

Hydro-Québec's 2023 report on steps to prevent and reduce the risks of forced labour or child labour in its supply chain

This report was prepared by Hydro-Québec as required under the *Fighting Against Forced Labour and Child Labour in Supply Chains Act* (the "Act") to outline the steps Hydro-Québec has taken to address the risks of modern slavery in its supply chain in recent years, the last year in particular.

Hydro-Québec is a government corporation with its head office in Montréal. The Québec government is its sole shareholder. Hydro-Québec's mission is to provide reliable electric power to the Québec market by using primarily clean and renewable sources of energy and operating an integrated electricity generation, transmission and distribution system. The company also exports electricity to neighboring markets in Canada and the United States. The largest hydropower producer in Canada and a major player in the global hydropower industry, Hydro-Québec procured goods and services totalling about \$5 billion from close to 9,000 suppliers in different countries in 2023.

Child labour and forced labour are serious violations of human rights, generally of society's most vulnerable. Found mainly in low-skill-intensive industries that are often unregulated, these practices impact large international companies like Hydro-Québec whose supply chains are complex and include many types of suppliers and subcontractors in all parts of the world. Hydro-Québec procures goods and services from suppliers and subcontractors exposed to these risks in countries where such labour practices, considered forms of modern slavery, exist. In preparing this report, we used the definitions of child labour and forced labour specified in the Act.

Hydro-Québec's corporate policies on modern slavery

Aware of the level of complexity of its supply chain and the risks to which it is exposed, Hydro-Québec has for a number of years integrated ethics in its strategic thinking and adopted policies and mechanisms designed to prevent and reduce the impact of this complexity.

The *Supplier Code of Conduct* (the "Code") sets out what Hydro-Québec expects from suppliers and subcontractors with whom the company has a business relationship, that is, any connection or exchange, verbal or written, with or without a contract. The Code clearly states that suppliers must undertake to comply with applicable human rights legislation such as the *Charter of Human Rights and Freedoms* and with international instruments such as the *Universal Declaration of Human Rights*, the fundamental conventions of the International Labour Organisation (ILO) and the *United Nations Global Compact* guiding principles on business and human rights. The Code is applicable in addition to laws, regulations, standards, rules and contractual agreements between Hydro-Québec and suppliers. Furthermore, in signing the mandatory disclosure of conflict of interest and solemn declarations, suppliers confirm they have read the Code and agree to be bound by its provisions.

Hydro-Québec encourages suppliers and other stakeholders to use the reporting service we have set up to tell us about possible human rights abuses. Anyone can in good faith report ethical misconduct confidentially by calling 1 866 384-4783 or completing a secure form as provided in the *Policy for reporting on Hydro-Québec's activities and requesting support or mediation in the event of a difficult situation in the workplace*.

The *Standard for handling breaches of Hydro-Québec's Supplier Code of Conduct* specifies procedures for handling breaches of the Code to ensure appropriate sanctions and fair decisions.

Hydro-Québec's Board of Directors (the "Board") oversees the company's human rights action plans and the progress of the company's human rights work. The Board is supported in this oversight by the Governance and Social Responsibility Committee, composed of independent directors, and by a management system and a governance structure built on integrity. All concerned work together tirelessly to increase the ethical awareness and commitment of corporate stakeholders.

Lastly, Hydro-Québec also reports on its human rights progress in its annual sustainable development report.

Measures to prevent or reduce the risk of forced labour

Hydro-Québec's on-going efforts to increase stakeholder awareness and compliance with our ethics policies are at the heart of our work to prevent and reduce the risk of forced labour in our supply chain.

The 2024 plan continues the efforts of recent years, which included the activities described below:

2021-2023

2021

- Adoption of our first human rights action plan, the goal to reaffirm Hydro-Québec's expectations of suppliers and subcontractors, improve transparency and ensure forced labour is not present in our supply chain
- Update of the *Supplier Code of Conduct* and the associated mandatory disclosure of conflict of interest and solemn declarations to ensure Hydro-Québec's expectations with respect to human rights are clear and unequivocal
- Letters to Hydro-Québec suppliers and potential bidders working in a sector considered at risk (the solar energy sector) to verify compliance with human rights obligations under the Code

2022

- Analysis and assessment of the risk of forced labour in the Hydro-Québec supply chain. A recognized outside expert in the field analyzed and assessed the risks of all procurement categories by country, sector, product and supplier to determine and prioritize adequate handling of procurement categories at highest risk
- Preparation by an outside expert of a guidance on Hydro-Québec human-rights risk management mechanisms. Integration of sustainable development questionnaires that include a human-rights component in all requests for proposals to collect information on measures taken by our suppliers and to promote best practices
- Update, reinforcement and sharing with employees of Hydro-Québec's corporate due diligence process to ensure our supplier base is continuously monitored and none of our suppliers have business relations with individuals or entities sanctioned nationally or internationally for human rights violations.

2023

- Continuation of on-going monitoring of the supplier base
- Implementation of Hydro-Québec's corporate due diligence process in the case of proposals from new suppliers and subcontractors whose activities pose human rights risks. A contract was awarded to an outside expert to support Hydro-Québec teams in complex international verifications
- Requests sent to 161 suppliers in at-risk procurement categories for statements attesting to absence of business relations with individuals or entities sanctioned for human rights violations in their supply chain
- Continued integration of sustainable development questionnaires in tender calls and incorporation of questionnaire answers in decision criteria for selection of suppliers and partners
- First market qualification focusing on respect for human rights in the photovoltaic systems procurement category
- Broadening of the scope of application of the Code to Hydro-Québec's electricity supply.

