



SUPPORTING DECARBONIZATION IN QUÉBEC AND BEYOND OUR BORDERS



Sophie Brochu
President and Chief Executive Officer

For the first time in its history, Hydro-Québec posted quarterly net income in excess of \$2 billion. In a context marked by cold temperatures—January having been the coldest on record since 2004—and a sharp rise in prices on energy markets, our net income totaled \$2,062 million, compared to \$1,641 million in the same period last year. This \$421-million increase is mainly due to higher sales volume, both in and outside Québec.

Last March, we launched our [Strategic Plan 2022-2026](#), which underscores the major role we intend to play in the energy transition. If the social, financial and technological challenges of decarbonization are substantial, so too are the opportunities it represents. In either case, we have many solutions at hand to help Québec achieve its collective ambitions.

One such challenge involves meeting the projected growth in electricity demand while limiting the impact on our costs and rates. Our response is to make energy efficiency a priority by offering a range of programs tailored to our different customer segments. Achieving our targeted energy savings of 4 TWh by 2025 and 8.2 TWh by 2029 will let us correspondingly reduce the need for new generating capacity. The 2029 target is equivalent to the annual output of all four generating stations in the Romaine complex, which means that energy efficiency measures will help avoid billions of dollars in investments. By making it easier to adopt energy-wise, sustainable habits, we hope to get the greatest possible number of people—individuals, institutions, companies and communities—on board with the decarbonization of Québec. Bringing down everyone's

carbon footprint will generate lasting benefits for society as a whole.

In the coming years, we will also increase our installed hydropower capacity by 2,000 MW by optimizing the output of our existing generating facilities. In addition, we will develop a 3,000-MW portfolio of wind power projects that can be implemented as needs emerge. In fact, we've just taken a decisive step in this direction: for the first time ever, Hydro-Québec will participate directly in—and become a co-owner of—major wind farm projects. In partnership with Boralex and Énergir, we will build three 400-MW wind farms on the lands of the Seigneurie de Beaupré as soon as energy needs are confirmed. We are committed to working closely with local and Indigenous communities to carry out these projects.

Our decarbonization efforts don't just end with Québec. The New York State Public Service Commission has recently confirmed that our clean electricity will meet 20% of the power needs of America's largest metropolis, something that makes us very proud. Indeed, New York City will be able to cut its greenhouse gas (GHG) emissions by millions of tonnes per year thanks to the project we submitted, which represents one of the biggest decarbonization initiatives to date in North America.

Our clean energy is more valuable than ever. We must therefore use it wisely and commercialize it at its full worth if we are to collectively reap the benefits and leverage its strengths as the energy transition ramps up.

Sophie Brochu

OUR SUSTAINABLE DEVELOPMENT INITIATIVES

Environment

Work toward decarbonizing all of our business activities and markets

Credit: Insertech



Responsible recycling

In March, Insertech and Hydro-Québec signed a three-year agreement to promote sustainable development and social reintegration. Under the agreement, our used computer equipment will be recycled and unemployed young adults will receive training in electronic repairs.

Rather than paying to dispose of our used or surplus computer equipment that no longer meets current standards, we will donate it to Insertech. This organization will give the products new life by repairing and refurbishing them and recycling any parts that cannot be reused in an environmentally responsible way. The ultimate goal is to build devices that can be sold at low cost and create a more responsible supply chain, which is an aspect of sustainable development.

By recycling used computer equipment, Insertech offers a complete and affordable IT solution to meet the technological needs of the community—sale of refurbished computers, repair services, computer courses and technological activities. For this purpose, the organization hires young adults who want to integrate into society and join the job market.

Through this agreement with Insertech, we will contribute to the fight against rapid product obsolescence and the waste of material resources. More than ever, we're committed to encouraging responsible procurement!

Community

Build and operate sustainable, resilient infrastructure while adapting our activities to climate change



Renewable energy in the Basse-Côte-Nord region

Since the early 1970s, the village of La Romaine and the Innu community of Unamen Shipu, which are located next to one another, had been powered by the La Romaine diesel generating station. They were the only communities in the Basse-Côte-Nord region that did not have access to Hydro-Québec's renewable energy.

Well, those days are over! A 34.5-kV transmission line on wooden H-frames, stretching 75 km, was commissioned in March to connect the two communities to the village of Pointe-Parent.

Currently, approximately one third of the customers are supplied by the new line. In summer 2022, we will carry out major work to convert the distribution system in La Romaine and Unamen Shipu so that the line will provide electricity to all customers. The work is expected to be completed by the fall.

The new line will ultimately avoid the consumption of nearly four million litres of diesel every year and the emission of approximately 10,000 tonnes of GHGs—the equivalent of taking 2,500 vehicles off Québec roads.

This project was carried out thanks to the contribution of several Hydro-Québec teams working in the areas of distribution, transmission, communications and community relations, as well as the collaboration of the communities of Unamen Shipu, Kegaska and La Romaine.

The deployment of this new line reflects our desire to convert our off-grid systems to cleaner, less costly energy sources. The approximately 20 thermal generating stations powering these systems represent less than 1% of our output, but generate about 43% of our GHG emissions. Overall, we aim to supply our off-grid systems with 80% clean energy by 2030.

