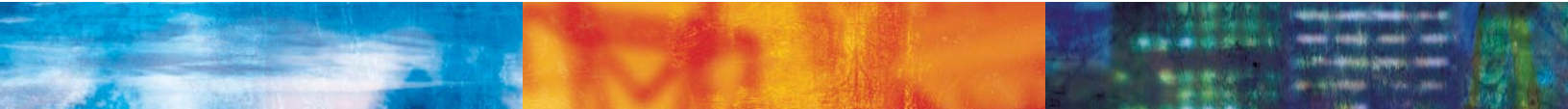




**Follow-Up  
to the Strategic Plan  
2004–2008**



**Hydro-Québec Production**

- 1** Objective 1  
**Increase electricity generating capability**
- 4** Objective 2  
**Increase the division's profitability**
- 5** Objective 3  
**Ensure the reliability and quality of operations**

**Hydro-Québec TransÉnergie**

- 6** Objective 1  
**Offer transmission service that meets customer needs**
- 7** Objective 2  
**Maintain the reliability of the transmission system**
- 8** Objective 3  
**Ensure the division's profitability**

**Hydro-Québec Distribution**

- 9** Objective 1  
**Ensure an adequate, diversified supply of electricity**
- 10** Objective 2  
**Emphasize Hydro-Québec's energy efficiency leadership**
- 11** Objective 3  
**Offer Québec customers service that meets their expectations**
- 12** Objective 4  
**Achieve the authorized rate of return in 2004 and then maintain it**

**Financial Results**

- 13** **Statement of Operations**
- 15** **Statement of Cash Flows**

According to Order-in-Council 1091-2000 of September 13, 2000, which sets the format, content and frequency of Hydro-Québec's Strategic Plan, the Plan must include a follow-up on completed activities and results for the approved objectives in the previous plan.

# Hydro-Québec Production

## Objective 1 **Increase electricity generating capability**

With the growth in accessible, profitable electricity markets in Québec and throughout north-eastern North America, Hydro-Québec Production will continue developing its generating capability, with particular emphasis on Québec's own hydroelectric potential. Increased generating capability is also made necessary by the recent narrowing of the gap between available output and contractual commitments, making it more difficult to manage risks related to variations in runoff.

Over the *Strategic Plan 2004–2008* period, Hydro-Québec Production plans to add 10 TWh to its annual generating capability. It will achieve this goal by increasing the productivity of its generating fleet (0.6 TWh), operating the generating stations commissioned in 2003 at full capacity (2.8 TWh) and moving up the commissioning dates of facilities under construction or awaiting authorization (6.5 TWh).

Hydro-Québec Production plans to continue developing hydroelectric potential in Québec to supply markets beyond the time frame of the *Strategic Plan 2004–2008*. All projects will have to meet the following three conditions:

- be profitable under market conditions
- be environmentally acceptable
- be well received by local communities

Without postponing or replacing any project involving hydropower, which remains its preferred generating option, Hydro-Québec Production will also pursue its efforts to complete the proposed Suroît combined-cycle generating station before 2008.

In addition, the division plans to purchase thermally generated electricity from power producers in the northeastern part of the continent. These purchases will help maintain a prudent margin of flexibility in terms of its contractual commitments and the risk of low runoff.



## Follow-Up

- Hydro-Québec Production expects to have added 10.6 TWh to its hydroelectric generating capacity by 2008. This is 0.7 TWh more than in the *Strategic Plan 2004–2008* because the commissioning dates of Chute-Allard and Rapides-des-Cœurs generating stations have been moved up.

