Name and address of persons authorized to receive notices and communications from the Securities and Exchange Commission:

JEAN-CLAUDE LAUZON  
Québec Government Office  
One Rockefeller Plaza, Suite 2600  
New York, NY 10020-2102

Copies to:

ROBERT E. BUCKHOLZ  
Sullivan & Cromwell LLP  
125 Broad Street  
New York, NY 10004-2498

JEAN-HUGUES LAFLEUR  
Vice-President, Financing, Treasury and Pension Fund  
Hydro-Québec  
75 René-Lévesque Boulevard West  
5th Floor  
Montréal, Québec, Canada H2Z 1A4

*The Registrant is filing this annual report on a voluntary basis.
The information set forth below is to be furnished:

1. In respect of each issue of securities of the registrant registered, a brief statement as to:

   (a) The general effect of any material modifications, not previously reported, of the rights of the holders of such securities.

       Not applicable.

   (b) The title and the material provisions of any law, decree or administrative action, not previously reported, by reason of which the security is not being serviced in accordance with the terms thereof.

       Not applicable.

   (c) The circumstances of any other failure, not previously reported, to pay principal, interest, or any sinking fund or amortization installment.

       Not applicable.

2. A statement as of the close of the last fiscal year of the registrant giving the total outstanding of:

   (a) Internal funded debt of the registrant. (Total to be stated in the currency of the registrant. If any internal funded debt is payable in foreign currency, it should not be included under this paragraph (a), but under paragraph (b) of this item.)

       Reference is made to pages 63, 79 and 81 of Exhibit 99.1 hereto.

   (b) External funded debt of the registrant. (Totals to be stated in the respective currencies in which payable. No statement need be furnished as to intergovernmental debt.)

       Reference is made to pages 63, 80 and 81 of Exhibit 99.1 hereto.

3. A statement giving the title, date of issue, date of maturity, interest rate and amount outstanding, together with the currency or currencies in which payable, of each issue of funded debt of the registrant outstanding as of the close of the last fiscal year of the registrant.

   Reference is made to pages 79 to 81 of Exhibit 99.1 hereto.

4. (a) As to each issue of securities of the registrant which is registered, there should be furnished a break-down of the total amount outstanding, as shown in Item 3, into the following:

       (1) Total amount held by or for the account of the registrant.

           Not applicable.*

       (2) Total estimated amount held by nationals of the registrant (or if registrant is other than a national government by the nationals of its national government); this estimate need be furnished only if it is practicable to do so.

           Not applicable.*

       (3) Total amount otherwise outstanding.

           Not applicable.*

*No securities of the registrant are registered under the Securities Exchange Act of 1934, as amended.
(b) If a substantial amount is set forth in answer to paragraph (a)(1) above, describe briefly the method employed by the registrant to reacquire such securities.

Not applicable.

5. A statement as of the close of the last fiscal year of the registrant giving the estimated total of:

(a) Internal floating indebtedness of the registrant. (Total to be stated in the currency of the registrant.)

$23.2 million. The item “floating indebtedness” refers to indebtedness with an original maturity of less than one year.

(b) External floating indebtedness of the registrant. (Total to be stated in the respective currencies in which payable.)

None.

6. Statements of the receipts, classified by source, and of the expenditures, classified by purpose, of the registrant for each fiscal year of the registrant ended since the close of the latest fiscal year for which such information was previously reported. These statements should be so itemized as to be reasonably informative and should cover both ordinary and extraordinary receipts and expenditures; there should be indicated separately, if practicable, the amount of receipts pledged or otherwise specifically allocated to any issue registered, indicating the issue.

Reference is made to pages 44 to 78 of Exhibit 99.1 hereto.

7. (a) If any foreign exchange control, not previously reported, has been established by the registrant (or if the registrant is other than a national government, by its national government), briefly describe the effect of any such action, not previously reported.

None.

(b) If any foreign exchange control previously reported has been discontinued or materially modified, briefly describe the effect of any such action, not previously reported.

Not applicable.
EXHIBIT

The following exhibits should be filed as part of the annual report:

(a) Copies of any amendments or modifications, other than such have been previously filed, to all exhibits previously filed other than annual budgets.

Not applicable.

(b) A copy of any law, decree, or administrative document outlined in answer to Item 1(b).

Not applicable.

(c) A copy of the latest annual budget of the registrant, if not previously filed, as presented to its legislative body.

Not applicable.

This annual report comprises:

(a) The cover page and pages numbered i to v consecutively.

(b) The following exhibits:

99.1 Description of Hydro-Québec, dated as of April 1, 2015, including audited consolidated financial statements of Hydro-Québec for the year ended December 31, 2014, as approved by the Board of Directors of Hydro-Québec on February 20, 2015.

23.1 Consent of KPMG LLP, Ernst & Young LLP and the Auditor General of Québec.

This annual report is filed subject to the Instructions for Form 18-K for Foreign Governments and Political Subdivisions Thereof.
Pursuant to the requirements of the *Securities Exchange Act* of 1934, the registrant has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized, in Montréal, Canada, on the 1st day of April, 2015.

**HYDRO-QUÉBEC**

(Name of Registrant)

By:  /s/ Jean-Hugues Lafleur

Jean-Hugues Lafleur

Vice-President, Financing, Treasury and Pension Fund
<table>
<thead>
<tr>
<th>Exhibits</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>99.1</td>
<td>Description of Hydro-Québec, dated as of April 1, 2015, including audited consolidated financial statements of Hydro-Québec for the year ended December 31, 2014, as approved by the Board of Directors of Hydro-Québec on February 20, 2015.</td>
</tr>
<tr>
<td>23.1</td>
<td>Consent of KPMG LLP, Ernst &amp; Young LLP and the Auditor General of Québec.</td>
</tr>
</tbody>
</table>
This description of Hydro-Québec is dated as of April 1, 2015 and appears as Exhibit 99.1 to Hydro-Québec’s annual report on Form 18-K to the U.S. Securities and Exchange Commission for the fiscal year ended December 31, 2014.

This document may be delivered to you at any time but you should assume that the information is accurate only as of April 1, 2015. Hydro-Québec’s business, financial condition, results of operations and prospects may have changed since that date.

This document does not constitute an offer to sell or the solicitation of an offer to buy any securities of Hydro-Québec, unless it is included in a registration statement filed under the Securities Act of 1933, as amended.
<table>
<thead>
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<th>Page</th>
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<td>General</td>
<td>8</td>
</tr>
<tr>
<td>Generation</td>
<td>9</td>
</tr>
<tr>
<td>Generation Operations</td>
<td>10</td>
</tr>
<tr>
<td>Wholesale and Energy Marketing Operations</td>
<td>11</td>
</tr>
<tr>
<td>Transmission</td>
<td>13</td>
</tr>
<tr>
<td>Transmission System</td>
<td>13</td>
</tr>
<tr>
<td>Distribution</td>
<td>14</td>
</tr>
<tr>
<td>Electricity Rates</td>
<td>15</td>
</tr>
<tr>
<td>Electricity Sales and Revenue</td>
<td>16</td>
</tr>
<tr>
<td>Construction</td>
<td>17</td>
</tr>
<tr>
<td>Corporate and Other Activities</td>
<td>17</td>
</tr>
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<td>Corporate Outlook</td>
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<td>Development Strategy</td>
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<td>18</td>
</tr>
<tr>
<td>Capital Investment Program</td>
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</tr>
<tr>
<td>Regulatory Framework</td>
<td>21</td>
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<tr>
<td>Litigation</td>
<td>23</td>
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<tr>
<td>Employees</td>
<td>23</td>
</tr>
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<td>24</td>
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<td>Independent Auditors’ Report</td>
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</tr>
<tr>
<td>Consolidated Financial Statements</td>
<td>45</td>
</tr>
<tr>
<td>Supplementary Information</td>
<td>79</td>
</tr>
</tbody>
</table>
WHERE YOU CAN FIND MORE INFORMATION

This document appears as an exhibit to Hydro-Québec’s annual report filed with the U.S. Securities and Exchange Commission (the “SEC”) on Form 18-K for the fiscal year ended December 31, 2014. Additional information with respect to Hydro-Québec is available in the annual report or in other exhibits or amendments to the annual report.

You may read and copy any document we file with the SEC at the SEC’s public reference rooms in Washington, DC. Please call the SEC’s toll free number at 1-800-SEC-0330 for further information on the public reference room. These filings are also available from the Electronic Data Gathering, Analysis, and Retrieval system, which is commonly known by the acronym EDGAR, through the SEC’s website at http://www.sec.gov.

You may request a copy of these filings at no cost by calling Hydro-Québec at (514) 289-2518. This document is also available on our website at www.hydroquebec.com; however, any other information available on our website shall not be deemed to form a part of this document or the annual report to which it appears as an exhibit.

FORWARD-LOOKING STATEMENTS

Various statements made throughout this document are forward looking and contain information about financial results, economic conditions and trends, including, without limitation, the statements under the captions Corporate Outlook and Management’s Discussion and Analysis. The words “estimate”, “believe”, “expect”, “forecast”, “anticipate”, “intend” and “plan” and similar expressions identify forward-looking statements. You are cautioned that any such forward-looking statements are not guarantees of future performance. Forward-looking statements involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statements as a result of various factors. Such factors may include, among others, business risks, such as variations in runoff that affect hydroelectric plant performance, and general levels of economic activity which affect demand for electricity, and risks related to economic parameters, such as changes in interest and exchange rates. You are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date of this document. We undertake no obligation to publicly release the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

FOREIGN EXCHANGE

Canada maintains a floating exchange rate for the Canadian dollar in order to permit the rate to be determined by fundamental forces without intervention except as required to maintain orderly conditions. Annual average noon spot exchange rates for major foreign currencies in which the debt of Hydro-Québec is denominated, expressed in Canadian dollars, are shown below.

<table>
<thead>
<tr>
<th>Foreign Currency</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015a</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States Dollar</td>
<td>$1.0299</td>
<td>$0.9891</td>
<td>$0.9996</td>
<td>$1.0299</td>
<td>$1.1045</td>
<td>$1.2308</td>
</tr>
<tr>
<td>Euro</td>
<td>1.3661</td>
<td>1.3767</td>
<td>1.2850</td>
<td>1.3681</td>
<td>1.4671</td>
<td>1.4126</td>
</tr>
<tr>
<td>Pound Sterling</td>
<td>1.5918</td>
<td>1.5861</td>
<td>1.5840</td>
<td>1.6113</td>
<td>1.8190</td>
<td>1.8751</td>
</tr>
<tr>
<td>100 Japanese Yen</td>
<td>1.1760</td>
<td>1.2420</td>
<td>1.2540</td>
<td>1.0570</td>
<td>1.0460</td>
<td>1.0390</td>
</tr>
</tbody>
</table>

a) Monthly average through the end of February 2015.
Source: Bank of Canada.

In this document, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars.
MAP OF HYDRO-QUÉBEC’S MAJOR FACILITIES

Generating station rated 300 MW or more
- Hydro
- Thermal

Other facilities
- Generating station under construction
- 735-kV substation
- 735-kV line
- 400-kV direct-current line
- Interconnection
- Neighboring system (simplified)
# FIVE-YEAR REVIEW

## CONSOLIDATED AND SELECTED FINANCIAL INFORMATION

<table>
<thead>
<tr>
<th>Years ended December 31</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in millions of dollars)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### OPERATIONS

<table>
<thead>
<tr>
<th>Description</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$12,270</td>
<td>$12,250</td>
<td>$12,134</td>
<td>$12,878</td>
<td>$13,638</td>
</tr>
<tr>
<td>Expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td>2,427</td>
<td>2,417</td>
<td>2,375</td>
<td>2,460</td>
<td>2,417</td>
</tr>
<tr>
<td>Electricity and fuel purchases</td>
<td>1,282</td>
<td>1,154</td>
<td>1,183</td>
<td>1,568</td>
<td>1,915</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>2,559</td>
<td>2,603</td>
<td>2,405</td>
<td>2,483</td>
<td>2,518</td>
</tr>
<tr>
<td>Taxes</td>
<td>906</td>
<td>864</td>
<td>997</td>
<td>1,000</td>
<td>981</td>
</tr>
<tr>
<td>Total expenditure</td>
<td>7,174</td>
<td>7,038</td>
<td>6,960</td>
<td>7,511</td>
<td>7,831</td>
</tr>
<tr>
<td>Operating result</td>
<td>5,096</td>
<td>5,212</td>
<td>5,174</td>
<td>5,367</td>
<td>5,807</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>2,553</td>
<td>2,526</td>
<td>2,438</td>
<td>2,429</td>
<td>2,427</td>
</tr>
<tr>
<td>Result from continuing operations</td>
<td>2,543</td>
<td>2,686</td>
<td>2,736</td>
<td>2,938</td>
<td>3,380</td>
</tr>
<tr>
<td>Result from discontinued operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net result</td>
<td>$2,515</td>
<td>$2,611</td>
<td>$860</td>
<td>$2,942</td>
<td>$3,380</td>
</tr>
</tbody>
</table>

### FINANCIAL RATIOS

<table>
<thead>
<tr>
<th>Description</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest coveragec</td>
<td>1.93</td>
<td>1.97</td>
<td>2.02</td>
<td>2.09</td>
</tr>
<tr>
<td>Return on equity from continuing operationsd</td>
<td>15.3%</td>
<td>15.5%</td>
<td>14.6%</td>
<td>14.6%</td>
</tr>
<tr>
<td>Profit margin from continuing operationsf</td>
<td>20.7%</td>
<td>21.9%</td>
<td>22.5%</td>
<td>22.8%</td>
</tr>
<tr>
<td>Capitalizationf</td>
<td>32.1%</td>
<td>31.4%</td>
<td>30.6%</td>
<td>30.5%</td>
</tr>
<tr>
<td>Self-financingg</td>
<td>47.0%</td>
<td>48.7%</td>
<td>55.4%</td>
<td>68.3%</td>
</tr>
</tbody>
</table>

### BALANCE SHEET SUMMARY

<table>
<thead>
<tr>
<th>Description</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>$65,794</td>
<td>$69,594</td>
<td>$70,508</td>
<td>$73,110</td>
<td>$74,890</td>
</tr>
<tr>
<td>Long-term debt, including current portion and perpetual debt</td>
<td>$38,660</td>
<td>$42,050</td>
<td>$43,524</td>
<td>$44,477</td>
<td>$44,744</td>
</tr>
<tr>
<td>Equity</td>
<td>$18,566</td>
<td>$18,834</td>
<td>$18,982</td>
<td>$19,394</td>
<td>$20,618</td>
</tr>
</tbody>
</table>

### INVESTMENTS FOR CONTINUING OPERATIONS AFFECTING CASH

<table>
<thead>
<tr>
<th>Description</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment and intangible assetsf</td>
<td>$4,220</td>
<td>$3,814</td>
<td>$3,932</td>
</tr>
</tbody>
</table>

### DIVIDEND

<table>
<thead>
<tr>
<th>Description</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,886</td>
<td>$1,958</td>
<td>$645</td>
<td>$2,207</td>
<td>$2,535</td>
<td></td>
</tr>
</tbody>
</table>

### Note:

- a) The discontinued operations are related to the 2012 decision to abandon the project to refurbish Gentilly-2 nuclear generating station and to terminate nuclear power operations.
- b) Including the Energy Efficiency Plan.
- c) Sum of operating result and net investment income divided by interest on debt securities.
- d) Result from continuing operations divided by average equity less average accumulated result from discontinued operations for the current year and prior years and average accumulated other comprehensive income. For the period from 2010 to 2014, average equity less average accumulated result from discontinued operations for the current year and prior years and average accumulated other comprehensive income amounted to $16,627 million, $17,319 million, $18,729 million, $20,141 million and $20,929 million, respectively.
- e) Result from continuing operations divided by revenue.
- f) Equity divided by the sum of equity, long-term debt, current portion of long-term debt, perpetual debt, borrowings and derivative instrument liabilities, less derivative instrument assets and sinking fund.
- g) Cash flows from operating activities less dividend paid, divided by the sum of cash flows from investing activities, excluding net disposal or acquisition of short-term investments, and repayment of long-term debt.

Note: Throughout the Five-Year Review, certain comparative figures have been reclassified to conform to the presentation adopted in the current year.
FIVE-YEAR REVIEW (CONTINUED)

OPERATING STATISTICS

<table>
<thead>
<tr>
<th>Years ended December 31</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in GWh)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity Sales¹</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In Québec, by segment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>59,348</td>
<td>62,402</td>
<td>61,956</td>
<td>65,983</td>
<td>68,074</td>
</tr>
<tr>
<td>Commercial, institutional and small industrial</td>
<td>43,009</td>
<td>43,683</td>
<td>43,775</td>
<td>44,620</td>
<td>45,189</td>
</tr>
<tr>
<td>Large industrial</td>
<td>59,828</td>
<td>58,210</td>
<td>56,875</td>
<td>56,855</td>
<td>55,738</td>
</tr>
<tr>
<td>Other</td>
<td>7,300</td>
<td>5,671</td>
<td>5,795</td>
<td>5,818</td>
<td>5,919</td>
</tr>
<tr>
<td></td>
<td>169,485</td>
<td>169,966</td>
<td>168,401</td>
<td>173,276</td>
<td>174,920</td>
</tr>
<tr>
<td>Outside Québec</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada/U.S. (long-term)</td>
<td>2,677</td>
<td>2,617</td>
<td>2,683</td>
<td>2,519</td>
<td>2,495</td>
</tr>
<tr>
<td>Canada/U.S. (short-term)</td>
<td>17,477</td>
<td>21,063</td>
<td>25,406</td>
<td>29,689</td>
<td>24,129</td>
</tr>
<tr>
<td></td>
<td>20,154</td>
<td>23,680</td>
<td>28,089</td>
<td>33,208</td>
<td>26,624</td>
</tr>
<tr>
<td>Total Electricity Sales</td>
<td>189,639</td>
<td>193,646</td>
<td>196,490</td>
<td>205,484</td>
<td>201,544</td>
</tr>
</tbody>
</table>

(As at December 31)

<table>
<thead>
<tr>
<th>Number of Customer Accounts</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>In Québec, by segment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial, institutional and small industrial</td>
<td>311,149</td>
<td>313,468</td>
<td>314,895</td>
<td>316,585</td>
<td>317,671</td>
</tr>
<tr>
<td>Large industrial</td>
<td>192</td>
<td>189</td>
<td>188</td>
<td>186</td>
<td>183</td>
</tr>
<tr>
<td>Other</td>
<td>3,861</td>
<td>4,004</td>
<td>3,988</td>
<td>4,207</td>
<td>4,214</td>
</tr>
<tr>
<td>Total Customer Accounts</td>
<td>4,000,168</td>
<td>4,048,708</td>
<td>4,096,267</td>
<td>4,141,990</td>
<td>4,179,850</td>
</tr>
</tbody>
</table>

¹ Data related to continuing operations.
## OPERATING STATISTICS (CONTINUED)

### Years ended December 31

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Installed Capacity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hydroelectric</td>
<td>34,490</td>
<td>35,285</td>
<td>35,125</td>
<td>35,364</td>
<td>36,100</td>
</tr>
<tr>
<td>Nuclear</td>
<td>675</td>
<td>675</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Thermal</td>
<td>1,506</td>
<td>1,011</td>
<td>704</td>
<td>704</td>
<td>543</td>
</tr>
<tr>
<td><strong>Total Installed Capacity</strong></td>
<td>36,671</td>
<td>36,971</td>
<td>35,829</td>
<td>36,068</td>
<td>36,643</td>
</tr>
</tbody>
</table>

|                          |         |         |         |         |         |
| **Total Energy Requirements** | 209,108 | 214,764 | 221,004 | 226,576 | 222,045 |

|                          |         |         |         |         |         |
| **Peak Power Demand in Québec** | 37,717  | 35,481  | 38,797  | 39,031  | 38,743  |

|                          |         |         |         |         |         |
| **Lines (overhead and underground)** | 33,725  | 33,902  | 33,911  | 33,885  | 34,187  |
| Transmission             |         |         |         |         |         |
| Distribution             | 112,089 | 113,525 | 114,649 | 114,843 | 115,583 |
| **Total**                | 145,814 | 147,427 | 148,560 | 148,728 | 149,770 |

* 1 km = 0.62 miles

### OTHER INFORMATION

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average rate increase (decrease) from January 1 to December 31</strong></td>
<td>0.6%</td>
<td>(0.2)%</td>
<td>(0.4)%</td>
<td>1.7%</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

### Salaried Employees

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent</td>
<td>19,521</td>
<td>19,415</td>
<td>18,926</td>
<td>17,861</td>
<td>17,793</td>
</tr>
<tr>
<td>Temporary</td>
<td>3,571</td>
<td>3,086</td>
<td>2,670</td>
<td>2,382</td>
<td>2,250</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>23,092</td>
<td>22,501</td>
<td>21,596</td>
<td>20,243</td>
<td>20,043</td>
</tr>
</tbody>
</table>

#### Women

<p>| | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>30.9%</td>
<td>31.1%</td>
<td>30.6%</td>
<td>30.0%</td>
<td>29.4%</td>
</tr>
</tbody>
</table>

### UNITS OF MEASURE

<p>| | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>V</td>
<td>volt (a unit for measuring voltage)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>kW</td>
<td>watt (a unit for measuring power)</td>
<td>kWh</td>
<td>kilowatt (one thousand watts)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MW</td>
<td>megawatt (one million watts)</td>
<td>MWh</td>
<td>megawatt (one billion watts)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GW</td>
<td>gigawatt (one billion watts)</td>
<td>GWh</td>
<td>gigawatt (one trillion watts)</td>
<td>TWh</td>
<td>terawatt (one thousand terawatts)</td>
</tr>
</tbody>
</table>

---

a) Gentilly-2 generating station ceased to operate on December 28, 2012.
b) In addition to the generating capacity of our own facilities, we have access to almost all the output from Churchill Falls generating station (5,428 MW) under a contract with Churchill Falls (Labrador) Corporation Limited that will remain in effect until 2041. We also purchase all the output from 31 wind farms (2,857 MW) and 4 small hydropower plants (48 MW) and almost all the output from 7 biomass and 3 biogas cogeneration plants (206 MW) operated by independent power producers. Moreover, 1,132 MW are available under long-term contracts with other suppliers.
c) Total energy requirements consist of kilowatthours delivered within Québec and to neighboring systems.
d) The values indicated correspond to the needs for the winter beginning in December, including interruptible power. The peak for a given period is based on measurements at fixed intervals. The 2014-2015 winter peak was 38,743 MW and occurred on January 8, 2015, at 8:00 a.m., after the system load momentarily reached 38,950 MW at 7:21 a.m.
e) 33,915 km of lines operated by Hydro-Québec TransÉnergie and 272 km by Hydro-Québec Distribution.
f) These figures include off-grid systems but exclude private systems, lines under construction and 44-kV lines (transmission).

---

a) Excluding Rate L ("Rate L"). Rate L applies to an annual contract whose minimum billing demand is 5,000 kW or more and which is principally related to an industrial activity.
b) Excluding employees of subsidiaries and joint ventures.
**HYDRO-QUÉBEC**

**GENERAL**

We operate one of the major systems in Canada for the generation, transmission and distribution of electric power. We supply virtually all electric power distributed in Québec, the largest province in Canada in land area and the second largest in population.

Hydro-Québec was created in 1944 by the *Hydro-Québec Act* of the Parliament of Québec and is an agent of Québec. All capital stock of Hydro-Québec is held by the Minister of Finance on behalf of the Government of Québec (the “Government”).

Our head office is located at 75 René-Lévesque Boulevard West, Montréal, Québec, Canada.

We carry on our activities in the four reportable business segments defined below. The other business segments and activities are grouped together under Corporate and Other Activities for reporting purposes.

- **Generation**: Hydro-Québec Production operates and develops our generating facilities in Québec. Hydro-Québec Production provides Hydro-Québec Distribution with a base volume of up to 165 TWh of heritage pool electricity annually (“Heritage Pool Electricity”). Beginning in 2014, the Heritage Pool Electricity is subject to a yearly indexation. The authorized average price for 2014 was 2.82¢/kWh (see “Regulatory Framework – *Energy Board Act*”). In addition, it can participate in Hydro-Québec Distribution’s calls for tenders in a context of free market competition, and also sells electricity in markets outside Québec as well as engaging in energy-related arbitraging transactions;

- **Transmission**: Hydro-Québec TransÉnergie operates and develops our power transmission system. It markets system capacity and manages power flows throughout Québec;

- **Distribution**: Hydro-Québec Distribution operates and develops our distribution system and is responsible for sales and services to Québec customers. It also promotes energy efficiency and provides the supply of electricity to the Québec market;

- **Construction**: Hydro-Québec Équipement et services partagés and our 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 also carry out projects elsewhere in Québec or outside the province; and

- **Corporate and Other Activities**: The corporate units support our divisions in the achievement of their business objectives. They include the 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 procurement of goods and services, management of real estate, vehicle fleet and materials, as well as management of food, accommodation and air transportation services.
**GENERATION**

Hydro-Québec Production generates power to supply the Québec market and sells power on wholesale markets.

