

QUARTERLY NEWSLETTER  
Third Quarter 2020





Jacynthe Côté  
Chair of the Board

Through the concerted efforts of all employees, Hydro-Québec has been able to ensure exemplary continuity of service since the beginning of the COVID-19 pandemic. The company has also supported employees in their daily tasks and implemented an administrative measure very early on allowing customers in financial difficulty to defer payment of their electricity bill. In doing so, it has fully assumed its social responsibility at a crucial moment in our history.

While the pandemic has disrupted our lives and changed our daily habits, it has also led to an unprecedented level of awareness that should motivate us to adopt more environmentally friendly behaviors. Now more than ever, it is imperative that Hydro-Québec's growth objectives support the goals of sustainable development.

The Board of Directors will therefore redouble its efforts in exercising its governance role. In particular, it will ensure that the company's actions translate into sustainable investments that reflect its commitments to its customers and to the community at large.

## MOVING FORWARD DESPITE THE HEALTH CRISIS

The health crisis we're experiencing affects every aspect of our lives. Collectively, we must be extremely resilient in the face of adversity and reinvent what we do and how we do it. We must also demonstrate exemplary civic responsibility, while also being tolerant and kind to one another.

At Hydro-Québec, the pandemic is pushing us to excel and to contribute even more to society. We're committed to supporting our employees and customers during this difficult time. That's why we were quick to put in place specific assistance measures, and we will continue to act along these lines for as long as necessary.

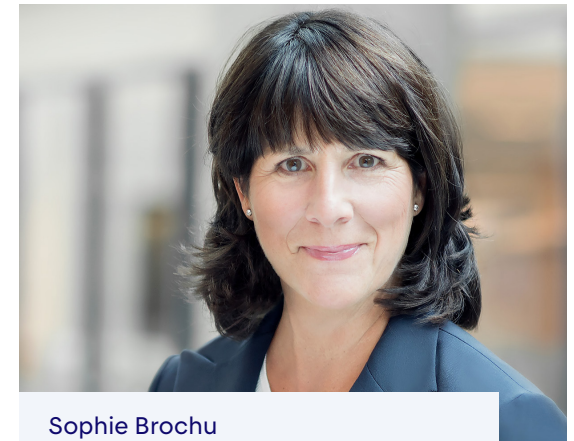
A large portion of our field operations have gradually resumed in Québec and neighboring markets. Our results for the third quarter of 2020 seem to have stabilized with net income of \$203 million, almost equal to the \$205 million recorded a year earlier. That said, the current crisis had a marked impact on our financial performance for the first six months. Consequently, Hydro-Québec's net income for the first three quarters is down \$435 million from the corresponding period of 2019.

With the second wave upon us and no vaccine available, it's impossible to estimate precisely the duration and scope of the health crisis, or the extent of the economic turmoil that will follow. It's also difficult to predict the fallout on our business and financial results over the medium and long term. We're monitoring developments very closely and are continuing to work on initiatives to mitigate the pandemic's impacts on the Québec economy and the company's performance.

Of course, none of this diminishes the importance of the global climate challenge. More than ever, we're determined to become a partner of choice for all our neighbors in the U.S. Northeast who want to secure reliable, clean and renewable power from Hydro-Québec—energy that can go a long way toward helping them meet their own GHG reduction targets.

The recent decision by the New York State Department of Public Service is a landmark. It confirms that all forms of hydropower, including Québec's, constitute clean and renewable energy that will enable the state to accelerate its decarbonization process. To have the sustainability of our hydropower recognized in this way is the culmination of years of work.

From a broader perspective, we hope that other decisions such as this one will open the door to the gradual implementation of increased regional cooperation and integration in the electricity industry, through a true pooling of energy resources and greater interconnection of power grids in northeastern North America.



Sophie Brochu  
President and Chief Executive Officer

# ADAPTING TO THE CHALLENGES OF A CHANGING WORLD



## Special concern for customers

Over the past several months, Hydro-Québec has made sustained efforts to continue providing reliable electricity service and to support customers during this health crisis, which is proving difficult for everyone.

In the spring, several measures were implemented to reduce the burden on customers:

- Administration charges on unpaid bills were suspended.
- Collection notices and service interruptions for nonpayment were also suspended.
- Payment arrangement conditions were relaxed to accommodate customers' needs.

This summer, a campaign was launched to inform customers in financial difficulty of the more flexible conditions.

The campaign also highlighted the benefits of the [Customer Space](#), a practical online tool enabling customers to manage their account, track their electricity consumption or even enter into a payment arrangement at their convenience.