### Planned Additional Hydroelectric Generating Capacity in 2008 (TWh)

<b>Gain in generation productivity</b>	
Refurbishment and MATH projects	0.6
<b>Full-capacity operation of facilities commissioned in 2003</b>	
Portneuf, Sault-aux-Cochons, Manouane, Sainte-Marguerite-3	2.8
<b>New facilities</b>	
<b>commissioned in 2004 and 2005</b>	
Rocher-de-Grand-Mère,* Toulnostouc	2.9
<b>under construction</b>	
Mercier	0.3
Eastmain-1	2.7
Péribonka	0.6
Chute-Allard	0.3
Rapides-des-Cœurs	0.4
	<b>7.2</b>
<b>Total</b>	<b>10.6</b>

\* Gain with respect to the generating capacity of Grand-Mère generating station.

- Generating station refurbishment and use of MATH (French acronym for “hydraulic turbine analysis models”) technology to enhance the efficiency and capacity of hydraulic generating units will increase generating capacity 0.6 TWh by 2008, as forecast.
- The Portneuf, Sault-aux-Cochons and Manouane diversions and Sainte-Marguerite-3 generating station will add the expected 2.8 TWh.
- Rocher-de-Grand-Mère and Toulnostouc generating stations have added 0.2 TWh and 2.7 TWh of generating capacity, respectively. Toulnostouc generating station was commissioned five months ahead of schedule and generated about 1 TWh of additional energy in 2005.
- The construction schedule for Mercier generating station has been reviewed, and full operation has been postponed to early 2007. The annual output of this generating station will be 0.3 TWh, as forecast.
- Eastmain-1 powerhouse will be in full operation in February 2007, six months ahead of schedule. The annual output of this generating station will be 2.7 TWh, as forecast.
- Péribonka generating station should be commissioned in summer 2008, slightly earlier than planned. This generating station will produce an estimated 0.6 TWh in 2008 and 2.2 TWh every year thereafter.

- Tightening of the construction schedules for Chute-Allard and Rapides-des-Cœurs generating stations will enable them to be commissioned in summer 2008, six months earlier than planned, resulting in additional output of 0.3 TWh and 0.4 TWh respectively in 2008. The annual output of these two generating stations will be 0.4 TWh and 0.5 TWh.
- Construction of new generating stations within the 2004–2008 horizon will require an investment of \$6.7 billion, or \$1.2 billion more than planned, mainly because of accelerated construction.
- Energy reserves increased from 75.1 TWh on December 31, 2003, to 105.3 TWh on December 31, 2005, owing to energy purchases early in 2004 and higher-than-normal runoff, i.e., 17 TWh more in 2004 due to runoff in the second half, and 1.7 TWh more in 2005.
- In cooperation with Hydro-Québec Équipement and Société d'énergie de la Baie James (SEBJ), Hydro-Québec Production pursued its efforts and work to develop Québec's hydroelectric potential beyond the 2008 horizon:
  - Hydro-Québec signed the *Agreement concerning a New Relationship between Hydro-Québec/SEBJ and the Crees of Eeyou Istchee* (April 2004) and a partnership agreement with the Municipality of Baie-James (January 2005).
  - Hydro-Québec Production filed the Environmental Impact Statement for the Eastmain-1-A/Sarcelle/Rupert project in December 2004. At the beginning of 2006, it responded to requests for additional information about the project. Public hearings began on March 15, 2006.
  - Hydro-Québec Équipement began the draft-design studies for the Romaine complex in spring 2004 and design optimization is in progress. The draft-design studies for this complex should be completed in spring 2007.
- The Suroît thermal generating station project was abandoned in November 2004.
- Expansion of an existing wind farm and two new wind farm projects will boost Hydro-Québec Production's wind power purchases from 102 MW in 2003 to 544 MW by the end of 2007, for a total output of about 1.5 TWh per year. The new wind power capacities will be as follows:
  - expansion of the KW Gaspé wind farm in Matane for an additional 80 MW
  - SkyPower project for a new 200-MW wind farm in the regional county municipality of Rivière-du-Loup
  - project by 3Ci Énergie Éolienne and its partners for three 54-MW wind farms (Mont-Miller, Mont-Copper and Murdochville), for a total of 162 MW
- In January 2005, the Government of Newfoundland and Labrador issued a request for proposals for the development of the Lower Churchill River. A consortium formed by Hydro-Québec, the Ontario government and SNC-Lavalin submitted a proposal to develop the project or purchase some of its output. On May 8, 2006, the Government of Newfoundland and Labrador announced that it will carry out this hydropower project itself.



