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The place at which copies of the Securities Report are made available for public inspection: Not applicable

Notes: (1) In this document, all references to “dollars”, “Can \$” and “\$” are to Canadian dollars, except as otherwise indicated. As of June 13, 2011, the noon spot rate for the Japanese yen as published by the Bank of Canada was 0.0122 dollar per JPY1.00.

(2) In this document, where figures in tables have been rounded, the total may not necessarily agree with the sum of the figures.

(3) In this document, the units of measure are as follows:

	V:	volt (a unit for measuring voltage)		
	kV:	kilovolt (one thousand volts)		
W:	watt (a unit for measuring power)	Wh:	watthour (a unit for measuring electric energy)	
kW:	kilowatt (one thousand watts)	kWh:	kilowatthour (one thousand watthours)	
MW:	megawatt (one million watts)	MWh:	megawatthour (one million watthours)	
GW:	gigawatt (one million kilowatts)	GWh:	gigawatthour (one million kilowatthours)	
		TWh:	terawatthour (one billion kilowatthours)	

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*(This English version of the Securities Report has been prepared solely for
reference and shall not have any binding force.)*

I. STATE OF THE BONDS OFFERED FOR SUBSCRIPTION

None

II. THE MOVEMENT OF FOREIGN EXCHANGE RATES

(1) The Movement of Foreign Exchange Rates for the recent five fiscal years

Not applicable.

(2) The Movement of Foreign Exchange Rates for the recent six months during the fiscal year ended December 31, 2010

Not applicable.

(3) Recent Foreign Exchange Rate

Not applicable.

III. OUTLINE OF THE ISSUER

(1) In case the Issuer is a state/nation/country

Not applicable.

(2) In case the Issuer is a provincial, municipal and other regional or local public body

Not applicable.

(3) In case the Issuer is an international organization or a government agency

1. Establishment

(1) Establishment, Legal Status and Domicile

Hydro-Québec was created on April 15, 1944, without limitation as to time, by the *Hydro-Québec Act* of the Parliament of Québec, Revised Statutes of Québec, Chapter H-5, as amended (the "*Hydro-Québec Act*"), and is an agent of the government of Québec (the "Government").

Hydro-Québec has special rights and powers conferred upon it by the *Hydro-Québec Act* and all those pertaining to corporations in general. It has unlimited power to possess moveable and immoveable property. Its property belongs to Québec, but performance of the obligations of Hydro-Québec may be levied on such property. Hydro-Québec binds none but itself when acting in its own name.

All capital stock of Hydro-Québec is held by the Minister of Finance on behalf of the Government.

The head office of Hydro-Québec is located at 75 René-Lévesque Boulevard West, Montréal, Québec, Canada H2Z 1A4.

(2) Mandate

Under the provisions of the *Hydro-Québec Act*, Hydro-Québec is mandated to supply power and to pursue endeavors in energy-related research and promotion, energy conversion and conservation, and any field connected with or related to power or energy.

(3) Relations with Japan

None.

2. Capitalization

The following table sets forth a summary of the capitalization of Hydro-Québec on a consolidated basis as at December 31, 2010 (see Note 19 to the 2010 Consolidated Financial Statements).

	(in millions of dollars)
Equity	18,566
Long-term debt, including current portion	38,372
Perpetual debt	288
Short-term borrowings	18
Derivative instruments	581
Total	57,825

3. Organization

The affairs of Hydro-Québec are administered by a board of directors (the “Board”) composed of a maximum of seventeen members, including the Chairman and the President and Chief Executive Officer. The Government appoints the members of the Board based on the expertise and experience profiles established by Hydro-Québec. Directors are appointed for a term of up to four years and the Chairman for a term of up to five years; they may be reappointed twice, successively or not.

The Board administers Hydro-Québec’s business efficiently, in accordance with the *Hydro-Québec Act*, the *Companies Act* and the applicable regulations. The Board is responsible for compliance with the rules set out in the *Code of Ethics and Rules of Professional Conduct for Directors, Executives and Controllers of Hydro-Québec*, which are based on the *Regulation respecting the ethics and professional conduct of public office holders*.

The present members of the Board are:

Chairman of the Board	Michael L. Turcotte
President and Chief Executive Officer	Thierry Vandal
Other members	Gaston Blackburn Anik Brochu Carl Cassista Michelle Cormier Bernard Gaudreault Suzanne Gouin Louis Lagassé Jacques Leblanc Michel Plessis-Bélaïr Marie-France Poulin Robert Sauvé Marie-Anne Tawil Emmanuel Triassi Gilles Vaillancourt (temporarily withdrawn from the Board of Directors)

4. Outline of Operations

(1) General

Hydro-Québec operates one of the two largest systems in Canada for the generation and distribution of electric power. Hydro-Québec supplies virtually all electric power distributed in Québec, the largest province in Canada in land area and the second largest in population.

Hydro-Québec's operations are allocated among five business segments:

- **Generation:** *Hydro-Québec Production* operates and develops Hydro-Québec's generating facilities in Québec. It also sells electricity in markets outside Québec and engages in energy trading. *Hydro-Québec Production* is required to provide *Hydro-Québec Distribution* with a base volume of up to 165 TWh a year of heritage pool electricity at an average price of 2.79¢/kWh ("Heritage Pool Electricity"). In excess of this volume, it may participate in *Hydro-Québec Distribution*'s calls for tenders in a context of free market competition;
- **Transmission:** *Hydro-Québec TransÉnergie* operates and develops Hydro-Québec's power transmission system. It markets system capacity and manages power flows throughout Québec;
- **Distribution:** *Hydro-Québec Distribution* operates and develops Hydro-Québec's distribution system and is responsible for sales and services to Québec customers. It also promotes energy efficiency and ensures the security of the supply of electricity to the Québec market;
- **Construction:** *Hydro-Québec Équipement et services partagés* and Hydro-Québec's wholly-owned subsidiary, *Société d'énergie de la Baie James* ("SEBJ"), design, build and refurbish generating and transmission facilities. *Hydro-Québec Équipement et services partagés* is responsible for projects throughout Québec, except in the territory governed by the *James Bay and Northern Québec Agreement* (the "JBNQ Agreement"). SEBJ builds generating facilities in the territory governed by the JBNQ Agreement (north of the 49th parallel) and may carry out projects outside Québec; and
- **Corporate and Other Activities:** The following corporate units support Hydro-Québec's divisions in the achievement of their business objectives: *Groupe – Technologie* (Technology Group), *Groupe – Affaires corporatives et secrétariat général* (Corporate Affairs and General Secretariat Group), *Vice-présidence – Comptabilité et contrôle* (Accounting and Control Vice Presidency), *Vice-présidence – Financement, trésorerie et caisse de retraite* (Financing, Treasury and Pension Fund Vice Presidency) and *Vice-présidence – Ressources humaines* (Human Resources Vice Presidency) as well as the *Direction principale – Centre de services partagés* (Shared Services Centre Unit), which reports to *Hydro-Québec Équipement et services partagés*. The *Centre de services partagés* (Shared Services Centre) brings together internal company-wide shared services, including goods and services procurement, real estate management, and material and transportation service management.

(2) Generation

Hydro-Québec Production generates electricity to supply the Québec market and sells its excess output on wholesale markets. *Hydro-Québec Production* also offers balancing and firming capacity services to *Hydro-Québec Distribution* to offset variations in wind farm output and thereby facilitate the integration of this energy source.

Generation Operations

Facilities

In Québec, Hydro-Québec's electric generation system comprises 89 power stations currently in service, of which 60 are hydroelectric, 28 are thermal and one is nuclear; with a total installed capacity of 36,671 MW as of December 31, 2010.

The following table lists the generating stations in service as of such date.

GENERATING STATIONS IN SERVICE IN QUÉBEC ⁽¹⁾

Name of Facility	Years Commissioned ⁽²⁾	Capacity (MW)
Hydroelectric		
Robert-Bourassa	1979-1981	5,616
La Grande-4	1984-1986	2,779
La Grande-3	1982-1984	2,417
La Grande-2-A	1991-1992	2,106
Beauharnois	1932-1961	1,911
Manic-5	1970-1971	1,596
La Grande-1	1994-1995	1,436
René-Lévesque (Manic-3)	1975-1976	1,244
Bersimis-1	1956-1959	1,178
Jean-Lesage (Manic-2)	1965-1967	1,145
Manic-5-PA	1989-1990	1,064
Outardes-3	1969	1,026
Sainte-Marguerite-3	2003	884
Laforge-1	1993-1994	878
Bersimis-2	1959-1960	869
Outardes-4	1969	785
Carillon	1962-1964	753
Toulnostouc	2005	526
Outardes-2	1978	523
Eastmain-1	2006	507
Brisay	1993	469
Péribonka	2007-2008	405
Laforge-2	1996	319
Trenche	1950-1955	302
La Tuque	1940-1955	294
Beaumont	1958-1959	270
McCormick	1951-1965	235
Rocher-de-Grand-Mère	2004	230
Paugan	1928-1956	206
Rapide-Blanc	1934-1955	204
Shawinigan-2	1911-1929	200
Shawinigan-3	1948-1949	194
Manic-1	1966-1967	184
Rapides-des-Îles	1966-1973	176
Chelsea	1927-1939	152
La Gabelle	1924-1931	131
Première-Chute	1968-1975	131
Rapides-Farmer	1927-1947	104
Les Cèdres	1914-1924	103
Rapides-des-Quinze	1923-1955	103
Others (20 – generating stations rated less than 100 MW) ⁽³⁾	1910-2009	835
Total		34,490
Thermal		
Tracy (steam) ⁽⁴⁾	1964-1968	495
Bécancour, La Citière and Cadillac (gas-turbine)	1976-1993	881
Others (24 diesel plants) ⁽³⁾	1946-2010	130
Total		1,506
Nuclear		
Gentilly-2 ⁽⁵⁾	1983	675

(1) The installed capacity shown for a hydroelectric station is equivalent to that of its generating units operating in winter conditions (water temperature of 5°C).

(2) Indicates years when facilities began commercial operation.

(3) Some facilities are owned by *Hydro-Québec Distribution*.

(4) In 2010, Hydro-Québec decommissioned a unit at Tracy thermal generating station.

(5) The Gentilly-2 plant has a Canada-Deuterium-Uranium heavy water moderated reactor, using heavy water as a moderator and coolant, and uranium dioxide as fuel.

Power Purchases

Hydro-Québec purchases power and energy from the Churchill Falls generating station in Labrador through agreements with Churchill Falls (Labrador) Corporation Limited (“CF(L)Co”), in which Hydro-Québec has a 34.2% equity interest (see “Note 22 to the 2010 Consolidated Financial Statements”). Under an initial power contract signed in 1969 with CF(L)Co, Hydro-Québec agreed to purchase annually, through the year 2041, 4,083 MW of power (the “1969 Power Contract”). In June 1999, Hydro-Québec signed another agreement with CF(L)Co to guarantee Hydro-Québec the availability of 682 MW of additional capacity until 2041 for each November 1 to March 31 period.

Hydro-Québec has a capacity agreement with New Brunswick Power Generation Corporation (formerly known as New Brunswick Power Corporation) for the purchase of 200 MW annually until October 31, 2011. Hydro-Québec also has an agreement with Rio Tinto Alcan Inc., which was amended in 2006, for the purchase of 365 MW of peak power and 375 MW of additional peak power until December 31, 2045. Under this 2006 amendment, Hydro-Québec agreed to purchase from Rio Tinto Alcan Inc. an additional 150 MW of peak power until January 1, 2013 which, if certain conditions are met, will be extended until December 31, 2045.

In addition, Hydro-Québec purchases power under 80 long-term contracts with independent producers located in Québec. For 2011, Hydro-Québec expects to purchase approximately 4.1 TWh under these contracts.

Hydro-Québec also purchases power in connection with its trading operations (see “Wholesale and Trading Operations”).

Peak

Hydro-Québec uses energy purchased from its neighboring systems, which experience different demand patterns, to meet a portion of its peak power needs in Québec (see “Wholesale and Trading Operations”). The following table summarizes Hydro-Québec’s peak power demand in Québec and installed capacity as at December 31 for the years 2008 through 2010.

	Peak Power Demand ⁽¹⁾	Installed Capacity ⁽²⁾⁽³⁾	Total Average Load ⁽⁴⁾
		(MW)	
2008	37,230	36,432	24,047
2009	34,659	36,813	23,804
2010	37,717	36,671	23,871

(1) Total power demand at the annual domestic peak for the winter beginning in December, including interruptible power. The peak for a given period is based on measurements at fixed intervals. The 2010-2011 winter peak was 37,717 MW and occurred on January 24, 2011, at 8:00 a.m., after the system load momentarily reached 38,286 MW at 7:38 a.m.

(2) In addition to the generating capacity of its own facilities, Hydro-Québec has access to almost all the output from Churchill Falls generating station (5,428 MW) under a contract that will remain in effect until 2041. In 2010, Hydro-Québec purchased all the output from nine privately-owned wind farms with a total installed capacity of 659 MW under long-term contracts. An additional 1,277 MW are available under various agreements with other independent suppliers.

(3) The installed capacity shown for a hydroelectric station is equivalent to that of its generating units operating in winter conditions (water temperature of 5°C).

(4) Annual energy demand, including sales outside Québec, divided by the number of hours in the year.

Investment Outside Québec

Hydro-Québec holds an indirect interest in Bucksport Energy LLC, a thermal energy plant located in Maine, U.S. The plant, which started its commercial operations in January 2001, produces approximately 1.4 TWh of energy per year. Hydro-Québec’s wholly-owned power marketer in the United States, H.Q. Energy Services (U.S.) Inc. (“HQUS”), supplies the plant with natural gas and receives most of the energy under fifteen-year contracts through January 2016.

Wholesale and Trading Operations

Québec Wholesale Market

The Québec wholesale electricity market has been open since May 1, 1997. This market is comprised of 11 distributors: *Hydro-Québec Distribution*, nine distributors operating municipal systems and one regional electricity cooperative. As a result of the opening of the wholesale market, the municipal systems can, subject to the Government's authorization, purchase electricity from suppliers other than *Hydro-Québec Distribution*, and independent generators in Québec can sell their electricity on the wholesale market using *Hydro-Québec TransÉnergie's* transmission facilities.

Under a call for tenders issued by *Hydro-Québec Distribution* in 2002, *Hydro-Québec Production* signed agreements with *Hydro-Québec Distribution* for the supply of 600 MW over a 20-year period starting in March 2007, which is in addition to the Heritage Pool Electricity.

Markets Outside Québec

Currently, Hydro-Québec's main markets outside Québec consist of neighboring networks located in Canada and the northeastern United States.

In 2010, net exports by *Hydro-Québec Production* accounted for only 7% of net sales volume, but generated 17% of Hydro-Québec's net income.

HQUS is a member of New York ISO, ISO New England, Midwest ISO (which includes all or parts of Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Montana, North Dakota, Ohio, Pennsylvania, South Dakota, Wisconsin and Manitoba) and PJM Interconnection (which includes all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia). ISOs, or Independent Systems Operators, and RTOs, or Regional Transmission Organizations, enable participants to buy and sell energy, schedule bilateral transactions and reserve transmission service. HQUS holds a permit from the U.S. Federal Energy Regulatory Commission to sell at market-based rates.

Hydro-Québec's wholly-owned energy-trading subsidiary operating in Canada, HQ Energy Marketing Inc. ("HQEM"), sells and buys energy and reserves transmission service in the Ontario and New Brunswick wholesale markets. HQEM is a participant of the Independent Electricity System Operator (the Ontario ISO).

Hydro-Québec has four long-term export contracts for the sale of energy or power. The following table summarizes Hydro-Québec's principal energy export agreements.

PRINCIPAL ENERGY EXPORT AGREEMENTS

	Expiry Date	Power (MW)	Maximum Annual Deliveries (TWh)
<i>Long-term Sales - Power and Energy (not interruptible)</i>			
Cornwall Electric - Canada	2019	45	0.2
Cornwall Electric - Canada	2019	100	0.4 ⁽¹⁾
Vermont Joint Owners ("VJO")	2020	335 ⁽²⁾	2.1
Seven Vermont power distributors ⁽³⁾	2038 ⁽⁴⁾	225	1.3

(1) Based on historical data.

(2) By separate agreement with a VJO Member, 25 MW (0.2 TWh) are being repurchased annually until April 30, 2012.

(3) Central Vermont Public Service Corporation, Green Mountain Power Corporation, Vermont Electric Cooperative, Inc., Vermont Public Power Supply Authority, Vermont Marble Power Division of Omya Inc., City of Burlington, Vermont Electric Department and the Town of Stowe Electric Department.

(4) The term will begin on November 1, 2012 and will continue through October 31, 2038.

On August 12, 2010, HQUS signed a power supply contract with seven Vermont utilities, of which the two largest are Central Vermont Public Service Corporation and Green Mountain Power Corporation. This contract will be in effect from 2012 to 2038 and Hydro-Québec anticipates sales of power totaling up to approximately 225 MW.

In October 2010, HQEM's wholly-owned subsidiary, Hydro Renewable Energy Inc. ("HRE") signed a transmission service agreement with Northern Pass Transmission LLC ("NPT"), a New Hampshire company that is indirectly owned by two major New England power distributors, Northeast Utilities (75%) and NSTAR (25%), which have announced their intention to merge.

Under this agreement, NPT will sell HRE transmission rights for a 40-year period on a 1,200-MW line proposed to be built between the Canada-U.S. border and the city of Deerfield, New Hampshire. NPT submitted the agreement to the Federal Energy Regulatory Commission ("FERC") for approval in December 2010 and the FERC approved it without modification in February 2011. NPT is working to obtain all necessary permits and authorizations. If permits and authorizations (including rights of way) are obtained according to schedule, construction of the line should begin in 2013, with commissioning to take place in 2016.

Electricity Sales and Revenue

The following table summarizes electricity sales and revenue outside Québec, by category, for the years 2008 through 2010.

ELECTRICITY SALES AND REVENUE OUTSIDE QUÉBEC

	Years ended December 31		
	2008	2009	2010
	(in GWh)		
Electricity Sales			
Canada/U.S. (long-term)	2,516	2,604	2,677
Canada/U.S. (short-term)	18,783	20,753	20,593
Total Electricity Sales	21,299	23,357	23,270
	(in millions of dollars)		
Revenue from Electricity Sales			
Canada/U.S. (long-term)	\$ 220	\$ 256	\$ 247
Canada/U.S. (short-term)	1,699	1,250	1,266
Total Revenue from Electricity Sales	\$ 1,919	\$ 1,506	\$ 1,513

(3) Transmission

Hydro-Québec TransÉnergie provides the following services:

- transmission of electricity to supply Québec's native load; the native load is made up of the total transmission requirements of the Québec wholesale market (see "Generation – Québec Wholesale Market") but excludes customers in remote communities; *Hydro-Québec Distribution* is *Hydro-Québec TransÉnergie*'s largest customer;
- point-to-point transmission service; as of the end of 2010, *Hydro-Québec TransÉnergie* had signed transmission service agreements with 26 customers, including *Hydro-Québec Production*, the largest customer for this service; and
- connection of privately-owned generating facilities to *Hydro-Québec TransÉnergie*'s transmission system; *Hydro-Québec TransÉnergie* currently serves 30 private producers.

Transmission System

Some generating stations in Québec are located at substantial distances from consumer centers. As a result, *Hydro-Québec TransÉnergie*'s power transmission system is one of the most extensive in North America, comprising more than 33,400 kilometres of lines.

The system includes the following facilities as at December 31, 2010.

Voltage	Substations	Lines (km) ⁽¹⁾
765 kV and 735 kV	38	11,422
450 kV DC	2	1,218
315 kV	64	5,254
230 kV	52	3,120
161 kV	41	2,026
120 kV	216	6,757
69 kV or less	101	3,656
TOTAL	514	33,453

(1) Kilometres covered by the transmission system. Many facilities carry two lines on the same infrastructure.

In 1997, *Hydro-Québec TransÉnergie* opened access to its transmission grid in accordance with the Hydro-Québec Open Access Transmission Tariff. Consequently, electricity distributors, producers and marketers in and outside Québec have the option to enter into transactions with distributors and producers located outside Québec to buy or sell electricity and to wheel in, wheel out or wheel through *Hydro-Québec TransÉnergie*'s transmission grid at specified rates. The capacity available on the system is posted on the OASIS (Open Access Same-Time Information System) website.

Hydro-Québec TransÉnergie's *Direction – Contrôle et exploitation du réseau* (System Control Operations Unit) is responsible for energy dispatching, power flow supervision and system security monitoring. The transmission system in Québec is separate from the Eastern Interconnection into which other Northeast Power Coordinating Council (NPCC) systems are interconnected. It is linked through interconnections with other major power systems in Canada and the northeastern United States.

The following table shows existing interconnection capacity with neighboring systems outside Québec, excluding the lines to Churchill Falls, as at December 31, 2010.

INTERCONNECTIONS WITH NEIGHBORING SYSTEMS OUTSIDE QUÉBEC

		Maximum Export Capacity ⁽¹⁾	Maximum Import Capacity	Voltage
		(MW)	(MW)	(kV)
CANADA	Ontario	2,705	1,945	120 and 230
	New Brunswick	1,080	785	230, 315 and 345
UNITED STATES	New York	1,999	1,100	120 and 765
	New England	2,275	2,070	120 and ±450

(1) Ontario and New York State are partially served by the same installations, limiting the simultaneous export capacity of these two systems to approximately 4,350 MW.

(4) Distribution

The primary responsibility of *Hydro-Québec Distribution* is to deliver electricity to Québec customers. To fulfill this responsibility, *Hydro-Québec Distribution* relies primarily on the Heritage Pool Electricity which it purchases from *Hydro-Québec Production*. To meet demand beyond that volume, *Hydro-Québec Distribution* purchases additional electricity under market conditions by issuing calls for tenders from suppliers in the market (see “Regulatory Framework – *Energy Board Act*”).

Hydro-Québec Distribution's system is comprised of 112,089 kilometres of medium voltage lines (almost exclusively 25 kV), as well as 100,536 kilometres of low voltage lines. Approximately 10% of all such lines are underground.

Hydro-Québec Distribution sells to a wide range of customers, from industrial users, which accounted for 40.4% of sales volume in 2010, to residential customers and farms, which represented 35.1% of sales volume in the same period. Revenues are also derived from sales to commercial and institutional customers as well as distributors operating municipal electric systems.

Hydro-Québec Distribution has developed some flexibility in the management of its system and currently has 1,435 MW of interruptible power and 850 MW of concurrent peak-saving capacity in its residential dual-energy market.

Hydro-Québec Distribution has entered into special agreements with nine industrial customers for whom electricity costs represent a substantial proportion of total production costs. Some of these agreements provide for the sale, on a long-term basis, of firm energy at prices that vary in accordance with a formula based on the market price of aluminum. *Hydro-Québec* manages the exposure to fluctuations in aluminum prices resulting from these contracts by entering into financial transactions, such as futures or swaps (see “Note 15 to the 2010 Consolidated Financial Statements”). In 2010, deliveries under these agreements accounted for 40.1% of the total energy deliveries to industrial users.

Hydro-Québec Distribution relies on various sources to supply the Québec market. To meet requirements in excess of the Heritage Pool Electricity reserved for it by *Hydro-Québec Production*, *Hydro-Québec Distribution* issues short- and long-term calls for tenders. For requirements of less than three months, it may also buy electricity directly in the market, without tendering, under an exemption granted by the *Régie de l'énergie* (the “Energy Board”). For unforeseen needs that cannot be met otherwise, it relies on a framework agreement with *Hydro-Québec Production*. The current framework agreement will expire at the end of 2013.

Further to calls for tenders issued since 2002, *Hydro-Québec Distribution* signed contracts with *Hydro-Québec Production* for the supply of 600 MW over a 20-year period beginning in March 2007 and with 22 independent producers for the supply of more than 3,400 MW (including 2,845 MW of wind-generated electricity) for deliveries beginning between 2006 and 2015.