Community

Generate more sustainable value in the community



Improving quality of life

In spring 2016, to meet the strong growth in demand for electricity in the regional county municipality (MRC) of Des Moulins and improve transmission system reliability in the Montréal metropolitan loop, we launched construction of Judith-Jasmin substation in Terrebonne. This substation can transform more than 2,300 MW, enough to power about 800,000 homes. Three 735-kV lines and one 120-kV line are connected to it.

When carrying out projects of this kind, we make every effort to contribute to the development of host communities. That's why, through our Integrated Enhancement Program—which provides financial assistance for the implementation of initiatives selected by the communities to improve their quality of life—we are giving \$2,387,000 to the city of Terrebonne to support two projects, namely the redevelopment of Parc Pierre-Le Gardeur and the creation of a multi-functional trail in the Urbanova district.

By fall 2022, Parc Pierre-Le Gardeur will include a refurbished tennis court, a splash pad, a pump track, a playground, picnic tables, a rest area, a community gathering place and entertaining audiovisual screenings. Shrubs will also be planted.

As for the project in the Urbanova district, the multifunctional trail will be built along the biodiversity corridor to link local points of interest and showcase the natural environment.

Governance

Make sustainability principles integral to our governance, operations and projects



Our ambition: Driving collective success

In March, we launched our *Strategic Plan 2022–2026*, which outlines our priorities and main objectives for the decades to come.

The Plan, which describes our role in Québec's energy transition toward a low-carbon economy, is the result of a broad consultation with internal and external stakeholders, including representatives from the economic, energy, municipal, academic and environmental spheres throughout Québec, as well as members of various Indigenous nations.

This reflection on Québec's collective energy future brought to light an enormous challenge: over 100 TWh of additional clean electricity will be required to attain carbon neutrality in the province by 2050. This goal is all the more daunting given that it must be achieved at the lowest possible cost for society.

Among other things, we will have to deal with tighter energy and capacity balances and higher supply costs. In addition, we will need to transition our current grid to an energy system allowing two-way energy exchanges with our customers, while also enabling them to manage their consumption more efficiently and to interact with each other. Moreover, we will have to reinforce the grid and meet sustained growth in demand, in a context where upgrading or replacing our assets will require significant investments.

Following this strategic reflection, we adopted a global vision of our operations and assets. This led us to implement a new organizational structure that maximizes collaboration and agility, so that we may carry out the energy transition in keeping with the collective aspirations of all Quebecers.

First Quarter 2022

KEY FIGURES

\$2,062M

26% 

Net Income

\$856M

19% 

Investments

58.7 TWh

10% 

\$4,389M

14% 

Electricity Sales
in Québec

8.7 TWh

17% 

\$646M

22% 

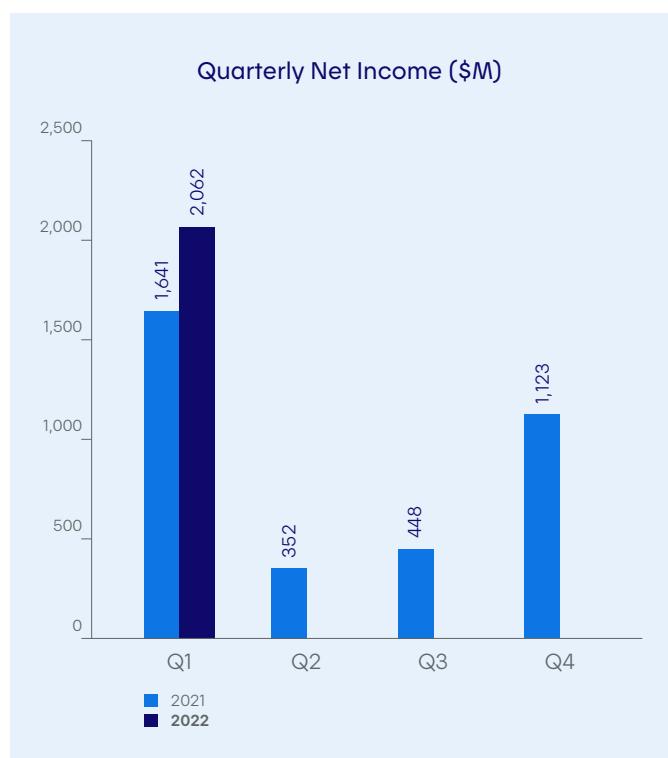
Electricity Sales
Outside Québec

MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly results at a glance

For the first three months of 2022, Hydro-Québec posted quarterly net income in excess of \$2 billion for the first time in its history. In a context marked by cold temperatures and a sharp rise in prices on energy markets, **net income** totaled \$2,062 million, compared to \$1,641 million in the same period last year. This \$421-million increase is mainly due to higher sales revenue, both in and outside Québec, which was partially offset by an increase in short-term electricity purchases on the markets to meet *ad hoc* requirements during the cold spells.

