



## OUR COMMITMENTS: MAJOR CHALLENGES TO BE MET HEAD-ON



**Sophie Brochu**  
President and Chief Executive Officer

For the second quarter of 2022, Hydro-Québec posted net income of \$680 million, an increase of \$328 million over the \$352 million recorded a year earlier. On the Québec market, electricity sales rose by \$201 million due to growth in baseload demand across all customer categories, the indexation of rates as of April 1, 2022, and higher aluminum prices. On markets outside Québec, electricity sales increased by \$268 million, essentially as a result of a sharp rise in prices on energy markets.

On May 21, a storm of unprecedented violence caused extensive damage in the Laurentides, Lanaudière and Outaouais regions, leaving over 550,000 customers without electricity. In no time, the storm front swept through a 300-km corridor, accompanied by gusts of up to 150 km/h, leaving in its wake 11,000 outages. All in all, it was the weather event requiring the most fieldwork since the 1998 ice storm.

For 11 days, over 2,000 colleagues and contractors worked around the clock to restore power in the affected areas. Sincere thanks go out to all those who, directly or indirectly, took part in this collective effort, as well as to our customers for their remarkable patience.

Scientists have long warned of the rise of extreme weather events in the years to come: high winds, torrential rains, prolonged droughts that create the ideal conditions for wildfires. At Hydro-Québec, we're currently putting the final touches on a plan that will guide how we adapt our operations and infrastructures to climate change. While it's just about impossible to protect ourselves completely against the hazards of global warming, we can certainly mitigate the impacts. More details will soon be forthcoming on the concrete measures we intend to take in the face of this immense challenge.

### **Previous page**

On May 21, a storm of unprecedented violence caused extensive damage and left over 550,000 customers without electricity.

## **A new milestone in our relations with Indigenous communities**

The recent signing of a five-year partnership agreement with the First Nations of Quebec and Labrador Economic Development Commission (FNQLEDC) stems from our resolve to build lasting relations with Indigenous communities.

This agreement gives the FNQLEDC the means to offer women entrepreneurs from First Nations and Inuit nations new financing services, including microcredit, and provide them with financial support for business creation and commercial infrastructure development. The initiative stems from a consultation with current and aspiring women entrepreneurs from Indigenous communities.

I am very proud of this promising engagement and it is my firm belief that the partnership will further strengthen the ties we have forged with Indigenous communities, with a view to honoring their traditions and their individual and collective aspirations.

## **Recognition of our work**

For a third time—and for the second year running—we have placed first in *Corporate Knights* magazine's ranking of Canada's Best 50 Corporate Citizens, released in June. This honor points up our efforts in terms of sustainable practices and social responsibility, and reflects our commitment to promoting diversity by creating a work environment where everyone has the opportunity to shine.

There's a great deal left to be done, but we're working on it!

**Sophie Brochu**

## OUR SUSTAINABLE DEVELOPMENT INITIATIVES THIS QUARTER

### Publication of the 20th edition of our Sustainability Report



The [Sustainability Report 2021](#), published on May 17, 2022, presents a qualitative and quantitative profile of Hydro-Québec' performance regarding environmental, social and governance issues.

Each year, the company reports on its main actions in these three areas. Also included in the report is the progress made on the 12 strategies set out in the *Sustainable Development Plan 2020-2024*. In addition, the report outlines Hydro-Québec's commitment to supporting the principles of the United Nations Global Compact in the areas of human rights, labor standards, environmental protection and the fight against corruption.

In 2021, Hydro-Québec placed first in *Corporate Knights* magazine's ranking of Canada's Best 50 Corporate Citizens, based on an evaluation of over 300 companies with respect to 24 environmental, social and governance criteria. It is also worth noting that, for a second consecutive year, Hydro-Québec came in first among Canadian companies in *Corporate Knights'* 2022 ranking of top corporate citizens, published in June.

To rigorously fulfill its obligation to report on its performance in the area of sustainability, Hydro-Québec hires an external auditor to carry out an independent verification of its Sustainability Report. Once again this year, the external auditor confirmed that the report was prepared in compliance with [Global Reporting Initiative \(GRI\)](#) standards and that it respects the principles set forth in the [AccountAbility AA1000](#) standards, two series of internationally recognized standards.

### The energy transition in Nunavik



In June, Hydro-Québec signed a partnership agreement with Tarquti Energy Inc. as part of its resolve to accelerate the energy transition in Nunavik. This partnership aims to convert the company's off-grid fossil fuel systems, which emit significant amounts of greenhouse gases (GHGs), to cleaner energy sources.

Under the agreement, Tarquti becomes Hydro-Québec's preferred and exclusive partner for renewable energy projects in Nunavik.

This unique partnership, which should lead to the creation of many local and regional jobs, is an important milestone for the Inuit of Nunavik, who are already hard at work developing the tools and skills they'll need to implement their own environmentally friendly renewable energy projects that are respectful of the values of the Nunavimmiut.

The projects launched by Tarquti are expected to contribute to the efforts made by the Inuit of Nunavik to reduce GHG emissions. The success of the energy transition in Nunavik will depend on the mobilization of all the major players in the clean energy sector as well as local and regional organizations, including local landholding corporations. Thanks to its exclusive relationship with Hydro-Québec, Tarquti is in a position to develop and share its expertise for the benefit of the communities concerned.

## Rollout of the Energy Performance Indicator



Thanks to the Energy Performance Indicator, a new online tool that we added to our Web offerings in April 2022, (<https://www.hydroquebec.com/residential/customer-space/electricity-use/>), our residential customers now have immediate access to all their electricity use data.

From now on, customers can use a wide range of features to:

- Check out their actual electricity use and compare it with the same period last year or two years ago, in particular to see how outdoor temperatures affect heating and air-conditioning.
- Track their electricity use to the hour and view their consumption in kilowatthours or dollars.
- See how their electricity use compares to that of other households to determine if they have an energy-efficient home and lifestyle.
- Break down their electricity consumption by use, billing period or year.
- Get recommendations and offers for every season and lower their bill.
- Create an action plan to help them make better use of energy and save money while reducing their environmental footprint, and track their progress as they become more and more energy-efficient.

Energy efficiency and customer experience are at the heart of everything we do. The Energy Performance Indicator is both a value-added offer and an innovative solution to help us achieve our energy savings targets in the coming years. The tool is fully aligned with the key areas of our *Collective Energy* campaign and its objective of helping Quebecers optimize their electricity use within the context of the energy transition.

## Enhancing and protecting biodiversity



As part of the [Hydro-Québec program for the development of natural environments](#), the Fondation de la faune du Québec will receive \$488,571 from Hydro-Québec to carry out eight projects in six administrative regions.

