Hydro Québec

Annual Report 1994

Corporate Profile

Hydro-Québec ranks among North America's largest electric utilities in terms of assets and sales. It generates, transmits and distributes most of the electricity consumed in Québec, and operates generating facilities with a total capacity of close to 30,500 MW. Of these facilities, 93% are hydroelectric, a feature unique among power systems of its size. The utility's annual deliveries are in excess of 158 billion kilowatthours, of which close to 20 billion are exported to neighboring Canadian provinces and to the United States.

Hydro-Québec is a publicly owned electric utility consituted in April 1944. In 1981, it became a joint-stock company with a single shareholder, the Québec government. Today, the utility's annual sales are $7.3 billion, and its fixed assets, $44.7 billion. Some of Hydro-Québec's activities are carried out by its wholly owned subsidiaries, the Société d'énergie de la Baie James, *Hydro-Québec International and Nouveler.*

Hydro-Québec is dedicated to the total satisfaction of its customers' needs, as well as to continuous improvement and sustainable development. It consistently engages in research, and seeks partnerships in many forms, with a view to increasing and enhancing its products and expertise.

Contents

Units of measurement

$M: millions of dollars
MW : megawatt, or 1 million watts
GW : gigawatt, or 1 million kilowatts
GWh : gigawatthour, or 1 million kilowatthours
TWh : terawatthour, or 1 billion kilowatthours

Note:

The financial information on the Hydro-Québec Retirement Fund is not included in the annual report. A separate document is published each year for participants in the Hydro-Québec Retirement Plan.

Gouvernement
du Québec

Minister of Natural Resources

Québec City, March 31, 1995

Mr. Roger Bertrand

President of the National Assembly of Québec
Québec City

Dear Sir,

I have the honor of submitting to you the annual report of Hydro-Québec for the year ended December 31, 1994.

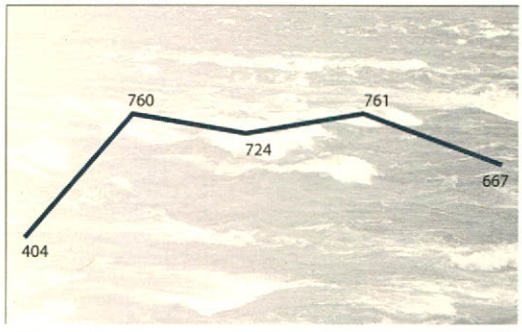
Yours respectfully,

Financial Data

Operations in Brief *(in $M)*	**1994**	1993	Variation *(in %)*
Revenue	**7,297**	7,036	3.7 △
Expenditure	**3,821**	3,761	1.6 △
Interest and exchange loss	**2,809**	2,514	11.7 △
Net income	**667**	761	12.4 ▽

Balance Sheet in Brief *(in $M)*	**1994**	1993	Variation *(in %)*
Total assets	**51,608**	47,879	7.8 △
Long-term debt	**36,047**	33,204	8.6 △
Shareholder's equity	**11,549**	10,882	6.1 △

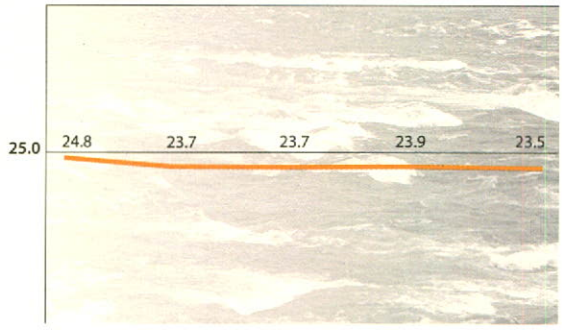
Net Income *(in $M)*



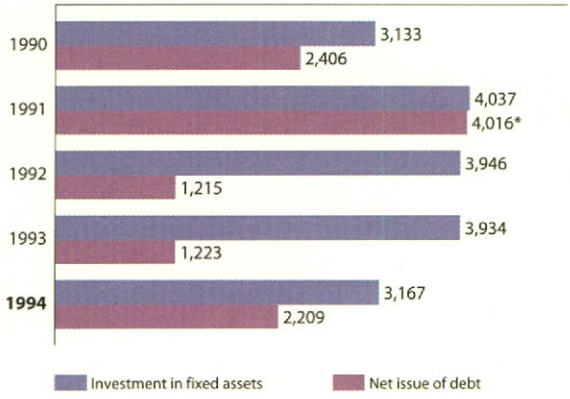
Return on Revenue *(in %)*

1990	1991	1992	1993	**1994**
6.9	12.2	10.6	10.8	9.1

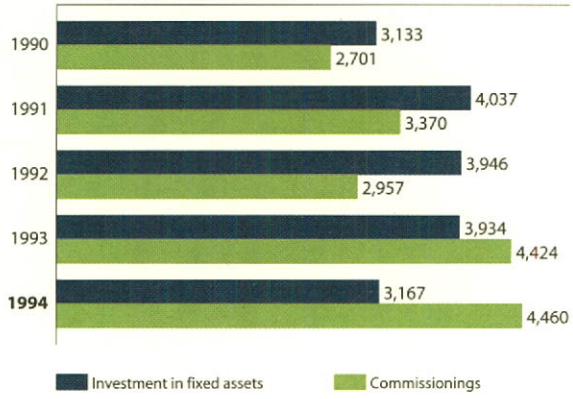
Capitalization *(in %)*



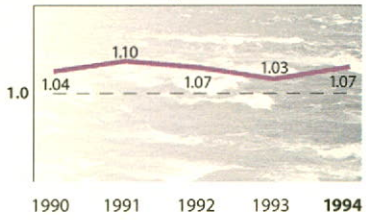
Investment in Fixed Assets vs Net Issue of Debt *(in $M)*