Hydro-Québec Distribution manages its flexible and diversified energy portfolio to deal with fluctuations in demand. Every three years, *Hydro-Québec Distribution* prepares a supply plan covering the next 10 years. This supply plan presents forecasts of *Hydro-Québec Distribution*'s customers' electricity requirements, taking into account energy efficiency measures that have been implemented, along with the various means that *Hydro-Québec Distribution* intends to use to ensure a secure supply of electricity for Québec. The supply plan must be approved by the Energy Board and is subject to follow-up on an annual basis. In November 2010, *Hydro-Québec Distribution* filed its *Electricity Supply Plan 2011-2020* with the Energy Board. A public hearing began in June 2011 and a decision is expected at the end of the year.

Calls for tenders could be made in the coming years (see “Regulatory Framework – *Energy Board Act*”). In 2010, *Hydro-Québec Distribution* implemented a power purchase program involving the acquisition of energy generated in Québec from new Aboriginal or local community hydroelectric projects of 50 MW or less. Thirteen projects were selected for a total installed capacity of 150 MW, with deliveries starting in 2010 to 2014.

In December 2010, *Hydro-Québec Distribution* also announced that it had accepted 12 bids totaling 291.4 MW in response to the call for tenders issued on April 30, 2009, for the purchase of two separate blocks of 250 MW of wind power generated in Québec, one resulting from Aboriginal projects (for 24.0 MW); and eleven resulting from community projects (for a total of 267.4 MW). Deliveries of electricity are scheduled to begin between December 1, 2013 and December 1, 2015. *Hydro-Québec Distribution* is working with the projects proponents to finalize the contracts, which will then be submitted to the Energy Board for approval.

Electricity Rates

Under the applicable provisions of the *Energy Board Act*, rates are fixed or modified by the Energy Board (see “Regulatory Framework – *Energy Board Act*”). Rates are fixed to allow recovery of authorized service costs, including estimated supply costs, and a reasonable rate of return on shareholder's equity. In March 2011, the Energy Board approved an average rate decrease of 0.41% effective April 1, 2011.

The following table shows the rate increase (decrease) applicable for each year, from 2008 to 2011, as well as annual inflation rates.

	2008	2009	2010	2011
Rate increase (decrease) as of April 1	2.90%	1.22%	0.35%	(0.41)%
Inflation Rate ⁽¹⁾	2.3%	0.3%	1.8%	2.2% ⁽²⁾

(1) Canadian Consumer Price Index for the calendar year.

(2) Estimate.

Electricity Sales and Revenue

The following table summarizes electricity sales and revenue in Québec, by category of customers, for the years 2008 through 2010.

ELECTRICITY SALES AND REVENUE

	Years ended December 31		
	2008	2009	2010
	(in GWh)		
Electricity Sales			
In Québec, by category			
Residential and farm	60,747	62,484	59,534
Commercial and institutional	35,228	34,151	33,865
Industrial	69,144	63,310	68,439
Other	5,278	5,371	7,647
Total Electricity Sales	170,397	165,316	169,485
	(in millions of dollars)		
Revenue from Electricity Sales			
In Québec, by category			
Residential and farm	\$ 4,300	\$ 4,500	\$ 4,302
Commercial and institutional	2,687	2,662	2,648
Industrial	3,174	3,092	3,185
Other	284	295	371
Total Revenue from Electricity Sales	\$ 10,445	\$ 10,549	\$ 10,506

(5) Construction

The Construction segment includes activities related to projects carried out by *Hydro-Québec Équipement et services partagés* and SEBJ.

Hydro-Québec Équipement et services partagés is responsible for construction and refurbishment projects throughout Québec, except in the territory governed by the JBNQ Agreement. SEBJ builds generating facilities in the territory governed by the JBNQ Agreement (north of the 49th parallel) and may carry out projects outside Québec.

For engineering and environmental matters, *Hydro-Québec Équipement et services partagés* and SEBJ also offer *Hydro-Québec Production* and *Hydro-Québec TransÉnergie* a variety of services needed for draft-design studies, impact assessments and other undertakings in the context of energy-related projects. These services may include technical and scientific surveys, planning, design and quality control.

(6) Corporate and Other Activities

This segment includes the Technology Group, the Corporate Affairs and General Secretariat Group, the Accounting and Control Vice Presidency, the Financing, Treasury and Pension Fund Vice Presidency, the Human Resources Vice Presidency, the Shared Services Centre Unit and Hydro-Québec's subsidiary *Hydro-Québec International inc.* ("HQI").

(7) Capital Investment Program

Hydro-Québec's capital investment program includes capital expenditures for fixed and intangible assets and investments in energy efficiency programs. The following table is a summary of Hydro-Québec's capital investments affecting cash for the years 2008 through 2010. The table also includes estimates for 2011 and the two-year period from 2012 to 2013; these estimates have been updated to reflect, among other things, a projected growth in demand for electricity in Québec of 1.3% yearly for the next three years. In 2010, capital investments in fixed and intangible assets, excluding energy efficiency programs, totaled \$4,004 million.

CAPITAL INVESTMENTS AFFECTING CASH ⁽¹⁾

	2008	2009	2010	2011	Estimated 2012 and 2013
	(millions of dollars)				
Fixed and Intangible Assets					
Generation	\$ 1,853	\$ 2,033	\$ 1,900	\$ 1,696	\$ 3,721
Transmission ⁽²⁾	1,099	1,196	1,248	1,502	3,608
Distribution	664	709	728	882	2,130
Construction	5	1	7	5	14
Corporate and Other Activities	96	111	121	138	246
	3,717	4,050	4,004	4,223	9,719
Energy Efficiency Programs	236	257	216	386	735
Total Investments	\$ 3,953	\$ 4,307	\$ 4,220	\$ 4,609	\$ 10,454

(1) Certain comparative figures have been reclassified to reflect the presentation adopted in the current year.

(2) Includes sub-transmission.

(8) Relations with Japan

As of December 31, 2010, Hydro-Québec has outstanding yen denominated Notes under its Euro Medium Term Note Programme in the aggregate principal amount of ¥2.0 billion. Those Notes were issued in 1997.

5. Financial Conditions

(1) Financial Statements

The financial year of Hydro-Québec is the calendar year.

The accounts of Hydro-Québec are audited jointly by the Auditor General of Québec and by external auditors appointed by the Government, namely KPMG LLP, Chartered Accountants and Ernst & Young LLP, Chartered Accountants for the fiscal year ended December 31, 2010.

The *Hydro-Québec Act* requires Hydro-Québec to present a detailed annual report to the Minister of Natural Resources and Wildlife and to submit it to the National Assembly of Québec.

The consolidated financial statements have been prepared on the basis of accounting principles generally accepted in Canada.

INDEPENDENT AUDITORS' REPORT

To the Minister of Finance of Québec:

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Hydro-Québec, which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statements of operations, retained earnings, cash flows and comprehensive income for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Hydro-Québec as at December 31, 2010, and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

OTHER MATTER

The consolidated financial statements of Hydro-Québec for the year ended December 31, 2009, were audited jointly by KPMG LLP and Ernst & Young LLP, who expressed an unmodified opinion on those statements on February 5, 2010.

Report on Other Legal and Regulatory Requirements

As required by the *Auditor General Act* (R.S.Q., c. V-5.01), we report that, in our opinion, except for the application of the changes in accounting policies described in Note 2 to the consolidated financial statements, these principles have been applied on a basis consistent with that of the preceding year.

/s/ KPMG LLP^a
KPMG LLP
Chartered Accountants

/s/ Ernst & Young LLP^b
Ernst & Young LLP
Chartered Accountants

/s/ Renaud Lachance, FCA auditor
Renaud Lachance, FCA auditor
Auditor General of Québec

Montréal, Québec
February 18, 2011

- a) CA auditor permit No. 6992
- b) CA auditor permit No. 13764

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Operations

Years ended December 31 In millions of Canadian dollars	Notes	2010	2009 (restated, Note 2)
Revenue		12,338	12,333
Expenditure			
Operations		2,581	2,527
Electricity and fuel purchases		1,390	1,207
Depreciation and amortization	4	2,605	2,372
Taxes	5	909	928
Regulatory deferrals	3	(188)	30
		7,297	7,064
Operating income		5,041	5,269
Financial expenses	6	2,526	2,398
Net income		2,515	2,871

Consolidated Statements of Retained Earnings

Years ended December 31 In millions of Canadian dollars	Notes	2010	2009
Balance, beginning of year, reported		17,312	16,445
Adjustments	2	(3,976)	(3,812)
Balance, beginning of year, restated		13,336	12,633
Net income		2,515	2,871
		15,851	15,504
Dividend	18	1,886	2,168
Balance, end of year		13,965	13,336

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

As at December 31 In millions of Canadian dollars	Notes	2010	2009 (restated, Note 2)
ASSETS			
Current assets			
Cash and cash equivalents		80	472
Short-term investments		1,230	2,117
Accounts receivable and other receivables	15	1,813	1,955
Derivative instruments	15	889	1,324
Regulatory assets	3	43	71
Materials, fuel and supplies		321	339
		4,376	6,278
Property, plant and equipment	7	55,512	53,824
Goodwill and intangible assets	8	1,235	1,212
Investments	9	114	109
Derivative instruments	15	952	753
Regulatory assets	3	1,144	883
Other assets	10	2,565	1,933
		65,898	64,992
LIABILITIES			
Current liabilities			
Borrowings		18	29
Accounts payable and accrued liabilities		2,017	2,009
Dividend payable	18	1,886	2,168
Accrued interest		909	899
Derivative instruments	15	308	246
Regulatory liabilities	3	58	3
Current portion of long-term debt	11	1,933	586
		7,129	5,940
Long-term debt	11	36,439	37,054
Asset retirement obligations	12	504	467
Derivative instruments	15	2,114	1,960
Regulatory liabilities	3	1	23
Other long-term liabilities	13	857	826
Perpetual debt	14	288	303
		47,332	46,573
EQUITY			
	18		
Share capital		4,374	4,374
Retained earnings		13,965	13,336
Accumulated other comprehensive income		227	709
		14,192	14,045
		18,566	18,419
		65,898	64,992
Commitments and contingencies	22		

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31 In millions of Canadian dollars	Notes	2010	2009 (restated, Note 2)
Operating activities			
Net income		2,515	2,871
Adjustments to determine net cash flows from operating activities			
Depreciation and amortization	4	2,605	2,372
Amortization of premiums, discounts and issue expenses related to debt securities	6	127	117
Regulatory deferrals	3	(188)	30
Other		27	(6)
Change in non-cash working capital items	20	122	(36)
Net change in accrued benefit assets and liabilities		(569)	(561)
		<u>4,639</u>	<u>4,787</u>
Investing activities			
Additions to property, plant and equipment		(3,916)	(3,989)
Additions to intangible assets	8	(88)	(61)
Cash receipts from the government reimbursement for the 1998 ice storm		9	19
Disposal (acquisition) of investments		10	(15)
Acquisition of an interest	16	-	(580)
Costs related to Energy Efficiency Plan		(216)	(257)
Net disposal of short-term investments		891	1,430
Other		8	(22)
		<u>(3,302)</u>	<u>(3,475)</u>
Financing activities			
Issuance of long-term debt		1,593	4,135
Repayment of long-term debt		(1,083)	(1,233)
Cash receipts arising from credit risk management	15	2,322	1,125
Cash payments arising from credit risk management	15	(2,374)	(2,950)
Net change in short-term borrowings		(13)	(32)
Dividend paid		(2,168)	(2,252)
Other		(2)	(2)
		<u>(1,725)</u>	<u>(1,209)</u>
Foreign currency effect on cash and cash equivalents			
		(4)	(16)
Net change in cash and cash equivalents		(392)	87
Cash and cash equivalents, beginning of year		472	385
Cash and cash equivalents, end of year		80	472
Supplementary cash flow information	20		

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Comprehensive Income

Years ended December 31	2010	2009
In millions of Canadian dollars		(restated, Note 2)
Net income	2,515	2,871
Other comprehensive income		
Change in deferred (losses) gains on items designated as cash flow hedges	(38)	9
Reclassification to operations of deferred gains on items designated as cash flow hedges	(444)	(543)
	(482)	(534)
Comprehensive income	2,033	2,337

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2010 and 2009

Amounts in tables are in millions of Canadian dollars, unless otherwise indicated.

Under the provisions of the Hydro-Québec Act, Hydro-Québec is mandated to supply power and to pursue endeavors in energy-related research and promotion, energy conversion and conservation, and any field connected with or related to power or energy. Hydro-Québec is required, in particular, to supply a base volume of up to 165 TWh a year of heritage pool electricity for the Québec market, as set out in the Act respecting the Régie de l'énergie. As a government corporation, Hydro-Québec is exempt from paying income taxes.

Note 1 Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and reflect the decisions of the Régie de l'énergie (the "Régie"). These decisions affect the timing of the recognition of certain transactions in the consolidated operations, resulting in the recognition of regulatory assets and liabilities, which Hydro-Québec considers it is likely to recover or settle subsequently through the rate-setting process.

REGULATION

The *Act respecting the Régie de l'énergie* grants the Régie exclusive authority to determine or modify the rates and conditions under which electricity is transmitted and distributed by Hydro-Québec. Hydro-Québec's electricity transmission and distribution activities in Québec are therefore regulated. Under this legislation, rates are set by reasoned decision of three commissioners after public hearings. Moreover, the Act stipulates that rates are determined on a basis that allows for recovery of the cost of service plus a reasonable return on the rate base.

The Régie and Hydro-Québec are both part of the Québec government reporting entity. However, the Régie is an independent, quasi-judicial economic regulatory agency accountable to the National Assembly of Québec through the Minister of Natural Resources and Wildlife.

Transmission

Hydro-Québec's power transmission rates for 2010 and 2009 were determined in Régie decisions D-2010-041 and D-2009-023, respectively, and became effective on January 1, 2010, and January 1, 2009, respectively. The authorized return on the rate base was set at 7.44% in 2010 and 7.65% in 2009, assuming a capitalization with 30% equity.

Distribution

Hydro-Québec's electricity rates were determined in decisions D-2010-035 and D-2009-021, in which the Régie granted across-the-board rate increases of 0.35% and 1.22%, effective April 1, 2010, and April 1, 2009, respectively. The authorized return on the rate base was set at 7.54% in 2010 and 7.42% in 2009, assuming a capitalization with 35% equity.

SCOPE OF CONSOLIDATION

The consolidated financial statements include the accounts of Hydro-Québec, its subsidiaries and its joint ventures. Interests in joint ventures are accounted for using the proportionate consolidation method.

USE OF ESTIMATES

The preparation of consolidated financial statements in accordance with GAAP requires that Management make estimates and assumptions that affect the amounts recognized as assets and liabilities, the disclosures regarding contingent assets and liabilities at the date of the consolidated financial statements and the amounts recognized as revenue and expenditure for the years at issue. The estimates relate to revenue, depreciation and amortization expenses, asset retirement obligations and employee future benefits, among other things. Actual results could differ from those estimates.

Note 1 Significant Accounting Policies (continued)

REVENUE

Substantially all the revenue comes from electricity sales. Revenue from these sales is recognized on the basis of cyclical billings. It also includes estimated amounts for electricity delivered but not billed.

FOREIGN CURRENCY TRANSLATION

Self-sustaining foreign operations

The financial statements of foreign operations that are self-sustaining in terms of financial and operational management are translated according to the current rate method using the foreign currency as the measuring unit. Under this method, assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date, and revenue and expenditure are translated at the average exchange rate in effect during the period. The exchange gains or losses resulting from the translation of the financial statements of these foreign operations are presented in Accumulated other comprehensive income under Equity on the balance sheet.

Integrated foreign operations and foreign currency transactions

In the case of foreign operations that are integrated in terms of financial and operational management, as well as foreign currency transactions, accounts stated in foreign currencies are translated according to the temporal method. Under this method, monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date, and non-monetary items are translated at the historical rate. Revenue and expenditure arising from foreign currency transactions are translated into Canadian dollars at the exchange rate in effect at the transaction date. The exchange gains or losses resulting from the translation of monetary items are included in operations, unless they relate to hedging items for future sales in U.S. dollars, in which case they are recognized in Other comprehensive income until the year in which such sales are made.

FINANCIAL INSTRUMENTS

Financial instruments are measured at fair value on initial recognition. Their measurement in subsequent periods and the recognition of any changes in fair value depend on the category in which they are classified.

The following table presents the classification of financial instruments in the various categories:

Category	Financial Instruments
Financial assets and liabilities held for trading	
Designated	Cash and cash equivalents (with initial maturities of three months or less)
Classified	Derivative instruments
Available-for-sale financial assets	Short-term investments (maturing in more than three months)
Loans and receivables	Accounts receivable and other receivables Government reimbursement for the 1998 ice storm (presented in Other assets)
Other financial liabilities	Borrowings Accounts payable and accrued liabilities Dividend payable Accrued interest Current portion of long-term debt Long-term debt Perpetual debt

Financial assets and liabilities are offset when certain conditions are met. The net amount is therefore reported on the balance sheet when Hydro-Québec has a legally enforceable right to set off the recognized amounts and it intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Moreover, futures or forward contracts on non-financial items that can be settled net are recorded at the date of settlement if there is a probability of receipt or delivery in accordance with expected requirements.

Note 1 Significant Accounting Policies (continued)

Financial assets and liabilities held for trading are recorded at fair value at the balance sheet date. Changes in fair value are recognized in operations for the period during which they occur, except in the case of derivative instruments designated as hedges in a cash flow hedging relationship.

Available-for-sale financial assets are recorded at fair value at the balance sheet date. Changes in fair value are recorded in Other comprehensive income until they are realized, at which time they are reclassified to operations.

Loans and receivables, less any impairment losses, as well as other financial liabilities are measured at amortized cost using the effective interest method.

As part of its integrated enterprise risk management, Hydro-Québec uses various financial instruments to manage its market risk, consisting of currency risk, interest rate risk and risk resulting from fluctuating energy and aluminum prices. Hydro-Québec applies cash flow or fair value hedge accounting to the eligible hedging relationships. It formally documents all relationships between hedging instruments and hedged items. This process involves associating all derivative instruments with specific assets and liabilities on the balance sheet, or with probable anticipated transactions. Hydro-Québec also measures the effectiveness of hedging relationships initially and then monthly thereafter. In addition, for hedges of anticipated transactions, it regularly assesses the probability of the occurrence of those transactions designated as hedged items.

In the case of a cash flow hedge, the effective portion of changes in the fair value of an instrument designated as a hedge is recognized under Other comprehensive income, while the ineffective portion is immediately recognized in operations, under the line item affected by the hedged item. Amounts included in Accumulated other comprehensive income are reclassified to operations, also under the line item affected by the hedged item, during the periods in which the change in cash flows attributable to the hedged item affects operations. If a derivative instrument no longer satisfies hedging conditions or is sold or liquidated, or if Hydro-Québec terminates its designation as a hedging item, hedge accounting ceases to be applied on a prospective basis. Previously recognized gains and losses continue to be carried forward to be recognized in operations during the same period as the hedged item. If the hedged item ceases to exist, the gains or losses carried forward are immediately reclassified to operations.

In the case of a fair value hedge, the derivative instrument is recorded at fair value, and changes in the fair value, including those related to the ineffective portion of the hedge, are recognized in operations under the line item affected by the hedged item. Changes in the fair value of the hedged item attributable to the hedged risk are recorded as adjustments to the hedged item's carrying amount and are offset against operations.

In addition, an embedded derivative must be separated from its host contract and recognized at fair value on the balance sheet if certain conditions are met. Hydro-Québec has opted to apply this accounting treatment to all host contracts issued, acquired or substantively amended on or after January 1, 2003.

Hydro-Québec must classify the fair value measurements of financial instruments according to a three-level hierarchy, based on the type of inputs used in making these measurements:

- Level 1: Quoted prices in active markets for identical instruments;
- Level 2: Significant inputs and value drivers that are observable in active markets; and
- Level 3: One or more significant inputs or value drivers that are not observable market data.

Cash, cash equivalents, short-term investments and derivative instruments are recognized at fair value.

Except for cash and measurements of exchange-traded derivative instruments, which are Level 1 measurements, fair value measurements for financial instruments are Level 2 measurements. These measurements are obtained by discounting future cash flows, which are estimated on the basis of the spot rates or the forward rates or prices (foreign exchange rates, interest rates, and energy or aluminum prices) in effect on the balance sheet date, and take into account the credit risk assessment. The valuation techniques make use of observable market data.

MATERIALS, FUEL AND SUPPLIES

Inventories of materials, fuel and supplies are valued at the lower of cost and net realizable value. Cost is determined by the weighted average cost method.

Note 1 Significant Accounting Policies (continued)

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost, which comprises materials, labor, other costs directly related to construction activities, and financial expenses capitalized during construction. Property, plant and equipment also include draft-design costs for projects whose technical feasibility has been demonstrated, whose profitability has been estimated, and for which Management deems that it will in all likelihood have the necessary resources for completion. The discounted value of retirement obligations related to property, plant and equipment is added to the carrying amount. Moreover, contributions from third parties are applied against the cost of the related property, plant and equipment.

Financial expenses capitalized to property, plant and equipment under construction are determined using the average cost of Hydro-Québec's long-term debt. When the property, plant and equipment under construction relate to regulated transmission and distribution activities, such financial expenses take return on equity into account. The portion that corresponds to return on equity is included in Revenue in the consolidated operations.

Property, plant and equipment are depreciated over their useful life, using the straight-line method. In 2009, the sinking fund method was used at a rate of 3% for assets related to regulated activities, as explained in Note 2, Changes to Accounting Policies. The depreciation periods for the principal categories of property, plant and equipment are as follows:

Hydraulic generation	40 to 100 years
Thermal generation, including nuclear	15 to 50 years
Transmission substations and lines	30 to 50 years
Distribution substations and lines	25 to 40 years
Other property, plant and equipment	3 to 50 years

When property, plant and equipment are retired, their cost, net of accumulated depreciation and salvage value, is charged to operations for the year. Information concerning the recognition of the net retirement costs of property, plant and equipment related to regulated activities is provided in Note 3, Effects of Rate Regulation on the Consolidated Financial Statements.

Maintenance and repair costs are recognized in operations when incurred.

INTANGIBLE ASSETS

Intangible assets are recorded at cost. Financial expenses are capitalized over the development period.

Internally developed computer software and development costs are capitalized when they meet capitalization criteria. Development costs that are not capitalizable and research costs are recognized in operations as incurred.

Intangible assets with an indefinite useful life are not amortized. These assets are tested for impairment annually or more frequently if events indicate a potential impairment loss. The excess of the carrying amount over the fair value is recognized in operations for the period in which the impairment is determined.

Intangible assets with a finite useful life are amortized over their useful life according to the straight-line method over the following periods:

Software and licences	3 to 10 years
Development costs	5 years
Patents	20 years

IMPAIRMENT OF LONG-LIVED ASSETS

Hydro-Québec reviews the carrying amount of its property, plant and equipment and its amortizable intangible assets whenever events or changes in circumstances indicate that the expected undiscounted net cash flows could be lower than the carrying amount of the property and assets. An impairment loss corresponding to the amount by which the carrying amount exceeds fair value is recognized, if applicable.

Note 1 Significant Accounting Policies (continued)

INVESTMENTS

Investments in companies over which Hydro-Québec can exercise significant influence are accounted for on an equity basis.

EMPLOYEE FUTURE BENEFITS

Hydro-Québec offers all its employees a contributory defined-benefit pension plan based on final pay, as well as other post-retirement and post-employment benefits.

The cost of pension benefits and other post-retirement benefits provided in exchange for current service is calculated using the projected benefit method prorated on years of service. It is based on Management's best assumptions of the discount rate, the expected return on plan assets, salary escalation, the increase in health care costs, retirement ages of employees and other actuarial factors.

In order to establish its employee future benefit obligations, Hydro-Québec has adopted the following policies:

- Past service costs arising from plan amendments and transitional balances relating to the pension plan and post-retirement benefits as at January 1, 1999, are amortized using the straight-line method over periods not exceeding active employees' average remaining years of service, which was 12 years as at January 1, 2010 and 2009.
- Amortization of actuarial gains or losses is recognized in operations for the year if the unamortized net actuarial gain or loss at the beginning of the year exceeds 10% of the value of the accrued benefit obligations or 10% of the market-related value of the plan assets, whichever is greater. The amortization corresponds to the excess divided by active employees' average remaining years of service.
- The expected return on pension plan assets is based on a market-related value determined by using a five-year moving average value for equity securities and by measuring other asset classes at fair value.