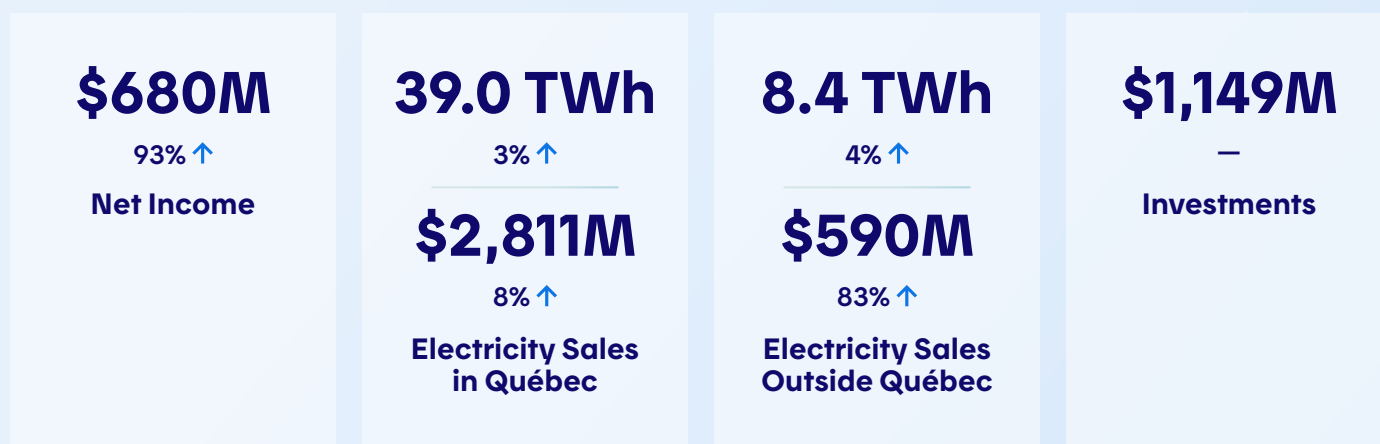
Project objectives include enhancing wetlands and forests, fighting against habitat loss for species at risk and mitigating the impacts of the propagation of non-native invasive species and recreational and tourism activities on wildlife areas.

The following projects were selected in 2022:

- Saint-Maurice watershed: Protection and enhancement of the Aire écologique Mirakoto (Mauricie).
- GUEPE (Groupe uni des éducateurs-naturalistes et professionnels en environnement): Protection and enhancement of the Charlevoix highlands (Capitale-Nationale).
- Municipality of Saint-Tite-des-Caps: Enhancement of the Curé swamp (Capitale-Nationale).
- Conseil régional de l'environnement du Bas-Saint-Laurent: Promotion of good conservation practices for bats within the urban arboreal heritage (Bas-Saint-Laurent).
- The city of Montmagny: Extension of the snow goose trail in the Parc du Marais (Chaudière-Appalaches).
- Nature Conservancy of Canada: Enhancement and restoration of the Boisé de Carillon (Laurentides).
- Zoo de Granby: Enhancement of the wildland at the Centre de la nature de Farnham to protect biodiversity and promote citizen engagement (Estrie).
- Regional county municipality of L'Érable: Acquisition of an ecologically valuable plot of land in the Parc régional des Grandes-Coulées (Centre-du-Québec).

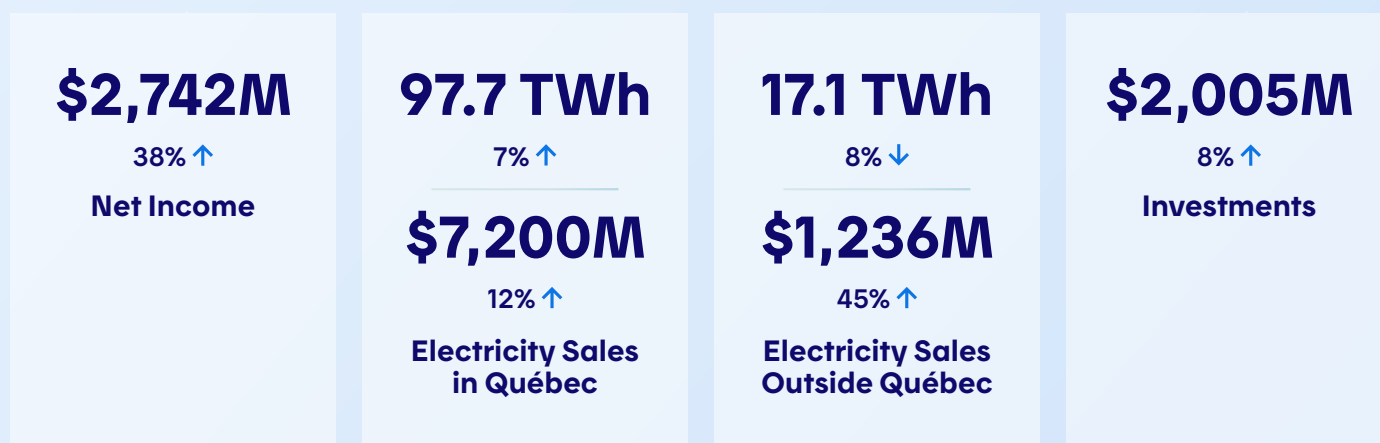
FINANCIAL RESULTS  
KEY FIGURES

# Second Quarter 2022



Note: Percentage variances are in comparison to the second quarter of 2021.

# First Semester 2022



Note: Percentage variances are in comparison to the first semester of 2021.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Quarterly results

For the second quarter of 2022, Hydro-Québec posted **net income** of \$680 million, an increase of \$328 million over the \$352 million recorded a year earlier.

On the Québec market, electricity sales rose by \$201 million compared to the same quarter in 2021 on account of three factors. Baseload demand grew across all customer categories, generating a positive impact of \$80 million. In addition, an increase in aluminum prices, which have an impact on revenue from special contracts with certain large industrial customers, and the indexation of rates as of April 1, 2022, led to increases of \$59 million and \$61 million, respectively.

On markets outside Québec, electricity sales rose by \$268 million, mainly as a result of a sharp increase in prices on energy markets.

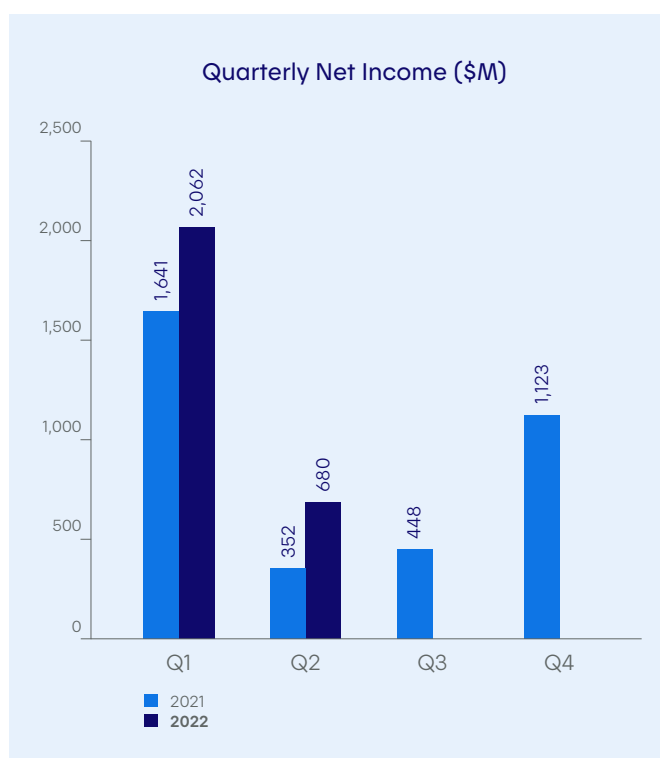
In May, an unusual weather event hit Québec and Ontario, causing widespread power outages. In Québec, this major storm front, known as a "derecho," left more than 550,000 customers without electricity and led to restoration costs estimated at some \$70 million. Of this amount, \$55 million was recognized in operational expenditure, while the balance was included in the cost of capital assets.