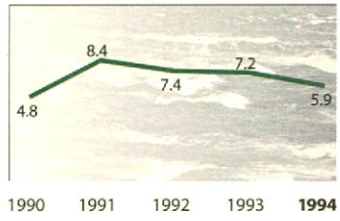
Investment in Fixed Assets vs Commissionings *(in $M)*



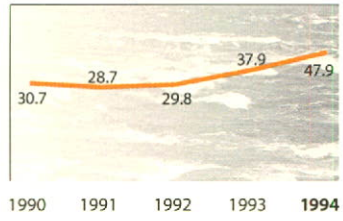
Interest Coverage



Return on Equity *(in %)*



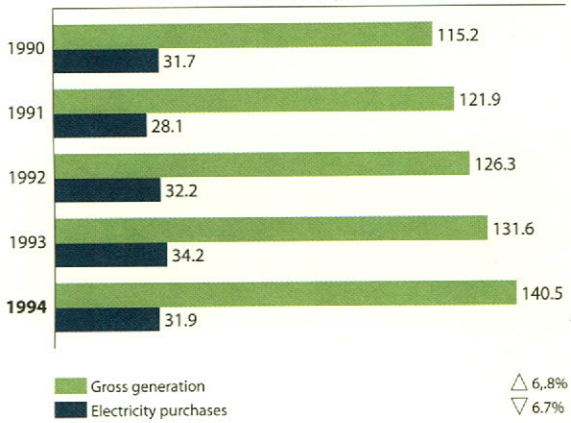
Self-Financing *(in %)*



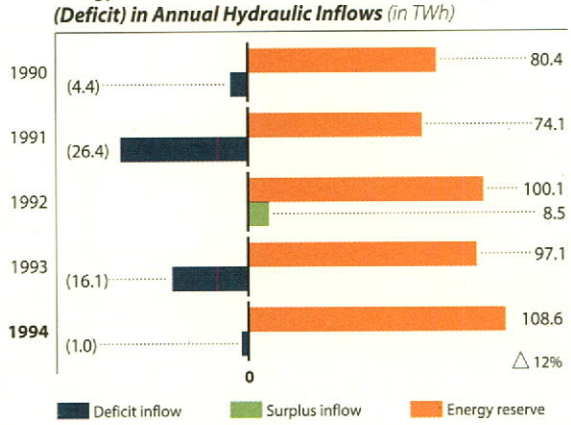
Operating Data

Main Performance Indicators	**1994**	1993	Variation *(in %)*
Rate of public satisfaction with Hydro-Québec**	**95%**	93%	2 △
Rate of response to customer telephone calls	**93%**	93%	—
Percentage of customers connected on time	**91%**	91%	—
Number of hours of service interruption per customer per year (standardized)***	**3.5 hrs**	4.4 hrs	20 ▽
Items of equipment containing PCBs in service	**1,803**	2,761	35 ▽

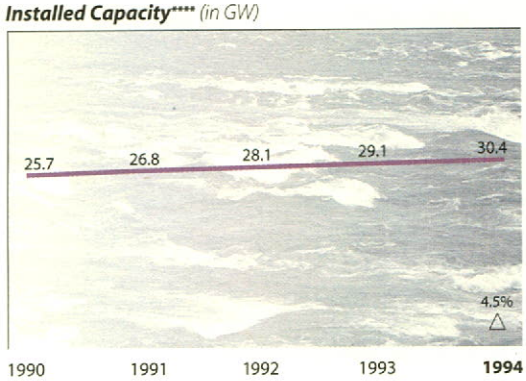
Gross Generation and Electricity Purchases *(in TWh)*



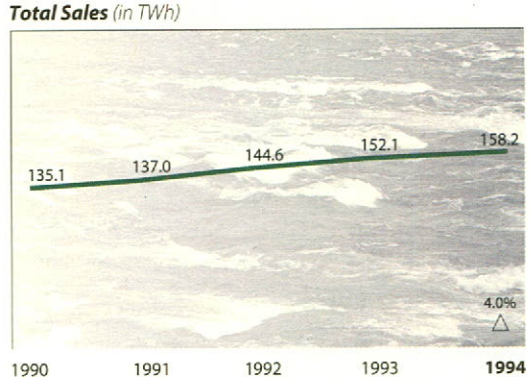
Energy Reserve at December 31 and Surplus (Deficit) in Annual Hydraulic Inflows *(in TWh)*