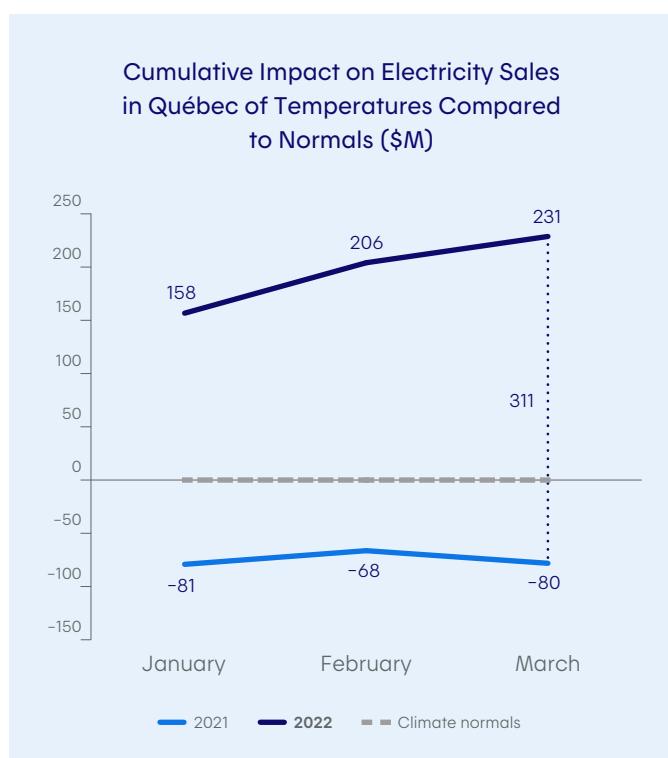
Driven by sales in Québec, the total sales volume reached a historic peak of 67.4 TWh for the first quarter of 2022. Hydro-Québec was thus able to go on contributing to the decarbonization of northeastern North America and to Québec's collective wealth by meeting the increased needs of its domestic market, while exporting significant quantities of electricity to neighboring markets.



Consolidated results

Revenue totaled \$5,151 million, compared to \$4,447 million in the first quarter of 2021. This \$704-million increase is mainly attributable to a \$661-million rise in electricity sales.

In Québec, sales set a new record of 58.7 TWh, an increase of 5.3 TWh compared to the same period in 2021, bringing in \$546 million more than the \$3,843 million recorded a year ago due to several factors. First, temperatures led to an increase of 3.6 TWh or \$311 million. Their impact was mainly felt in January, when they were 7°C colder, on average, than in 2021. Second, baseload demand rose by 1.7 TWh or \$108 million as a result of higher energy consumption in all segments, especially among residential customers and in the commercial, institutional and small industrial segment. An increase in aluminum prices, which have an impact on revenue from special contracts with certain large industrial customers, also drove up electricity sales in Québec.



On markets outside Québec, revenue from electricity sales reached \$646 million, or \$115 million more than a year earlier. This increase is mainly due to favorable market conditions during the quarter. Energy markets saw a sharp rise in prices, although this factor was partially offset by the impact of the company's risk management strategy. Export volume decreased by 1.8 TWh compared to the first quarter of 2021 because of the greater needs of the Québec market resulting from the cold temperatures. It stood at 8.7 TWh, which is close to the average of the last 10 years for a first quarter.

Total expenditure amounted to \$2,514 million, an increase of \$317 million compared to \$2,197 million in the same period last year. The difference is mainly due to a \$269-million increase in electricity purchases, primarily attributable to a rise in short-term supplies purchased on the markets to meet Québec's *ad hoc* requirements during cold spells. To a lesser extent, it also results from a higher volume of wind power supplies on account of the greater output of facilities under contract.

Lastly, **financial expenses** totaled \$575 million, which is comparable to the \$609 million recognized a year earlier.

New organizational structure

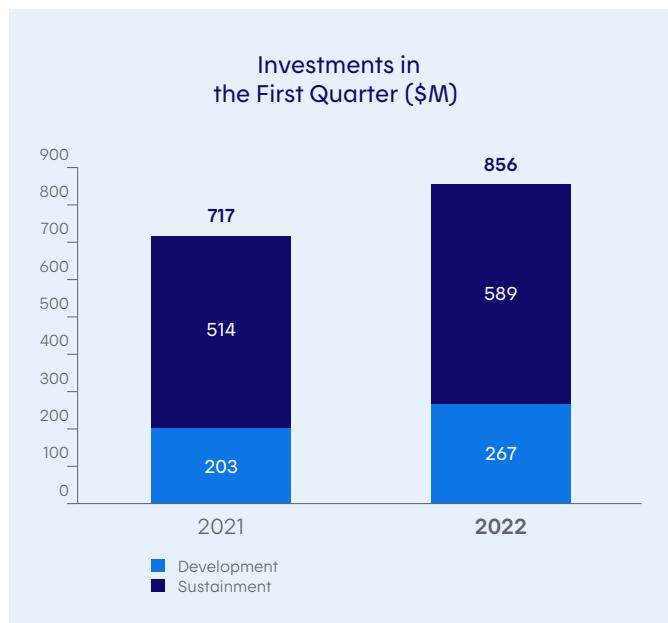
In the quarter ended March 31, 2022, Hydro-Québec changed its organizational structure in order to use a cross-functional approach to manage its activities. Since the new structure came into effect on February 28, its results are no longer analyzed based on the former operating segments, but rather on a consolidated basis. Consequently, Hydro-Québec now comprises a single reportable business segment.

