

		Guideline number	1
Title ¹		Revised <input checked="" type="checkbox"/> yes <input type="checkbox"/> no	
Standard for Handling Breaches of Hydro-Québec’s Supplier Code of Conduct		Effective: 2022-10-27	
Issuing unit	Approval	Date	
Direction principale - Approvisionnement stratégique [strategic procurement]	Claudine Bouchard Executive Vice President, Chief Infrastructure and Energy System Officer Official document signed	2022-10-27	
Activities concerned			
Business relationships between Hydro-Québec and its suppliers			

1. Introduction

Hydro-Québec’s *Supplier Code of Conduct* (hereinafter referred to as the “**Code**”) sets out the expectations of Hydro-Québec and its wholly owned subsidiaries (collectively, “**Hydro-Québec**”) regarding the suppliers with which they have business relationships.

Ethics is the cornerstone of this Code. In their relationships with Hydro-Québec, suppliers must act with integrity, honesty and professionalism and adhere to the highest ethical principles while respecting human rights and the environment, so as to preserve the integrity of Hydro-Québec and its activities as well as public confidence.

2. Purpose

This standard specifies the procedures for handling breaches of the Code in order to determine the appropriate sanction and ensure fairness in decisions made.

3. Scope

This standard applies to all business relationships between Hydro-Québec and its suppliers, whether or not the parties are bound by a contract.

All Hydro-Québec employees and all its suppliers are responsible for ensuring compliance with the Code and cooperating in the implementation of this standard.

4. Confidentiality

Hydro-Québec ensures the confidentiality of the information it receives, including the identity of the person making the disclosure, in accordance with the obligations set out in applicable legislation. Only the representatives who require this information to perform their duties have access to it.

¹ This is a courtesy translation of the official French document entitled “*Norme de traitement des manquements au Code de conduite des fournisseurs d’Hydro-Québec.*”

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5. Definitions

5.1 Eligible company

A company that meets the expectations set out in the Code and the required eligibility criteria in Hydro-Québec's contractual documents for participating in one or all stages of the procurement process. Among other things, signing the *Mandatory Disclosure: Conflict of Interest and Solemn Declarations* (hereinafter referred to as the "Declaration") in which the supplier declares that it has read the Code, understands the meaning and scope of it, and agrees to be bound by all the provisions of the Code.

5.2 Supplier

Any organization (including its representatives, shareholders, affiliates, directors, employees and subcontractors, regardless of rank) or any self-employed worker who supplies goods or services to Hydro-Québec. This term also encompasses potential bidders, regardless of their tier.

5.3 Misconduct

Any behavior or conduct that is contrary to the Code's rules of ethics and occurs at any time.

5.4 Procurement process

Process that covers the awarding and administration of contracts (from expression of needs to evaluation of performance after contract completion).

5.5 Hydro-Quebec's register of ineligible companies

List of suppliers that are subject to sanctions and have not completed the restoration process. This list is accessible only to authorized Hydro-Québec employees.

5.6 Reinstatement

When a sanctioned supplier regains its eligible supplier status.

5.7 Sanction

Administrative decision made by Hydro-Québec resulting from a breach of the Code.

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Section I. Handling Suppliers' Breaches of the Code

6. Supplier ethics working group

6.1 Mandate:

The mandate of the Groupe de travail éthique fournisseurs (supplier ethics working group; hereinafter referred to as the "Group") is to assess real or apprehended breaches of the Code and make recommendations to the Direction principale – Approvisionnement stratégique [strategic procurement] (hereinafter referred to as the "DPAS").

The Group also reviews the results of the various risk-monitoring activities pertaining to collusion and corruption as well as misconduct.

The Group is made up of representatives of the various business units concerned.

6.2 General procedure:

The Group recommends appropriate sanctions to the DPAS based on the audits or investigations conducted most notably by the Direction – Sécurité corporative [corporate security] (DSC).

The DPAS manages procurement integrity and ethics issues and may suspend a supplier's right to contract with Hydro-Québec or impose other sanctions as appropriate in the circumstances.

