



The Quarterly
FIRST QUARTER 2018

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Message from the President and Chief Executive Officer

Net income for the quarter was

\$1,644

million

Customer satisfaction reached

94%

in the first quarter

Net electricity exports for the first three months totaled

9.8 TWh

For the third time in its history, Hydro-Québec has posted net income of over \$1.6 billion in the first quarter of a fiscal year. Net income for the first three months of 2018 was \$1,644 million, up \$101 million over the \$1,543 million recorded a year earlier. Export volume remained strong at 9.8 TWh, slightly below the 10.1-TWh record set in the same period last year.

To improve day-to-day consistency, foster the achievement of our ambitious objectives and ensure that our corporate culture continues to evolve, I recently decided to create the position of Chief Operating Officer. The incumbent will ensure that we have a comprehensive vision of the current energy transition and of the steps we must take to make the right choices. The COO will also see to it that we meet the most exacting standards in areas of crucial importance to the company, such as occupational health and safety.

According to Ipsos survey results unveiled in March, Hydro-Québec ranks first among the 45 most influential brands from or originating in Québec. Five key dimensions—trustworthiness, engagement, innovation, corporate citizenship and presence—were rated, and we stood out markedly from the other companies for our trustworthiness and corporate citizenship. We were ranked first overall by men, women and Millennials, and second by Boomers and Gen X. I'm particularly proud of these results, which were made possible by the collective commitment of our employees to keep working better.

In January, Massachusetts chose Québec hydropower to meet its future needs and support the state's energy transition. We are in negotiations to soon sign a contract for the sale of 9.45 TWh of clean energy per year for the next 20 years. This power will transit over the future New England Clean Energy Connect (NECEC) line in Maine, where Central Maine Power is the proponent.

Our Technological Vision 2035 was developed to engage Hydro-Québec in the transformation of the power industry, including its digital and transactional aspects. The aim of the transformation, which focuses on customer empowerment, is to take full advantage of evolving technologies. I will be following with special interest the road maps being drafted jointly by IREQ and the business units to define the company's next technological and commercial challenges in a rapidly changing environment. They will help us identify the most promising projects to pursue.



Éric Martel, President and Chief Executive Officer, at the press conference announcing that Massachusetts had chosen Québec hydropower to meet its future energy needs.

In the first quarter, we inaugurated the center of excellence in transportation electrification and energy storage at IREQ in Varennes. This is a new milestone that will enable us to further develop our expertise in battery materials and derive value from our patents.

Some 20 years ago, Hydro-Québec employed a number of mechanisms to obtain and maintain seven separate ISO 14001 certificates of conformity, each associated with a business unit. Further to the publication of an updated version of this international standard, ISO 14001:2015, we are now deploying a single unified environmental management system for the whole company. The implementation of this new system will allow us to show that we have adopted sound environmental management practices over the years, ensuring that we continue to fulfill our compliance obligations, enhance our environmental performance on an ongoing basis and give environmental protection the priority it deserves.

COVER

Main photo: The *électrON* expedition is taking adventure filmmaker and photographer Caroline Côté on a 2,000-km solo trek to discover Québec by following our transmission lines all the way from Natashquan to Montréal. Traveling on skis, by bike, by canoe and, of course, on foot, she is journeying along the path of our electricity, most of which is generated in locations far from major urban centers.

Top right: The center of excellence in transportation electrification and energy storage at IREQ.

Bottom right: A health and safety crew on the job in the field.

Highlights

According to an economic analysis Hydro-Québec commissioned from KPMG, released in January, **data centers** supported 1,027 direct and indirect jobs in Québec in 2016. The 2025 forecast, based on installed capacity of 1,000 MW, would see the sector supporting up to 14,000 jobs. Pay for these high-quality jobs stands to be 38% higher than the Québec average. The analysis also confirms that the wealth created by data centers will increase significantly over the coming years. That's why Hydro-Québec will continue to implement the strategy it successfully launched in 2016 to attract even more data centers, with a view to making a major contribution to Québec's economic growth and development.

At the beginning of the year, we launched our **new residential bill**. An improved visual presentation makes it easier for customers to see important information, such as their electricity consumption history and a comparison of their electricity use in the current billing period with that of the corresponding period the previous year. The changes were made after a review of best practices, as well as many consultations with customers and consumer associations. The new bill for customers on the Equalized Payments Plan shows their projected cost for the 12-month period compared with their total installments, so they can decide whether to adjust the amount of their monthly installments.

Inaugurated in March, the **center of excellence in transportation electrification and energy storage, CETEES**, will enable Hydro-Québec to maintain and enhance its global leadership in the field of battery materials. The center of excellence will commercialize Hydro-Québec technologies, protected by 800 patents. It will also create new research partnerships and develop new technologies.

Hydro-Québec and Dongshi Kingpower Science and Technology Ltd. of China have signed a **licensing agreement** for patents involving solid-state lithium batteries. The agreement will allow Kingpower to use technology developed by Hydro-Québec to produce batteries for the booming Chinese automobile market.

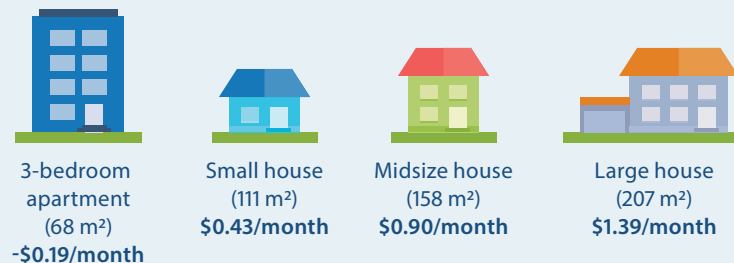
The release of Hydro-Québec's *Annual Report 2017* was an opportunity to draw attention to our very significant **net electricity exports**. By year's end, they had increased by 1.8 TWh to a record volume of 34.4 TWh. Net exports accounted for 17% of sales volume, but generated 27% of the company's net income. The contribution of exports to net income totaled \$780 million.



During the quarter, we carried out **two missions to help power utilities** in the U.S. Northeast rebuild their local distribution systems. On the first mission, 118 crews lent a hand to utilities in New England and New York State. The second took about 100 line crews to Pennsylvania and New Jersey after they were hit by freezing rain.

In partnership with Hydro-Québec, Mouvement Desjardins will install **200 charging stations** for electric vehicles at Québec and Ontario branches. The new service points will be rolled out from Chapais, in northern Québec, to Havre-Saint-Pierre, in the Côte-Nord region, and from Windsor, Ontario, to the Îles-de-la-Madeleine. They will expand the Electric Circuit through the addition of some 100 standard (240-V) and 60 fast-charge (400-V) stations.

IMPACT ON HOMES HEATED WITH ELECTRICITY



For the third year running, Hydro-Québec upheld its commitment to Quebecers to keep rate increases no higher than forecast inflation. Rates are established in such a way as to generate sufficient revenue to recover the cost of providing electricity service to some 4.3 million customers throughout Québec. In its decision on 2018–2019 rates, the Régie de l'énergie [Québec energy board] approved a 0.3% increase for all residential customers and most business customers, while the inflation rate is expected to be 1.6%. Quebecers will thus continue to enjoy the lowest residential rates in North America. In 2018–2019, they will pay half as much as Torontonians and a quarter of what New Yorkers pay for their electricity.

FINANCIAL HIGHLIGHTS (\$M)

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



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