ASSET RETIREMENT OBLIGATIONS

Hydro-Québec accounts for asset retirement obligations in the period in which these legal obligations are incurred when a reasonable estimate of their fair value can be made. The corresponding costs of asset retirement are added to the carrying amount of the related long-lived asset and are amortized over its useful life. In subsequent financial years, any change due to the passage of time is recognized in operating expenses for the current year (accretion expense) and the corresponding amount is added to the carrying amount of the liability. Changes resulting from revisions to the timing or the amount of the undiscounted cash flows are recognized as an increase or decrease in the carrying amount of the liability arising from asset retirement obligations, and the related asset retirement cost is capitalized as part of the carrying amount of the related asset.

The cash flows required to settle asset retirement obligations are estimated on the basis of studies that use various assumptions concerning the methods and timing to be adopted for the retirement. Hydro-Québec periodically reviews estimates of these cash flows in light of the underlying assumptions and estimates, potential technological advances, and changes in applicable standards, laws and regulations.

AGREEMENTS WITH LOCAL COMMUNITIES

Hydro-Québec has entered into various agreements with the local communities concerned by certain capital projects and intangible asset investment projects. The amounts under these agreements are recognized in Long-term debt if they fall within the definition of a liability, and the offsetting item is recognized in Property, plant and equipment or Intangible assets, as the case may be.

RELATED PARTY TRANSACTIONS

In the normal course of business, Hydro-Québec enters into various business transactions, including electricity sales, with the Québec government and its agencies, as well as with other government corporations. These business transactions are measured at the exchange amount.

Note 2 Changes to Accounting Policies

RECENT CHANGES

2010

Depreciation method for property, plant and equipment and related issues

On January 1, 2010, Hydro-Québec amended the accounting policy on the depreciation of property, plant and equipment in order to adopt the straight-line method. Property, plant and equipment were previously depreciated using the sinking fund method, at a rate of 3%. Management believes that the straight-line method of depreciation best reflects the rate at which Hydro-Québec expects to consume the future economic benefits of these assets.

Hydro-Québec has applied this change in accounting policy retrospectively with restatement of prior periods for assets related to non-regulated activities. For assets related to regulated activities, Hydro-Québec has applied the change prospectively in compliance with the U.S. Financial Accounting Standards Board's *Accounting Standards Codification (ASC) 980*, "Regulated Operations," which is the reference accounting standard for the evaluation and measurement of the effects of rate regulation. In decision D-2010-020, the Régie approved the change in the depreciation method for property, plant and equipment applied by the Transmission Provider and the Distributor.

The retrospective application of this change in accounting policy resulted in a decrease of \$3,885 million in property, plant and equipment and retained earnings as at January 1, 2010 (\$3,728 million as at January 1, 2009). The change in accounting policy led to an increase in depreciation expense and a decrease in property, plant and equipment of \$466 million in 2010 (\$157 million in 2009).

Furthermore, in 2010 Hydro-Québec recognized obligations essentially related to the dismantling of thermal generating stations. These obligations were recognized retrospectively, resulting in the following changes as at January 1, 2010: a \$91-million decrease in retained earnings (\$84 million as at January 1, 2009), a \$19-million increase in property, plant and equipment (\$21 million as at January 1, 2009), a \$96-million increase in asset retirement obligations (\$93 million as at January 1, 2009) and a \$14-million increase in other long-term liabilities (\$12 million as at January 1, 2009). Their recognition also reduced net income by \$7 million in 2010 (\$7 million in 2009).

2009

Goodwill and intangible assets

On January 1, 2009, Hydro-Québec adopted the recommendations of Section 3064 of the *Canadian Institute of Chartered Accountants (CICA) Handbook*, "Goodwill and Intangible Assets," which superseded Section 3062, "Goodwill and Other Intangible Assets," and Section 3450, "Research and Development Costs." Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of these recommendations had no material impact on the consolidated financial statements.

Rate-regulated activities

On January 1, 2009, the temporary exemption provided for in *CICA Handbook* Section 1100, "Generally Accepted Accounting Principles," which allowed the recognition and measurement of regulatory assets and liabilities, was withdrawn. Pursuant to a practice allowed by Canadian GAAP, however, Hydro-Québec has relied on *ASC 980* to maintain its established accounting treatment for regulatory assets and liabilities. The withdrawal of the exemption therefore had no impact on the consolidated financial statements.

Credit risk and the fair value of financial assets and financial liabilities

On January 20, 2009, the Emerging Issues Committee (EIC) of the CICA issued *Abstract of Issue Discussed EIC-173*, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." EIC-173 clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of the recommendations in this abstract had no impact on the consolidated financial statements.

Financial instruments – Disclosures

In June 2009, the CICA amended *CICA Handbook* Section 3862, "Financial Instruments – Disclosures." The purpose of the amendments was to improve disclosures about fair value measurements and the liquidity risk associated with financial instruments. The information required is provided in Note 1, Significant Accounting Policies – Financial Instruments, and Note 15, Financial Instruments.

Note 2 Changes to Accounting Policies (continued)

FUTURE CHANGES

Business combinations

In January 2009, the CICA issued Section 1582, “Business Combinations,” which superseded Section 1581, “Business Combinations.” Section 1582 establishes the principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. It will apply prospectively to business combinations for which the acquisition date is in a fiscal year beginning on or after January 1, 2011.

Consolidated financial statements and non-controlling interests

In January 2009, the CICA issued Section 1601, “Consolidated Financial Statements,” and Section 1602, “Non-Controlling Interests,” which superseded Section 1600, “Consolidated Financial Statements.” Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These sections will apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

Note 3 Effects of Rate Regulation on the Consolidated Financial Statements

The following information describes the impact on the consolidated financial statements of accounting methods and practices adopted by Hydro-Québec in accordance with the Régie’s decisions with respect to regulated activities.

REGULATORY ASSETS AND LIABILITIES

Costs related to the Energy Efficiency Plan (EEP)

The costs related to implementation of the EEP, such as specific energy conservation programs, are recognized in a separate account and amortized over 10 years on a straight-line basis, except for the costs incurred prior to January 1, 2006, which are amortized over five years. The amortization period begins in the year after the costs were recorded. Financial expenses arising from these costs are capitalized at the rate of return authorized by the Régie on the rate base until such time as they are included in the rate base and amortization begins. This accounting practice was authorized by the Régie in decisions D-2002-25, D-2002-288, D-2003-93 and D-2006-56, which relate to Hydro-Québec’s power distribution activities. Were these activities not regulated, certain costs not associated with intangible assets as defined in the accounting standards would be recognized in operations for the year in which they are incurred. Had none of the costs incurred been related to an intangible asset, net income for 2010 would have been \$121 million lower (\$178 million in 2009).

Net costs related to retirement of property, plant and equipment and intangible assets

In decisions D-2009-023 and D-2009-021, the Régie accepted the Distributor’s and the Transmission Provider’s proposal to recognize net retirement costs for property, plant and equipment and intangible assets, except for the costs related to Des Cantons substation, in operations for the year in which they are incurred. Most of the balance in the related account, which totaled \$267 million as at December 31, 2008, was therefore expensed in 2009. In decision D-2010-041, the Régie accepted the Transmission Provider’s proposal to recognize retirement costs of \$51 million for assets at Des Cantons substation in operations for 2010.

Revenue variances related to climate conditions

Variances between the Distributor’s actual transmission and distribution revenue and the revenue forecasts established on the basis of the climate normal for rate application purposes are recognized in a separate account and amortized on a straight-line basis over a five-year period, except for \$62 million related to a review of the climate normal, which was expensed in 2009. Financial expenses arising from these variances are capitalized at the rate of return authorized by the Régie on the rate base until such time as they are included in the rate base and amortization begins. This accounting practice was authorized by the Régie in decisions D-2006-34 and D-2009-016, which relate to Hydro-Québec’s power distribution activities. Were these activities not regulated, expenditure would have been higher and net income lower by \$136 million in 2010 (expenditure lower and net income higher by \$65 million in 2009).

Note 3 Effects of Rate Regulation on the Consolidated Financial Statements (continued)

Variances in annual cost of transmission service for native load

Variances resulting from any modification of the annual cost of native load transmission service that has not been taken into account in the setting of electricity rates are recognized in a separate account and amortized according to conditions set by the Régie. Financial expenses arising from these costs are capitalized at the rate of return authorized by the Régie on the rate base until such time as amortization begins. This accounting practice was authorized by the Régie in decisions D-2003-93, D-2006-34, D-2007-12 and D-2008-024, which relate to Hydro-Québec's power distribution activities. Were these activities not regulated, expenditure would have been higher and net income lower by \$17 million in 2010 (expenditure lower and net income higher by \$104 million in 2009).

Costs incurred until the rescission of dual-energy Rate BT

The costs incurred until the rescission of dual-energy Rate BT were charged to a separate account and have been amortized on a straight-line basis over five years since the rescission date of April 1, 2006. These costs mainly include the deficit resulting from the variance between the supply cost recognized by the Régie and energy prices in effect, multiplied by the quantity of electricity delivered to customers at Rate BT between January 1, 2004, and March 31, 2006. Financial expenses arising from these costs were capitalized at the rate of return authorized by the Régie on the rate base until March 31, 2006. This accounting practice was authorized by the Régie in decisions D-2004-47, D-2004-170 and D-2006-34, which relate to Hydro-Québec's power distribution activities. Were these activities not regulated, the costs would have been recognized in operations for the year in which they were incurred, and net income would have been \$30 million higher in 2010 (\$29 million in 2009).

Costs related to the de-icing system at Lévis substation

Certain costs related to the Lévis substation de-icing system, designed in the wake of the 1998 ice storm to secure the transmission lines supplying the greater Québec area, were recognized in a separate account. These costs have been depreciated using the straight-line method starting from the date of commissioning of the de-icing system, over a period corresponding to the average remaining useful life of the assets enhanced by the system. Financial expenses arising from these costs were capitalized at the rate of return authorized by the Régie on the rate base until such time as they were included in the rate base and amortization began. The Régie authorized this accounting practice in decision D-2004-175, which relates to Hydro-Québec's power transmission activities. Were these activities not regulated, the costs would have been recognized in operations for the year in which they were incurred, and net income would have been \$1 million higher in 2010 (\$1 million in 2009).

Variances in supply costs for electricity in excess of the heritage pool

Volume and price variances between the actual supply costs for electricity in excess of the heritage pool and the costs forecasted in the rate cases and accepted by the Régie for rate-setting purposes are recognized in a separate account and amortized according to conditions set by the Régie. Financial expenses arising from these variances are capitalized at the rate of return authorized by the Régie on the rate base until such time as amortization begins. This accounting practice was authorized by the Régie in decisions D-2005-34, D-2005-132, D-2006-34, D-2007-12 and D-2008-024, which relate to Hydro-Québec's power distribution activities. Were these activities not regulated, the actual costs would be recognized in operations for the year in which they are incurred, and net income would have been \$42 million lower in 2010 (\$63 million in 2009).

Variances in supply costs for fuel

Variances between the actual costs of fuel purchases and the costs forecasted in the rate cases and accepted by the Régie for rate-setting purposes are recognized in a separate account and amortized according to conditions set by the Régie. Financial expenses arising from these variances are capitalized at the rate of return authorized by the Régie on the rate base until such time as amortization begins. This accounting practice was authorized by the Régie in decision D-2009-016, which relates to Hydro-Québec's power distribution activities. Were these activities not regulated, the actual costs would be recognized in operations for the year in which they are incurred, and net income would have been \$13 million higher in 2010 (\$10 million lower in 2009).

Variances in revenue from point-to-point transmission services

Variances between actual revenue from point-to-point transmission services and revenue forecasted in the rate cases and accepted by the Régie for rate-setting purposes are recognized in a separate account and amortized according to conditions set by the Régie. Financial expenses arising from these variances are capitalized at the rate of return authorized by the Régie on the rate base until such time as amortization begins. This accounting practice was authorized by the Régie in decisions D-2007-08 and D-2008-019, which relate to Hydro-Québec's power transmission activities. Were these activities not regulated, Hydro-Québec's expenditure would have been lower and net income higher by \$30 million in 2010 (expenditure lower and net income higher by \$17 million in 2009).

Note 3 Effects of Rate Regulation on the Consolidated Financial Statements (continued)

REGULATORY ASSETS

	Expected years of amortization	2010	2009
Costs related to EEP	2011–2020	858	737
Net costs related to retirement of property, plant and equipment and intangible assets	–	–	51
Revenue variances related to climate conditions ^a	2011–2016	212	76
Variances in annual cost of transmission service for native load ^a	2011	17	–
Costs incurred until rescission of dual-energy Rate BT	2011	7	37
Costs related to de-icing system at Lévis substation	2011–2047	11	12
Variances in supply costs for electricity in excess of heritage pool ^a	2011–2012	52	10
Variances in supply costs for fuel ^a	–	–	10
Other ^a	2011–2030	30	21
		1,187	954
Current portion		43	71
		1,144	883

REGULATORY LIABILITIES

	Expected years of amortization	2010	2009
Variances in supply costs for fuel ^a	2011	(3)	–
Variances in revenue from point-to-point transmission services ^a	2011–2012	(56)	(26)
		(59)	(26)
Current portion		(58)	(3)
		(1)	(23)

- a) The change in the variance accounts, net of an amortization expense of \$39 million (\$87 million in 2009) and capitalized financial expenses of \$7 million (\$4 million in 2009), as well as an amount of \$4 million under Other (nil in 2009), are recognized under Regulatory deferrals in the Consolidated Statements of Operations, and led to a \$188-million decrease in expenditure (\$30-million increase in 2009).

Risks and uncertainties

The risks and uncertainties related to the above regulatory assets and liabilities are subject to periodic monitoring and assessment. Once Hydro-Québec considers that it is no longer likely that the net carrying amount of a regulatory asset or liability will be taken into account in setting future rates, this amount is recognized in operations for the year in which the conclusion is reached.

OTHER REGULATORY PRACTICES

Under Régie decisions D-2002-95 and D-2003-93, the compensation granted by the Québec government for the 1998 ice storm was applied against the cost of newly constructed property, plant and equipment; it is amortized over the remaining life of the retired assets, with the exception of the portion equivalent to the unamortized cost of these assets, which is amortized over 10 years. The straight-line method is used in both cases. Were these activities not regulated, the compensation would be amortized over the useful life of the newly constructed property, plant and equipment.

In decisions D-2002-95 and D-2004-47, the Régie prescribed capitalizing financial expenses to property, plant and equipment under construction and intangible assets under development according to the authorized rates of return on the rate bases. These rates, which are set using methods approved by the Régie, take into account a component associated with the cost of the debt and a component associated with the return on equity. Were these activities not regulated, financial expenses would be capitalized using the average cost of Hydro-Québec's long-term debt.

Under Régie decisions D-2002-95 and D-2003-93, the cost of dismantling assets that were retired and replaced, net of the salvage value, is added to the cost of the newly constructed assets. Were these activities not regulated, these costs would be recognized in operations.

Under Régie decisions D-2006-76 and D-2006-76R, contributions received for relocation or modification projects relating to certain transmission grid assets are recognized in a separate account and applied against property, plant and equipment. These contributions are amortized over the average useful life of assets for each project, using the straight-line method. Were these activities not regulated, the contributions would be amortized over the useful life of each fixed asset concerned.

Note 3 Effects of Rate Regulation on the Consolidated Financial Statements (continued)

In decision D-2009-125, the Régie authorized an agreement whereby energy deliveries provided for in a power purchase contract with an independent power producer were suspended for 2010. As at December 31, 2009, a \$49-million commitment regarding this agreement was recorded on the balance sheet but had no impact on operating results for 2009. In decision D-2010-109, the Régie authorized the continued suspension in 2011 of the energy deliveries provided for in that contract. As at December 31, 2010, a \$46-million commitment was recorded on the balance sheet but had no impact on 2010 results.

Note 4 Depreciation and Amortization

	2010	2009 (restated, Note 2)
Property, plant and equipment ^a	2,265	1,842
Intangible assets	97	97
Regulatory assets and liabilities	220	419
Write-offs	23	14
	2,605	2,372

- a) Revision of the useful life of property, plant and equipment resulted in a \$138-million decrease in depreciation expense in 2009. In the case of some property, plant and equipment used for hydroelectric generation, this revision increased the maximum depreciation period from 50 to 100 years. The revision of the useful life of property, plant and equipment had no significant impact on depreciation and amortization expense for 2010.

Note 5 Taxes

	2010	2009
Water-power royalties ^a	561	573
Public utilities tax ^b	262	188
Capital tax ^b	51	132
Municipal, school and other taxes	35	35
	909	928

- a) Water-power royalties of \$557 million (\$567 million in 2009) payable to the Québec government were recognized in 2010.
b) The public utilities tax and capital tax are paid to the Québec government.

Note 6 Financial Expenses

	2010	2009
Interest		
Interest on debt securities	2,495	2,411
Amortization of premiums, discounts and issue expenses related to debt securities	127	117
	2,622	2,528
Net exchange loss	7	40
Guarantee fees related to debt securities ^a	183	174
	190	214
Less		
Capitalized financial expenses	276	318
Net investment income	10	26
	286	344
	2,526	2,398

- a) Guarantee fees related to debt securities are paid to the Québec government.

Note 7 Property, Plant and Equipment

				2010
	In service	Accumulated depreciation	Under construction	Net carrying amount
Generation				
Hydraulic	37,990	13,549	3,107	27,548
Thermal, including nuclear	2,697	2,171	690	1,216
Other	757	432	20	345
	41,444	16,152	3,817	29,109
Transmission				
Substations and lines	23,519	8,091	791	16,219
Other	2,188	1,272	66	982
	25,707	9,363	857	17,201
Distribution				
Substations and lines	12,661	5,216	334	7,779
Other	1,927	1,072	84	939
	14,588	6,288	418	8,718
Construction	28	17	3	14
Corporate and Other Activities	1,136	720	54	470
	82,903	32,540	5,149	55,512

				2009 (restated, Note 2)
	In service	Accumulated depreciation	Under construction	Net carrying amount
Generation				
Hydraulic	36,865	12,950	2,627	26,542
Thermal, including nuclear	2,649	2,139	449	959
Other	753	408	6	351
	40,267	15,497	3,082	27,852
Transmission				
Substations and lines	22,607	7,409	698	15,896
Other	2,108	1,214	69	963
	24,715	8,623	767	16,859
Distribution				
Substations and lines	12,325	4,907	301	7,719
Other	1,891	1,039	91	943
	14,216	5,946	392	8,662
Construction	28	17	–	11
Corporate and Other Activities	1,078	693	55	440
	80,304	30,776	4,296	53,824

Note 8 Goodwill and Intangible Assets

	2010			2009		
	Cost	Accumulated amortization	Net carrying amount	Cost	Accumulated amortization	Net carrying amount
Intangible assets						
Subject to amortization ^a						
Software and licences	1,385	841	544	1,296	754	542
Development costs	45	23	22	36	18	18
Patents	11	5	6	11	5	6
	1,441	869	572	1,343	777	566
Not subject to amortization						
Servitudes ^a			371			354
Water-power rights			282			282 ^b
			653			636
Goodwill			10			10
			1,235			1,212

a) Additions for the year totaled \$88 million as at December 31, 2010 (\$61 million as at December 31, 2009), including \$82 million (\$56 million as at December 31, 2009) in internal development costs.

b) The amount indicated is the fair value of the water-power rights upon allocation of the purchase price of the Manicouagan Power Limited Partnership. Information concerning this acquisition is presented in Note 16, Acquisition of an Interest.

Note 9 Investments

	2010	2009
At equity		
Churchill Falls (Labrador) Corporation Limited	97	86
CITEQ inc.	(5)	(5)
	<u>92</u>	<u>81</u>
Other	22	28
	<u>114</u>	<u>109</u>

Note 10 Other Assets

	Note	2010	2009
Accrued benefit assets	21	2,361	1,736
Government reimbursement for the 1998 ice storm ^a		74	71
Other		130	126
		<u>2,565</u>	<u>1,933</u>

a) Payable in quarterly installments of \$6 million until January 15, 2010, followed by quarterly installments of \$3 million between April 15, 2010, and October 15, 2019, and a final installment of \$0.4 million on January 15, 2020. These installments include interest at an annual rate of 7.2%. The current portion, presented under Accounts receivable and other receivables, amounted to \$8 million as at December 31, 2010 (\$20 million as at December 31, 2009). The fair value of this financial asset, including the current portion, totaled \$99 million as at December 31, 2010 (\$100 million as at December 31, 2009).

Note 11 Long-Term Debt

Long-term debt is mainly composed of bonds, medium-term notes and the balance of liabilities under agreements entered into with local communities. The following table presents the debt at amortized cost, including the current portion, by currency at the time of issue and at the time of repayment. Swaps related to long-term debt were taken into account in determining the percentages of debt by currency at the time of repayment.

	2010							2009	
	At time of issue			At time of repayment			At time of issue		At time of repayment
	In Canadian dollars and other currencies	At closing exchange rates as at the balance sheet date	%	%	In Canadian dollars and other currencies	At closing exchange rates as at the balance sheet date	%	%	
Hydro-Québec's debt									
Canadian dollars	29,869	29,869	78	96	28,801	28,801	77	96	
U.S. dollars	8,047	7,989	21	4 ^a	8,050	8,410	22	4 ^a	
Other currencies									
Euros	60	80	–	–	59	89	–	–	
Yen	2,002	24	–	–	2,004	22	–	–	
Pounds sterling	239	370	1	–	238	403	1	–	
		<u>38,332</u>				<u>37,725</u>			
Plus									
Adjustment for fair-value hedged risk		20	–	–		(109)	–	–	
Subsidiaries' debt									
U.S. dollars	20	20	–	–	23	24	–	–	
		<u>38,372</u>	<u>100</u>	<u>100</u>		<u>37,640</u>	<u>100</u>	<u>100</u>	
Less									
Current portion		1,933				586			
		<u>36,439</u>				<u>37,054</u>			

a) Of this amount, 99.4% was used to hedge sales in U.S. dollars as at December 31, 2010 and 2009.

Note 11 Long-Term Debt (continued)

INTEREST RATES

The following table shows interest rates, which take into account stated interest rates on debt securities, including premiums and discounts, as well as the effect of swaps related to long-term debt:

Maturity				2010	2009
	Canadian dollars	U.S. dollars	Other currencies	Weighted average	Weighted average
1 to 5 years	4.34	8.72	10.19	6.21	5.67
6 to 10 years	10.54	7.13	6.10	10.02	7.10
11 to 15 years	9.74	8.68	–	9.17	9.46
16 to 20 years	6.01	9.51	–	9.41	8.79
21 to 25 years	5.30	–	–	5.30	7.43
26 to 30 years	5.16	–	–	5.16	5.99
31 to 35 years	4.93	–	–	4.93	5.17
36 to 40 years	4.79	–	–	4.79	4.92
41 to 45 years	–	–	–	–	4.96
46 to 50 years	6.62	–	–	6.62	–
51 to 55 years	–	–	–	–	6.62
Weighted average	5.73	9.03	9.38	6.37	6.57

As at December 31, 2010, the floating-rate portion of long-term debt amounted to 10.6%, or 11.3% including perpetual debt (9.4%, or 10.1% including perpetual debt, as at December 31, 2009).

FAIR VALUE

The fair value of the long-term debt, including the current portion, totaled \$48,886 million as at December 31, 2010 (\$46,422 million as at December 31, 2009). Taking into account swaps related to long-term debt, it amounted to \$49,842 million (\$47,258 million as at December 31, 2009). Fair value is obtained by discounting future cash flows, based on forward interest rates derived from interest rates at the close of business on the balance sheet date for similar instruments traded on capital markets. Changes in fair value reflect sensitivity to capital market interest rates. However, Management's primary intention is to hold these debt securities until maturity.

