



\$20,000,000,000

Canadian Medium Term Note Programme for the issue of
Notes with maturities of one year or longer guaranteed as to
payment of principal and interest by Québec

This Supplemental Offering Circular is prepared in connection with the Canadian Medium Term Note Programme of Hydro-Québec and is supplemental to, and should be read in conjunction with, the Offering Circular dated December 17, 2004, as amended by the Supplemental Offering Circulars dated December 12, 2005 and December 20, 2006 (the “Offering Circular”).

The purpose of this Supplemental Offering Circular is to reflect the increase of \$4,000,000,000 in the aggregate amount of the initial offering prices of all Notes which may be at any time outstanding under such Programme. As of the date hereof, all references in the Offering Circular to the aggregate amount of the initial offering prices of all Notes outstanding at any time shall be changed to \$20,000,000,000, such aggregate amount being calculated as set forth in the Offering Circular (See “Plan of Distribution”) in the case of Notes denominated in U.S. dollars.

National Bank Financial Inc.
Casgrain & Company Limited
Desjardins Securities Inc.
Merrill Lynch Canada Inc.
Scotia Capital Inc.

BMO Nesbitt Burns Inc.
CIBC World Markets Inc.
Laurentian Bank Securities Inc.
RBC Dominion Securities Inc.
The Toronto-Dominion Bank



\$16,000,000,000
Canadian Medium Term Note Programme for
the issue of Notes with maturities of one year
or longer guaranteed as to payment of
principal and interest by
QUÉBEC

This Supplemental Offering Circular is prepared in connection with the Canadian Medium Term Note Programme of Hydro-Québec and is supplemental to, and should be read in conjunction with, the Offering Circular dated December 17, 2004, as amended by the Supplemental Offering Circular dated December 12, 2005 (the “Offering Circular”).

The purpose of this Supplemental Offering Circular is to reflect the increase of \$2,000,000,000 in the aggregate amount of the initial offering prices of all Notes which may be at any time outstanding under such Programme. As of the date hereof, all references in the Offering Circular to the aggregate amount of the initial offering prices of all Notes outstanding at any time shall be changed to \$16,000,000,000, such aggregate amount being calculated as set forth in the Offering Circular (See “Plan of Distribution”) in the case of Notes denominated in U.S. dollars.

National Bank Financial Inc.

BMO Nesbitt Burns Inc.
CIBC World Markets Inc.
Merrill Lynch Canada Inc.
Scotia Capital Inc.

Casgrain & Company Limited
Laurentian Bank Securities Inc.
RBC Dominion Securities Inc.
The Toronto-Dominion Bank



\$14,000,000,000
Canadian Medium Term Note Programme for
the issue of Notes with maturities of one year
or longer guaranteed as to payment of
principal and interest by
QUÉBEC

This Supplemental Offering Circular is prepared in connection with the Canadian Medium Term Note Programme of Hydro-Québec and is supplemental to, and should be read in conjunction with, the Offering Circular dated December 17, 2004 (the “Offering Circular”).

The purpose of this Supplemental Offering Circular is to reflect the increase of \$2,000,000,000 in the aggregate amount of the initial offering prices of all Notes which may be at any time outstanding under such Programme. As of the date hereof, all references in the Offering Circular to the aggregate amount of the initial offering prices of all Notes outstanding at any time shall be changed to \$14,000,000,000, such aggregate amount being calculated as set forth in the Offering Circular (See “Plan of Distribution”) in the case of Notes denominated in U.S. dollars.

National Bank Financial Inc.

BMO Nesbitt Burns Inc.
CIBC World Markets Inc.
Merrill Lynch Canada Inc.
Scotia Capital Inc.

Casgrain & Company Limited
Laurentian Bank Securities Inc.
RBC Dominion Securities Inc.
The Toronto-Dominion Bank



\$12,000,000,000

Canadian Medium Term Note Programme for the issue of Notes
with maturities of one year or longer guaranteed as to
payment of principal and interest by
QUÉBEC

On May 6, 1996, Hydro-Québec implemented its Canadian Medium Term Note Programme (the “Programme”). This Offering Circular supersedes any previous circular with respect to the Programme. All the Notes (as defined hereunder) issued under the Programme on and from the date of this Offering Circular are issued subject to the provisions hereof which, however, do not affect Notes already issued and currently outstanding.

Under the Programme, Hydro-Québec may from time to time issue and sell, in Canada, Notes denominated in Canadian dollars or U.S. dollars (the “Notes”). The purchaser of the Notes may be an Agent (as defined below) acting for its own account or another person acting through an Agent and the Notes may also be sold to a group of underwriters, which may or not be Agents, for public issue. Furthermore, Hydro-Québec reserves the right to distribute Notes to a purchaser through a dealer other than the Agents and to distribute Notes directly to the Caisse de dépôt et placement du Québec, the Hydro-Québec Pension Plan, the Sinking Fund pertaining to borrowings of Hydro-Québec and the Sinking Fund pertaining to borrowings of the Gouvernement du Québec. Any purchaser of Notes is hereinafter called a “Purchaser”. The Notes will have maturities of one year or longer and, subject as set out herein, the aggregate amount of the initial offering prices of all Notes at any time outstanding will not exceed \$12,000,000,000, calculated as set forth herein (see “Plan of Distribution”) in the case of Notes denominated in U.S. dollars. The payment of the principal of and interest on the Notes is guaranteed by Québec.

Each issue and sale of Notes will be in an aggregate principal amount of \$1,000 (Canadian dollars or U.S. dollars) or an integral multiple thereof. The Notes will be evidenced by book-entries in the records of The Canadian Depository for Securities Limited (the “Depository”) and will be represented by global Notes held by, or on behalf of, the Depository, or any successor depository, and registered in the name of the Depository or its nominee, presently CDS & Co. Beneficial interests in Notes represented by a global Note will be evidenced only by, and transfers thereof will be effected only through, records maintained by the Depository (with respect to its participants’ interests) and its participants.

The applicable terms and conditions of any Notes will be agreed between Hydro-Québec and the Purchaser prior to the issue and sale of the Notes and will be specified in the applicable Pricing Supplement. Hydro-Québec reserves the right to specify in such Pricing Supplement terms and conditions different from those set forth in this Offering Circular.

The Notes are being offered on a continuous basis by Hydro-Québec through the Agents specified below (each an “Agent” and together the “Agents”). Hydro-Québec will have the sole right to accept any offer to purchase Notes and may reject any such offer in whole or in part. The Agents have agreed with Hydro-Québec to use their best efforts to maintain the existence of a secondary market for the Notes. See “Plan of Distribution”.

National Bank Financial Inc.

BMO Nesbitt Burns Inc.

CIBC World Markets Inc.

Merrill Lynch Canada Inc.

Scotia Capital Inc.

Casgrain & Company Limited

Laurentian Bank Securities Inc.

RBC Dominion Securities Inc.

The Toronto-Dominion Bank

Hydro-Québec has taken all reasonable care to ensure that the facts stated herein in relation to Hydro-Québec and in relation to the Notes are true and accurate in all material aspects and that there are no other material facts in relation to Hydro-Québec and the Notes the omission of which would make any statement herein, whether of fact or opinion, misleading.

No person has been authorized to give any information or to make any representations other than those contained in this Offering Circular (or in any amendments made from time to time to this Offering Circular and any supplementary terms and conditions provided in any Pricing Supplement or in any Note) in connection with the offering or sale of the Notes and, if given or made, such information or representations must not be relied upon as having been authorized. Neither the delivery of this Offering Circular nor the issue of the Notes nor any sale thereof shall, under any circumstances, create any implication that there has been no change in the affairs of Hydro-Québec since the date hereof. This Offering Circular does not constitute an offer or invitation by anyone in any jurisdiction in which such offer is not authorized or to any person to whom it is unlawful to make such offer or invitation. Neither this Offering Circular nor any other information supplied in connection with the Notes constitutes an offer or invitation by or on behalf of Hydro-Québec or any of the Agents to any person to purchase any of the Notes.

The distribution of this Offering Circular and the offering or sale of the Notes in certain jurisdictions may be restricted. The Agents and Hydro-Québec require persons into whose possession this Offering Circular or any Notes come to inform themselves about and observe any and all such restrictions.