Lastly, electricity purchases rose by \$96 million due to an increase in supply volume resulting in part from the coming into force of new power purchase agreements, as well as to higher transmission costs related to exports.

## Summary of results for the first semester

For the six-month period ended June 30, 2022, Hydro-Québec recorded the highest first-semester net income in its history. In a context marked by cold winter temperatures and a sharp rise in energy prices on the export markets, **net income** totaled \$2,742 million, compared to \$1,993 million for the same period last year. This \$749-million growth is mainly due to higher sales revenue, both in and outside Québec, which was partially offset by an increase in short-term electricity purchases on the markets to meet *ad hoc* requirements during the cold winter spells.

Driven by the buoyancy of all markets, total sales volume reached an all-time high of 114.8 TWh in the first half of 2022. This allowed Hydro-Québec to continue to contribute to the decarbonization of northeastern North America and to Québec's collective wealth by meeting the increased needs of its domestic market, while exporting significant quantities of electricity to neighboring markets.



## Consolidated results for the first semester

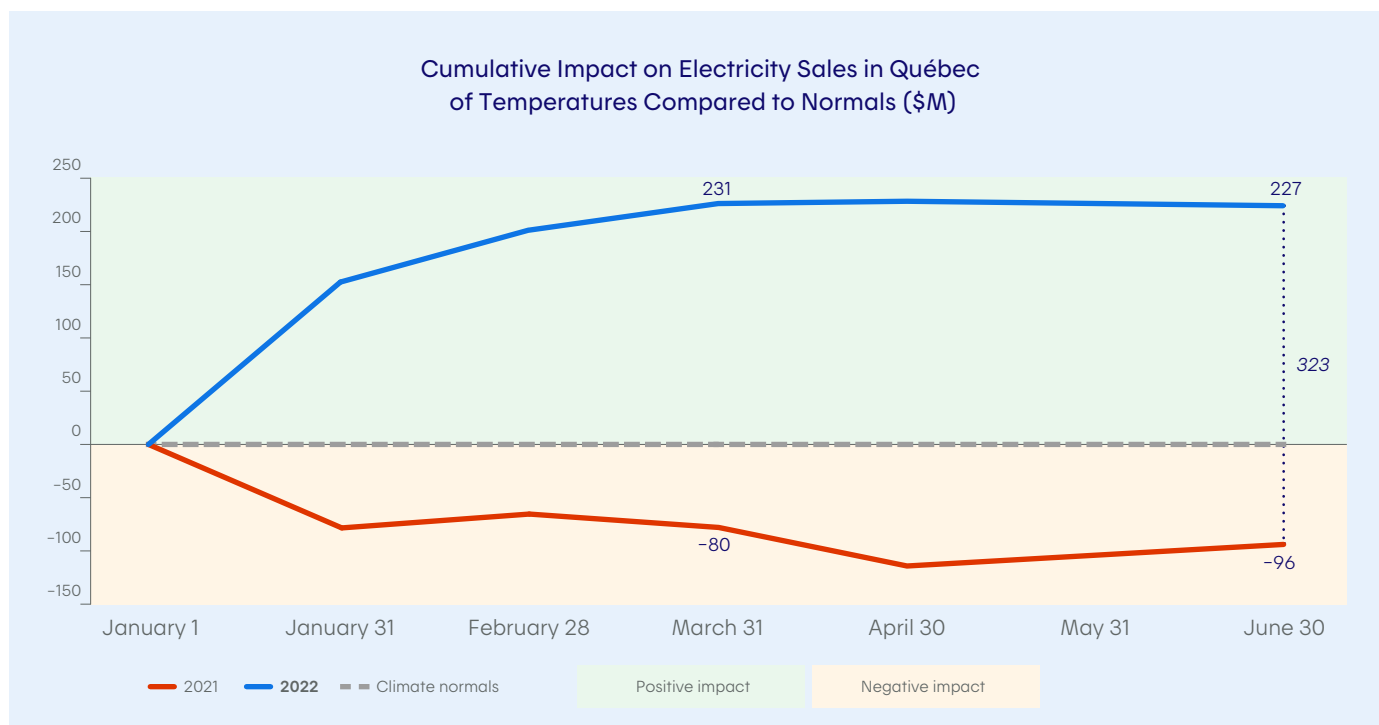
**Revenue** totaled \$8,672 million, compared to \$7,437 million in the first semester of 2021. This \$1,235-million increase is essentially due to a \$1,130-million spike in electricity sales.

In Québec, sales hit a new record of 97.7 TWh, an increase of 6.3 TWh compared to the same period in 2021, bringing in \$747 million more than the \$6,453 million posted a year ago on account of several factors. First, temperatures led to an increase of 3.7 TWh or \$323 million. Their effect was mainly felt in January, when they were 7°C lower, on average, than in 2021. Second, baseload demand rose by 2.6 TWh or \$188 million as a result of growth in energy consumption in all segments, especially among residential customers and in the commercial, institutional and small industrial segment. Lastly, the increase in aluminum prices drove up electricity sales by \$120 million, while the indexation of rates as of April 1, 2021 and 2022, had an impact of \$107 million.

On markets outside Québec, revenue from electricity sales reached \$1,236 million—\$383 million more than a year earlier. This increase is mainly due to favorable market conditions during the semester. Energy markets saw a sharp rise in prices, although this factor was partially offset by the impact of the company’s risk management strategy. On the other hand, export volume decreased by 1.5 TWh compared to the first six months of 2021 on account of the greater needs of the Québec market resulting from the cold winter temperatures. It totaled 17.1 TWh, remaining above the first-semester average for the last 10 years.

**Total expenditure** amounted to \$4,775 million, an increase of \$529 million compared to \$4,246 million in the same period last year. The difference is primarily due to a \$365-million rise in electricity purchases, attributable to four main factors: an increase in short-term supplies purchased on the markets to meet Québec’s *ad hoc* requirements during the cold spells; higher transmission costs for exports; the coming into force of new power purchase agreements; and a larger volume of wind power supplies because of higher output from contracted facilities.

Lastly, **financial expenses** totaled \$1,155 million, comparable to the \$1,198 million recognized a year earlier.