The following subsidiaries, affiliates and interests are also part of this segment:

- Churchill Falls (Labrador) Corporation Limited (“CF(L)Co”) (34.2% interest; hydroelectric generation activities);

- HQ Manicouagan inc. (wholly-owned; holds a 60% interest in Manicouagan Power Limited Partnership, which owns and operates a generating station (McCormick) located on the Rivière Manicouagan);

- Marketing d’énergie HQ inc. (HQ Energy Marketing Inc.) (“HQEM”) (wholly-owned; conducts energy transactions in other Canadian provinces and holds shares in energy trading companies in Canada and the United States);

- H. Q. Energy Services (U.S.) Inc. (“HQUS”) (wholly-owned subsidiary of HQEM; power marketer in the United States); and

- Hydro Renewable Energy Inc. (“HRE”) (wholly-owned subsidiary of HQEM; participates in the development of new projects in the United States).
**GENERATION OPERATIONS**

**Facilities**

In Québec, our electric generation system comprises 87 generating stations currently in service, of which 62 are hydroelectric and 25 are thermal; with a total installed capacity of 36,643 MW as of December 31, 2014.

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

**GENERATING STATIONS IN SERVICE IN QUÉBEC**

<table>
<thead>
<tr>
<th>Name of Facility</th>
<th>Years Commissioned</th>
<th>Capacity (MW)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hydroelectric</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Robert-Bourassa</td>
<td>1979-1981</td>
<td>5,616</td>
</tr>
<tr>
<td>La Grande-4</td>
<td>1984-1986</td>
<td>2,779</td>
</tr>
<tr>
<td>La Grande-3</td>
<td>1982-1984</td>
<td>2,417</td>
</tr>
<tr>
<td>Beauparlais</td>
<td>1932-1961</td>
<td>1,853</td>
</tr>
<tr>
<td>Manic-5</td>
<td>1970-1971</td>
<td>1,596</td>
</tr>
<tr>
<td>La Grande-1</td>
<td>1994-1995</td>
<td>1,436</td>
</tr>
<tr>
<td>René-Lévesque (Manic-3)</td>
<td>1975-1976</td>
<td>1,326</td>
</tr>
<tr>
<td>Jean-Lesage (Manic-2)</td>
<td>1965-1967</td>
<td>1,229</td>
</tr>
<tr>
<td>Bersimis-1</td>
<td>1956-1959</td>
<td>1,178</td>
</tr>
<tr>
<td>Manic-5-P-A</td>
<td>1989-1990</td>
<td>1,064</td>
</tr>
<tr>
<td>Outardes-3</td>
<td>1969</td>
<td>1,026</td>
</tr>
<tr>
<td>Sainte-Marguerite-3</td>
<td>2003-2004</td>
<td>882</td>
</tr>
<tr>
<td>Laforgue-1</td>
<td>1993-1994</td>
<td>878</td>
</tr>
<tr>
<td>Bersimis-2</td>
<td>1959-1960</td>
<td>869</td>
</tr>
<tr>
<td>Outardes-4</td>
<td>1969</td>
<td>785</td>
</tr>
<tr>
<td>Eastmain-1-A</td>
<td>2011-2012</td>
<td>768</td>
</tr>
<tr>
<td>Carillon</td>
<td>1962-1964</td>
<td>753</td>
</tr>
<tr>
<td>Romaine-2</td>
<td>2014</td>
<td>640</td>
</tr>
<tr>
<td>Toulmustouc</td>
<td>2005</td>
<td>526</td>
</tr>
<tr>
<td>Outardes-2</td>
<td>1978</td>
<td>523</td>
</tr>
<tr>
<td>Eastmain-1</td>
<td>2006</td>
<td>480</td>
</tr>
<tr>
<td>Brisay</td>
<td>1993</td>
<td>469</td>
</tr>
<tr>
<td>Pêribonka</td>
<td>2007-2008</td>
<td>385</td>
</tr>
<tr>
<td>Laforgue-2</td>
<td>1996</td>
<td>319</td>
</tr>
<tr>
<td>Trenche</td>
<td>1950-1955</td>
<td>302</td>
</tr>
<tr>
<td>La Tuque</td>
<td>1940-1955</td>
<td>294</td>
</tr>
<tr>
<td>Beaumont</td>
<td>1958-1959</td>
<td>270</td>
</tr>
<tr>
<td>McCormick</td>
<td>1951-1965</td>
<td>235</td>
</tr>
<tr>
<td>Rocher-de-Grand-Mère</td>
<td>2004</td>
<td>230</td>
</tr>
<tr>
<td>Paugan</td>
<td>1928-1956</td>
<td>226</td>
</tr>
<tr>
<td>Rapide-Blanc</td>
<td>1934-1955</td>
<td>204</td>
</tr>
<tr>
<td>Shawinigan-2</td>
<td>1911-1929</td>
<td>200</td>
</tr>
<tr>
<td>Shawinigan-3</td>
<td>1948-1949</td>
<td>194</td>
</tr>
<tr>
<td>Manic-1</td>
<td>1966-1967</td>
<td>184</td>
</tr>
<tr>
<td>Rapids-des-Îles</td>
<td>1966-1973</td>
<td>176</td>
</tr>
<tr>
<td>Chelsea</td>
<td>1927-1939</td>
<td>152</td>
</tr>
<tr>
<td>Sarcelle</td>
<td>2013</td>
<td>150</td>
</tr>
<tr>
<td>La Gabelle</td>
<td>1924-1931</td>
<td>131</td>
</tr>
<tr>
<td>Première-Chute</td>
<td>1968-1975</td>
<td>131</td>
</tr>
<tr>
<td>Les Cèdres</td>
<td>1914-1924</td>
<td>113</td>
</tr>
<tr>
<td>Rapids-Farmer</td>
<td>1927-1947</td>
<td>104</td>
</tr>
<tr>
<td>Rapids-des-Quinze</td>
<td>1923-1955</td>
<td>103</td>
</tr>
<tr>
<td>Other (19 generating stations rated less than 100 MW)</td>
<td>1915-2009</td>
<td>798</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>36,100</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name of Facility</th>
<th>Years Commissioned</th>
<th>Capacity (MW)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Thermal</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bécanencourt (gas turbine)</td>
<td>1992-1993</td>
<td>411</td>
</tr>
<tr>
<td>Other (24 diesel plants on off-grid systems)</td>
<td>1967-2010</td>
<td>132</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>543</strong></td>
</tr>
</tbody>
</table>

a) Indicates years when facilities began commercial operation.
b) 61 facilities are operated by Hydro-Québec Production and one facility is operated by Hydro-Québec Distribution.
c) Operated by Hydro-Québec Distribution.
Electricity Purchases

We purchase energy and capacity from the Churchill Falls generating station in Labrador through agreements with CF(L)Co. Under an initial power contract signed in 1969 with CF(L)Co, we agreed to purchase annually, through the year 2041, 4,083 MW of power (the “1969 Power Contract”). In June 1999, we signed another agreement with CF(L)Co to guarantee us the availability of 682 MW of additional power until 2041 for each November 1 to March 31 period. In 2014, purchases under the CF(L)Co agreements totaled 27.6 TWh at a cost of $102 million as compared to 29.8 TWh at a cost of $108 million in 2013.

We have a power 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, we also agreed to purchase from Rio Tinto Alcan Inc. an additional 150 MW of peak power until December 31, 2045.

In addition, we purchase energy and capacity under 69 long-term contracts with independent producers located in Québec. During 2014, 3.2 TWh were purchased under these contracts, at a total cost of $242 million. For 2015, we expect to purchase approximately 3.3 TWh. Hydro-Québec Distribution also has long-term contracts with independent producers (see “Distribution”).

We also purchase energy and capacity in connection with our energy marketing operations (see “Wholesale and Energy Marketing Operations”).

Peak

We use energy purchased from our neighboring systems, which experience different demand patterns, to meet a portion of our peak power needs in Québec (see “Wholesale and Energy Marketing Operations”). The following table summarizes our peak power demand in Québec and installed capacity as at December 31 for the years 2010 through 2014.

<table>
<thead>
<tr>
<th></th>
<th>Peak Power Demand (MW)</th>
<th>Installed Capacity (MW)</th>
<th>Total Average Load (MW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>37,717</td>
<td>36,671</td>
<td>23,871</td>
</tr>
<tr>
<td>2011</td>
<td>35,481</td>
<td>36,971</td>
<td>24,516</td>
</tr>
<tr>
<td>2012</td>
<td>38,797</td>
<td>35,829</td>
<td>25,160</td>
</tr>
<tr>
<td>2013</td>
<td>39,031</td>
<td>36,068</td>
<td>25,865</td>
</tr>
<tr>
<td>2014</td>
<td>38,743</td>
<td>36,643^b</td>
<td>25,348^b</td>
</tr>
</tbody>
</table>

a) The values indicated correspond to the needs for the winter beginning in December, including interruptible power. The peak for a given period is based on measurements at fixed intervals. The 2014–2015 winter peak was 38,743 MW and occurred on January 8, 2015, at 8:00 a.m., after the system load momentarily reached 38,950 MW at 7:21 a.m.

b) In addition to the generating capacity of our own facilities, we have access to almost all the output from Churchill Falls generating station (5,428 MW) under a contract with CF(L)Co that will remain in effect until 2041. We also purchase all the output from 31 wind farms (2,857 MW) and 4 small hydropower plants (48 MW) and almost all the output from 7 biomass and 3 biogas cogeneration plants (206 MW) operated by independent power producers. Moreover, 1,132 MW are available under long-term contracts with other suppliers.

c) Total energy requirements (consisting of kilowatthours delivered within Québec and to neighboring systems), divided by the number of hours in the year.

WHOLESALE AND ENERGY MARKETING 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.

In addition to the Heritage Pool Electricity, Hydro-Québec Production provides other power supplies and products to Hydro-Québec Distribution, which includes, principally, a call for tenders issued in 2002, for the supply of 600 MW over a 20-year period starting in March 2007.
Markets Outside Québec

Currently, our main markets outside Québec consist of neighboring networks located in Canada and the United States.

HQUS is a member of New York ISO, ISO New England (which includes all or parts of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont), Midcontinent ISO (which includes all or parts of Arkansas, Illinois, Indiana, Iowa, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Montana, North Dakota, South Dakota, Texas, Wisconsin and Manitoba (Canada)) 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). HQUS is also a participant in the electricity markets operated by Southwest Power Pool Inc. (which includes all or parts of Arkansas, Kansas, Louisiana, Mississippi, Missouri, Nebraska, New Mexico, Oklahoma and Texas). 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.

HQEM is a participant of the Ontario Independent Electricity System Operator (the Ontario IESO). HQEM sells and buys energy in Manitoba, Ontario, New Brunswick and Nova Scotia, and has transmission service agreements with Manitoba Hydro and New Brunswick Power Corporation to reserve transmission service on their respective systems.

We have four main long-term export contracts for the sale of electricity. The following table summarizes our principal energy export agreements.

<table>
<thead>
<tr>
<th>PRINCIPAL ENERGY EXPORT AGREEMENTS</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Expiry Date</th>
<th>Maximum Capacity (MW)</th>
<th>Maximum Annual Deliveries (TWh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cornwall Electric - Canada</td>
<td>2019</td>
<td>45</td>
</tr>
<tr>
<td>Cornwall Electric - Canada</td>
<td>2019</td>
<td>100</td>
</tr>
<tr>
<td>Vermont Joint Owners</td>
<td>2020</td>
<td>335</td>
</tr>
<tr>
<td>Five Vermont power distributors</td>
<td>2038</td>
<td>225</td>
</tr>
</tbody>
</table>

a) Based on historical data.
b) Green Mountain Power Corporation, Vermont Electric Cooperative, Inc., Vermont Public Power Supply Authority, the Town of Stowe Electric Department and City of Burlington, Vermont Electric Department.

Hydro-Québec Production is continuing talks regarding participation in projects to build transmission lines between Québec and certain states in the northeastern United States. These interconnections would enable us to increase our exports to those markets.

Electricity Sales and Revenue

The following table summarizes electricity sales and revenue outside Québec, by category, for the years 2010 through 2014.

<table>
<thead>
<tr>
<th>ELECTRICITY SALES AND REVENUE OUTSIDE QUÉBEC</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Years ended December 31</th>
<th>2010 (in GWh)</th>
<th>2011 (in GWh)</th>
<th>2012 (in GWh)</th>
<th>2013 (in GWh)</th>
<th>2014 (in GWh)</th>
</tr>
</thead>
</table>

Electricity Sales

<table>
<thead>
<tr>
<th>Canada/U.S. (long-term)</th>
<th>2,677</th>
<th>2,617</th>
<th>2,683</th>
<th>2,519</th>
<th>2,495</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada/U.S. (short-term)</td>
<td>17,477</td>
<td>21,063</td>
<td>25,406</td>
<td>29,689</td>
<td>24,129</td>
</tr>
<tr>
<td>Total Electricity Sales</td>
<td>20,154</td>
<td>23,680</td>
<td>28,089</td>
<td>32,208</td>
<td>26,624</td>
</tr>
</tbody>
</table>

Revenue from Electricity Sales

<table>
<thead>
<tr>
<th>Canada/U.S. (long-term)</th>
<th>$247</th>
<th>$253</th>
<th>$211</th>
<th>$229</th>
<th>$226</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada/U.S. (short-term)</td>
<td>$1,057</td>
<td>$999</td>
<td>$983</td>
<td>$1,296</td>
<td>$1,403</td>
</tr>
<tr>
<td>Total Revenue from Electricity Sales</td>
<td>$1,304</td>
<td>$1,252</td>
<td>$1,194</td>
<td>$1,525</td>
<td>$1,629</td>
</tr>
</tbody>
</table>

a) Data related to continuing operations.
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 2014, Hydro-Québec TransÉnergie had signed transmission service agreements with 27 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 54 of these generating stations.

This segment includes our holding in Cedars Rapids Transmission Company, Limited, a transmission provider that owns and operates a 325 MW interconnection line linking Hydro-Québec TransÉnergie’s grid at the Les Cèdres and Langlois substations in Québec with the Cornwall Electric system in Ontario and the National Grid system in New York State.

TRANSMISSION SYSTEM

Most generating complexes in Québec are located at substantial distances from consumer centers. As a result, Hydro-Québec TransÉnergie’s transmission system is the most extensive in North America, totaling approximately 21,000 miles of lines.

The system includes the following facilities as at December 31, 2014.

<table>
<thead>
<tr>
<th>Voltage</th>
<th>Substations</th>
<th>Lines (miles)</th>
</tr>
</thead>
<tbody>
<tr>
<td>765 kV and 735 kV</td>
<td>39</td>
<td>7,260</td>
</tr>
<tr>
<td>450 kV DC</td>
<td>2</td>
<td>757</td>
</tr>
<tr>
<td>315 kV</td>
<td>70</td>
<td>3,379</td>
</tr>
<tr>
<td>230 kV</td>
<td>54</td>
<td>2,007</td>
</tr>
<tr>
<td>161 kV</td>
<td>43</td>
<td>1,320</td>
</tr>
<tr>
<td>120 kV</td>
<td>218</td>
<td>4,311</td>
</tr>
<tr>
<td>69 kV or less</td>
<td>104(b)</td>
<td>2,209(c)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>530</td>
<td>21,243</td>
</tr>
</tbody>
</table>

a) Miles covered by the transmission system. Many facilities carry two circuits on the same infrastructure.
b) 93 substations operated by Hydro-Québec TransÉnergie and 11 by Hydro-Québec Distribution.
c) 2,040 miles of lines operated by Hydro-Québec TransÉnergie and 169 miles by Hydro-Québec Distribution.

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, producers and marketers to buy or sell electricity and to wheel in, wheel out or wheel through Hydro-Québec TransÉnergie’s transmission grid at specified rates.

Hydro-Québec TransÉnergie’s Direction – Contrôle des mouvements d’énergie (System Control Unit) is responsible for energy dispatching, power flow supervision and system security monitoring. Hydro-Québec TransÉnergie’s transmission system is linked through interconnections with other major power systems in Canada (Ontario, New Brunswick and Churchill Falls) and the northeastern United States (New York and New England).

The following table shows existing interconnection capacity with neighboring systems outside Québec as at December 31, 2014. Available transfer capacities are posted on the OASIS (Open Access Same-Time Information System) website.

<table>
<thead>
<tr>
<th>Interconnections with Neighboring Systems Outside Québec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum Export Capacity</td>
</tr>
<tr>
<td>(MW)</td>
</tr>
<tr>
<td>CANADA</td>
</tr>
<tr>
<td>Ontario</td>
</tr>
<tr>
<td>New Brunswick</td>
</tr>
<tr>
<td>Churchill Falls</td>
</tr>
<tr>
<td>UNITED STATES</td>
</tr>
<tr>
<td>New York</td>
</tr>
<tr>
<td>New England</td>
</tr>
</tbody>
</table>
DISTRIBUTION

Hydro-Québec Distribution provides a secure, reliable supply of electricity and related services to the Québec market. To fulfill this responsibility, Hydro-Québec Distribution relies primarily on the Heritage Pool Electricity supplied by Hydro-Québec Production. Hydro-Québec Distribution also purchases additional electricity under market conditions by issuing calls for tenders from suppliers in the market (see “Regulatory Framework – Energy Board Act”).

Our distribution system is comprised of 71,819 miles of medium voltage lines (almost exclusively 25 kV), as well as 64,753 miles of low voltage lines. Approximately 10% of all such lines are underground.

Hydro-Québec Distribution sells to a wide range of customers, from large industrial users, which accounted for 32.0% of sales volume in 2014, to residential customers, which represented 39.1% of sales volume in the same period. Revenues are also derived from sales to commercial, institutional and small industrial customers as well as distributors operating municipal electric systems.

Hydro-Québec Distribution has developed some flexibility in the management of our system and currently has 1,200 MW of interruptible power and 620 MW of concurrent peak-saving capacity in our residential dual-energy market.

Hydro-Québec Distribution has entered into special agreements with six 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. We manage the exposure to fluctuations in aluminum prices resulting from these contracts by entering into financial transactions, such as futures or swaps (see “Note 16 to the 2014 Consolidated Financial Statements”). In 2014, deliveries under these agreements accounted for 44.8% of the total energy deliveries to large industrial users.

Hydro-Québec Distribution relies on various sources to supply the Québec market. Hydro-Québec Distribution relies primarily on the Heritage Pool Electricity of 165 TWh, which it purchases from Hydro-Québec Production, and also issues short- and long-term calls for tenders. For requirements of less than three months, it may also buy electricity directly on the market, without tendering, under an authorization 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, also approved by the Energy Board, that covers the period from January 1, 2014, to December 31, 2016.

Further to calls for tenders issued since 2002, Hydro-Québec Distribution signed two contracts with Hydro-Québec Production for the supply of 600 MW over a 20-year period beginning in March 2007 and 61 contracts with 52 independent producers for the supply of more than 4,000 MW (including 3,286 MW of wind-generated electricity) for deliveries beginning between 2006 and 2017. Hydro-Québec Production also has long-term contracts with independent producers (see “Generation – Electricity Purchases”).

The following table summarizes these contracts as at December 31, 2014.

<table>
<thead>
<tr>
<th>Type of power</th>
<th>Number of Contracts</th>
<th>Capacity (MW)</th>
<th>Starting Date</th>
<th>Expiry Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hydroelectric</td>
<td>6</td>
<td>In service</td>
<td>648</td>
<td>2007-2013</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>Under development</td>
<td>58</td>
<td>2015-2017</td>
</tr>
<tr>
<td>Natural gas cogeneration</td>
<td>1</td>
<td>In service</td>
<td>507</td>
<td>2006</td>
</tr>
<tr>
<td>Wind</td>
<td>26</td>
<td>In service</td>
<td>2,645</td>
<td>2006-2014</td>
</tr>
<tr>
<td></td>
<td>9</td>
<td>Under development</td>
<td>641</td>
<td>2015-2016</td>
</tr>
<tr>
<td>Forest biomass cogeneration</td>
<td>9</td>
<td>In service</td>
<td>164</td>
<td>2007-2014</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>Under development</td>
<td>75</td>
<td>2015-2017</td>
</tr>
<tr>
<td>Biomass cogeneration</td>
<td>3</td>
<td>In service</td>
<td>20</td>
<td>2012</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>Under development</td>
<td>5</td>
<td>2016</td>
</tr>
<tr>
<td></td>
<td>63</td>
<td></td>
<td>4,763</td>
<td></td>
</tr>
</tbody>
</table>
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, along with the various means that Hydro-Québec Distribution intends to use to ensure a secure supply of electricity for Québec. The Electricity Supply Plan 2014-2023 was filed with the Energy Board in November 2013 and a final decision was issued in February 2015. The first progress report of the Electricity Supply Plan 2014-2023 was filed in November 2014.

In 2014, Hydro-Québec Distribution took various measures to ensure balance between energy supply and demand in Québec, including:

- In May 2014, the Energy Board approved the suspension of electricity production at TransCanada Energy’s Bécancour generating station for the years 2014 to 2018 (the accounting for this agreement is described in “Note 2 to the 2014 Consolidated Financial Statements” under “Regulatory Assets – Costs related to a suspension agreement”); and

- Hydro-Québec Distribution made 1.2 TWh of short-term transactions in 2014.

Calls for tenders could be made in the coming years in order to maintain this balance (see “Regulatory Framework – Energy Board Act”). In December 2011, Hydro-Québec Distribution launched a power purchase program involving the acquisition of energy generated in Québec from forest biomass cogeneration power plants, for a total installed capacity of 150 MW. In July 2012, the total installed capacity for the program was increased to 300 MW and in February 2014, the program was extended for another year. The program is now closed and the total installed capacity awarded should reach 300 MW. In December 2014, Hydro-Québec Distribution announced that it has accepted 3 bids totaling 446.4 MW in response to the call for tenders issued on December 18, 2013, for the purchase of 450 MW of wind power generated in Québec. In February 2015, Hydro-Québec Distribution filed for approval to the Energy Board for the 3 contracts resulting from the 2013 call for tenders. In March 2015, Hydro-Québec Distribution issued a call for tenders for the purchase of 500 MW of firm capacity and associated energy to meet the long-term electricity needs of its Québec customers.

**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 2015, the Energy Board authorized an average rate increase of 2.86% applicable to all rates except for the Rate L, which is subject to a 2.49% increase. The new rates are effective as of April 1, 2015.

The following table shows the rate change which took effect in each year and the average rate increase (decrease) for the year, from 2010 to 2015, as well as annual inflation rates:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate increase (decrease) as of April 1</td>
<td>0.35%</td>
<td>(0.41)%</td>
<td>(0.45)%</td>
<td>2.41%</td>
<td>4.27%&lt;sup&gt;a&lt;/sup&gt;</td>
<td>2.86%&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Average rate increase (decrease) from January 1 to December 31</td>
<td>0.6%</td>
<td>(0.2)%</td>
<td>(0.4)%</td>
<td>1.7%</td>
<td>3.8%&lt;sup&gt;b&lt;/sup&gt;</td>
<td>3.2%&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Inflation Rate&lt;sup&gt;c&lt;/sup&gt;</td>
<td>1.8%</td>
<td>2.9%</td>
<td>1.5%</td>
<td>0.9%</td>
<td>2.0%</td>
<td>0.5%&lt;sup&gt;d&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

a) Excluding Rate L, for which the increase is 3.45% in 2014 and 2.49% in 2015.
b) Excluding Rate L.
c) Canadian Consumer Price Index for the calendar year.
d) Estimate.
ELECTRICITY SALES AND REVENUE

The following table summarizes consolidated electricity sales and revenue in Québec, by segment of customers, for the years 2010 through 2014.

<table>
<thead>
<tr>
<th>Years ended December 31</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in GWh)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Electricity Sales</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In Québec, by segment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>59,348</td>
<td>62,402</td>
<td>61,956</td>
<td>65,983</td>
<td>68,074</td>
</tr>
<tr>
<td>Commercial, institutional and small industrial</td>
<td>43,009</td>
<td>43,683</td>
<td>43,775</td>
<td>44,620</td>
<td>45,189</td>
</tr>
<tr>
<td>Large industrial</td>
<td>59,828</td>
<td>58,210</td>
<td>56,875</td>
<td>56,855</td>
<td>55,738</td>
</tr>
<tr>
<td>Other</td>
<td>7,300</td>
<td>5,671</td>
<td>5,795</td>
<td>5,818</td>
<td>5,919</td>
</tr>
<tr>
<td><strong>Total Electricity Sales</strong></td>
<td>169,485</td>
<td>169,966</td>
<td>168,401</td>
<td>173,276</td>
<td>174,920</td>
</tr>
<tr>
<td></td>
<td>(in millions of dollars)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Revenue from Electricity Sales</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In Québec, by segment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>4,287</td>
<td>4,508</td>
<td>4,452</td>
<td>4,825</td>
<td>5,170</td>
</tr>
<tr>
<td>Commercial, institutional and small industrial</td>
<td>3,335</td>
<td>3,377</td>
<td>3,370</td>
<td>3,504</td>
<td>3,657</td>
</tr>
<tr>
<td>Large industrial</td>
<td>2,534</td>
<td>2,533</td>
<td>2,317</td>
<td>2,439</td>
<td>2,389</td>
</tr>
<tr>
<td>Other</td>
<td>350</td>
<td>302</td>
<td>303</td>
<td>317</td>
<td>339</td>
</tr>
<tr>
<td><strong>Total Revenue from Electricity Sales</strong></td>
<td>10,506</td>
<td>10,720</td>
<td>10,442</td>
<td>11,085</td>
<td>11,555</td>
</tr>
<tr>
<td></td>
<td>(as at December 31)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Number of Customer Accounts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In Québec, by segment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial, institutional and small industrial</td>
<td>311,149</td>
<td>313,468</td>
<td>314,895</td>
<td>316,585</td>
<td>317,671</td>
</tr>
<tr>
<td>Large industrial</td>
<td>192</td>
<td>189</td>
<td>188</td>
<td>186</td>
<td>183</td>
</tr>
<tr>
<td>Other</td>
<td>3,861</td>
<td>4,004</td>
<td>3,988</td>
<td>4,207</td>
<td>4,214</td>
</tr>
<tr>
<td><strong>Total Customer Accounts</strong></td>
<td>4,000,168</td>
<td>4,048,708</td>
<td>4,096,267</td>
<td>4,141,990</td>
<td>4,179,850</td>
</tr>
</tbody>
</table>

a) Data related to continuing operations.
CONSTRUCTION

The Construction segment includes activities related to the 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 also carry out certain projects elsewhere in Québec and outside the province.