More particularly the Notes have not been and will not be registered under the *United States Securities Act of 1933*, as amended (the “Act of 1933”), and, subject to certain exceptions, may not be offered, sold or delivered within the United States of America or to U.S. persons (within the meaning of Regulation S adopted under the Act of 1933), except pursuant to a registration statement under the Act of 1933 or in accordance with the provisions of Rule 144A adopted under the Act of 1933 or an exemption from registration under the Act of 1933.

In this Offering Circular, references to “\$” and “dollar” are to Canadian dollars and references to “U.S. dollars” are to dollars of the United States of America.

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1. SUMMARY OF THE TERMS AND CONDITIONS OF THE PROGRAMME AND THE NOTES

The following summary does not purport to be complete and is taken from and is qualified in its entirety by the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Series of Notes, by the applicable Pricing Supplement. Words and expressions defined in the Terms and Conditions of the Notes shall have the same meanings when used in this summary.

Issuer: Hydro-Québec

Guarantor: Québec

Description: Canadian Medium Term Note Programme

Agents: National Bank Financial Inc., BMO Nesbitt Burns Inc., Casgrain & Company Limited, CIBC World Markets Inc., Laurentian Bank Securities Inc., Merrill Lynch Canada Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and The Toronto-Dominion Bank.

Amount: Up to \$12,000,000,000 (calculated as set forth herein in the case of Notes denominated in U.S. dollars) aggregate initial offering prices of all Notes outstanding at any time. Hydro-Québec will have the option to increase such amount at any time.

Currencies: Canadian dollars or (except for Real Return Notes) U.S. dollars as may be agreed between Hydro-Québec and the Purchaser (as specified in the applicable Pricing Supplement).

Maturities: Any maturity of one year or longer (as specified in the applicable Pricing Supplement).

Issue Price: Notes will be sold at the price agreed between Hydro-Québec and the Purchaser.

Form, Registration, Transfer and Denominations of Notes: The Notes will be evidenced by book-entry accounts in the records of The Canadian Depository for Securities Limited (the “Depository”) and will be represented by global Notes held by, or on behalf of the Depository, or such other successor depository as may be appointed, and registered in the name of the Depository or its nominee, presently CDS & Co. Beneficial interests in Notes represented by a global Note will be evidenced only by, and transfers thereof will be effected only through, records maintained by the Depository (with respect to its participants’ interests) and its participants. Except in the limited circumstances described herein, owners of such beneficial interests will not be entitled to individual Notes. Notes will be issued in denominations of \$1,000 (Canadian dollars or US dollars, as the case may be) or an integral multiple thereof.

Fixed Rate Notes: Fixed interest will be payable in arrears on such date or dates in each year as may be agreed between Hydro-Québec and the Purchaser (as specified in the applicable Pricing Supplement) and on repayment or redemption.

Floating Rate Notes: Floating Rate Notes will bear interest calculated on such basis as may be agreed between Hydro-Québec and the Purchaser (as specified in the applicable Pricing Supplement).

Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Notes will be payable in arrears on such date or dates in each year as may be agreed between Hydro-Québec and the Purchaser (as specified in the applicable Pricing Supplement) and on repayment or redemption.

Dual Currency Notes: Payments (in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in Canadian dollars or U.S. dollars and based on such rate of exchange as may be agreed between Hydro-Québec and the Purchaser (as specified in the applicable Pricing Supplement).

Zero Coupon Notes: Zero Coupon Notes will be issued and sold at a discount and will not bear interest.

Indexed Notes: Payments (in respect of principal or interest and whether at maturity or otherwise) in respect of Indexed Notes will be calculated by reference to such Index and/or Formula as may be agreed between Hydro-Québec and the Purchaser (as specified in the applicable Pricing Supplement).

Real Return Notes: Real Return Notes (being Notes whose yield is real (i.e. after taking into account the effect of inflation on the purchasing power of money)) will bear interest at a nominal rate adjusted in relation to the Consumer Price Index for Canada (as specified in the applicable Pricing Supplement) and said interest will consist of both an inflation compensation component calculated on the principal amount of the Notes and a cash component calculated on the principal amount of the Notes and the accrued inflation compensation component.

The cash component of the interest will be payable in arrears on such date or dates in each year, as may be agreed between Québec and the Purchaser (as specified in the applicable Pricing Supplement) and on repayment or redemption. The inflation compensation component will be payable on repayment or redemption.

Redemption and Purchase: The Notes cannot be redeemed prior to their stated maturity unless the Pricing Supplement provides that such Notes will be redeemable at the option of Hydro-Québec and/or the Noteholders. Hydro-Québec may at any time purchase Notes in any manner and at any price.

Payments: All payments of principal, premium and interest on the Notes will be made in the Specified Currency to the registered holder (the Depositary or its nominee) of the global Note representing such Notes or, if Notes in definitive form are issued, to the registered holders thereof.

Principal Amount of each Issue and Sale: Each issue and sale of Notes shall be in an aggregate principal amount of \$1,000 (Canadian dollars or U.S. dollars) or an integral multiple thereof as may be agreed between Hydro-Québec and the Purchaser and as specified in the applicable Pricing Supplement.

Status of the Notes: The Notes will constitute valid and unconditional obligations of Hydro-Québec, will not be secured and will rank *pari passu* among themselves and with all other debentures, notes or similar securities issued by Hydro-Québec and outstanding at the date hereof or in the future.

Governing Law: The Notes will be governed by, and construed in accordance with, the laws of Québec and the laws of Canada applicable therein.

Authorization: The Notes will be issued under and pursuant to the *Hydro-Québec Act* (R.S.Q. Chap. H-5), as well as any By-law of Hydro-Québec and Order in Council of Québec authorizing the Programme and, as the case may be, having modified it.

II. PRICING SUPPLEMENT

The Pricing Supplement relating to each issue of Notes may contain the following information in respect of such Notes (all words and expressions defined in the Terms and Conditions of the Notes (see below) having the same meaning when used herein and all references to numbered Conditions being to the corresponding paragraphs of such Terms and Conditions): -

- i) the Series number;
- ii) the date of issue of the Notes;
- iii) the date of the Offering Circular containing the Terms and Conditions of the Notes as replaced or modified by the Pricing Supplement;
- iv) the Specified Currency (Currencies in the case of Dual Currency Notes);
- v) the aggregate principal amount of the Notes to be issued;
- vi) the Interest/Payment Basis;
- vii) if the Notes are not to be of any single specified Interest/Payment Basis continuously from the date on which the Notes are issued to the stated maturity thereof, the dates from (and including) which and to (but excluding) which each Interest/Payment Basis shall apply;
- viii) the Interest Commencement Date;
- ix) the number of days within the first Interest Period, if shorter or longer than the other Interest Periods (excluding the last Interest Period);
- x) the number of days within the last Interest Period, if shorter or longer than the other Interest Periods (excluding the first Interest Period);
- xi) the Maturity Date;
- xii) in the case of Fixed Rate Notes:
 - a) the Fixed Rate(s), and if more than one rate applies, the date on which each rate comes into effect;
 - b) the Interest Payment Date(s);
 - c) the Initial Fixed Interest Amount, if any; and
 - d) the Final Fixed Interest Amount, if any;
- xiii) in the case of Floating Rate Notes:
 - a) the Interest Payment Date(s);
 - b) the manner in which the Floating Rate is to be determined, including:
 - 1) the Reference Rate;
 - 2) the Designated Maturity;
 - 3) the Interest Reset Date(s);
 - 4) the Spread(s), if any;
 - c) the minimum rate, if any, at which the Notes will bear interest, which may remain the same throughout the life of the Notes or increase and/or decrease;
 - d) the maximum rate, if any, at which the Notes will bear interest, which may remain the same throughout the life of the Notes or increase and/or decrease; and
 - e) the denominator to be used for calculating the Floating Interest Amount, if different from the denominator set forth in Condition 3 b) ii);