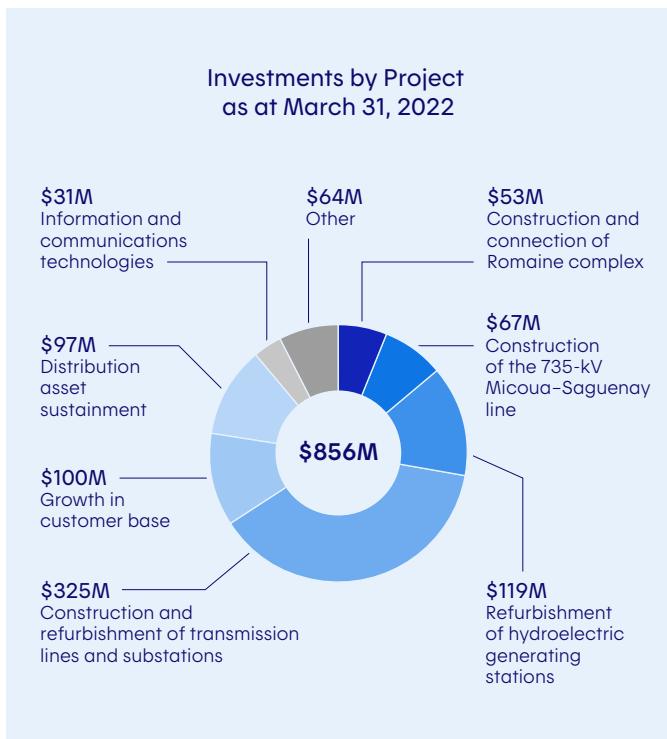
Investments

During the first three months of 2022, Hydro-Québec invested \$856 million in property, plant and equipment and intangible assets, compared to \$717 million in the same period in 2021. This amount was allocated to large-scale projects aimed at maintaining the long-term operability of its assets, as well as to major development projects.

The company allocated \$589 million to asset sustainment. In particular, it continued to invest in its generating facilities to ensure their smooth operation over the long term and maximize their output. For instance, refurbishment projects are underway at Robert-Bourassa, Bersimis-2, Rapide-Blanc, Carillon and Beauharnois. At the same time, the company allotted significant funds to the construction of transmission lines designed to reinforce its system and enhance its operating flexibility, including the 262-km 735-kV line that will connect Micoua substation, in the Côte-Nord region, to Saguenay substation, in the Saguenay-Lac-Saint-Jean region. It also continued to invest in upgrading and modernizing its transmission facilities. Some examples of this include the projects to replace the grid control systems, special protection systems and substation protections and controls, as well as work related to the architecture development plan for the 315-kV system on the island of Montréal. Lastly, it carried out work to optimize the operation of the distribution system and to maintain and improve the quality of its distribution assets, such as replacing the grid control system.

Investments in development projects totaled \$267 million. Work progressed on the Romaine-4 jobsite in the Minganie region, in preparation for commissioning the generating station before year-end. Funds were also allocated to various distribution projects to handle the growing customer base in Québec.





Financing

During the first quarter, Hydro-Québec made two fixed-rate issues on the Canadian capital market: \$0.6 billion in medium-term notes maturing in 2028, at a cost of 2.05%, and \$0.4 billion in bonds maturing in 2060, at a cost of 3.04%.

The proceeds are being used to finance 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 | 2022 | 2021 |
|--|-------|--------------|-------|
| Revenue | 4 | 5,151 | 4,447 |
| Expenditure | | | |
| Operations | | 856 | 768 |
| Other components of employee future benefit cost | 9 | (255) | (186) |
| Electricity purchases | | 900 | 631 |
| Depreciation and amortization | 5 | 666 | 652 |
| Taxes | | 347 | 332 |
| | | 2,514 | 2,197 |
| Income before financial expenses | | 2,637 | 2,250 |
| Financial expenses | 6 | 575 | 609 |
| Net income | | 2,062 | 1,641 |

Consolidated Statements of Comprehensive Income

| In millions of Canadian dollars (unaudited) | Notes | 2022 | 2021 |
|--|-------|--------------|-------|
| Net income | | 2,062 | 1,641 |
| Other comprehensive income | 10 | | |
| Net change in items designated as cash flow hedges | 7 | (247) | 241 |
| Net change in employee future benefits | | 11 | 37 |
| Other | | (5) | (9) |
| | | (241) | 269 |
| Comprehensive income | | 1,821 | 1,910 |