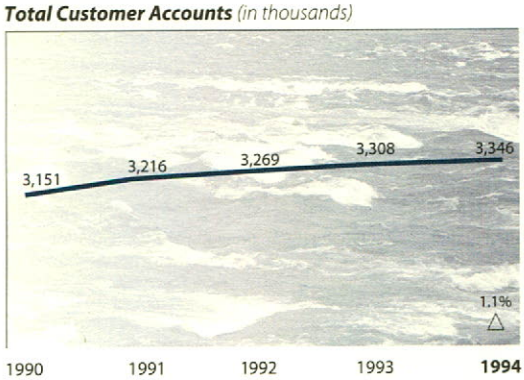
Installed Capacity* *(in GW)*



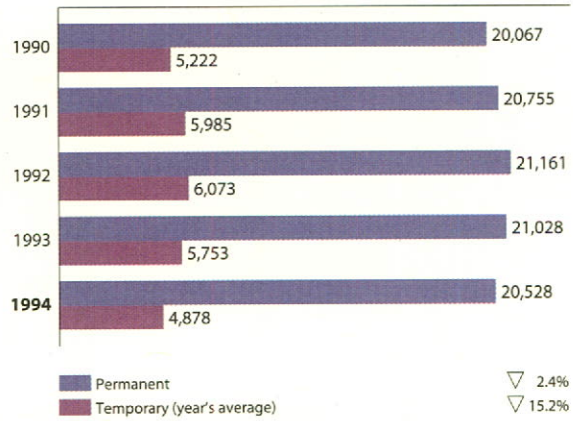
Total Sales *(in TWh)*



Total Customer Accounts *(in thousands)*



Personnel

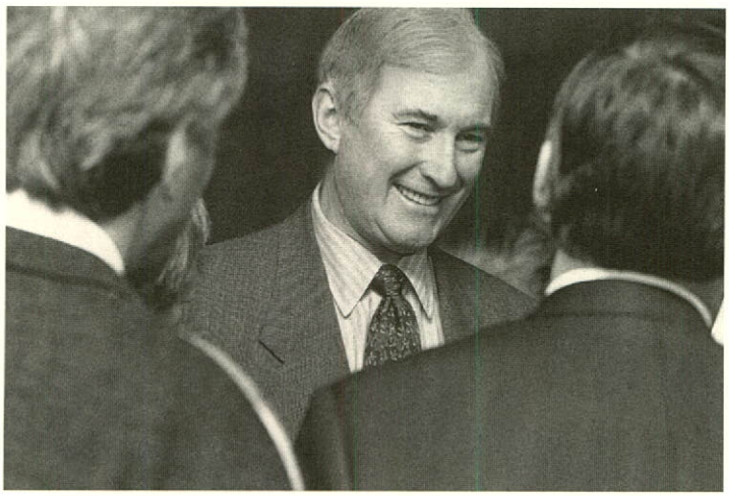


Notes **Includes $2,062 million in prefinancing for 1992 and 1993. **Annual average. ***Excludes interruptions due to exceptional events. ****Hydro-Québec also has access to most of the generation of the Churchill Falls power plant, which has a nominal capacity of 5.4 GW.*

Message from the Chairman of the Board and Chief Executive Officer, and the President and Chief Operating Officer

Hydro-Québec's 1994 performance proved more than satisfactory. Progress was greatest in precisely those areas judged vital by our customers: service quality, prompt action, continuity of service and safety. In fact, surveys indicate that satisfaction with Hydro-Québec among the Québec population as a whole has reached the 95% level. The previous year's rating was 93%. In the following pages our customers themselves testify to their satisfaction.

Several factors nonetheless conspired against improved performance. Last winter's intense cold and strong winds, followed by a summer of frequent electrical storms, put our system to a stern test. But, in the end, the drive and professionalism of our employees combined to surmount these obstacles.



Richard Drouin, Chairman of the Board and Chief Executive Officer

Tight Financial Management

Sales revenues, particularly in the industrial sector, grew appreciably in 1994, totaling $7,267 million, 3.8% higher than in 1993. But these gains were not enough to offset the impact on our financial expenses of the newly commissioned facilities at the La Grande complex, Phase II. Increased amortization and interest expenses contributed to our realizing a lower net income than in 1993: $667 million, as against $761 million. Still, as we anticipate no commissionings between 1997 and 2001, these financial strains are temporary in nature. We remain resolutely optimistic as to improvement in coming years.

Meeting the Competition

Improvement becomes all the more important in that the landscape of tomorrow's energy field will be quite different from today's. This new tomorrow provides us ample incentive to enhance our competitive position.

Competition in the North American electrical industry is intensifying. Demand growth is less rapid than in the past, and all producers now have on hand stocks of surplus energy. Price rivalry between gas, oil and electricity is sharp, and our industrial and commercial customers, seeking to reduce their costs, are bringing pressure to bear on energy prices. Moreover, deregulation of United States energy markets, and the appearance of private and independent producers, have modified the commercial strategies of virtually every player in the market.

Serving our Customers Better

Hydro-Québec must, as a matter of prime importance, adapt to these changes, consolidate its competitive position and continue to give its customers full satisfaction. This means intensifying the numerous measures already undertaken, as well as launching new initiatives.

For example, representatives of the Écono-Confort program have already begun calling on our residential customers. These customers will be offered the benefits of energy efficiency advice, together with installation of heating system control devices and other accessories. Other programs now in effect in the commercial, institutional and industrial sectors are designed to improve energy yields, reduce electricity bills and increase productivity. Large firms have also benefited from detailed market research and in-plant consultation.

Further customer-focused efforts ranged from enhanced communication quality and faster handling of queries, to efficient telephone call management, with particular attention being given to the needs of business customers and Québec's cultural communities.