- xiv) in the case of Indexed Notes:
 - a) the Index and/or the Formula; and
 - b) the provisions regarding calculation of principal and/or interest in circumstances where such calculation by reference to the Index and/or the Formula is impossible and/or impracticable;
- xv) in the case of Dual Currency Notes:
 - a) the exchange rate or basis of calculating the exchange rate to be used in determining the amounts of principal and/or interest payable in the Specified Currencies; and
 - b) the provisions regarding the calculation of principal and/or interest in circumstances where such calculation by reference to the exchange rate mentioned in a) is impossible and/or impracticable;
- xvi) if the case of Real Return Notes:
 - a) the Original Issue Date;
 - b) the Interest Payment Date(s);
 - c) the Nominal Rate;
 - d) the Official Time Base;
 - e) the reference CPI applicable as of the Original Issue Date;
- xvii) if the Notes are redeemable at the option of Hydro-Québec:
 - a) each Optional Redemption Date;
 - b) each Optional Redemption Amount and the method, if any, of calculating the same; and
 - c) if the Notes are redeemable in part:
 - 1) the Minimum Redemption Amount;
 - 2) the Maximum Redemption Amount;
- xviii) if the Notes are redeemable at the option of the Noteholders:
 - a) each Optional Redemption Date; and
 - b) each Optional Redemption Amount and the method, if any, of calculating the same;
- xix) the applicable definition of Business Day (if different from that set out in the Terms and Conditions of the Notes);
- xx) any other relevant terms of such Notes;
- xxi) if a public issue, the name of the underwriters; and
- xxii) the CUSIP number of the Notes.

III. TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes.

This Note is one of a Series (as defined below) of Notes (the “Notes”, which word shall mean the global Note representing such Notes and, as the case may be, the individual Notes of such Series which could be issued) having the following terms and conditions which (subject to completion and amendment) will be attached to or incorporated by reference into each global Note but the relevant Pricing Supplement in relation to any Series (as defined below) of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purpose of such Series of Notes.

When used herein, the following words and expressions shall have the following meanings:

Business Day: means (unless otherwise stated in the applicable Pricing Supplement) a day which is:

- a) a day (other than a Saturday or a Sunday) on which banks are open for business in Montréal and Toronto; and
- b) in relation to Notes denominated in U.S. dollars, a day (other than a Saturday or a Sunday) on which banking institutions in New York City are not authorized by law or regulation to close;

CPI: the Consumer Price Index for Canada, All-items (not seasonally adjusted), as published by Statistics Canada, or, in limited circumstances, an applicable substitute Index;

Calculation Date: as pertains to any Interest Reset Date of the U.S. Prime Rate, means the tenth calendar day after such Interest Reset Date or, if any such day is not a Business Day, the next succeeding Business Day;

Canadian Bankers Acceptance Rate: for an Interest Reset Date, the average rate for Canadian dollar bankers acceptances for the Designated Maturity which appears on the Reuters Screen CDOR Page as of 10:00 A.M. (Toronto time) on that Interest Reset Date. If such rate does not appear on the Reuters Screen CDOR Page, the Canadian Bankers Acceptance Rate for that Interest Reset Date will be the arithmetic mean of the bid rates of the Reference Banks for Canadian dollar bankers acceptances of the Designated Maturity, for settlement on that Interest Reset Date and in a Representative Amount, accepted by the Reference Banks as of 10:00 A.M. (Toronto time) on that Interest Reset Date. Hydro-Québec will request the principal Toronto office of each of the Reference Banks to provide a quotation of its rate;

Canadian dollars: the lawful money of Canada;

Canadian Prime Rate: for an Interest Reset Date, the rate determined by Hydro-Québec to be the average of the rates publicly quoted by the banks of Schedule 1 of the *Bank Act* (Canada) as base rates for determining interest rates on Canadian dollar commercial loans in Canada and prevailing at 10:00 A.M. (Toronto Time) on that Interest Reset Date;

Canadian Treasury Bill Rate: for an Interest Reset Date, the average rate for Government of Canada Treasury bills of the Designated Maturity which appears on the Telerate Page 3198 as of 10:00 A.M. (Toronto time) on that Interest Reset Date. If such rate does not appear on the Telerate Page 3198, the Canadian Treasury Bill Rate for that Interest Reset Date will be the arithmetic mean of the secondary market bid rates of the Reference Banks as of 10:00 A.M. (Toronto time) on that Interest Reset Date for the issue of current Government of Canada Treasury Bills with a remaining maturity closest to the Designated Maturity. Hydro-Québec will request the principal Toronto office of each of the Reference Banks to provide a quotation of its rate;

Depository: The Canadian Depository for Securities Limited or such other successor depository as may be appointed by Hydro-Québec;

Designated Maturity: the period to maturity of the instrument or obligation utilized to determine a Reference Rate, as specified in the applicable Pricing Supplement;

Dual Currency Note: a Note in respect of which the interest is payable in a Specified Currency other than the Specified Currency in which such Note is denominated;

Final Fixed Interest Amount: where the last Interest Period with respect to a Fixed Rate Note is shorter or longer than the preceding Interest Periods thereof (except, as the case may be, the first Interest Period), the amount of the last payment of interest;

Fixed Rate: the rate, generally expressed as a percentage per annum, at which a Fixed Rate Note bears interest, which may remain the same throughout the life of such Note or increase and/or decrease;

Fixed Rate Note: a Note bearing interest on the basis of one or more Fixed Rates;

Floating Interest Amount: each amount of interest payable on a Floating Rate Note for an Interest Period;

Floating Rate: the rate at which a Floating Rate Note bears interest, generally expressed as a percentage per annum and determined on the basis of a Reference Rate plus or minus the Spread;

Floating Rate Note: a Note bearing interest on a Floating Rate basis;

Formula: in the case of an Indexed Note, the formula to be used in determining the amounts of principal and/or interest due;

H.15(519): the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the Federal Reserve System of the United States of America and available on the web site of such Board of Governors at the address "<http://www.federalreserve.gov/releases/h15>" or on any successor site;

H.15 Daily Update: the daily update of H.15(519) available on the web site of the Board of Governors of the Federal Reserve System of the United States of America at the address "<http://www.federalreserve.gov/releases/h15/update>" or on any successor site or publication;

Index: in the case of an Indexed Note, the index to which amounts payable in respect of principal and/or interest are linked;

Indexed Note: a Note (other than a Real Return Note) in respect of which principal and/or interest is calculated by reference to an Index and/or a Formula;

Interest Commencement Date: in the case of an interest bearing Note, the date from which such Note bears interest, which may or may not be the date on which such Note is issued;

Initial Fixed Interest Amount: where the first Interest Period with respect to a Fixed Rate Note is shorter or longer than the subsequent Interest Periods thereof (except, as the case may be, the last Interest Period), the amount of the first payment of interest;

Interest/Payment Basis: the interest and/or payment basis of the Note which may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Indexed Note, a Dual Currency Note or a Real Return Note;

Interest Payment Date: the date(s) (in each year, as the case may be) on which interest is payable throughout the life of a Note;

Interest Period: the period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and from and including that and each successive Interest Payment Date thereafter to but excluding the next following Interest Payment Date;

Interest Reset Date: a date on which the Reference Rate applicable to a Floating Rate Note is reset, which may be monthly, quarterly, semi-annually, annually or otherwise, as specified in the applicable Pricing Supplement;

London Banking Day: a day (other than a Saturday or Sunday) on which banking institutions in the City of London are not authorized by law or regulation to close;

Maturity Date: the date on which a Note (unless previously redeemed) will mature;

Maximum Redemption Amount: in the case of Notes of a Series redeemable by Hydro-Québec in part, the maximum principal amount of such Notes permitted to be so redeemed at any time;

Minimum Redemption Amount: in the case of Notes of a Series redeemable by Hydro-Québec in part, the minimum principal amount of such Notes to be so redeemed at any time;

Nominal Rate: the rate, generally expressed as a percentage per annum, at which a Real Return Note bears interest before any adjustment of such rate in relation to the CPI;

Noteholders: in the case of a global Note, the registered holder (the Depository or its nominee) thereof and, in the case of individual Notes which may be issued, the registered holders thereof;

Official Time Base: the official base period for the CPI being 1992 = 100 or any other official base period for the CPI specified in the applicable Pricing Supplement;

