

Cue Card 2007

Hydro-Québec generates, transmits and distributes electricity. It favors renewable energies, particularly hydroelectricity. Its transmission and distribution activities are regulated by the Régie de l'énergie du Québec (Québec Energy Board). To meet growing demand, it continues to develop hydropower, with wind power added as a complementary source. Hydro-Québec also conducts research in energy-related fields and takes an active interest in energy efficiency. In addition, it develops technologies resulting from its research in order to improve its performance.

Hydro-Québec has a single shareholder: the Québec government, which guarantees most of its borrowings.

Subsidiaries



Key Statistics⁽¹⁾

At December 31		2002	2003	2004	2005	2006
	(in Canadian dollars)					
Revenue	(millions)	11,852	10,197	10,341	10,888	11,161
Operating income	(millions)	4,394	4,412	4,252	4,538	5,009
Financial expenses	(millions)	2,778	2,492	2,084	2,187	2,212
Income from continuing operations	(millions)	1,616	1,920	2,168	2,351	2,797
Income (loss) from discontinued operations	(millions)	(31)	18	267	(99)	944
Net income	(millions)	1,585	1,938	2,435	2,252	3,741
Investments in property, plant and equipment and intangible assets	(millions)	2,232	2,739	3,071	3,282	3,348
Total assets	(billions)	59.2	57.8	58.1	60.4	63.2
Long-term debt	(billions)	36.8	34.4	32.6	31.3	34.1
Shareholder's equity	(billions)	14.2	15.1	16.2	17.4	18.8
Average cost of debt	(%)	7.8	7.8	7.0	7.6	7.9
Average rate increase at April 1 st	(%)	0	0	4.5	1.2	5.3
Installed capacity ⁽²⁾	(MW)	32,661	33,616	33,892	34,571	35,315
Customer accounts	(thousands)	3,597	3,644	3,701	3,753	3,815
Employees	(thousands)	21.0	21.4	21.9	22.1	22.6
Financial Ratios						
Interest coverage		1.63	1.73	1.79	2.00	2.06
Capitalization	(%)	26.2	29.8	32.8	34.2	36.1
Self-financing	(%)	73.4	56.3	78.4	58.6	86.5
Return on revenue from continuing operations	(%)	13.6	18.8	21.0	21.6	25.1
Return on equity	(%)	11.5	13.2	15.5	13.4	20.7

(1) Certain comparative figures have been reclassified to reflect the presentation adopted for 2006.

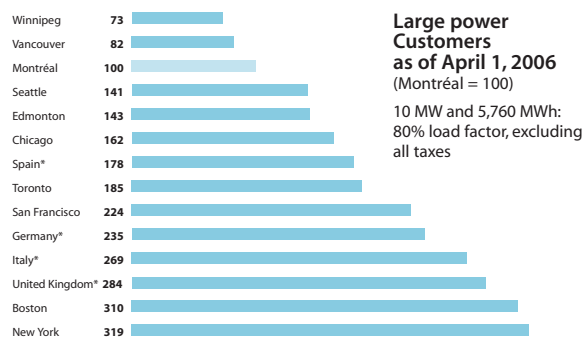
(2) Hydro-Québec also has access to almost all the output from Churchill Falls generating station (5,428 MW) and purchases all the output from six privately owned wind farms with a total installed capacity of 320 MW. In addition, 1,206 MW are available under agreements with other independent suppliers.

Competitive Rates

Index of Electricity Prices



Residential as of April 1, 2006
(Montréal = 100)
1,000 kWh:
excluding all taxes



Large power Customers as of April 1, 2006
(Montréal = 100)
10 MW and 5,760 MWh:
80% load factor, excluding all taxes

* At January 1, 2006

Sources: Hydro-Québec, *Comparison of Electricity Prices in Major North American Cities, April 1, 2006*, and EURELECTRIC, *Electricity Tariffs as of 1 January 2006* (Published Tariffs).