To simplify communication with our customers, we are participating in the home electronic highway project, UBI. And to promote energy conservation, we have joined the Power Smart consortium, which brings together several Canadian electricity companies.

To our customers outside Québec we are offering products that are better adapted to their needs, and more diversified. Despite the slow growth of this market, the larger number of players and the highly competitive prices which prevail, sales showed improvement, totaling $527 million for the year, as compared with a 1993 figure of $452 million.

Our Vision

Between now and the year 2000, Hydro-Québec wants to become recognized by its customers as the foremost electric utility in Canada for the quality of its services.

Hydro-Québec also wants Quebecers to recognize it as a major partner in the sustainable development of Québec.

To achieve these objectives, the utility will make the most of its employees' know-how and Québec's hydroelectric resources.

Knowing How to Listen

Throughout 1994 we continued to listen closely to what our customers have to say. For the last several years, we have employed a rigorous process to learn precisely what their expectations are. Follow-up surveys are then used to evaluate the success of our actions. In addition, discussions have been held with nearly a hundred groups representing the interests of all Québec citizens in preparation for the drafting of our next strategic plan.

Meeting Tomorrow's Needs

Maintaining the best possible balance between supply and demand is the key to guaranteeing Québec a sustainable electricity supply. And in the spirit of sustainable development, improving our existing system and reducing demand by saving energy remain our top priorities.

We then add on new facilities. In 1994, several generating units at the Laforge-1 and La Grande-1 power stations were commissioned. We also completed our 12th (735-kV) transmission line. New power stations are under construction, in particular at Laforge-2, at James Bay, and at Lac-Robertson, on the Lower North Shore, while preliminary work has begun for the Sainte-Marguerite-3 generating station, north-east of Sept-Îles.

In 1995, the Québec government will be holding a public debate on energy which should provide clear-cut answers to many of our fundamental questions. While awaiting the outcome of this debate, we have ceased all activity related to the Grande-Baleine project. We have also been given permission to postpone the project's environmental evaluation process. Studies completed to date have cost $519 million, including $220 million in interest costs.

Armand Couture, President and Chief Operating Officer

Finally, in affirmation of our determination to meet the challenges of the future, we are investing nearly two percent of annual revenue in research and development, establishing us in seventh place among major investors in this area in Canada.

Developing New Markets

To strengthen our competitive position, we must establish a stronger international presence. This we are accomplishing by learning how to blend cooperation and competition. We have, for example, entered into a strategic alliance with two natural gas utilities, Noverco, of Montréal, and Pittsburgh-based Consolidated Natural Gas. The three companies will thus be able to offer electricity producers in the United States and Eastern Canada a wide choice in the purchase, sale and exchange of electricity, gas and other forms of energy.

We must also diversify our activities. We have intensified our efforts in the area of technological initiatives alongside those in the international arena. We are now associated with nearly 140 local and international partners in research and development projects totaling $100 million.

Nouveler, one of our wholly owned subsidiaries, markets our products in Québec and internationally through its numerous subsidiaries and affiliates. We hope soon to be among the leaders in the electric vehicle field, thanks to a recent Hydro-Québec technological breakthrough: a powertrain consisting of four battery-driven motor-wheels with an auxiliary power unit.

Rigorous Quality Management

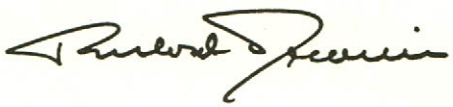
Much of our success can be attributed to our all-encompassing total quality management program – Défi performance *– whose aim is to enhance overall performance at the lowest cost. It is a long-term strategy, whose benefits we are now beginning to reap. All credit is due our employees. Throughout this period of change and of reorganization, they have discovered a new sense of motivation through the deep-seated conviction that today, more than ever, they are needed by Hydro-Québec. We thank them for their commitment to excellence.*

Harmonious Relations

We would also like to stress our new partnership with the Hydro-Québec unions. We have obtained their collaboration, along with that of our staff, in laying the path, through the "cooperative negotiation" process, for our joint efforts of the future.

1994 also marked Hydro-Québec's 50th anniversary. The event was celebrated in many of our departments, as an occasion for rejoicing, of course, but above all for reflecting on the successes of the past and the challenges of tomorrow.

In conclusion, we would like to thank 1994's outgoing members of the Board of Directors: Marcel Aubut, Mario Bertrand, Robert Demers, François Geoffrion, Georges Laberge, and Louise Sicard. We welcome Michel Clair, Deputy Minister of Natural Resources.



Richard Drouin, QC

Chairman of the Board and Chief Executive Officer

Armand Couture

President and Chief Operating Officer

Impeccable Service

Écono-Confort, *the most comprehensive energy efficiency operation ever undertaken in Québec, was launched in late 1993 and will affect all homes in the province by the end of 1997.*

The objective is to reduce electricity consumption by residential customers, especially heating bills, which we hope to lower by about 10% without any sacrifice of comfort.

Under the program, Hydro-Québec representatives visit customers and install more efficient thermostats, free of charge – electronic models for baseboard heaters, and programmable models for electric central heating. Customers also receive energy-efficient accessories along with tips on energy conservation.

"The Écono-Confort representatives – a man and a woman – who came to our house were very pleasant and polite. Very neat, too: they even brought little white slippers to wear!