Optional Redemption Amount: in the case of a Note redeemable at the option of Hydro-Québec and/or the Noteholders, each redemption amount for such Note generally expressed as a percentage of the principal amount of such Note;

Optional Redemption Date: in the case of a Note redeemable at the option of Hydro-Québec and/or the Noteholders, each date upon which redemption may occur, which date must be an Interest Payment Date;

Original Issue Date: the date on which the first Tranche of a specific Series of Real Return Notes is issued, as specified in the applicable Term Supplement;

Real Return Note: a Note bearing interest at a nominal rate adjusted in relation to the CPI, said interest consisting of both an inflation compensation component calculated on the principal and a cash component calculated on the principal and the accrued inflation compensation;

Reference Banks: for purposes of

- i) the Canadian Bankers Acceptance Rate and the Canadian Treasury Bill Rate, four major banks of Schedule 1 of the *Bank Act* (Canada),
- ii) the U.S. LIBOR Rate, four major banks in the London interbank market, and
- iii) the U.S. Prime Rate, three major banks in New York City,

in each case selected by Hydro-Québec or specified in the applicable Pricing Supplement;

Reference Rate: the rate used to determine the Floating Rate applicable to a Floating Rate Note and which may be the Canadian Bankers Acceptance Rate, the Canadian Prime Rate, the Canadian Treasury Bill Rate, the U.S. LIBOR Rate, the U.S. Prime Rate and/or such other reference rate as specified in the applicable Pricing Supplement;

Representative Amount: for purposes of a Reference Rate, an amount that is representative of a single transaction in the relevant market at the relevant time;

Reuters Screen: as used in connection with any designated page and a Reference Rate, the display page so designated on the Reuters Monitor Money Rates Service (or such other page as may replace that page on that service for the purpose of displaying rates or prices comparable to that Reference Rate);

Series: all Notes which are denominated in the same Specified Currency and which have the same Maturity Date, Interest/Payment Basis, Interest Periods and Interest Payment Dates (if any) (all as specified in the applicable Pricing Supplement) and the terms and conditions of which (save for the date on which they are issued, the Interest Commencement Date and/or the price at which they are issued (as specified as aforesaid)) are otherwise identical. "Notes of the relevant Series", "Noteholders of the relevant Series" and related expressions shall be construed accordingly;

Specified Currency: the currency in which a Note is denominated and, in the case of a Dual Currency Note, the currency in which payment in respect of interest on such Note is to be made, such currency to be either Canadian dollars or U.S. dollars except that the Specified Currency of Real Return Notes may only be the Canadian dollar;

Spread: the spread(s), if any, (expressed as a percentage per annum) over or under the Reference Rate by which the Floating Rate with respect to a Floating Rate Note is determined (which spread may remain the same throughout the life of such Note or increase and/or decrease);

Telerate: as used in connection with any designated page and a Reference Rate, the display page so designated on the display service of Moneyline Telerate Service, Inc. (or such other page as may replace that page on that service or such other service as may be nominated as the information vendor, for the purpose of displaying rates or prices comparable to that Reference Rate);

Tranche: all Notes of the same Series which have the same date of issue;

U.S. dollars: the lawful money of the United States of America;

U.S. LIBOR Rate: for an Interest Reset Date, the rate for deposits in U.S. dollars of the Designated Maturity which appears on the Telerate Page 3750 as of 11:00 A.M. (London time) on the day that is two London Banking Days preceding that Interest Reset Date. If such rate does not appear on the Telerate Page 3750, the U.S. LIBOR Rate for that Interest Reset Date will be determined on the basis of the rates at which deposits in U.S. dollars are offered by the Reference Banks at approximately 11:00 A.M. (London time) on the day that is two London Banking Days preceding that Interest Reset Date to prime banks in the London interbank market for the Designated Maturity commencing on that Interest Reset Date and in a Representative Amount. Hydro-Québec will request the principal London office of each of the Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, the U.S. LIBOR Rate for that Interest Reset Date will be the arithmetic mean of the quotations. If fewer than two quotations are provided as requested, the U.S. LIBOR Rate for that Interest Reset Date will be the arithmetic mean of the rates quoted by four major banks in New York City, selected by Hydro-Québec, at approximately 11:00 A.M. (New York City time) on that Interest Reset Date for loans in U.S. dollars to leading European banks for the Designated Maturity commencing on that Interest Reset Date and in a Representative Amount;

U.S. Prime Rate: for an Interest Reset Date, the rate set forth in H.15(519) on that Interest Reset Date opposite the caption "Bank prime loan". If by 3:00 P.M. (New York City time) on the Calculation Date pertaining to that Interest Reset Date such rate for that Interest Reset Date is not yet thus published in H.15(519), the U.S. Prime Rate for that Interest Reset Date will be the rate set forth in H.15 Daily Update on that Interest Reset Date opposite the caption "Bank prime loan". If by 3:00 P.M. (New York City time) on such Calculation Date, such rate for that Interest Reset Date is not yet thus published in H.15(519) nor in H.15 Daily Update, the U.S. Prime Rate for that Interest Reset Date will be the arithmetic mean of the rates of interest publicly announced by each bank that appears on the Reuters Screen USPRIME1 Page as such bank's prime rate or base lending rate in effect for that Interest Reset Date as quoted on the Reuters Screen USPRIME1 Page on that Interest Reset Date or, if fewer than four rates appear on the Reuters Screen USPRIME1 Page for that Interest Reset Date, the U.S. Prime Rate will be the arithmetic mean of the rates of interest publicly announced by each Reference Bank as its U.S. dollar prime rate or base lending rate as in effect for that Interest Reset Date;

Zero Coupon Note: a Note issued on a non-interest bearing basis.

Words and expressions defined in these Terms and Conditions shall have the same meanings where used in any Pricing Supplement unless the context otherwise requires or unless otherwise stated.

1. Form, Registration and Transfer

The Notes of this Series will be evidenced by book-entries in the records of the Depositary and will be represented by a fully registered global Note held by, or on behalf of the Depositary or such other successor depositary acceptable to Hydro-Québec as may be appointed and such global Note will be registered in the name of the Depositary or its nominee. Notes issued in subsequent Tranches may be represented by the same global Note. Beneficial interests in the Notes represented by such global Note will be evidenced only by, and transfers thereof (which may be made only in denominations of \$1,000 or integral multiples thereof) will be effected only through, records maintained by the Depositary (with respect to its participants' interests) and its participants. Except in the limited circumstances described below, owners of such beneficial interests will not be entitled to have Notes represented by such global Note registered in their names or to receive individual Notes. Accordingly, each person owning a beneficial interest in such global Note must rely on the procedures of the Depositary and, if such person is not a participant of the Depositary, on the procedures of the participant through which such person owns its interest, in order to exercise any rights of a holder under the Notes.

Hydro-Québec will keep or cause to be kept a register in which will be recorded registrations and transfers of such global Note and of individual Notes if issued. Such register shall be kept at the office of the Corporate Treasurer, Hydro-Québec, 75, boulevard René-Lévesque ouest, Montréal (Québec) H2Z 1A4 or at such other office notified by Hydro-Québec to the Noteholders.

If the Depositary notifies Hydro-Québec that it is unwilling or unable to continue as depositary in connection with such global Note or ceases to be recognized as a self-regulatory organization under the *Securities Act* (Québec) or other applicable Canadian securities legislation at a time when it is required to be and if a successor depositary is not appointed by Hydro-Québec within 90 days after receiving such notice or becoming aware that the Depositary is no longer recognized in such capacity or if Hydro-Québec decides that the global Note is exchangeable for individual Notes and gives notice thereof to the Depositary, Hydro-Québec will issue or cause to be issued individual Notes upon registration of transfer of, or in exchange for, such global Note. Individual Notes will be in fully registered form, denominated in the Specified Currency and issued in denominations of \$1,000 (Canadian dollars or U.S. dollars) or an integral multiple thereof. The text of the individual Notes shall contain such

provisions as Hydro-Québec may deem necessary or advisable provided that such provisions may not be incompatible with the provisions of these Terms and Conditions, as replaced and modified, as the case may be, by the applicable Pricing Supplement. No transfer of such global Note or, if issued, of individual Notes shall be valid unless registered in the aforesaid register upon surrender of such global Note or individual Notes for cancellation with a written instrument of transfer in form and as to execution satisfactory to Hydro-Québec, and upon compliance with such reasonable requirements as Hydro-Québec may prescribe.