## New organizational structure

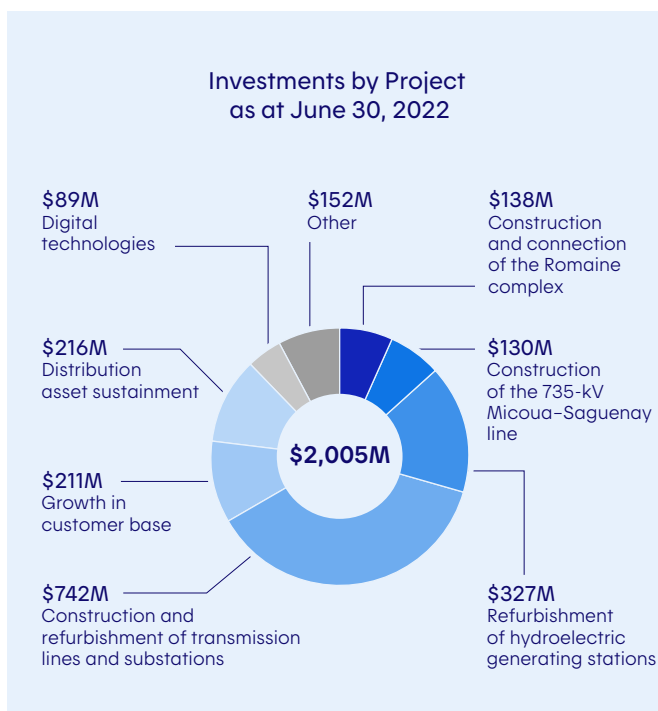
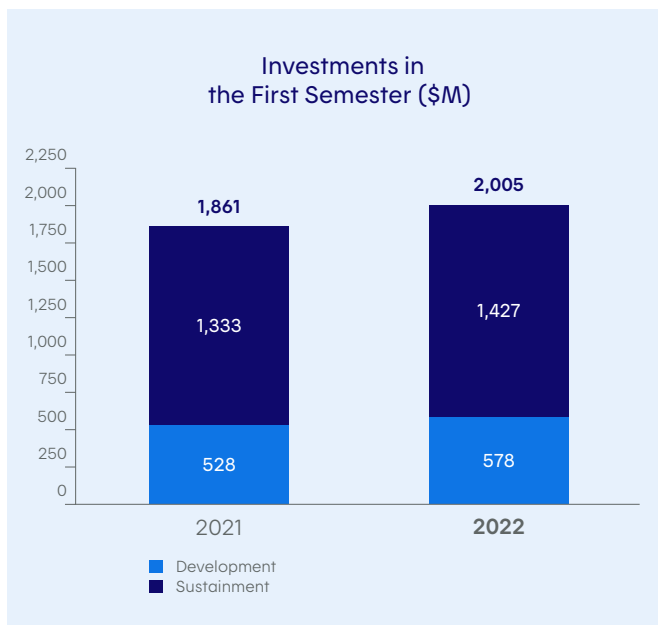
In the first quarter of 2022, Hydro-Québec changed its organizational structure in order to use a cross-functional approach to manage its activities. Since the new structure came into effect last February, its results are no longer analyzed based on the former operating segments, but rather on a consolidated basis. Consequently, Hydro-Québec now comprises a single reportable business segment.

## Investments

During the first six months of 2022, Hydro-Québec invested \$2,005 million in property, plant and equipment and intangible assets, compared to \$1,861 million in the same period in 2021. This amount was allocated to large-scale asset sustainment initiatives and major development projects.

The company allocated \$1,427 million to asset sustainment. In particular, it continued to invest in its generating facilities to ensure their long-term operability and maximize their output. For instance, projects are underway at Robert-Bourassa, Bersimis-2, Rapide-Blanc, Carillon and Beauharnois. At the same time, the company allotted significant funds to the construction of transmission lines designed to reinforce its system and enhance its operating flexibility, including the 262-km 735-kV line that will connect Micoua substation, in the Côte-Nord region, to Saguenay substation, in the Saguenay-Lac-Saint-Jean region. It also continued to invest in upgrading and modernizing its transmission facilities. Some examples of this include the projects to replace the grid control systems, special protection systems and substation protections and controls, as well as work related to the architecture development plan for the 315-kV system on the island of Montréal. Lastly, it carried out work to optimize the operation of the distribution system and to maintain and improve the quality of its distribution assets, such as replacing the grid control system.

Investments in development projects totaled \$578 million. At the Romaine-4 hydroelectric facility in Minganie, the first of the generating station's two units was commissioned at the end of June, and the second is expected to follow by the end of the year. Funds were also allocated to various distribution projects to handle the growing customer base in Québec.



## Financing

In a context marked by rising interest rates on the markets, Hydro-Québec carried out four fixed-rate issues on the Canadian capital market during the second quarter. It issued \$1.3 billion in bonds maturing in 2060 and 2063 at an average cost of 4.07% and \$0.6 billion in medium-term notes maturing in 2028 at a cost of 2.95%.

The proceeds are being used to finance part of the investment program and to repay higher-rate maturing debt.



# CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## Consolidated Statements of Operations

In millions of Canadian dollars (unaudited)		Three months ended June 30		Six months ended June 30	
	Notes	2022	2021	2022	2021
<b>Revenue</b>	4	<b>3,521</b>	2,990	<b>8,672</b>	7,437
<b>Expenditure</b>					
Operations		<b>978</b>	807	<b>1,834</b>	1,575
Other components of employee future benefit cost	9	<b>(255)</b>	(185)	<b>(510)</b>	(371)
Electricity purchases		<b>601</b>	505	<b>1,501</b>	1,136
Depreciation and amortization	5	<b>666</b>	658	<b>1,332</b>	1,310
Taxes		<b>271</b>	264	<b>618</b>	596
		<b>2,261</b>	2,049	<b>4,775</b>	4,246
<b>Income before financial expenses</b>		<b>1,260</b>	941	<b>3,897</b>	3,191
Financial expenses	6	<b>580</b>	589	<b>1,155</b>	1,198
<b>Net income</b>		<b>680</b>	352	<b>2,742</b>	1,993

## Consolidated Statements of Comprehensive Income

In millions of Canadian dollars (unaudited)		Three months ended June 30		Six months ended June 30	
	Notes	2022	2021	2022	2021
<b>Net income</b>		<b>680</b>	352	<b>2,742</b>	1,993
<b>Other comprehensive income</b>	10				
Net change in items designated as cash flow hedges	7	<b>794</b>	(366)	<b>547</b>	(125)
Net change in employee future benefits		<b>11</b>	37	<b>22</b>	74
Other		<b>15</b>	8	<b>10</b>	(1)
		<b>820</b>	(321)	<b>579</b>	(52)
<b>Comprehensive income</b>		<b>1,500</b>	31	<b>3,321</b>	1,941

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

## Consolidated Balance Sheets

In millions of Canadian dollars (unaudited)	Notes	As at June 30, 2022	As at December 31, 2021
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,390	1,297
Short-term investments		1,549	381
Accounts receivable and other receivables		4,018	3,069
Derivative instruments	7	104	52
Regulatory asset		128	122
Materials and supplies		407	389
		<b>7,596</b>	5,310
Property, plant and equipment		69,226	68,530
Intangible assets		1,225	1,165
Investments		1,989	1,967
Derivative instruments	7	39	3
Regulatory assets		3,038	3,020
Other assets		2,981	2,703
		<b>86,094</b>	82,698
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings		1,732	–
Accounts payable and accrued liabilities		2,087	2,163
Dividend payable		–	2,673
Accrued interest		816	877
Asset retirement obligations		73	75
Derivative instruments	7	547	337
Current portion of long-term debt	7	2,206	3,247
		<b>7,461</b>	9,372
Long-term debt	7	47,896	46,197
Asset retirement obligations		869	867
Derivative instruments	7	379	126
Regulatory liabilities		314	319
Other liabilities		2,336	2,303
Perpetual debt	7	258	254
		<b>59,513</b>	59,438
<b>EQUITY</b>			
Share capital		4,374	4,374
Retained earnings		23,691	20,949
Accumulated other comprehensive income	10	(1,484)	(2,063)
		<b>26,581</b>	23,260
		<b>86,094</b>	82,698
Contingencies	11		

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

On behalf of the Board of Directors,

/s/ Geneviève Brouillette  
Chair of the Audit Committee

/s/ Jacynthe Côté  
Chair of the Board

## Consolidated Statements of Changes in Equity

In millions of Canadian dollars  
(unaudited)