Highlights 2006–2007

- Decision by the Régie de l'énergie to raise Hydro-Québec Distribution's rates by an average of 5.3% for the 2006-2007 rate year, effective April 1, 2006. The Régie recognized the increase in supply costs and the importance of reflecting actual costs.
- Decision by the Régie de l'énergie to increase Hydro-Québec Distribution's rates by 1.92% for the 2007-2008 rate year, effective April 1, 2007.
- Approval by the Régie de l'énergie of the rate terms and conditions of service for distributed power generation. Customer-generators can feed their renewable-energy surpluses into the Distributor's grid and thereby reduce their electricity bills.
- Commissioning at James Bay of the 480-MW Eastmain-1 powerhouse several months ahead of schedule.
- Signature by Hydro-Québec TransÉnergie and Hydro One Networks of an agreement to build a 1,250-MW interconnection between Québec and Ontario, and start of the work.
- Work begun on the Eastmain-1-A and Sarcelle powerhouses and Rupert diversion project, which will add 893 MW to our fleet and 8.5 TWh in annual output.

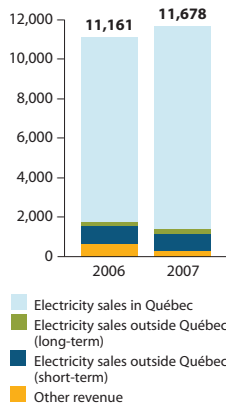
Creating Value from International Assets

Activities	Holding	Country	Proceeds from sale (\$C)	Gain (loss) on disposal
Generation Date sold: January 18, 2006	Hidroeléctrica Rio Lajas S.A.	Costa Rica	\$5 million	\$(0.3) million
Transmission Date sold: February 27, 2006	Cross-Sound Cable Company LLC	United States	\$182 million	\$29 million
Transmission Date sold: March 29, 2006	MurrayLink HQI Australia Pty Ltd	Australia	\$60 million	\$(2) million
Transmission Date sold: June 30, 2006	HQI Transelec Chile S.A.	Chile	\$1,800 million	\$813 million
Generation Date sold: August 1, 2006	HQI Latin America Ltd (Fortuna generating station)	Panama	\$113 million	\$38 million
Transmission Date sold: December 12, 2006	Consortio TransMantaro S.A.	Peru	\$84 million	\$39 million

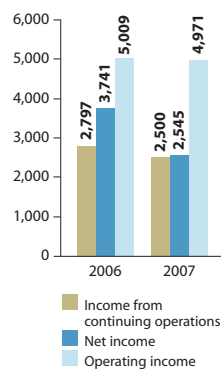
As at February 28, 2007, all of Hydro-Québec's foreign interests held through Hydro-Québec International had been sold. In 2006, the sale of these assets yielded income from discontinued operations totaling \$944 million. The \$813-million gain generated by the sale of the company's stake in Transelec in Chile accounted for most of this total.

2007 Financial Outlook

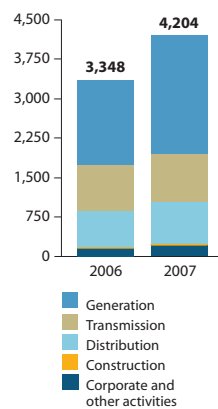
Revenue
in millions of C\$



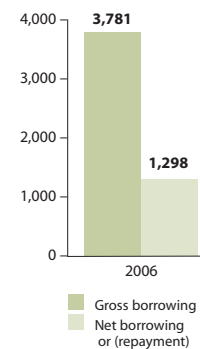
Net income
in millions of C\$



Investments in property, plant and equipment and intangible assets
in millions of C\$



Financing needs
in millions of C\$



The 2007 borrowing program amounts to \$1.1 billion.

Hydro-Québec: A Quality Investment

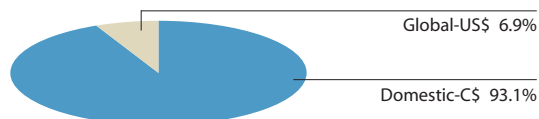
Security

Explicit guarantee by the Québec government on the major portion of Hydro-Québec's debt (debentures, commercial paper, medium-term notes).

Characteristics of the debt at December 31, 2006

Average term: 17.3 years
Fixed rate: 91.8% Floating rate: 8.2%
Breakdown by repayment currency: C\$88.4%; US\$ 11.6%

Financing sources 2001-2006



Strong credit ratings

(December 31, 2006)

Long-term debt: Moody's Aa2; Standard & Poor's A+; Fitch Ratings AA-; DBRS A (high)
Commercial paper: Moody's P-1; Standard & Poor's A-1+; Fitch Ratings F1+; DBRS R-1 (middle)

For more information, please consult our Web site:
www.hydroquebec.com/financing
You can also contact the Investor Relations team at the following e-mail address:
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