Such global Note may not be transferred except as a whole by the Depository to a nominee of the Depository or by a nominee of the Depository to the Depository or another nominee of the Depository or by the Depository or any such nominee to a successor of the Depository or a nominee of such successor.

This Note is, depending upon the Interest/Payment Basis specified in the applicable Pricing Supplement, a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Indexed Note, a Dual Currency Note, a Real Return Note or any appropriate combination thereof. The provisions in these Terms and Conditions relating to Fixed Rate Notes, Floating Rate Notes and Zero Coupon Notes respectively shall, where the context so allows, apply to Dual Currency Notes and Indexed Notes.

2. Status of Notes

The Notes constitute valid and unconditional obligations of Hydro-Québec, are unsecured and rank *pari passu* among themselves and with all other debentures, notes or similar securities issued by Hydro-Québec and outstanding at the date hereof or in the future.

3. Interest

a) Interest on Fixed Rate Notes

i) Interest Payment Dates

Each Fixed Rate Note bears interest from and including the Interest Commencement Date at the rate(s) per annum equal to the Fixed Rate(s) specified in the applicable Pricing Supplement payable in arrears on the Interest Payment Date(s) specified in the applicable Pricing Supplement. The first payment of interest will be made on the Interest Payment Date next following the Interest Commencement Date and the last payment of interest will be made on the Maturity Date.

ii) Calculation of the Interest Payment

If the first Interest Period is shorter or longer than the subsequent Interest Periods (except, as the case may be, the last Interest Period), the first payment of interest will amount to the Initial Fixed Interest Amount specified in the applicable Pricing Supplement. If the last Interest Period is shorter or longer than the preceding Interest Periods (except, as the case may be, the first Interest Period), the last payment of interest will amount to the Final Fixed Interest Amount specified in the applicable Pricing Supplement.

Accrued interest payable on a Fixed Rate Note with respect to any Interest Period, except a shorter or longer period referred to in the preceding or following paragraph, will be calculated in accordance with the following formula:

$$\text{Accrued interest} = \text{principal} * [\text{rate} / \text{frequency}]$$

where “principal” refers to the principal amount, “rate” refers to the applicable Fixed Rate and “frequency” refers to the number of interest payments per year, in each case as specified in the applicable Pricing Supplement.

If interest on a Fixed Rate Note is required to be calculated for a period shorter than an Interest Period (except a shorter period hereinabove referred to in this subparagraph (ii)), such interest shall be calculated on the basis of a 365-day year (or a 360-day year of twelve 30-day months in the case of Notes denominated in U.S. dollars) or such other basis as may be indicated in the applicable Pricing Supplement.

If an Interest Payment Date of a Fixed Rate Note is not a Business Day, the Noteholder shall not be entitled to such payment until the next following Business Day and shall not be entitled to any further interest or other payment in respect of such delay.

(iii) *Payment of interest*

Accrued interest on a Fixed Rate Note will be paid subject to and in accordance with the provisions of Condition 5.

b) ***Interest on Floating Rate Notes***

i) *Determination of Floating Rate*

Hydro-Québec will, on or as soon as practicable after each Interest Reset Date, determine the Floating Rate (subject to any minimum or maximum rate specified in the applicable Pricing Supplement).

All percentages resulting from any calculation on a Floating Rate will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards (e.g., 9.876545% (or .09876545) being rounded to 9.87655% (or .0987655)).

If, in respect of any Interest Reset Date, the Reference Rate used to determine the Floating Rate cannot be established in the manner set forth in the definition thereof, the Floating Rate then in effect on such Interest Reset Date shall continue to be in effect until the next following Interest Reset Date.

ii) *Calculation of Floating Interest Amount*

Each Floating Interest Amount shall be calculated by applying the Floating Rate to the principal amount of the Notes, multiplying the resulting amount by the actual number of days in the relevant Interest Period divided by 365 (or 360 in the case of Notes denominated in U.S. dollars) or such other denominator as specified in the applicable Pricing Supplement and rounding the resultant figure to the nearest cent, half a cent being rounded upwards.

iii) *Interest Payment Dates*

Each Floating Rate Note bears interest at the applicable Floating Rate from and including the Interest Commencement Date and such interest will be payable in arrears on the Interest Payment Date(s) specified in the applicable Pricing Supplement. Unless otherwise specified in the applicable Pricing Supplement, if any Interest Payment Date of a Floating Rate Note (provided such Interest Payment Date does not correspond to the Maturity Date) is not a Business Day, it shall be postponed to the next following Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day. If such Interest Payment Date corresponds to the Maturity Date and is not a Business Day, such Interest Payment Date shall not be postponed but, in such case, the Noteholder shall not be entitled to the payment of interest due on such date until the next following Business Day and shall not be entitled to any further interest or other payment in respect of such delay.

iv) *Interest payments*

Accrued interest on a Floating Rate Note will be paid subject to and in accordance with the provisions of Condition 5.

v) *Minimum and/or maximum rate*

If the Note is subject to a minimum rate for any Interest Period then, in the event that the Floating Rate in respect of any such Interest Period determined in accordance with paragraph 3 b) i) is less than such minimum rate, the Floating Rate for such Interest Period shall be such minimum rate. If the Note is subject to a maximum rate for any Interest Period then, in the event that the Floating Rate in respect of any such Interest Period determined in accordance with paragraph 3 b) i) is greater than such maximum rate, the Floating Rate for such Interest Period shall be such maximum rate.

vi) *Notification of Floating Rate and Floating Interest Amount*

Hydro-Québec will cause the Floating Rate and the Floating Interest Amount (expressed per \$1,000 principal amount of Notes) for each Interest Period and the relevant Interest Payment Date (the "Interest Information") to be published on its web site (www.hydroquebec.com) as soon as possible after determining such rate and amount. Each Floating Interest Amount and Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If individual Notes are issued, Hydro-Québec will cause the Interest Information relating to such Notes to be communicated to each paying agent.

c) **Indexed Notes and Dual Currency Notes**

In the case of Indexed Notes or Dual Currency Notes, if the rate of interest applicable thereto or amount of interest in respect thereof is to be determined by reference to an Index and/or a Formula or, as the case may be, an exchange rate, such rate of interest or amount of interest payable shall be determined by Hydro-Québec in the manner specified in the applicable Pricing Supplement.

d) **Interest on Real Return Notes**

i) **Indexing Process**

In the case of Real Return Notes, an index ratio (the “Index Ratio”) is applied to calculate both the Coupon Interest and the Inflation Compensation (each such expression as defined in paragraph 3 d) ii)). As shown below, said Index Ratio for any date is defined as the ratio of the reference CPI applicable to said Date (“Ref CPI_{Date}”) divided by the reference CPI applicable to the Original Issue Date (“Ref CPI_{Original}”).

$$\text{Index Ratio}_{\text{Date}} = \frac{\text{Ref CPI}_{\text{Date}}}{\text{Ref CPI}_{\text{Original}}}$$

The reference CPI applicable to the first day of any calendar month is the CPI for the third preceding calendar month. For example, the reference CPI applicable to December 1 in any year will be the CPI for September in that year. The reference CPI applicable to any other day in a month is calculated by linear interpolation between the reference CPI applicable to the first day of such month and the reference CPI applicable to the first day of the following month. For the purpose of interpolating Ref CPI_{Date}, calculations will be carried to six decimal places and rounded so that Ref CPI_{Date} will be expressed to five decimal places (with numbers of 5 or more being rounded up). Similarly, calculations of an Index Ratio will be carried to six decimal places and rounded (on the same basis) so that the Index Ratio will be expressed to five decimal places.