As engineering, construction and environmental specialists, Hydro-Québec Équipement et services partagés and SEBJ 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 include technical and scientific surveys, planning, cost estimates, design, architecture, geomatics and quality control.

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 our subsidiary Hydro-Québec International inc. (“HQI”). The following are under the supervision of the Technology Group:

- Hydro-Québec CapiTech inc. (“Hydro-Québec CapiTech”) (wholly-owned; a venture capital company investing in businesses that provide energy-related high-technology products and services);
- Hydro-Québec IndusTech inc. (“Hydro-Québec IndusTech”) (wholly-owned; the corporation’s mission is to partner with the private sector in industrializing and marketing technologies resulting from our research activities); and
- Institut de recherche d’Hydro-Québec (“IREQ”) (our energy-technology research and development division).
CORPORATE OUTLOOK

DEVELOPMENT STRATEGY

We plan to invest approximately $3.9 billion in 2015, most of which will be allocated to the operations of Hydro-Québec TransÉnergie ($1.6 billion) and Hydro-Québec Production ($1.2 billion). Nearly half of our investments will be earmarked for development and growth activities. The remainder is expected to go toward facility maintenance and improvements.

Hydro-Québec Production intends to continue its work on the Romaine complex jobsites in the course of developing Québec’s hydroelectric potential. Romaine-2, the first of the four generating stations in this major project, was commissioned in 2014, while the others are expected to follow at intervals until 2020. In addition, the division plans to continue investing to ensure the long-term operability of its facilities and to optimize their efficiency. One such project involves the refurbishment of the generating units at Beauharnois generating station, which is scheduled to continue for several years.

Hydro-Québec TransÉnergie intends to devote a large part of its investments to development in order to integrate new hydroelectric and wind capacity into its grid. Specifically, it plans to continue connecting various wind farms built in response to Hydro-Québec Distribution’s calls for tenders and working on the project to expand the transmission system in Minganie in order to connect the Romaine complex. The division also plans to continue to invest in maintenance and improvement activities to ensure the reliability and long-term operability of its transmission assets and enhance service quality. Other initiatives in this regard include the ongoing plan to develop the transmission system on the island of Montréal, which includes the construction of the new Fleury and De Lorimier substations and their 315-kV tap lines.

Hydro-Québec Distribution intends to continue to deliver reliable power and high-quality services to Québec customers. It plans to make further investments to handle the growth of the Québec customer base and to maintain and improve the quality of its facilities. It also plans to continue to implement the Energy Efficiency Plan, which includes measures for low-income households. In addition, it expects to continue to install next-generation meters as part of the rollout of an advanced metering infrastructure. Upon completion of this project, expected in 2016, the division will have replaced its entire meter fleet, some 3.8 million units in total.

WATER-POWER ROYALTIES

As stipulated in the Watercourses Act (Québec), Hydro-Québec Production pays the same statutory royalties as those paid by private producers of hydro-electricity in Québec. These water-power royalties, earmarked for the Government’s Generations Fund, consist of a statutory royalty for the electricity delivered during the year and a contractual royalty payable pursuant to the contract awarded for the operation of a generation station.

For 2015, these royalties, indexed annually to the Consumer Price Index, consist of:

- a statutory royalty of $3.12 ($3.07, $3.04 and $2.98, for 2014, 2013 and 2012, respectively) per thousand kilowatt-hours of electricity produced; and
- a contractual royalty of $0.732 ($0.720, $0.713 and $0.699, for 2014, 2013 and 2012, respectively) per thousand kilowatt-hours of electricity produced.

These royalties totaled $656 million in 2014, $669 million in 2013 and $617 million in 2012.
CAPITAL INVESTMENT PROGRAM

The capital investment program includes capital expenditures for fixed and intangible assets including Energy Efficiency Programs. The following table is a summary of our capital investments affecting cash for the years 2010 through 2014. The table also includes estimates for the year 2015. In 2015, capital investments in fixed and intangible assets, including Energy Efficiency Programs, are estimated at $3,905 million.

CAPITAL INVESTMENTS AFFECTING CASH

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(millions of dollars)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed and Intangible Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Generation</td>
<td>$1,900</td>
<td>$1,467</td>
<td>$1,511</td>
<td>$1,381</td>
<td>$1,213</td>
<td>$1,188</td>
</tr>
<tr>
<td>Transmission(^a)</td>
<td>1,248</td>
<td>1,292</td>
<td>1,423</td>
<td>1,915</td>
<td>1,627</td>
<td>1,569</td>
</tr>
<tr>
<td>Distribution(^b)</td>
<td>944</td>
<td>950</td>
<td>874</td>
<td>882</td>
<td>915</td>
<td>953</td>
</tr>
<tr>
<td>Construction</td>
<td>7</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>Corporate and Other Activities</td>
<td>121</td>
<td>100</td>
<td>120</td>
<td>152</td>
<td>152</td>
<td>188</td>
</tr>
<tr>
<td>Total Investments</td>
<td>$4,220</td>
<td>$3,814</td>
<td>$3,932</td>
<td>$4,335</td>
<td>$3,918</td>
<td>$3,905</td>
</tr>
</tbody>
</table>

\(^a\) Includes sub-transmission facilities.

\(^b\) Including Energy Efficiency Programs.

By relying first and foremost on the renewable source that is hydropower, we meet the present needs of our market while preserving the environment and providing a framework to meet the projected energy needs of future generations. We build our projects in a spirit of sustainable development—that is, development that seeks a balance between economic, social and environmental imperatives. In the last 12 years, we have added 4,254 MW to our generating fleet by bringing a number of new facilities onstream.

We are now focusing the major part of our efforts on the Romaine jobsites, north of the municipality of Havre-Saint-Pierre in the Côte-Nord region. The Romaine complex will include four generating stations with a total installed capacity of 1,550 MW and an annual output of 8.0 TWh. We believe this new output will allow us to seize opportunities on wholesale markets. In 2014, we reached a major milestone in the Romaine project: the two units at Romaine-2 generating station, with a combined capacity of 640 MW, were commissioned on schedule. At the end of the year, we also completed the dam and retaining structures for the Romaine-1 development. Assembly of the generating units has begun and is progressing as planned, with commissioning of the first unit slated for the end of 2015. At the Romaine-3 jobsite, construction proceeded at a steady pace. We completed the temporary diversion of the river and began erecting the first structures, and all generating units are anticipated to be operational in 2017. Finally, a road now provides access to the Romaine-4 site, where some preparatory work has begun.
Allocation of Capital Expenditures for the Generation, Transmission and Distribution Business Segments

The following tables summarize the allocation of estimated capital expenditures for 2015 among our three major business segments:

### GENERATION BUSINESS SEGMENT

<table>
<thead>
<tr>
<th>Asset Sustainment and Optimization</th>
<th>Available Power (MW)</th>
<th>Planned Date of Operation</th>
<th>Estimated Capital Expenditures 2015 (millions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refurbishment and refitting of generating stations</td>
<td>–</td>
<td>Continuous program</td>
<td>$423</td>
</tr>
<tr>
<td>Hydroelectric Development Projects</td>
<td>1,550</td>
<td>2014-2020</td>
<td>$699</td>
</tr>
<tr>
<td>Other generation projects</td>
<td>–</td>
<td>–</td>
<td>$66</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$765</strong></td>
</tr>
</tbody>
</table>

### TRANSMISSION BUSINESS SEGMENT* 

<table>
<thead>
<tr>
<th>System Growth Projects</th>
<th>Planned Date of Operation</th>
<th>Estimated Capital Expenditures 2015 (millions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Sustainment (Reliability and Long-term Operability)</td>
<td>Continuous program</td>
<td>$861</td>
</tr>
<tr>
<td>Wind Power integration – 2,000 MW</td>
<td>2011-2017</td>
<td>$175</td>
</tr>
<tr>
<td>Expansion of transmission system in Minganie</td>
<td>2014-2020</td>
<td>$319</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>$214</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$708</strong></td>
</tr>
</tbody>
</table>

```
a) Includes sub-transmission facilities.
```

### DISTRIBUTION BUSINESS SEGMENT* 

<table>
<thead>
<tr>
<th>Energy Efficiency Programs</th>
<th>Estimated Capital Expenditures 2015 (millions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Sustainment (Reliability and Long-term Operability)</td>
<td>$512</td>
</tr>
<tr>
<td>Development Projects</td>
<td>$341</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$953</strong></td>
</tr>
</tbody>
</table>

```
a) Includes investments in distribution facilities and investments in generation and transmission facilities of our off-grid systems.
```

**Cash Requirements**

The total estimated cash requirements for 2015 are approximately $7.7 billion, broken down as follows: approximately $3.9 billion for capital investments, approximately $1.3 billion for long-term debt repayment and sinking fund redemption and approximately $2.5 billion for the payment of the dividend declared for 2014. Our self-financing ratio (defined as cash flows from operating activities less dividend paid, divided by the sum of cash flows from investing activities, excluding net disposal or acquisition of short-term investments, and repayments of long-term debt) is expected to be 58.1% in 2015, compared to 51.6% in 2014.
REGULATORY FRAMEWORK

Hydro-Québec Act

Under the provisions of the *Hydro-Québec Act*, we are 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.

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 2014 Consolidated Financial Statements”). Hydro-Québec’s dividend policy is to distribute 75% of our net result.

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 fix or modify our rates and conditions for the transmission and distribution of electric power in 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 *Energy Board Act* stipulates that rates are determined on a basis that allows for recovery of the cost of service including 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.

Under the *Energy Board Act*, we have 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, our rates and conditions for the transmission and distribution of electric power;
- approve our electric power supply plan;
- designate a reliability coordinator for Québec and adopt the reliability standards submitted by the designated reliability coordinator;
- authorize our transmission and distribution investment projects;
- approve our 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. The *Act respecting mainly the implementation of certain provisions of the Budget Speech of 20 November 2012* has further amended the *Energy Board Act* by replacing the gradual increases of the average cost of the Heritage Pool Electricity with the indexation of the average cost of the Heritage Pool Electricity.

Generation

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

Transmission

Transmission rates and service conditions are subject to approval by the Energy Board.

In March 2015, the Energy Board approved the transmission rates, effective January 1, 2015, as follows: $74.08/kW/year for firm long-term point-to-point service and an amount payable for the native load transmission service of $2,801.6 million per year.
The Direction – Contrôle des mouvements d’énergie (System Control Unit) of Hydro-Québec TransÉnergie is the designated 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.

In August 2014, Hydro-Québec Distribution filed with the Energy Board an application for a rate increase, beginning April 1, 2015, of 3.5% for Rate L and an average rate increase of 3.9% for its other rates.

In March 2015, the Energy Board approved an average rate increase of 2.49% for Rate L and of 2.86% for the other rates.

**National Energy Board Act**

Our exports of electric power 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. We hold the following permits for short-term exports (contracts of five years or less):

- one permit expiring on December 31, 2020 authorizing us to export annually up to 30 TWh of combined firm and interruptible energy to the United States;
- one permit granted to our 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 us 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.

On December 2, 2014, at the request of HQEM, the National Energy Board revoked the orders authorizing HQEM to import and export natural gas. Such authorizations were no longer required after HQEM ceased its physical natural gas activities.

The National Board also regulates international power lines and we operate our 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**

Our activities are subject to federal and provincial environmental laws and regulations, and, to some extent, municipal by-laws.

Before beginning new construction, our 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, we review our management of environmental issues and publish a Sustainability Report.

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 us (Superior Court, no 200-17-004196-036) 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 us, jointly and severally, in an amount of up to $1.5 billion (subject to further increase by the plaintiffs).

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 us (Superior Court, no 500-17-050868-093) regarding, amongst other issues, our proposed construction of transmission lines to connect the Romaine River hydroelectric complex to our 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.

In April 2014, the parties agreed to suspend these legal proceedings (Superior Court, no 200-17-004196-036 and Superior Court, no 500-17-050868-093) given the ongoing settlement discussions.

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 us (Superior Court, no 500-05-039472-988) seeking judicial recognition of their aboriginal rights and title over certain areas of land in Québec where our Manicouagan-Outardes hydroelectric facilities are located. By amendment, this community attempted to increase its initial claim of $500 million to $10.8 billion and to add annual compensation payments of $657 million from us. The request for amendment was rejected by Québec’s Superior Court and Court of Appeal in 2011. The case concerning the initial amount of $500 million remains outstanding. With the Attorney-General of Québec, we are challenging the legitimacy of this claim.

CF(L)Co

On February 23, 2010, CF(L)Co instituted proceedings against us seeking the modification, as of November 30, 2009, of the pricing terms under the 1969 Power Contract (see “Generation Operations – Electricity Purchases”) by increasing the pricing terms payable by us 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. The 1969 Power Contract was already contested on two prior occasions before the courts and the Supreme Court of Canada dismissed those proceedings. The hearing took place in the Fall of 2013. On July 24, 2014, the Superior Court of Québec rendered its decision dismissing CF(L)Co’s request and confirming Hydro-Québec’s rights under the 1969 Power Contract. On August 25, 2014, CF(L)Co filed an appeal before the Québec Court of Appeal.

Employees

We had 20,043 employees as at December 31, 2014 composed of 17,793 permanent employees and 2,250 temporary employees. These numbers do not include employees of our subsidiaries and joint ventures. Unionized employees represent 84.5% of our workforce.

Eight collective agreements govern the working conditions of our unionized employees and they all extend to 2018 or 2019.
MANAGEMENT’S DISCUSSION AND ANALYSIS

This Management’s Discussion and Analysis should be read in conjunction with our consolidated financial statements and the notes thereto. The financial information and tabular amounts presented herein are expressed in Canadian dollars, unless otherwise indicated.

This analysis contains statements based on estimates and assumptions concerning future results and the course of events. Given the risks and uncertainties inherent in any forward-looking statements, our actual future results could differ from those anticipated. It should also be noted that certain financial and operating data for previous years have been reclassified to conform to the presentation adopted for the current year. The consolidated financial statements reflect the decisions of the Energy Board. Finally, the information contained herein takes into account any significant event that occurred on or before the date of publication of this Annual Report.

OVERVIEW

In 2014, the net result totaled $3,380 million, an increase of $438 million compared to 2013.

The increase in the net result was mainly due to more favorable market conditions in 2014, especially early in the year, when intense cold gripped North America. We were able to capitalize on higher export market prices resulting, among other things, from congestion in New England’s natural gas transmission system. On the Québec market, Hydro-Québec Production provided peak supplies to Hydro-Québec Distribution at market prices, which also contributed to our higher result.

Furthermore, through targeted initiatives at every level of the organization, we were able to reduce our operating expenses in 2014 and again completely absorbed the increase in expenses resulting from inflation, salary indexing and asset growth. In this regard, it is worth noting that property, plant and equipment has increased by $11 billion since 2010, while operating expenses remained stable over the same period.

We did not record any result from discontinued operations in 2014. Consequently, the net result corresponds to the result from continuing operations, i.e., $3,380 million.

The dividend payable to the Québec government with respect to the 2014 fiscal year amounts to $2,535 million, the highest in our history.

Cash flows from operating activities totaled $5,623 million. They allowed us, among other things, to pay the 2013 dividend of $2,207 million and to finance a large portion of our investment program, which amounted to $3,918 million in 2014 due to the continuation of major projects in the generation and transmission segments. These include the construction and connection of the Romaine complex, which reached a milestone at year end with the commissioning of Romaine-2 generating station (640 MW). This new facility will allow us to take advantage of business opportunities on wholesale markets inside and outside Québec.

Return on equity from continuing operations was 16.2%, compared to 14.6% in 2013, reflecting our solid financial performance.
CONSOLIDATED RESULTS

In 2014, we posted a net result of $3,380 million, an increase of $438 million compared to 2013.

Revenue totaled $13,638 million, compared to $12,878 million in 2013. Revenue from electricity sales increased by $574 million to $13,184 million. Sales in Québec accounted for $11,555 million of this amount, or $470 million more than in 2013. On markets outside Québec, revenue from electricity sales totaled $1,629 million, a $104-million increase. Other revenue amounted to $454 million, compared to $268 million in 2013.

The $470-million rise in revenue from electricity sales in Québec resulted mainly from a 2.0-TWh volume increase due to the harsh weather conditions in winter 2013–2014 as well as the April 1, 2013 and 2014 rate adjustments. This rise was mitigated, however, by a decrease in revenue from special contracts with certain large industrial customers due to lower demand from aluminum smelters and the less positive impact than in 2013 of hedging operations related to exchange rates and aluminum prices.

The $104-million increase in revenue from electricity sales on markets outside Québec resulted from growth in Hydro-Québec Production’s export revenue. This was mainly attributable to more favorable market conditions in 2014, especially early in the year, when intense cold gripped North America.

Other revenue totaled $454 million, a $186-million increase due mainly to the change in the net amounts that we are entitled to receive from customers or we are required to pay to customers in connection with such things as variances in supply costs for electricity in excess of the Heritage Pool Electricity and revenue variances related to climate conditions. The biggest underlying factor was the very cold temperatures in winter 2013-2014.

Variances in supply costs for electricity in excess of the Heritage Pool Electricity correspond to differences between the actual costs recorded in this regard and the costs recognized by the Energy Board for rate-setting purposes. These variances led to the recognition of $322 million receivable from customers in 2014, or $298 million more than in 2013.

Revenue variances related to climate conditions correspond to differences between Hydro-Québec Distribution’s actual transmission and distribution revenue and the revenue forecasts established on the basis of the climate normal for rate case purposes. These variances led to the recognition of $120 million payable to customers in 2014, or $78 million more than in 2013.

Total expenditure was $7,831 million, compared to $7,511 million in 2013.

Operating expenses amounted to $2,417 million, a $43-million decrease from the $2,460 million recorded in 2013. Through targeted initiatives at every level of the organization, we were again able to absorb the increase in costs resulting from inflation, salary indexing and growth in operating assets.

Electricity and fuel purchases totaled $1,915 million, a $347-million increase over 2013. This increase is due to a $436-million rise in electricity purchases made by Hydro-Québec Distribution from third parties, mainly independent wind power producers, for $220 million, as well as short-term market purchases to meet ad hoc requirements resulting from the very cold temperatures in winter 2013–2014, for $179 million.

Depreciation and amortization expense amounted to $2,518 million, an increase of $35 million over 2013 that is partly due to the commissioning of property, plant and equipment, including the three generating units at Sarcelle powerhouse phased in during 2013 and the advanced metering infrastructure. The increase was mitigated, however, by a decrease in net costs related to the retirement of capital assets.

Taxes were $981 million in 2014, compared to $1,000 million the previous year. This decrease is primarily due to a $13-million reduction in water-power royalties on account of lower output, which was mitigated by the indexing of the applicable rate.

Financial expenses totaled $2,427 million in 2014, comparable to the $2,429 million recorded in 2013.
<table>
<thead>
<tr>
<th>OPERATIONS AND DIVIDEND ($M)</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>13,638</td>
<td>12,878</td>
</tr>
<tr>
<td>Operating result</td>
<td>5,807</td>
<td>5,367</td>
</tr>
<tr>
<td>Result from continuing operations</td>
<td>3,380</td>
<td>2,938</td>
</tr>
<tr>
<td>Result from discontinued operations</td>
<td>–</td>
<td>4</td>
</tr>
<tr>
<td>Net result</td>
<td>3,380</td>
<td>2,942</td>
</tr>
<tr>
<td>Dividend</td>
<td>2,535</td>
<td>2,207</td>
</tr>
<tr>
<td>BALANCE SHEETS ($M)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>74,890</td>
<td>73,110</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>60,713</td>
<td>59,077</td>
</tr>
<tr>
<td>Long-term debt, including current portion and perpetual debt</td>
<td>44,744</td>
<td>44,477</td>
</tr>
<tr>
<td>Equity</td>
<td>20,618</td>
<td>19,394</td>
</tr>
<tr>
<td>FINANCIAL RATIOS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest coverage</td>
<td>2.25</td>
<td>2.09</td>
</tr>
<tr>
<td>Return on equity from continuing operations (%)</td>
<td>16.2</td>
<td>14.6</td>
</tr>
<tr>
<td>Profit margin from continuing operations (%)</td>
<td>24.8</td>
<td>22.8</td>
</tr>
<tr>
<td>Capitalization (%)</td>
<td>31.8</td>
<td>30.5</td>
</tr>
<tr>
<td>Self-financing (%)</td>
<td>51.6</td>
<td>68.3</td>
</tr>
</tbody>
</table>

a) The discontinued operations are related to the 2012 decision to abandon the project to refurbish Gentilly-2 nuclear generating station and to terminate nuclear power operations.
b) Sum of operating result and net investment income divided by interest on debt securities.
c) Result from continuing operations divided by average equity less average accumulated result from discontinued operations for the current year and prior years and average accumulated other comprehensive income. For 2014 and 2013, average equity less average accumulated result from discontinued operations for the current year and prior years and average accumulated other comprehensive income amounted to $20,929 million and $20,141 million, respectively.
d) Result from continuing operations divided by revenue.
e) Equity divided by the sum of equity, long-term debt, current portion of long-term debt, perpetual debt, borrowings and derivative instrument liabilities, less derivative instrument assets and sinking fund.
f) Cash flows from operating activities less dividend paid, divided by the sum of cash flows from investing activities, excluding net disposal or acquisition of short-term investments, and repayment of long-term debt.

Note: Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.
CASH AND CAPITAL MANAGEMENT

Operating Activities

Cash flows from operating activities totaled $5.6 billion in 2014, compared to $5.0 billion in 2013. These funds were mainly used to pay the dividend for 2013 and to finance a large portion of the investment program.

Investing Activities

In 2014, we invested $3.9 billion in property, plant and equipment and intangible assets, including the Energy Efficiency Plan (EEP), compared to $4.3 billion in 2013. Of this total, $2.0 billion was invested in development projects and $1.8 billion in maintaining or improving asset quality, while $0.1 billion went to the EEP.

Hydro-Québec Production invested a total of $1,213 million, compared to $1,381 million in 2013. A large portion of this amount, $887 million, was devoted to development activities, mainly the continued construction of the Romaine hydroelectric complex. The amounts allocated to ongoing asset maintenance and improvement totaled $326 million. For instance, refurbishment continued at Beauharnois and Robert-Bourassa generating stations and the Manicouagan complex.

Capital spending at Hydro-Québec TransÉnergie totaled $1,627 million in 2014. Of this amount, $776 million was used to connect new hydroelectric and wind power facilities to the grid and increase transmission capacity. Projects included continued work to connect the Romaine complex as part of the expansion of the transmission system in Minganie, which reached a milestone at year end with the connection of Romaine-2 generating station (640 MW), and to integrate the output from wind farms built in response to the calls for tenders issued by Hydro-Québec Distribution in 2005 and 2009 (2,000 MW and 289.9 MW, respectively). Investments of $851 million were made in transmission asset sustainment and reliability, which mainly involved replacing equipment and modernizing facilities.

Hydro-Québec Distribution invested $826 million, mainly to handle its growing customer base, ensure the long-term operability of the distribution system and enhance service quality. An additional $89 million was allocated to the continued deployment of the EEP.

Hydro-Québec Équipement et services partagés and Société d’énergie de la Baie James carry out engineering, construction and refurbishment projects for Hydro-Québec Production and Hydro-Québec TransÉnergie. In addition, Hydro-Québec Équipement et services partagés offers company-wide shared services that include procurement of goods and services, management of real estate, vehicle fleet and materials, as well as management of food, accommodation and air transportation services.

Financing Activities

In 2014, our financing activities raised $1.5 billion on the Canadian market.

In August, we issued variable-rate notes for a total amount of $1.0 billion, maturing in 2019. In November, we issued a new series of bonds with a value of $500 million, maturing in 2055. The yield to maturity of these bonds is 3.62%.

The proceeds were used to support part of the investment program and to refinance maturing debt.
**Sources of Financing**

<table>
<thead>
<tr>
<th>Type of financing</th>
<th>Amount authorized by the Board of Directors</th>
<th>Market</th>
<th>Outstanding as at December 31, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit lines</td>
<td>C$ or US$750 million*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit facilityb</td>
<td>US$2,000 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial paperb</td>
<td>US$3,500 million or equivalent in C$</td>
<td>United States or Canada</td>
<td>CS$23 million</td>
</tr>
<tr>
<td>Medium-term notesb</td>
<td>US$3,000 million or equivalent in other currencies</td>
<td>United States or Canada</td>
<td>US$340 million²</td>
</tr>
<tr>
<td></td>
<td>C$20,000 million or equivalent in US$</td>
<td>Canada</td>
<td>C$14,223 million²</td>
</tr>
</tbody>
</table>

a) Of this amount, an available balance of $451 million, in C$ or US$, is covered by operating credit line agreements with financial institutions.
b) Guaranteed by the Québec government.
c) Corresponds to net proceeds from the issuance of medium-term notes.

