>	67
	<b>609</b>	671

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

## Note 6 Financial Instruments

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

### Market risk

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

### *Management of long-term risk*

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

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

#### **Management of risk associated with debt**

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

## Note 6 Financial Instruments (continued)

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

	As at March 31, 2021 <sup>a</sup>	As at December 31, 2020 <sup>a</sup>
<b>Forward contracts</b>		
Canadian dollars	(2,000)	(2,000)
U.S. dollars <sup>b</sup>	(542)	(542)
<b>Swaps</b>		
Canadian dollars	(5,779)	(6,890)
U.S. dollars	4,820	5,720

a) Figures in parentheses represent amounts to be paid.

b) As at March 31, 2021, and December 31, 2020, sales and purchase contracts totaled US\$743 million and US\$201 million, respectively.

### Management of short-term risk

Currency risk – Hydro-Québec uses forward contracts to manage its foreign currency risk exposure over the short term. When designated as hedging items, these derivative instruments are recognized as cash flow hedges. The impact of currency risk hedging transactions on results is recognized in the line items affected by the hedged item, namely Revenue, Electricity purchases or Financial expenses. In this context, Hydro-Québec traded foreign currency sales and purchase contracts for which the notional amounts of open positions as at March 31, 2021, were US\$833 million and US\$2,706 million, respectively (US\$1,133 million for sales contracts and US\$8 million for purchase contracts as at December 31, 2020).

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

is recognized in the line item affected by the hedged item, namely Financial expenses.

Price risk – Hydro-Québec uses mainly commodity futures and swaps to manage risk resulting from fluctuations in energy and aluminum prices. When designated as hedging items, these derivative instruments are recognized as cash flow hedges. The impact on results of transactions to hedge the risk related to energy and aluminum prices is recognized in the line items affected by the hedged item, namely Revenue or Electricity purchases. In this context, Hydro-Québec traded electricity futures and swaps for which open positions as at March 31, 2021, totaled 22.8 TWh (22.4 TWh as at December 31, 2020), natural gas futures for which open positions as at March 31, 2021, and December 31, 2020, totaled 1.5 million MMBtu, petroleum product swaps for which open positions as at March 31, 2021, totaled 62 million litres (62.7 million litres as at December 31, 2020), as well as aluminum swaps for which open positions as at March 31, 2021, totaled 337,850 tonnes (262,750 tonnes as at December 31, 2020).

## Note 6 Financial Instruments (continued)

### Fair value

#### Fair value of derivative instruments

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

		As at March 31, 2021			
		Derivatives designated as fair value hedges	Derivatives designated as cash flow hedges	Derivatives not designated as hedges <sup>a</sup>	Gross amounts of derivatives recognized <sup>b</sup>
<b>Assets</b>					
Contracts – Currency risk		–	921	6	<b>927</b>
Contracts – Interest rate risk		383	208	–	<b>591</b>
Contracts – Price risk		–	62	66	<b>128</b>
		383	1,191	72	<b>1,646</b>
<b>Liabilities</b>					
Contracts – Currency risk		–	(168)	(139)	<b>(307)</b>
Contracts – Interest rate risk		–	(18)	–	<b>(18)</b>
Contracts – Price risk		–	(104)	(15)	<b>(119)</b>
		–	(290)	(154)	<b>(444)</b>
<b>Total</b>		<b>383</b>	<b>901</b>	<b>(82)</b>	<b>1,202</b>

		As at December 31, 2020			
		Derivatives designated as fair value hedges	Derivatives designated as cash flow hedges	Derivatives not designated as hedges <sup>a</sup>	Gross amounts of derivatives recognized <sup>b</sup>
<b>Assets</b>					
Contracts – Currency risk		–	1,157	6	1,163
Contracts – Interest rate risk		569	3	–	572
Contracts – Price risk		–	105	55	160
		569	1,265	61	1,895
<b>Liabilities</b>					
Contracts – Currency risk		–	(150)	(214)	(364)
Contracts – Interest rate risk		–	(43)	–	(43)
Contracts – Price risk		–	(46)	(14)	(60)
		–	(239)	(228)	(467)
<b>Total</b>		<b>569</b>	<b>1,026</b>	<b>(167)</b>	<b>1,428</b>

a) These derivative instruments are mainly traded as part of Hydro-Québec's risk management. As at March 31, 2021, \$(104) million was in consideration of amounts received or disbursed [\$(173) million as at December 31, 2020] with respect to agreements to limit the market value of the main portfolios of derivative instruments. These agreements arise from frameworks applied by Hydro-Québec to reduce its credit risk exposure and limit risk concentration.