"While one of them was installing the new thermostats, the other explained the program and energy conservation very clearly for us. They also gave us a showerhead and a faucet aerator, and they checked the temperature of our hot water tank.

"These representatives really provide an excellent service. In fact, the same can be said for customer service in general at Hydro-Québec."

Sophie Lavallée and Patrick Boie
Longueuil

Strengthening Ties with Our Customers

Our customers are the reason for our existence. To keep them satisfied – today and in the future – we are committed to provide the best possible service at the lowest cost. This means not only a reliable power supply but also a product enhanced through support programs, rate formulas and diversified services.

The progress we are achieving in all aspects explains our customers' high rate of satisfaction. Our efforts have also led to a considerable improvement in continuity of service. Thanks to employees' increased productivity, we are reaching our goals while keeping the average price of our electricity among the lowest in the country.

Listening to the Voice of Customers

To determine the exact needs of our customers, we have set up a rigorous process for obtaining feedback, which we update annually. This feedback provides a concrete basis for setting our improvement targets and establishing the measures to be taken. This year, once again, our customers' priorities are courteous and personalized service, prompt action and continuity of power supply.

We regularly conduct customer surveys to see whether our actions are yielding results. From 1993 to 1994, the rate of public satisfaction with our overall activities rose from 93% to 95%. Moreover, the proportion of customers who said they were "very satisfied" rose to 34% in 1994, compared to 25% in 1993. These results are a sign of the success of our total quality program, *Défi performance*, launched four years ago.

Quality of Service

We are Accessible and Friendly

We serve a vast territory, with an uneven population distribution: nonetheless, all customers are entitled to receive high-quality, efficient services, both by telephone and when visiting our offices. Managing over 3.6 million telephone calls a year is a considerable challenge, especially during moving season or long periods of inclement weather. We are therefore continuing to improve our work processes and develop computer systems that will facilitate the processing of customer requests and followup.

We are also continuing to adapt our customer services to the particular needs of English-speaking and other-language customers, and to pay special attention to relations with business customers, whose requirements are diverse. Under our proactive customer-call program, representatives are visiting these business customers more frequently to encourage participation in our marketing programs.

To ensure continuous dissemination of information, we offer a number of special materials, such as brochures, guides and magazines, aimed at specific customer categories. In 1994, in addition to our regular publications for business and residential customers, we distributed a brochure for municipalities, together with a special guide on electricity-related issues for farmers.

Finally, we are very attentive to the processing of complaints and claims, reviewing and correcting our business practices where necessary. In 1994, thanks to increasingly customer-oriented employees and new business practices, the number of complaints taken to the appeals level decreased by 18%.

Easier Ways to Pay the Bill

Our electricity rates are among the lowest in North America. In particular, this translates into lower energy bills for Québec households and increased competitiveness for large companies in Québec.

Comparative Index of Electricity Rates*

Montréal	*100*
Winnipeg	*95*
Chicago	*147*
Toronto	*163*
Detroit	*240*
Boston	*276*
New York	*328*

** For 1,000 kWh consumed by a residential customer.*

We help our customers plan their budgets better by making payments in equal monthly instalments, automatically debited from their bank account if they wish. Most are now billed on their real electricity consumption, rather than on an estimate, while new technologies for remote meter-reading have made inaccessible meters less of a problem.

To make it easier to interact with customers, we have joined the UBI (universal, bidirectional, interactive) information highway project. We see this as an opportunity to develop home services such as direct payment, notice of scheduled power outages, and consumption management. By the end of 1995, several hundred test homes in the Saguenay region should be participating in the energy-management component of the project.

Finally, we also offer various rate options in response to the needs of companies which operate in cyclical industries or experience other special production or marketing constraints.

Prompt Action

Our maintenance crews are trained to act quickly and efficiently in the event of a power failure. In 1994, we began to test an interactive voice response system used exclusively to provide customers with information on these incidents outside office hours. For 1995, we plan to establish a provincial centre for processing calls about power failures.

Thanks to our research activities, more and more operations can be carried out with special equipment which eliminates the need to interrupt service. If we expect an outage of more than one hour, and if time permits, we cut off the power during low-use periods, after notifying the customers affected. In some districts, we have tested new methods for measuring our performance: the results show nearly 90% of the customers affected by outages were notified in advance.

New customers are connected in a relatively short time, despite the many different parties involved in the connection operation. In 1994, we maintained our performance by carrying out 91% of connection requests within the prescribed time.

Multiple Ways to Conserve Energy

We encourage our customers to use electricity more efficiently. The measures we propose are grouped together within broad programs whose details may evolve over time, depending on the needs and characteristics of each customer category.

In 1994, residential customers began receiving house calls from representatives of our Écono-Confort program. These representatives offer specific advice on energy efficiency, together with heating controls and other energy-saving devices, installed free of charge.

Programs aimed at commercial establishments, institutions and small or medium-sized businesses (CII markets) deal with a wide range of energy-intensive equipment or technologies, such as lighting, production of mechanical force, ventilation, and water treatment. They offer business customers ways to improve the energy efficiency of their installations, reduce their electricity bills and increase productivity. Two programs were launched in 1994: Lighting Initiatives, which allows customers to propose their own projects, and Auxiliary Systems, aimed at reducing energy losses related to compressed air leaks, to aeration of wastewater treatment systems, and to the power supply. Several studies have also been conducted to promote energy conservation by customers served by off-grid systems, such as certain Inuit villages north of the 53rd parallel.