## A commitment to fight corruption

Corruption is a global phenomenon that has an extremely costly impact on society and undermines citizens' trust in public bodies. Hydro-Québec has made a firm commitment to fight corruption and, in the spring of 2019, we began developing an anti-bribery management system (ABMS) that includes strengthening our security measures to meet the requirements of ISO standard 37001. ISO 37001 proposes ways to prevent, detect and address corruption and provides guidelines for the design, implementation, maintenance and improvement of an ABMS. We aim to achieve ISO 37001 certification by 2021.



## A more responsible procurement strategy

Goods and services from Québec-based suppliers account for more than 92% of Hydro-Québec's purchases.

Our operations support thousands of jobs and stimulate economic vitality in many of the province's regions, which is particularly important in the current context. We aim to make increasingly responsible purchases, in particular by incorporating sustainable development into our processes for goods and services procurement. In doing so, we intend to help accelerate the transition to a more agile and low-carbon economy.



## Putting safety first

To exercise effective leadership and due diligence, Hydro-Québec ensures that its internal rules for the prevention of COVID-19 contamination are clearly understood and followed. To check whether the guidelines are being applied, structured audits were conducted on 36 crews working at the Romaine jobsite or on the distribution system. Based on this representative cross section of workers on the ground, recommendations and compliance standards were provided to the units concerned.

## Raising environmental awareness in companies

Building managers concerned about energy consumption and the resulting greenhouse gas (GHG) emissions can now use Hydro-Québec's GHG calculator. This tool is designed to help companies reduce their environmental impact by comparing the emissions from electric heating with those generated by fossil-fuel heating systems. [Find out about the GHG emissions comparison tool and the programs available to companies.](#)

# THE CURRENT CRISIS HAS HAD SIGNIFICANT IMPACTS ON OUR FINANCIAL PERFORMANCE

Most economic activities have gradually resumed in Québec and in neighboring markets since mid-May. Hydro-Québec's **third-quarter net income** totaled \$203 million, an amount nearly equal to the \$205 million posted a year ago. For the **first nine months** of the year, **net income** was \$1,808 million, down \$435 million compared to the \$2,243 million recorded for the corresponding period of 2019.

## Third-quarter results

On the **Québec market**, net electricity sales rose by \$38 million compared to the third quarter of 2019. This increase is primarily attributable to growth in demand in the residential segment and higher consumption by aluminum smelters, itself mainly due to the gradual resumption of operations at a large production facility in summer 2019, following a prolonged labor conflict.

On **markets outside Québec**, net electricity exports increased by \$7 million.

**Operational expenditure** rose by \$69 million compared to the same period last year, largely because of an increase in the pension plan's current service cost, itself due mainly to a decrease, at the end of 2019, in long-term interest rates on capital markets.

## Results for the first three quarters

On the **Québec market**, net electricity sales decreased by \$107 million compared to the first three quarters of 2019. The negative impact of temperatures, which were milder in winter 2020 than during the previous winter, was mitigated by an increase in baseload demand stemming from the fact that the sales decline in certain segments following the shutdown of numerous stores and businesses in the spring was offset by the increase in consumption by residential customers and aluminum smelters.

On **markets outside Québec**, Hydro-Québec Production's net electricity exports decreased by \$151 million to total \$1,004 million. This is due to the impact of temperatures in the first quarter, which resulted in lower demand and prices on export markets, as well as to the repercussions of the global pandemic, which also led to lower prices and market requirements, especially in the second quarter.

**Operational expenditure** rose by \$214 million compared to the first nine months of 2019, in particular because of the effect of the pandemic on the company's operations, namely a reduction in the number of hours of work capitalized in the cost of investment projects and an increase in the allowance related to the collectibility risk for certain accounts receivable. Moreover, the pension plan's current service cost increased, mainly because of a decrease, at the end of 2019, in long-term interest rates.

## Investments

During the first nine months of 2020, Hydro-Québec invested \$2,263 million in **property, plant and equipment and intangible assets**, compared to \$2,458 million in the same period of 2019. This decline is due to the slowdown, suspension or postponement of work on the company's jobsites.

## Financial highlights (\$M)

	Quarter ended March 31	Quarter ended June 30	Quarter ended September 30
<b>REVENUE</b>	<b>4,371</b>	<b>2,816</b>	<b>2,833</b>
Electricity sales in Québec	3,826	2,534	2,386
Electricity sales outside Québec	427	249	392
Other	118	33	55
<b>EXPENDITURE</b>	<b>2,175</b>	<b>2,085</b>	<b>2,005</b>
<b>FINANCIAL EXPENSES</b>	<b>671</b>	<b>651</b>	<b>625</b>
<b>NET INCOME</b>	<b>1 525</b>	<b>80</b>	<b>203</b>
<b>INVESTMENTS</b>	<b>738</b>	<b>650</b>	<b>875</b>



[Detailed quarterly financial results available on our website](#)