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

## Note 6 Financial Instruments (continued)

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

	As at March 31, 2021				As at December 31, 2020			
	Gross amounts of derivatives recognized	Gross amounts offset <sup>a</sup>	Cash (received) paid as collateral <sup>b</sup>	Net amounts presented on the balance sheet	Gross amounts of derivatives recognized	Gross amounts offset <sup>a</sup>	Cash (received) paid as collateral <sup>b</sup>	Net amounts presented on the balance sheet
<b>Assets</b>								
Current	540	(150)	(266)	124	429	(132)	(150)	147
Long-term	1,106	(242)	(812)	52	1,466	(300)	(1,155)	11
	1,646	(392)	(1,078)	176	1,895	(432)	(1,305)	158
<b>Liabilities</b>								
Current	(282)	244	27	(11)	(314)	282	18	(14)
Long-term	(162)	148	—	(14)	(153)	150	—	(3)
	(444)	392	27	(25)	(467)	432	18	(17)
<b>Total</b>	<b>1,202</b>	—	(1,051)	<b>151</b>	<b>1,428</b>	—	(1,287)	<b>141</b>

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

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

Moreover, although certain derivatives cannot be offset for lack of enforceable master netting arrangements, margin calls may result in amounts received from or paid to clearing agents, based on the fair value of the instruments concerned.

As at March 31, 2021, \$63 million payable in consideration of net cash receipts was included in Accounts payable and accrued liabilities (\$137 million as at December 31, 2020).

## Note 6 Financial Instruments (continued)

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

	Three months ended March 31, 2021			
	Losses (gains) on derivatives designated as fair value hedges	Losses (gains) on derivatives designated as cash flow hedges	Losses (gains) on derivatives not designated as hedges	
	Recognized in results	Recognized in Other comprehensive income	Reclassified from Other comprehensive income to results	Recognized in results
Contracts – Currency risk	–	89	38 <sup>a</sup>	32
Contracts – Interest rate risk	166	(386)	3 <sup>b</sup>	–
Contracts – Price risk	–	141	44 <sup>c</sup>	(7)
	<b>166<sup>b, d</sup></b>	<b>(156)</b>	<b>85<sup>d</sup></b>	<b>25<sup>d, e</sup></b>
Impact of hedged items on results	<b>(162)</b>		<b>(85)</b>	<b>(33)</b>

	Three months ended March 31, 2020			
	Losses (gains) on derivatives designated as fair value hedges	Losses (gains) on derivatives designated as cash flow hedges	Losses (gains) on derivatives not designated as hedges	
	Recognized in results	Recognized in Other comprehensive income	Reclassified from Other comprehensive income to results	Recognized in results
Contracts – Currency risk	–	(862)	(650) <sup>a</sup>	(209)
Contracts – Interest rate risk	(210)	219	2 <sup>b</sup>	14
Contracts – Price risk	–	(317)	(154) <sup>c</sup>	(34)
	<b>(210)<sup>b, d</sup></b>	<b>(960)</b>	<b>(802)<sup>d</sup></b>	<b>(229)<sup>d, e</sup></b>
Impact of hedged items on results	<b>211</b>		<b>804</b>	<b>216</b>

- a) In 2021, \$(38) million was recognized in Revenue (\$2 million in 2020), and \$76 million in Financial expenses [\$(652) million in 2020].
- b) These amounts were recognized in Financial expenses.
- c) In 2021, \$41 million was recognized in Revenue [\$(154) million in 2020], and \$3 million in Electricity purchases (nil in 2020).
- d) In 2021, the items Revenue, Electricity purchases and Financial expenses totaled \$4,447 million, \$631 million and \$609 million, respectively (\$4,371 million, \$594 million and \$671 million in 2020).
- e) These instruments are essentially related to integrated risk management transactions. Their impact on results is recognized in the line items affected by the managed risk. Therefore, in 2021, \$(1) million was recognized in Revenue [\$(37) million in 2020], \$(6) million in Electricity purchases (\$8 million in 2020), and \$32 million in Financial expenses [\$(200) million in 2020].