CREDIT FACILITY AND LINES OF CREDIT

Hydro-Québec has an undrawn credit facility of US\$2,000 million, composed of two tranches, one of US\$360 million and the other of US\$1,640 million, including a US\$750-million swing loan, which will expire in 2012 and 2013. Any debt securities will bear interest at a rate based on the London Interbank Offered Rate (LIBOR), except for the swing loan, which is at the U.S. base rate. Hydro-Québec also has access to undrawn lines of credit totaling \$362 million, which are renewed automatically in the absence of notice to the contrary and bear interest at the prime rate.

Note 12 Asset Retirement Obligations

Liabilities arising from asset retirement obligations relate to the cost of dismantling Gentilly-2 nuclear generating station at the end of its useful life, the removal of spent nuclear fuel resulting from its operation, and the dismantling of thermal generating stations and certain fuel tanks and transmission substations.

Hydro-Québec has also identified asset retirement obligations relating to transmission activities for which no liability has been recognized since it expects to use these assets for an undetermined period. These relate to property, plant and equipment for which Hydro-Québec does not have sufficient information to accurately establish a schedule for the obligations. A liability resulting from these asset retirement obligations will be recognized in the period in which there is sufficient information to establish such a schedule.

Note 12 Asset Retirement Obligations (continued)

The aggregate carrying amount of the asset retirement obligations is as follows:

				2010
	Dismantling of nuclear generating station ^a	Removal of spent nuclear fuel ^a	Dismantling of other assets	Total
Balance, beginning of year	185	170	112	467
Liabilities incurred	–	2	1	3
Accretion expense	12	16	5	33
Liabilities settled	–	(1)	(1)	(2)
Revision of estimated cash flows and expected timing of payments	–	–	3	3
Balance, end of year	197	187	120	504

				2009 (restated, Note 2)
	Dismantling of nuclear generating station ^a	Removal of spent nuclear fuel ^a	Dismantling of other assets	Total
Balance, beginning of year	129	155	109	393
Liabilities incurred	–	2	3	5
Accretion expense	9	14	5	28
Liabilities settled	–	(1)	(2)	(3)
Revision of estimated cash flows and expected timing of payments	47	–	(3)	44
Balance, end of year	185	170	112	467

- a) The Québec government has provided an irrevocable financial guarantee of up to \$685 million to the Canadian Nuclear Safety Commission (CNSC) for the performance of Hydro-Québec's obligations with regard to the cost of dismantling Gentilly-2 nuclear generating station at the end of its useful life and the removal of spent nuclear fuel. This financial guarantee is required under the CNSC licence issued to Hydro-Québec to operate the generating station until June 30, 2011. In 2011, the CNSC will decide on the application submitted by Hydro-Québec to renew its operating licence until June 30, 2016.

The carrying amount of the asset retirement obligations is based on the following key assumptions:

	Dismantling of nuclear generating station	Removal of spent nuclear fuel	Dismantling of other assets
Estimated cash flows (in constant dollars) required to settle the obligations ^a			
As at December 31, 2010	932	667	170
As at December 31, 2009	914	651	162
Expected timing of payment of the cash flows required to settle the obligations			
As at December 31, 2010	Between 2040 and 2071	Between 2011 and 2159	Between 2011 and 2092
As at December 31, 2009	Between 2040 and 2071	Between 2010 and 2159	Between 2010 and 2092
Credit quality-adjusted, risk-free rate at which the estimated cash flows have been discounted (%)			
Initial recognition of obligations	6.4	6.4	Between 2.4 and 6.4
Subsequent recognition of obligations	Between 5.0 and 5.5	5.5	1.3 and 6.1

- a) Inflation rates varying between 1.8% and 3.6% were used to determine the asset retirement obligations.

HYDRO-QUÉBEC NUCLEAR FUEL WASTE MANAGEMENT TRUST FUND

On November 15, 2002, the *Nuclear Fuel Waste Act* came into force. Under this Act, Canadian nuclear energy corporations were required to set up a waste management organization whose role would be to propose a long-term approach for managing spent nuclear fuel to the Government of Canada. Each nuclear energy corporation was also required to set up a trust fund to finance the costs of long-term management of its nuclear fuel waste.

In November 2005, the Nuclear Waste Management Organization (NWMO) filed its report with the Government of Canada and recommended an approach which was adopted in June 2007.

Note 12 Asset Retirement Obligations (continued)

In October 2007, the members of the NWMO ratified an agreement that sets forth a formula for financing the costs of long-term nuclear fuel waste management. This formula, approved by the Canadian Minister of Natural Resources in April 2009, is used to determine each member's share for the coming years, based on the number of spent nuclear fuel bundles produced at a given date. It also takes into account the date on which each member plans to start shipping spent nuclear fuel bundles to the future national repository site.

The amounts deposited in the trust funds can only be used to finance the application of the approach adopted by the Government of Canada. As at December 31, 2010, the investments held in the Hydro-Québec trust fund were composed of Hydro-Québec securities, the fair value of which totaled \$77 million (\$62 million as at December 31, 2009).

Note 13 Other Long-Term Liabilities

	Notes	2010	2009 (restated, Note 2)
Accrued benefit liabilities	21	761	705
Accounts payable		96	91
Balance of purchase price (payable in 2011)	16	–	30
		857	826

Note 14 Perpetual Debt

Perpetual notes in the amount of \$288 million (US\$289 million) as at December 31, 2010, and \$303 million (US\$289 million) as at December 31, 2009, bear interest at LIBOR plus 0.0625%, as determined semiannually. The notes are redeemable at Hydro-Québec's option. No portion was redeemed in 2010 and 2009. Various derivative instruments recorded at fair value are used to mitigate the currency risk associated with this debt.

As at December 31, 2010 and 2009, the rates applicable to the perpetual notes were 0.6% and 0.8%, respectively. The fair value of these notes was \$263 million as at December 31, 2010 (\$255 million as at December 31, 2009). Fair value is obtained by discounting future cash flows, based on forward interest rates derived from interest rates at the close of business on the balance sheet date for similar instruments traded on capital markets.

Note 15 Financial Instruments

In the course of its operations, Hydro-Québec carries out transactions that expose it to certain financial risks, such as market, liquidity and credit risk. Exposure to such risks and the impact on operating results are significantly reduced through careful monitoring and implementation of strategies that include the use of derivative instruments.

MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. Hydro-Québec is exposed to three main types of market risk: currency risk, interest rate risk and risk associated with energy and aluminum prices. Active integrated management of these three types of risk aims to limit their impact on operating results so that sensitivity to each risk, once mitigated, is at an acceptable level.

MANAGEMENT OF LONG-TERM RISK

Management of risk associated with sales in U.S. dollars

Currency risk – Hydro-Québec uses currency swaps and a portion of its U.S. dollar-denominated debt to manage currency risk associated with probable U.S.-dollar sales, designating them as cash flow hedges. The impact of these hedging transactions on operating results is recognized in Revenue.

Management of risk associated with long-term debt

Currency risk and interest rate risk – Hydro-Québec uses currency swaps to manage the currency risk associated with long-term debt and forward contracts and interest-rate swaps to modify long-term exposure to interest rate risk. When designated as hedging items, these derivative instruments are recognized as cash flow hedges or fair value hedges, depending on the risk hedged. The impact on operating results of foreign currency hedging transactions and those associated with long-term debt interest rates is recognized in Financial expenses.

Note 15 Financial Instruments (continued)

The following table shows the notional amounts of swaps used to manage risk associated with U.S.-dollar sales and long-term debt, expressed in Canadian dollars and other currencies:

Maturity	1 to 5 years	6 to 10 years	11 to 15 years	16 to 20 years	2010 ^a	2009 ^a
					Total	Total
Swaps						
Canadian dollars	252	(381)	(3,583)	(3,133)	(6,845)	(6,466)
U.S. dollars	260	322	3,100	2,620	6,302	5,845
Other currencies						
Yen	1,000	1,000	–	–	2,000	2,000
Euros	–	61	–	–	61	61
Pounds sterling	240	–	–	–	240	240

a) Figures in parentheses represent amounts to be paid.

The following table shows the fair value of swaps and forward contracts used to manage risk associated with U.S.-dollar sales and long-term debt, expressed in Canadian dollars:

	2010	2009
Instruments designated as cash flow hedges for U.S.-dollar sales ^a	213	441
Instruments designated as cash flow hedges for debt	(1,928)	(1,684)
Instruments designated as fair value hedges for debt	(58)	(129)
	(1,773)	(1,372)
Instruments not designated as hedges ^b	1,234	1,182
	(539)	(190)

a) A portion of the long-term debt, with a nominal value amount of US\$1,403 million as at December 31, 2010 and 2009, was also designated as a cash flow hedge for U.S.-dollar sales.

b) Transactions carried out as part of Hydro-Québec's risk management, including \$1,030 million in consideration of amounts received or disbursed with respect to credit risk mitigation agreements in 2010 (\$977 million in 2009).

MANAGEMENT OF SHORT-TERM RISK

Currency risk – Hydro-Québec uses options and forward contracts to manage its foreign currency risk exposure over the short term. When designated as hedging items, these derivative instruments are recognized as cash flow hedges. The impact of currency risk hedging transactions on operating results is recognized in the line item corresponding to the hedged item, namely Revenue, Electricity and fuel purchases, or Financial expenses. The nominal amount of open positions as at December 31, 2010, was US\$212 million, with US\$78 million in sales contracts and US\$290 million in purchase contracts (US\$625 million, with US\$923 million in sales contracts and US\$298 million in purchase contracts as at December 31, 2009).

Interest rate risk – Hydro-Québec uses options, interest rate swaps and forward rate agreements to manage short-term interest rate risk. When designated as hedging items, these derivative instruments are recognized as cash flow hedges. The impact on operating results of transactions to hedge short-term interest rate risk is recognized in Financial expenses.

Price risk – Hydro-Québec uses mainly options, swaps and commodity futures to manage risks resulting from fluctuations in energy and aluminum prices. When designated as hedging items, these derivative instruments are recognized as cash flow hedges. The impact on the operating results of transactions to hedge the risk of variability in energy and aluminum prices is recognized in the line item corresponding to the hedged item, namely Revenue. In order to hedge exposure to the risk of variability in energy and aluminum prices, Hydro-Québec has traded derivative instruments for which open positions as at December 31, 2010, totaled 158,300 tonnes of aluminum (244,900 tonnes as at December 31, 2009), electricity swaps for which open positions as at December 31, 2010, were 7.5 TWh (10.3 TWh as at December 31, 2009) and natural gas futures for which open positions as at December 31, 2010, were 4.0 million MBtu (17.2 million MBtu as at December 31, 2009).

Note 15 Financial Instruments (continued)

The following table presents the fair value of derivative instruments used to manage short-term financial risk, depending on whether or not they are designated as hedges:

	2010	2009
Instruments designated as cash flow hedges	(33)	43
Instruments not designated as hedges	(9)	18
	(42) ^a	61 ^a

a) Of which \$4 million (\$3 million in 2009) was equal to the aggregate financial instruments measured on the basis of quoted market prices (Level 1) and \$(46) million (\$58 million in 2009) to instruments measured using techniques based on observable market inputs (Level 2).

EFFECT OF HEDGES

Effect of hedges on operating results

Effect of cash flow hedges

As at December 31, 2010, the net loss arising from the ineffectiveness of cash flow hedges recognized in operations totaled \$25 million (\$12 million as at December 31, 2009).

As at December 31, 2010, Hydro-Québec estimated at \$261 million the net gains included in Accumulated other comprehensive income that would be reclassified to operations in the next 12 months (\$337 million as at December 31, 2009).

In 2010, Hydro-Québec did not reclassify any amount in Accumulated other comprehensive income to operations (\$6-million net gain reclassified in 2009) as a result of the discontinuance of cash flow hedges.

As at December 31, 2010, the maximum period during which Hydro-Québec hedged its exposure to the variability of cash flows related to anticipated transactions was 6 years (7 years as at December 31, 2009).

Effect of fair value hedges

As at December 31, 2010, the net loss arising from the ineffectiveness of fair value hedges recognized in operations was \$10 million (net gain of \$16 million as at December 31, 2009).

Effect of revaluation of derivative instruments not designated as hedges

As at December 31, 2010, the net gain recognized in operations as a result of the revaluation of the fair value of derivative instruments that had not been accounted for using hedge accounting totaled \$10 million (\$4 million as at December 31, 2009). These instruments are essentially related to risk management transactions.

Sensitivity analyses

The risks associated with variability in foreign exchange rates, interest rates and energy and aluminum prices are the subject of integrated management aimed at limiting the impact of such risks on operating results. Most of the derivative instruments traded are designated as cash flow hedges or fair value hedges and therefore reduce the volatility of operating results, except for the ineffective portion of the hedges, which is insignificant. Derivative instruments which are not designated as hedges, but which nonetheless serve to hedge at-risk opposite positions, also reduce the volatility of operating results. The sensitivity of operating results is thus limited to net exposure to unhedged risks.

As at December 31, 2010, had the exchange rate (C\$/US\$) been 5% higher or lower, net income would have been \$7 million higher or lower, respectively (\$19 million as at December 31, 2009), while Other comprehensive income would have been \$71 million higher or lower, respectively (\$11 million lower or higher as at December 31, 2009). The analysis is based on financial assets and liabilities denominated in U.S. dollars, including cash of US\$53 million (US\$82 million as at December 31, 2009). It also takes into account the impact of hedged sales in U.S. dollars.

Note 15 Financial Instruments (continued)

In 2010, had interest rates been 50 basis points higher or lower, net income would have been \$12 million lower or higher, respectively (\$11 million in 2009), while Other comprehensive income would have been \$233 million higher or \$179 million lower (\$72 million higher or \$77 million lower in 2009).

In 2010, had the price of aluminum been 5% higher or lower, net income would have been \$3 million higher or lower, respectively (\$1 million in 2009), taking into account the effect of hedged sales, and Other comprehensive income would have been \$26 million lower or higher, respectively (\$29 million in 2009).

LIQUIDITY RISK

Liquidity risk is the risk that Hydro-Québec will have difficulty meeting commitments related to its financial liabilities.

Hydro-Québec's exposure is reduced by a large volume of cash from operations, a diversified portfolio of highly liquid or readily convertible instruments traded with high-quality counterparties, preauthorized sources of financing, the quality of Hydro-Québec's signature on financial markets, diversified sources of financing and its management of the proportions of floating-rate debt and debt repayable in foreign currency.

Moreover, as at December 31, 2010, \$36,932 million in long-term debt, perpetual debt and borrowings was guaranteed by the Québec government (\$36,518 million as at December 31, 2009).

Maturities of financial liabilities are presented in the following table. The amounts reported are contractual undiscounted cash flows, representing payments of principal and interest with respect to financial liabilities as at December 31, 2010.

Maturity	Borrowings ^a	Accounts payable and accrued liabilities	Dividend payable	Long-term debt	Derivative instruments ^b
2011	18	1,683	1,886	4,354	451
2012	–	42	–	3,396	149
2013	–	20	–	3,163 ^c	286
2014	–	13	–	4,206	124
2015	–	–	–	2,423	277
1 to 5 years	18	1,758	1,886	17,542	1,287
6 to 10 years	–	14	–	13,903	559
11 to 15 years	–	–	–	13,674	874
16 to 20 years	–	–	–	8,982 ^c	705
21 to 25 years	–	–	–	11,334	–
26 to 30 years	–	–	–	7,745	–
31 to 35 years	–	–	–	8,575	–
36 to 40 years	–	–	–	5,884	–
41 to 45 years	–	–	–	1,626	–
46 to 50 years	–	–	–	1,661	–
51 to 55 years	–	–	–	133	–
56 years and over	–	–	–	1,546	–
Total	18	1,772	1,886	92,605	3,425
Carrying amount	18 ^d	1,770 ^{d,e}	1,886 ^d	38,372 ^f	2,422

a) As at December 31, 2010, the weighted average interest rate on interest-bearing short-term borrowings was 0.75% (0.88% as at December 31, 2009).

b) Agreements entered into with certain counterparties to limit the market value of these financial instruments could result in cash receipts or payments at dates different from the initially scheduled maturity.

c) Certain debts carry sinking fund requirements.

d) Because of their short-term maturities, the carrying amount of these financial liabilities approximates their fair value.

e) Of this amount, \$1,683 million is recorded in Accounts payable and accrued liabilities and \$87 million in Other long-term liabilities.

f) Including the current portion.

Contractual maturities of perpetual debt, whose terms and conditions are described in Note 14, Perpetual Debt, result in biennial interest flows.

Note 15 Financial Instruments (continued)

CREDIT RISK

Credit risk is the risk that one party to a financial asset will fail to meet its obligations.

Hydro-Québec is exposed to credit risk related to cash and cash equivalents, short-term investments and derivative instruments traded with financial institutions. It is also exposed to credit risk related to accounts receivable and other receivables arising primarily from its day-to-day energy sales in and outside Québec. Credit risk is limited to the carrying amount presented under assets on the balance sheet, which approximates fair value.

Cash and cash equivalents, short-term investments and derivative instruments

In order to reduce its credit risk exposure, Hydro-Québec deals with Canadian and international issuers and financial institutions with high credit ratings. In addition, it applies policies to limit risk concentration as well as various monitoring programs and sets credit limits for each counterparty. Through prior agreements, it can also limit the market value of the main derivative instrument portfolios. Any variation in market value beyond the agreed-upon limit results in a cash receipt or payment. As at December 31, 2010, substantially all counterparties dealing with Hydro-Québec had a credit rating over A-, and none of them had defaulted on their obligations to Hydro-Québec.

Customers – Energy sales (classified in Accounts receivable and other receivables)

Exposure to credit risk from energy sales is limited due to Hydro-Québec's large and diverse customer base. Management believes that Hydro-Québec is not exposed to a significant credit risk, particularly because sales in Québec are billed at rates that allow for recovery of costs based on the terms and conditions set by the Régie. Moreover, Hydro-Québec holds as collateral customer deposits totaling \$59 million (\$53 million as at December 31, 2009), of which \$15 million (\$12 million as at December 31, 2009) is recognized under Accounts payable and accrued liabilities, and \$44 million (\$41 million as at December 31, 2009) under Other long-term liabilities.

The value of accounts receivable, by age and net of the related allowance for doubtful accounts, is presented in the following table:

	2010	2009
Accounts receivable		
Under 30 days ^a	1,362	1,414
30 to 60 days	47	62
61 to 90 days	25	35
Over 90 days	148	190
	1,582	1,701
Other receivables ^b	231	254
Accounts receivable and other receivables ^c	1,813	1,955

a) Including unbilled electricity deliveries, which totaled \$1,092 million as at December 31, 2010 (\$1,071 million as at December 31, 2009).

b) Including a financial guarantee of \$16 million (\$31 million in 2009) covering certain financial instruments held at year end.

c) Including US\$107 million (US\$127 million in 2009) translated at the effective exchange rate at the balance sheet date.

The allowance for doubtful accounts was increased by \$29 million (\$48 million in 2009) to \$278 million as at December 31, 2010 (\$249 million as at December 31, 2009). The allowance is based on account age and customer standing.

Note 16 Acquisition of an Interest

On December 9, 2009, Hydro-Québec acquired, through its subsidiary HQ Manicouagan inc., a 60% interest in Manicouagan Power Limited Partnership, which owns and operates a hydroelectric generating station on the Rivière Manicouagan, for a consideration of \$616 million, including cash, a balance of purchase price and acquisition fees. Hydro-Québec consequently acquired joint control over this limited partnership with Alcoa Ltd, which has a 40% interest, because under a contractual agreement, major operating, investment and financing decisions must be approved by all the directors. The transaction was accounted for using the purchase method.

Note 16 Acquisition of an Interest (continued)

The purchase price was broken down as follows:

Current assets	9
Property, plant and equipment	373
Water-power rights	282
	<u>664</u>
Current liabilities	47
Long-term liabilities	1
	<u>48</u>
Purchase price	<u>616</u>

The consideration was determined as follows:

Cash	580
Balance of purchase price (payable in 2011)	30
Acquisition fees	3
Other	3
	<u>616</u>

Note 17 Interests in Joint Ventures

The proportionate share of the joint venture items included in the consolidated financial statements is presented in the following table. These joint ventures consist of the interests managed by Hydro-Québec Production and the Groupe – Technologie.

	2010	2009 ^a
Operations		
Revenue	115	64
Expenditure and financial expenses	85	61
Net income	<u>30</u>	<u>3</u>
Balance Sheets		
Current assets	11	16
Long-term assets	665	679
Current liabilities	5	48
Long-term liabilities	21	26
Net assets	<u>650</u>	<u>621</u>
Cash Flows		
Operating activities	6	3
Investing activities	(4)	–
Financing activities	(4)	(10)
Net change in cash and cash equivalents	<u>(2)</u>	<u>(7)</u>

a) Hydro-Québec's share in the balance sheet, operations and cash flows of Manicouagan Power Limited Partnership has been included in the consolidated financial statements since the acquisition date, December 9, 2009. Information concerning this acquisition is presented in Note 16, Acquisition of an Interest.

Note 18 Equity

SHARE CAPITAL

The authorized share capital consists of 50,000,000 shares with a par value of \$100 each, of which 43,741,090 shares were issued and paid up as at December 31, 2010 and 2009.

RETAINED EARNINGS

Under the *Hydro-Québec Act*, the dividends to be paid by Hydro-Québec are declared once a year by the Québec government, which also determines the terms and conditions of payment. For a given financial year, the dividend cannot exceed the distributable surplus, equal to 75% of net income. This calculation is based on the consolidated financial statements.

Note 18 Equity (continued)

However, in respect of a given financial year, no dividend may be declared in an amount that would have the effect of reducing the capitalization rate to less than 25% at the end of the year. The Québec government declares the dividend for a given year within 30 days after Hydro-Québec has sent it the financial data related to the distributable surplus. Upon expiry of the prescribed period, all or a portion of the distributable surplus that has not been subject to a dividend declaration may no longer be distributed to the shareholder as a dividend.

For 2010, the dividend is \$1,886 million (\$2,168 million for 2009).

ACCUMULATED OTHER COMPREHENSIVE INCOME

CASH FLOW HEDGES

	2010	2009
Balance, beginning of year	709	1,243
Change for the year	(482)	(534)
Balance, end of year	227	709

Note 19 Capital Management

Hydro-Québec manages its capital in such a way as to meet its shareholder's expectations, safeguard its funds at all times and sustain its growth. It fosters a management environment allowing it to enhance the long-term value of its assets and equity, ensure its financial sustainability, preserve its financing capability and safeguard its funds and securities.

In addition to equity, capital includes long-term debt, perpetual debt, short-term borrowings and derivative instruments.

Hydro-Québec uses its capitalization rate to monitor its capital structure. It aims to maintain capitalization at no less than 25%.

CAPITALIZATION

	2010	2009
Equity	18,566	18,419
Long-term debt, including current portion	38,372	37,640
Perpetual debt	288	303
Short-term borrowings	18	29
Derivative instruments	581	129
Total	57,825	56,520
Capitalization rate (%) ^a	32.1	32.6

a) Equity divided by the sum of equity, long-term debt (including current portion), perpetual debt, short-term borrowings and derivative instrument liabilities, less derivative instrument assets.

In 2010, Hydro-Québec's capital management objectives were unchanged from 2009.

Note 20 Supplementary Cash Flow Information

	2010	2009
Change in non-cash working capital items		
Accounts receivable and other receivables	124	(38)
Materials, fuel and supplies	15	(51)
Accounts payable and accrued liabilities	(6)	78
Accrued interest	(11)	(25)
	122	(36)
Investing activities not affecting cash		
Increase in property, plant and equipment	112	162
Interest paid	2,149	2,102

Note 21 Employee Future Benefits

Hydro-Québec's pension plan (the "Pension Plan") is a funded plan that ensures pension benefits based on the number of years of service and an average of the best five years of earnings. These benefits are indexed annually based on a rate which is the greater of the inflation rate, up to a maximum of 2%, and the inflation rate less 3%.