Consequently, the formula used to calculate Ref CPI_{Date} applicable to a date which is not the first day of a month is expressed as follows:

$$\text{Ref CPI}_{\text{Date}} = \text{Ref CPI}_{\text{Month}} + \frac{(t-1)}{D} * [\text{Ref CPI}_{\text{Month}+1} - \text{Ref CPI}_{\text{Month}}]$$

where

D = the number of days in the calendar month in which such date falls;

T = the calendar day corresponding to such date;

Ref CPI_{Month} = reference CPI applicable on the first day of the calendar month in which such date falls; and

Ref CPI_{Month+1} = reference CPI applicable on the first day of the calendar month immediately following such date.

The Ref CPI_{Original} will be specified in the applicable Pricing Supplement. Thus, the Index Ratio at the Original Issue Date will equal one (1). The Ref CPI_{Original} remains constant throughout the term of the Notes, except when the Official Time Base is changed. Whenever the Official Time Base is changed, the Government of Canada will publish the conversion factor (which is calculated to three decimal places) used to rebase the CPI series to the new Official Time Base. For the purposes of the Notes, such conversion factor will be used to rebase relevant prior CPI data (including CPI data relevant to the calculation of Ref CPI_{Original}), when the first CPI published under the new Official Time Base is applicable to the calculation of Ref CPI_{Date}, with calculations carried to six decimal places and rounded to five decimal places (in the manner described above) or, in any event, to a minimum of five significant digits. Accordingly, a change in the Official Time Base will not have any impact on the right of a holder to Coupon Interest or Inflation Compensation, except for a possible insignificant impact which might result from rounding calculations.

ii) **Interest**

Each Real Return Note bears interest from and including the Interest Commencement Date at a Nominal Rate specified in the applicable Pricing Supplement, adjusted in relation to the CPI in accordance with the provisions of this paragraph 3 d). The interest shall consist of an inflation compensation component calculated on the principal amount (the “Principal”) of the Note (the “Inflation Compensation”) and of a cash component calculated on the Principal and the accrued Inflation Compensation (the “Coupon Interest”). Inflation Compensation accrued to any Date (“Inflation

Compensation_{Date}”) is the product of the Principal of the Note and the Index Ratio for that date (“Index Ratio_{Date}”) minus the Principal as described below:

$$\text{Inflation Compensation}_{\text{Date}} = \{ [\text{Principal} * \text{Index Ratio}_{\text{Date}}] - \text{Principal} \}$$

or

$$\text{Inflation Compensation}_{\text{Date}} = \{ [\text{Principal} * \frac{\text{Ref CPI}_{\text{Date}}}{\text{Ref CPI}_{\text{Original}}}] - \text{Principal} \}$$

The Coupon Interest will be payable in arrears on the Interest Payment Date(s) specified in the applicable Pricing Supplement. The Coupon Interest payable on any Interest Payment Date will be calculated by multiplying the Nominal Rate indicated in the applicable Pricing Supplement (divided by the number of payments of interest per year) by the sum of the Principal and the Inflation Compensation accrued from the Original Issue Date until the relevant Interest Payment Date. The following formula shows the calculation of the Coupon Interest payable semi-annually:

$$\text{Coupon Interest}_{\text{Interest Payment Date}} = \frac{\text{Nominal Rate}}{2} * [\text{Principal} + \text{Inflation Compensation}_{\text{Interest Payment Date}}]$$

In the calculation of the Coupon Interest payable on any Interest Payment Date, the Ref CPI_{Date} applicable to the relevant Inflation Compensation_{Date} for the relevant Interest Payment Date will be used.

If interest is required to be calculated for a period shorter than an Interest Period, such interest shall be calculated on the basis of a 365-day year or such other basis as may be indicated in the applicable Pricing Supplement.

If an Interest Payment Date of a Real Return Note is not a Business Day, the Noteholder shall not be entitled to the payment of interest due on such date until the next following Business Day and shall not be entitled to any further interest or other payment in respect of such delay.

iii) Effect of Changes on Calculation of CPI

The Government of Canada is committed to publish the CPI. If it should determine not to publish the CPI, it will publish a substitute index (the “Substitute Index”) which will be designed to reflect pure price movements in the Canadian economy and will be equivalent in all material respects to the CPI. The Substitute Index will, therefore, be an “all-items” index designed to reflect pure price movements affecting typical Canadian household expenditures. The Substitute Index will be effective, for the purposes of the Notes, only from the date of announcement that the Substitute Index will be used and will not be utilized to adjust any right to interest (whether Coupon Interest or Inflation Compensation) which has accrued prior thereto. The Substitute Index will apply for the purposes of the Notes, even if the relevant CPI is published subsequently. Furthermore, should a published CPI be revised for any reason, the originally published figure will apply for the purposes of the Notes. In addition, the Government of Canada will publish changes in the formula or the method of calculation of the CPI (including any Substitute Index) which have, or could reasonably be expected to have, a significant impact on the Notes.

In the event of a change relating to the determination of the CPI, the Notes shall be amended automatically and notice thereof shall be given forthwith to the holders in accordance with the provisions of Condition 6.

e) Accrual of Interest

The Notes will cease to bear interest (if any) from the due date for their repayment or redemption unless, upon due presentation thereof, payment of their principal is improperly withheld or refused. In such event, interest will continue to accrue (as well after as before judgment) until the day on which all sums due in respect of such Notes up to that day are paid to or to the account of the Noteholders. Such interest will accrue at a rate per annum equal to (i) the Fixed Rate, in the case of Fixed Rate Notes; (ii) the Canadian Prime Rate or the U.S. Prime Rate, depending on whether the Specified Currency of the Notes is the Canadian dollar or the U.S. dollar, in the case of Zero Coupon Notes; (iii) the Floating Rate, in the case of Floating Rate Notes; (iv) the Nominal Rate specified in the applicable Pricing Supplement together with the Inflation Compensation, in the case of Real Return Notes or (v) the rate of interest provided for in the Notes, in the case of all other Notes.

f) Interest Act (Canada) Disclosure

For the purposes of disclosure pursuant to the *Interest Act (Canada)*, the annual rate of interest to which any rate of interest payable under these Terms and Conditions, which is to be calculated on any basis other than a full calendar year, is equivalent, may be determined by multiplying such rate of interest (expressed as a percentage) by a fraction the numerator of which is the actual number of days in the calendar year in which the period for which interest at such rate is payable ends and the denominator of which is the number of days comprising such other basis.

4. Repayment, Redemption and Purchase

a) Repayment at Maturity

Each Note will be repaid by Hydro-Québec in the relevant Specified Currency and, unless previously redeemed, at its principal amount and on the Maturity Date specified in the applicable Pricing Supplement. However, in the case of a Real Return Note, on the Maturity Date, in addition to Coupon Interest (as defined in paragraph 3 d) ii)), a final payment (the “Final Payment”) equal to the sum (whether positive or negative) of the Principal and of the Inflation Compensation (each such word and expression as defined in paragraph 3 d) ii)) accrued from the Original Issue Date until the Maturity Date will be made. Said sum will constitute the aggregate final payment of the Principal and the Inflation Compensation. The calculation of the Final Payment is described below:

$$\text{Final Payment} = \text{Principal} + \text{Inflation Compensation}$$

or

$$\text{Final Payment} = \text{Principal} + \left\{ \left[\text{Principal} * \frac{\text{Ref CPI}_{\text{Maturity Date}}}{\text{Ref CPI}_{\text{Original}}} \right] - \text{Principal} \right\}$$

b) Redemption prior to Maturity

The Notes of this Series cannot be redeemed prior to their maturity unless the Pricing Supplement applicable to the Notes of this Series indicates that such Notes will be redeemable at the option of Hydro-Québec and/or Noteholders prior to their Maturity Date in accordance with the provisions of paragraphs c) or d) below.

c) Redemption at the Option of Hydro-Québec

If so specified in the applicable Pricing Supplement, Hydro-Québec may, having given in accordance with Condition 6 not more than 30 nor less than 15 days’ notice to the Noteholders (or such lesser period if so specified in the Pricing Supplement) (which notice shall be irrevocable), redeem all or some only of the Notes then outstanding on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in the applicable Pricing Supplement together, if appropriate, with accrued interest. In the event of a partial redemption of such Notes, such redemption must be for an aggregate principal amount of Notes of not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, as specified in the applicable Pricing Supplement. In the case of a partial redemption of individual Notes, the Notes to be redeemed will be selected individually by lot not more than 30 days prior to the date fixed for redemption and a notice will be given to the holders thereof not less than 15 days prior to such date. In the case of a partial redemption of Notes represented by a global Note, the relevant Notes will be redeemed in accordance with the rules of the Depositary.