## Note 6 Financial Instruments (continued)

For the three-month period ended March 31, 2021, Hydro-Québec did not reclassify any amount from Accumulated other comprehensive income to results after having discontinued cash flow hedges (net loss of \$2 million for the three-month period ended March 31, 2020).

As at March 31, 2021, Hydro-Québec estimated the net amount of gains presented in Accumulated other

comprehensive income that would be reclassified to results in the next 12 months to be \$85 million (\$153 million as at March 31, 2020).

As at March 31, 2021, the maximum period during which Hydro-Québec hedged its exposure to the variability of cash flows related to anticipated transactions was nine years (three years as at March 31, 2020).

### Fair value of other financial instruments

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

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

	As at March 31, 2021		As at December 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Sinking fund	600	634	600	657
<b>Liabilities</b>				
Long-term debt <sup>a</sup>	(47,637) <sup>b</sup>	(61,579)	(48,157) <sup>b</sup>	(70,432)
Perpetual debt	(252)	(287)	(256)	(293)

a) Including the current portion.

b) Including an amount of \$1,996 million as at March 31, 2021 (\$1,997 million as at December 31, 2020) for debts subject to a fair value hedge, which resulted in an adjustment of \$368 million (\$532 million as at December 31, 2020) in connection with the hedged risk for existing hedging relationships and of \$(76) million [\$(78) million as at December 31, 2020] for discontinued relationships.

### Accounts receivable and other receivables

As at March 31, 2021, accounts receivable and other receivables included \$2,441 million (\$1,944 million as at December 31, 2020) from contracts with customers, of which unbilled electricity deliveries totaled \$1,176 million (\$1,244 million as at December 31, 2020).

## Note 7 Supplementary Cash Flow Information

	Three months ended March 31	
	2021	2020
<b>Change in non-cash working capital items</b>		
Accounts receivable and other receivables	(900)	(493)
Materials and supplies	(17)	1
Accounts payable and accrued liabilities	(14)	(483)
Accrued interest	(463)	(430)
	<b>(1,394)</b>	<b>(1,405)</b>
<b>Activities not affecting cash</b>		
Increase in property, plant and equipment and intangible assets	11	11
<b>Interest paid<sup>a</sup></b>	<b>958</b>	<b>1,099</b>

a) Including interest paid upon redemption of zero-coupon bonds, which totaled \$4 million for the three-month period ended March 31, 2021 (\$149 million for the three-month period ended March 31, 2020). This interest is presented in the line item Interest and other under Operating activities in the Consolidated Statements of Cash Flows.

## Note 8 Employee Future Benefits

	Three months ended March 31					
	Pension Plan		Other plans		Total	
	2021	2020	2021	2020	2021	2020
Current service cost	176	153	14	13	190	166
Other components of employee future benefit cost						
Interest on obligations	170	212	11	13	181	225
Expected return on plan assets	(463)	(429)	(1)	(1)	(464)	(430)
Amortization of net actuarial loss	86	72	10	8	96	80
Amortization of past service costs (credits)	2	2	(1)	(1)	1	1
	(205)	(143)	19	19	(186)	(124)
<b>Net (credit) cost recognized</b>	<b>(29)</b>	<b>10</b>	<b>33</b>	<b>32</b>	<b>4</b>	<b>42</b>

## Note 9 Accumulated Other Comprehensive Income

	Three months ended March 31, 2021			
	Cash flow hedges	Employee future benefits	Other	Accumulated other comprehensive income
Balance as at December 31, 2020	(162)	(2,940)	(8)	(3,110)
Other comprehensive income before reclassifications	156	–	(9)	147
Amounts reclassified outside of Accumulated other comprehensive income	85	37	–	122
Other comprehensive income	241	37 <sup>a</sup>	(9)	269
<b>Balance as at March 31, 2021</b>	<b>79</b>	<b>(2,903)</b>	<b>(17)</b>	<b>(2,841)</b>

	Three months ended March 31, 2020			
	Cash flow hedges	Employee future benefits	Other	Accumulated other comprehensive income
Balance as at December 31, 2019	67	(2,476)	1	(2,408)
Other comprehensive income before reclassifications	960	–	4	964
Amounts reclassified outside of Accumulated other comprehensive income	(802)	31	–	(771)
Other comprehensive income	158	31 <sup>a</sup>	4	193
<b>Balance as at March 31, 2020</b>	<b>225</b>	<b>(2,445)</b>	<b>5</b>	<b>(2,215)</b>

a) Other comprehensive income includes the change in the employee future benefit regulatory asset, which totaled \$(60) million as at March 31, 2021 [\$(50) million as at March 31, 2020].