## Objective 2 **Increase the division's profitability**

By 2008, assuming average runoff over the Strategic Plan period, Hydro-Québec Production aims to increase its earnings before interest, taxes, depreciation and amortization by \$200 million compared with the 2002 results. This goal will be achieved through optimization of its activities on wholesale markets and a freeze on operating expenses.

### Follow-Up

- Hydro-Québec Production's earnings before interest, taxes, depreciation and amortization was \$0.5 billion higher than forecast for 2005, reaching \$4.1 billion. This is due to energy purchases being \$0.5 billion lower, including the \$0.3-billion unused budget contingency for unpredictable runoff. Earnings before interest, taxes, depreciation and amortization in 2005 contributed nearly \$100 million to achievement of the \$200-million increase objective set for the 2002–2008 period.
- At \$1.9 billion, net income exceeded the forecast for 2005 by \$0.7 billion. This difference between actual and forecast data is greater than the difference in earnings before interest, taxes, depreciation and amortization because financial expenses were below the forecast as a result of lower interest rates and the strong Canadian dollar.
- Favorable runoff in the second half of 2004 and in 2005 replenished energy reserves, enabling lower-than-forecast electricity purchases in 2005.
- As anticipated, the return on capital employed (RCE) in 2004 and 2005 exceeded the 12% objective.
- The freeze objective for operating expenses was met in 2004 and 2005.
- Interests in two Chinese companies, Meiya Power and Hunan Power, held by Hydro-Québec International and managed by Hydro-Québec Production, were sold in summer 2004.
- In spring 2005, the international operations under Hydro-Québec Production and Hydro-Québec TransÉnergie were merged with corporate units. A plan to sell foreign holdings was implemented, and it was decided to end Hydro-Québec International's involvement in the solicitation and continuation of professional service contracts abroad.

### Objective 3 **Ensure the reliability and quality of operations**

Substantial measures will be taken to ensure the reliability and long-term operability of the division's facilities. Hydro-Québec Production will therefore invest some \$2.4 billion in refurbishing the generating fleet and improving its productivity. Technological innovation will also continue to be an important tool for enhancing the reliability and quality of operations over the medium and long term.

#### Follow-Up

- Investments of \$375 million in 2004 and \$446 million in 2005 were used to refurbish generating equipment and improve fleet productivity, representing the portion of the \$2.4 billion earmarked in the plan for these two years.
- In 2004 and in 2005, the division spent close to \$20 million on technological innovation. Work focused on development of the hydraulic turbine analysis model (MATH) and development of robotic technology (Scompi robot, Maski underwater robot and REC system) for diagnosing and repairing hydroelectric and nuclear power generating equipment.



# Hydro-Québec TransÉnergie

## Objective 1 **Offer transmission service that meets customer needs**

Hydro-Québec TransÉnergie meets the highest industry standards, with a Service Average Interruption Duration Index (SAIDI) below the target of 0.65 hours per year. Consequently, it is able to offer its customers reliable, high-quality transmission service.

The quality of service will continue to improve, in line with customer expectations. In order to meet these expectations, the division will pursue four strategies:

- Review and update its understanding of the needs and expectations of transmission system customers.
- Ensure that capacity is available when customers need it, and provide services adapted to their needs.
- Continue improving its environmental performance.
- Uphold its commitments to public and worker safety.