For several years now, our programs have been encouraging the public and private sectors to install energy-efficient lighting. However, we are also concerned about environmental protection and the disposal of thousands of mercury-containing light fixtures now being replaced by sodium-type fixtures. A specialized company is dismantling the old fixtures so they can be reused, and the parts containing mercury are being stored in a safe place until the best treatment process can be determined.

In 1994, Hydro-Québec joined the Power Smart consortium, a group of Canadian electricity companies promoting energy conservation. Over 1,800 energy-efficient products from 80 Québec manufacturers have already been certified "Power Smart," considerably increasing their market exposure.

Energy-Efficiency Programs Offered in 1994

Residential

- *Écono-Confort (Phase I)*

Commercial and Institutional

- *Building Energy Analysis (CII)*
- *Improvement of energy efficiency of Hydro-Québec buildings (ended December 1994)*
- *Public Lighting Conversion*
- *Energy-Efficient Lighting**
- *Lighting Initiatives*

Industrial and Large-Power Users

- *High-Efficiency Electric Motor Rebate*
- *Energy-Efficiency Improvement for Industrial Processes (large companies)*
- *Energy-Efficiency User-Initiative and Audit Program – Pump, Fan and Compressor Systems*
- *Auxiliary Systems*

** Also for the Industrial market.*

Energy Management

Our energy management programs encourage customers to consume less electricity during peak hours. Those who participate can achieve significant savings, while Hydro-Québec is able to postpone expenditures for the operation and construction of peak generating facilities.

Throughout 1994, we offered the Dual-Energy Option as a successor to the New Dual Energy Program. The new program offered customers a financial contribution toward installing a dual-energy system (electricity and fossil fuel) when renovating their homes. Dual-energy rates promote the use of electricity during off-peak hours and fossil fuels during peak periods. We also continued to install remote control devices on the premises of dual-energy customers in CII markets. This equipment allows us to decide when to make the change-over to fossil fuel.

On the residential market, we have been testing a time-of-use rate since 1993. Participants pay a higher rate during periods of heavy demand when generating costs are high; a much lower rate applies at other times. Customers save an average of a hundred dollars a year. And, the potential for peak shaving is promising. We are also taking advantage of this project to test the usefulness of heat-storage devices that could shift some of the heating load to off-peak periods.

Under another pilot project, we are offering a dozen large electricity consumers a rate that reflects the variation in our real-time generation costs, which are higher during winter peaks. The results will give us a better idea of the potential gains that could be expected.

Energy Management Programs Offered in 1994

Residential

- *New Dual Energy (ended in 1994)*
- *Dual-Energy Option (started and ended in 1994)*
- *Time-of-use rate (pilot phase)*

CII Markets and Large-Power Customers

- *Interruptible power*
- *CII Dual Energy*

Market Development Strategies

Some of our marketing programs encourage the use of electricity in sectors where it is the most efficient energy option. An example is the Electrotechnology Implementation Assistance Program, where we signed 48 agreements with industrial customers. The program allows small and medium-sized companies to improve their productivity by introducing highly efficient electrotechnologies. We expect to launch a new phase for large industrial customers in 1995.

As far as exports are concerned, the current energy surpluses and increased levels of competition in North America favor short-term transactions. The utility is therefore stepping up its activities in this market niche. We secured two umbrella permits from the National Energy Board in 1994, allowing us to sell up to 30,000 GWh of electricity per year to the United States as long as the contracts run for no more than five years; we previously had to apply for a permit for each contract. In the long-range perspective, a contract signed in 1987 with Vermont Joint Owners, for a total term of 25 years, was amended in 1994 so as to better adapt the conditions to the signatories' needs.

Finally, Hydro-Québec joined together with Noverco, the majority shareholder in Gaz Métropolitain, and Consolidated Natural Gas, the American gas giant, to offer a wider range of energy options to utilities and power producers in the United States and Eastern Canada.

Public Safety and Protection of Property

Because of the potential dangers of our installations and our product, we devote considerable effort to the prevention of electrical accidents. Our objective is to make tradespeople and the general public aware of the dangers, and to encourage them to adopt safe behavior under all circumstances. Our brochure *Safety on the Line*, now available in several languages, offers useful safety advice. In 1994, we began circulating an interactive model on the topic of safety to schools and among cultural communities.

In collaboration with Bell Québec, we have developed an environmental assessment method aimed at better integrating new distribution lines into their surroundings. We also take an interest in the visual appearance of distribution substations and ways of limiting noise pollution.

In addition, we are striving to minimize damage to customers' property caused by utility activities, especially tree-trimming in back yards. We try to make property owners aware of the direct connection between power-system maintenance and reliable electricity supply. We notify the customer of foreseeable damage before starting the job, and try to reach prior agreements. As a result of these actions, the number of claims has dropped considerably since 1992.

Product Quality

Ensuring Reliable Power

We want to offer our customers a product that meets high quality standards. This is a major task, given that our power system is subject to extreme weather conditions, in addition to being one of the most extensive in the world.

Our overall high-voltage transmission system is being reinforced with series compensation equipment, a technology which offers greater operating flexibility and helps reduce the number and length of outages. In 1994, we began installing series compensation equipment on transmission lines from the James Bay region. We are also taking the opportunity, while carrying out this major project, to rehabilitate the 735-kV circuit breakers.

