



The Quarterly
SECOND QUARTER 2018

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Message from the President and Chief Executive Officer

Net income for the quarter was
\$623 million

Net electricity exports totaled
8.9 TWh, a new second-quarter record

The sale of a 55% stake in our subsidiary TM4 yielded a gain of
\$277 million

Cover:
Main photo: An occupational health and safety activity was held on the Romaine-4 jobsite. Our aim is to become a benchmark in this area, in the same way that we're recognized as a global leader of the hydropower industry.

Top right: We joined with Ville de Lac-Mégantic to set up a microgrid in the municipality's new downtown core. The most advanced energy technologies will be implemented there over the coming years, making this neighborhood a first-rate technology showcase.

Bottom right: Dana's acquisition of a stake in TM4 yielded a gain of \$277 million.

Hydro-Québec recorded net income of \$623 million for the second quarter of 2018, an increase of \$264 million compared to \$359 million in the same period in 2017. This marked increase is mainly due to the creation, in June, of a strategic partnership between Hydro-Québec and the multinational company Dana, under which Hydro-Québec sold 55% of its interest in its subsidiary TM4 to Dana. The gain from this transaction amounted to \$277 million.

By joining forces with Dana, a renowned industrial company active in the fields of e-Drive design, engineering and manufacturing, we are accelerating the development of TM4 with a view to making it a global leader. This transaction will enable TM4 to realize its full business potential, for the benefit of all Quebecers. The partnership also ties in with one of the goals laid out in our *Strategic Plan 2016–2020*: develop new growth avenues, in part by commercializing our innovations.

In June, *Corporate Knights* magazine published its list of the Best 50 Corporate Citizens in Canada. I am very proud to say that Hydro-Québec ranked first, with an outstanding performance in several areas, including proportion of women on the Board of Directors, pay equity and our 99.8% clean energy. Credit for this recognition goes to our employees who, day after day, contribute to the company's success.

Our top spot on the Ipsos-Infopresse 2018 index of the most influential Québec brands is another source of collective pride. Our recent ad campaigns, *Welcome to Hydro-Québec* and *ON*, certainly helped propel us to the head of the pack.

The project for a new interconnection between New England and Québec, bringing together Hydro-Québec and its U.S. partner Central Maine Power, is making steady progress. The Massachusetts Department of Public Utilities recently commented on the merits of the project, which is fully aligned with the state's long-term objectives for reducing greenhouse gas (GHG) emissions and ensuring a secure supply of clean, reliable energy. Our proposal guarantees foreseeable long-term deliveries and proves that we are able to offer competitive prices on clean energy markets in the U.S. Northeast, while ensuring the profitability of our exports.



Éric Martel, President and Chief Executive Officer, announced the sale of 55% of our subsidiary TM4 to the American industrial firm Dana at a press conference, held at the TM4 facility in Boucherville.

Last May, we once again demonstrated our desire to continually improve our energy mix by stepping up the use of clean, renewable energy when we announced that the Îles-de-la-Madeleine's dependence on oil to generate electricity was coming to an end. As of 2025, the islands will be linked to the main grid via two underwater cables from the Gaspésie region—a reliable solution that will reduce GHG emissions in the archipelago by 94%.

Several months ago, we launched an occupational health and safety campaign to ensure that we're taking every possible measure to protect the people working on our jobsites and in all of our facilities. Our aim is to become a benchmark in this area, in the same way that we're recognized as a global leader in the hydropower industry. We have therefore drawn up a declaration of principles spelling out our occupational health and safety guidelines and commitments. This declaration applies to all our employees, and is of the utmost importance to my management team and myself.

Highlights

Hydro-Québec and A*STAR's NanoBio Lab have signed a **memorandum of understanding** to invest US\$20 million in a joint battery research laboratory. Housed in Singapore's biomedical research hub, Biopolis, the new facility will focus on improving battery efficiency and safety through the use of innovative nanomaterials.