### Follow-Up

- The Service Average Interruption Duration Index was 0.45 hours per customer in 2004 and 0.93 hours per customer in 2005. The exceptionally high figure for 2005 is attributable to particularly severe weather conditions.
- In 2004 and 2005, Hydro-Québec TransÉnergie invested nearly \$700 million to increase transmission capacity and improve system reliability.
- Since 2004, Hydro-Québec TransÉnergie has signed sectoral agreements with Hydro-Québec Distribution under the quality partnership formed by the two divisions. These agreements include satisfaction monitoring indicators.
- The division's ISO 14001 registration was renewed in May 2005 and the environmental management system was simplified.
- Careful control of work methods and appropriate employee training resulted in work-related accident frequency rates of 2.72 hours and 3.63 hours per 200,000 hours worked in 2004 and 2005 respectively. These results are very positive, especially considering the targets of 3.95 and 3.83 that had been set.



## Objective 2 **Maintain the reliability of the transmission system**

Hydro-Québec TransÉnergie, which comes under the exclusive jurisdiction of the Régie de l'énergie, is responsible for the reliability and security of the transmission system in Québec. The division intends to maintain system reliability in compliance with the requirements of power industry regulatory authorities, and will also work to improve security of supply by diversifying its supply channels.

### Follow-Up

- The Reliability function obtained a favorable audit report from the North American Electric Reliability Council (NERC) in October 2005.
- In 2004 and in 2005, the division spent \$23 million on technological innovation. As a result of its R&D program, new tools were introduced for performing system equipment diagnostics.
- Several projects focused on securing the system:
  - The Montérégie regional loop was completed in fall 2004.
  - Engineering on the first de-icer for high-voltage lines was completed in 2005. Installation has begun at Lévis substation and commissioning is scheduled for 2006. This project represents a total investment of \$191 million.
  - The division filed its Plan for securing regional systems with the Régie de l'énergie, as part of its application for authorization of the 2006 investment budget.
- The Grand-Brûlé-Vignan line project, designed to loop the Outaouais system, was abandoned.

### Objective 3 **Ensure the division's profitability**

To maintain its profitability, with a view to creating shareholder value, Hydro-Québec TransÉnergie will seek to achieve the rate of return authorized by the Régie de l'énergie, seize opportunities for revenue growth by increasing the availability of its facilities and carry out profitable international operations.

#### Follow-Up

- In April 2005, the Régie de l'énergie authorized a cost of service of \$2,591 million, which included a return on shareholder's equity of 8.59%. In June 2005, Hydro-Québec TransÉnergie filed an application to amend the transmission conditions of service. In April 2006, the Régie de l'énergie approved rates of \$72.90/kW-year for annual point-to-point transmission service and \$8.33/MWh for hourly point-to-point transmission service. The decision of the Régie de l'énergie is retroactive to January 1, 2005. The Régie de l'énergie also approved the modification of certain transmission conditions of service.
- Net income was \$409 million in 2004 and \$369 million in 2005, compared with the forecast \$274 million and \$433 million for these two years.<sup>1</sup> The 2005 results do not take into account the retroactive impact of the April 2006 decision of the Régie de l'énergie, which would have increased 2005 net income to \$539 million.
- The freeze objective for operating expenses was achieved in 2004 and 2005.
- In December 2005, the division submitted a working paper for performance-based incentive regulation to the Régie de l'énergie.
- At the end of 2003, 11% of the capital stock of HQT Transelec Chile, a subsidiary of Hydro-Québec International managed by Hydro-Québec TransÉnergie, was sold.
- In spring 2005, the international operations under Hydro-Québec TransÉnergie and Hydro-Québec Production were merged with corporate units. A plan to sell foreign holdings was implemented, and it was decided to end Hydro-Québec International's involvement in the solicitation and continuation of professional service contracts abroad.

<sup>1</sup> The data has been reclassified to reflect the transfer of operations.

# Hydro-Québec Distribution

## Objective 1 **Ensure an adequate, diversified supply of electricity**

On Québec small- and medium-power markets (rates D, G and M), Hydro-Québec Distribution expects to record annual sales of 100.5 TWh in 2008—3.3 TWh more than in 2003, representing an increase of 3.4% for 2003–2008 or an average increase of 0.7% per year.