Hydro-Québec also offers other post-retirement and post-employment benefits. Post-retirement benefits are provided by group life, medical and hospitalization insurance plans, which are contributory plans with contributions adjusted annually. Post-employment benefits are under non-contributory salary insurance plans, which pay short- and long-term disability benefits. Most of these plans are not funded, with the exception of the long-term disability salary insurance plan, which is fully funded, and the supplementary group life insurance plan, which is partially funded.

Hydro-Québec's employee benefit plans are defined-benefit plans. The accrued benefit obligations of these plans, valued by independent actuaries, and their assets, at fair value, are valued as at December 31 of each year. The most recent actuarial valuation for funding of the Pension Plan was as at December 31, 2009, and the next valuation, to be dated December 31, 2010, is currently in progress.

The following table presents information concerning Hydro-Québec's employee future benefit plans:

	Pension Plan		Other plans	
	2010	2009	2010	2009
Accrued benefit obligations				
Balance, beginning of year	12,742	10,208	889	773
Current service cost	227	161	45	38
Employee contributions	120	118	—	—
Benefit payments and refunds	(602)	(551)	(55)	(54)
Interest on obligations	778	760	54	51
Actuarial losses	1,719	2,046	95	81
Balance, end of year	14,984	12,742	1,028	889
Plan assets at fair value				
Balance, beginning of year	12,390	10,475	65	60
Actual return on plan assets	1,708	1,713	2	2
Employee contributions	120	118	—	—
Current contributions by Hydro-Québec	296	295	13	14
Special contribution by Hydro-Québec	350	370	—	—
Benefit payments and refunds	(602)	(551)	(10)	(11)
Administrative expenses	(36)	(30)	—	—
Balance, end of year	14,226	12,390	70	65
Deficit, end of year	(758)	(352)	(958)	(824)
Unamortized past service costs	235	285	—	—
Unamortized net actuarial loss	3,341	2,412	157	65
Unamortized transitional (asset) obligation	(457)	(609)	40	54
Accrued benefit assets (liabilities)	2,361	1,736	(761)	(705)

In 2008, some amendments were made to the Pension Plan following agreements reached between Hydro-Québec and its unions. These amendments, which came into force on January 1, 2009, concern temporary and permanent provisions. The main temporary provisions concern retirement without pension reduction and the bridging benefit, whereas the main permanent provisions apply to the cost of optional pension forms and the broadening of the definition of the surviving spouse upon a retiree's death. Amendments to the funding rules of the Pension Plan were also adopted under these agreements. As a result, in 2010, the employee and employer contribution rates were 6.5% and 7.8% (6.0% and 6.9% in 2009), respectively. These rates will be increased annually by 0.5% and 0.9% until they reach up to 7.5% and 10.5% of pensionable earnings.

Note 21 Employee Future Benefits (continued)**ADDITIONAL DISCLOSURES WITH RESPECT TO PLAN ASSETS**

At year end, assets of the plans at fair value consisted of:

%	Pension Plan		Other plans	
	2010	2009	2010	2009
Bonds	50	54	93	100
Equities	40	33	–	–
Real estate investments	8	8	–	–
Other	2	5	7	–
	100	100	100	100

Assets of the plans include the following securities issued by Hydro-Québec and by the Québec government and some of its agencies:

	Pension Plan		Other plans	
	2010	2009	2010	2009
Bonds	1,828	1,820	65	64

CASH PAYMENTS

Cash payments made by Hydro-Québec for employee benefit plans consist of the contributions paid to the funded plans and the benefits paid to employees and pensioners under unfunded plans. The cash payment details are as follows:

	2010	2009
Contributions by Hydro-Québec		
Pension Plan	646	665
Other funded plans	13	14
Benefit payments		
Unfunded plans	45	43
	704	722

In accordance with the actuarial valuation for funding purposes, Hydro-Québec made current contributions of \$296 million in 2010 (\$295 million in 2009), including additional contributions of \$156 million (\$186 million in 2009), to cover the current service cost, and a special contribution of \$350 million (\$370 million in 2009) to cover part of the unfunded actuarial liability. The special contributions made in 2010 and 2009 took into account certain temporary relief measures introduced by *An Act to amend the Supplemental Pension Plans Act and other legislative provisions in order to reduce the effects of the financial crisis on plans covered by the Act*, assented to on January 15, 2009, and, in particular, the extension of the period to cover the unfunded actuarial liability.

Note 21 Employee Future Benefits (continued)

ELEMENTS OF ACCRUED BENEFIT COST RECOGNIZED FOR THE YEAR

	Pension Plan		Other plans	
	2010	2009	2010	2009
Current service cost ^a	227	161	45	38
Administrative expenses ^b	36	30	–	–
Interest on obligations	778	760	54	51
Actual return on plan assets	(1,708)	(1,713)	(2)	(2)
Actuarial losses	1,719	2,046	95	81
Cost before adjustments required to recognize the long-term nature of employee future benefits	1,052	1,284	192	168
Difference between actual and expected return on assets	790	926	–	–
Difference between actuarial losses on accrued benefit obligations and actuarial losses recognized	(1,719)	(2,046)	(92)	(82)
Amortization of past service cost	50	50	–	–
Amortization of transitional (asset) obligation	(152)	(152)	14	13
	(1,031)	(1,222)	(78)	(69)
Cost recognized for the year	21	62	114	99

- a) For the long-term disability salary insurance plan, the current service cost corresponds to the cost of new disability cases for the year.
b) In 2010, administrative expenses billed by Hydro-Québec to the Pension Plan totaled \$12 million (\$13 million in 2009).

SIGNIFICANT ACTUARIAL ASSUMPTIONS

The following actuarial assumptions, used to determine the accrued benefit obligations and cost of the plans, result from a weighted average:

%	Pension Plan		Other plans	
	2010	2009	2010	2009
Accrued benefit obligations				
Rate at end of year				
Discount rate	5.54	6.17	5.54	6.17
Salary escalation rate ^a	2.60	2.97	–	–
Accrued benefit cost recognized				
Rate at end of prior year				
Discount rate	6.17	7.49	6.17	7.49
Expected long-term rate of return on plan assets	6.75	6.25	3.90	3.72
Salary escalation rate ^a	2.97	2.86	–	–

- a) This rate takes salary increases into account as well as promotion opportunities while in service.

As at December 31, 2010, health care costs were based on an annual growth rate of 5.50% for 2011. Subsequently, depending on the assumption used, the rate will ultimately decrease to 4.50% in 2030. A change of 1% in this annual growth rate would have had the following impact for 2010:

	1% increase	1% decrease
Impact on current service cost and interest cost on accrued benefit obligations for the year	5	(5)
Impact on accrued benefit obligations at end of year	61	(49)

Note 22 Commitments and Contingencies

ELECTRICITY PURCHASE TRANSACTIONS

On May 12, 1969, Hydro-Québec signed a contract with Churchill Falls (Labrador) Corporation Limited [CF(L)Co] whereby Hydro-Québec undertook to purchase substantially all the output from Churchill Falls generating station, which has a rated capacity of 5,428 MW. Expiring in 2016, this contract will be automatically renewed for a further 25 years under agreed-upon terms and conditions. On June 18, 1999, Hydro-Québec and CF(L)Co entered into a contract to guarantee the availability of 682 MW of additional power until 2041 for the November 1 to March 31 winter period.

As at December 31, 2010, Hydro-Québec was committed under 120 contracts to purchase electricity from other producers, for an installed capacity of about 5,674 MW. It expects to purchase approximately 17 TWh of energy annually over the terms of these contracts, which extend through 2045. The majority of the contracts include renewal clauses. Hydro-Québec has also undertaken to purchase power transmission rights.

Hydro-Québec expects to make the following minimum payments on all its electricity purchase contracts over the next five years:

2011	738
2012	1,058
2013	1,289
2014	1,467
2015	1,598

GUARANTEES

In accordance with the terms and conditions of certain debt securities issued outside Canada, Hydro-Québec has undertaken to increase the amount of interest paid to non-residents in the event of changes to Canadian tax legislation governing the taxation of non-residents' income. Hydro-Québec cannot estimate the maximum amount it might have to pay under such circumstances. Should an amount become payable, Hydro-Québec has the option of redeeming most of the securities in question. As at December 31, 2010, the amortized cost of these debts was \$4,223 million.

Under the contract signed on May 12, 1969, with CF(L)Co, Hydro-Québec could be required to provide additional funding if CF(L)Co were unable to pay its expenses and service its debt. The maximum amount that Hydro-Québec could be required to pay cannot be reasonably evaluated, however, since it is not stated in the contract and since the amount payable would depend on the outcome of future events whose nature and probability cannot be determined. To date, Hydro-Québec has not had to pay any amount under this contract.

As part of the implementation of the plan to capitalize on its interests abroad, which ended in 2008, Hydro-Québec provided guarantees to the purchasers of its interests with regard to contingent tax liabilities and certain other customary representations. These guarantees, for which no liability was recognized, will be in effect until the applicable limitation periods expire, namely until June 30, 2013.

INVESTMENTS

Hydro-Québec expects to invest approximately \$4.2 billion in property, plant and equipment and intangible assets in 2011.

LITIGATION

In the normal course of its development and operating activities, Hydro-Québec is sometimes party to claims and legal proceedings. Management is of the opinion that adequate provisions have been made for any disbursements that could result from these legal actions. Consequently, it does not foresee any adverse effect of such contingent liabilities on Hydro-Québec's consolidated operating results or financial position.

Note 23 Segmented Information

Hydro-Québec carries on its activities in the four reportable business segments defined below. The non-reportable business segments and other activities are grouped together under Corporate and Other Activities for reporting purposes.

Generation: Hydro-Québec Production operates and develops Hydro-Québec's generating facilities. This division also sells electricity on external markets and engages in energy trading. Hydro-Québec Production provides Hydro-Québec Distribution with a base volume of up to 165 TWh of heritage pool electricity annually at an average price of 2.79¢/kWh. In excess of this volume, it can participate in Hydro-Québec Distribution's calls for tenders in a context of free market competition.

Transmission: Hydro-Québec TransÉnergie operates and develops Hydro-Québec's power transmission system. It markets system capacity and manages power flows throughout Québec.

Distribution: Hydro-Québec Distribution operates and develops Hydro-Québec's distribution system and is responsible for sales and services to Québec customers. It also promotes energy efficiency and ensures the security of the supply of electricity to the Québec market.

Construction: Hydro-Québec Équipement et services partagés and Société d'énergie de la Baie James (SEBJ) design, build and refurbish generating and transmission facilities. Hydro-Québec Équipement et services partagés is responsible for projects throughout Québec, except in the territory governed by the *James Bay and Northern Québec Agreement* (JBNQA). SEBJ builds generating facilities in the territory governed by the JBNQA (north of the 49th parallel) and may carry out projects outside Québec.

Corporate and Other Activities: The corporate units support the divisions in the achievement of their business objectives. They include the Groupe – Technologie, Groupe – Affaires corporatives et secrétariat général, Vice-présidence – Comptabilité et contrôle, Vice-présidence – Financement, trésorerie et caisse de retraite and Vice-présidence – Ressources humaines, as well as the Direction principale – Centre de services partagés, which reports to Hydro-Québec Équipement et services partagés. The Centre de services partagés brings together internal company-wide shared services, including goods and services procurement, real estate management, and material and transportation service management.

The amounts presented for each segment are based on the financial information used to prepare the consolidated financial statements. The accounting policies used to calculate these amounts are as described in Note 1, Significant Accounting Policies, and Note 3, Effect of Rate Regulation on the Consolidated Financial Statements.

Intersegment transactions related to electricity sales are recorded based on the supply and transmission rates provided for by the *Act respecting the Régie de l'énergie*. The Act sets a commodity rate for an annual base volume of up to 165 TWh of heritage pool electricity for the Québec market.

Other intersegment products and services are measured at full cost, which includes all costs directly associated with product or service delivery.

Most of Hydro-Québec's revenue is from Québec, and substantially all its property, plant and equipment, as well as its goodwill, are related to its Québec operations. In 2010, revenue from outside Québec amounted to \$1,643 million, with \$1,293 million coming from the United States (\$1,610 million and \$1,311 million, respectively, in 2009).

Note 23 Segmented Information (continued)

OPERATIONS AND ASSETS BY SEGMENT

							2010
	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Intersegment eliminations and adjustments	Total
Revenue							
External customers	1,692	66	10,531	–	33	16 ^a	12,338
Intersegment	4,843	3,051	72	2,607	1,342	(11,915)	–
Depreciation and amortization	725	948	859	3	82	(12)	2,605
Financial expenses	1,119	872	503	–	35	(3)	2,526
Net income (loss)	1,605	447	453	–	(2)	12	2,515
Total assets	30,609	18,072	12,746	449	4,306	(284)	65,898
Investing activities							
Increase in property, plant and equipment and intangible assets							
Affecting cash	1,900	1,248	728	7	121	–	4,004
Not affecting cash	89	17	6	–	–	–	112
							2009 (restated, Note 2)
	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Intersegment eliminations and adjustments	Total
Revenue							
External customers	1,588	61	10,648	–	25	11 ^a	12,333
Intersegment	4,819	2,868	69	2,645	1,281	(11,682)	–
Depreciation and amortization	667	778	868	3	68	(12)	2,372
Financial expenses	1,019	851	502	–	27	(1)	2,398
Net income	2,053	435	363	–	8	12	2,871
Total assets	29,249	17,677	12,383	423	5,571	(311)	64,992
Investing activities							
Increase in property, plant and equipment and intangible assets							
Affecting cash	2,033	1,196	709	1	111	–	4,050
Not affecting cash	139	23	–	–	–	–	162

a) Resales of excess supply by Hydro-Québec Distribution on outside markets are presented as offsets of electricity purchases rather than in Revenue.

Note 24 Comparative Information

Some of the prior year's data have been reclassified to conform to the presentation adopted in the current year.

(2) Supplementary Information

As per Canadian accounting principles, long-term debt is shown at amortized cost (i.e. the nominal amount plus or minus unamortized discount and/or premium). Moreover, the sinking fund is not stated separately; instead each issue of Hydro-Québec's debt held in the sinking fund reduces the outstanding amount of such issue.

The following table sets forth the non-consolidated and outstanding long-term debt by issue of Hydro-Québec as of December 31, 2010, expressed in Canadian dollars and in currency units:

LONG-TERM DEBT BY ISSUE

Series	Maturity Date	Issue Date ⁽¹⁾	Interest Rate %	Canadian Dollars	CUSIP Number or ISIN Code	References ⁽²⁾
Payable in Canadian Dollars						
JK	2011-02-15	2000-06-12	6.500	\$ 745,000,000	448814 HG 1	
HF	2011-09-26	1989-09-26	10.000	259,392,587	448814 DD 2	
GU2	2012-07-16	1987-07-16	10.250	817,982,000	448814 CV 3	
HG	2019-11-22	1989-11-22	10.000	100,000,000	448814 DE 0	
II	2020-01-10	1993-07-27	10.250	161,658,176	448814 EF 6	
HL	2020-08-15	1990-08-15	11.000	1,110,000,000	448814 DG 5	
HM	2020-08-15	1990-08-15	—	636,274,688	448814 DK 6	
HX	2021-10-15	1991-10-15	10.500	1,100,000,000	448814 DW 0	
IC	2022-07-15	1992-07-15	9.625	1,950,000,000	448814 DZ 3	
IH	2031-02-26	1993-07-27	11.000	225,607,319	448814 EG 4	
JG	2031-08-15	1999-01-26	6.000	825,675,000	448814 GY 3	
JM	2045-02-15	2006-10-17	5.000	5,000,000,000	CA448814 HZ 92	
JN	2050-02-15	2009-01-15	5.000	3,500,000,000	CA448814 JA 24	
Medium-term notes issued under Canadian MTN program						
0051	2011-03-03	2004-03-03	4.301	10,000,000	CA44889Z DW 38	
0006	2012-02-15	1997-02-14	7.000	15,000,000	CA44889Z DP 86	
0058	2014-02-20	2009-06-22	Floating	2,060,000,000	CA44889Z EE 21	
0052	2014-03-03	2004-03-03	4.783	12,000,000	CA44889Z DX 11	
0062	2016-03-01	2010-02-23	3.290	14,626,000	CA44889Z EJ 18	
0056	2017-03-02	2009-03-02	4.205	14,000,000	CA44889Z EC 64	
0059	2017-04-15	2009-10-14	—	20,824,680	CA44889Z EF 95	
0049	2018-08-15	2003-09-04	5.500	150,000,000	CA44889Z DU 71	
0057	2019-03-02	2009-03-02	4.678	14,600,000	CA44889Z ED 48	
0003	2021-08-15	1996-09-27	—	57,481,477	—	(b)
0060	2022-04-15	2009-10-14	—	27,596,766	CA44889Z EG 78	
0005	2024-11-07	1996-11-07	7.500	25,000,000	CA44889Z DZ 68	
0061	2027-04-15	2009-10-14	—	21,082,310	CA44889Z EH 51	
0017	2029-01-16	1999-02-02	6.500	75,000,000	CA44889Z CK 09	
0038	2031-08-15	2001-01-17	6.000	4,325,000	CA44889Z DG 87	
0009	2035-01-16	1998-02-03	6.500	686,500,000	CA44889Z BF 23	
0011	2035-01-16	1998-02-18	Various	25,124,972	CA44889Z BH 88	(c)
0016	2035-01-16	1998-07-27	3.529	100,802,829	CA44889Z CJ 36	(d)
0019	2035-02-15	1999-04-30	6.500	3,794,000,000	CA44889Z CM 64	
0012	2035-07-16	1998-06-05	Various	63,127,494	CA44889Z BJ 45	(e)
0014	2035-07-16	1998-07-15	—	22,918,648	—	(f)
0020	2040-02-15	1999-05-14	6.000	3,770,500,000	CA44889Z CN 48	
0032	2050-02-15	2000-08-01	6.000	50,000,000	CA44889Z DA 18	
0033	2060-02-15	2000-11-02	Various	366,023,260	CA44889Z DB 90	(g)
0037	2060-02-15	2001-01-12	Various	58,488,270	CA44889Z DF 05	(h)
0039	2060-02-15	2001-01-19	Various	220,840,589	CA44889Z DH 60	(i)
0040	2060-02-15	2001-01-24	Various	27,242,042	CA44889Z DJ 27	(j)
Present value of lease obligations for regional offices and service facilities				24,566,084		
Others				704,235,490		
Unamortized discount and/or premium				1,070,661,891		
Debt classified by currency of issue				29,938,157,572		
Debt classified by currency of repayment ⁽⁴⁾				37,017,545,534		

Series	Maturity Date	Issue Date ⁽¹⁾	Interest Rate %		Canadian Dollars ⁽³⁾	Currency Units	CUSIP Number or ISIN Code	References ⁽²⁾
Payable in U.S. Dollars								
JL	2011-05-11	2001-05-11	6.300	\$	724,068,800	US\$	728,000,000	448814 HR 7
FU	2012-02-01	1985-02-01	11.750		198,920,000		200,000,000	448814 CF 8 (a)
IF2	2013-02-01	1993-02-03	8.000		940,506,690		945,613,000	448814 ED 1
IU	2016-04-01	1996-04-01	7.500		397,840,000		400,000,000	448814 EK 5
HS	2021-02-01	1991-02-12	9.400		895,140,000		900,000,000	448814 DM 2
HY	2022-01-15	1992-01-30	8.400		994,600,000	1,000,000,000		448814 DX 8
IO	2024-07-07	1994-07-07	8.050		994,550,270		999,950,000	448814 EJ 8
GF	2026-03-01	1986-03-13	8.875		248,650,000		250,000,000	448814 CP 6 (a)
GH	2026-04-15	1986-04-30	8.250		248,650,000		250,000,000	448814 CS 0 (a)
GQ	2027-01-15	1987-01-29	8.250		248,650,000		250,000,000	448814 CT 8
HE	2029-06-15	1989-06-22	8.625		248,650,000		250,000,000	448814 DB 6
HH	2029-12-01	1989-12-07	8.500		497,300,000		500,000,000	448814 DC 4
HK	2030-04-15	1990-04-18	9.375		497,300,000		500,000,000	448814 DF 7
HQ	2030-11-15	1990-11-20	9.500		497,300,000		500,000,000	448814 DL 4
Medium-term notes issued under U.S. MTN program								
B-30	2011-12-15	1991-12-06	8.620		39,784,000		40,000,000	44881H BD 5
B-37	2011-12-15	1991-12-11	8.540		19,892,000		20,000,000	44881H BL 7
B-7	2020-12-11	1990-12-10	9.400		9,946,000		10,000,000	44881H AF 1
B-48	2021-12-20	1991-12-19	8.680		49,730,000		50,000,000	44881H BX 1
B-49	2022-02-15	1992-02-15	9.800		49,730,000		50,000,000	44881H BY 9
B-64	2022-05-10	1992-04-30	9.750		19,892,000		20,000,000	44881H CL 6
B-124	2024-11-18	1994-11-18	8.910		24,865,000		25,000,000	44881H ET 7
B-125	2025-03-28	1995-03-28	8.400		54,703,000		55,000,000	44881H EU 4
B-127	2026-01-03	1996-01-03	6.270		49,730,000		50,000,000	44881H EW O
B-63	2027-04-30	1992-04-30	9.500		19,892,000		20,000,000	44881H CK 8
B-130	2028-07-13	1998-07-13	6.625		49,730,000		50,000,000	44881H EZ 3
Conditional sale transaction (Turbines)					52,397,939			
Unamortized discount and/or premium					(83,484,645)			
Debt classified by currency of issue					7,988,933,054			
Debt classified by currency of repayment ⁽⁴⁾					1,383,697,740			
Payable in Euro								
D15B	2016-05-01	1986-05-01	6.000	\$	80,618,941	€	60,529,289	DE0004780325
Unamortized discount and/or premium					(733,670)			
Debt classified by currency of issue					79,885,271			
Debt classified by currency of repayment ⁽⁴⁾					—			
Payable in Japanese Yen								
Medium-term notes issued under Euro MTN program								
32	2012-03-05	1997-03-05	4.400	\$	12,260,000	¥	1,000,000,000	XS0074215830
34	2017-03-17	1997-03-17	4.850		12,260,000		1,000,000,000	XS0074480319
Unamortized discount and/or premium					24,004			
Debt classified by currency of issue					24,544,004			
Debt classified by currency of repayment ⁽⁴⁾					—			

Series	Maturity Date	Issue Date ⁽¹⁾	Interest Rate %	Canadian Dollars ⁽³⁾	Currency Units	CUSIP Number or ISIN Code	References ⁽²⁾
Payable in Pounds Sterling							
EG	2011-05-31	1981-05-20	15.000	\$ 62,052,018	£ 40,000,000	GB0004494109	
HI	2015-03-08	1990-03-08	12.625	232,695,074	150,000,000	XS0015132904	(k)
FA	2015-09-13	1982-09-13	12.750	77,565,024	50,000,000	GB0004494216	
Unamortized discount and/or premium				(2,588,743)			
Debt classified by currency of issue				369,723,373			
Debt classified by currency of repayment ⁽⁴⁾				—			
Total Long-Term Debt				\$ 38,401,243,274			

(1) If more than one issue date, the date of the first issue is indicated.

(2) Not redeemable unless otherwise specified.

(3) Translated at rates in effect at December 31, 2010.

(4) Takes into account swaps related to long-term debt (see “Notes 11 and 15 to the 2010 Consolidated Financial Statements”).

(a) Sinking-fund debentures.

(b) Sold at deep discount maturing semi-annually from February 15, 2011 to August 15, 2021 in equal payments.

(c) From January 16, 2022, fixed coupon amounts of \$1.6 million payable semi-annually.

(d) From January 16, 1999 to January 16, 2014, interest coupons of \$3 million payable semi-annually. From July 16, 2024 to January 16, 2035, interest coupons of \$5.525 million payable semi-annually.

(e) Fixed rate coupon of 6.5% semi-annually commencing on January 16, 2026.

(f) Sold at deep discount maturing semi-annually from January 16, 2025 to July 16, 2035 in various payment amounts.

(g) No interest payment until February 15, 2030 exclusive. Commencing on February 15, 2030, fixed rate coupon of 45% payable semi-annually.