**Dividend and Capitalization Rate**

The dividend payable to the Québec government for 2014 is $2,535 million. Once this dividend is factored in, the capitalization rate was 31.8% as at December 31, 2014.
SEGMENTED INFORMATION

As in 2013, we had four operating segments in 2014, namely Generation, Transmission, Distribution and Construction, as well as activities grouped under Corporate and Other Activities.

<table>
<thead>
<tr>
<th>Segment</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Generation</td>
<td>Transmission</td>
</tr>
<tr>
<td>Revenue</td>
<td>6,737</td>
<td>3,253</td>
</tr>
<tr>
<td>Result from continuing operations</td>
<td>2,298</td>
<td>624</td>
</tr>
<tr>
<td>Result from discontinued operationsb</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Net result</td>
<td>2,298</td>
<td>624</td>
</tr>
<tr>
<td>Total assets</td>
<td>33,036</td>
<td>20,942</td>
</tr>
</tbody>
</table>

Note: Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

Segment Highlights

The **Generation** segment posted a net result of $2,298 million in 2014, a $368-million increase over 2013 that is mainly due to more favorable market conditions in 2014, especially early in the year, when intense cold gripped North America. On the one hand, net electricity exports rose to $1,529 million, a $176-million increase. On the other hand, electricity sales to Hydro-Québec Distribution were $5,085 million, a $195-million increase that is primarily attributable to the peak supplies Hydro-Québec Production provided in Québec during the first few months of the year. The net result from special contracts with certain large industrial customers in Québec decreased by $109 million due to, among other things, lower demand from aluminum smelters and the less positive impact than in 2013 of hedging operations related to exchange rates and aluminum prices. Depreciation and amortization expense decreased by $35 million. Finally, water-power royalties decreased by $13 million, chiefly on account of lower output, which was mitigated by the indexing of the applicable rate.

The **Transmission** segment posted a net result of $624 million in 2014, a $111-million increase compared to the $513 million recorded in 2013 that is partly due to a $180-million increase in revenue from native-load transmission service. Depreciation and amortization expense rose by $51 million, mainly because of the commissioning of property, plant and equipment as well as an increase in net costs related to the retirement of capital assets.

The **Distribution** segment recorded a net result of $341 million in 2014, compared to $410 million in 2013, a decrease of $69 million. Revenue from electricity sales, excluding special contracts, increased by $563 million due to two main factors: temperatures that were colder in 2014 than in 2013, and the rate adjustments of April 1, 2013 and 2014. In addition, the change in the net amounts that we are entitled to receive from customers or are required to pay to customers in connection with such things as variances in supply costs for electricity in excess of the Heritage Pool Electricity and revenue variances related to climate conditions had a positive impact of $76 million on other revenue. Electricity purchases and transmission costs, excluding special contracts, increased by $734 million, mainly on account of a $436-million rise in electricity purchases made by Hydro-Québec Distribution from third parties, primarily independent wind power producers, as well as short-term market purchases to meet ad hoc requirements resulting from the very cold winter of 2014. Supplies from Hydro-Québec Production increased by $195 million. Moreover, depreciation and amortization expense increased by $23 million over 2013.

The **Construction** segment recorded a volume of activity of $2,281 million in 2014, compared to $2,574 million the previous year. As in 2013, its workload resulted from several large-scale projects.
**GENERATION**

Under the *Act respecting the Régie de l’énergie*, Hydro-Québec Production is required to provide Hydro-Québec Distribution with a base volume of up to 165 TWh of Heritage Pool Electricity annually. It may also compete for contracts under Hydro-Québec Distribution’s open tendering process and sells electricity on wholesale markets as well.

The division operates 62 generating stations. Its capital projects serve a twofold objective: to ensure the long-term operability of existing facilities and to continue development of Québec’s hydroelectric potential.

**Operating Results**

Hydro-Québec Production posted a net result of $2,298 million in 2014, a $368-million increase over 2013 that is mainly due to more favorable market conditions in 2014, especially early in the year, when intense cold gripped North America. On the one hand, net electricity exports rose to $1,529 million, a $176-million increase. On the other hand, electricity sales to Hydro-Québec Distribution were $5,085 million, a $195-million increase that is primarily attributable to the peak supplies Hydro-Québec Production provided in Québec during the first few months of the year. The net result from special contracts with certain large industrial customers in Québec decreased by $109 million due to, among other things, lower demand from aluminum smelters and the less positive impact than in 2013 of hedging operations related to exchange rates and aluminum prices. Depreciation and amortization expense decreased by $35 million. Finally, water-power royalties decreased by $13 million, chiefly on account of lower output, which was mitigated by the indexing of the applicable rate.

**Electricity Sales in Québec**

**Sales to Hydro-Québec Distribution**

The total volume of electricity sales to Hydro-Québec Distribution was 165.5 TWh in 2014, compared to 167.2 TWh the previous year. Revenue generated by these sales increased by $195 million compared to the $4,890 million recorded in 2013, mainly due to the peak supplies provided at market conditions on account of the very cold temperatures in winter 2013-2014 as well as to the indexing of the price of the Heritage Pool Electricity.

**Special Contracts Between Hydro-Québec Distribution and Certain Large Industrial Customers**

The risks related to Hydro-Québec Distribution’s special contracts with certain large industrial customers in Québec are assumed by Hydro-Québec Production. In 2014, the special contracts reduced our net result by $247 million, compared to $240 million in 2013. This change was mainly due to lower demand from aluminum smelters, a drop in aluminum prices and higher supply costs associated with these contracts, three factors that were mitigated by the positive impact of the depreciation of the Canadian dollar. Moreover, our hedging operations carried out to manage risks related to exchange rates and aluminum prices had a positive impact of $125 million in 2014, compared to $227 million in 2013.

**Electricity Sales Outside Québec**

Electricity sales outside Québec amounted to $1,629 million, compared to $1,525 million in 2013.

Net electricity exports, which factor in short-term electricity purchases, generated $1,529 million, a $176-million increase compared to $1,353 million in 2013. The unit contribution rose to 6.0¢/kWh in 2014, compared to 4.4¢/kWh in 2013. In both cases, the increase was mainly on account of more favorable market conditions in 2014, especially early in the year, when intense cold gripped North America.

As at December 31, 2014, reservoir storage stood at 103.7 TWh, compared to 96.1 TWh a year earlier. This increase resulted from, among other things, natural water inflows that were higher than normal in 2014. The division’s energy reserve continues to fully meet the criteria set for management of risks related to the security of the energy supply.
Electricity and Fuel Purchases

Electricity and fuel purchases totaled $993 million in 2014, compared to $1,104 million in 2013. The decrease is partly due to a reduction in short-term electricity purchases made by the division as part of its business operations outside Québec.

Depreciation and Amortization

Depreciation and amortization expense totaled $730 million in 2014, compared to $765 million in 2013, a $35-million decrease that resulted, among other things, from a reduction in net costs associated with the retirement of capital assets. This reduction was mitigated by the impact of the commissioning of property, plant and equipment, including the three generating units at Sarcelle powerhouse, phased in during 2013.

Investing Activities

Investments in property, plant and equipment and intangible assets affecting cash totaled $1,213 million in 2014. Of this amount, $887 million went toward development activities, mainly the construction of the Romaine hydroelectric complex, which reached a milestone at year end with the commissioning of Romaine-2 generating station (640 MW).

Hydro-Québec Production also invested $326 million in asset sustainment and optimization. For instance, refurbishment continued at Beauharnois and Robert-Bourassa generating stations and the Manicouagan complex.
TRANSMISSION

Hydro-Québec TransÉnergie operates and develops our power transmission system. It markets system capacity and manages power flows throughout Québec.

The operations of Hydro-Québec TransÉnergie are regulated by the Energy Board.

Rate Cases

For 2014, the revenue authorized by the Energy Board for transmission rate-setting purposes totaled $3,139 million, namely $2,765 million for native-load transmission and $374 million for short- and long-term point-to-point transmission services. These amounts represent increases of $180 million and $25 million, respectively, compared to 2013. The authorized 2014 revenue factors in the 8.2% rate of return recognized by the Energy Board in March 2014.

Operating Results

Hydro-Québec TransÉnergie’s net result was $624 million in 2014, a $111-million increase compared to the $513 million recorded in 2013 that is partly due to a $180-million increase in revenue from native-load transmission service. Depreciation and amortization expense rose by $51 million, mainly because of the commissioning of property, plant and equipment as well as an increase in net costs related to the retirement of capital assets.

Investing Activities

In 2014, Hydro-Québec TransÉnergie invested $1,627 million in property, plant and equipment and intangible assets affecting cash, namely $776 million for growth projects and $851 million for asset sustainment and reliability projects. The purpose of growth projects is to connect new hydroelectric facilities and wind farms to the grid and to increase transmission capacity in response to higher load demand or new customer requests. The asset sustainment and reliability projects involve keeping facilities in good operating condition, maintaining and improving service quality and complying with the legal and regulatory requirements for operating a power transmission system.

Growth projects under way in 2014 included continued work to connect the Romaine complex as part of the expansion of the transmission system in Minganie, which accounted for $328 million, and which reached a milestone at year end with the connection of Romaine-2 generating station (640 MW). The division also continued to integrate the output from wind farms built in response to the calls for tenders issued by Hydro-Québec Distribution in 2005 (2,000 MW) and 2009 (289.9 MW), for $99 million and $45 million, respectively.

In the asset sustainment and reliability category, Hydro-Québec TransÉnergie invested $691 million in equipment replacement and facility modernization, which included $43 million for the rebuilding of Bélanger substation to raise the voltage to 315/120/25 kV (an amount that also includes the project’s growth component) and $37 million to complete the replacement of two static var compensators at Nemiscau substation. The division also invested $160 million in enhancing service quality, including $56 million for the addition of a 735/315-kV section at Bout-de-l’Île substation.
DISTRIBUTION

Hydro-Québec Distribution provides electricity to the Québec market and delivers reliable power and quality services to its customers with a view to efficiency and sustainable development. In this context, it also promotes energy efficiency among its customers.

The division’s activities are regulated by the Energy Board, which has exclusive jurisdiction to set electricity rates.

Rate Cases

In March 2014, the Energy Board authorized an average increase of 4.3% in all our electricity rates except Rate L, for which the increase was set at 3.5%. In accordance with the Act respecting the Régie de l’énergie, the indexing of the price of Heritage Pool Electricity does not apply to Rate L customers, which explains the smaller increase. The new rates, which went into effect on April 1, 2014, factor in the 8.2% rate of return recognized by the Energy Board in March 2014.

In August 2014, Hydro-Québec Distribution filed an application with the Energy Board for a 3.9% rate adjustment for all customers except Rate L customers, for which the adjustment would be 3.5%. The new rates would take effect on April 1, 2015. The main reasons for the 3.9% adjustment are the costs related to new supplies, primarily wind power, and the indexing of the price of the Heritage Pool Electricity. It also takes into account our investments in the transmission and distribution systems to meet higher residential and commercial demand in Québec, to ensure the long-term operability of assets and to enhance service quality. Efficiency gains of $50 million made it possible to limit the increase requested.

The Energy Board’s ruling on this application was issued in March 2015 (see Energy Board decision in “Distribution – Electricity Rates”).

Supplying the Québec Market

Hydro-Québec Distribution depends on various sources to supply the Québec market. It relies primarily on the Heritage Pool Electricity of 165 TWh, which it purchases from Hydro-Québec Production, and also issues short- and long-term calls for tenders. For requirements of less than three months, it may also buy electricity directly on the market, without tendering, under an authorization granted by the Energy Board. For unforeseen needs that cannot be met otherwise, the division relies on a framework agreement with Hydro-Québec Production, also approved by the Energy Board, that covers the period from January 1, 2014, to December 31, 2016.

In December 2014, the Energy Board handed down a partial decision concerning the Electricity Supply Plan 2014–2023. Among other things, it authorized a long-term tender call for the purchase of 500 MW to meet capacity requirements as of winter 2018–2019 (see “Distribution” for further developments).

Finally, Hydro-Québec Distribution is continuing its efforts to promote energy efficiency. In 2014, its customers’ participation in Energy Efficiency Plan programs generated new savings of 504 GWh, enabling the division to reach the 8-TWh target set by the Québec government one year ahead of schedule.

Operating Results

Hydro-Québec Distribution recorded a net result of $341 million in 2014, compared to $410 million in 2013, a decrease of $69 million. Revenue from electricity sales, excluding special contracts, increased by $563 million because of two main factors: temperatures that were colder in 2014 than in 2013, and the rate adjustments of April 1, 2013 and 2014. In addition, the change in the net amounts that we are entitled to receive from customers or are required to pay to customers in connection with such things as variances in supply costs for electricity in excess of the Heritage Pool Electricity and revenue variances related to climate conditions had a positive impact of $76 million on other revenue. Electricity purchases and transmission costs, excluding special contracts, increased by $734 million, mainly on account of a $436-million rise in electricity purchases made by Hydro-Québec Distribution from third parties, primarily independent wind power producers, as well as short-term market purchases to meet ad hoc requirements resulting from the very cold winter of 2014. Supplies from Hydro-Québec Production increased by $195 million. Moreover, depreciation and amortization expense increased by $23 million over 2013.
### Electricity Sales in Québec by Segment

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>68.1</td>
<td>2.1</td>
<td>5,170</td>
<td>345</td>
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<tr>
<td>Commercial, institutional and small industrial</td>
<td>45.2</td>
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<tr>
<td>Other</td>
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<td>0.2</td>
<td>308</td>
<td>22</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>174.2</td>
<td>1.7</td>
<td>11,524</td>
<td>470</td>
</tr>
</tbody>
</table>

### Factors in the 2014–2013 Change in Sales by Segment

<table>
<thead>
<tr>
<th>Market segment</th>
<th>Volume effects</th>
<th>Price effects</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TWh</td>
<td>$M</td>
<td>TWh</td>
</tr>
<tr>
<td>Residential</td>
<td>0.4</td>
<td>30</td>
<td>1.7</td>
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<tr>
<td>Commercial, institutional and small industrial</td>
<td>0.3</td>
<td>2</td>
<td>0.3</td>
</tr>
<tr>
<td>Large industrial</td>
<td>(1.1)</td>
<td>(39)</td>
<td>–</td>
</tr>
<tr>
<td>Other</td>
<td>0.1</td>
<td>7</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(0.3)</td>
<td>–</td>
<td>2.0</td>
</tr>
</tbody>
</table>

### Electricity Sales in Québec

Revenue from electricity sales amounted to $11,524 million, a $470-million increase compared to 2013 due to colder temperatures in 2014 than in 2013 and to the rate adjustments of April 1, 2013 and 2014. Revenue from special contracts with certain large industrial customers in Québec decreased, mainly due to lower demand from aluminum smelters and the less positive impact than in 2013 of hedging operations related to exchange rates and aluminum prices. The risks related to special contracts are assumed by Hydro-Québec Production.

Sales volume rose by 1.7 TWh to 174.2 TWh, compared to 172.5 TWh in 2013. On the one hand, the colder temperatures recorded in 2014 resulted in a 2.0-TWh volume increase, for $152 million. Temperatures therefore had a positive impact of $232 million in 2014, compared to $80 million in 2013. On the other hand, there was a 1.2-TWh reduction in demand from large industrial customers, essentially due to reduced production capacity in the aluminum sector.

### Other Revenue

The change in the net amounts that we are entitled to receive from customers or are required to pay to customers, recognized in Other revenue, had a $76-million positive impact in 2014. The change is partly due to variances in supply costs for electricity in excess of the Heritage Pool Electricity and revenue variances related to climate conditions.

Variances in supply costs for electricity in excess of the Heritage Pool Electricity led to the recognition of $322 million receivable from customers, a $298-million increase compared to 2013, given that actual supply costs were higher than the costs forecasted for rate-setting purposes, mainly because of the harsh weather conditions in winter 2013-2014.

Revenue variances related to climate conditions correspond to differences between Hydro-Québec Distribution’s actual transmission and distribution revenue and the revenue forecasts established on the basis of the climate normal for rate case purposes. In 2014, these variances led to the recognition of $120 million payable to customers, or $78 million more than in 2013, owing to the fact that temperatures were colder in 2014 than in 2013.

### Electricity Purchases and Transmission Costs

Electricity purchases and transmission costs increased by $750 million compared to 2013, essentially on account of a $436-million rise in supplies from third parties, primarily independent wind power producers, for $220 million, as well as short-term market purchases to meet ad hoc requirements during winter 2014, for $179 million. In addition, supplies from Hydro-Québec Production increased by $195 million, due to the very cold winter, which necessitated peak supplies at market conditions.
**Depreciation and Amortization**

Depreciation and amortization expense amounted to $732 million compared to $709 million in 2013, a $23-million increase resulting partly from the commissioning of property, plant and equipment, including the advanced metering infrastructure.

**Investing Activities**

In 2014, Hydro-Québec Distribution’s investments in property, plant and equipment and intangible assets affecting cash totaled $915 million.

Of this amount, $294 million went toward handling the growth of the Québec customer base, including $177 million for new customer connections. The division also invested $471 million in asset sustainment, which includes $275 million for the rollout of the advanced metering infrastructure. In addition, it allocated $15 million to enhancing service quality, including $7 million for the SOGEM line crew scheduling and management solutions project, which will enable the division to modernize, optimize and standardize scheduling, dispatching and repair work processes on the distribution network.

Hydro-Québec Distribution also invested $89 million in the Energy Efficiency Plan.
CONSTRUCTION

The Construction segment includes activities related to the projects carried out by Hydro-Québec Équipement et services partagés and by Société d’énergie de la Baie James (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 also carry out certain projects elsewhere in Québec and outside the province.

As engineering, construction and environmental specialists, 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 include technical and scientific surveys, planning, cost estimates, design, architecture, geomatics and quality control.

Volume of Activity

Hydro-Québec Équipement et services partagés and SEBJ carried out activities amounting to a total of $2,281 million in 2014, compared to $2,574 million the previous year. As in 2013, their workload can be attributed to several large-scale projects. Work done for Hydro-Québec Production totaled $1,001 million, compared to $1,095 million in 2013, while work done for Hydro-Québec TransÉnergie totaled $1,228 million, compared to $1,440 million in 2013.

Main Achievements

In the area of power generation, Hydro-Québec Équipement et services partagés continued the construction of the Romaine complex, which reached a milestone at year end with the commissioning of Romaine-2 generating station (640 MW). Progress was also made on the refurbishment of Beauharnois and Robert-Bourassa generating stations and various facilities in the Manicouagan complex. For Hydro-Québec TransÉnergie, the division continued work related to connecting the Romaine complex, integrating the output from wind farms, rebuilding Bélanger substation which is expected to be commissioned in 2015, and adding a 735/315-kV section and a static var compensator at Bout-de-l’Île substation. It also completed the replacement of two static var compensators at Nemiscau substation. In addition, it worked on upgrading various facilities in the main transmission system while pursuing other projects to increase transmission system capacity.
CORPORATE AND OTHER ACTIVITIES

This heading includes corporate activities, the Direction principale – Centre de services partagés and the Groupe – Technologie.

Results

Corporate and Other Activities recorded a net result of $117 million in 2014.

Corporate Activities

Corporate activities consist of the Vice-présidence – Ressources humaines; financial services, which are provided by two departments; and the Groupe – Affaires corporatives et secrétariat général.

The Vice-présidence – Ressources humaines develops strategies, guidelines, frameworks, corporate programs and objectives in matters pertaining to human resources management, labor relations, compensation and employee benefits, organizational performance, health and safety, as well as training and skills development. In addition, it ensures that Management can count on optimum human resources conditions.

The Vice-présidence – Comptabilité et contrôle is responsible for overseeing financial, regulatory and management accounting frameworks as well as integrated business risk management. It also has the task of producing and analyzing our consolidated financial statements. Its other duties include financial planning, taxation, control, accounting for revenue other than from electricity sales, human resources–related financial transactions and disbursements related to employees, retirees and suppliers.

The Vice-présidence – Financement, trésorerie et caisse de retraite is in charge of meeting our financing requirements, managing our treasury and maintaining relations with our bondholders and rating agencies. It also acts as trustee of our pension fund. In 2014, thanks to the strong performance of most of the asset classes in the pension fund portfolio, its rate of return was 14.1%, compared to 13.8% in 2013. Over the past 10 years, it has posted an average annual return of 8.0%. As at December 31, 2013, the date of the most recent actuarial valuation, the pension plan showed a funding surplus of $2.5 billion, which means that the assets held were sufficient to cover future pension costs. On that date, the pension plan’s funding ratio was 115%.

The Groupe – Affaires corporatives et secrétariat général provides strategies as well as support and advisory services in the areas of communications, public affairs, environment and ethics, as well as relations with governments, communities and partner organizations. It is also responsible for services and expertise related to legal affairs as well as the safety and security of persons and property. In addition, it coordinates strategic planning and our contribution to the electrification of ground transportation. The Secrétariat général provides administrative support to the Board of Directors and Board committees as well as to our subsidiaries. The Secretary General also assists the President and Chief Executive Officer in carrying out our mandate.

Direction principale – Centre de services partagés

The Direction principale – Centre de services partagés, which is part of Hydro-Québec Équipement et services partagés, develops strategies, guidelines and frameworks pertaining to procurement and services common to the entire company. It provides divisions and corporate units with support services adapted to their needs, so that they can focus on their core activities. These services include procurement of goods and services, management of real estate, vehicle fleet and materials, as well as management of food, accommodation and air transportation services.

Its revenue totaled $509 million in 2014, compared to $490 million in 2013.
**Groupe – Technologie**

The Groupe – Technologie is composed primarily of the Direction principale – Télécommunications, the Direction principale – Technologie de l’information, our research institute and the subsidiaries Hydro-Québec IndusTech and Hydro-Québec CapiTech. The group’s mandate is to ensure the integrated management of technological innovation and the optimal management of telecommunications and information system infrastructure. With this in mind, it has continued to implement a comprehensive vision for systems governance, architecture and security in order to capitalize on the convergence of technologies and thereby contribute to improving our overall performance.

In the area of technological innovation, the research institute has been focusing some of its efforts on line robotics and has developed LineScout, a remote-controlled robot designed to inspect high-voltage transmission lines. In 2014, we signed a 10-year licensing agreement with the British utility National Grid Electricity Transmission allowing use of LineScout technology in the United Kingdom. The related transfer of technology started in 2014.

**Direction principale – Télécommunications and Direction principale – Technologie de l’information**

The Direction principale – Télécommunications and the Direction principale – Technologie de l’information enhance the efficiency of all divisions and corporate units by offering technology solutions in line with our business priorities.

In 2014, these two units posted revenue of $570 million, compared to $596 million in 2013.

**Research Institute**

Our research institute, IREQ, provides technical assistance to the divisions and carries out technological innovation projects to support their operations and ensure our long-term development.

**Hydro-Québec IndusTech**

The mission of Hydro-Québec IndusTech is to partner with the private sector in industrializing and marketing technologies resulting from our research activities. Among other things, it is responsible for TM4, a company active in the field of electric powertrain systems.

In 2014, Prestolite E-Propulsion Systems (PEPS), a Beijing-based joint venture between TM4 and Prestolite Electric (Beijing), made its first significant breakthrough in China. More specifically, PEPS has received orders from China’s two largest bus manufacturers for several hundred SUMO electric powertrain systems.

In addition, two new entities controlled by Hydro-Québec IndusTech were established in 2014. First, Technologies Esstalion, an R&D joint venture held in equal shares by Hydro-Québec IndusTech and Japan’s Sony Corporation, was created and set up in Québec to design large-scale energy storage systems for power grids. Second, SCE France, a wholly owned subsidiary of Hydro-Québec IndusTech, was established in the French region of Aquitaine. It will focus on research in transportation electrification as well as energy storage and conversion.

**Investing Activities**

In 2014, the Groupe – Technologie’s investments totaled $128 million, of which $118 million was allocated to maintaining asset quality and $10 million to development activities.
INTEGRATED BUSINESS RISK MANAGEMENT

We apply an integrated business risk management process as part of our ongoing activities. This process is supported by various control, communication and assessment mechanisms that enable us to monitor risk developments on a dynamic basis.

Our divisions and corporate units are central to the process. As part of their ongoing activities, they manage the risks to which they are exposed and reassess them on a regular basis, daily in some cases. In concrete terms, each division or corporate unit must determine and assess its main risks and then develop and apply mitigation measures to ensure that residual business risks are at a level acceptable to us. This exercise leads to the creation of a consolidated portfolio of residual business risks during the annual planning process. This consolidated portfolio is presented to the Board of Directors with the Business Plan, which includes an analysis of the sensitivity of the net result to the principal risks. The divisions and corporate units report on their risk management activities and follow-up to the Management Committee, which acts as a risk management committee to provide overall monitoring of business risks.