## Note 10 Contingencies

### Guarantees

In accordance with the terms and conditions of certain debt securities issued outside Canada, Hydro-Québec has undertaken to increase the amount of interest paid to non-residents in the event of changes to Canadian tax legislation governing the taxation of non-residents' income.

Hydro-Québec cannot estimate the maximum amount it might have to pay under such circumstances. Should an amount become payable, Hydro-Québec has the option of redeeming most of the securities in question. As at March 31, 2021, the amortized cost of the long-term debts concerned was \$2,831 million (\$2,843 million as at December 31, 2020).

### Litigation

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

Among other ongoing actions, some Indigenous communities have instituted proceedings before the Québec courts against

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

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

## Note 11 Segmented Information

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

	Three months ended March 31, 2021					
	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Total
Revenue						
External customers	555	23	3,860	3	6	4,447 <sup>a</sup>
Intersegment customers	1,640	879	21	449	(2,989) <sup>b</sup>	–
Net income (loss)	1,016	183	487	2	(47)	1,641
Total assets as at March 31, 2021	33,661	24,318	14,707	50	10,496	83,232

	Three months ended March 31, 2020					
	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Total
Revenue						
External customers	494	49	3,855	1	(28)	4,371 <sup>a</sup>
Intersegment customers	1,606	866	20	496	(2,988) <sup>b</sup>	–
Net income (loss)	909	172	521	–	(77)	1,525
Total assets as at March 31, 2020	33,733	23,957	14,285	37	10,437	82,449

a) Including \$41 million from sources other than contracts with customers [\$84 million in 2020].

b) Including intersegment eliminations of \$(3,522) million [\$(3,459) million in 2020].

## Note 12 Comparative Information

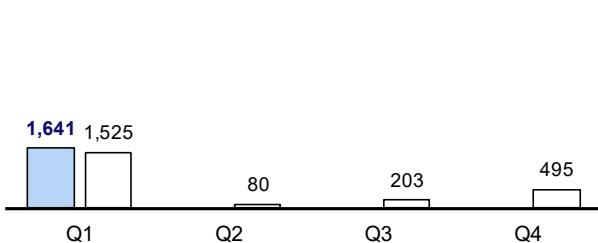
Some corresponding period data of the prior year have been reclassified to conform to the presentation adopted for the current period.

# CONSOLIDATED FINANCIAL HIGHLIGHTS (UNAUDITED)

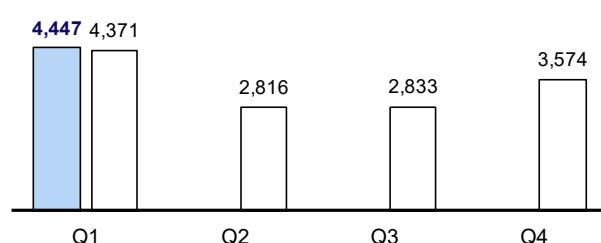
Amounts shown in tables are in millions of Canadian dollars.

Summary of Results	Three months ended March 31		
	2021	2020	Change (%)
Revenue	<b>4,447</b>	4,371	1.7 ↑
Expenditure	<b>2,197</b>	2,175	1.0 ↑
Financial expenses	<b>609</b>	671	9.2 ↓
Net income	<b>1,641</b>	1,525	7.6 ↑

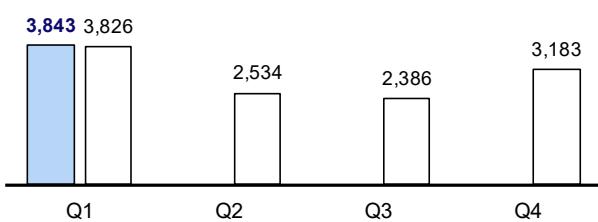
Net Income



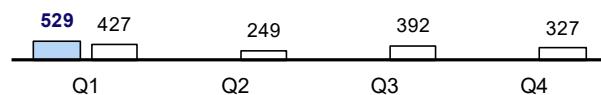
Revenue



Revenue from Electricity Sales in Québec



Revenue from Electricity Sales Outside Québec



■ 2021 □ 2020

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The original text written in French shall prevail.  
*Ce document est également publié en français.*  
 ISSN 2563-9943  
 2021G379A