(h) No interest payment until February 15, 2041 exclusive. From February 15, 2041 to February 15, 2045, interest coupons of \$50 million payable annually. From February 15, 2046 to February 15, 2050, interest coupons of \$35 million payable annually. From February 15, 2051 to February 15, 2055, interest coupons of \$20 million payable annually. From February 15, 2056 to February 15, 2059, interest coupons of \$10 million payable annually.

(i) No interest payment until February 15, 2040 exclusive. Commencing on February 15, 2040, fixed rate coupon of 100% payable semi-annually.

(j) No interest payment until February 15, 2050 exclusive. From February 15, 2050 to February 15, 2052, interest coupons of \$45 million payable annually. From February 15, 2053 to February 15, 2055, interest coupons of \$40 million payable annually. From February 15, 2056 to February 15, 2058, interest coupons of \$35 million payable annually. On February 15, 2059, interest coupon of \$30 million is payable.

(k) Redeemable anytime at the highest of par or adjusted price as per the Fiscal Agency Agreement at the option of Hydro-Québec.

6. Other matters

- (1) No extraordinary material event has occurred since December 31, 2010.
- (2) Development Strategy

In July 2009, Hydro-Québec presented its five-year Strategic Plan (the “Strategic Plan”) for the 2009-2013 period. This Strategic Plan was reviewed by a parliamentary commission in October 2009.

The Strategic Plan sets forth three main priorities: energy efficiency, renewable energies, and technological innovation. More specifically, Hydro-Québec plans to:

- promote the conservation of energy by investing in energy efficiency programs;
- begin a new phase of large-scale hydroelectric development in order to finish carrying out Québec’s energy strategy (4,500 MW) and to implement an additional planned expansion in northern Québec (3,500 MW) that Québec refers to as its “Plan Nord”;
- continue integrating wind farm capacity resulting from Hydro-Québec’s tender calls of recent years, for a total of nearly 4,000 MW by 2016-2017;
- rely on technological innovation to remain on the leading edge of the power industry, improve customer services and further enhance Hydro-Québec’s performance; and
- develop energy-efficiency technologies.

Hydro-Québec plans to invest over \$4.5 billion in 2011. More than half of this amount will be devoted to development and growth activities and to the Energy Efficiency Plan. The remainder will go toward facility maintenance and improvements.

Hydro-Québec Production will continue its major hydroelectric development projects, including the commissioning of Eastmain-1-A powerhouse and the first generating unit at Sarcelle powerhouse. At the same time, it will be working on several fronts at the Romaine jobsites: carrying on with the engineering work at the Romaine-1 and Romaine-3 developments, starting construction on the dam and dikes at Romaine-2 and extending the road up to the Romaine-3 site. The four generating stations in this complex are expected to be commissioned between 2014 and 2020.

Hydro-Québec TransÉnergie will invest in development to integrate new hydroelectric and wind capacity in Québec. It will therefore continue connecting new generating facilities, in particular Eastmain-1-A and Sarcelle powerhouses and the wind farms built in response to *Hydro-Québec Distribution*’s calls for tenders. *Hydro-Québec TransÉnergie* will also continue to invest in maintenance and improvement activities to ensure the reliability and long-term operability of its transmission assets and to enhance service quality. These activities include upgrading the main transmission system, which involves boosting system performance and reinforcing the supply of energy to major load centres in order to reduce energy losses and make system management more flexible.

Hydro-Québec Distribution will make further investments to handle the growth of its Québec customer base and to maintain and improve its facilities, especially those involved in distribution automation. It will also continue to implement the Energy Efficiency Plan, which includes measures for low-income households, to achieve the objective of 11 TWh in energy savings set for 2015. In addition, it will complete the deployment of some 800 capacitor banks under the *Addition 1,000 Mvar* project, aimed at improving transmission system reliability during periods of exceptional peak demand in Québec.

- (3) Regulatory Framework

Hydro-Québec Act

Under the *Hydro-Québec Act*, the Government is entitled to declare a dividend from Hydro-Québec when certain financial criteria are met (see “Note 18 to the 2010 Consolidated Financial Statements”). In its budget tabled in March 2008, the Government announced that Hydro-Québec’s dividend policy was revised and raised to its distributable surplus, which is 75% of net income. This change of policy began with the dividend payable for Hydro-Québec’s fiscal year ending December 31, 2007.

Energy Board Act

The *Act respecting the Régie de l'énergie* (the “*Energy Board Act*”), enacted in 1996, grants the Energy Board exclusive authority to determine or modify Hydro-Québec’s rates and conditions under which electricity is transmitted and distributed by Hydro-Québec. *Hydro-Québec TransÉnergie* and *Hydro-Québec Distribution*’s activities in Québec are therefore regulated. Under this legislation, rates are set by reasoned decision of three commissioners after public hearings. Moreover, the Act stipulates that rates are determined on a basis that allows for recovery of the cost of service plus a reasonable return on the rate base.

The Energy Board consists of seven full-time members appointed by the Government and, in the exercise of its functions, is charged with reconciling the public interest, consumer protection and the fair treatment of the electric power carrier and of distributors. The *Energy Board Act* was amended in December 2006 to grant the Energy Board new powers regarding energy efficiency programs and actions as well as mandatory reliability standards.

Under the *Energy Board Act*, Hydro-Québec has been granted exclusive rights for the distribution of electric power throughout Québec, excluding the territories served by distributors operating a municipal or private electric system as of May 13, 1997.

The Energy Board has the authority to:

- fix, or modify, after holding public hearings, Hydro-Québec’s rates and conditions for the transmission and distribution of electric power;
- approve Hydro-Québec’s electric power supply plan;
- designate a reliability coordinator for Québec and adopt the standards of reliability proposed by the designated reliability coordinator;
- authorize Hydro-Québec’s transmission and distribution investment projects;
- approve Hydro-Québec’s distribution commercial programs; and
- rule upon complaints from customers concerning rates or services.

The *Energy Board Act* was amended in 2010 to allow a gradual increase of the cost of the Heritage Pool Electricity starting in 2014. For the years 2014 to 2018, the average Heritage Pool Electricity cost will be the average cost for the previous year, plus 0.2¢/kWh, up to a maximum of 3.79¢/kWh. For 2019 and subsequent years, the average Heritage Pool Electricity cost will be that in effect for 2018 adjusted yearly (up to a maximum of 2%) for the annual variation in the Québec consumer price index (excluding alcoholic beverages and tobacco products).

Generation

The Energy Board’s jurisdiction does not extend to generation.

Transmission

Transmission rates and service terms and conditions are subject to approval by the Energy Board. On May 5, 2011, the Energy Board approved an annual rate of \$72.45/kW/year for firm point-to-point service with a rate rider (a rate rider is a temporary credit or charge approved by a regulator) for 2011 of minus \$1.30/kW/year and an hourly rate of \$8.27/MWh, applicable retroactively as of January 1, 2011, and set the amount payable for transmission of the native load supply at \$2,644,569,900 per year with a rate rider for 2011 of minus \$47,452,600.

On August 14, 2007, the *Direction – Contrôle et exploitation du réseau* (System Control Operations Management) of *Hydro-Québec TransÉnergie* was designated as the Reliability Coordinator for Québec by the Energy Board.

Distribution

Electricity required to meet Québec's needs in excess of the Heritage Pool Electricity must be purchased through a competitive bidding process. Purchase contracts for electricity in excess of the Heritage Pool Electricity are subject to the approval of the Energy Board. On November 1st, 2010, *Hydro-Québec Distribution* filed with the Energy Board its *Electricity Supply Plan 2011-2020*. A public hearing began in June 2011 and a decision is expected at the end of the year.

In August 2010, *Hydro-Québec Distribution* filed with the Energy Board an application for a rate freeze for the rate year beginning April 1, 2011. In March 2011, the Energy Board ordered an average rate decrease of 0.41% to *Hydro-Québec Distribution* due to lower operating costs and interest rates.

National Energy Board Act

The exports of electric power by Hydro-Québec are subject to the *National Energy Board Act* which provides that a permit or license must be obtained from the National Energy Board of Canada (the "National Board") for such exports. Hydro-Québec holds the following permits for short-term exports (contracts of five years or less):

- one permit expiring on December 31, 2020 authorizing Hydro-Québec to export annually up to 30 TWh of combined firm and interruptible energy to the United States;
- one permit granted to Hydro-Québec's subsidiary, HQEM, expiring on April 7, 2019. The permit authorizes HQEM, as a power marketer, to export annually up to 30 TWh of firm and interruptible energy and up to 6,000 MW of power from interconnections located in other provinces.

Each of these permits allows Hydro-Québec to take advantage of the spot market in the United States; however, long-term export contracts (more than five years) require prior issuance of specific permits or licenses by the National Board.

HQEM is authorized by an order of the National Board to export natural gas to the United States. This authorization will expire in 2013.

The National Board also regulates international power lines and Hydro-Québec operates its interconnections with the United States in accordance with the terms and conditions of *Certificates of Public Convenience and Necessity* issued by the National Board.

Environmental Regulation

Hydro-Québec's activities are subject to federal and provincial environmental laws and regulations, and, to some extent, municipal by-laws.

Before beginning new construction, Hydro-Québec's projects are subject to environmental impact assessment studies as well as information and consultation processes. The studies are submitted for review and approval by government departments and agencies responsible for issuing governmental authorizations. In some instances, the approval process includes public hearings by an independent body.

Environmental protection is a central concern of Hydro-Québec. Most activities that have an impact on the environment are governed by ISO 14001-certified environmental management systems. ISO 14001 is the environmental management standard of the *International Organization for Standardization*. In addition, every year, Hydro-Québec reviews its management of environmental issues and publishes a Sustainability Report.

The Government adopted the Sustainable Development Act (the "Sustainable Act") in April 2006 and the Government Sustainable Development Strategy 2008-2013 (the "Government Strategy"), which came into effect in January 2008. As a Government-owned corporation, Hydro-Québec is subject to the Sustainable Act and the Government Strategy and published its Sustainable Development Action Plan 2009-2013 (the "Action Plan") in March 2009.

(4) Litigation

Innus of Uashat mak Mani-Utenam

On December 30, 2003, representatives of the Innus of Uashat mak Mani-Utenam (the “Uashaunnuat”) instituted an action against the Attorney-General of Canada, the Attorney-General of Québec and Hydro-Québec seeking judicial recognition of their aboriginal rights and of their unextinguished Indian title over certain areas of land in Québec. Plaintiffs who claim not to be parties to the *1975 James Bay and Northern Québec Agreement* (the “Agreement”) allege that the Agreement and certain federal and provincial laws are illegal, inoperative, unconstitutional and not binding upon the plaintiffs. The plaintiffs seek various orders, including rendering of accounts and revenue sharing for the unlawful use and management of the lands, notably in respect of hydroelectric facilities on these lands, and awarding damages from Canada, Québec and Hydro-Québec, jointly and severally, in an amount of up to \$1.5 billion (subject to further increase by the plaintiffs). In June 2005, as requested by the parties, the Québec Superior Court suspended the legal action for five years. However on January 27, 2009, at the request of the Attorney-General of Canada, the suspension of the proceedings was lifted and the case has been reactivated. With Québec, Hydro-Québec intends to contest this claim.

On May 7, 2010, the Uashaunnuat filed a motion before the Superior Court of Québec seeking an interlocutory injunction against the Attorney-General of Canada, the Attorney-General of Québec and Hydro-Québec regarding, amongst other issues, Hydro-Québec’s proposed construction of transmission lines to connect the Romaine River hydroelectric complex to Hydro-Québec’s grid which, according to the Uashaunnuat, is being undertaken in violation of their ancestral rights on their alleged ancestral territory. In addition, the Uashaunnuat are raising various procedural claims relating to the environmental review conducted with respect to this project. Along with the Attorney-General of Québec representing the interests of Québec, Hydro-Québec intends to contest this motion.

Innus of Pessamit

In November 2006, the Innus of Pessamit re-activated an action which was filed in 1998 against the Attorney-General of Canada, the Attorney-General of Québec and Hydro-Québec seeking judicial recognition of their aboriginal rights and title over certain areas of land in Québec where Hydro-Québec’s Manicouagan-Outardes hydroelectric facilities are located. The Innus intend to seek various orders including an award of damages against Canada, Québec and Hydro-Québec, jointly and severally, in an amount of \$500 million. With Québec, Hydro-Québec intends to contest this claim.

CF(L)Co

On February 23, 2010, CF(L)Co instituted proceedings against Hydro-Québec seeking the modification, as of November 30, 2009, of the pricing terms under the 1969 Power Contract (see “Generation Operations-Power Purchases”) by increasing the pricing terms payable by Hydro-Québec to CF(L)Co. Alternatively, CF(L)Co is seeking the cancellation of the 1969 Power Contract with effect six months from the date of judgment. Hydro-Québec has filed its statement of defense in May 2011.

7. Outline of Québec

(1) Outline

(A) General

Québec is the largest by area of the ten provinces in Canada (1,541,000 square kilometers or 594,860 square miles, representing 15.4% of the geographical area of Canada) and the second largest by population (7.9 million, representing 23.2% of the population of Canada, as of January 2011). The population of Québec increased on average by 0.8% per year since 2006. In the same period, the population of Canada increased on average by 1.1%.

Québec has a modern, developed economy, in which the service sector contributed 75.6%, the manufacturing industry 16.3%, the construction industry 5.9% and the primary sector 2.2% of real GDP at basic prices in chained 2002 dollars in 2010. The leading manufacturing industries in Québec are food products, primary metal products (including aluminum smelting), petroleum and coal products, transportation equipment products (including aircraft and motor vehicles and associated parts), chemical products, paper products and fabricated metal products. Québec also has significant hydroelectric resources, generating 32.0% of the electricity produced in Canada in 2010.

Montréal and Ville de Québec, the capital of Québec, are the centers of economic activity. Montréal is one of the main industrial, commercial and financial centers of North America and is Canada's second largest urban area as measured by population. Port of Montréal, situated on the St. Lawrence River, is Canada's second largest port in terms of operating revenues and provides access to the Atlantic Ocean and the inland navigation system of the Great Lakes.

French is the official language of Québec and is spoken by approximately 95% of its population.

(B) Politics and foreign relations

(i) Organization of Québec and political parties

Constitutional framework

Canada is a federation of ten provinces and three federal territories, with a constitutional division of responsibilities between the federal and provincial governments as set out in *The Constitution Acts, 1867 to 1982* (the "Constitution").

Under the Constitution, each provincial government has exclusive authority to raise revenue for provincial purposes through direct taxation within its territorial limits. Each provincial government also has exclusive authority to regulate education, health, social services, property and civil rights, natural resources, municipal institutions and, generally, to regulate all other matters of a purely local or private nature in its province, and to regulate and raise revenue from the exploration, development, conservation and management of natural resources.

The federal parliament is empowered to raise revenue by any method or system of taxation and generally has authority over matters or subjects not assigned exclusively to the provinces. It has exclusive authority over the regulation of trade and commerce, currency and coinage, banks and banking, national defense, naturalization and aliens, postal services, navigation and shipping, and bills of exchange, interest and bankruptcy.

The *Constitution Act, 1982* (the "Constitution Act"), enacted by the parliament of the United Kingdom, provides, among other things, that amendments to the Constitution be effected in Canada according to an amending formula. The Constitution Act also includes various modifications to the Constitution. The Constitution Act came into effect in 1982 notwithstanding the opposition of the National Assembly of Québec (the "National Assembly") and the government of Québec (the "Government") to certain clauses relating to provincial jurisdiction and the terms of the amending formula.

The Parti Québécois, which has as its principal objective the sovereignty of Québec, formed the Government from September 1994 to April 14, 2003. During its term in office, the Parti Québécois tabled in the National Assembly a Bill entitled *An Act respecting the future of Québec* (the "Act"), which provided that upon receipt of a favorable vote in a referendum, the Act would be enacted and Québec would proclaim its sovereignty following a formal offer to Canada of a treaty of economic and political partnership. In November 1995, a slight majority of Québec citizens (50.6%) voted against the Act.

The Supreme Court of Canada decided in August 1998, on a reference from the federal government in which Québec did not participate, that (i) under the Constitution, Québec may not secede unilaterally without negotiation with the other parties in the Canadian Confederation within the existing constitutional framework; (ii) under international law, Québec has no right to secede unilaterally from Canada; (iii) nonetheless, the clear repudiation by the people of Québec of the existing constitutional order and the clear expression of a desire to pursue secession would oblige the other provinces and the federal government to negotiate in accordance with constitutional principles, and Québec would also have to negotiate in accordance with such principles; and (iv) if Québec were to so negotiate but face unreasonable intransigence from the other parties, it would be more likely to be recognized than if it did not itself act according to constitutional principles in the negotiations.

The Québec Liberal Party, a federalist party, won a third consecutive mandate at the general election in December 2008. It currently forms the Government in the National Assembly. With regard to the constitutional issue, the Québec Liberal Party pursues a policy that emphasizes the values of Canadian federalism. In particular, its platform is focused on strengthening Québec's place within the federation, on forming new alliances with the other provinces and on promoting intergovernmental cooperation.

Government

Legislative power in Québec is exercised by the Parliament of Québec, which is comprised of the Lieutenant-Governor, who is appointed by the Governor General in Council of Canada, and the National Assembly. The National Assembly consists of 125 members elected by popular vote from single member districts. According to constitutional practice, the leader of the party with the largest number of elected members becomes Prime Minister and forms the Government.

Executive power in Québec is vested in the Lieutenant-Governor acting with, or on the recommendation of, the Conseil exécutif, which consists of the Prime Minister and the Cabinet (Conseil des ministres). The Conseil exécutif is accountable to the National Assembly.

The current National Assembly consists of 65 members of the Québec Liberal Party, 49 members of the Parti québécois, 4 members of the Action Démocratique du Québec, 1 member of Québec solidaire and 6 independents. Members are elected for a term of five years, subject to earlier dissolution of the National Assembly by the Lieutenant-Governor upon the recommendation of the Prime Minister or following the Government's defeat on a vote of no confidence. The mandate of the current Government extends through the next election, which must be called no later than December 2013.

(ii) Foreign relations

Québec maintains government offices in Tokyo and in several major cities of the United States of America, South America, Europe and Asia to promote trade and to stimulate foreign investment in Québec.

(2) Economy

(A) Outline of recent economic trends

Canada. Gross domestic product (“GDP”) adjusted for inflation in chained 2002 dollars (“real GDP”), as published in the National Economic Accounts on May 30, 2011, increased at a rate of 3.2% in 2010, compared with a decrease of 2.8 % in 2009. This increase was mainly attributable to consumer spending and business investment. Final domestic demand increased by 4.5% in 2010, compared to a decrease of 2.1% in 2009. Real consumer spending increased by 3.3% in 2010, compared to a 0.4% increase in 2009. International exports increased by 6.4% in volume and by 8.8% in value in 2010 compared with decreases of 13.8% and 21.9%, respectively, in 2009. International imports increased by 13.1% in volume and by 9.3% in value in 2010 compared with decreases of 13.4% and 13.6%, respectively, in 2009.

Non-residential investment increased by 7.3% in 2010, due in particular to a 11.8% increase in machinery and equipment. Residential investment increased by 10.2% in 2010, due to a 27.4% increase in housing starts. Government investment increased by 17.9% in 2010. Government expenditure on goods and services increased by 2.4% in 2010.

The Consumer Price Index (“CPI”) increased by 1.8% in 2010. Overall employment increased by 1.4% in 2010, while the unemployment rate decreased to 8.0% from 8.3% in 2009.

Québec. Real GDP as published in the Québec Economic Accounts on March 24, 2011, increased at a rate of 2.8% in 2010, compared to a decrease of 0.3% in 2009. Final domestic demand increased by 4.5% in real terms in 2010, compared to a 0.6% increase in 2009. Real consumer spending increased by 3.7% in 2010, compared to an increase of 0.9% in 2009. International exports decreased by 0.8% in volume and increased by 1.6% in value in 2010, compared with decreases of 11.5% and 16.4%, respectively, in 2009. International imports increased by 7.7% in volume and by 6.9% in value in 2010, compared with decreases of 10.9% and 12.6%, respectively, in 2009.

The value of non-residential investment increased by 5.0% in 2010, with increases of 9.6% in the public sector and 0.7% in the private sector. The value of residential investment increased by 17.0% in 2010.

The CPI increased by 1.2% in 2010. Overall employment increased by 1.7% in 2010, while the unemployment rate decreased to 8.0% from 8.5% in 2009.

Plan Nord

On May 9th 2011, the Government launched, under its Plan Nord, a 25-year program for the long-term economic, social and environmental development of Northern Québec.

The territory covered by the Plan Nord includes almost 1.2 million km², or approximately 72% of the area of Québec, and has substantial undeveloped hydroelectric, mining and forestry potential.

As part of the initial five-year plan covering 2011-2016, investments of \$1.6 billion are expected to be made consisting of \$1,191 million for infrastructure development, \$382 million for social measures and \$52 million to fund the Société du Plan Nord and prospecting activities among foreign investors. The Government intends to allocate \$500 million over the next five years for the negotiation of equity interests in future projects. This sum would be administered by Investissement Québec.

MAIN ECONOMIC INDICATORS OF QUÉBEC

	2006	2007	2008	2009	2010
	(dollar amounts in millions)				
GDP at current market prices	\$ 282,505	\$ 295,928	\$ 302,748	\$ 303,747	\$ 317,773
GDP in chained 2002 dollars	\$ 260,033	\$ 265,585	\$ 268,406	\$ 267,477	\$ 274,953
Personal income	\$ 236,642	\$ 249,883	\$ 260,059	\$ 263,213	\$ 272,527
Capital expenditures	\$ 51,809	\$ 57,055	\$ 60,118	\$ 58,858	\$ 64,144
Value of manufacturers' shipments	\$ 145,580	\$ 143,894	\$ 147,003	\$ 126,289	\$ 132,116
Retail trade	\$ 86,505	\$ 90,406	\$ 94,806	\$ 93,740	\$ 99,631
	(dollar amounts)				
GDP in chained 2002 dollars per capita (\$)	\$ 34,073	\$ 34,548	\$ 34,627	\$ 34,168	\$ 34,772
	(in thousands of persons)				
Population (at July 1)	7,632	7,687	7,751	7,828	7,907

Sources: Institut de la statistique du Québec and Statistics Canada.

MAIN ECONOMIC INDICATORS QUÉBEC - CANADA

	2006	2007	2008	2009	2010
	(percentage changes)				
1. Québec					
GDP					
At current market prices	3.8%	4.8%	2.3%	0.3%	4.6%
In chained 2002 dollars	1.8%	2.1%	1.1%	(0.3%)	2.8%
Value of manufacturers' shipments	4.3%	(1.2%)	2.2%	(14.1%)	4.6%
CPI (2002=100)	1.7%	1.6%	2.1%	0.6%	1.2%
Population (at July 1)	0.7%	0.7%	0.8%	1.0%	1.0%
2. Canada					
GDP					
At current market prices	5.6%	5.5%	4.8%	(4.6%)	6.3%
In chained 2002 dollars	2.8%	2.2%	0.7%	(2.8%)	3.2%
Value of manufacturers' shipments	1.1%	(1.3%)	(1.0%)	(17.8%)	8.9%
CPI (2002=100)	2.0%	2.2%	2.3%	0.3%	1.8%
Population (at July 1)	1.0%	1.1%	1.2%	1.2%	1.2%

Sources: Institut de la statistique du Québec and Statistics Canada.

(B) Movements of net domestic income at basic prices and gross domestic product at market prices

The following table sets forth some data pertaining to net domestic income at basic prices and GDP at current market prices of Québec for each of the years indicated.