The system must also be protected from aging. Increasingly sophisticated maintenance strategies are being applied, with an emphasis on selective intervention and monitoring of the most vulnerable equipment.

As to distribution, we are moving quickly to install new surge arresters, known for their reliability and safety. By 1997, all of the 100,000 km or so of overhead lines will have adequate protection against lightning. Checking and replacing outdated insulators and conductors are other ways of improving service continuity. Finally, five units of our new remote-operation system, designed for live-line work, will soon be put into operation.

An Outstanding Performance

Hydro-Québec's power system stood up well under the onslaught of one of the worst years for weather that Québec has ever known. In spite of damage caused by January's intense cold and violent winds, as well as the recurring electrical storms of last summer, the power-service continuity index improved appreciably during 1994. This index measures the system's overall performance on the basis of the number of hours of service interruption per customer per year.

In addition, our means of generation and power reserve were sufficient to meet winter 1994-1995 peak needs. The peak was reached on February 6, 1995, when demand was 31,531 MW, 3.0% more than the January 1994 maximum.

Hours of Service Interruption per Customer per Year*

	1993	*1994*
Distribution	*3.9*	*3.5*
Transmission and subtransmission	*1.3*	*0.6*
Total	*5.2*	*4.1*

** Includes interruptions caused by extreme weather conditions or exceptional events.*

High Quality Criteria

Fluctuations in electricity voltage and frequency may cause malfunctions in the most sensitive equipment of some industrial customers. We analyze every production loss experienced by our large-power customers in order to determine the causes. Remedial measures may include improving our own equipment. We also advise our customers on the best solutions for reducing the sensitivity of their installations.

To date, detailed expert analyses suggesting action to be taken – both by customers and by Hydro-Québec – have been carried out at 17 of the most vulnerable industrial facilities. Standards will be established defining the quality and protection criteria to be implemented.

Telecommunications and Power System Control Requirements

As a result of the growing complexity and increased operating requirements of Hydro-Québec's power system, we must renew our control equipment. A detailed preliminary project is being prepared to establish the precise content, cost and timetable of modernizing the present system control centre.

More and more, remote control and communications are the mainstays of system control and protection. The entire telecommunications network is consequently being overhauled. To improve transmission quality, we are continuing to install fibre-optic ground wires on old and new transmission lines. The new mobile radiocommunications system, accepted in late 1994, will be set up over 1995 and 1996. This system will ensure more effective contact between crews in the field and the control centres.

Red and Green Rate

Since fall 1993, some 450 residential customers in the area of St. Jérôme, near Montréal, have been involved in a pilot project that offers ***time-of-use rates****. The participants pay the red rate at times when demand is strong and the cost of generating electricity high, namely weekday mornings and evenings in winter. The green rate, which is much lower, applies the rest of the time.*

This rate option allows customers who are keen on managing their electricity consumption to reduce their bills. It also helps Hydro-Québec better manage its generation during peak periods.

"Time-of-use rates are a good deal for people who are prepared to put in a little effort. In my house, I've installed programmable thermostats and a central timer to make the most of the different rates. In the past year, I've saved a lot and remained very comfortable at the same time.

"Recently, I also installed a storage heater. The beauty of this device is that it lets you store heat at times when electricity costs less, and then use it later, when the other heating systems are shut off.

"I'm very pleased that Hydro-Québec is offering me more choices in the way I use electricity. As far as energy management is concerned, I now feel more like a partner than a customer."

Michel Beauchamp, *Saint-Colomban*

Managing Our Energy Resources

To provide our customers with a reliable power supply at the lowest possible cost, we must manage our resources wisely, in order to maintain a balance between electricity supply and demand. Our choices are based on a flexible, dynamic analysis of changing electricity requirements and the availability of short- and long-term means to fill those requirements.

The favorable 1994 energy situation allowed us to increase our energy reserve and make short-term sales on export markets. To meet growing needs, we give priority to improving the existing power system and to energy conservation, in keeping with the orientations stated in our strategic plan. At the same time, we encourage Quebecers to take advantage of a renewable resource – hydropower – and to make better use of electricity.

Our Energy Reserve

93% of Hydro-Québec's generating facilities are hydroelectric. Our reservoirs enable us to store large quantities of water to ensure a steady output of electricity throughout the year. At the same time, a reserve is necessary to provide for years when precipitation may be below average.

In 1994, runoff was very close to the historical average, largely due to the summer's frequent rainstorms. As a result, the energy surpluses from the supply and demand balance allowed us to increase our energy reserve over the previous year. On November 1, 1994, our reserve corresponded to output of 116.9 TWh, about three-quarters of our annual electricity sales.

These favorable conditions enabled us to meet our customers' firm needs and make short-term energy sales to neighboring systems.

Optimizing the Existing Power System

Before considering any other way of meeting electricity demand, we first examine the options available for enhancing the efficiency and capacity of existing facilities.

Ongoing efforts are made to improve the efficiency of our generating units. Sometimes, the capacity of generating stations can be increased simply through equipment modifications. For example, Manic-5's generating capacity was increased by about 25% through the installation of new, more efficient turbine runners.

In system operation, we aim to improve our methods of forecasting spring runoff, peak demand and maintenance requirements, with a view to minimizing spillages and generating-unit downtime.