Six months ended  
June 30

	Note	Share capital	Retained earnings	Accumulated other comprehensive income	Total equity
Balance as at December 31, 2021		<b>4,374</b>	<b>20,949</b>	<b>(2,063)</b>	<b>23,260</b>
Net income		–	<b>2,742</b>	–	<b>2,742</b>
Other comprehensive income	10	–	–	<b>579</b>	<b>579</b>
<b>Balance as at June 30, 2022</b>		<b>4,374</b>	<b>23,691</b>	<b>(1,484)</b>	<b>26,581</b>
Balance as at December 31, 2020		4,374	20,058	(3,110)	21,322
Net income		–	1,993	–	1,993
Other comprehensive income	10	–	–	(52)	(52)
<b>Balance as at June 30, 2021</b>		<b>4,374</b>	<b>22,051</b>	<b>(3,162)</b>	<b>23,263</b>

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

## Consolidated Statements of Cash Flows

In millions of Canadian dollars (unaudited)		Three months ended June 30		Six months ended June 30	
	Notes	2022	2021	2022	2021
<b>Operating activities</b>					
Net income		680	352	2,742	1,993
Adjustments to determine net cash flows from operating activities					
Depreciation and amortization	5	666	658	1,332	1,310
Amortization of premiums, discounts and issue expenses related to debt securities		5	1	16	2
Deficit of net cost recognized with respect to amounts paid for employee future benefits		(40)	(91)	(212)	(173)
Other		81	224	157	267
Regulatory assets and liabilities		(118)	(135)	(162)	(149)
Change in non-cash working capital items	8	709	926	(1,116)	(468)
		<b>1,983</b>	1,935	<b>2,757</b>	2,782
<b>Investing activities</b>					
Additions to property, plant and equipment		(1,096)	(1,091)	(1,903)	(1,766)
Additions to intangible assets		(53)	(53)	(102)	(95)
Net change in short-term investments and sinking fund		(977)	(592)	(1,156)	(991)
Other		26	(2)	–	–
		<b>(2,100)</b>	(1,738)	<b>(3,161)</b>	(2,852)
<b>Financing activities</b>					
Issuance of long-term debt		2,126	1,006	3,191	2,072
Repayment of long-term debt		(677)	(51)	(1,994)	(1,130)
Cash receipts arising from credit risk management		1,719	828	2,919	1,377
Cash payments arising from credit risk management		(1,024)	(1,123)	(2,658)	(2,031)
Net change in borrowings		(2,001)	2	1,715	3,420
Dividend paid		–	–	(2,673)	(1,727)
Other		(2)	–	(5)	(38)
		<b>141</b>	662	<b>495</b>	1,943
<b>Foreign currency effect on cash and cash equivalents</b>		<b>1</b>	(9)	<b>2</b>	(15)
<b>Net change in cash and cash equivalents</b>		<b>25</b>	850	<b>93</b>	1,858
<b>Cash and cash equivalents, beginning of period</b>		<b>1,365</b>	2,475	<b>1,297</b>	1,467
<b>Cash and cash equivalents, end of period</b>		<b>1,390</b>	3,325	<b>1,390</b>	3,325
Supplementary cash flow information	8				

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three- and six-month periods ended June 30, 2022 and 2021

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

## Note 1 Basis of Presentation

Hydro-Québec's consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles.

These quarterly consolidated financial statements, including these notes, do not contain all the required information regarding annual consolidated financial statements and should therefore be read in conjunction with the consolidated financial statements and accompanying notes in Hydro-Québec's *Annual Report 2021*.

The accounting policies used to prepare the quarterly consolidated financial statements are consistent with those presented in Hydro-Québec's *Annual Report 2021*, except as regards segmented information. In the quarter ended March 31, 2022, Hydro-Québec changed its organizational structure in order to use a cross-functional approach to

manage its activities. Since the new structure came into effect on February 28, its results are no longer analyzed based on the former operating segments, but rather on a consolidated basis. Consequently, Hydro-Québec now comprises a single reportable business segment.

Hydro-Québec's quarterly results are not necessarily indicative of results for the year on account of seasonal temperature fluctuations. Because of higher electricity demand during winter months, revenue from electricity sales in Québec is higher during the first and fourth quarters.

Management has reviewed events occurring until August 26, 2022, the date of approval of these quarterly consolidated financial statements by the Board of Directors, to determine whether circumstances warranted consideration of events subsequent to the balance sheet date.

## Note 2 Change to Accounting Policy

### Standard issued but not yet adopted

#### *Financial instruments*

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*.

This ASU provides new guidance on the impairment of financial assets that are not accounted for at fair value in results. It will be applied on a modified retrospective basis to the financial statements for quarterly and annual periods beginning on or after January 1, 2023. Hydro-Québec is currently examining the impact of this ASU, but it does not expect its adoption to have a significant impact on its consolidated financial statements.

## Note 3 Regulation

### Transmission activities

In decisions D-2022-053 and D-2022-063, rendered on April 22 and May 19, 2022, respectively, the Régie de l'énergie of Québec established Hydro-Québec's power transmission rates for 2021 and 2022. The authorized return on the rate base was set at 8.20% for both years, assuming a capitalization with 30% equity.

### Distribution activities

Under *An Act to simplify the process for establishing electricity distribution rates* (S.Q. 2019, c. 27), electricity distribution rates were indexed at a rate of 2.6% on April 1, 2022, with the exception of Rate L, which was indexed at a rate of 1.7%.

## Note 4 Revenue

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
<b>Revenue from ordinary activities</b>				
Electricity sales				
In Québec	2,811	2,610	7,200	6,453
Outside Québec	590	322	1,236	853
	3,401	2,932	8,436	7,306
Other revenue from ordinary activities	74	57	125	91
	3,475 <sup>a</sup>	2,989 <sup>a</sup>	8,561 <sup>a</sup>	7,397 <sup>a</sup>
<b>Revenue from other activities</b>	46	1	111	40
	3,521	2,990	8,672	7,437

a) This revenue includes gains and losses on derivative instruments whose amounts are presented in Note 7, Financial instruments.

## Note 5 Depreciation and Amortization

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Property, plant and equipment	605	592	1,208	1,186
Intangible assets	25	26	48	51
Regulatory assets and liabilities	18	22	36	43
Retirement of capital assets	18	18	40	30
	666	658	1,332	1,310

## Note 6 Financial Expenses

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Interest on debt securities	589	590	1,164	1,187
Net foreign exchange loss	1	–	2	1
Guarantee fees related to debt securities <sup>a</sup>	59	57	118	114
	649	647	1,284	1,302
Less				
Capitalized financial expenses	56	45	108	84
Net investment income	13	13	21	20
	69	58	129	104
	580	589	1,155	1,198

a) Guarantee fees related to debt securities are charged at a rate of 0.5% and are paid to the Québec government.

## Note 7 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 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 exposure to each risk and reduce their overall impact on results.

The following table presents the notional amounts, expressed in Canadian dollars or foreign currencies, of forward contracts and swaps used to manage long-term risk:

	As at June 30, 2022 <sup>a</sup>	As at December 31, 2021 <sup>a</sup>
<b>Forward contracts</b>		
Canadian dollars	(2,500)	(2,300)
U.S. dollars <sup>b</sup>	(541)	(542)
<b>Swaps</b>		
Canadian dollars	(4,347)	(5,716)
U.S. dollars	3,700	4,770

a) Figures in parentheses represent amounts to be paid.

b) As at June 30, 2022, sales and purchase contracts totaled US\$743 million and US\$202 million, respectively (US\$743 million and US\$201 million as at December 31, 2021).