Section II. General Principles and Guidelines for Supplier Sanctions

7. Supplier sanctions

7.1 Extent of the sanctions:

Potential sanctions, which can be imposed singly or jointly, are as follows:

- a) *Warning*: a written warning is appropriate for an isolated incident or when the supplier's role in the misconduct is minor, indirect or involuntary.
- b) *Corrective measures notice*: a formal written notice sent to the supplier informing them that they are required to take certain corrective measures, or preventive or other actions within a set time frame, to avoid suspension of the privilege to bid on Hydro-Québec's calls for proposals. Those measures can include (but are not limited to) verifiable actions taken to improve the supplier's governance and ethics, compliance controls or ethics programs.
- c) *Restitution, penalties, compensation*: restitution and other financial remedies may be used in cases where Hydro-Québec suffers financial losses for which it is able to determine the value or when there is an applicable penalty.
- d) *Suspension of the privilege to participate in calls for proposals or be awarded contracts*: the loss of the privilege to bid is imposed for a specific period of time. The supplier will not be relieved from the suspension until the following conditions are met: (i) the suspension period has elapsed (ii) the supplier has shown that it has complied with the corrective measures imposed by Hydro-Québec and (iii) it has paid compensation for the damages suffered by Hydro-Québec, if applicable.
- e) *Total or partial termination of the contract(s)*: an administrative decision to no longer do business with a supplier who has engaged in misconduct and to terminate any existing contracts. Hydro-Québec may consider total or partial termination of any contracts in progress.

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7.2 Basic sanction for serious breaches:

For serious breaches of the Code, the basic sanction is the suspension of the privilege to bid. Hydro-Québec considers the following breaches to be serious breaches: collusion, corruption, fraudulent practices, obstruction of an investigation, forced labor, child labor and non-compliance with international labor standards.

7.3 Assessment of sanctions:

Aggravating or attenuating factors (non-exhaustive) must be considered when determining a sanction:

Factor	Description
Aggravating	<ul style="list-style-type: none"> • Repeated misconduct • Complexity and level of sophistication of the misconduct • Role of shareholders, officers or directors in the misconduct • Obstruction, intimidation during the investigation, refusal to cooperate • Violation of a sanction imposed by Hydro-Québec • Extent of the damage suffered by Hydro-Québec in financial or reputational terms
Attenuating	<ul style="list-style-type: none"> • Minor role played in the misconduct • Acknowledges, accepts responsibility for the misconduct • Takes the necessary internal steps to establish the required corrective actions • Implementation of a code of conduct or internal ethics program by the supplier and monitoring of adherence to it • Cooperates well with Hydro-Québec • Pays the amounts due in restitution and pays the compensation for damages suffered by Hydro-Québec

Sanctions are assessed at two levels:

- natural persons (shareholders, directors, representatives, employees, consultants) involved in the supplier's unethical conduct
- organizations or legal persons (associated individuals and subcontractors, regardless of tier) factoring in whether the supplier has established a Code of Conduct or ethics program

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Section III. Post-decision Procedures

8. Communication

8.1 Documenting decisions

When the DPAS imposes a sanction on a supplier, the latter is entered into Hydro-Québec's internal register of ineligible companies. Communications with the supplier are handled by the DPAS.

8.2 Reporting to appropriate external authorities

Hydro-Québec can report misconduct under the Code to the appropriate authorities.

9. Monitoring

9.1 Hydro-Québec's ineligible suppliers

Hydro-Québec ensures, through continuous monitoring, that ineligible suppliers do not participate in any procurement processes.

9.2 Corrective actions

A follow-up is carried out on the corrective measures or sanctions imposed.

10. Reinstatement

10.1 Reinstatement upon expiry of the sanctions

An ineligible supplier wishing to re-establish its business relationship with Hydro-Québec can submit a request when the sanctions imposed on it have ended and, if applicable, when it is able to demonstrate that the corrective measures have been put in place.

10.2 Reinstatement before expiry of the sanctions

An ineligible supplier can request re-establishment of its authorized supplier status, when at least half the duration of the sanction imposed on it has passed and, if applicable, when it is able to demonstrate that the corrective measures have been put in place.

10.3 Reasons for reinstatement

The reinstatement request must provide reasons, in writing, and be accompanied by documentation indicating the corrective measures taken. The supplier must provide enough information to demonstrate the short- and long-term impacts of those corrective measures.

10.4 Impacts of the reinstatement

When the supplier's request for reinstatement is accepted, the supplier's status is removed from Hydro-Québec's register of ineligible companies. The supplier thereby regains its eligibility and its privilege to participate in calls for proposals and be awarded contracts.