d) Redemption at the Option of the Noteholders

If and to the extent specified in the applicable Pricing Supplement, upon notice of not more than 30 nor less than 15 days (or such lesser period if so specified in the Pricing Supplement) given to Hydro-Québec in accordance with Condition 6 (which notice shall be irrevocable) by (i) the Depositary (acting upon the instructions of owners of beneficial interests in the Notes) in the case of Notes represented by a global Note or (ii) the registered holder in the case of individual Notes, Hydro-Québec will, on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in the applicable Pricing Supplement together, if appropriate, with accrued interest, redeem, in accordance with the terms specified in the applicable Pricing Supplement, the Notes requested to be redeemed by such notice. Individual Notes may not be redeemed in part only and any redemption of Notes represented by a global Note must be for an aggregate principal amount of Notes of \$1,000 or an integral multiple thereof.

e) Purchases

Hydro-Québec may at any time purchase Notes in any manner and at any price but if purchases are made by tender, tenders must be available to all Noteholders alike. Notes thus purchased may be held or resold by Hydro-Québec or, at its discretion, cancelled.

5. Payments

All payments of principal, premium and interest on the Notes will be made in the Specified Currency to the Noteholders as recorded in the register described in Condition 1. Payments made by the Depositary to the owners of beneficial interests in the Notes represented by a global Note will be made in accordance with the procedures established from time to time by the Depositary.

The registered holder of such global Note shall be the only person entitled to receive payments in respect of the Notes represented by such global Note and Hydro-Québec will be discharged by payment to, or to the order of, such holder in respect of each amount so paid. Each of the persons shown in the records of the Depositary as the owner of a beneficial interest in the Notes represented by such global Note must look solely to the Depositary for her share of each payment so made by Hydro-Québec to, or to the order of, the registered holder of such global Note. No person other than the registered holder of such global Note shall have any claim against Hydro-Québec in respect of payments due on such global Note. Hydro-Québec shall have no liability whatsoever for maintaining, supervising or reviewing the records of the Depositary in which are recorded the beneficial interests in the Notes represented by such global Note.

Payments of interest on the Notes other than at maturity will be made by cheque sent by prepaid mail to each of the Noteholders, at such holder's address appearing in the aforesaid register or by transfer to a bank account nominated by each such holder with a bank in Canada, if the Specified Currency of the Notes is the Canadian dollar, or in New York, if such Specified Currency is the U.S. dollar, and as notified in writing to Hydro-Québec, at its aforesaid office of the Corporate Treasurer as mentioned in Condition 1, at least five days before the date of such payment. Payment of principal of and interest on the Notes at maturity will be made to the Noteholders against surrender of the Notes to Hydro-Québec at the aforesaid office.

If the date for payment of any amount in respect of the Notes is not a Business Day, the Noteholders shall not be entitled to the payment due on such date until the next following Business Day and shall not be entitled to further interest or other payment in respect of such delay.

6. Notices

All notices to be given by Hydro-Québec to the Noteholders regarding the Notes of this Series represented by a global Note shall be delivered to the Depositary for communication by the Depositary to the owners of beneficial interests in such Notes and any notice so given shall be deemed to have been given to the Noteholders on the seventh day after the day on which the said notice was delivered to the Depositary. If individual Notes of this Series are issued, all notices by Hydro-Québec regarding such Notes shall be sent by registered mail to each of the registered holders thereof, as such holder's address shown on the aforesaid register and any notice so given shall be deemed to have been given to the Noteholders on the third day following its mailing.

All notices to be given by the Noteholders to Hydro-Québec regarding the Notes of this Series represented by a global Note shall be delivered by the Depositary (acting on the instructions of the owners of beneficial interests in such Notes) to the office of the Corporate Treasurer mentioned in Condition 1 and any notice so given shall be deemed to have been given to Hydro-Québec on the day of its delivery. If individual Notes of this Series are issued, all notices of the Noteholders regarding such Notes shall be sent by registered mail to the aforesaid office and any notice so given shall be deemed to have been given on the third day following its mailing.

7. Guarantee of Québec

The due and punctual payment of the principal of and interest on the Notes is unconditionally guaranteed by Québec.

8. Subsequent Tranches

Hydro-Québec reserves the right to issue subsequent Tranches of the Notes of this Series without the consent of the holders of Notes of this Series which may then be outstanding.

9. Governing Law

The Notes and the guarantee of Québec are governed by, and shall be construed in accordance with, the laws of Québec and the laws of Canada applicable therein.

IV. ADDITIONAL SPECIFIC PROVISIONS RELATING TO REAL RETURN NOTES

The following provisions apply only to Real Return Notes.

Description of the Consumer Price Index

The Consumer Price Index (“CPI”), for the purposes of Real Return Notes, is defined as the Consumer Price Index for Canada All-items (Not Seasonally Adjusted) as published by Statistics Canada (or its successor governmental department or agency). Statistics Canada is a bureau operated under the *Statistics Act* (Canada) and is responsible for collecting and reporting statistical information concerning commercial, industrial, financial, social, economic and general activities of the people of Canada. Statistics Canada has the specific authority and responsibility to collect and publish statistics on prices and the cost of living in Canada.

The CPI is a general measure of price movements obtained by comparing, through time, the cost of a basket of goods and services determined according to purchases made by Canadian urban and rural households in a certain reference period. Since the basket contains commodities for which quantity and quality stay the same or are equivalent, the index reflects only pure price movements.

The goods and services in the basket are organized into a group of commodities such as Food, Shelter and Transportation, each with its respective weight. The weights are derived from the data of the Family Expenditure Survey. This survey consists of interviews with a randomly selected sample of households. Notwithstanding the notion of fixed basket, the basket for the CPI is revised periodically to take into account changes in consumers expenditure patterns. In recent years, the contents of the basket have been revised every four or six years. The data based on a new basket are linked to the data based on the previous basket to insure continuity each time the basket is changed.

The calculation of the monthly CPI begins with the measurement of the price change of a particular good or service in a given region. Because the collection of prices is done at different times during a month, the index represents the month as a whole. While prices for many CPI commodities are collected each month, the prices of those with a low degree of volatility are collected less frequently. Indices are computed for each commodity group and the results are linked by weighting the consumer expenditure to determine the monthly All-items index of the CPI for Canada.

The CPI, like all indices, is expressed in relative terms and thus is expressed in relation to a time base reference period for which the level is set at 100. From time to time, the CPI is rebased. For example, the official time base reference period (the “Official Time Base”) for the CPI was changed from 1986 = 100 to 1992 = 100 starting from the CPI published for April 1998. When the Official Time Base is changed, 100 represents an average for the entire year of the new base year. The basket reference years are determined independently of the Official Time Base.

The CPI for the relevant month is generally published in the third week of the following month.

Income Tax Considerations

In the opinion of counsel to Hydro-Québec, the following summary fairly describes the main income tax consequences under the laws of Canada and of Québec generally applicable to prospective purchasers of Real Return Notes (on which Coupon Interest is payable at least annually) and who are residents of Canada for the purposes of the *Income Tax Act* (Canada) (the “Act”) and of Québec for the purposes of the *Taxation Act* (Québec), for whom the Real Return Notes constitute capital property for the purposes of the Act and who are not “financial institutions” within the meaning of the Act, such financial institutions being subject to special rules.

While it is a question of fact, generally a Real Return Note will be regarded as capital property to a holder who acquires and holds such Note as investment (and, in particular, not as inventory held in the course of a business carried on by a holder for purposes of the Act or as an adventure in the nature of trade). A holder who is an individual and neither a trader or dealer in securities and who is uncertain that such Note constitutes capital property for him may consider making a one time election to treat such Note and all other Canadian securities, as defined in the Act and in the *Taxation Act* (Québec), owned by him in that or subsequent taxation years, as capital property.

This summary also describes the federal withholding tax rules for prospective purchasers of Real Return Notes who are non-residents of Canada for the purposes of the Act.