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, 2022 | As at December 31, 2021 |
|--|-------|-------------------------|----------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 1,365 | 1,297 |
| Short-term investments | | 565 | 381 |
| Accounts receivable and other receivables | | 4,405 | 3,069 |
| Derivative instruments | 7 | 31 | 52 |
| Regulatory asset | | 127 | 122 |
| Materials and supplies | | 411 | 389 |
| | | 6,904 | 5,310 |
| Property, plant and equipment | | 68,730 | 68,530 |
| Intangible assets | | 1,194 | 1,165 |
| Investments | | 2,007 | 1,967 |
| Derivative instruments | 7 | 28 | 3 |
| Regulatory assets | | 2,991 | 3,020 |
| Other assets | | 2,904 | 2,703 |
| | | 84,758 | 82,698 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Borrowings | | 3,676 | — |
| Accounts payable and accrued liabilities | | 2,192 | 2,163 |
| Dividend payable | | — | 2,673 |
| Accrued interest | | 405 | 877 |
| Asset retirement obligations | | 77 | 75 |
| Derivative instruments | 7 | 479 | 337 |
| Current portion of long-term debt | 7 | 1,862 | 3,247 |
| | | 8,691 | 9,372 |
| Long-term debt | 7 | 46,964 | 46,197 |
| Asset retirement obligations | | 870 | 867 |
| Derivative instruments | 7 | 299 | 126 |
| Regulatory liabilities | | 316 | 319 |
| Other liabilities | | 2,286 | 2,303 |
| Perpetual debt | 7 | 251 | 254 |
| | | 59,677 | 59,438 |
| EQUITY | | | |
| Share capital | | 4,374 | 4,374 |
| Retained earnings | | 23,011 | 20,949 |
| Accumulated other comprehensive income | 10 | (2,304) | (2,063) |
| | | 25,081 | 23,260 |
| | | 84,758 | 82,698 |
| Contingencies | 11 | | |

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, 2021 | | 4,374 | 20,949 | (2,063) | 23,260 |
| Net income | | — | 2,062 | — | 2,062 |
| Other comprehensive income | 10 | — | — | (241) | (241) |
| Balance as at March 31, 2022 | | 4,374 | 23,011 | (2,304) | 25,081 |
| Balance as at December 31, 2020 | | 4,374 | 20,058 | (3,110) | 21,322 |
| Net income | | — | 1,641 | — | 1,641 |
| Other comprehensive income | 10 | — | — | 269 | 269 |
| Balance as at March 31, 2021 | | 4,374 | 21,699 | (2,841) | 23,232 |

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

Consolidated Statements of Cash Flows

| In millions of Canadian dollars (unaudited) | Notes | 2022 | Three months ended March 31 2021 |
|---|-------|----------------|--|
| Operating activities | | | |
| Net income | | 2,062 | 1,641 |
| Adjustments to determine net cash flows from operating activities | | | |
| Depreciation and amortization | 5 | 666 | 652 |
| Amortization of premiums, discounts and issue expenses related to debt securities | | 11 | 1 |
| Deficit of net cost recognized with respect to amounts paid for employee future benefits | | (172) | (82) |
| Other | | 76 | 43 |
| Regulatory assets and liabilities | | (44) | (14) |
| Change in non-cash working capital items | 8 | (1,825) | (1,394) |
| | | 774 | 847 |
| Investing activities | | | |
| Additions to property, plant and equipment | | (807) | (675) |
| Additions to intangible assets | | (49) | (42) |
| Net change in short-term investments and sinking fund | | (179) | (399) |
| Other | | (26) | 2 |
| | | (1,061) | (1,114) |
| Financing activities | | | |
| Issuance of long-term debt | | 1,065 | 1,066 |
| Repayment of long-term debt | | (1,317) | (1,079) |
| Cash receipts arising from credit risk management | | 1,200 | 549 |
| Cash payments arising from credit risk management | | (1,634) | (908) |
| Net change in borrowings | | 3,716 | 3,418 |
| Dividend paid | | (2,673) | (1,727) |
| Other | | (3) | (38) |
| | | 354 | 1,281 |
| Foreign currency effect on cash and cash equivalents | | | |
| | | 1 | (6) |
| Net change in cash and cash equivalents | | | |
| | | 68 | 1,008 |
| Cash and cash equivalents, beginning of period | | | |
| | | 1,297 | 1,467 |
| Cash and cash equivalents, end of period | | | |
| | | 1,365 | 2,475 |
| Supplementary cash flow information | 8 | | |

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, 2022 and 2021

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.

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 2021*.

The accounting policies used to prepare the quarterly consolidated financial statements are consistent with those presented in Hydro-Québec's *Annual Report 2021*, except as regards segmented information. In the quarter ended March 31, 2022, Hydro-Québec changed its organizational structure in order to use a cross-functional approach to manage its activities. Since the new structure came into effect

on February 28, its results are no longer analyzed based on the former operating segments, but rather on a consolidated basis. Consequently, Hydro-Québec now comprises a single reportable business segment.

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 13, 2022, 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.

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 quarterly and annual periods beginning on or after January 1, 2023. Hydro-Québec is currently examining the impact of this ASU, but it does not expect its adoption to have a significant impact on its consolidated financial statements.

Note 3 Regulation

Transmission activities

In decision D-2022-053 of April 22, 2022, the Régie de l'énergie de Québec rendered a partial decision on Hydro-Québec's power transmission rates for 2021 and 2022. The authorized return on the rate base was set at 8.20% for 2021 and 2022, assuming a capitalization with 30% equity. The final decision on these rates is expected soon.

Distribution activities

Under *An Act to simplify the process for establishing electricity distribution rates* (S.Q. 2019, c. 27), electricity distribution rates were indexed at a rate of 2.6% on April 1, 2022, with the exception of Rate L, which was indexed at a rate of 1.7%.