### 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 items affected by the hedged item, namely Revenue, Electricity purchases or Financial expenses. In this context, Hydro-Québec traded foreign currency sales and purchase contracts for which the notional amounts of open positions as at June 30, 2022, were US\$5,249 million and US\$1,310 million, respectively (US\$3,376 million for sales contracts and nil for purchase contracts as at December 31, 2021).

Interest rate risk – Hydro-Québec uses interest rate forward contracts and swaps 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.

### Management of long-term risk

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

Currency risk – Hydro-Québec uses forward contracts to manage the 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 currency forward contracts and swaps to manage the currency risk associated with long-term debt and perpetual debt, as well as interest rate forward contracts and 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.

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 items affected by the hedged item, namely Revenue or Electricity purchases. In this context, Hydro-Québec traded electricity futures and swaps for which open positions as at June 30, 2022, totaled 20.3 TWh (21.1 TWh as at December 31, 2021), natural gas futures for which open positions as at June 30, 2022, totaled 1.0 million MMBtu (0.2 million MMBtu as at December 31, 2021), petroleum product swaps for which open positions as at June 30, 2022, totaled 36.5 million litres (38.3 million litres as at December 31, 2021), as well as aluminum swaps for which open positions as at June 30, 2022, totaled 513,625 tonnes (490,050 tonnes as at December 31, 2021).

## Note 7 Financial Instruments (continued)

### Fair value

#### Fair value of derivative instruments

The following tables present the fair value of derivative instruments, excluding the impact of offsets, by type and depending on whether they are designated as fair value hedges or cash flow hedges, or not designated as hedges:

	As at June 30, 2022			
	Derivatives designated as fair value hedges	Derivatives designated as cash flow hedges	Derivatives not designated as hedges <sup>a</sup>	Gross amounts of derivatives recognized <sup>b</sup>
<b>Assets</b>				
Contracts – Currency risk	–	716	22	<b>738</b>
Contracts – Interest rate risk	108	302	8	<b>418</b>
Contracts – Price risk	–	242	99	<b>341</b>
	108	1,260	129	<b>1,497</b>
<b>Liabilities</b>				
Contracts – Currency risk	–	(131)	(6)	<b>(137)</b>
Contracts – Interest rate risk	–	(127)	–	<b>(127)</b>
Contracts – Price risk	–	(790)	(143)	<b>(933)</b>
	–	(1,048)	(149)	<b>(1,197)</b>
Total	108	212	(20)	<b>300</b>

	As at December 31, 2021			
	Derivatives designated as fair value hedges	Derivatives designated as cash flow hedges	Derivatives not designated as hedges <sup>a</sup>	Gross amounts of derivatives recognized <sup>b</sup>
<b>Assets</b>				
Contracts – Currency risk	–	833	6	839
Contracts – Interest rate risk	393	4	–	397
Contracts – Price risk	–	42	33	75
	393	879	39	1,311
<b>Liabilities</b>				
Contracts – Currency risk	–	(162)	(101)	(263)
Contracts – Interest rate risk	–	(152)	–	(152)
Contracts – Price risk	–	(579)	(34)	(613)
	–	(893)	(135)	(1,028)
Total	393	(14)	(96)	283

a) These derivative instruments are mainly traded as part of Hydro-Québec's risk management.

b) Fair value measurements of derivative instruments are Level 2 measurements. These measurements are obtained by discounting future cash flows, which are estimated on the basis of the spot rates, forward rates or forward 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.



## Note 7 Financial Instruments (continued)

The impact of offsetting derivative instruments is presented in the table below:

	As at June 30, 2022				As at December 31, 2021			
	Gross amounts of derivatives recognized	Gross amounts offset <sup>a</sup>	Cash (received) paid as collateral <sup>b</sup>	Net amounts presented on the balance sheet	Gross amounts of derivatives recognized	Gross amounts offset <sup>a</sup>	Cash (received) paid as collateral <sup>b</sup>	Net amounts presented on the balance sheet
<b>Assets</b>								
Current	511	(174)	(233)	<b>104</b>	193	(133)	(8)	52
Long-term	986	(96)	(851)	<b>39</b>	1,118	(384)	(731)	3
	1,497	(270)	(1,084)	<b>143</b>	1,311	(517)	(739)	55
<b>Liabilities</b>								
Current	(716)	169	–	<b>(547)</b>	(774)	389	48	(337)
Long-term	(481)	101	1	<b>(379)</b>	(254)	128	–	(126)
	(1,197)	270	1	<b>(926)</b>	(1,028)	517	48	(463)
Total	300	–	(1,083)	<b>(783)</b>	283	–	(691)	(408)

a) The gross amounts of derivatives offset are related to contracts traded according to International Swaps and Derivatives Association (“ISDA”) guidelines and constituting enforceable master netting arrangements. Such master netting arrangements apply to all derivative instrument contracts traded over the counter.

b) Cash amounts offset are amounts received or paid under collateral exchange agreements signed in compliance with ISDA guidelines.

Moreover, although certain derivatives cannot be offset for lack of enforceable master netting arrangements, margin calls may result in amounts received from or paid to clearing agents, based on the fair value of the instruments concerned.

As at June 30, 2022, \$1,060 million receivable in consideration of net cash payments was included in Accounts receivable and other receivables (\$513 million as at December 31, 2021).

## Note 7 Financial Instruments (continued)

The impact of derivative instruments on results and other comprehensive income is presented in the tables below. It should be noted that most derivative instruments traded are designated as cash flow hedges or fair value hedges and therefore reduce the volatility of results. Derivative instruments which are not designated as hedges, but which nonetheless provide an economic hedge for at-risk opposite positions, also reduce the volatility of results. The sensitivity of results is thus limited to net exposure to unhedged risks.

	Three months ended June 30, 2022			
	Losses (gains) on derivatives designated as fair value hedges	Losses (gains) on derivatives designated as cash flow hedges		Losses (gains) on derivatives not designated as hedges
	Recognized in results	Recognized in Other comprehensive income	Reclassified from Other comprehensive income to results	Recognized in results
Contracts – Currency risk	–	(41)	(133) <sup>a</sup>	(96)
Contracts – Interest rate risk	117	(307)	1 <sup>b</sup>	–
Contracts – Price risk	–	(396)	182 <sup>c</sup>	(52)
	<b>117<sup>b, d</sup></b>	<b>(744)</b>	<b>50<sup>d</sup></b>	<b>(148)<sup>d, e</sup></b>
Impact of hedged items on results	<b>(114)</b>		<b>(50)</b>	

	Three months ended June 30, 2021			
	Losses (gains) on derivatives designated as fair value hedges	Losses (gains) on derivatives designated as cash flow hedges		Losses (gains) on derivatives not designated as hedges
	Recognized in results	Recognized in Other comprehensive income	Reclassified from Other comprehensive income to results	Recognized in results
Contracts – Currency risk	–	55	28 <sup>a</sup>	47
Contracts – Interest rate risk	(30)	68	2 <sup>b</sup>	–
Contracts – Price risk	–	300	27 <sup>c</sup>	45
	<b>(30)<sup>b, d</sup></b>	<b>423</b>	<b>57<sup>d</sup></b>	<b>92<sup>d, e</sup></b>
Impact of hedged items on results	<b>31</b>		<b>(57)</b>	<b>(47)</b>

a) In 2022, \$5 million was recognized in Revenue [\$(51) million in 2021], and \$(138) million in Financial expenses (\$79 million in 2021).

b) These amounts were recognized in Financial expenses.

c) In 2022, \$181 million was recognized in Revenue (\$26 million in 2021), and \$1 million in Electricity purchases (\$1 million in 2021).

d) In 2022, the items Revenue, Electricity purchases and Financial expenses totaled \$3,521 million, \$601 million and \$580 million, respectively (\$2,990 million, \$505 million and \$589 million in 2021).

e) These instruments are essentially related to integrated risk management transactions. Their impact on results is recognized in the line items affected by the managed risk. Therefore, in 2022, \$(14) million was recognized in Revenue (\$49 million in 2021), \$(32) million in Electricity purchases [\$(4) million in 2021], and \$(102) million in Financial expenses (\$47 million in 2021).