NET DOMESTIC INCOME AND GROSS DOMESTIC PRODUCT

	2006	2007	2008	2009	2010	% of Total 2010
	(dollar amounts in millions)					
Salaries, wages, supplementary labor income and military pay and allowances	\$ 149,948	\$ 157,713	\$ 163,789	\$ 166,600	\$ 172,485	54.3%
Corporation profits and investment income	45,612	46,768	47,546	42,122	45,654	14.4
Net income of farm operators from production	323	414	372	349	410	0.1
Net income of non-farm unincorporated business, including rent	16,549	17,148	17,704	18,968	20,173	6.3
Inventory valuation adjustment	(652)	225	(1,117)	250	84	0.0
Indirect taxes less subsidies on production factors	17,104	17,898	18,331	18,314	18,908	6.0
Net domestic product at basic prices	\$ 228,884	\$ 240,166	\$ 246,625	\$ 246,603	\$ 257,714	81.1
Indirect taxes less subsidies on products	18,814	18,988	18,212	17,535	18,911	6.0
Capital consumption allowances and miscellaneous, statistical discrepancy	34,807	36,775	37,912	39,609	41,148	12.9
GDP at market prices	\$ 282,505	\$ 295,928	\$ 302,748	\$ 303,747	\$ 317,773	100.0%

Sources: Institut de la statistique du Québec and Statistics Canada.

(C) Industrial structure and recent conditions of major industries

The table below shows the contribution of each economic activity to real GDP at basic prices in chained 2002 dollars of Québec in 2010.

CONTRIBUTION TO REAL GDP AT BASIC PRICES IN CHAINED 2002 DOLLARS ⁽¹⁾

	2010
	(share in percentage)
Primary Sector:	
Agriculture, forestry, fishing and hunting	1.8%
Mining and oil and gas extraction	0.4
	2.2
Secondary Sector:	
Manufacturing	16.3
Construction	5.9
	22.2
Service Sector:	
Community, business and personal services	26.2
Finance, insurance and real estate	18.0
Wholesale and retail trade	12.4
Governmental services	6.9
Transportation and warehousing	4.5
Other utility services	3.8
Information and cultural services	3.8
	75.6
Real GDP	100.0%

(1) North American Industrial Classification System (NAICS) in chained 2002 dollars. For the chained 2002 dollars, the aggregate amounts are not equal to the sums of their components.

Source: Statistics Canada.

The following table sets forth total capital expenditures in Québec for each of the years indicated together with the percentage contribution of each sector in the total of 2009 and 2010 investment.

CAPITAL EXPENDITURES IN QUÉBEC ⁽¹⁾

	2006	2007	2008	2009	% of Total 2009	2010	% of Total 2010
	(dollar amounts in millions)						
Non-residential Investment:							
Governmental, educational, health and social services	\$ 8,076	\$ 9,672	\$ 11,863	\$ 13,277	22.6%	\$ 14,226	22.2%
Information, cultural and other utilities	5,479	6,303	6,743	7,299	12.4	7,687	12.0
Finance, insurance and real estate operators	7,203	6,877	5,331	4,125	7.0	4,068	6.3
Transportation and warehousing	1,994	2,533	2,501	2,904	4.9	3,211	5.0
Manufacturing	4,047	3,878	4,123	3,094	5.3	2,847	4.4
Business services, accommodation and other services	2,068	2,309	2,757	2,677	4.5	2,758	4.3
Wholesale and retail trade	2,480	3,018	3,369	2,635	4.5	2,705	4.2
Mining and oil and gas extraction	984	1,505	1,754	1,790	3.0	2,216	3.5
Construction	1,136	884	889	945	1.6	1,011	1.6
Agriculture, forestry, fishing and hunting	678	804	858	758	1.3	766	1.2
	\$ 34,144	\$ 37,780	\$ 40,188	\$ 39,504	67.1%	\$ 41,495	64.7%
Residential Investment	17,665	19,274	19,930	19,354	32.9	22,649	35.3
	\$ 51,809	\$ 57,054	\$ 60,118	\$ 58,858	100.0%	\$ 64,144	100.0%
Private sector	\$ 39,373	\$ 43,015	\$ 43,204	\$ 39,709	67.5	\$ 43,151	67.3%
Public sector	12,437	14,039	16,914	19,149	32.5	20,993	32.7
	\$ 51,809	\$ 57,054	\$ 60,118	\$ 58,858	100.0%	\$ 64,144	100.0%

(1) North American Industrial Classification System (NAICS).

Source: Statistics Canada.

The following table shows the value of gross production for some goods producing sectors of the economy of Québec for each of the years indicated.

GROSS PRODUCTION FOR SOME GOODS PRODUCING SECTORS ⁽¹⁾

	2006	2007	2008	2009	2010
(in millions of dollars)					
Agriculture (farm cash receipts)	\$ 6,285	\$ 6,890	\$ 7,509	\$ 7,364	\$ 7,132
Mining and quarries (value of mineral production) ⁽²⁾	\$ 4,560	\$ 5,540	\$ 6,192	\$ 5,628	\$ 6,770
Manufacturing (value of shipments)	\$ 145,580	\$ 143,894	\$ 147,003	\$ 126,289	\$ 132,116
Construction (value of construction work purchased)	\$ 32,393	\$ 36,481	\$ 39,974	\$ 40,253	\$ 45,482
(in thousands of MWH)					
Electric energy generated	180,248	191,964	193,684	196,508	186,763

(1) The gross value of production represents the total value of the commodities produced at the producers' level and before the elimination of the value of the commodities used in production.

(2) Including oil and gas.

Source: Statistics Canada.

(D) Price trends and indices

The following table sets forth the CPI and average weekly earnings and percentage changes from the previous years for Québec and Canada for each of the years indicated.

CONSUMER PRICES AND AVERAGE WEEKLY EARNINGS

	2006	2007	2008	2009	2010
(price index 2002 = 100)					
CPI					
Québec	108.7	110.4	112.7	113.4	114.8
	1.7%	1.6%	2.1%	0.6%	1.2%
Canada	109.1	111.5	114.1	114.4	116.5
	2.0%	2.2%	2.3%	0.3%	1.8%
(in dollars)					
Average weekly earnings					
Québec	\$ 709.10	\$ 739.30	\$ 753.00	\$ 761.20	\$ 784.00
	1.9%	4.3%	1.8%	1.1%	3.0%
Canada	\$ 755.50	\$ 788.20	\$ 811.00	\$ 823.90	\$ 853.20
	2.5%	4.3%	2.9%	1.6%	3.6%

Source: Statistics Canada.

(E) Labor situation

The table below sets forth labor force data for Québec for each of the years indicated.

LABOR FORCE

	2006	2007	2008	2009	2010
(in thousands of persons)					
Population of 15 years and over (A)	6,226	6,293	6,362	6,435	6,507
Labor Force					
Employed	3,743	3,834	3,880	3,848	3,915
Unemployed	328	299	303	356	339
Total (B)	4,070	4,133	4,183	4,204	4,254
(in percentage)					
Participation rate (B/A)	65.4%	65.7%	65.8%	65.3%	65.4%
Unemployment rate	8.1%	7.2%	7.2%	8.5%	8.0%

Source: Statistics Canada.

(3) Public Finance

(A) Consolidated Financial Transactions ⁽¹⁾

The following table summarizes the consolidated financial transactions of the Government for the four years ended March 31, 2010, the preliminary results for Fiscal 2011 and the budget forecast for Fiscal 2012.

	Year ending March 31				Preliminary Results 2011 ⁽²⁾⁽³⁾	Budget Forecast 2012
	2007	2008	2009	2010		
(dollar amounts in millions)						
Budgetary transactions of the Consolidated Revenue Fund						
Own-source revenue	\$ 49,651	\$ 49,464	\$ 48,773	\$ 47,994	\$ 46,925	\$ 50,336
Federal transfers	11,015	13,629	14,023	15,161	15,451	15,039
Total revenue	60,666	63,093	62,796	63,155	62,376	65,375
Program spending	(51,734)	(54,826)	(58,550)	(61,579)	(59,819)	(61,284)
Debt service	(7,039)	(7,021)	(6,504)	(6,117)	(6,934)	(7,794)
Total expenditure	(58,773)	(61,847)	(65,054)	(67,696)	(66,753)	(69,078)
Contingency reserve	—	—	—	—	(300)	(300)
Net results of Consolidated Revenue Fund	1,893	1,246	(2,258)	(4,541)	(4,677)	(4,003)
Net results of consolidated entities	100	404	1,007	1,601	1,209	1,143
Surplus (deficit) within the meaning of the public accounts	1,993	1,650	(1,251)	(2,940)	(3,468)	(2,860)
Revenue of the Generations Fund	(584)	(449)	(587)	(725)	(732)	(940)
Stabilization reserve ⁽⁴⁾	(1,300)	(1,201)	1,845	433	—	—
Accounting modifications	—	—	—	58	—	—
Consolidated budgetary balance within the meaning of the <i>Balanced Budget Act</i>	109	0	7	(3,174)	(4,200)	(3,800)
Deposit of dedicated revenues in the Generations Fund ⁽⁵⁾	584	449	587	725	732	940
Consolidated budgetary balance	693	449	594	(2,449)	(3,468)	(2,860)
Consolidated non-budgetary transactions⁽⁶⁾						
Investments, loans and advances	(2,213)	(2,658)	(966)	(2,009)	(1,622)	(2,024)
Fixed assets	(1,177)	(1,457)	(2,448)	(4,226)	(5,094)	(4,222)
Net investments in the networks	(1,002)	(487)	(622)	—	—	—
Retirement plans	2,559	2,458	2,274	2,612	3,364	2,720
Other accounts ⁽⁷⁾	(1,620)	988	638	1,354	350	(1,148)
Consolidated non-budgetary requirements	(3,453)	(1,156)	(1,124)	(2,269)	(3,002)	(4,674)
Consolidated net financial requirements	\$ (2,760)	\$ (707)	\$ (530)	\$ (4,718)	\$ (6,470)	\$ (7,534)
Consolidated financing transactions						
Change in cash position ⁽⁸⁾	(3,284)	2,965	(4,639)	3,702	1,495	2,960
Net borrowings ⁽⁹⁾	11,076	3,286	10,806	4,335	9,820	7,601
Retirement plans' sinking fund ⁽¹⁰⁾ and funds dedicated to employee's future benefits ⁽¹¹⁾	(4,448)	(4,895)	(4,918)	(2,594)	(4,113)	(2,087)
Generations Fund ⁽⁵⁾	(584)	(649)	(719)	(725)	(732)	(940)
Total consolidated financing transactions	\$ 2,760	\$ 707	\$ 530	\$ 4,718	\$ 6,470	\$ 7,534

(1) The categories set forth reflect the presentation of the 2011-2012 Budget.

(2) As of Fiscal 2011, the 2011-2012 Budget incorporates the implementation of the Land Transportation Network Fund (FORT) and the Tax Administration Fund (FRAF). The creation of these two funds does not affect the Government's budgetary balance. However, it modifies the level of own-source revenue, program spending and net results of consolidated entities.

(3) The Preliminary Results 2011 are based on financial information presented as at March 31, 2011 in the 2011-2012 Budget which was tabled on March 17, 2011. These preliminary results are subject to change.

(4) A negative amount indicates an allocation to the reserve and a positive amount, a use of the reserve.

(5) The Generations Fund was created in June 2006 by the adoption of the *Act to reduce the debt and establish the Generations Fund* and is a separate entity from the Consolidated Revenue Fund. This law establishes the fund as a permanent tool for reducing the debt burden. In addition, it stipulates that the monies accumulated in the Generations Fund are dedicated exclusively to repaying the debt.

- (6) As of Fiscal 2010, with line-by-line consolidation of the health and social services and education networks, their non-budgetary transactions are consolidated in these activities. Therefore, the item "net investment in the networks" no longer exists because it is now part of transactions between related entities.
- (7) Reflects notably year-to-year changes in accounts payable and receivable, cash on hand and outstanding bank deposits and checks.
- (8) A positive number indicates a net decrease in cash.
- (9) Represents mainly new borrowings of \$17,262 million, \$9,995 million, \$17,351 million, \$14,664 million, \$18,726 million and \$17,222 million for each of Fiscal 2007 through 2012, respectively, less repayment of borrowings.
- (10) This sinking fund receives amounts to be used to cover retirement benefits payable by the Government under the public and parapublic sector retirement plans.
- (11) These funds receive amounts used to cover employee's future benefits (accumulated sick leave and surviving spouse's pensions) payable to the Government's employees.

(B) Consolidated Revenue Fund Revenue

The following table sets forth own-source revenue and federal transfers by source for the Consolidated Revenue Fund.

	Year ending March 31					Budget Forecast 2012	% of Total 2012
	2007	2008	2009	2010	Preliminary Results 2011 ^{(1) (2)}		
	(dollar amounts in millions)						
Income and property taxes							
Personal income tax ⁽³⁾	\$ 18,480	\$ 18,648	\$ 17,949	\$ 17,352	\$ 18,016	\$ 18,786	28.7%
Contributions to the Health Services Fund	5,053	5,404	5,631	5,796	5,863	6,047	9.2
Corporate taxes ⁽³⁾	4,779	4,819	4,176	3,878	3,633	3,885	5.9
	28,312	28,871	27,756	27,026	27,512	28,718	43.9
Consumption taxes							
Retail sales	9,873	10,238	10,743	10,780	11,659	13,728	21.0
Fuel ⁽⁴⁾	1,678	1,656	1,636	1,651	17	21	0.0
Tobacco	678	647	594	663	739	707	1.1
Alcoholic beverages	422	421	430	433	437	441	0.7
	12,651	12,962	13,403	13,527	12,852	14,897	22.8
Duties and permits							
Motor vehicles ⁽⁴⁾	741	757	772	784	42	42	0.1
Natural resources	136	86	8	105	75	257	0.4
Other	179	197	202	209	220	225	0.3
	1,056	1,040	982	1,098	337	524	0.8
Miscellaneous							
Sales of goods and services ⁽⁴⁾	396	399	443	454	421	314	0.5
Interest	541	562	635	387	541	550	0.8
Fines, forfeitures and recoveries	479	605	661	624	549	543	0.8
	1,416	1,566	1,739	1,465	1,511	1,407	2.2
Revenue from Government enterprises ⁽⁵⁾							
Société des alcools du Québec	710	761	808	867	887	940	1.4
Loto-Québec	1,391	1,360	1,375	1,252	1,237	1,246	1.9
Hydro-Québec	4,043	2,926	2,978	2,943	2,440	2,575	3.9
Other	72	(22)	(268)	(184)	149	29	0.0
	6,216	5,025	4,893	4,878	4,713	4,790	7.3
Total own-source revenue	49,651	49,464	48,773	47,994	46,925	50,336	77.0
Federal transfers							
Equalization	5,539	7,160	8,028	8,355	8,552	7,815	12.0
Protection Payment ⁽⁶⁾	—	—	—	—	—	369	0.6
Health transfers	3,649	3,925	3,740	4,148	4,309	4,516	6.9
Transfers for post-secondary education and other social programs	1,070	1,516	1,267	1,461	1,455	1,475	2.3
Other programs	757	1,028	988	1,197	1,135	864	1.3
Total federal transfers	11,015	13,629	14,023	15,161	15,451	15,039	23.0
Total revenue	\$ 60,666	\$ 63,093	\$ 62,796	\$ 63,155	\$ 62,376	\$ 65,375	100.0%

(1) The Preliminary Results 2011 are based on financial information presented as at March 31, 2011 in the 2011-2012 Budget which was tabled on March 17, 2011. These preliminary results are subject to change.

(2) As of Fiscal 2011, the 2011-2012 Budget incorporates the implementation of the Land Transportation Network Fund (FORT) and the Tax Administration Fund (FRAF). The creation of these two funds does not affect the Government's budgetary balance. However, it modifies the level of own-source revenue, program spending and net results of consolidated entities.

(3) Since Fiscal 2011, figures exclude the activities of the FRAF.

(4) Since Fiscal 2011, figures exclude the activities of the FORT.

(5) Includes the dividends declared and the changes in surpluses or deficits accumulated by Government enterprises, which are consolidated with a corresponding revaluation of the investment held by the Government. The declared dividends were \$4,443 million, \$4,216 million, \$4,435 million, \$4,287 million and \$4,010 million for each of Fiscal 2007 through 2011, respectively, and are budgeted to be \$4,143 million for Fiscal 2012.

(6) In the March 17, 2011 Budget, Québec recorded amounts of \$7,639 million in equalization and \$545 million as payments, referred to in the 2011-2012 Budget as protection payments, for 2011-2012, as announced by the federal government to the provinces in December 2010. These protection payments are discretionary spending of the federal government intended to ensure that total major transfers to provinces do not decrease compared to prior year. On March 21, 2011, the federal government informed Québec that it was correcting an error by Statistics

Canada relating to 2011-2012, with the result that Québec's equalization payment was raised by \$176 million, bringing it to \$7 815 million, while the protection payment was reduced by the same amount, to \$369 million.

(C) Consolidated Revenue Fund Expenditure

The following table sets forth program spending and debt service by mission for the Consolidated Revenue Fund.

	Year ending March 31						
	2007	2008	2009	2010	Preliminary Results 2011 ⁽¹⁾⁽²⁾	Budget Forecast 2012	% of Total 2012
	(dollar amounts in millions)						
Economy and Environment:							
Transports ⁽³⁾	\$ 1,953	\$ 2,147	\$ 2,435	\$ 2,453	\$ 845	\$ 849	1.2%
Affaires municipales, Régions et occupation du territoire	999	1,152	1,148	1,146	1,192	1,080	1.6
Emploi et Solidarité sociale	839	875	964	955	883	870	1.3
Développement économique, Innovation et Exportation	519	706	972	901	916	890	1.3
Agriculture, Pêcheries et Alimentation	694	724	706	1,100	1,062	1,068	1.5
Other	950	1,103	1,073	1,176	1,082	1,002	1.5
	5,954	6,707	7,298	7,731	5,980	5,759	8.3
Education and Culture:							
Éducation, Loisir et Sport	11,901	12,559	13,486	13,808	14,159	14,527	21.0
Teachers Pension Plan	738	840	836	845	1,053	1,013	1.5
Culture, Communications et Condition féminine	593	623	641	653	650	671	1.0
Other	124	131	157	166	176	303	0.4
	13,356	14,153	15,120	15,472	16,038	16,514	23.9
Health and Social Services:							
Santé et Services sociaux ⁽⁴⁾	16,783	17,931	19,019	20,320	20,659	21,461	31.1
Régie de l'assurance maladie du Québec ⁽⁵⁾	5,670	6,123	6,603	7,147	7,457	7,680	11.1
	22,453	24,054	25,622	27,467	28,116	29,141	42.2
Support for Individuals and Families:							
Emploi et Solidarité sociale	3,246	3,294	3,287	3,412	3,439	3,385	4.9
Famille et Aînés	1,718	1,836	1,960	2,066	2,250	2,387	3.5
Other	228	238	242	243	249	241	0.3
	5,192	5,368	5,489	5,721	5,938	6,013	8.7
Administration and Justice:							
Sécurité publique	987	1,054	1,119	1,157	1,180	1,163	1.7
Revenu ⁽⁶⁾	1,093	1,219	1,377	1,471	—	—	0.0
Affaires municipales, Régions et occupation du territoire	860	669	664	669	669	682	1.0
Justice	507	456	464	474	476	463	0.7
Pension and insurance plans	392	323	335	333	371	347	0.5
Other	940	823	1,062	1,084	1,051	1,427	2.1
	4,779	4,544	5,021	5,188	3,747	4,082	5.9
Anticipated Lapsed Appropriations	—	—	—	—	—	(225)	(0.3)
Total program spending	51,734	54,826	58,550	61,579	59,819	61,284	88.7
Debt service:							
Direct debt service	4,357	4,548	4,372	3,755	4,286	5,007	7.2
Interest ascribed to the retirement plans and employee future benefits	2,682	2,473	2,132	2,362	2,648	2,787	4.0
Total debt service	7,039	7,021	6,504	6,117	6,934	7,794	11.3
Total expenditure	\$ 58,773	\$ 61,847	\$ 65,054	\$ 67,696	\$ 66,753	\$ 69,078	100.0%

(1) The Preliminary Results 2011 are based on financial information presented as at March 31, 2011 in the 2011-2012 Budget which was tabled on March 17, 2011. These preliminary results are subject to change.

(2) As of Fiscal 2011, the 2011-2012 Budget incorporates the implementation of the Land Transportation Network Fund (FORT) and the Tax Administration Fund (FRAF). The creation of these two funds does not affect the Government's budgetary balance. However, it modifies the level of own-source revenue, program spending and net results of consolidated entities.

(3) Since Fiscal 2011, the "Transports" portfolio excludes the activities of the FORT.

- (4) Includes the cost of benefits vested during the year for the retirement plans.
- (5) The Québec health insurance plan.
- (6) As of Fiscal 2011, the “Revenu” portfolio is withdrawn to account for the establishment of the Agence du revenu du Québec, which replaces the Ministère du Revenu. This entity is compensated for its services via the FRAF.

(D) Consolidated Non-Budgetary Transactions

The following table sets forth the distribution of the consolidated non-budgetary transactions.

Consolidated Non-Budgetary Transactions ^{(1) (2)}

	Year ending March 31				Preliminary Results 2011 ⁽³⁾	Budget Forecast 2012
	2007	2008	2009	2010		
(dollar amounts in millions)						
Investments, loans and advances						
Government enterprises						
Shares and investments	\$ (125)	\$ —	\$ (250)	\$ (250)	\$ (20)	\$ (510)
Change in the equity value of investments ⁽⁴⁾	(1,774)	(807)	(460)	(591)	(703)	(648)
Loans and advances	(42)	(82)	(318)	(197)	(28)	(39)
Total Government enterprises	(1,941)	(889)	(1,028)	(1,038)	(751)	(1,197)
Investment with the Caisse de dépôt et placement du Québec ⁽⁵⁾	—	(1,100)	804	296	—	—
Other	(272)	(669)	(742)	(1,267)	(871)	(827)
Total investments, loans and advances	(2,213)	(2,658)	(966)	(2,009)	(1,622)	(2,024)
Fixed assets						
Net investments	(2,376)	(2,747)	(3,754)	(6,889)	(7,937)	(7,246)
Depreciation	1,199	1,290	1,306	2,663	2,843	3,024
Total fixed assets	(1,177)	(1,457)	(2,448)	(4,226)	(5,094)	(4,222)
Net investments in the networks⁽⁶⁾						
Annual deficit	219	442	(31)	—	—	—
Loans and advances to the networks	(1,221)	(929)	(591)	—	—	—
Total net investments in the networks	(1,002)	(487)	(622)	—	—	—
Retirement plans and other employee future benefits						
Cost of vested benefits, amortizations and contributions ⁽⁷⁾	1,936	2,049	2,071	2,279	2,487	2,409
Interest on the actuarial obligation ⁽⁸⁾	4,157	4,398	4,383	4,627	4,739	4,855
Benefits, repayments and administrative expenses ⁽⁹⁾	(3,534)	(3,989)	(4,180)	(4,294)	(3,862)	(4,544)
Total retirement plans and other employee future benefits	2,559	2,458	2,274	2,612	3,364	2,720
Other accounts	(1,620)	988	638	1,354	350	(1,148)
Total consolidated non-budgetary transactions	\$ (3,453)	\$ (1,156)	\$ (1,124)	\$ (2,269)	\$ (3,002)	\$ (4,674)

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing

(2) As of Fiscal 2010, line-by-line consolidation of transactions of the health and social services and education networks requires taking into account the change in the various balance sheet items, including capital expenditures and debts. Therefore, the Government's net financial requirements include the network's assets funded through organizations outside the Government's reporting entity.

(3) The Preliminary Results 2011 are based on financial information presented as at March 31, 2011 in the 2011-2012 Budget which was tabled on March 17, 2011. These preliminary results are subject to change.

(4) Change in accumulated surpluses or deficits (i.e., change in net income (loss) after declared dividends to the Government).

(5) A negative entry represents a deposit and a positive entry represents a withdrawal of the stabilization reserve fund.

(6) Since Fiscal 2010, with line-by-line consolidation of the health and social services and education networks, the item "net investment in the networks" no longer applies because all of these entities are now part of the consolidated entities.

(7) The Government covers costs at a rate of 50% for years of service since July 1, 1982 for the RREGOP and since January 1, 2001 for RRPE. For most of the other plans, the Government covers the difference between the cost of each plan and the contributions paid by participants (cost-balance pension plans). For years of service accumulated as of January 1, 2000, pension benefits will be adjusted based on the higher result from the following two calculations: inflation less 3% or half the inflation rate. Previously, pension benefits for years of service accumulated between 1982 and 1999 inclusive were adjusted by the inflation rate less 3%. Benefits for years of service accumulated before 1982 were adjusted by the inflation rate.