Note 4 Revenue

| | Three months ended March 31 | |
|---|--------------------------------|--------------------|
| | 2022 | 2021 |
| Revenue from ordinary activities | | |
| Electricity sales | | |
| In Québec | 4,389 | 3,843 |
| Outside Québec | 646 | 531 |
| | 5,035 | 4,374 |
| Other revenue from ordinary activities | 51 | 34 |
| | 5,086^a | 4,408 ^a |
| Revenue from other activities | 65 | 39 |
| | 5,151 | 4,447 |

a) This revenue includes gains and losses on derivative instruments whose amounts are presented in Note 7, Financial instruments.

Note 5 Depreciation and Amortization

| | Three months ended March 31 | |
|-----------------------------------|--------------------------------|------|
| | 2022 | 2021 |
| Property, plant and equipment | 603 | 594 |
| Intangible assets | 23 | 25 |
| Regulatory assets and liabilities | 18 | 21 |
| Retirement of capital assets | 22 | 12 |
| | 666 | 652 |

Note 6 Financial Expenses

| | Three months ended March 31 | |
|--|--------------------------------|------|
| | 2022 | 2021 |
| Interest on debt securities | 575 | 597 |
| Net foreign exchange loss | 1 | 1 |
| Guarantee fees related to debt securities ^a | 59 | 57 |
| | 635 | 655 |
| Less | | |
| Capitalized financial expenses | 52 | 39 |
| Net investment income | 8 | 7 |
| | 60 | 46 |
| | 575 | 609 |

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

Note 7 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.

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, 2022 ^a | As at December 31, 2021 ^a |
|---------------------------|--------------------------------------|---|
| Forward contracts | | |
| Canadian dollars | (2,200) | (2,300) |
| U.S. dollars ^b | (541) | (542) |
| Swaps | | |
| Canadian dollars | (4,444) | (5,716) |
| U.S. dollars | 3,720 | 4,770 |

a) Figures in parentheses represent amounts to be paid.

b) As at March 31, 2022, sales and purchase contracts totaled US\$743 million and US\$202 million, respectively (US\$743 million and US\$201 million as at December 31, 2021).

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, 2022, were US\$3,836 million and US\$2,794 million, respectively (US\$3,376 million for sales contracts and nil for purchase contracts as at December 31, 2021).

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.

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.

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, 2022, totaled 20.9 TWh (21.1 TWh as at December 31, 2021), natural gas futures for which open positions as at March 31, 2022, and December 31, 2021, totaled 0.2 million MMBtu, petroleum product swaps for which open positions as at March 31, 2022, totaled 36.9 million litres (38.3 million litres as at December 31, 2021), as well as aluminum swaps for which open positions as at March 31, 2022, totaled 526,625 tonnes (490,050 tonnes as at December 31, 2021).

Note 7 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, 2022 | | | |
|--------------------------------|---|--|---|--|
| | Derivatives designated as fair value hedges | Derivatives designated as cash flow hedges | Derivatives not designated as hedges ^a | Gross amounts of derivatives recognized ^b |
| Assets | | | | |
| Contracts – Currency risk | – | 672 | 5 | 677 |
| Contracts – Interest rate risk | 217 | 163 | – | 380 |
| Contracts – Price risk | – | 16 | 58 | 74 |
| | 217 | 851 | 63 | 1,131 |
| Liabilities | | | | |
| Contracts – Currency risk | – | (140) | (120) | (260) |
| Contracts – Interest rate risk | – | (24) | – | (24) |
| Contracts – Price risk | – | (1,103) | (148) | (1,251) |
| | – | (1,267) | (268) | (1,535) |
| Total | 217 | (416) | (205) | (404) |

| | As at December 31, 2021 | | | |
|--------------------------------|---|--|---|--|
| | Derivatives designated as fair value hedges | Derivatives designated as cash flow hedges | Derivatives not designated as hedges ^a | Gross amounts of derivatives recognized ^b |
| Assets | | | | |
| Contracts – Currency risk | – | 833 | 6 | 839 |
| Contracts – Interest rate risk | 393 | 4 | – | 397 |
| Contracts – Price risk | – | 42 | 33 | 75 |
| | 393 | 879 | 39 | 1,311 |
| Liabilities | | | | |
| Contracts – Currency risk | – | (162) | (101) | (263) |
| Contracts – Interest rate risk | – | (152) | – | (152) |
| Contracts – Price risk | – | (579) | (34) | (613) |
| | – | (893) | (135) | (1,028) |
| Total | 393 | (14) | (96) | 283 |

a) These derivative instruments are mainly traded as part of Hydro-Québec's risk management.