Financial Risks

In the course of our operations, we carry out transactions that expose us to certain financial risks, such as market, credit and liquidity risk. Systematic follow-up and the adoption of strategies that include the use of derivative instruments considerably reduce exposure to such risks and their impact on results.

To manage market and credit risk, a team of specialists independent to the units carrying out the transactions constantly monitors a number of risk indicators related to financial and energy transactions, and recommends risk-reduction strategies and controls.

Market Risk

Our results are subject to three main types of market risk: currency risk, interest rate risk and risk associated with aluminum and energy prices. Fluctuations in the Canadian dollar’s exchange rate relative to the U.S. dollar affect revenue from sales denominated in U.S. dollars as well as the cost of U.S. dollar–denominated debt. Interest rate fluctuations affect financial expenses and pension costs. Finally, aluminum price fluctuations have an impact on revenue from special contracts with certain large industrial customers in Québec, while energy price fluctuations affect revenue from wholesale markets.

The three types of market risk are subject to active integrated management involving the use of derivative financial products. The purpose of such management is to limit the impact of market risk on our results, according to strategies and criteria established based on our risk tolerance. In addition, market risk over the medium and long term is mitigated by the offsetting effect between the impact of a general increase or decrease in interest rates on financial expenses, on the one hand, and the impact of such an increase or decrease on pension costs, on the other.

Our pension costs are also subject to the risk of fluctuation in the fair value of investments held in the pension fund portfolio. To manage this risk, we rely on asset diversification and on investment management strategies that include the use of derivatives.

Credit Risk

Credit risk is the risk that a counterparty may not meet its contractual obligations. We are exposed to credit risk related to receivables through ongoing electricity sales in Québec. These sales are billed at rates that provide for cost recovery according to conditions approved by the Energy Board. We are also exposed to credit risk related to the cash equivalents, short-term investments and derivative instruments traded with financial institutions and other issuers and, to a lesser extent, with North American energy companies under Hydro-Québec Distribution supply contracts and Hydro-Québec Production energy transactions on markets outside Québec.

Exposure to credit risk is mitigated by the implementation of limits and frameworks for risk concentration and level of exposure by counterparty. To ensure compliance with such limits and frameworks, we take a proactive approach based on various controls and monitoring reports. These enable us to react quickly to any event that could have an impact on the financial condition of our counterparties. In addition, we generally do business with counterparties that have a high credit rating. We also enter into agreements to limit the market value of the main portfolios of derivative instruments.
**Liquidity Risk**

Liquidity risk is the risk that a company may have difficulty meeting commitments related to its financial liabilities. This type of risk may translate into difficulties accessing sources of financing for its investment program.

Our liquidity risk is mitigated by several factors, including substantial cash flows from operating activities, access to a preauthorized standby credit facility and a diversified portfolio of highly liquid financial instruments. Given the mitigation measures in place, we consider our level of exposure to liquidity risk to be low.

**Operational Risks**

**Generation**

One of the principal uncertainties that we face relates to natural water inflows. Hydro-Québec Production must ensure that it is able to meet its commitments to supply the annual Heritage Pool Electricity of 165 TWh to Hydro-Québec Distribution and fulfill its contractual obligations. In concrete terms, this means being able to cover a natural inflow deficit of 64 TWh over two consecutive years, and 98 TWh over four consecutive years. To meet this requirement, the division applies a variety of mitigation measures and closely monitors them. It therefore manages its reservoir storage on a multiyear basis and maintains an adequate margin between its generating capacity and its commitments. This allows the division to compensate for variations in runoff, replenish its reserves or take advantage of business opportunities. We regularly report to the Energy Board on the generating capacity and energy reserve of Hydro-Québec Production.

In addition to runoff uncertainties, Hydro-Québec Production’s export activities on wholesale markets are subject to market risk and the risk of unavailability of generating and transmission equipment. Market risk results from fluctuations in electricity and fuel prices, and is mitigated by ongoing monitoring of trends in wholesale markets and the use of hedging derivative instruments. The risk of unavailability of generating and transmission equipment is maintained at a level deemed acceptable through maintenance and upgrade programs.

The risks related to Hydro-Québec Production’s export activities are quantified in an integrated fashion by a team of specialists that is independent of the unit carrying out the transactions. This team sees to the application of controls, presents daily reports to Senior Management and ensures compliance with the limits approved by Management and the Board of Directors.

**Transmission**

Several factors, such as extreme weather and equipment failure, may cause service interruptions or result in the unavailability of part of the transmission system. The multifaceted strategy adopted by Hydro-Québec TransÉnergie to prevent these problems includes implementing the standards of the North American Electric Reliability Corporation and the Northeast Power Coordinating Council, as well as measures to maintain and improve transmission facilities and optimize their useful life. In 2007, the Energy Board confirmed the reliability expertise of Hydro-Québec TransÉnergie by designating its Direction – Contrôle des mouvements d’énergie, the unit responsible for system control, as Reliability Coordinator for transmission systems in Québec.

Hydro-Québec TransÉnergie must ensure adequate transmission capacity to supply Hydro-Québec Distribution and other customers, as well as transmission system security and reliability. To do so, the division relies, among other things, on a strategy of ensuring long-term operability of transmission assets and on a process for optimal management of annual peak load.

**Distribution**

Hydro-Québec Distribution’s activities are subject to uncertainty related to fluctuations in demand (under normal climate conditions) due to the economic and energy situation, which have an impact on results. When demand is lower than the forecasts presented in the rate case, the division cannot recover from customers all the costs related to power distribution and power transmission through the Hydro-Québec TransÉnergie system. To counter the impact of this risk, the division constantly fine-tunes its method of forecasting demand for electricity.

Hydro-Québec Distribution applies a series of measures to ensure long-term operability of the distribution system, and hence service quality. These measures include compliance with applicable standards for overhead and underground systems, the implementation of an asset maintenance program and a strategy for asset renewal, as well
as vegetation control. Moreover, the adoption of new technologies enables the division to modernize its business processes and ensure the continuity of distribution service.

Construction

One of the principal risks that Hydro-Québec Équipement et services partagés must deal with is pressure on project costs, due to such factors as the rising cost of labor in the construction industry, higher prices for certain materials or products and events that affect project schedules. There is also a risk related to the quality and delivery time for components.

Regarding construction time, the division makes respecting schedules a top priority despite the constraints inherent in large-scale capital projects. This is particularly important in the current context of the construction industry in Québec, in which new legislative and regulatory measures may have an impact on workflows and on our ability to deal with certain suppliers. An active monitoring process and contingency measures have been put in place to mitigate the most probable impacts of this situation.

To meet its commitments and continue to apply high quality and safety standards, Hydro-Québec Équipement et services partagés has implemented a number of measures that reduce its risk exposure. Specifically, the division closely monitors project schedules, costs and the main deliverables, an approach that enables it to supervise the progress of projects as planned or to take any necessary corrective action. In addition, it maintains ongoing relations with the relevant organizations and government departments to stay abreast of future amendments to laws and regulations that could affect construction costs and deadlines, among other things. It also monitors key indicators for trends in prices and the rate of activity in the construction industry. Finally, it develops procurement strategies that promote competition, sustainable supplies and maintaining expertise in its markets, and it adjusts its project completion strategies according to economic conditions, in consultation with its customers.

Corporate and Other Activities

Environmental protection and conservation are among our central concerns. The majority of activities that have a significant impact on the environment are governed by an ISO 14001–certified environmental management system. In addition, every year, we review our management of environmental issues and provide an overview of the situation in this regard in our Sustainability Report.

We are also concerned with information security and the risks associated with data confidentiality and with the loss of availability or integrity of systems and data as a result of a malicious act, error or natural disaster. We regularly assess how well our information systems are protected against threats and implement the necessary security measures. These measures include an information and communication technology security program, an antivirus expertise centre, a process for anticipating security threats, Internet filtering mechanisms, a security monitoring centre, management of identities and access, and management of incidents and vulnerabilities.

Furthermore, we have implemented a series of physical, technological and human measures to ensure the security of our facilities. Based on risk and threat assessment and analysis, these measures vary according to the strategic importance of the asset concerned, developments in our business environment and various external factors.

Finally, we have a corporate emergency response plan to ensure the continuity of our operations and our mission in case of an exceptional event. The corporate plan integrates the emergency response plans and activities of the business units, thereby strengthening and improving coordination of the efforts of all internal and external responders, including public authorities.
SUMMARY OF CERTAIN MATERIAL DIFFERENCES BETWEEN CANADIAN GAAP AND US GAAP

BACKGROUND

Our Consolidated Financial Statements are prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”), as presented in Part V of the Chartered Professional Accountants of Canada Handbook, which differ in many instances from accounting principles generally accepted in the United States (“US GAAP”). As well, some accounting practices under both Canadian GAAP and US GAAP applicable to regulated entities, such as us, differ from accounting practices otherwise applied by unregulated companies (see “Notes 1 and 2 to the 2014 Consolidated Financial Statements”). As of January 1, 2015, Hydro-Québec’s consolidated financial statements will be prepared in accordance with US GAAP. The material differences between Canadian GAAP and US GAAP in relation to our 2014 Consolidated Financial Statements are summarized below; this discussion does not include disclosure differences. The matters discussed below have not been audited and do not necessarily include all applicable differences between Canadian GAAP and US GAAP. The following summary should be read in conjunction with our 2014 Consolidated Financial Statements.

JOINT VENTURES

Under Canadian GAAP, interests in joint ventures are accounted for using the proportionate consolidation method, whereas under US GAAP, they are accounted for using the equity method. This results in reclassification in the captions in the consolidated balance sheets and the consolidated statements of operations, cash flows and comprehensive income, but these reclassifications would have no impact on net income and shareholder’s equity.

FOREIGN CURRENCY TRANSLATION

Under Canadian GAAP, exchange gains or losses resulting from the translation of long-term monetary items are included in the consolidated statement of operations. When such items are designated as hedges of future revenue streams in U.S. dollars, related exchange gains or losses are deferred to the year such sales are made when conditions to use hedge accounting are met and they are documented as cash-flow hedging relationship.

Under US GAAP, firmly committed sales may be designated as a hedged item if hedged by a non-derivative financial instrument and must be in a fair-value hedging relationship. Thus, since we have not documented the fair value hedge for US GAAP purposes, related exchange gains or losses resulting from the translation of long-term monetary items would have been included in the consolidated statement of operations.

DEFINED BENEFIT PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

Under Canadian GAAP, the accrued benefit asset or liability of defined benefit pension and post-retirement benefit plans, presented in the consolidated balance sheet, consists of the cumulative difference between the benefit cost of the period and the employer’s contributions. The unamortized actuarial gains or losses, unamortized past service costs as well as yearly changes in the funded status are presented in the notes to the consolidated financial statements.

Under US GAAP, an entity should recognize the over-funded or under-funded status of defined benefit pension and post-retirement benefit plans as an asset or liability in the consolidated balance sheet. The unamortized actuarial gains or losses and unamortized past service costs would be presented under accumulated other comprehensive income. Actuarial gains and losses and prior service costs and credits that arise during the period would be recognized as a component of other comprehensive income.
DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES INCLUDING ENERGY DERIVATIVES

Under Canadian GAAP, an entity may assume that there is no ineffectiveness in a hedge of interest rate risk involving a recognized interest-bearing asset or liability and an interest rate swap when certain conditions exist. The same assumption applies to certain cross-currency swaps.

Under US GAAP, an entity may not assume that there is no ineffectiveness in a hedge of cross-currency swaps. For these hedging relationships, the effectiveness must be assessed and measured on a regular basis.
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 sheets as at December 31, 2014 and 2013, and the consolidated statements of operations, retained earnings, cash flows and comprehensive income for each of the years in the three-year period ended December 31, 2014, and the notes, comprising 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 audits. We conducted our audits 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 in our audits 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 consolidated financial position of Hydro-Québec as at December 31, 2014 and 2013, and its consolidated results of operations and its consolidated cash flows for each of the years in the three-year period ended December 31, 2014, in accordance with Canadian generally accepted accounting principles.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Auditor General Act (CQLR, c. V-5.01), we report that, in our opinion, for the year ended December 31, 2014, these principles have been applied on a basis consistent with that of the preceding year.

/s/ KPMG LLP¹ /s/ Ernst & Young LLP² /s/ Michel Samson, CPA auditor, CA

Acting Auditor General of Québec

Montréal, Québec
February 20, 2015

¹. CPA auditor, CA, public accountancy permit No. A120220
². CPA auditor, CA, public accountancy permit No. A109499
## CONSOLIDATED STATEMENTS OF OPERATIONS

<table>
<thead>
<tr>
<th>Years ended December 31</th>
<th>Notes</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td>13,638</td>
<td>12,878</td>
<td>12,134</td>
</tr>
<tr>
<td><strong>Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td></td>
<td>2,417</td>
<td>2,460</td>
<td>2,375</td>
</tr>
<tr>
<td>Electricity and fuel purchases</td>
<td></td>
<td>1,915</td>
<td>1,568</td>
<td>1,183</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>4</td>
<td>2,518</td>
<td>2,483</td>
<td>2,405</td>
</tr>
<tr>
<td>Taxes</td>
<td>5</td>
<td>981</td>
<td>1,000</td>
<td>997</td>
</tr>
<tr>
<td><strong>Operating result</strong></td>
<td></td>
<td>7,831</td>
<td>7,511</td>
<td>6,960</td>
</tr>
<tr>
<td><strong>Financial expenses</strong></td>
<td>6</td>
<td>5,807</td>
<td>5,367</td>
<td>5,174</td>
</tr>
<tr>
<td><strong>Result from continuing operations</strong></td>
<td></td>
<td>3,380</td>
<td>2,938</td>
<td>2,736</td>
</tr>
<tr>
<td><strong>Result from discontinued operations</strong></td>
<td>7</td>
<td>–</td>
<td>4</td>
<td>(1,876)</td>
</tr>
<tr>
<td><strong>Net result</strong></td>
<td></td>
<td>3,380</td>
<td>2,942</td>
<td>860</td>
</tr>
</tbody>
</table>

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<table>
<thead>
<tr>
<th>Years ended December 31</th>
<th>Note</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance, beginning of year</strong></td>
<td></td>
<td>15,568</td>
<td>14,833</td>
<td>14,618</td>
</tr>
<tr>
<td><strong>Net result</strong></td>
<td></td>
<td>3,380</td>
<td>2,942</td>
<td>860</td>
</tr>
<tr>
<td><strong>Dividend</strong></td>
<td>18</td>
<td>2,535</td>
<td>2,207</td>
<td>645</td>
</tr>
<tr>
<td><strong>Balance, end of year</strong></td>
<td></td>
<td>18,413</td>
<td>15,568</td>
<td>14,883</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the consolidated financial statements.
## CONSOLIDATED BALANCE SHEETS

As at December 31
In millions of Canadian dollars

### ASSETS

#### Current assets
- **Cash and cash equivalents**: 16, 1,275, 1,695
- **Short-term investments**: 16, 1,664, 1,689
- **Accounts receivable and other receivables**: 16, 2,184, 2,177
- **Derivative instruments**: 16, 507, 883
- **Regulatory assets**: 2, 182, 1
- **Materials, fuel and supplies**: 201, 194

#### Property, plant and equipment
- 8, 60,713, 59,077

#### Intangible assets
- 9, 2,278, 2,323

#### Investments
- 10, 151, 146

#### Derivative instruments
- 16, 1,047, 659

#### Regulatory assets
- 2, 372, 8

#### Other assets
- 11, 4,316, 4,258

**Total Assets**: 6,013, 6,639

### LIABILITIES

#### Current liabilities
- **Borrowings**: 16, 126, 23
- **Accounts payable and accrued liabilities**: 2,099, 2,229
- **Dividend payable**: 18, 2,535, 2,207
- **Accrued interest**: 907, 890
- **Asset retirement obligations**: 12, 79, 118
- **Derivative instruments**: 16, 896, 576
- **Current portion of long-term debt**: 13, 906, 1,157

**Total Current Liabilities**: 7,548, 7,200

#### Long-term debt
- 13, 43,571, 43,067

#### Asset retirement obligations
- 12, 804, 834

#### Derivative instruments
- 16, 623, 1,295

#### Other liabilities
- 14, 1,459, 1,067

#### Perpetual debt
- 15, 267, 253

**Total Liabilities**: 54,272, 53,716

### EQUITY

#### Share capital
- 4,374, 4,374

#### Retained earnings
- 16,413, 15,568

#### Accumulated other comprehensive income
- (169), (548)

**Total Equity**: 16,244, 15,020

**Total EQUITY**: 20,618, 19,394

**Total Equity**: 74,890, 73,110

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

On behalf of the Board of Directors,

/s/ Jacques Leblanc
Chair of the Audit Committee

/s/ Michael D. Penner
Chairman of the Board
## CONSOLIDATED STATEMENTS OF CASH FLOWS

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

<table>
<thead>
<tr>
<th>Years ended December 31</th>
<th>Notes</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net result</td>
<td></td>
<td>3,380</td>
<td>2,942</td>
<td>860</td>
</tr>
<tr>
<td>Adjustments to determine net cash flows from operating activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>4</td>
<td>2,518</td>
<td>2,483</td>
<td>2,419</td>
</tr>
<tr>
<td>Amortization of premiums, discounts and issue expenses related to debt securities</td>
<td></td>
<td>147</td>
<td>148</td>
<td>286</td>
</tr>
<tr>
<td>Write-off of property, plant and equipment under construction</td>
<td>7</td>
<td>–</td>
<td>–</td>
<td>990</td>
</tr>
<tr>
<td>Impairment of nuclear generating station assets</td>
<td>7</td>
<td>–</td>
<td>–</td>
<td>827</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>(199)</td>
<td>19</td>
<td>21</td>
</tr>
<tr>
<td>Change in non-cash working capital items</td>
<td></td>
<td>(286)</td>
<td>(131)</td>
<td>(200)</td>
</tr>
<tr>
<td>Net change in accrued benefit assets and liabilities</td>
<td></td>
<td>63</td>
<td>(444)</td>
<td>(435)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>5,623</td>
<td>5,017</td>
<td>4,768</td>
</tr>
<tr>
<td><strong>Investing activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions to property, plant and equipment</td>
<td></td>
<td>(3,680)</td>
<td>(4,055)</td>
<td>(3,673)</td>
</tr>
<tr>
<td>Additions to intangible assets</td>
<td></td>
<td>(238)</td>
<td>(280)</td>
<td>(259)</td>
</tr>
<tr>
<td>Net disposal (acquisition) of short-term investments</td>
<td></td>
<td>43</td>
<td>(1,067)</td>
<td>506</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>–</td>
<td>16</td>
<td>105</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>(3,875)</td>
<td>(5,386)</td>
<td>(3,321)</td>
</tr>
<tr>
<td><strong>Financing activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issuance of long-term debt</td>
<td></td>
<td>1,511</td>
<td>2,176</td>
<td>2,327</td>
</tr>
<tr>
<td>Repayment of long-term debt</td>
<td></td>
<td>(2,702)</td>
<td>(2,083)</td>
<td>(1,245)</td>
</tr>
<tr>
<td>Cash receipts arising from credit risk management</td>
<td>16</td>
<td>3,521</td>
<td>5,016</td>
<td>5,320</td>
</tr>
<tr>
<td>Cash payments arising from credit risk management</td>
<td>16</td>
<td>(2,596)</td>
<td>(4,726)</td>
<td>(4,962)</td>
</tr>
<tr>
<td>Net change in borrowings</td>
<td></td>
<td>87</td>
<td>1</td>
<td>(38)</td>
</tr>
<tr>
<td>Dividend paid</td>
<td></td>
<td>(2,207)</td>
<td>(645)</td>
<td>(1,958)</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>199</td>
<td>134</td>
<td>(83)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>(2,187)</td>
<td>(127)</td>
<td>(639)</td>
</tr>
<tr>
<td>Foreign currency effect on cash and cash equivalents</td>
<td></td>
<td>19</td>
<td>8</td>
<td>(2)</td>
</tr>
<tr>
<td><strong>Net change in cash and cash equivalents</strong></td>
<td></td>
<td>(420)</td>
<td>(488)</td>
<td>806</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td></td>
<td>1,695</td>
<td>2,183</td>
<td>1,377</td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td></td>
<td>1,275</td>
<td>1,695</td>
<td>2,183</td>
</tr>
</tbody>
</table>

Supplementary cash flow information | 20 |
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net result</strong></td>
<td>3,380</td>
<td>2,942</td>
<td>860</td>
</tr>
<tr>
<td><strong>Other comprehensive income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in deferred gains (losses) on items designated as cash flow hedges</td>
<td>339</td>
<td>(218)</td>
<td>192</td>
</tr>
<tr>
<td>Reclassification to operations of deferred losses (gains) on items designated as cash flow hedges</td>
<td>40</td>
<td>(105)</td>
<td>(259)</td>
</tr>
<tr>
<td><strong>Comprehensive income</strong></td>
<td>3,759</td>
<td>2,619</td>
<td>793</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the consolidated financial statements.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2014, 2013 and 2012

Tabular amounts 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 in Canada.

Note 1 Significant Accounting Policies

As authorized by the Canadian Accounting Standards Board, Hydro-Québec opted to prepare its 2014, 2013 and 2012 consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in Part V of the CPA Canada Handbook, “Pre-Changeover Accounting Standards” (Canadian GAAP).

As of January 1, 2015, Hydro-Québec’s consolidated financial statements will be prepared in accordance with United States generally accepted accounting principles.

Hydro-Québec’s consolidated financial statements also reflect the decisions of the Régie de l’énergie (the Régie). These decisions may 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 Energy and Natural Resources.

In decision D-2012-021, the Régie authorized changes to certain accounting policies applied by the Transmission Provider and the Distributor for rate-setting purposes, effective in 2012, in order to ensure their conformity with IFRS. These changes concern the recognition of asset retirement obligations according to IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities, and the recognition of employee benefits according to IAS 19, Employee Benefits. In addition, the net amount of accrued benefit assets and liabilities is no longer included in the rate base. In decisions D-2013-037 and D-2014-035, the Régie authorized the application of IAS 19R, Employee Benefits, for the Distributor’s and the Transmission Provider’s rate-setting purposes, effective in 2013.

Transmission

Hydro-Québec’s power transmission rates for 2014 and 2013 were determined in decision D-2014-049 of the Régie, effective January 1, 2014, and January 1, 2013, respectively. Hydro-Québec’s power transmission rates for 2012 were determined in decision D-2012-066 and went into effect on January 1, 2012. The authorized return on the rate base was set at 7.05% in 2014, 6.50% in 2013 and 6.84% in 2012, assuming a capitalization with 30% equity.

Distribution

Hydro-Québec’s electricity rates were determined in decisions D-2014-052, D-2013-043 and D-2012-035, in which the Régie authorized, respectively, an average rate increase of 4.27% in all rates, effective April 1, 2014, except Rate L, for which the increase was set at 3.45%; an across-the-board increase of 2.41%, effective April 1, 2013; and an across-the-board rate reduction of 0.45%, effective April 1, 2012. The authorized return on the rate base was set at 7.14% in 2014, 6.38% in 2013 and 6.80% in 2012, assuming a capitalization with 35% equity.
Note 1 Significant Accounting Policies (continued)

SCOPE OF CONSOLIDATION

The consolidated financial statements include the accounts of Hydro-Québec, its subsidiaries and its joint ventures as well as those of variable interest entities where Hydro-Québec is the primary beneficiary. Interests in joint ventures are accounted for using the proportionate consolidation method.

USE OF ESTIMATES

The preparation of financial statements in accordance with Canadian 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, among other things, to revenue, which includes estimated amounts for electricity delivered but not billed; the useful life of property, plant and equipment and intangible assets for calculating the depreciation and amortization expense; cash flows; the expected timing of payments; and the discount rates used to determine asset retirement obligations and employee future benefits. These rates are based on actuarial and economic assumptions. Actual results could differ from those estimates and such differences could be significant.

REVENUE

Hydro-Québec supplies the Québec market with electricity and also sells power on wholesale markets in Canada and the United States. In addition, it is active in arbitraging transactions. Revenue from electricity sales and arbitraging transactions is recognized on delivery. Arbitraging transactions are recognized net of related electricity purchases.

Revenue also includes certain amounts that Hydro-Québec is entitled to receive from customers or is required to pay to them in the future. These amounts relate, among other things, to the supply of electricity in excess of the heritage pool, to transmission services and to climate conditions. These items give rise to financial assets and liabilities that are reported in Accounts receivable and other receivables and Other assets or in Accounts payable and accrued liabilities and Other liabilities, based on their maturities, which range from one to six years.

Other revenue is recognized on delivery of the goods or services.

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 operations’ 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 exchange 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 period in which such sales are made.
Note 1  Significant Accounting Policies (continued)

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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Financial Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets and liabilities held for trading</td>
<td></td>
</tr>
<tr>
<td>Designated</td>
<td>Cash and cash equivalents</td>
</tr>
<tr>
<td>Classified</td>
<td>Derivative instruments</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Available-for-sale financial assets</td>
<td>Short-term investments</td>
</tr>
<tr>
<td>Loans and receivables</td>
<td>Accounts receivable and other receivables</td>
</tr>
<tr>
<td></td>
<td>Government reimbursement for the 1998 ice storm, presented in Other assets</td>
</tr>
<tr>
<td></td>
<td>Receivables presented in Other assets</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>Borrowings</td>
</tr>
<tr>
<td></td>
<td>Accounts payable and accrued liabilities</td>
</tr>
<tr>
<td></td>
<td>Dividend payable</td>
</tr>
<tr>
<td></td>
<td>Accrued interest</td>
</tr>
<tr>
<td></td>
<td>Current portion of long-term debt</td>
</tr>
<tr>
<td></td>
<td>Long-term debt</td>
</tr>
<tr>
<td></td>
<td>Accounts payable presented in Other liabilities</td>
</tr>
<tr>
<td></td>
<td>Perpetual debt</td>
</tr>
</tbody>
</table>

Financial assets and liabilities are offset when certain criteria are met. The net amount is therefore reported in 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.