On Québec's large-power market, Hydro-Québec Distribution plans to generate sales of 77.0 TWh in 2008—7.8 TWh more than in 2003, for an increase of 11.3% or average growth of 2.2% per year.

Revenue of \$10,492 million is forecast for 2008, assuming that electricity rates will begin to be increased as of January 2004.

Hydro-Québec Distribution will ensure that it has a supply portfolio at its disposal so that it is able, at all times, to meet the energy requirements of Québec markets. The division will also try to optimize the use of its various contracts so as to minimize costs to its customers.

### Follow-Up

- In 2004, Québec sales were 1.3 TWh below the forecast, mainly because of lower consumption in the industrial sector (–3.2 TWh). Housing starts, however, exceeded expectations and the weather was colder (+0.7 TWh). Consumption did not exceed the heritage pool of electricity until in 2005, a year later than anticipated.
- In 2005, Québec sales were 0.5 TWh below the forecast. Although housing starts were higher than expected, sales were limited by lower industrial sector consumption (–2.2 TWh) and by the impact of the weather (–0.6 TWh).
- Contracts to purchase 990 MW of wind power were signed in July 2005 (for commissioning in stages from 2006 to 2012), and a second tender call for 2,000 MW was issued on October 31, 2005.
- Hydro-Québec Distribution signed an agreement with Hydro-Québec Production defining the balancing and firming-up capacity services required for integration of the 990 MW of wind power from the first call for tenders. This agreement was approved by the Régie de l'énergie in February 2006.
- Short-term supply contracts were signed for 2005 and 2006. They represented an inflow of 3.9 TWh in 2005 and 1,250 MW of firm capacity for the winter of 2005–2006.
- Hydro-Québec Distribution signed a framework agreement with Hydro-Québec Production to enable it to adjust in real time to fluctuations in consumption or to unforeseen unavailability of its suppliers' generating facilities. This two-year agreement (2005 and 2006) was approved by the Régie de l'énergie in November 2005.

## Objective 2 **Emphasize Hydro-Québec's energy efficiency leadership**

With a view to sustainable development, Hydro-Québec has carried out major energy efficiency initiatives. The company estimates that recurring energy savings resulting from measures instituted between 1990 and 2006 will be approximately 23.5 TWh, including 3 TWh stemming directly from its programs.

Backed by its past experience, Hydro-Québec Distribution is continuing its direct involvement in energy efficiency through its Energy Efficiency Plan 2003–2006. With an objective of 750 GWh in energy savings, the Plan will require investments of \$257 million over a little more than three years. Of this amount, \$125 million will be absorbed by Hydro-Québec Distribution, \$10 million is expected from the Agence de l'efficacité énergétique and \$122 million will come from participating customers.

### Follow-Up

- The Energy Efficiency Plan 2003–2006 targeted annual energy savings of 750 GWh in 2006 and 1.5 TWh for the 2010 horizon. Encouraged by positive customer response to the various programs, Hydro-Québec Distribution decided to raise its energy savings targets.
- In November 2004, the division filed its Energy Efficiency Plan 2005–2010, which boosted the target to 3.0 TWh by 2010. In September 2005, this target was raised again to 4.1 TWh. This plan, approved by the Régie de l'énergie in March 2006, provides for total investments of \$1.9 billion, over half to be made by Hydro-Québec Distribution.
- As part of the *Strategic Plan 2006–2010*, Hydro-Québec intends to raise its 2010 objective to 4.7 TWh, in line with a target of 8 TWh for the 2015 horizon. The related programs and investment budgets will be filed with the Régie de l'énergie in 2006.

### Objective 3 **Offer Québec customers service that meets their expectations**

In keeping with its customers' expectations, Hydro-Québec Distribution plans to provide reliable electricity service as well as high-quality services and advice by relying on its employees and the use of modern tools and methods. It intends to act as a socially and environmentally responsible distributor.