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 7 Financial Instruments (continued)

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

| | As at March 31, 2022 | | | | As at December 31, 2021 | | | |
|--------------------|---|-----------------------------------|---|--|---|-----------------------------------|---|--|
| | Gross amounts of derivatives recognized | Gross amounts offset ^a | Cash (received) paid as collateral ^b | Net amounts presented on the balance sheet | Gross amounts of derivatives recognized | Gross amounts offset ^a | Cash (received) paid as collateral ^b | Net amounts presented on the balance sheet |
| Assets | | | | | | | | |
| Current | 261 | (137) | (93) | 31 | 193 | (133) | (8) | 52 |
| Long-term | 870 | (401) | (441) | 28 | 1,118 | (384) | (731) | 3 |
| | 1,131 | (538) | (534) | 59 | 1,311 | (517) | (739) | 55 |
| Liabilities | | | | | | | | |
| Current | (939) | 260 | 200 | (479) | (774) | 389 | 48 | (337) |
| Long-term | (596) | 278 | 19 | (299) | (254) | 128 | – | (126) |
| | (1,535) | 538 | 219 | (778) | (1,028) | 517 | 48 | (463) |
| Total | (404) | – | (315) | (719) | 283 | – | (691) | (408) |

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, 2022, \$754 million receivable in consideration of net cash payments was included in Accounts receivable and other receivables (\$513 million as at December 31, 2021).

Note 7 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, 2022 | | | |
|-----------------------------------|---|---|---|---------------------------|
| | 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 | – | 80 | 84 ^a | 23 |
| Contracts – Interest rate risk | 156 | (352) | 2 ^b | – |
| Contracts – Price risk | – | 923 | 318 ^c | 95 |
| | 156^{b, d} | 651 | 404^d | 118^{d, e} |
| Impact of hedged items on results | (153) | | (404) | |

| | 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 ^a | 32 |
| Contracts – Interest rate risk | 166 | (386) | 3 ^b | – |
| Contracts – Price risk | – | 141 | 44 ^c | (7) |
| | 166^{b, d} | (156) | 85^d | 25^{d, e} |
| Impact of hedged items on results | (162) | | (85) | |

- a) In 2022, \$4 million was recognized in Revenue [\$(38) million in 2021], and \$80 million in Financial expenses (\$76 million in 2021).
- b) These amounts were recognized in Financial expenses.
- c) In 2022, \$321 million was recognized in Revenue (\$41 million in 2021), and \$(3) million in Electricity purchases (\$3 million in 2021).
- d) In 2022, the items Revenue, Electricity purchases and Financial expenses totaled \$5,151 million, \$900 million and \$575 million, respectively (\$4,447 million, \$631 million and \$609 million in 2021).
- 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 2022, \$87 million was recognized in Revenue [\$(1) million in 2021], \$6 million in Electricity purchases [\$(6) million in 2021], and \$25 million in Financial expenses (\$32 million in 2021).

Note 7 Financial Instruments (continued)

For the three-month periods ended March 31, 2022 and 2021, Hydro-Québec did not reclassify any amounts from Accumulated other comprehensive income to results after having discontinued cash flow hedges.

As at March 31, 2022, Hydro-Québec estimated that the total gains and losses in Accumulated other comprehensive income that would be reclassified to results in the next 12 months

amounted to a net loss of \$693 million (net gain of \$85 million as at March 31, 2021).

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

Fair value of other financial instruments

Fair value measurements for other financial instruments are Level 2 measurements. Fair value is obtained by discounting future cash flows, based on rates observed on the balance sheet date for similar instruments traded on capital 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, 2022 | | As at December 31, 2021 | |
|-----------------------------|-----------------------|------------|-------------------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Assets | | | | |
| Sinking fund | 647 | 639 | 647 | 678 |
| Liabilities | | | | |
| Long-term debt ^a | (48,826) ^b | (57,123) | (49,444) ^b | (65,963) |
| Perpetual debt | (251) | (217) | (254) | (255) |

a) Including the current portion.

b) Including an amount of \$1,879 million as at March 31, 2022 (\$1,935 million as at December 31, 2021) for debts subject to a fair value hedge, which resulted in an adjustment of \$198 million (\$345 million as at December 31, 2021) in connection with the hedged risk for existing hedging relationships and of \$(64) million [\$(58) million as at December 31, 2021] for discontinued relationships.

Accounts receivable and other receivables

As at March 31, 2022, accounts receivable and other receivables included \$2,675 million (\$1,918 million as at December 31, 2021) from contracts with customers, of which unbilled electricity deliveries totaled \$1,371 million (\$1,320 million as at December 31, 2021).

Note 8 Supplementary Cash Flow Information

| | Three months ended March 31 | |
|---|--------------------------------|------------|
| | 2022 | 2021 |
| Change in non-cash working capital items | | |
| Accounts receivable and other receivables | (1,369) | (900) |
| Materials and supplies | (22) | (17) |
| Accounts payable and accrued liabilities | 84 | (14) |
| Accrued interest | (518) | (463) |
| | (1,825) | (1,394) |
| Activities not affecting cash | | |
| Increase in property, plant and equipment and intangible assets | 18 | 11 |
| Interest paid | 962 | 958 |

Note 9 Employee Future Benefits

| | Three months ended March 31 | | | | | |
|--|--------------------------------|-------|-------------|------|--------------|-------|
| | Pension Plan | | Other plans | | Total | |
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Current service cost | 157 | 176 | 13 | 14 | 170 | 190 |
| Other components of employee future benefit cost | | | | | | |
| Interest on obligations | 204 | 170 | 13 | 11 | 217 | 181 |
| Expected return on plan assets | (499) | (463) | (1) | (1) | (500) | (464) |
| Amortization of net actuarial loss | 22 | 86 | 6 | 10 | 28 | 96 |
| Amortization of past service costs (credits) | 1 | 2 | (1) | (1) | — | 1 |
| | (272) | (205) | 17 | 19 | (255) | (186) |
| Net (credit) cost recognized | (115) | (29) | 30 | 33 | (85) | 4 |