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 in 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 recognized in Other comprehensive income until they are realized, at which time, they are reclassified to operations. Interest on these assets, calculated using the effective interest method, is recognized in operations.

Loans and receivables, less any impairment losses, as well as other financial liabilities, are measured at amortized cost using the effective interest method. Amortized cost includes transaction costs, premiums and discounts, if applicable. Interest is recognized in operations.

Futures or forward contracts on non-financial items that can be settled on a net basis are recorded at the date of settlement if there is a probability of receipt or delivery in accordance with expected requirements.

As part of its integrated business 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 eligible hedging relationships and formally documents these relationships. Among other things, this process involves associating derivative instruments with specific assets or 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.
Note 1  Significant Accounting Policies (continued)

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 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 periods 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, changes in the fair value of the derivative instrument, including those related to the ineffective portion of the hedge, are recognized in operations under the line item affected by the hedged item. Offsetting changes in the fair value of the hedged item attributable to the hedged risk are recognized as adjustments to this 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 on active markets for identical instruments;
- Level 2: Significant inputs and value drivers that are observable on markets; and
- Level 3: One or more significant inputs or value drivers that are not observable market data.

Cash, as well as cash equivalents, short-term investments and derivative instruments are recognized at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm’s-length transaction between knowledgeable, willing parties who are under no compulsion to act. Cash equivalents consist of investments with a maturity of three months or less from the date of acquisition. Investments with a maturity of more than three months are presented in Short-term investments.

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.

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 as well as that of agreements with local communities meeting the definition of a liability are added to the carrying amount of the property, plant and equipment concerned. 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 consolidated operations.
Note 1  Significant Accounting Policies (continued)

Property, plant and equipment are depreciated over their useful life, using the straight-line method, starting in the month following the date of commissioning. The depreciation periods for the principal categories of property, plant and equipment are as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hydraulic generation</td>
<td>40 to 120 years</td>
</tr>
<tr>
<td>Thermal generation</td>
<td>15 to 50 years</td>
</tr>
<tr>
<td>Transmission substations and lines</td>
<td>30 to 85 years</td>
</tr>
<tr>
<td>Distribution substations and lines</td>
<td>25 to 60 years</td>
</tr>
<tr>
<td>Other property, plant and equipment</td>
<td>5 to 50 years</td>
</tr>
</tbody>
</table>

When property, plant and equipment are retired, their cost, net of accumulated depreciation and salvage value, is recognized in operations for the year.

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.

The costs related to the Energy Efficiency Plan (EEP), and internally developed computer software and development costs are capitalized when they meet capitalization criteria.

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, namely the EEP, software and licences, development costs and patents, are amortized over their useful life according to the straight-line method over the following periods:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>EEP</td>
<td>10 years</td>
</tr>
<tr>
<td>Software and licences</td>
<td>3 to 10 years</td>
</tr>
<tr>
<td>Development costs</td>
<td>5 years</td>
</tr>
<tr>
<td>Patents</td>
<td>20 years</td>
</tr>
</tbody>
</table>

**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.

**INVESTMENTS**

Investments in companies over which Hydro-Québec can exercise significant influence are accounted for on an equity basis. These investments are initially recognized at cost, and the carrying amount is increased or decreased by an amount equal to Hydro-Québec’s share of the changes in the investees’ net assets after the date of acquisition. Hydro-Québec’s share of the investees’ operations is recognized in the net result. Dividends received from the investees are applied against the carrying amount of the investment.

**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 according to the projected benefit method prorated on years of service. It is determined using a discount rate and is based on Management’s best estimates, in particular concerning the expected return on plan assets, salary escalation, the increase in health care costs, and employees’ retirement ages. Plan assets are measured at fair value at the balance sheet date.
Note 1 Significant Accounting Policies (continued)

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

▪ The discount rate is based on the average rate of the interest rate curve on the measurement date of high-quality Canadian corporate bonds and takes into account the expected cash flows associated with the accrued benefit obligations.

▪ Past service costs arising from amendments to the pension plan and post-retirement benefits 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, 2014, 2013 and 2012.

▪ 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 the legal obligations with respect thereto arise, provided that 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 corresponding amount is added to the carrying amount of the related asset or deducted up to a maximum of its carrying amount, with any excess then being recognized in operations. When the asset reaches the end of its useful life, any change is immediately recognized in operations. During the final settlement of the asset retirement obligation concerned, the difference between the balance of the obligation and the actual cost incurred is recognized as a gain or a loss in operations.

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 the measurement of these obligations 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. 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. The recognized amounts are determined by discounting the future cash flows related to these agreements. The discount rate used is the interest rate on Hydro-Québec bonds at the initial recognition date. Subsequently, in the case of agreements with indexed cash flows, the cash flows are subject to an annual re-estimation that can result in a change in the discount rate.

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  Effects of Rate Regulation on the Consolidated Financial Statements

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

REGULATORY ASSETS

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 amortized 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. This accounting practice was authorized by the Régie 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 the net result for 2014, 2013 and 2012 would have been $1 million higher.

Costs related to projects pending approval by the Régie

Costs related to projects that were included in a rate application, but that are pending approval at the time the decision on the rate application is handed down, are recognized in a separate account until the projects are approved by the Régie and amortized over the subsequent financial year. 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-2011-039, D-2012-024, D-2012-059 and D-2014-035, which relate to Hydro-Québec’s power transmission activities. Were these activities not regulated, the costs would be recognized in operations for the year in which they are incurred, and the net result for 2014 would have been $37 million lower ($14 million higher in 2013 and $10 million lower in 2012).

Costs related to a suspension agreement

The Régie authorized an agreement regarding the temporary suspension of deliveries from a generating station in May 2014. The offsetting entry for the financial liability recorded with regard to this agreement was recognized in a separate non-interest-bearing account, and the adjustments related to subsequent changes in this liability are recognized in the same account. The costs related to the suspension agreement are recovered in the rates on an annual basis, depending on the amounts billed. This accounting practice was approved by the Régie in decision D-2014-086, which relates to Hydro-Québec’s electricity distribution activities. Were these activities not regulated, the purchases of electricity and financial expenses would have been $504 million and $6 million higher, respectively, in 2014, while the net result for 2014 would have been $510 million lower (nil in 2013 and 2012).

REGULATORY ASSETS

<table>
<thead>
<tr>
<th></th>
<th>Expected years of amortization</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs related to the de-icing system at Lévis substation</td>
<td>2015–2047</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Costs related to projects pending approval by the Régie</td>
<td>2015</td>
<td>37</td>
<td>–</td>
</tr>
<tr>
<td>Costs related to a suspension agreement</td>
<td>2015–2018</td>
<td>510</td>
<td>–</td>
</tr>
<tr>
<td>Other</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>554</strong></td>
<td><strong>9</strong></td>
</tr>
<tr>
<td>Current portion</td>
<td><strong>Total</strong></td>
<td><strong>372</strong></td>
<td><strong>8</strong></td>
</tr>
</tbody>
</table>
Note 2  Effects of Rate Regulation on the Consolidated Financial Statements
(continued)

Risks and uncertainties
The risks and uncertainties related to the above regulatory assets 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 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 related to regulated activities, 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 retired and replaced assets for which no asset retirement obligation was recognized is added, net of the salvage value, to the cost of the newly constructed assets. Under Régie decision D-2011-039, which relates to Hydro-Québec’s power transmission activities, the costs of restoring sites associated with replaced assets are also added to the cost of newly constructed assets. Were these activities not regulated, the related costs would be charged to operations in the year in which they are incurred.

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 item of property, plant and equipment concerned.

Under Régie decisions D-2002-25, D-2002-288, D-2003-93 and D-2006-56, advertising and promotional costs, entertainment expenses, training costs and other EEP general expenses incurred until December 31, 2011, were recognized in the costs related to this intangible asset and will be amortized over 10 years on a straight-line basis. Were these activities not regulated, the costs and expenses would have been recognized in operations for the year in which they were incurred. As of January 1, 2012, under Régie decision D-2012-021, these costs are recognized in operations for the year in which they are incurred.

Under Régie decision D-2011-058, certain costs incurred for completion of the customer systems optimization project that had not been taken into account in setting rates and had been recognized in a separate account were amortized in 2012. 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 amortization began. Were these activities not regulated, the costs would have been recognized in operations for the year in which they were incurred, and the net result would have been $10 million higher in 2012.

Finally, the legal and regulatory context in which Hydro-Québec operates gives it the right to receive from its customers or the obligation to pay to them, as the case may be, the amounts corresponding to any variance between the actual amount of certain specific items and the amount provided in rate cases for these items. These items therefore give rise to financial assets or liabilities. They include the supply of electricity in excess of the heritage pool (decisions D-2005-34, D-2005-132, D-2006-34, D-2007-12 and D-2008-024), fuel purchases (decisions D-2009-016 and D-2010-022), native-load transmission service (decisions D-2003-93, D-2006-34, D-2007-12 and D-2008-024), climate conditions (decisions D-2006-34, D-2009-016 and D-2014-037), point-to-point transmission service (decisions D-2007-08 and D-2008-019), pension costs (decisions D-2011-028, D-2011-039, D-2012-024 and D-2012-059), costs of major outages (decisions D-2009-016 and D-2013-037) and the expense related to the activities of the Bureau de l’efficacité et de l’innovation énergétiques (decisions D-2013-037 and D-2014-037).
### Note 3  Revenue

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity sales</td>
<td>13,184</td>
<td>12,610</td>
<td>11,636</td>
</tr>
<tr>
<td>Other</td>
<td>454</td>
<td>268</td>
<td>498</td>
</tr>
<tr>
<td></td>
<td><strong>13,638</strong></td>
<td><strong>12,878</strong></td>
<td><strong>12,134</strong></td>
</tr>
</tbody>
</table>

### Note 4  Depreciation and Amortization

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment&lt;sup&gt;a&lt;/sup&gt;</td>
<td>2,112</td>
<td>2,067</td>
<td>2,048</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>309</td>
<td>274</td>
<td>241</td>
</tr>
<tr>
<td>Regulatory assets</td>
<td>2</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Retirement of capital assets</td>
<td>95</td>
<td>134</td>
<td>108</td>
</tr>
<tr>
<td></td>
<td><strong>2,518</strong></td>
<td><strong>2,483</strong></td>
<td><strong>2,405&lt;sup&gt;b&lt;/sup&gt;</strong></td>
</tr>
</tbody>
</table>

<sup>a</sup> The revision of the useful life of property, plant and equipment in 2014 and 2013 did not have a major impact on the depreciation expense for the year. In 2012, the revision of the useful life of property, plant and equipment resulted in a $181-million decrease in the depreciation expense. As part of this revision, the maximum depreciation period for some hydraulic generation assets increased from 100 to 120 years, while the maximum period for certain transmission line and substation assets increased from 50 to 70 years, and for certain distribution line and substation assets, from 40 to 60 years.

<sup>b</sup> The depreciation and amortization expense presented in the 2012 consolidated statement of cash flows includes $14 million for assets related to discontinued operations.

### Note 5  Taxes

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water-power royalties&lt;sup&gt;a&lt;/sup&gt;</td>
<td>661</td>
<td>674</td>
<td>621</td>
</tr>
<tr>
<td>Public utilities tax&lt;sup&gt;b&lt;/sup&gt;</td>
<td>252</td>
<td>245</td>
<td>252</td>
</tr>
<tr>
<td>Municipal, school and other taxes&lt;sup&gt;c&lt;/sup&gt;</td>
<td>68</td>
<td>81</td>
<td>124</td>
</tr>
<tr>
<td></td>
<td><strong>981</strong></td>
<td><strong>1,000</strong></td>
<td><strong>997</strong></td>
</tr>
</tbody>
</table>

<sup>a</sup> Water-power royalties payable to the Québec government totaled $656 million in 2014 ($669 million in 2013 and $617 million in 2012), including a balance receivable of $2 million as at December 31, 2014 (balance due of $52 million as at December 31, 2013 and $23 million as at December 31, 2012).

<sup>b</sup> The public utilities tax is payable to the Québec government.

<sup>c</sup> Including $21 million payable to the Quebec government under the Act respecting Energy Efficiency and Innovation in 2014 ($30 million in 2013 and $37 million in 2012). No amount was recorded under the Act to establish the Northern Development Fund in 2014 nor in 2013 ($49 million in 2012).

### Note 6  Financial Expenses

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on debt securities</td>
<td>2,593</td>
<td>2,584</td>
<td>2,575</td>
</tr>
<tr>
<td>Net exchange (gain) loss</td>
<td>(33)</td>
<td>(21)</td>
<td>2</td>
</tr>
<tr>
<td>Guarantee fees related to debt securities&lt;sup&gt;d&lt;/sup&gt;</td>
<td>205</td>
<td>200</td>
<td>197</td>
</tr>
<tr>
<td></td>
<td><strong>2,765</strong></td>
<td><strong>2,763</strong></td>
<td><strong>2,774</strong></td>
</tr>
<tr>
<td>Less</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capitalized financial expenses</td>
<td>314</td>
<td>294</td>
<td>300</td>
</tr>
<tr>
<td>Net investment income</td>
<td>24</td>
<td>40</td>
<td>36</td>
</tr>
<tr>
<td></td>
<td><strong>338</strong></td>
<td><strong>334</strong></td>
<td><strong>336</strong></td>
</tr>
<tr>
<td></td>
<td><strong>2,427</strong></td>
<td><strong>2,429</strong></td>
<td><strong>2,438</strong></td>
</tr>
</tbody>
</table>

<sup>a</sup> Guarantee fees related to debt securities are paid to the Québec government.
Note 7 Discontinued Operations

In September 2012, the decision was made to abandon the project to refurbish Gentilly-2 nuclear generating station and to terminate all nuclear power operations. The facility continued to generate electricity until the end of 2012, in accordance with the terms and conditions of its operating licence, after which time Hydro-Québec started to prepare it for dormancy with a view to dismantling it around the year 2060.

Gentilly-2 generating station’s operating result is presented under Discontinued operations in the consolidated statements of operations. For segmented information purposes, the discontinued operations are classified under Generation and Transmission.

The abandonment of the refurbishment project led to the write-off of the property, plant and equipment under construction for this project, for a total amount of $990 million.

Since the refurbishment project was abandoned, Hydro-Québec also had to test all of its nuclear generation assets for impairment. The carrying amount of these assets, including the increase in the asset retirement obligations related to the facility’s dismantling, was compared to their fair value, which was determined using the discounted cash flow method. An impairment charge of $827 million was recognized, reducing the carrying amount of nuclear generation assets to zero.

The following table provides a breakdown of the result from discontinued operations:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating result</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>–</td>
<td>–</td>
<td>144</td>
</tr>
<tr>
<td>Expenditure</td>
<td>–</td>
<td>(4)</td>
<td>203</td>
</tr>
<tr>
<td></td>
<td>–</td>
<td>4</td>
<td>(59)</td>
</tr>
<tr>
<td><strong>Write-off of property, plant and equipment under construction</strong></td>
<td>–</td>
<td>–</td>
<td>(990)</td>
</tr>
<tr>
<td><strong>Impairment of nuclear generating station assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>–</td>
<td>–</td>
<td>(795)a</td>
</tr>
<tr>
<td>Materials, fuel and supplies</td>
<td>–</td>
<td>–</td>
<td>(32)</td>
</tr>
<tr>
<td></td>
<td>–</td>
<td>–</td>
<td>(827)</td>
</tr>
<tr>
<td></td>
<td>–</td>
<td>4</td>
<td>(1,876)</td>
</tr>
</tbody>
</table>

a) Including a $365-million increase in the asset retirement obligations related to the facility’s dismantling.
### Note 8  Property, Plant and Equipment

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In service</td>
<td>Accumulated depreciation</td>
<td>Under construction</td>
<td>Net carrying amount</td>
</tr>
<tr>
<td><strong>Generation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hydraulic</td>
<td>44,729</td>
<td>16,185</td>
<td>2,012</td>
<td>30,556</td>
</tr>
<tr>
<td>Thermal</td>
<td>665</td>
<td>640</td>
<td>–</td>
<td>25</td>
</tr>
<tr>
<td>Other</td>
<td>759</td>
<td>467</td>
<td>10</td>
<td>302</td>
</tr>
<tr>
<td><strong>Transmission</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Substations and lines</td>
<td>27,750</td>
<td>10,514</td>
<td>1,505</td>
<td>18,741</td>
</tr>
<tr>
<td>Other</td>
<td>2,334</td>
<td>1,352</td>
<td>133</td>
<td>1,115</td>
</tr>
<tr>
<td><strong>Distribution</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Substations and lines</td>
<td>13,444</td>
<td>5,967</td>
<td>411</td>
<td>7,888</td>
</tr>
<tr>
<td>Other</td>
<td>3,141</td>
<td>1,672</td>
<td>136</td>
<td>1,605</td>
</tr>
<tr>
<td><strong>Construction</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Corporate and Other Activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,134</td>
<td>768</td>
<td>95</td>
<td>461</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>93,996&lt;sup&gt;a&lt;/sup&gt;</td>
<td>37,585&lt;sup&gt;a&lt;/sup&gt;</td>
<td>4,302</td>
<td>60,713</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In service</td>
<td>Accumulated depreciation</td>
<td>Under construction</td>
<td>Net carrying amount</td>
</tr>
<tr>
<td><strong>Generation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hydraulic</td>
<td>41,782</td>
<td>15,509</td>
<td>3,614</td>
<td>29,887</td>
</tr>
<tr>
<td>Thermal</td>
<td>708</td>
<td>679</td>
<td>–</td>
<td>29</td>
</tr>
<tr>
<td>Other</td>
<td>737</td>
<td>447</td>
<td>11</td>
<td>301</td>
</tr>
<tr>
<td><strong>Transmission</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Substations and lines</td>
<td>26,304</td>
<td>9,917</td>
<td>1,702</td>
<td>18,089</td>
</tr>
<tr>
<td>Other</td>
<td>2,330</td>
<td>1,340</td>
<td>101</td>
<td>1,091</td>
</tr>
<tr>
<td><strong>Distribution</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Substations and lines</td>
<td>13,111</td>
<td>5,701</td>
<td>370</td>
<td>7,780</td>
</tr>
<tr>
<td>Other</td>
<td>2,977</td>
<td>1,672</td>
<td>135</td>
<td>1,440</td>
</tr>
<tr>
<td><strong>Construction</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Corporate and Other Activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,135</td>
<td>774</td>
<td>85</td>
<td>446</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>89,116&lt;sup&gt;a&lt;/sup&gt;</td>
<td>36,057&lt;sup&gt;a&lt;/sup&gt;</td>
<td>6,018</td>
<td>59,077</td>
</tr>
</tbody>
</table>

<sup>a</sup> As at December 31, 2014, the cost and accumulated depreciation of property, plant and equipment in service under capital leases amounted to $616 million and $96 million, respectively ($525 million and $70 million as at December 31, 2013).
**Note 9  Intangible Assets**

<table>
<thead>
<tr>
<th>Intangible assets</th>
<th>2014</th>
<th>2013</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
<td>Accumulated amortization</td>
<td>Net carrying amount</td>
<td>Cost</td>
</tr>
<tr>
<td>EEP</td>
<td>1,751</td>
<td>847</td>
<td>904</td>
<td>1,662</td>
</tr>
<tr>
<td>Software and licences</td>
<td>1,749</td>
<td>1,133</td>
<td>616</td>
<td>1,645</td>
</tr>
<tr>
<td>Development costs</td>
<td>68</td>
<td>35</td>
<td>33</td>
<td>58</td>
</tr>
<tr>
<td>Patents</td>
<td>24</td>
<td>13</td>
<td>11</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>3,592</td>
<td>2,028</td>
<td><strong>1,564</strong></td>
<td>3,389</td>
</tr>
<tr>
<td>Not subject to amortization</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Servitudes</td>
<td></td>
<td></td>
<td><strong>419</strong></td>
<td></td>
</tr>
<tr>
<td>Rights</td>
<td></td>
<td></td>
<td><strong>295</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>714</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>2,278</strong></td>
<td></td>
</tr>
</tbody>
</table>

The additions of internally generated intangible assets subject to amortization totaled $214 million in 2014 ($270 million in 2013 and $258 million in 2012).

**Note 10  Investments**

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>At equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Churchill Falls (Labrador) Corporation Limited</td>
<td>131</td>
<td>125</td>
</tr>
<tr>
<td>CITEQ inc.</td>
<td>(5)</td>
<td>(5)</td>
</tr>
<tr>
<td>Other</td>
<td>25</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>151</td>
<td>146</td>
</tr>
</tbody>
</table>

**Note 11  Other Assets**

<table>
<thead>
<tr>
<th></th>
<th>Note</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued benefit assets</td>
<td>21</td>
<td><strong>3,855</strong></td>
<td>3,886</td>
</tr>
<tr>
<td>Government reimbursement for the 1998 ice storm(^a)</td>
<td></td>
<td>66</td>
<td>66</td>
</tr>
<tr>
<td>Receivables(^b)</td>
<td></td>
<td><strong>380</strong></td>
<td>281</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>4,316</strong></td>
<td>4,258</td>
</tr>
</tbody>
</table>

\(^a\) In accordance with the terms and conditions in effect since January 1, 2013, the full amount of the reimbursement will be paid no later than October 15, 2019, and interest calculated at the Bankers’ Acceptance Rate for a 12-month term will be paid on an annual basis. The fair value of this financial asset was $66 million as at December 31, 2014 and 2013.

\(^b\) Including assets of $379 million related to variances between the actual amount of certain specific items and the amount provided in rate cases for these items ($281 million as at December 31, 2013). Financial expenses related to these assets are capitalized at the rate of return authorized by the Régie, such that their carrying amount approximates their fair value. They are recovered over a one- to six-year period.
Note 12  Asset Retirement Obligations

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

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

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dismantling of nuclear generating station</td>
<td>Removal of spent nuclear fuel</td>
</tr>
<tr>
<td>Balance, beginning of year</td>
<td>529</td>
<td>248</td>
</tr>
<tr>
<td>Liabilities incurred</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Accretion expense</td>
<td>30</td>
<td>14</td>
</tr>
<tr>
<td>Liabilities settled</td>
<td>(76)</td>
<td>(3)</td>
</tr>
<tr>
<td>Revision of estimated cash flows and expected timing of payments</td>
<td>–</td>
<td>(17)</td>
</tr>
<tr>
<td>Balance, end of year</td>
<td>483</td>
<td>242</td>
</tr>
<tr>
<td>Less</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current portion</td>
<td>36</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>447</td>
<td>237</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dismantling of nuclear generating station</td>
<td>Removal of spent nuclear fuel</td>
</tr>
<tr>
<td>Balance, beginning of year</td>
<td>588</td>
<td>229</td>
</tr>
<tr>
<td>Liabilities incurred</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Accretion expense</td>
<td>33</td>
<td>20</td>
</tr>
<tr>
<td>Liabilities settled</td>
<td>(92)</td>
<td>(1)</td>
</tr>
<tr>
<td>Revision of estimated cash flows and expected timing of payments</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Balance, end of year</td>
<td>529</td>
<td>248</td>
</tr>
<tr>
<td>Less</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current portion</td>
<td>93</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>436</td>
<td>244</td>
</tr>
</tbody>
</table>

a) The Québec government has provided an irrevocable financial guarantee of up to $685 million to the Canadian Nuclear Safety Commission for the performance of Hydro-Québec’s obligations with regard to the cost of dismantling Gentilly-2 generating station and the removal of spent nuclear fuel.
Note 12  Asset Retirement Obligations (continued)

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

<table>
<thead>
<tr>
<th></th>
<th>Dismantling of nuclear generating station</th>
<th>Removal of spent nuclear fuel</th>
<th>Dismantling of other assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated cash flows (in constant dollars) required to settle the obligations*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at December 31, 2014</td>
<td>1,180</td>
<td>647</td>
<td>194</td>
</tr>
<tr>
<td>As at December 31, 2013</td>
<td>1,232</td>
<td>677</td>
<td>213</td>
</tr>
<tr>
<td>Expected timing of payment of the cash flows required to settle the obligations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at December 31, 2014</td>
<td>Between 2015 and 2066</td>
<td>Between 2015 and 2164</td>
<td>Between 2015 and 2092</td>
</tr>
<tr>
<td>As at December 31, 2013</td>
<td>Between 2014 and 2066</td>
<td>Between 2014 and 2164</td>
<td>Between 2014 and 2092</td>
</tr>
<tr>
<td>Credit quality–adjusted, risk-free rate (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial recognition of obligations</td>
<td>6.4</td>
<td>6.4</td>
<td>Between 1.1 and 6.4</td>
</tr>
<tr>
<td>Subsequent recognition of obligations</td>
<td>Between 4.3 and 5.7</td>
<td>Between 3.6 and 5.7</td>
<td>Between 1.1 and 4.4</td>
</tr>
</tbody>
</table>

a) Inflation rates varying between 1.9% and 3.7% were used to determine the asset retirement obligations.