#### Follow-Up

- Hydro-Québec Distribution had set an objective to reduce the Service Average Interruption Duration Index to 1.7 hours per year per customer for Québec as a whole for the 2006 horizon. This index was 1.97 in 2004, then rose to 2.37 in 2005 because of unusual weather events that caused major power outages during the summer.
- The division was targeting a combined satisfaction index of at least 7.5 out of 10 for the 2008 horizon for residential, commercial and business customers. The average index was 7.37 in 2003, 7.25 in 2004 and 7.28 in 2005. The rate increases and the public debate about Suroît generating station explain the results for the last two years. The satisfaction level objective of at least 7.5 is being maintained in the *Strategic Plan 2006–2010*, with a horizon year of 2010.
- For large-power customers, the satisfaction index exceeded the target of 8.0 on a scale of 10. It was 8.96 in 2003 and 2004, and 9.10 in 2005.
- In April 2004, an application to adjust the conditions of service was filed with the Régie de l'énergie with a view to clarifying and simplifying regulations. The related hearings were held in February 2006.
- In June 2005, the entire division obtained its ISO 14001 environmental registration.

## Objective 4 **Achieve the authorized rate of return in 2004 and then maintain it**

Hydro-Québec Distribution plans to maintain strict cost control and improve its efficiency and productivity. In addition, it will enhance its assets and expertise by continuing its activities to commercialize technologies related to its core businesses.

In the industrial sector, the division intends to focus on the establishment of industries that offer added value for Québec (maximum jobs and investments per megawatt of contract power), in order to maximize the economic spinoffs in Québec for a specific rate impact.

Over the time frame of the Strategic Plan, the division expects to apply to the Régie de l'énergie for rate increases that will allow it to achieve a normal rate of return in a regulated environment, in the current legal framework. Over the medium term, it should also propose an incentive regulatory framework to the Régie that will be advantageous both for customers and for the shareholder.

### Follow-Up

- The freeze objective for operating expenses was met in 2004 and 2005.
- Hydro-Québec Distribution monitors 17 performance indicators that measure its cost of service and presents the results to the Régie de l'énergie. In its February 2006 decision on the 2006–2007 rate case, the Régie expressed satisfaction with the results of the division's benchmarking study on its operating expenses and overall efficiency.
- In 2004 and 2005, there were no major industrial plants established in Québec other than the projects anticipated in the *Strategic Plan 2004–2008*.
- In July 2005, the Régie de l'énergie approved the Hydro-Québec Distribution system automation plan, requiring investments of \$188 million. New tools and concepts for reducing the cost of extending and maintaining the underground system were also implemented.
- The division's net income was \$287 million in 2004 and \$230 million in 2005, respectively \$129 million more and \$84 million less than forecast. For 2004, the Régie de l'énergie authorized rate increases of 3.0% on January 1 (in accordance with the *Strategic Plan 2004–2008*) and 1.41% on April 1 (instead of the forecast 2.98%). For April 1, 2005, an increase of 1.2% was authorized (as opposed to a forecast increase of 5.48% and a requested increase of 2.7%).
- The Régie de l'énergie authorized the rescission of Rate BT effective April 1, 2006, as well as the introduction of financial incentives and a transition rate.
- Hydro-Québec Distribution is continuing its discussions with the Régie de l'énergie on the possible implementation of a form of incentive regulation.