Note 10 Accumulated Other Comprehensive Income

| | Three months ended March 31, 2022 | | | |
|--|--------------------------------------|--------------------------|-------|--|
| | Cash flow hedges | Employee future benefits | Other | Accumulated other comprehensive income |
| Balance as at December 31, 2021 | (706) | (1,354) | (3) | (2,063) |
| Other comprehensive income before reclassifications | (651) | — | (5) | (656) |
| Amounts reclassified outside of Accumulated other comprehensive income | 404 | 11 | — | 415 |
| Other comprehensive income | (247) | 11 ^a | (5) | (241) |
| Balance as at March 31, 2022 | (953) | (1,343) | (8) | (2,304) |

| | 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 ^a | (9) | 269 |
| Balance as at March 31, 2021 | 79 | (2,903) | (17) | (2,841) |

a) Other comprehensive income includes the change in the employee future benefit regulatory asset, which totaled \$(17) million as at March 31, 2022 [\$(60) million as at March 31, 2021].

Note 11 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, 2022, the amortized cost of the long-term debts concerned was \$2,075 million (\$2,119 million as at December 31, 2021).

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 Innu 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 Innu 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 common enterprise 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 disgorge the profits derived from the complex or, alternatively, provide monetary compensation which, in Hydro-Québec's case, amounts to \$4 billion. Hydro-Québec is challenging the legitimacy of this action.

Investments

Further to the agreement entered into by Hydro-Québec to sell 9.45 TWh of energy to electricity distributors in Massachusetts over a 20-year period, Hydro-Québec and its U.S. partner Central Maine Power (“CMP”) launched the New England Clean Energy Connect (“NECEC”) project in the United States to transmit the power via the State of Maine. This project is part of a larger project aimed at establishing a new interconnection between the Québec and New England grids. In January 2021, CMP initiated the construction of the NECEC line, as all the key authorizations and major permits required by the U.S. regulatory authorities had been obtained. In November 2021, Mainers voted in a citizen initiative referendum to block the project. Hydro-Québec and CMP are challenging the legality of the new law resulting from this initiative in court, and CMP has suspended construction work until the issue has been resolved by the ongoing legal proceedings. In coordination with CMP, Hydro-Québec also suspended some of the construction work related to the interconnection project in Québec.

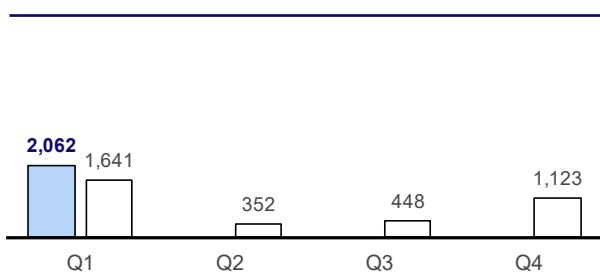
Should the project be abandoned, certain costs recognized as property, plant and equipment under construction, which totaled \$417 million as at March 31, 2022, will be charged to results, along with the amounts that Hydro-Québec has undertaken to pay under various agreements, which amounted to \$157 million on that date.

CONSOLIDATED FINANCIAL HIGHLIGHTS (UNAUDITED)

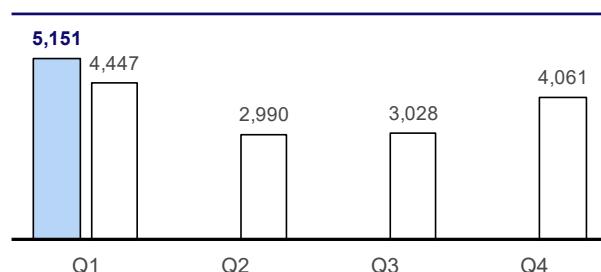
Amounts shown in tables are in millions of Canadian dollars.

| Summary of Results | Three months ended March 31 | | |
|--------------------|--------------------------------|-------|---|
| | 2022 | 2021 | Change (%) |
| Revenue | 5,151 | 4,447 | 15.8 ↑ |
| Expenditure | 2,514 | 2,197 | 14.4 ↑ |
| Financial expenses | 575 | 609 | 5.6 ↓ |
| Net income | 2,062 | 1,641 | 25.7 ↑ |

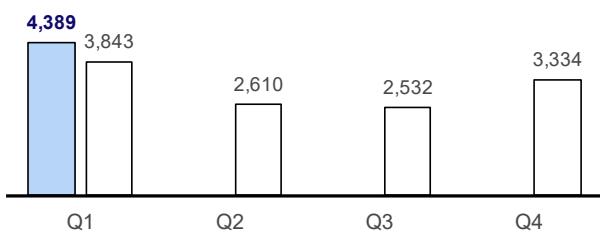
Net Income



Revenue



Revenue from Electricity Sales in Québec



Revenue from Electricity Sales Outside Québec



█ 2022 █ 2021

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