## Note 7 Financial Instruments (continued)

	Six months ended June 30, 2022			
	Losses (gains) on derivatives designated as fair value hedges	Losses (gains) on derivatives designated as cash flow hedges		Losses (gains) on derivatives not designated as hedges
	Recognized in results	Recognized in Other comprehensive income	Reclassified from Other comprehensive income to results	Recognized in results
Contracts – Currency risk	–	39	(49) <sup>a</sup>	(73)
Contracts – Interest rate risk	273	(659)	3 <sup>b</sup>	–
Contracts – Price risk	–	527	500 <sup>c</sup>	43
	<b>273<sup>b, d</sup></b>	<b>(93)</b>	<b>454<sup>d</sup></b>	<b>(30)<sup>d, e</sup></b>
Impact of hedged items on results	<b>(267)</b>		<b>(454)</b>	

	Six months ended June 30, 2021			
	Losses (gains) on derivatives designated as fair value hedges	Losses (gains) on derivatives designated as cash flow hedges		Losses (gains) on derivatives not designated as hedges
	Recognized in results	Recognized in Other comprehensive income	Reclassified from Other comprehensive income to results	Recognized in results
Contracts – Currency risk	–	144	66 <sup>a</sup>	79
Contracts – Interest rate risk	136	(318)	5 <sup>b</sup>	–
Contracts – Price risk	–	441	71 <sup>c</sup>	38
	<b>136<sup>b, d</sup></b>	<b>267</b>	<b>142<sup>d</sup></b>	<b>117<sup>d, e</sup></b>
Impact of hedged items on results	<b>(131)</b>		<b>(142)</b>	

a) In 2022, \$9 million was recognized in Revenue [\$(89) million in 2021], and \$(58) million in Financial expenses (\$155 million in 2021).

b) These amounts were recognized in Financial expenses.

c) In 2022, \$502 million was recognized in Revenue (\$67 million in 2021), and \$(2) million in Electricity purchases (\$4 million in 2021).

d) In 2022, the items Revenue, Electricity purchases and Financial expenses totaled \$8,672 million, \$1,501 million and \$1,155 million, respectively (\$7,437 million, \$1,136 million and \$1,198 million in 2021).

e) These instruments are essentially related to integrated risk management transactions. Their impact on results is recognized in the line items affected by the managed risk. Therefore, in 2022, \$73 million was recognized in Revenue (\$48 million in 2021), \$(26) million in Electricity purchases [\$(10) million in 2021], and \$(77) million in Financial expenses (\$79 million in 2021).

## Note 7 Financial Instruments (continued)

For the three- and six-month periods ended June 30, 2022 and 2021, Hydro-Québec did not reclassify any amounts from Accumulated other comprehensive income to results after having discontinued cash flow hedges.

As at June 30, 2022, Hydro-Québec estimated that the total gains and losses in Accumulated other comprehensive income that would be reclassified to results in the next 12 months

amounted to a net loss of \$408 million (\$114 million as at June 30, 2021).

As at June 30, 2022, the maximum period during which Hydro-Québec hedged its exposure to the variability of cash flows related to anticipated transactions was eight years (nine years as at June 30, 2021).

### Fair value of other financial instruments

Fair value measurements for other financial instruments are Level 2 measurements. Fair value is obtained by discounting future cash flows, based on rates observed on the balance sheet date for similar instruments traded on capital markets.

The fair value of cash equivalents, receivables – accounts receivable, other receivables and financial liabilities approximates their carrying amount because of the short-term nature of these financial instruments, except for the items presented in the table below:

	As at June 30, 2022		As at December 31, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Sinking fund	647	626	647	678
<b>Liabilities</b>				
Long-term debt <sup>a</sup>	(50,102) <sup>b</sup>	(51,618)	(49,444) <sup>b</sup>	(65,963)
Perpetual debt	(258)	(224)	(254)	(255)

a) Including the current portion.

b) Including an amount of \$1,494 million as at June 30, 2022 (\$1,935 million as at December 31, 2021) for debts subject to a fair value hedge, which resulted in an adjustment of \$87 million (\$345 million as at December 31, 2021) in connection with the hedged risk for existing hedging relationships and of \$(67) million [\$(58) million as at December 31, 2021] for discontinued relationships.

### Accounts receivable and other receivables

As at June 30, 2022, accounts receivable and other receivables included \$1,897 million (\$1,918 million as at December 31, 2021) from contracts with customers, of which unbilled electricity deliveries totaled \$930 million (\$1,320 million as at December 31, 2021).

## Note 8 Supplementary Cash Flow Information

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
<b>Change in non-cash working capital items</b>				
Accounts receivable and other receivables	416	704	(953)	(196)
Materials and supplies	4	(6)	(18)	(23)
Accounts payable and accrued liabilities	(137)	(144)	(53)	(158)
Accrued interest	426	372	(92)	(91)
	709	926	(1,116)	(468)
<b>Activities not affecting cash</b>				
Increase in property, plant and equipment and intangible assets	19	18	37	29
<b>Interest paid</b>	91	135	1,053	1,093

## Note 9 Employee Future Benefits

	Three months ended June 30					
	Pension Plan		Other plans		Total	
	2022	2021	2022	2021	2022	2021
Current service cost	159	176	13	13	172	189
Other components of employee future benefit cost						
Interest on obligations	203	171	12	11	215	182
Expected return on plan assets	(499)	(463)	–	(1)	(499)	(464)
Amortization of net actuarial loss	23	87	6	10	29	97
Amortization of past service costs (credits)	1	1	(1)	(1)	–	–
	(272)	(204)	17	19	(255)	(185)
<b>Net (credit) cost recognized</b>	<b>(113)</b>	<b>(28)</b>	<b>30</b>	<b>32</b>	<b>(83)</b>	<b>4</b>

	Six months ended June 30					
	Pension Plan		Other plans		Total	
	2022	2021	2022	2021	2022	2021
Current service cost	316	352	26	27	342	379
Other components of employee future benefit cost						
Interest on obligations	407	341	25	22	432	363
Expected return on plan assets	(998)	(926)	(1)	(2)	(999)	(928)
Amortization of net actuarial loss	45	173	12	20	57	193
Amortization of past service costs (credits)	2	3	(2)	(2)	–	1
	(544)	(409)	34	38	(510)	(371)
<b>Net (credit) cost recognized</b>	<b>(228)</b>	<b>(57)</b>	<b>60</b>	<b>65</b>	<b>(168)</b>	<b>8</b>

### Hydro-Québec's contributions

The final version of the actuarial valuation as at December 31, 2021, for Pension Plan funding purposes, submitted to Retraite Québec in May 2022, triggered a contribution holiday for Hydro-Québec for the current year.