- (8) Excludes impact of the income from the retirement plans sinking fund of \$1,440 million, \$1,887 million, \$2,176 millions, \$2,175 millions and \$2,078 millions for each of Fiscal 2007 through 2011, respectively. The income for Fiscal 2012 is expected to be \$2,051 million.
- (9) The retirement plans liability, excluding the retirement plans sinking fund estimated at \$42.2 billion, is estimated at \$71.4 billion for Fiscal 2011, consisting of \$50.3 billion in respect of RREGOP and RRPE and \$21.1 billion in respect of the other public sector plans. These liabilities are estimated in accordance with the method recommended by the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants (“CICA”) regarding the accounting of public sector pension plans.

(E) Government Enterprises and Agencies

The following table sets forth certain major Government enterprises and agencies and their respective areas of activity.

Major Enterprises and Agencies

	Area of Activity
Enterprises included in the Government’s reporting entity	
Hydro-Québec	Energy production, transmission and distribution
Loto-Québec	Gaming
Société des alcools du Québec (“SAQ”)	Wholesale and retail sale of alcoholic beverages
Investissement Québec ⁽¹⁾	Economic development
Société Innovatech (Grand Montréal, Québec, Chaudière-Appalaches, Sud du Québec et Régions ressources)	Venture Capital (High technology sector)
Agencies whose reporting entity is included in the Government’s reporting entity	
Corporation d’hébergement du Québec (“CHQ”) ⁽²⁾	Construction, development and management of health care buildings
Financement-Québec	Financing public sector organizations
Société d’habitation du Québec (“SHQ”)	Development and management of public housing
Immobilière-SHQ ⁽³⁾	Development and management of public housing
Société immobilière du Québec (“SIQ”)	Construction, development and management of public buildings
Société québécoise d’assainissement des eaux (“SQAE”) ⁽⁴⁾	Water purification
Agencies which conduct fiduciary transactions that are not included in the Government’s reporting entity	
Caisse de dépôt et placement du Québec (“Caisse”)	Investment management
Commission administrative des régimes de retraite et d’assurances (“CARRA”)	Public sector pension funds management
Régie des rentes du Québec (“RRQ”)	Pension funds management

(1) Investissement Québec is a corporation resulting from the April 1, 2011, merger of SGF with Investissement Québec.

(2) An Act to abolish the Ministère des Services gouvernementaux and to implement the Government’s 2010-2014 Action Plan to Reduce and Control Expenditures by abolishing or restructuring certain bodies and certain funds (the “Act to abolish MSG”), enacted on June 13, 2011, provides that CHQ will be merged with the SIQ on July 1st, 2011.

(3) The Act to abolish MSG provides that Immobilière-SHQ will be dissolved and all rights and obligations will be transferred to the SHQ on October 1st, 2011.

(4) The Act to abolish MSG provides that the activities of SQAE, will be carried out by the Ministre des Affaires municipales, des Régions et de l’Occupation du territoire on July 1st, 2011, except rights and obligations under its borrowings. This Act allows SQAE to be dissolved upon its final liquidation.

(F) Sinking Funds

The following table sets forth the sinking funds transactions as of the fiscal years indicated.

	2007	2008	2009	2010	2011
	(in thousands of dollars)				
Balance as at April 1	\$ 3,872,037	\$ 4,393,819	\$ 4,640,886	\$ 4,973,552	\$ 5,593,573
Receipts	521,782	247,067	332,666	633,020	300,916
Refunds	0	0	0	12,999	753
Balance as at March 31	\$ 4,393,819	\$ 4,640,886	\$ 4,973,552	\$ 5,593,573	\$ 5,893,736

(4) Public Debt

(A) Balance of Outstanding Debt

(i) Government debt

The following table sets forth the Government internal and external funded and unfunded debt (indebtedness contracted for a maturity of one year or less) outstanding as of March 31, 2011 and the interest expense made thereon during the year then ended.

GOVERNMENT DEBT AND INTEREST EXPENSE FOR FISCAL 2011

	Amount outstanding as at March 31, 2011 ⁽¹⁾⁽²⁾	Annual interest expense April 1, 2010 to March 31, 2011 ⁽²⁾
(in millions of dollars)		
Borrowings – Government		
Internal:		
Funded	\$ 137,541	\$ 5,755
Unfunded	10,809	95
Total	\$ 148,350	\$ 5,850
External:		
Payable in United States Dollars	\$347	\$191
Payable in Japanese Yen	379	98
Payable in Swiss Francs	643	37
Payable in Euros	126	62
Payable in Pounds Sterling	(1)	15
Total ⁽³⁾	\$ 149,844	\$ 6,253

Borrowings – to finance Government Enterprises

Internal:		
Funded	\$ 855	\$ 7
Total	\$ 855	\$ 7

- (1) Canadian dollar equivalent at the date indicated for borrowings in foreign currencies after taking into account currency swap agreements and foreign exchange forward contracts.
- (2) The preliminary results 2011 are based on financial information presented as at March 31, 2011 in the 2011-2012 Budget which was tabled on March 17, 2011, as revised. These preliminary results are subject to change..
- (3) Net of sinking funds of \$5,894 million.

The following table sets forth the Government funded debt outstanding after deduction of sinking funds as of the fiscal years indicated.

GOVERNMENT FUNDED DEBT ⁽¹⁾⁽²⁾

	Unadjusted ⁽³⁾				Preliminary Results
	2007	Unadjusted ⁽³⁾ 2008	Unadjusted ⁽³⁾ 2009	2010	2011 ⁽⁴⁾
(in millions of dollars)					
Borrowings – Government					
Internal	\$ 101,006	\$ 101,854	\$ 113,756	\$ 121,278	\$ 137,541
External ⁽⁵⁾	8,708	10,653	10,793	5,453	1,494
Total	\$ 109,714	\$ 112,507	\$ 124,549	\$ 126,731	\$ 139,035
Borrowings – to finance Government Enterprises					
Internal	\$ 31	\$ 25	\$ 221	\$ 217	\$ 855
Total	\$ 31	\$ 25	\$ 221	\$ 217	\$ 855

- (1) Excluding Treasury bills, Commercial paper and Discount notes.
- (2) Canadian dollar equivalent at the dates indicated for borrowings in foreign currencies after taking into account currency swap agreements and foreign exchange forward contracts.
- (3) Starting in 2009-2010, reflects the line-by-line consolidation of the results of network institutions with those of the Government. The figures for Fiscal 2007 to Fiscal 2009 have not been restated.
- (4) The preliminary results 2011 are based on financial information presented as at March 31, 2011 in the 2011-2012 Budget which was tabled on March 17, 2011, as revised. These preliminary results are subject to change.
- (5) Québec currently has credit agreements with various banks and financial institutions for a total of U.S.\$3.5 billion.

(ii) Guarantees and other contingent liabilities

The following table summarizes funded debt guaranteed by the Government (net of sinking fund balances) as of the dates indicated.

GUARANTEED FUNDED DEBT (NET OF SINKING FUND BALANCES)

	As of March 31					Average Interest Rate 2011	Average Term to Maturity 2011
	2007	2008	2009	2010	Preliminary Results 2011 ⁽¹⁾		
	(dollar amounts in millions) ⁽²⁾					(%)	(years)
Hydro-Québec	\$ 32,674	\$ 32,399	\$ 36,668	\$ 36,385	\$ 37,723	6.3	19.2

(1) The Preliminary Results 2011 are based on financial information presented as at March 31, 2011 in the 2011-2012 Budget which was tabled on March 17, 2011, as revised. These preliminary results are subject to change.

(2) Canadian dollar equivalent at dates indicated for borrowings in foreign currencies issues after taking into account currency exchange agreements and foreign exchange forward contracts.

(B) Estimates of Next Five Years' External Debt and Debt Service Requirements

The following table sets forth the estimated external debt and debt service requirements, net of sinking funds, for the next five years on the external bonds issued by the Government and outstanding as of March 31, 2011.

ESTIMATED EXTERNAL DEBT AND DEBT SERVICE REQUIREMENTS

	As of March 31				
	2012	2013	2014	2015	2016
	(in millions of dollars)				
Borrowings – Government					
Principal ⁽¹⁾					
Payable in U.S. Dollars	\$ 19	\$ 19	\$ 19	\$ 18	\$ 57
Payable in Japanese Yen	-	-	(1)	35	12
Payable in Swiss Francs	-	-	-	-	36
Payable in Euros	138	(2)	-	(6)	-
Payable in Pounds Sterling	-	-	-	-	-
Total Principal	\$ 157	\$ 17	\$ 18	\$ 47	\$ 105
Interest Expense	\$ 360	\$ 359	\$ 401	\$ 441	\$ 468
Total Debt and Debt Service	\$ 517	\$ 376	\$ 419	\$ 488	\$ 573

(1) Represents the Canadian dollar equivalent as of March 31, 2011 after taking into account currency swap agreements and foreign exchange forward contracts.

(C) Debt Record

Up to date, Québec has always paid the full amount of the principal of, and premium, if any, and interest on every obligation issued or assumed by it and every indirect obligation on which it has been required to implement its guarantees, all promptly when due in the currency stipulated, subject to any applicable laws and regulations forbidding trading with the enemy during wartime.

(D) Guarantee of Bonds

Québec having exclusive jurisdiction on the borrowing of money for its own purposes, its bonds or debentures are guaranteed by its sole credit and are not guaranteed in any way by any other government.

8. Outline of the Country to which the Issuer belongs

(A) General Information

(i) Area and Population

Canada is the second largest country in the world after the Community of Independent States and before People's Republic of China, by area (9,984,670 square kilometers or 3,86 million square miles) of which about 891,163 square kilometers or 344,080 square miles are covered by fresh water. The developed portion is about one-third of the total area, the occupied farm land is about 5% and the productive forest land is about 27% of the total area. The population on January 1, 2011 was estimated to be 34.3 million. Approximately 68% of Canada's population lives in metropolitan areas of which Toronto, Montréal and Vancouver are the largest. Most of Canada's population lives within 325 kilometers (200 miles) of the United States border.

(ii) Form of Government

Canada is a federal state composed of ten provinces and three territories. In 1867, the United Kingdom Parliament adopted the British North America Act, which established the Canadian federation comprised of, at that time, the provinces of Québec, Ontario, Nova Scotia and New Brunswick. Since then, six additional provinces (British Columbia, Prince Edward Island, Manitoba, Saskatchewan, Alberta and Newfoundland), along with the Yukon Territory, the Northwest Territories and the Nunavut Territory, have become parts of Canada.

The British North America Act (which has been renamed the Constitution Act, 1867) gave the Parliament of Canada legislative power in relation to a number of matters including all matters not assigned exclusively to the legislatures of the provinces. These powers now include matters such as defense, the raising of money by any method or system of taxation, the regulation of trade and commerce, the public debt, money and banking, interest, bills of exchange and promissory notes, navigation and shipping, extra-provincial transportation, aerial navigation and, with some exceptions, telecommunications. The provincial legislatures have exclusive jurisdiction in such areas as education, municipal institutions, property and civil rights, administration of justice, direct taxation for provincial purposes and other matters of purely provincial or local concern.

The executive power of the federal government is vested in the Queen, represented by the Governor General, whose powers are exercised on the advice of the federal Cabinet, which is responsible to the House of Commons. The legislative branch at the federal level, the Parliament, consists of the Crown, the Senate and the House of Commons. The Senate has 105 seats. There are 24 seats each for the Maritime Provinces, Québec, Ontario and Western Canada, 6 for Newfoundland and 1 each for the three territories. Senators are appointed by the Governor General on the advice of the federal Cabinet and hold office until age 75. The House of Commons has 308 members, elected by voters in single-member constituencies. The leader of the political party that gains the most seats in each general election is usually invited by the Governor General to be Prime Minister and to form the Government. The Prime Minister selects the members of the federal Cabinet from among the members of the House of Commons and, exceptionally, the Senate (in practice almost entirely from the former). Under the May 2007 amendment to the *Canada Elections Act* (the "Elections Act"), the House of Commons' term is limited to four years, since the Elections Act requires that each general election take place on the third Monday in October, in the fourth calendar year after the previous poll. However, dissolution is possible, if the Government is defeated in the House of Commons on a vote of no confidence. Under the Elections Act, the Governor General has discretionary power to dissolve the Parliament and such power was exercised on September 7, 2008.

The most recent general election was held on May 2, 2011 and resulted in a majority government. The Conservative Party has 166 seats and forms the Government, the New Democratic Party has 103 seats, the Liberal Party has 34 seats, the Bloc québécois has 4 seats and the Green Party has 1 seat.

The executive power in each province is vested in the Lieutenant Governor, appointed by the Governor General on the advice of the federal Cabinet. The Lieutenant Governor's powers are exercised on the advice of the provincial Cabinet, which is responsible to the Legislative Assembly. Each provincial legislature is composed of a Lieutenant Governor and a Legislative Assembly made up of members elected for a period of five years. The practice of selecting the provincial Premier and the provincial Cabinet in each province follows that described for the federal level, as does the dissolution of a legislature.

The judicial branch of government in Canada is composed of an integrated set of courts created by federal and provincial laws. At the federal level, there are two principal courts, the Supreme Court of Canada, which is the highest appeal court in Canada, and the Federal Court of Canada which, among other things, deals with federal revenue laws and claims involving the Government. Judges of the two federally constituted courts and those of the Provincial Courts of Appeal and provincial/territorial Superior Courts are appointed by the Governor General on the advice of the federal Cabinet and hold office during good behavior until age 70 or 75. Judges of the Provincial Courts are appointed by the provincial government and usually hold office until age 65 to 75.

(B) Canadian Economy

(i) Outline of Economic Trends

The following table sets forth selected components of GDP at market prices of Canada as published in the National Economic Accounts on May 30, 2011 for each of the years indicated.

SELECTED COMPONENTS OF GDP AT MARKET PRICES

	2006	2007	2008	2009	2010
	(in millions of dollars)				
Gross fixed capital formation	\$ 324,533	\$ 347,206	\$ 366,702	\$ 326,001	\$ 358,480
Personal consumption expenditure	\$ 801,742	\$ 851,603	\$ 890,601	\$ 898,215	\$ 940,620
Net domestic product at basic prices	\$ 1,169,911	\$ 1,233,670	\$ 1,299,791	\$ 1,216,467	\$ 1,296,816
GDP at market prices	\$ 1,450,405	\$ 1,529,589	\$ 1,603,418	\$ 1,528,985	\$ 1,624,608

Source: Statistics Canada.

(ii) Industrial structure

The following table provides the value of gross production for some goods producing sectors of the Canadian economy for each of the years indicated.

GROSS PRODUCTION FOR SOME GOODS PRODUCING SECTORS ⁽¹⁾

	2006	2007	2008	2009	2010
	(in millions of dollars)				
Agriculture (farm cash receipts)	\$ 37,071	\$ 40,879	\$ 45,937	\$ 44,546	\$ 44,439
Mining and quarries (value of mineral production) ⁽²⁾	\$ 34,233	\$ 40,571	\$ 46,956	\$ 30,305	\$ 41,289
Manufacturing (value of shipments)	\$ 605,527	\$ 602,414	\$ 591,970	\$ 486,666	\$ 529,847
Construction (value of construction work purchased)	\$ 195,763	\$ 214,227	\$ 235,282	\$ 205,374	\$ 232,104
	(in thousands of MWH)				
Electric energy generated	592,621	617,582	618,745	591,751	583,535

(1) The gross value of production represents the total value of the commodities produced at the producer's level and before the elimination of the value of the commodities used in production.

(2) Including oil and gas.

Source: Statistics Canada.

(iii) Foreign trade and the balance of payments

External trade plays an important role in the Canadian economy. Canada's adjusted merchandise exports and imports for each of the years indicated are shown below.

EXTERNAL TRADE

	2006	2007	2008	2009	2010
	(in millions of dollars)				
Exports	\$ 453,952	\$ 463,120	\$ 488,754	\$ 369,343	\$ 404,834
Imports	(404,345)	(415,683)	(443,777)	(374,081)	(413,833)
Goods Balance	\$ 49,606	\$ 47,437	\$ 44,977	\$ (4,738)	\$ (8,999)

Source: Statistics Canada, Balance of Payments Division.

The composition of Canada's adjusted merchandise trade for the years indicated has been as follows.

EXTERNAL TRADE BY COMMODITY

	2006	2007	2008	2009	2010
	(in millions of dollars)				
Exports					
Food, feed, beverages and tobacco ⁽¹⁾	\$ 28,149	\$ 30,500	\$ 34,604	\$ 31,435	\$ 30,895
Crude materials ⁽²⁾	88,755	95,486	128,178	83,115	95,799
Fabricated materials ⁽³⁾	129,058	134,088	140,481	101,196	119,469
Finished goods ⁽⁴⁾	193,063	189,177	171,542	141,904	149,306
Other	14,927	13,870	13,950	11,693	9,364
Total Exports	\$ 453,952	\$ 463,120	\$ 488,754	\$ 369,343	\$ 404,834
Imports					
Food, feed, beverages and tobacco ⁽¹⁾	\$ 22,231	\$ 24,294	\$ 27,002	\$ 27,991	\$ 28,100
Crude materials ⁽²⁾	35,840	39,579	52,264	34,544	39,307
Fabricated materials ⁽⁵⁾	87,384	87,299	97,362	78,218	92,295
Finished goods ⁽⁶⁾	246,584	251,323	252,208	220,736	240,361
Other	12,307	13,189	14,940	12,593	13,770
Total Imports	\$ 404,345	\$ 415,683	\$ 443,777	\$ 374,081	\$ 413,833

(1) Including live animals.

(2) Main items are mineral fuels and ores.

(3) Main items are pulp and paper, primary metals, chemicals and lumber.

(4) Main items are motor vehicles and parts, industrial machinery, other transportation equipment, telecommunication equipment and office machinery.

(5) Main items are chemicals, primary metals and textiles.

(6) Main items are motor vehicles and parts, industrial machinery, consumer goods, telecommunication equipment and office machinery.

Source: Statistics Canada, International Trade Division.

The geographic distribution of Canada's adjusted merchandise trade is shown below.

EXTERNAL TRADE BY REGION

	2006	2007	2008	2009	2010
	(share in percentage)				
Exports					
United States	79.6%	76.8%	75.7%	73.4%	73.3%
Mexico	1.1	1.2	1.3	1.4	1.3
United Kingdom	2.5	3.1	2.9	3.5	4.2
Other Western Europe	5.3	6.4	6.0	5.9	5.7
Japan	2.3	2.2	2.4	2.4	2.4
China (Mainland)	2.0	2.4	2.4	3.3	3.6
Other Asia	3.1	3.2	3.6	4.2	4.0
Other countries	4.1	4.8	5.7	5.9	5.5
Total Exports	100.0%	100.0%	100.0%	100.0%	100.0%
Imports					
United States	65.6%	65.0%	63.4%	63.2%	62.8%
Mexico	3.1	3.2	3.1	3.4	4.1
United Kingdom	2.4	2.4	2.5	2.3	2.3
Other Western Europe	8.3	8.1	8.5	8.3	7.4
Japan	2.9	2.9	2.6	2.5	2.4
China (Mainland)	6.6	7.2	7.5	8.1	8.2
Other Asia	4.2	4.2	4.2	4.5	4.4
Other countries	7.0	7.1	8.1	7.7	8.4
Total Imports	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Statistics Canada, International Trade Division and Balance of Payments Division.

Trade with Japan

For each of the years indicated, the adjusted exports and imports of Canada in its trade with Japan were as follows.

EXTERNAL TRADE WITH JAPAN

	2006	2007	2008	2009	2010
	(in millions of dollars)				
Exports	\$ 10,278	\$ 10,027	\$ 11,784	\$ 8,862	\$ 9,717
Imports	(11,850)	(11,967)	(11,672)	(9,329)	(10,067)
Goods Balance	\$ (1,572)	\$ (1,940)	\$ 113	\$ (467)	\$ (351)

Source: Statistics Canada, Balance of Payments Division.

Major exports and imports between Canada and Japan in 2010 are shown below.

EXTERNAL TRADE WITH JAPAN MAJOR PRODUCTS

Exports	Imports	
(in millions of dollars)		
Mineral fuels	\$ 1,917	Motor vehicles and parts \$ 5,722
Oil seeds	1,291	Machinery 2,814
Meat products	952	Electrical and electronic products 1,682
Wood Products	948	Optical, medical and scientific products 671
Ores, slag and ash	888	Iron and steel products 443
Cereals	388	Rubber products 435
Pulp and paper products	353	Aircraft and parts 235
Fishery products	297	Chemical products 134

Source: Statistics Canada, International Trade Division, custom basis.

(iv) Balance of payments and official international reserves

The following table sets forth a summary of the Canadian balance of international payments for each of the years indicated.

SUMMARY OF TRANSACTIONS BETWEEN CANADA AND ALL COUNTRIES ^{(1) (2)}

	2006	2007	2008	2009	2010
	(in millions of dollars)				
A. Current Account					
Exports of goods	\$ 453,952	\$ 463,120	\$ 488,754	\$ 369,343	\$ 404,834
Imports of goods	(404,345)	(415,683)	(443,777)	(374,081)	(413,833)
Goods balance	49,606	47,437	44,977	(4,738)	(8,999)
Services balance	(14,135)	(18,790)	(21,564)	(22,135)	(22,759)
Investment income balance	(13,521)	(13,869)	(17,202)	(15,628)	(16,436)
Transfers balance	(1,460)	(2,007)	(935)	(2,736)	(2,671)
Current account balance	\$ 20,490	\$ 12,772	\$ 5,276	\$ (45,236)	\$ (50,864)
B. Capital and Financial Accounts					
Capital account net flow	\$ 4,202	\$ 4,233	\$ 4,579	\$ 3,830	\$ 4,758
Financial account net flow	(26,969)	(18,906)	(6,550)	41,920	44,949
Capital and Financial accounts net flow	\$ (22,768)	\$ (14,673)	\$ (1,971)	\$ 45,750	\$ 49,707
C. Statistical discrepancy	\$ 2,277	\$ 1,901	\$ (3,305)	\$ (513)	\$ 1,158

(1) Revised balance of payments accounts according to the revised international reporting standards of the IMF as published in "Balance of Payments Manual", 5th edition 1993. These data may differ from the one published by the International Trade Division of Statistics Canada.

(2) Due to rounding in the original annual data from Statistics Canada, a slight discrepancy in the balancing of data is possible.

Source: Statistics Canada, Balance of Payments Division.

The following table shows the total of Canada's official international reserves, which consist of gold, U.S. dollars, other foreign convertible currencies, Special Drawing Rights and the reserve position in the International Monetary Fund ("IMF"), on December 31 for each of the years indicated.

OFFICIAL INTERNATIONAL RESERVES

	2006		2007		2008		2009		2010	
	(in millions of dollars)									
U.S. dollars	\$	15,608	\$	19,257	\$	22,804	\$	23,879	\$	26,677
Other foreign currencies		17,590		20,057		18,733		18,723		18,211
Special Drawing Rights		963		1,015		991		9,212		9,054
Reserve Position in the IMF		833		661		1,249		2,424		3,056
Gold		69		91		95		119		153
Total	\$	35,063	\$	41,081	\$	43,872	\$	54,357	\$	57,151

Source: Bank of Canada.

(v) Foreign Exchange

The high and low noon spot rates for the U.S. dollar in Canada for the period January 2005 through May 2011, as reported by the Bank of Canada, were 1.3000 dollar and 0.9170 dollar respectively.

On June 13, 2011, the noon spot rate for the U.S. dollar was 0.9779 dollar per U.S. dollar.

The annual average noon spot rates for the Japanese yen expressed in Canadian dollars were the following for each of the years indicated.

JAPANESE YEN NOON SPOT RATE

	2006	2007	2008	2009	2010
Annual average	0.0098	0.0091	0.0104	0.0122	0.0118

Source: Bank of Canada.

On June 13, 2011, the noon spot rate for the Japanese yen was 0.0122 dollar per Japanese yen.