The monitoring mechanisms instituted in 2021 gave rise to preventive measures with respect to suppliers and human rights issues. Administrative sanctions were imposed on certain suppliers in accordance with the *Standard for handling breaches of Hydro-Québec's Supplier Code of Conduct*. These included remedial measures, loss of bidding privileges and preventive measures. To date, Hydro-Québec has not identified any situations where efforts to prevent or reduce forced labour resulted in loss of income.

We also worked to raise awareness and train stakeholders in the procurement process at all levels of the organization, as evidenced by the activities listed below:

- The Governance and Social Responsibility Committee, the Board of Directors' Audit Committee, Hydro-Québec's management team and committees and groups specializing in ethics participated actively in numerous discussions of human rights, focusing on issues and actions in connection with forced labour.
- All Hydro-Québec employees participating in the procurement process completed training modules on responsible procurement and the rules of conduct governing procurement. A number of the training sessions focused on ethics, integrity and human rights.

We are committed to continuing our awareness and training activities in 2024 to strengthen our capacity to identify and manage major human rights risks. We also plan to maintain our commitment to working with our suppliers and stakeholders to ensure these issues are taken seriously and handled with due diligence.

Reporting obligations of subsidiaries controlled by Hydro-Québec

As mentioned, Hydro-Québec integrated ethics in its strategic planning a number of years ago and adopted policies and mechanisms to prevent and reduce risk impacts by raising awareness and training stakeholders. We also developed similar mechanisms specifically for our subsidiaries, notably the following:

- Adoption of a *Code of Ethics and Rules of Professional Conduct for Directors and Executives of Hydro-Québec and Its Wholly Owned Subsidiaries*
- Adoption and update of a code of ethics for employees of corporations in which Hydro-Québec holds at least 90% of the voting shares directly or indirectly
- Adoption of a policy on governance of Hydro-Québec subsidiaries that sets forth Hydro-Québec's commitments

A detailed analysis of applicable criteria under the Act indicates the following Hydro-Québec subsidiaries have reporting obligations:

1. **Services Hilo Inc. (“Hilo”) and Hydro-Québec IndusTech Inc. (“IndusTech”)**

Hilo is a corporation and a wholly-owned subsidiary of IndusTech, also a corporation, and it falls under section 10 of the Act. More specifically, Hydro-Québec holds all the shares of IndusTech which in turns holds all the shares of Hilo.

Hilo’s main mission is to develop and market innovative, value-added products and services in the energy efficiency sector. IndusTech’s mission is to partner with the private sector in pursuing the industrial production and marketing of technologies resulting from Hydro-Québec’s research activities, a mission accomplished by holding shares in subsidiaries such as Hilo. In other words, IndusTech is a management company that does not engage in any commercial activity and hence has no supply chain of its own. Given the preceding, all measures taken by Hilo and described in this report also constitute modern slavery risk prevention and reduction measures for IndusTech.

Like Hydro-Québec, Hilo has adopted corporate policies on modern slavery and measures to prevent and reduce the risks of forced labour, the following in particular:

- Adoption of a goods and services procurement policy specific to Hilo: This policy sets forth Hilo’s commitment to ensure fairness and ethical conduct in its procurement activities. In particular, Hilo undertakes to bind its suppliers to Hydro-Québec’s Supplier Code of Conduct. As mentioned, the Code states that suppliers must undertake to comply with applicable human rights legislation such as the *Charter of Human Rights and Freedoms* and with international instruments such as the *Universal Declaration of Human Rights*, the fundamental conventions of the International Labour Organisation (ILO) and the *United Nations Global Compact* guiding principles on business and human rights.
- Training of Hilo employees to raise awareness and educate corporate stakeholders about the risks of modern slavery: All Hilo employees received training in January 2024 on standard ISO 37001 and the fight against corruption. An intranet page accessible to all Hilo employees offers information about Hilo’s anti-corruption management system.

2. **HQ Energy Marketing (“HQEM”)**

HQEM is a corporation and a wholly-owned subsidiary of Hydro-Québec, and it falls under section 10 of the Act. More specifically, Hydro-Québec holds all the shares of HQEM.

HQEM’s main mission is to hold shares for Hydro-Québec in energy-trading companies and to conduct energy transactions in Canadian markets outside Québec. HQEM is also authorized by the *Federal Energy Regulatory Commission* to negotiate energy transactions at market price in the United States. HQEM’s market, credit and liquidity risks in the course of its business operations are largely assumed by its parent company, Hydro-Québec.

HQEM’s sole supplier is Hydro-Québec. Accordingly, all measures taken by Hydro-Québec and described in this report also constitute modern slavery risk prevention and reduction measures for HQEM.

3. **Société en commandite Hydroélectrique Manicouagan (“SCHM”) and HQ Manicouagan inc. (“HQM”)**

SCHM is a limited partnership controlled by Hydro-Québec and it falls under section 10 of the Act. More specifically, the general partner of SCHM is the Société Hydroélectrique Manicouagan Commandité and its limited partners are HQ Manicouagan Inc. (a limited company and a wholly-owned subsidiary of Hydro-Québec) and Alcoa Canada Cie.

HQ Manicouagan Inc. is a management company that does not engage in any commercial activity and hence has no supply chain of its own. Given the preceding, all measures taken by SCHM and described in this report also constitute modern slavery risk prevention and reduction measures for HQM.

SCHM’s main mission is to operate McCormick hydroelectric generating station, meaning its activities are similar to those performed by Hydro-Québec.

Analysis and assessment of the risks of use of forced labour or child labour in SCHM’s supply chain showed that most SCHM suppliers are also Hydro-Québec suppliers. Accordingly, all measures taken by Hydro-Québec and described in this report also constitute measures to prevent or reduce the risk of forced labour or child labour for SCHM.