# Financial Results

## Statement of Operations

(\$M)	2004			2005		
	Forecast (reclassified)*	Result	Variance	Forecast (reclassified)*	Result	Variance
Revenue	10,389	10,399	10	11,136	10,890	(246)
Operating expenses	2,244	2,216	(28)	2,287	2,294	7
Other expenses	4,077	3,944	(133)	4,398	4,127	(271)
including budget contingency	–	–	–	300	–	(300)
Financial expenses	2,325	2,111	(214)	2,680	2,214	(466)
Non-controlling interest	–	3	3	–	6	6
<b>Income from continuing operations</b>	<b>1,743</b>	<b>2,125</b>	<b>382</b>	<b>1,771</b>	<b>2,249</b>	<b>478</b>
Discontinued operations	7	310	303	29	3	(26)
<b>Net income</b>	<b>1,750</b>	<b>2,435</b>	<b>685</b>	<b>1,800</b>	<b>2,252</b>	<b>452</b>
Dividends declared	875	1,350	475	900	1,126	226
Return on shareholder's equity (%)	11.3	15.5	4.2	11.0	13.4	2.4
Capitalization (%)	29.4	32.8	3.4	30.3	34.2	3.9

\* The data has been reclassified to show the results from holdings divested or to be divested by December 31, 2005, under Discontinued operations. These include Noverco, HydroSolution, Cross-Sound Cable and most of the interests of Hydro-Québec International.

## Results

**2004** Net income was \$2,435 million, or \$685 million more than forecast, including \$382 million from continuing operations and \$265 million from a gain on the divestiture of Noverco. Dividends declared exceeded the forecast by \$475 million, and the return on shareholder's equity was 15.5%.

**2005** Net income was \$2,252 million, or \$452 million more than forecast, owing to high prices on markets outside Québec, the unused budget contingency and favorable interest and exchange rates. Rate increases, however, were lower than forecast. Dividends declared exceeded the forecast by \$226 million, and the return on shareholder's equity was 13.4%.

As at December 31, 2005, capitalization was 34.2%, compared to the forecast level of 30.3%.

## Revenue

**2004** Revenue as a whole was more or less in line with the forecast. Québec electricity sales were \$107 million below the forecast level, but energy sales outside Québec exceeded the forecast by \$114 million, mainly because of favorable market conditions.

**2005** Total revenue was \$246 million below the forecast. Québec electricity sales were \$563 million lower and Hydro-Québec IndusTech revenue was \$112 million lower. Energy sales on external markets, however, generated \$431 million more than anticipated.

Revenue from Québec electricity sales was affected by rate increases that were lower than those assumed in the *Strategic Plan 2004–2008*. The unfavorable impact was \$90 million in 2004 and \$574 million in 2005. An increase of 2.98% had been requested for April 1, 2004, but the Régie authorized an increase of 1.41%. For 2005, the required increase had been estimated at 5.48%, but the increase requested was 2.7% and the increase granted was 1.2%.

### Operating Expenses

**2004** Operating expenses were \$28 million less than forecast owing mainly to careful cost control that kept them below the freeze objective.

**2005** Operating expenses exceeded the forecast by \$7 million. Cost control maintained them below the freeze objective, and Hydro-Québec IndusTech's expenses were \$69 million less than expected. However, \$150 million and \$25 million more than forecast had to be allocated for the rise in pension expense and the additional cost of facility security.

### Other Expenses

**2004** Other expenses were \$133 million below the forecast because of a favorable variance of \$57 million attributable to a change in an accounting standard relating to asset retirement and the fact that energy purchases on markets outside Québec cost \$77 million less than forecast.

**2005** Other expenses were \$271 million below the forecast. The unused budget contingency provided in the *Strategic Plan 2004–2008* accounted for \$300 million of the favorable variance, and lower energy purchases by Hydro-Québec Production on markets outside Québec accounted for \$202 million. However, purchases of electricity by Hydro-Québec Distribution from private producers cost \$178 million more than expected, and depreciation exceeded the forecast by \$72 million.

### Financial Expenses

**2004** Financial expenses were \$214 million below the forecast owing mainly to an exchange gain of \$154 million from the write-down of the natural hedge between debts and sales in U.S. dollars.

**2005** Financial expenses were \$466 million below the forecast because of lower debt volume, favorable interest rates, and exchange losses that were \$105 million lower.