Hydro-Québec and the U.S. Army Research Laboratory have made a **breakthrough in the lithium-ion battery materials field**, and published their findings in the *Journal of Power Sources*. Using a cathode made with new, safe high-voltage materials, the researchers have achieved a world first: building a 1.2-Ah lithium-ion cell with a voltage of 5 V, making it possible not only to obtain a high energy density, but also to improve device design. This innovation has strong commercial potential.

Hydro-Québec has submitted the main parameters for a **selection process governing blockchain projects** to the Régie de l'énergie. This action comes in response to a Québec government Order-in-Council instructing the Régie to quickly address the conditions applying to the sale of electricity to blockchain companies, given the unprecedented number of connection requests from that industry. The goal of this process is to maximize both economic spinoffs for Québec and revenue for Hydro-Québec, which, in turn, will help to hold down rate increases. If the Régie approves the proposal, the company will launch a selection process to allocate a 500-MW block reserved for this industry in Québec.

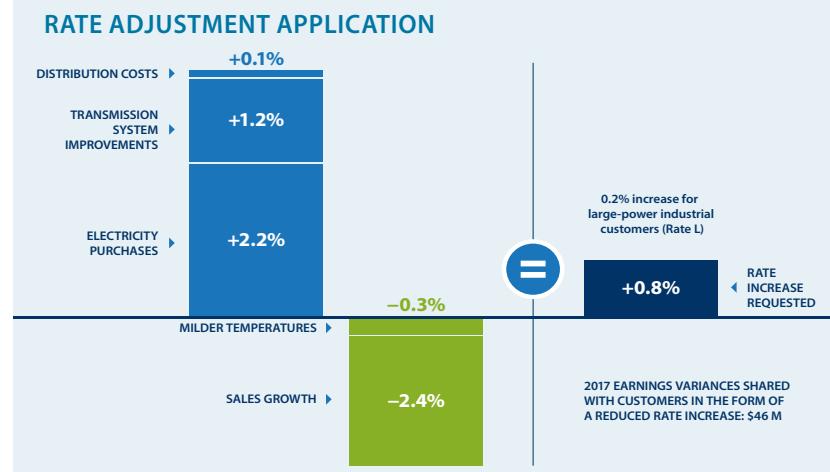
For the third year in a row, **Hydro-Québec has won an OCTAS award**. Réseau ACTION TI has held the OCTAS competition for over 30 years, offering Québec-based companies an outstanding opportunity to shine and be recognized by their peers for innovative, creative projects. A finalist in the government departments and corporations category, the company garnered an OCTAS for its analytical solution for energy-theft detection,

which makes it easier to detect noncompliances (energy thefts, defective meters, etc.) across the meter fleet.

On April 4, as part of the **électrON expedition**, adventure filmmaker and ultramarathoner Caroline Côté embarked on a 2,000-km trek between Natashquan and Montréal, with the goal of covering the distance in 80 days. Traveling on skis, by bike, by canoe and on foot, she journeyed along the path of our electricity, constantly maintaining a line of sight with the transmission grid. And she pulled it off! It took her just 74 days to reach her destination on June 16.



To help the **Îles-de-la-Madeleine transition to clean energy** and thereby reduce greenhouse gas (GHG) emissions, we have decided to connect the archipelago to the Gaspésie region via an underwater link, scheduled for commissioning in 2025. The thermal power plant that currently supplies the islands will be kept in service as a backup to ensure reliable service and uphold Hydro-Québec's commitment to preserving jobs on site.



The application we filed with the Régie de l'énergie in July is in line with our commitment to keep rate increases at or below inflation. For homes heated with electricity, the proposed adjustment would translate into a monthly increase of \$0.23 for an apartment, \$0.79 for a small house, \$1.60 for a midsize house and \$2.44 for a large house.

FINANCIAL HIGHLIGHTS (\$M)

	Quarter ended March 31	Quarter ended June 30	Quarter ended September 30
Revenue	4,507	3,291	
Electricity sales in Québec	3,791	2,549	
Electricity sales outside Québec	519	385	
Other revenue	197	357	
Expenditure	2,205	2,014	
Financial expenses	658	654	
Net income	1,644	623	
Investments	697	812	



DETAILED QUARTERLY FINANCIAL RESULTS AVAILABLE ON OUR WEB SITE