HYDRO-QUÉBEC TRUST FOR MANAGEMENT OF NUCLEAR FUEL WASTE

Under the Nuclear Fuel Waste Act (NFWA), which came into force in 2002, the owners of nuclear fuel waste in Canada were required to set up a management organization, the Nuclear Waste Management Organization, and each of them was required to establish a trust fund to finance the cost of long-term management of its nuclear fuel waste.

In April 2009, the Government of Canada approved a formula for financing the costs of the approach adopted for long-term nuclear fuel waste management. The amounts deposited in the trust funds can only be used to finance the implementation of this approach.

Hydro-Québec has made all the payments required under the NFWA. As at December 31, 2014, the investments held in the Hydro-Québec trust fund were composed of debt securities issued by Hydro-Québec, the fair value of which totaled $140 million ($117 million as at December 31, 2013).

The Hydro-Québec Trust for Management of Nuclear Fuel Waste is considered a variable interest entity of which Hydro-Québec is the primary beneficiary.
# Note 13 Long-Term Debt

Long-term debt is mainly composed of bonds, medium-term notes and other debts, including liabilities under agreements entered into with local communities. The following table presents a breakdown of the debt at amortized cost, including the current portion, by currency at the time of issue and at the time of repayment. Forward contracts and swaps traded for currency risk management purposes related to long-term debt were taken into account in determining the percentages of debt by currency at the time of repayment.

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th></th>
<th>2013</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>At time of issue</td>
<td>At time of repayment</td>
<td>At time of issue</td>
<td>At time of repayment</td>
</tr>
<tr>
<td>In Canadian dollars and other currencies</td>
<td>At closing exchange rates as at the balance sheet date</td>
<td>%</td>
<td>%</td>
<td>In Canadian dollars and other currencies</td>
</tr>
<tr>
<td>Hydro-Québec's debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canadian dollars</td>
<td>34,295</td>
<td>34,295</td>
<td>78</td>
<td>100</td>
</tr>
<tr>
<td>U.S. dollars</td>
<td>8,094</td>
<td>9,388</td>
<td>21</td>
<td>–</td>
</tr>
<tr>
<td>Other currencies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Euros</td>
<td>60</td>
<td>85</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Pounds sterling</td>
<td>200</td>
<td>361</td>
<td>1</td>
<td>–</td>
</tr>
<tr>
<td>Yen</td>
<td>1,000</td>
<td>10</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>44,139</td>
<td></td>
<td>44,109</td>
<td></td>
</tr>
<tr>
<td>Subsidiaries’ debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. dollars</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>44,139</td>
<td>100</td>
<td>100</td>
<td>44,120</td>
</tr>
<tr>
<td>Plus</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustment for fair value hedged risk</td>
<td>338</td>
<td></td>
<td>104</td>
<td></td>
</tr>
<tr>
<td></td>
<td>44,477</td>
<td></td>
<td>44,224</td>
<td></td>
</tr>
<tr>
<td>Less</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current portion</td>
<td>906</td>
<td></td>
<td>1,157</td>
<td></td>
</tr>
<tr>
<td></td>
<td>43,571</td>
<td></td>
<td>43,067</td>
<td></td>
</tr>
</tbody>
</table>

a) Including non-interest-bearing debts other than bonds and medium-term notes for a discounted amount of $1,317 million as at December 31, 2014 ($1,123 million as at December 31, 2013).
INTEREST RATES

The following table shows interest rates on bonds and medium-term notes, which take into account contractual rates, premiums, discounts and issue expenses, as well as the effect of forward contracts and swaps traded to manage long-term risks related to debt. As at December 31, 2014, the variable rate portion of these bonds and notes totaled 15.1% (10.1% as at December 31, 2013).

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Canadian dollars</th>
<th>U.S. dollars</th>
<th>Other currencies</th>
<th>Weighted average</th>
<th>Weighted average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 5 years</td>
<td>2.00</td>
<td>1.31</td>
<td>8.93</td>
<td>1.89</td>
<td>2.28</td>
</tr>
<tr>
<td>6 to 10 years</td>
<td>10.03</td>
<td>8.42</td>
<td>–</td>
<td>9.34</td>
<td>9.76</td>
</tr>
<tr>
<td>11 to 15 years</td>
<td>5.91</td>
<td>9.06</td>
<td>–</td>
<td>8.94</td>
<td>8.27</td>
</tr>
<tr>
<td>16 to 20 years</td>
<td>3.55</td>
<td>10.42</td>
<td>–</td>
<td>7.05</td>
<td>7.55</td>
</tr>
<tr>
<td>21 to 25 years</td>
<td>5.62</td>
<td>–</td>
<td>–</td>
<td>5.62</td>
<td>5.62</td>
</tr>
<tr>
<td>26 to 30 years</td>
<td>5.11</td>
<td>–</td>
<td>–</td>
<td>5.11</td>
<td>5.11</td>
</tr>
<tr>
<td>31 to 35 years</td>
<td>4.89</td>
<td>–</td>
<td>–</td>
<td>4.89</td>
<td>4.89</td>
</tr>
<tr>
<td>36 to 40 years</td>
<td>4.47</td>
<td>–</td>
<td>–</td>
<td>4.47</td>
<td>4.47</td>
</tr>
<tr>
<td>41 to 45 years</td>
<td>3.98</td>
<td>–</td>
<td>–</td>
<td>3.98</td>
<td>–</td>
</tr>
<tr>
<td>46 to 50 years</td>
<td>6.53</td>
<td>–</td>
<td>–</td>
<td>6.53</td>
<td>6.53</td>
</tr>
<tr>
<td>Weighted average</td>
<td>5.10</td>
<td>8.64</td>
<td>8.93</td>
<td>5.43</td>
<td>5.50</td>
</tr>
</tbody>
</table>

FAIR VALUE

As at December 31, 2014, the fair value of the long-term debt, including the current portion, amounted to $60,569 million ($54,556 million as at December 31, 2013). Including forward contracts and swaps traded for long-term currency risk and interest rate risk management purposes related to debt, it totaled $60,861 million ($55,027 million as at December 31, 2013). Fair value is obtained by discounting future cash flows, and is calculated on the basis of forward interest rates derived from interest rates at 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 ($2,320 million), including a US$750-million ($870 million) swing loan, which will expire in 2019. 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 operating lines of credit, which are renewed automatically in the absence of notice to the contrary and bear interest at the prime rate. As at December 31, 2014, the available balance on these lines of credit totaled $451 million in C$ or US$.

Note 14 Other Liabilities

<table>
<thead>
<tr>
<th>Note</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued benefit liabilities</td>
<td>21</td>
<td>941</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>518</td>
<td>158</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,459</strong></td>
<td><strong>1,067</strong></td>
</tr>
</tbody>
</table>

a) Including a balance of $10 million as at December 31, 2014 ($20 million as at December 31, 2013) payable to the Québec government under the Act to establish the Northern Development Fund. The current portion, presented under Accounts payable and accrued liabilities, totaled $10 million as at December 31, 2014 and 2013. These amounts will be paid in installments of $10 million per year in 2015 and in 2016.

b) Including a $365-million financial liability related to an agreement regarding the temporary suspension of deliveries from a generating station, which was approved by the Régie in May 2014. The current portion, presented under Accounts payable and accrued liabilities, totaled $145 million as at December 31, 2014. This financial liability, including the current portion, represents a discounted amount of $510 million and contained an outstanding amount, payable in U.S. dollars, of $38 million (US$33 million) as at December 31, 2014. The effective rate of this liability is 1.58%.
Note 15  Perpetual Debt

Perpetual notes in the amount of $267 million (US$230 million) as at December 31, 2014, and of $253 million (US$238 million) as at December 31, 2013, bear interest at LIBOR, plus 0.0625%, as calculated semiannually. The notes are redeemable at Hydro-Québec’s option. In 2014, portions totaling $9 million (US$8 million) were repurchased on the secondary market and then canceled ($40 million, or US$38 million, in 2013). Various derivative instruments are used to mitigate the currency risk associated with this perpetual debt.

As at December 31, 2014 and 2013, the rate applicable to the perpetual notes was 0.4%. As at December 31, 2014, the fair value of these notes was $217 million ($214 million as at December 31, 2013). Fair value is obtained by discounting future cash flows, and is calculated on the basis of forward interest rates derived from interest rates at the balance sheet date for similar instruments traded on capital markets.

Note 16  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 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 results through mitigation measures so that exposure to each risk is reduced to 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 the 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 results is recognized in Revenue.

Management of risk associated with debt

Currency risk and interest rate risk – Hydro-Québec uses forward contracts and currency swaps to manage the currency risk associated with long-term debt and perpetual debt, as well as 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 results of foreign currency hedging transactions and those associated with debt interest rates is recognized in Financial expenses.

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

<table>
<thead>
<tr>
<th>Maturity</th>
<th>1 to 5 years</th>
<th>6 to 10 years</th>
<th>11 to 15 years</th>
<th>16 to 20 years</th>
<th>Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Forward contracts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. dollars</td>
<td>2,233</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>2,233</td>
<td>2,241</td>
</tr>
<tr>
<td><strong>Swaps</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canadian dollars</td>
<td>(1,213)</td>
<td>(3,520)</td>
<td>(2,037)</td>
<td>(1,171)</td>
<td>(7,941)</td>
<td>(6,504)</td>
</tr>
<tr>
<td>U.S. dollars</td>
<td>312</td>
<td>3,055</td>
<td>1,675</td>
<td>1,000</td>
<td>6,042</td>
<td>5,718</td>
</tr>
<tr>
<td><strong>Other currencies</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Euros</td>
<td>61</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>61</td>
<td>61</td>
</tr>
<tr>
<td>Pounds sterling</td>
<td>200</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Yen</td>
<td>1,000</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

a) Figures in parentheses represent amounts to be paid.
Note 16  Financial Instruments (continued)

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

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivative instruments designated as</td>
<td></td>
<td></td>
</tr>
<tr>
<td>cash flow hedges for U.S.-dollar sales</td>
<td>–</td>
<td>172</td>
</tr>
<tr>
<td>Derivative instruments designated as</td>
<td>(224)</td>
<td>(1,079)</td>
</tr>
<tr>
<td>cash flow hedges for debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivative instruments designated as</td>
<td>446</td>
<td>190</td>
</tr>
<tr>
<td>fair value hedges for debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>222</td>
<td>(717)</td>
</tr>
<tr>
<td>Derivative instruments not designated</td>
<td>(314)</td>
<td>620</td>
</tr>
<tr>
<td>as hedges</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(92)</td>
<td>(97)</td>
</tr>
</tbody>
</table>

a) These instruments were traded as part of Hydro-Québec’s risk management, and $(508 million) was in consideration of amounts received or disbursed with respect to credit risk mitigation agreements in 2014 ($417 million in 2013).

MANAGEMENT OF SHORT-TERM RISK

Currency risk – Hydro-Québec uses 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 results is recognized in the line item affected by the hedged item, namely Revenue, Electricity and fuel purchases, or Financial expenses. The nominal amount of open positions as at December 31, 2014, was US$500 million in sales contracts (US$509 million as at December 31, 2013).

Interest rate risk – Hydro-Québec uses 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 results of transactions to hedge short-term interest rate risk is recognized in the line item affected by the hedged item, namely Financial expenses.

Price risk – Hydro-Québec uses mainly commodity futures and swaps to manage risk 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 results of transactions to hedge the risk related to energy and aluminum prices is recognized in the line item affected by the hedged item, namely Revenue or Electricity and fuel purchases. In this context, Hydro-Québec has traded commodity futures and electricity swaps for which open positions as at December 31, 2014, were 14.9 TWh (15.6 TWh as at December 31, 2013), and natural gas futures for which open positions as at December 31, 2014, totaled 1.3 million MMBtu (4.1 million MMBtu as at December 31, 2013), as well as aluminum swaps for which open positions as at December 31, 2014, totaled 100,000 tonnes (no open position as at December 31, 2013).

The fair value of derivative instruments used to manage short-term financial risks, depending on whether or not they are designated as hedges, is shown in the table below:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivative instruments designated as</td>
<td></td>
<td></td>
</tr>
<tr>
<td>cash flow hedges</td>
<td>127</td>
<td>(230)</td>
</tr>
<tr>
<td>Derivative instruments not designated</td>
<td>–</td>
<td>(2)</td>
</tr>
<tr>
<td>as hedges</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>127</td>
<td>(232)</td>
</tr>
</tbody>
</table>

a) This amount includes financial instruments measured on the basis of quoted stock market prices (Level 1) of $(1 million) ($1 million in 2013).

b) Margin calls on derivative instruments may result in amounts received from or paid to clearing agents, based on the fair value of the instruments concerned. As at December 31, 2014, $103 million had been received on this basis; the offsetting item is presented in Borrowings under Current liabilities on the balance sheet. As at December 31, 2013, $248 million had been paid on this basis; the offsetting item, subject to restrictions, is presented in Cash and cash equivalents under Current assets on the balance sheet.
Note 16   Financial Instruments (continued)

EFFECT OF HEDGES

Effect of hedges on results

Effect of cash flow hedges
As at December 31, 2014, the net loss related to the ineffectiveness of cash flow hedges recognized in operations totaled $6 million ($2 million as at December 31, 2013 and $7 million as at December 31, 2012).

As at December 31, 2014, Hydro-Québec estimated at $115 million the amount of net gains presented in Accumulated other comprehensive income that would be reclassified to operations in the next 12 months ($1 million as at December 31, 2013 and $199 million as at December 31, 2012).

In 2014, Hydro-Québec reclassified a net loss of $11 million from Accumulated other comprehensive income to operations ($7 million in 2013 and nil in 2012) as a result of the discontinuance of cash flow hedges.

As at December 31, 2014 and 2013, the maximum period during which Hydro-Québec hedged its exposure to the variability of cash flows related to anticipated transactions was three years (four years as at December 31, 2012).

Effect of fair value hedges
As at December 31, 2014, the net gain related to the ineffectiveness of fair value hedges recognized in operations totaled $17 million (net loss of $5 million as at December 31, 2013 and net gain of $11 million as at December 31, 2012).

Effect of revaluation of derivative instruments not designated as hedges
As at December 31, 2014, the net gain recognized in operations as a result of the revaluation, at fair value, of derivative instruments to which hedge accounting was not applied totaled $224 million (net gain of $122 million as at December 31, 2013 and net loss of $23 million as at December 31, 2012). 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 results. Most of the derivative instruments traded are designated as cash flow hedges or fair value hedges and therefore reduce the volatility of 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 results. The sensitivity of results is thus limited to net exposure to unhedged risks.

As at December 31, 2014, had the exchange rate (C$/US$1) been 5% higher or lower, the net result would have been $13 million higher or lower, respectively ($14 million as at December 31, 2013), while Other comprehensive income would have been $191 million higher or lower, respectively ($125 million as at December 31, 2013). The analysis is based on financial assets and liabilities denominated in U.S. dollars, including a cash and cash equivalents amount of US$239 million (US$246 million as at December 31, 2013).

As at December 31, 2014, had interest rates been 50 basis points higher or lower, the net result would have been $14 million lower or $11 million higher, respectively ($3 million higher or $4 million lower, respectively, as at December 31, 2013), while Other comprehensive income would have been $12 million higher or $13 million lower, respectively ($52 million higher or $56 million lower as at December 31, 2013). The analysis is based on cash and cash equivalents, short-term investments, borrowings and floating-rate debt as well as on interest-rate-sensitive derivative instruments.

As at December 31, 2014 and 2013, had the price of aluminum been 5% higher or lower, the impact on the net result would have been nil, whereas Other comprehensive income would have been $11 million lower or higher, respectively (no impact as at December 31, 2013).
Note 16  
Financial Instruments (continued)

LIQUIDITY RISK

Liquidity risk is the risk that an entity will have difficulty meeting commitments related to its financial liabilities.

Hydro-Québec’s exposure to this risk is reduced by a large volume of cash flows from operating activities, 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, 2014, $40,939 million in long-term debt, perpetual debt and borrowings, net of the sinking fund, was guaranteed by the Québec government ($41,085 million as at December 31, 2013).

Maturities of financial liabilities are presented in the table below. The amounts reported are contractual undiscounted cash flows, representing payments of principal and interest for financial liabilities as at December 31, 2014.

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Borrowingsa</th>
<th>Accounts payable and accrued liabilities</th>
<th>Dividend payable</th>
<th>Long-term debt</th>
<th>Derivative instrumentsb</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>126</td>
<td>1,638</td>
<td>2,535</td>
<td>3,364</td>
<td>946</td>
</tr>
<tr>
<td>2016</td>
<td>–</td>
<td>161</td>
<td>–</td>
<td>4,130</td>
<td>69</td>
</tr>
<tr>
<td>2017</td>
<td>–</td>
<td>151</td>
<td>–</td>
<td>3,552</td>
<td>45</td>
</tr>
<tr>
<td>2018</td>
<td>–</td>
<td>159</td>
<td>–</td>
<td>3,503</td>
<td>36</td>
</tr>
<tr>
<td>2019</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>3,444</td>
<td>33</td>
</tr>
<tr>
<td>1 to 5 years</td>
<td>126</td>
<td>2,109</td>
<td>2,535</td>
<td>17,993</td>
<td>1,129</td>
</tr>
<tr>
<td>6 to 10 years</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>19,219</td>
<td>235</td>
</tr>
<tr>
<td>11 to 15 years</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>9,609</td>
<td>243</td>
</tr>
<tr>
<td>16 to 20 years</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>9,036</td>
<td>74</td>
</tr>
<tr>
<td>21 to 25 years</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>10,092</td>
<td>–</td>
</tr>
<tr>
<td>26 to 30 years</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>8,656</td>
<td>–</td>
</tr>
<tr>
<td>31 to 35 years</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>8,642</td>
<td>–</td>
</tr>
<tr>
<td>36 to 40 years</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>9,168</td>
<td>–</td>
</tr>
<tr>
<td>41 to 45 years</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>2,214</td>
<td>–</td>
</tr>
<tr>
<td>46 to 50 years</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>879</td>
<td>–</td>
</tr>
<tr>
<td>51 to 55 years</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>373</td>
<td>–</td>
</tr>
<tr>
<td>56 years and over</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>26,629</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>126</td>
<td>2,109</td>
<td>2,535</td>
<td>122,510</td>
<td>1,681</td>
</tr>
</tbody>
</table>

Carrying amount  

<table>
<thead>
<tr>
<th>Borrowingsa</th>
<th>Accounts payable and accrued liabilities</th>
<th>Dividend payable</th>
<th>Long-term debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>126d,e</td>
<td>2,094d,e</td>
<td>2,535d</td>
<td>44,477g</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Carrying amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>126d,e</td>
</tr>
<tr>
<td></td>
<td>2,094d,e</td>
</tr>
<tr>
<td></td>
<td>2,535d</td>
</tr>
<tr>
<td></td>
<td>44,477g</td>
</tr>
</tbody>
</table>

a) As at December 31, 2014, the weighted average interest rate on interest-bearing borrowings was 1.03% (1.13% as at December 31, 2013).
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. An amount of $588 million ($594 million as at December 31, 2013) was reported under Short-term investments for this purpose.
d) The carrying amount of these financial liabilities approximates their fair value.
e) Including US$89 million (nil in 2013) translated at the exchange rate in effect at the balance sheet date.
f) Of this amount, $1,638 million was recorded in Accounts payable and accrued liabilities, and $456 million in Other liabilities.
g) Including current portion.

Contractual maturities of perpetual debt, whose terms and conditions are described in Note 14, Perpetual Debt, result in semiannual interest flows.
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, which arises primarily from its day-to-day electricity 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, 2014, substantially all counterparties dealing with Hydro-Québec had a credit rating of A− or better, and none of them had defaulted on their obligations to Hydro-Québec.

Accounts receivable and other receivables
Exposure to credit risk from electricity 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 $103 million ($98 million as at December 31, 2013), of which $27 million ($24 million as at December 31, 2013) is recognized in Accounts payable and accrued liabilities and $76 million ($74 million as at December 31, 2013) in Other liabilities.

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

<table>
<thead>
<tr>
<th>Accounts receivable</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 30 days(^a)</td>
<td>1,622</td>
<td>1,664</td>
</tr>
<tr>
<td>30 to 60 days</td>
<td>47</td>
<td>50</td>
</tr>
<tr>
<td>61 to 90 days</td>
<td>20</td>
<td>21</td>
</tr>
<tr>
<td>Over 90 days</td>
<td>141</td>
<td>138</td>
</tr>
<tr>
<td></td>
<td>1,830</td>
<td>1,873</td>
</tr>
</tbody>
</table>

| Other receivables\(^b\) | 354 | 304 |
| Accounts receivable and other receivables\(^c\) | 2,184 | 2,177 |

\(^a\) Including unbilled electricity deliveries, which totaled $1,212 million as at December 31, 2014 ($1,309 million as at December 31, 2013).
\(^b\) Including a $105-million financial guarantee ($67 million in 2013) covering certain derivative instruments held at year end.
\(^c\) Including US$166 million (US$180 million in 2013) translated at the exchange rate in effect at the balance sheet date.

In 2014, the allowance for doubtful accounts increased by $8 million ($12 million in 2013) to $336 million as at December 31 ($328 million as at December 31, 2013). The allowance is based on a specific percentage deemed appropriate for each account age group and customer standing.
Note 17 Interests in Joint Ventures

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

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>91</td>
<td>169</td>
<td>143</td>
</tr>
<tr>
<td>Expenditure and financial expenses</td>
<td>29</td>
<td>141</td>
<td>76</td>
</tr>
<tr>
<td>Net result</td>
<td>62</td>
<td>28</td>
<td>67</td>
</tr>
<tr>
<td>Balance Sheets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>17</td>
<td>35</td>
<td>27</td>
</tr>
<tr>
<td>Long-term assets</td>
<td>617</td>
<td>624</td>
<td>645</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>7</td>
<td>43</td>
<td>14</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>–</td>
<td>–</td>
<td>12</td>
</tr>
<tr>
<td>Net assets</td>
<td>627</td>
<td>616</td>
<td>646</td>
</tr>
<tr>
<td>Cash Flows</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating activities</td>
<td>77</td>
<td>80</td>
<td>82</td>
</tr>
<tr>
<td>Investing activities</td>
<td>(33)</td>
<td>(7)</td>
<td>(7)</td>
</tr>
<tr>
<td>Financing activities</td>
<td>(66)</td>
<td>(65)</td>
<td>(68)</td>
</tr>
<tr>
<td>Net change in cash and cash equivalents</td>
<td>(22)</td>
<td>8</td>
<td>7</td>
</tr>
</tbody>
</table>

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, 2014 and 2013.

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 the net result. This calculation is based on the consolidated financial statements. 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. 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 2014, the dividend was $2,535 million ($2,207 million for 2013 and $645 million for 2012).

ACCUMULATED OTHER COMPREHENSIVE INCOME

CASH FLOW HEDGES

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of year</td>
<td>(548)</td>
<td>(225)</td>
<td>(158)</td>
</tr>
<tr>
<td>Change for the year</td>
<td>379</td>
<td>(323)</td>
<td>(67)</td>
</tr>
<tr>
<td>Balance, end of year</td>
<td>(169)</td>
<td>(548)</td>
<td>(225)</td>
</tr>
</tbody>
</table>
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, less the sinking fund, plus perpetual debt, 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

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>20,618</td>
<td>19,394</td>
</tr>
<tr>
<td>Long-term debt, including current portion</td>
<td>44,477</td>
<td>44,224</td>
</tr>
<tr>
<td>Sinking fund&lt;sup&gt;a&lt;/sup&gt;</td>
<td>(588)</td>
<td>(594)</td>
</tr>
<tr>
<td>Perpetual debt</td>
<td>267</td>
<td>253</td>
</tr>
<tr>
<td>Borrowings</td>
<td>126</td>
<td>23</td>
</tr>
<tr>
<td>Derivative instruments</td>
<td>(35)</td>
<td>329</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>64,865</td>
<td>63,629</td>
</tr>
<tr>
<td><strong>Capitalization rate (%)&lt;sup&gt;b&lt;/sup&gt;</strong></td>
<td>31.8</td>
<td>30.5</td>
</tr>
</tbody>
</table>

<sup>a</sup> The sinking fund is reported under Short-term investments.

<sup>b</sup> Equity divided by the sum of equity, long-term debt, current portion of long-term debt, perpetual debt, borrowings and derivative instrument liabilities, less derivative instrument assets and sinking fund.

In 2014, Hydro-Québec’s capital management objectives were unchanged from 2013.

Note 20 Supplementary Cash Flow Information

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in non-cash working capital items</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable and other receivables</td>
<td>9</td>
<td>(259)</td>
<td>(172)</td>
</tr>
<tr>
<td>Materials, fuel and supplies</td>
<td>(7)</td>
<td>(17)</td>
<td>25</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>(269)</td>
<td>128</td>
<td>14</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>(19)</td>
<td>17</td>
<td>(67)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(286)</td>
<td>(131)</td>
<td>(200)</td>
</tr>
</tbody>
</table>

**Investing activities not affecting cash**

| Increase in property, plant and equipment and intangible assets | 248    | 110    | 616    |

**Interest paid**

| 2,097 | 2,041 | 1,968 |
### Note 21  Employee Future Benefits

Hydro-Québec’s pension plan (the Pension Plan) is a fully funded contributory 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 benefits as well as 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.