## Note 10 Accumulated Other Comprehensive Income

	Six months ended June 30, 2022			
	Cash flow hedges	Employee future benefits	Other	Accumulated other comprehensive income
Balance as at December 31, 2021	(706)	(1,354)	(3)	<b>(2,063)</b>
Other comprehensive income before reclassifications	93	–	10	<b>103</b>
Amounts reclassified outside of Accumulated other comprehensive income	454	22	–	<b>476</b>
Other comprehensive income	547	22 <sup>a</sup>	10	<b>579</b>
Balance as at June 30, 2022	(159)	(1,332)	7	<b>(1,484)</b>

	Six months ended June 30, 2021			
	Cash flow hedges	Employee future benefits	Other	Accumulated other comprehensive income
Balance as at December 31, 2020	(162)	(2,940)	(8)	(3,110)
Other comprehensive income before reclassifications	(267)	–	(1)	(268)
Amounts reclassified outside of Accumulated other comprehensive income	142	74	–	216
Other comprehensive income	(125)	74 <sup>a</sup>	(1)	(52)
Balance as at June 30, 2021	(287)	(2,866)	(9)	(3,162)

a) Other comprehensive income includes the change in the employee future benefit regulatory asset, which totaled \$(35) million as at June 30, 2022 [\$(120) million as at June 30, 2021].

## Note 11 Contingencies

### 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 June 30, 2022, the amortized cost of the long-term debts concerned was \$1,450 million (\$2,119 million as at December 31, 2021).

### 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 significant adverse effect of such contingent liabilities on Hydro-Québec's consolidated results or financial position.

Among other ongoing actions, some Indigenous communities have instituted proceedings before the Québec courts against the governments of Canada and Québec, as well as against Hydro-Québec, based on demands concerning their ancestral rights. In particular, the Innu of Uashat mak Mani-utenam are demanding \$1.5 billion in damages resulting from various activities carried out on land they claim as their own. As well, in November 2006, the Innu of Pessamit reactivated an action brought in 1998, aimed at obtaining, among other things, the recognition of ancestral rights related to Québec lands on which certain hydroelectric generating facilities of the Manic-Outardes complex are located. This community is claiming \$500 million. Hydro-Québec is challenging the merits of these claims.

Moreover, in October 2020, Innu Nation Inc. instituted proceedings before the courts of Newfoundland and Labrador against Churchill Falls (Labrador) Corporation Limited

["CF(L)Co"] and Hydro-Québec alleging that the construction and operation of the Churchill Falls hydroelectric complex in Labrador, which is owned and operated by CF(L)Co, is the result of a common enterprise between CF(L)Co and Hydro-Québec and infringes on the ancestral rights of the Innu of Labrador. Innu Nation Inc. claims that CF(L)Co and Hydro-Québec should disgorge the profits derived from the complex or, alternatively, provide monetary compensation which, in Hydro-Québec's case, amounts to \$4 billion. Hydro-Québec is challenging the merits of this claim.

### Investments

Further to the agreement entered into by Hydro-Québec to sell 9.45 TWh of energy to electricity distributors in Massachusetts over a 20-year period, Hydro-Québec and its U.S. partner Central Maine Power ("CMP") launched the New England Clean Energy Connect ("NECEC") project in the United States to transmit the power via the State of Maine. This project is part of a larger project aimed at establishing a new interconnection between the Québec and New England grids. In January 2021, CMP initiated the construction of the NECEC line, as all the key authorizations and major permits required by the U.S. regulatory authorities had been obtained. In November 2021, Mainers voted in a citizen initiative referendum to block the project. Hydro-Québec and CMP are challenging the legality of the new law resulting from this initiative in court, and CMP has suspended construction work until the issue has been resolved by the ongoing legal proceedings. In coordination with CMP, Hydro-Québec also suspended some of the construction work related to the interconnection project in Québec.

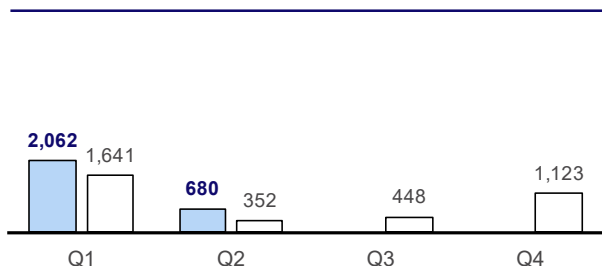
Should the project be abandoned, a significant portion of the costs recognized as property, plant and equipment under construction, which totaled \$473 million as at June 30, 2022, will be charged to results, along with the amounts that Hydro-Québec has undertaken to pay under various agreements, which amounted to \$133 million on that date.

# CONSOLIDATED FINANCIAL HIGHLIGHTS (UNAUDITED)

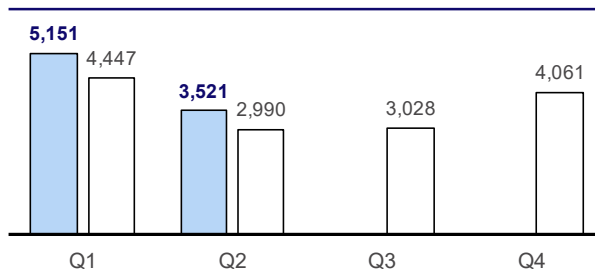
Amounts shown in tables are in millions of Canadian dollars.

Summary of Results	Three months ended June 30			Six months ended June 30		
	2022	2021	Change (%)	2022	2021	Change (%)
Revenue	<b>3,521</b>	2,990	17.8 ↑	<b>8,672</b>	7,437	16.6 ↑
Expenditure	<b>2,261</b>	2,049	10.3 ↑	<b>4,775</b>	4,246	12.5 ↑
Financial expenses	<b>580</b>	589	1.5 ↓	<b>1,155</b>	1,198	3.6 ↓
Net income	<b>680</b>	352	93.2 ↑	<b>2,742</b>	1,993	37.6 ↑

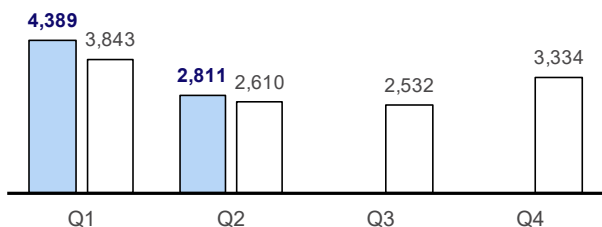
## Net Income



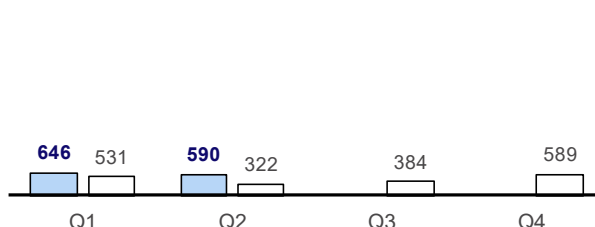
## Revenue



## Revenue from Electricity Sales in Québec



## Revenue from Electricity Sales Outside Québec



■ 2022    □ 2021