## Discontinued Operations

**2004** Discontinued operations resulted in a favorable variance of \$303 million, which was mainly attributable to the divestiture of the interest in Noverco (for a gain of \$265 million paid entirely as dividends).

**2005** Discontinued operations showed an unfavorable variance of \$26 million. International operations, which should be completely sold off in 2006, generated \$42 million less than expected. In addition, the absence of Noverco resulted in a revenue shortfall of \$37 million. The sale of the HydroSolution assets, however, yielded a gain of \$48 million.

## Statement of Cash Flows

(\$M)	2004			2005		
	Forecast (reclassified)	Result	Variance	Forecast (reclassified)	Result	Variance
Capital investments	(3,392)	(2,129)*	1,263	(3,569)	(3,443)	126
Redemptions and maturities	(1,693)	(2,540)	(847)	(2,452)	(2,712)	(260)
Dividends paid	(850)	(965)	(115)	(875)	(1,350)	(475)
<b>Application of funds</b>	<b>(5,935)</b>	<b>(5,634)</b>	<b>301</b>	<b>(6,896)</b>	<b>(7,505)</b>	<b>(609)</b>
Operations	3,625	3,923	298	4,086	4,423	337
Financing**	2,310	1,711	(599)	2,810	3,082	272
<b>Source of funds</b>	<b>5,935</b>	<b>5,634</b>	<b>(301)</b>	<b>6,896</b>	<b>7,505</b>	<b>609</b>

\* Capital investments (\$3,127 million) net of the proceeds from the sale of interests in Noverco (\$894 million) and Meiya Power (\$104 million)

\*\* Includes the net change in cash and short-term investments. Long-term borrowings totaled \$1,916 million in 2004 and \$3,855 million in 2005.

**2004** Capital investments totaled \$3,127 million. In the above table, they are shown after subtraction of the \$998 million from the sale of interests in Noverco and Meiya Power. The \$265 million remaining variance in capital investments is mainly due to the more gradual undertaking of the planned investments in transmission and distribution. Debt redemptions and maturities were also influenced by the sale of interests.

Dividends paid were \$115 million higher than forecast because the net income in 2003 was higher than anticipated.

Cash from operating activities exceeded the forecast of \$298 million because income from continuing operations was higher than anticipated. Financing requirements being lower, long-term borrowing was limited to \$1,916 million.

**2005** Investments were \$126 million lower. Debt redemptions and maturities include early redemptions. Dividends paid were \$475 million higher because net income was higher than forecast in 2004 and because the \$265-million gain on the sale of Noverco in 2004 was paid as dividends.

Cash from operating activities exceeded the forecast by \$337 million, reflecting the higher income from continuing operations.

Long-term borrowings were \$3,855 million; this was higher than forecast because of early redemption of long-term debt.

**Units of measure**

<b>\$M:</b>	millions of dollars
<b>\$B:</b>	billions of dollars
<b>W:</b>	watt (unit for measuring power)
<b>kW:</b>	kilowatt or one thousand watts
<b>MW:</b>	megawatt or one million watts
<b>GW:</b>	gigawatt or one million kilowatts
<b>kWh:</b>	kilowatthour (unit for measuring electrical energy)
<b>GWh:</b>	gigawatthour or one million kilowatthours
<b>TWh:</b>	terawatthour or one billion kilowatthours

This publication may be obtained from our Web site [www.hydroquebec.com](http://www.hydroquebec.com).

© Hydro-Québec  
Affaires corporatives  
et secrétariat général  
Reproduction authorized  
with reference to source  
Legal deposit – 2nd quarter 2006  
Library and Archives Canada  
Bibliothèque et Archives nationales  
du Québec  
ISBN 2-550-47197-0  
ISBN 2-550-47198-9 (PDF)  
2006G092A

*Ce document est également publié en français.*

[www.hydroquebec.com](http://www.hydroquebec.com)

