



THE QUARTERLY
Second Quarter 2019

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

\$264
million

Net income for the quarter
was \$264 million.

94%

The public satisfaction index
was 94% on June 30, 2019.

Hydro-Québec recorded net income of \$264 million for the second quarter of 2019, compared to \$623 million for the same period in 2018. This decrease is mainly due to a non-recurring gain of \$277 million recognized in June 2018 following the sale of an equity interest in our subsidiary TM4. For the first two quarters, net income totaled \$2,038 million. This is the second consecutive year that net income has exceeded the \$2-billion mark for the first half of the year.

At the July inauguration of the Chamouchouane–Bout-de-l'Île transmission facilities—the largest north-south 735-kilovolt (kV) line project in 25 years—I spoke about the innovativeness and know-how demonstrated by the Hydro-Québec teams behind this achievement. More than 1,250 people worked on the project, which got under way in 2016 and required a capital outlay of some \$1.3 billion. The new facilities will allow us to meet growing demand in southern Québec while improving the reliability of the entire grid.

In June, the Massachusetts Department of Public Utilities approved the power purchase agreements signed between Hydro-Québec and the state's electric distribution companies. These agreements provide for the delivery of approximately 9.45 terawatthours annually of clean, reliable power for 20 years. I'm particularly pleased about this decision, since it confirms the soundness of our market strategy in the U.S. Northeast and the value of our hydropower as a key supply source, capable of substantially reducing GHG emissions in the region.

As a result of our efforts to attract data centers to Québec, about 40 such facilities have sprouted up in the province since 2016. The advantages of our 99.8% clean power and rates that are among the lowest in the world were recognized in June at the Datacloud Global Congress in Monaco, where the greater Montréal region was voted Data Centre Location of the Year!

April 14 marked the 75th anniversary of the pivotal moment in 1944 when Hydro-Québec was created. The Québec Hydro-Electric Commission, as it was known at the time, served some 290,000 customers, compared with more than 4.3 million today. Its rapid growth can be attributed to its vast generating fleet, which expanded to keep pace with industrialization and demographic growth in Québec, a transmission grid that ranks among the most extensive in North America, a distribution system that has achieved



Eric Martel, President and Chief Executive Officer, at the official inauguration of the Chamouchouane–Bout-de-l'Île transmission facilities.

a remarkable level of technical sophistication, and our ability, today more than ever, to respond proactively to the needs of a customer base whose lifestyle is constantly evolving.

Since its inception, Hydro-Québec has always made choices for the benefit of Québec society as a whole—choices that have made it a leader in an industry that is now changing radically. Today, it is resolutely engaged in the energy transition and in full mastery of its future, which will be built on digital transformation and diversification, as demonstrated by our interest in technologies such as energy storage systems, customer generation and home automation, all areas in which we're already hard at work.

The new ad campaign launched earlier this year, with the theme *Clean energy to power us all*, underscores the fact that our energy is more than 99% renewable and salutes the company's impressive achievements over the past 75 years. According to a survey we conducted to evaluate the campaign's effectiveness, it has had a positive impact. The general public especially appreciated the fact that it lends a more human face to the company. Two-thirds of survey respondents also said they felt proud of Hydro-Québec after seeing the advertisement.

COVER

The 420 km of transmission lines built as part of the Chamouchouane–Bout-de-l'Île project link Chamouchouane substation, in La Doré, Saguenay–Lac-Saint-Jean region, to the Montréal metropolitan loop.

HIGHLIGHTS

Hydro-Québec will invest more than \$610 million to refurbish the 204-megawatt (MW) **Rapide-Blanc generating station** in the Mauricie region, thus ensuring that the facility, commissioned in 1934, will help meet Québec's energy needs for the next 50 years. Work will begin in 2020 to replace the six generating units and to rehabilitate the building, auxiliary electrical and mechanical systems, intakes and spillway gates. During the second quarter, Hydro-Québec joined the **Canadian Council for Aboriginal Business** (CCAB) and signed up for Progressive Aboriginal Relations (PAR) certification, undertaking to adopt best practices in this area. This commitment confirms the importance we place on strengthening ties with the various Indigenous communities and nations, with the aim of forging sustainable, mutually beneficial partnerships with them, based on respect for one another's values and culture.



In June, Hydro-Québec launched a request for proposals (RFP) with a view to allocating a block of power and associated energy to the **blockchain** industry, including at least 50 MW for projects of 5 MW or less. Projects will be evaluated according to economic development criteria, such as the number of direct jobs in Québec per MW, total payroll of direct jobs in Québec per MW, and capital investment in Québec per MW, as well as an environmental criterion. This 300-MW block is in addition to the 158 MW and 210 MW

already attributed to existing customers approved by Hydro-Québec and municipal distributors, respectively, for a total of 668 MW dedicated to the blockchain industry.

Hydro-Québec will once again donate \$3 to Centraide for every customer who signs up for Online Billing, up to a maximum of \$400,000. **Online Billing** is a secure, convenient way to access your bill anytime, anywhere. All the information you need is available at a glance, and bills are automatically archived in your customer space for two years.

The 120-kV **Grand-Brûlé–Saint-Sauveur** supply line (42.5 km), which went into service in May, will help meet growing demand in the regional county municipalities of Pays-d'en-Haut and Laurentides. Construction of this line presented many technical challenges. For example, the terrain was very rugged in one area, and several of the towers had to be built on steep slopes. In addition to difficult access, the management of runoff and sediment required extensive environmental measures due to heavy precipitation in summer and fall 2018. The particular circumstances of the project provided a unique learning opportunity, and we will apply the lessons learned to improve future projects.

The off-grid system of Inukjuak, an Inuit village on the Baie d'Hudson in Nunavik, has begun its **energy transition** following a decision to build a 7.5-MW run-of-river generating station on the Rivière Inukjuak at a cost of nearly \$125 million. This is the first project ever undertaken by an Inuit corporation in partnership with an independent power producer. In line with our strategy of converting off-grid systems to cleaner, less costly energy sources, the new facility will result in 700,000 tonnes of avoided GHG emissions from fuel-fired power generation while achieving annual savings of about 20% for Hydro-Québec. It will also support the local economy, in particular through jobs for the construction and operation of the generating station.

RATE FREEZE IN 2020 = SAVINGS OVER 5 YEARS



\$1
BILLION IN
SAVINGS FOR
CUSTOMERS*



\$500
MILLION IN
ACCELERATED
REFUNDS TO
CUSTOMERS
IN 2020

Hydro-Québec welcomes Bill 34, which will guarantee low electricity rates and simplify the rate-setting process. Tabled in June, the proposed legislation provides for a rate freeze in 2020 that will generate savings of nearly \$1 billion for our customers over the next five years, as well as accelerated refunds to our customers of some \$500 million related to accounting mechanisms that will no longer apply under the new framework.

* Based on an inflation forecast of 1.7%.

FINANCIAL HIGHLIGHTS (\$M)

	Quarter ended March 31	Quarter ended June 30	Quarter ended September 30
Revenue	4,640	2,932	
Electricity sales in Québec	4,069	2,624	
Electricity sales outside Québec	554	277	
Other	17	31	
Expenditure	2,204	2,003	
Financial expenses	662	665	
Net income	1,774	264	
Investments	566	947	



DETAILED QUARTERLY FINANCIAL RESULTS AVAILABLE ON OUR WEBSITE