This summary is based upon the provisions of the Act and of the *Taxation Act* (Québec) and the respective regulations thereunder (the “Taxation Acts”) in force as of the date hereof, upon counsel’s understanding of the published administrative and assessing policies of the Canada Customs and Revenue Agency and the Ministère du Revenu du Québec and upon all proposals (the “Draft Amendments”) to amend the Taxation Acts released by the Departments of Finance of Canada and Québec prior to the date hereof. No assurances can be given that the Draft Amendments will be enacted as announced. Except for the Draft Amendments, this summary does not take into account or anticipate any changes in the Taxation Acts, whether by judicial, regulatory, administrative or legislative action, nor does it take into account tax laws or considerations of any province or territory of Canada other than Québec, or any jurisdiction outside Canada.

This summary is of a general nature only, does not present all possible tax consequences and is not intended to be, nor should be construed to be, legal or tax advice to any prospective purchaser of Real Return Notes. Prospective purchasers of such Notes should consult their own tax advisers with respect to their individual position. This summary does not apply to persons acquiring such Notes otherwise than pursuant hereto.

i) Taxation of Coupon Interest

The normal rules which require certain taxpayers to include interest in their income on an accrual basis will not apply to Coupon Interest (as defined in paragraph 3 d) ii) under “Terms and Conditions of the Notes”). Rather, a Noteholder will be required to include in his income for each taxation year in which the Noteholder owned a Real Return Note any Coupon Interest which has been received or become receivable in that taxation year, depending upon the method regularly followed by the Noteholder.

ii) Taxation of Inflation Compensation

The Taxation Acts provide that a Noteholder is required to include in computing his income for a taxation year, as interest, the amount by which Inflation Compensation (as defined in paragraph 3 d) ii) under “Terms and Conditions of the Notes”) has increased for any inflation adjustment period that ends in such taxation year and during which the Noteholder owned the Note. The amount of any such increase required to be included in a Noteholder’s income shall be added to the adjusted cost base of the Note to the Noteholder.

The Taxation Acts further provide that the amount by which accrued Inflation Compensation has decreased for any inflation adjustment period that ends in a taxation year of a Noteholder and during which such Noteholder owned the Note shall be deductible in computing the income of the Noteholder for such year. The amount of any such decrease permitted to be deducted in computing the income of a Noteholder at any time shall be deducted from the adjusted cost base of the Note to the Noteholder.

For the purposes hereof, the first inflation adjustment period for a Real Return Note will be the period commencing on the Original Issue Date (as defined under “Terms and Conditions of the Notes”). Each subsequent inflation adjustment period will commence on an Interest Payment Date. An inflation adjustment period will end on the earlier of the next Interest Payment Date or the date of disposition of the Note.

iii) Disposition of a Real Return Note

Upon the disposition or a deemed disposition of a Real Return Note, the Noteholder will realize a capital gain (or capital loss) to the extent that the proceeds of disposition (net of any costs of disposition) exceed (or are exceeded by) the adjusted cost base of the Note to the Noteholder. The tax treatment of changes in the Inflation Compensation for inflation adjustment periods ending in the taxation year of disposition is described above under the heading “Taxation of Inflation Compensation”.

In the event of a transfer of a Real Return Note, the transferor must include the amount of accrued Coupon Interest to the date of transfer in computing his income for the taxation year in which the transfer occurred. To the extent that the amount received upon a transfer by the transferor in respect of the Coupon Interest is less than the accrued Coupon Interest, the transferor may be entitled to a deduction. With respect to the transferee of such Note, he may deduct in computing his income the amount of accrued Coupon Interest to the date of transfer to the extent that it was included as interest in computing his income for the year. Any amount which is so deductible must be deducted in computing the adjusted cost base of the Note to the transferee.

iv) *Non-Resident Withholding Tax*

Where a Noteholder is a non-resident of Canada for purposes of the Act, Coupon Interest and Inflation Compensation (as such expressions are defined in paragraph 3 d) ii) under “Terms and Conditions of the Notes”) are not subject to federal withholding tax. However, they could be subject to the federal income tax and to the Québec income tax if the non-resident is carrying on or is deemed to carry on a business in Canada and, for the purposes of the Québec tax, owns or is deemed to own an establishment in Québec and if certain other conditions are met.

Risk Factors

Purchasers of Real Return Notes should consider certain risk factors not applicable to conventional debt obligations.

i) *Price Variation*

The price of Real Return Notes in the secondary market will be subject to changes in real yields and fluctuations in the CPI, which may cause gains or losses on operations. Real yields may vary depending on economic developments and the supply and demand for Real Return Notes.

ii) *Cash Flow Variation*

Coupon Interest will vary depending upon changes in the Index Ratio, which incorporates CPI data. As a result, the amount of Coupon Interest may rise or fall from one Interest Payment Date to the next and such variations may be material during periods of significant changes in the composition of the CPI.

iii) *Inflation Compensation Variation*

Should the accrued Inflation Compensation at Maturity Date be negative, the amount of Principal payable at Maturity Date will be less than the initial Principal.

iv) *Trading in the Secondary Market*

While the Agents intend to maintain a secondary market for Real Return Notes, it is not possible to predict how such Notes will trade in the secondary market. Said Notes may be less liquid than conventional debt obligations of Hydro-Québec.

v) *Indexation Lag*

As described in Condition 3, the calculation of the Index Ratio incorporates an approximate three-month lag, which may have an impact on the trading price of Real Return Notes, particularly during periods of significant changes in the CPI.

vi) *Income Tax Considerations*

Accrued Inflation Compensation must be included in a Noteholder’s income in the manner described under “Income Tax Considerations - Taxation of Inflation Compensation”, notwithstanding that payment in respect thereof will not be made until Maturity Date. Taxable Noteholders should consider their respective tax positions, particularly in the event that Coupon Interest received at any relevant time is insufficient to cover the income taxes exigible on all the interest required to be included in their income.

V. USE OF PROCEEDS

The net proceeds from each issue of Notes will be added to the general funds of Hydro-Québec and will be applied to its general corporate purposes, including payment of the cost of its investment programme.

VI. PLAN OF DISTRIBUTION

Pursuant to a Distribution Agreement dated January 10, 2001 between Hydro-Québec, Québec and the Agents, as such agreement has been or may be modified from time to time, the Notes are being offered on a continuous basis by Hydro-Québec through the Agents, who have agreed to use their best efforts to solicit purchases of the Notes. The Notes may also be sold to an Agent acting for its own account or to another person acting through an Agent, or to a group of underwriters, who are not necessarily Agents, for public issue in Canada. Hydro-Québec furthermore reserves the right to distribute Notes to purchasers through a dealer other than the Agents (an "Other Intermediary") and to distribute Notes directly to the Caisse de dépôt et placement du Québec, the Hydro-Québec Pension Fund, the Sinking Fund pertaining to borrowings of Hydro-Québec and the Sinking Fund pertaining to borrowings of the Gouvernement du Québec. For any Note sold to or through an Agent or an Other Intermediary or to a group of underwriters, Hydro-Québec will pay such Agent, Other Intermediary or underwriters a commission the amount of which shall have been agreed upon with such Agent, Other Intermediary or underwriters. The Notes will be issued and sold at the price agreed between Hydro-Québec and the purchaser.

Hydro-Québec will have the sole right to accept any offer to purchase Notes and may reject any such offer in whole or in part.

The Agents have agreed with Hydro-Québec to use their best efforts to maintain the existence of a secondary market for the Notes.

The aggregate initial offering prices of all Notes at any time outstanding will not exceed \$12,000,000,000, calculated as set forth below in the case of Notes denominated in U.S. dollars. Hydro-Québec will have the option to increase such amount at any time.

For the purpose of calculating the aggregate initial offering prices of Notes from time to time outstanding, the Canadian dollar equivalent of the aggregate initial offering prices of Notes denominated in U.S. dollars (including Dual Currency Notes, the principal of which is denominated in U.S. dollars) shall be determined as of the day of the agreement (verbal or otherwise) to issue and sell such Notes on the basis of the noon rate for the sale of Canadian dollars against the purchase of U.S. dollars as quoted by the Bank of Canada on such day.

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