All Hydro-Québec’s 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 of the Pension Plan for funding purposes was as at December 31, 2013, at which date the plan was funded at 115.1%. The next valuation must be as at December 31, 2014.

#### CHANGES IN ACCRUED BENEFIT OBLIGATIONS AND IN PLAN ASSETS AT FAIR VALUE

<table>
<thead>
<tr>
<th></th>
<th>Pension Plan</th>
<th>Other plans</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
<td>2013</td>
</tr>
<tr>
<td><strong>Accrued benefit obligations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, beginning of year</td>
<td>18,628</td>
<td>19,173</td>
</tr>
<tr>
<td>Current service cost</td>
<td>344</td>
<td>379</td>
</tr>
<tr>
<td>Employee contributions</td>
<td>131</td>
<td>131</td>
</tr>
<tr>
<td>Benefit payments and refunds</td>
<td>(869)</td>
<td>(819)</td>
</tr>
<tr>
<td>Interest on obligations</td>
<td>879</td>
<td>829</td>
</tr>
<tr>
<td>Actuarial loss (gain)</td>
<td>3,162</td>
<td>(1,091)</td>
</tr>
<tr>
<td>Plan amendments</td>
<td>–</td>
<td>26</td>
</tr>
<tr>
<td><strong>Balance, end of year</strong></td>
<td>22,275</td>
<td>18,628</td>
</tr>
<tr>
<td><strong>Plan assets at fair value</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, beginning of year</td>
<td>18,732</td>
<td>16,414</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>2,521</td>
<td>2,197</td>
</tr>
<tr>
<td>Employee contributions</td>
<td>131</td>
<td>131</td>
</tr>
<tr>
<td>Contributions by Hydro-Québec</td>
<td>263</td>
<td>809</td>
</tr>
<tr>
<td>Benefit payments and refunds</td>
<td>(869)</td>
<td>(819)</td>
</tr>
<tr>
<td><strong>Balance, end of year</strong></td>
<td>20,778</td>
<td>18,732</td>
</tr>
<tr>
<td><strong>(Deficit) surplus, end of year</strong></td>
<td>(1,497)</td>
<td>104</td>
</tr>
<tr>
<td>Unamortized past service cost (credit)</td>
<td>88</td>
<td>125</td>
</tr>
<tr>
<td>Unamortized net actuarial loss</td>
<td>5,264</td>
<td>3,657</td>
</tr>
<tr>
<td><strong>Accrued benefit assets (liabilities)</strong></td>
<td>3,855</td>
<td>3,886</td>
</tr>
</tbody>
</table>
Note 21  Employee Future Benefits (continued)

ADDITIONAL DISCLOSURES WITH RESPECT TO PLAN ASSETS

As at December 31, plan assets, at fair value, consisted of:

<table>
<thead>
<tr>
<th>%</th>
<th>2014</th>
<th>2013</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>38</td>
<td>41</td>
<td>90</td>
<td>93</td>
</tr>
<tr>
<td>Equities</td>
<td>43</td>
<td>44</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Real estate investments</td>
<td>12</td>
<td>12</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
<td>3</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>%</th>
<th>2014</th>
<th>2013</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>1,124</td>
<td>1,136</td>
<td>69</td>
<td>68</td>
</tr>
</tbody>
</table>

Administrative and management expenses billed to the Pension Plan by Hydro-Québec amounted to $15 million in 2014 ($14 million in 2013).

CASH PAYMENTS

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

<table>
<thead>
<tr>
<th>%</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions by Hydro-Québec</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension Plan</td>
<td>263</td>
<td>809</td>
<td>650</td>
</tr>
<tr>
<td>Other funded plans</td>
<td>13</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td>Benefit payments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unfunded plans</td>
<td>49</td>
<td>46</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>325</td>
<td>869</td>
<td>704</td>
</tr>
</tbody>
</table>

In accordance with the actuarial valuation for funding purposes, Hydro-Québec made current contributions of $263 million in 2014 ($261 million in 2013 and $256 million in 2012), including additional contributions of $76 million ($73 million in 2013 and $83 million in 2012) to cover the current service cost. It also provided a $69 million irrevocable letter of credit in favor of the Pension Plan (special contributions of $548 million and $394 million were made in 2013 and 2012, respectively).

The letter of credit and special contribution take into account certain temporary relief measures introduced by the 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 and, in particular, the extension of the period provided to cover the unfunded actuarial liability.
Note 21  Employee Future Benefits (continued)

ELEMENTS OF ACCRUED BENEFIT COST RECOGNIZED FOR THE YEAR

<table>
<thead>
<tr>
<th></th>
<th>Pension Plan</th>
<th>Other plans</th>
<th>Pension Plan</th>
<th>Other plans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current service cost</strong></td>
<td>344</td>
<td>379</td>
<td>323</td>
<td>42</td>
</tr>
<tr>
<td><strong>Interest on obligations</strong></td>
<td>879</td>
<td>829</td>
<td>839</td>
<td>53</td>
</tr>
<tr>
<td><strong>Actual return on plan assets</strong></td>
<td>(2,521)</td>
<td>(2,197)</td>
<td>(1,489)</td>
<td>(3)</td>
</tr>
<tr>
<td><strong>Actuarial loss (gain)</strong></td>
<td>3,162</td>
<td>1,091</td>
<td>1,730</td>
<td>184</td>
</tr>
<tr>
<td><strong>Plan amendments</strong></td>
<td>–</td>
<td>26</td>
<td>–</td>
<td>(4)</td>
</tr>
<tr>
<td><strong>Cost (credit) before adjustments</strong></td>
<td>1,864</td>
<td>(2,054)</td>
<td>1,403</td>
<td>272</td>
</tr>
<tr>
<td><strong>Difference between actual and expected return on assets</strong></td>
<td>1,332</td>
<td>1,071</td>
<td>406</td>
<td>–</td>
</tr>
<tr>
<td><strong>Difference between actuarial loss (gain) on accrued benefit obligations and actuarial loss recognized</strong></td>
<td>(2,939)</td>
<td>1,427</td>
<td>(1,548)</td>
<td>(177)</td>
</tr>
<tr>
<td><strong>Difference between plan amendments and amortization of past service cost</strong></td>
<td>37</td>
<td>12</td>
<td>48</td>
<td>(1)</td>
</tr>
<tr>
<td><strong>Amortization of transitional (asset) obligation</strong></td>
<td>–</td>
<td>(153)</td>
<td>(152)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Cost recognized for the year</strong></td>
<td>(1,570)</td>
<td>2,357</td>
<td>(1,246)</td>
<td>(178)</td>
</tr>
</tbody>
</table>

a) For the long-term disability salary insurance plan, the current service cost corresponds to the cost of new disability cases for the year.

**SIGNIFICANT ACTUARIAL ASSUMPTIONS**

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

<table>
<thead>
<tr>
<th></th>
<th>Pension Plan</th>
<th>Other plans</th>
<th>Pension Plan</th>
<th>Other plans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accrued benefit obligations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate at end of year</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discount rate</td>
<td>3.98</td>
<td>4.77</td>
<td>4.36</td>
<td>3.98</td>
</tr>
<tr>
<td>Salary escalation ratea</td>
<td>3.23</td>
<td>3.31</td>
<td>2.39</td>
<td>–</td>
</tr>
<tr>
<td><strong>Accrued benefit cost recognized</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate at end of prior year</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discount rate</td>
<td>4.77</td>
<td>4.36</td>
<td>5.01</td>
<td>4.77</td>
</tr>
<tr>
<td>Expected long-term rate of return on plan assets</td>
<td>6.75</td>
<td>6.75</td>
<td>6.75</td>
<td>3.73</td>
</tr>
<tr>
<td>Salary escalation ratea</td>
<td>3.31</td>
<td>2.39</td>
<td>2.61</td>
<td>–</td>
</tr>
</tbody>
</table>

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

As at December 31, 2014, health care costs were based on an annual growth rate of 5.55% for 2015. According to the assumption used, this rate will then decrease to a final rate of 4.90% in 2030. A change of 1% in this annual growth rate would have had the following impact for 2014:

<table>
<thead>
<tr>
<th>Impact on current service cost and interest cost on accrued benefit obligations for the year</th>
<th>1% increase</th>
<th>1% decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact on accrued benefit obligations at end of year</td>
<td>98</td>
<td>(77)</td>
</tr>
</tbody>
</table>
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. 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, 2014, Hydro-Québec was also committed under contracts to purchase electricity from other power producers. Based on the renewal clauses, the terms of these contracts extend through 2052. Hydro-Québec has also undertaken to purchase power transmission rights.

On the basis of all these commitments, Hydro-Québec expects to make the following payments over the coming years:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1,479</td>
</tr>
<tr>
<td>2016</td>
<td>1,637</td>
</tr>
<tr>
<td>2017</td>
<td>1,712</td>
</tr>
<tr>
<td>2018</td>
<td>1,703</td>
</tr>
<tr>
<td>2019</td>
<td>1,853</td>
</tr>
<tr>
<td>2020 and thereafter</td>
<td>30,085</td>
</tr>
</tbody>
</table>

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, 2014, the amortized cost of the long-term debts concerned was $5,805 million.

INVESTMENTS

Hydro-Québec anticipates investing approximately $3.9 billion in property, plant and equipment and intangible assets in 2015.

In addition, Hydro-Québec has entered into various agreements with the local communities concerned by certain capital projects. As at December 31, 2014, the amounts related to all of these agreements were recognized under Long-term debt. As at December 31, 2013, the amounts related to some of the agreements were not recognized under this line item because they did not meet all the applicable criteria for the recognition of a liability. As at December 31, 2013, the agreements not recognized under Long-term debt provided for annual payments as of 2021, for a maximum term of 51 years and a total amount of $618 million.

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 an adequate provision has been made for these legal actions. Consequently, it does not foresee any adverse effect of such contingent liabilities on Hydro-Québec’s consolidated operating result or financial position.

Among other ongoing actions, some Aboriginal communities have instituted proceedings against the governments of Canada and Québec, as well as against Hydro-Québec, based on demands concerning their ancestral rights. Thus, the Innus of Uashat mak Mani-Utenam are claiming an amount of $1.5 billion. In June 2009, they served notice that they had filed for an injunction to suspend work at the Romaine complex jobsite, and in May 2010, an application was added for an interlocutory injunction to suspend work on the related tie lines. As well, in November 2006, the Innus of Pessamit reactivated a case instituted in 1998 aimed at obtaining, among other things, the recognition of ancestral rights related to Québec lands on which certain hydroelectric generating facilities belonging to the Manic-Outardes complex are located. The Innus of Pessamit are claiming $500 million. The judicial proceedings are progressing, and Hydro-Québec is challenging the legitimacy of all these claims.
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. The division provides Hydro-Québec Distribution with a base volume of up to 165 TWh of heritage pool electricity annually. In addition, it can participate in Hydro-Québec Distribution’s calls for tenders in a context of free market competition, and also sells electricity on external markets as well as engaging in arbitraging transactions.

**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 also carry out certain projects elsewhere in Québec or outside the province.

**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 procurement of goods and services, real estate management, vehicle fleet management, materials management, as well as management of food, accommodation and air transportation services.

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 2, Effects 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 supply 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 are related to its Québec operations. In 2014, revenue from outside Québec amounted to $1,732 million, with $1,385 million originating from the United States ($1,658 million and $1,365 million, respectively, in 2013 and $1,458 million and $1,038 million, respectively, in 2012).
**Note 23  Segmented Information (continued)**

The following tables contain information related to operations, assets and investing activities by segment:

<table>
<thead>
<tr>
<th></th>
<th>Generation</th>
<th>Transmission</th>
<th>Distribution</th>
<th>Construction</th>
<th>Corporate and Other Activities</th>
<th>Intersegment eliminations and adjustments</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>External customers</td>
<td>1,729</td>
<td>129</td>
<td>11,710</td>
<td>–</td>
<td>70</td>
<td>–</td>
<td>13,638</td>
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<tr>
<td>Intersegment customers</td>
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<td>3,124</td>
<td>82</td>
<td>2,281</td>
<td>1,484</td>
<td>(11,979)</td>
<td>–</td>
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<tr>
<td>Depreciation and amortization</td>
<td>730</td>
<td>957</td>
<td>732</td>
<td>4</td>
<td>95</td>
<td>–</td>
<td>2,518</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>1,141</td>
<td>794</td>
<td>470</td>
<td>–</td>
<td>27</td>
<td>(5)</td>
<td>2,427</td>
</tr>
<tr>
<td>Result from continuing operations</td>
<td>2,298</td>
<td>624</td>
<td>341</td>
<td>–</td>
<td>117</td>
<td>–</td>
<td>3,380</td>
</tr>
<tr>
<td>Result from discontinued operations</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Net result</td>
<td>2,298</td>
<td>624</td>
<td>341</td>
<td>–</td>
<td>117</td>
<td>–</td>
<td>3,380</td>
</tr>
<tr>
<td>Total assets</td>
<td>33,036</td>
<td>20,942</td>
<td>14,760</td>
<td>445</td>
<td>5,929</td>
<td>(222)</td>
<td>74,890</td>
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**Investing activities**

<table>
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<tr>
<th>Increase in property, plant and equipment and intangible assets</th>
<th>2014</th>
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</thead>
<tbody>
<tr>
<td>Affecting cash</td>
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<table>
<thead>
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<th></th>
<th>Generation</th>
<th>Transmission</th>
<th>Distribution</th>
<th>Construction</th>
<th>Corporate and Other Activities</th>
<th>Intersegment eliminations and adjustments</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>External customers</td>
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<td>11,160</td>
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<td>–</td>
<td>–</td>
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<td>84</td>
<td>2,574</td>
<td>1,503</td>
<td>(12,090)</td>
<td>–</td>
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<td>906</td>
<td>709</td>
<td>3</td>
<td>100</td>
<td>–</td>
<td>2,483</td>
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<td>Financial expenses</td>
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<td>787</td>
<td>450</td>
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<td>27</td>
<td>(5)</td>
<td>2,429</td>
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<tr>
<td>Result from continuing operations</td>
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<td>513</td>
<td>410</td>
<td>–</td>
<td>89</td>
<td>–</td>
<td>2,938</td>
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<tr>
<td>Result from discontinued operations</td>
<td>4</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>4</td>
</tr>
<tr>
<td>Net result</td>
<td>1,930</td>
<td>513</td>
<td>410</td>
<td>–</td>
<td>89</td>
<td>–</td>
<td>2,942</td>
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<tr>
<td>Total assets</td>
<td>32,087</td>
<td>20,267</td>
<td>13,958</td>
<td>459</td>
<td>6,519</td>
<td>(180)</td>
<td>73,110</td>
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**Investing activities**

<table>
<thead>
<tr>
<th>Increase in property, plant and equipment and intangible assets</th>
<th>2013</th>
</tr>
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<td>1,381</td>
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### Note 23  Segmented Information (continued)

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<th>Revenue</th>
<th>Generation</th>
<th>Transmission</th>
<th>Distribution</th>
<th>Construction</th>
<th>Corporate and Other Activities</th>
<th>Intersegment eliminations and adjustments</th>
<th>Total</th>
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<tr>
<td>External customers</td>
<td>1,316</td>
<td>110</td>
<td>10,660</td>
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<td>40</td>
<td>8</td>
<td>12,134</td>
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<td>Intersegment customers</td>
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<td>2,995</td>
<td>77</td>
<td>2,295</td>
<td>1,420</td>
<td>(11,512)</td>
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<td>Depreciation and amortization</td>
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<td>917</td>
<td>669</td>
<td>4</td>
<td>84</td>
<td>–</td>
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<td>796</td>
<td>441</td>
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<td>29</td>
<td>(5)</td>
<td>2,438</td>
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<tr>
<td>Result from continuing operations</td>
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<td>581</td>
<td>503</td>
<td>–</td>
<td>111</td>
<td>–</td>
<td>2,736</td>
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<tr>
<td>Result from discontinued operations</td>
<td>(1,867)</td>
<td>(9)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(1,876)</td>
</tr>
<tr>
<td>Net result</td>
<td>(326)</td>
<td>572</td>
<td>503</td>
<td>–</td>
<td>111</td>
<td>–</td>
<td>860</td>
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<td>Total assets</td>
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<td>19,144</td>
<td>13,434</td>
<td>421</td>
<td>6,648</td>
<td>(205)</td>
<td>70,508</td>
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</table>

#### Investing activities

<table>
<thead>
<tr>
<th>Increase in property, plant and equipment and intangible assets</th>
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<th>Not affecting cash</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,511</td>
<td>587</td>
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<tr>
<td></td>
<td>1,423</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>874</td>
<td>9</td>
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<td></td>
<td>4</td>
<td>–</td>
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<tr>
<td></td>
<td>120</td>
<td>–</td>
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<tr>
<td></td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

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.
SUPPLEMENTARY INFORMATION

As per Canadian generally accepted accounting principles, long-term debt is shown at amortized cost (i.e. the nominal amount plus or minus unamortized discount and/or premium).

The following table sets forth the non-consolidated and outstanding long-term debt by issue of Hydro-Québec as of December 31, 2014, expressed in Canadian dollars and in currency units:

<table>
<thead>
<tr>
<th>Series</th>
<th>Maturity Date</th>
<th>Issue Date</th>
<th>Interest Rate %</th>
<th>Canadian Dollars</th>
<th>CUSIP Number or ISIN Code</th>
<th>References</th>
</tr>
</thead>
<tbody>
<tr>
<td>HG</td>
<td>2019-11-22</td>
<td>1989-11-22</td>
<td>10.000</td>
<td>$100,000,000</td>
<td>448814 DE 0</td>
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<tr>
<td>II</td>
<td>2020-01-10</td>
<td>1993-07-27</td>
<td>10.250</td>
<td>157,596,426</td>
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<tr>
<td>HL</td>
<td>2020-08-15</td>
<td>1990-08-15</td>
<td>11.000</td>
<td>1,110,000,000</td>
<td>448814 DG 5</td>
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<tr>
<td>HM</td>
<td>2020-08-15</td>
<td>1990-08-15</td>
<td></td>
<td>964,615,692</td>
<td>448814 DK 6</td>
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<tr>
<td>HX</td>
<td>2021-10-15</td>
<td>1991-10-15</td>
<td>10.500</td>
<td>1,100,000,000</td>
<td>448814 DW 0</td>
<td></td>
</tr>
<tr>
<td>IC</td>
<td>2022-07-15</td>
<td>1992-07-15</td>
<td>9.625</td>
<td>1,950,000,000</td>
<td>448814 DZ 3</td>
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<tr>
<td>IH</td>
<td>2023-01-26</td>
<td>1993-07-27</td>
<td>11.000</td>
<td>222,491,958</td>
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<tr>
<td>JG</td>
<td>2021-08-15</td>
<td>1999-01-26</td>
<td></td>
<td>825,675,000</td>
<td>448814 DY 3</td>
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<tr>
<td>JM</td>
<td>2024-05-10</td>
<td>2006-10-17</td>
<td>5.000</td>
<td>5,000,000,000</td>
<td>CA448814 HZ 92</td>
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<tr>
<td>JN</td>
<td>2026-02-15</td>
<td>2009-01-15</td>
<td>5.000</td>
<td>7,000,000,000</td>
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<tr>
<td>JQ</td>
<td>2025-02-15</td>
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<td>5.000</td>
<td>500,000,000</td>
<td>CA448814 8V 86</td>
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Medium-term notes issued under Canadian MTN program

<table>
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<tr>
<th>Series</th>
<th>Maturity Date</th>
<th>Issue Date</th>
<th>Rate</th>
<th>Canadian Dollars</th>
<th>CUSIP Number or ISIN Code</th>
<th>References</th>
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</thead>
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<td>2015-02-11</td>
<td>2011-02-11</td>
<td>Floating</td>
<td>528,285,000</td>
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<tr>
<td>0062</td>
<td>2016-03-01</td>
<td>2010-02-23</td>
<td>3.290</td>
<td>14,626,000</td>
<td>CA44889Z EJ 18</td>
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<tr>
<td>0056</td>
<td>2017-03-02</td>
<td>2009-03-02</td>
<td>4.205</td>
<td>14,000,000</td>
<td>CA44889Z EC 64</td>
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<td>0059</td>
<td>2017-04-15</td>
<td>2009-10-14</td>
<td>—</td>
<td>34,331,638</td>
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<td>0049</td>
<td>2018-08-15</td>
<td>2003-09-04</td>
<td>5.500</td>
<td>150,000,000</td>
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<td>0064</td>
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<td>Floating</td>
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<td>2009-03-02</td>
<td>4.678</td>
<td>14,600,000</td>
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<td>2019-12-01</td>
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Present value of lease obligations for regional offices and service facilities ................................................................. 25,033,672
Others .................................................................................................................................................................................. 1,291,879,524
Unamortized discount and/or premium ............................................................................................................................... 1,747,327,021

Debt classified by currency of issue ................................................................. 34,414,155,811
Debt classified by currency of repayment .......................................................... 44,156,160,806
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<th>Issue Date</th>
<th>Interest Rate %</th>
<th>Canadian Dollars (C)</th>
<th>Currency Units</th>
<th>CUSIP Number or ISIN Code</th>
<th>References</th>
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<td>IU</td>
<td>2016-04-01</td>
<td>1996-04-01</td>
<td>7.500</td>
<td>$464,040,000</td>
<td>US$</td>
<td>400,000,000</td>
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Medium-term notes issued under U.S. MTN program

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<th>Series</th>
<th>Maturity Date</th>
<th>Issue Date</th>
<th>Interest Rate %</th>
<th>Canadian Dollars (C)</th>
<th>Currency Units</th>
<th>CUSIP Number or ISIN Code</th>
<th>References</th>
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Unamortized discount and/or premium ............................................. (43,137,641)

Debt classified by currency of issue ............................................. 9,388,417,354

Debt classified by currency of repaymentd ........................................ 101,890,467

Payable in Euro

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<th>Issue Date</th>
<th>Interest Rate %</th>
<th>Canadian Dollars (C)</th>
<th>Currency Units</th>
<th>CUSIP Number or ISIN Code</th>
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Unamortized discount and/or premium ............................................. (205,349)

Debt classified by currency of issue ............................................. 84,765,667

Debt classified by currency of repaymentd ........................................ –

Payable in Japanese Yen

Medium-term notes issued under Euro MTN program

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<th>Maturity Date</th>
<th>Issue Date</th>
<th>Interest Rate %</th>
<th>Canadian Dollars (C)</th>
<th>Currency Units</th>
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Unamortized discount and/or premium ............................................. (910)

Debt classified by currency of issue ............................................. 9,677,090

Debt classified by currency of repaymentd ........................................ –

Payable in Pounds Sterling

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Unamortized discount and/or premium ............................................. (384,649)

Debt classified by currency of issue ............................................. 361,035,351

Debt classified by currency of repaymentd ........................................ –

Total Long-term Debt ........................................................................ $44,258,051,273
a) If more than one issue date, the date of the first issue is indicated.
b) Not redeemable unless otherwise specified.
c) Translated at rates in effect at December 31, 2014.
d) Takes into account swaps related to long-term debt (see Notes 12 and 15 to the 2014 Consolidated Financial Statements).

1) Sold at deep discount maturing semi-annually from February 15, 2011 to August 15, 2021 in equal payments.
2) From January 16, 2022, fixed coupon amounts of $1.6 million payable semi-annually.
4) Fixed rate coupon of 6.5% semi-annually commencing on January 16, 2026.
5) Sold at deep discount maturing semi-annually from January 16, 2025 to July 16, 2035 in various payment amounts.
6) No interest payment until February 15, 2030 exclusive. Commencing on February 15, 2030, fixed rate coupon of 45% payable semi-annually.
7) 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.
8) No interest payment until February 15, 2040 exclusive. Commencing on February 15, 2040, fixed rate coupon of 100% payable semi-annually.
9) 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.
10) Sinking fund debentures. As disclosed, in the 2014 Consolidated Financial Statements, an amount of $588 million was reported under Short-term investments for this purpose.
11) Redeemable anytime at the highest of par or adjusted price as per the Fiscal Agency Agreement at the option of Hydro-Québec.
INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Hydro-Québec

We consent to the incorporation by reference in Hydro-Québec’s Registration Statement No. 333-178704 of our report to the Minister of Finance of Québec dated February 20, 2015 on the consolidated financial statements of Hydro-Québec, which comprise the consolidated balance sheets as at December 31, 2014 and 2013, and the consolidated statements of operations, retained earnings, cash flows and comprehensive income for each of the years in the three-year period ended December 31, 2014, and the notes, comprising a summary of significant accounting policies and other explanatory information, which report appears in the Annual Report on Form 18-K of Hydro-Québec for the year ended December 31, 2014.

/s/ KPMG LLP1    /s/ Ernst & Young LLP2    /s/ Guylaine Leclerc, FCPA auditor, FCA
Auditor General of Québec

Montréal, Québec
April 1, 2015

1. CPA auditor, CA, public accountancy permit No. A120220
2. CPA auditor, CA, public accountancy permit No. A109499