A growing number of our engineers specialize in complete overhauls of aging generating facilities. This refurbishing is generally intended not only to offset deterioration and wear, but also to make the most of new technologies and satisfy increasingly stringent environmental and safety requirements. In 1994, rehabilitation work began at Beauharnois, near Montréal, one of the oldest and largest generating stations in the Hydro-Québec system. Further modernization is planned or under way at several points along the power system, including the Shawinigan complex and La Gabelle generating station in the Mauricie region.

Reducing Demand Through Energy Conservation

Over the past several years, Hydro-Québec has designed and implemented a variety of tools for helping Quebecers reduce their electricity consumption. This endeavor is mutually beneficial: energy conservation reduces customers' bills and enables the utility to fill a portion of new needs.

The energy savings directly attributable to our efforts totalled 1,052 GWh in 1994, and should amount to more than 1,500 GWh in 1995. Like other leaders in energy efficiency, we are moving toward increasingly targeted energy conservation measures, which are adaptable to the changing energy context. We will continue the pilot projects already planned for the residential market. As for CII markets and large-power customers, we are reviewing all our commercial formulas to better adapt them to these customers' expectations.

Our energy conservation and management programs are described on pages 11 and 12.

New Generating and Transmission Facilities

Commissionings are proceeding according to schedule at the jobsites of the La Grande complex, Phase II, in the James Bay region. The last four generating units at Laforge-1 generating station and the first six units at La Grande-1 came on stream in 1994.

The energy generated by the Phase II installations is carried to southern Québec by the 12th, high-voltage power line, which is 1,000 km in total length. The northern section of this line has been in operation since 1993; the southern section has just been completed. New types of partnerships between Hydro-Québec and the affected communities, both Aboriginal and non-Aboriginal, emerged from this project.

Current Projects

Work on La Grande-1 and Laforge-2 generating stations in the James Bay region, as well as at Lac-Robertson on the Lower North Shore, is progressing well.

Construction of the road leading to the future Sainte-Marguerite-3 generating station, northeast of Sept-Îles, got under way in 1994. An agreement relating to this project was reached between Hydro-Québec and the Montagnais community concerned. However, for the moment, the government of Québec has not agreed to the diversion of the Rivières Carheil and Aux Pécans planned in the initial scheme, and asked that we study the feasibility of adding capacity to the generating station to use the full potential of the river. In January 1995, we submitted an optimization report proposing that the height of the main dam be lowered by 22 metres. This would significantly reduce the environmental impacts, and the project would still be cost-effective.

Construction also began on a 735-kV line between Lévis substation, near Québec City, and Des Cantons substation, near Sherbrooke. Appalaches substation will be built on this line, near Thetford Mines.

Principal Additions to Hydro-Québec's Power System*

1994 commissionings

- *Last four units at Laforge-1 generating station (installed capacity increased to 838 MW from 279 MW)*
- *First six units at La Grande-1 generating station (684 MW, of a total of 1,368 MW available in 1995)*
- *Southern section of 12th (735-kV) line (450 km); northern section in operation since 1993*

Facilities under construction

- *Last six units at La Grande-1 generating station (addition of 684 MW, available in 1995)*
- *Laforge-2 generating station (310 MW, 1996 commissioning)*
- *Lac-Robertson generating station (21 MW, 1995 commissioning)*
- *Des Cantons-Lévis 735-kV line (181 km, 1996 commissioning)*
- *Sainte-Marguerite-3 generating station (882 MW, generating units to be commissioned in 2001)*

** The power values indicated for generating facilities are installed capacities.*

Input of Independent Power Producers

For Hydro-Québec, independent power production represents an auxiliary supply that adds flexibility to the utility's energy planning, while diversifying its sources of generation. It also offers the advantage of stimulating regional economic activity.

Of the various types of independent power production, we favor projects based on the use of renewable resources such as hydropower and wind energy. The renewable-energy projects to which Hydro-Québec is currently contracted or committed represent a total of 615 MW.

Hydro-Québec is planning to have three wind-power projects built in the Gaspé region, with a total installed capacity of 106 MW. The utility also signed a contract in 1994 calling for the construction of a 6-MW wind farm in 1995 on the Îles de la Madeleine. These projects will allow us to better assess the contribution of wind energy to our generating facilities, in terms of both energy input and cost.

For the moment, we do not anticipate any additional purchases of cogeneration electricity, but negotiations are continuing with four independent producers for a total capacity of 655 MW, with a view to building a bank of potential projects.

Meeting Changing Demand

In view of the favorable energy balance, our short-term strategy is to increase revenue while maintaining energy reserves at acceptable levels. Our objective is still to make maximum use of our storage, generation and interconnection facilities, in order to take advantage of the potential offered by the electricity markets without in any way jeopardizing Québec's energy equilibrium.

Together, the resources committed – improvements to the power system, energy conservation, projects under way and purchases from independent power producers – are sufficient to meet the increase in demand expected over the coming years. We have also maintained enough room to manoeuvre to respond quickly to any variances between our forecasts and actual changes in demand.

The Power of Electrotechnologies

The goal of Hydro-Québec's **Electrotechnology Implementation Assistance Program** *is simple: to allow Québec companies, particularly small and medium-sized ones, to improve their competitive position through highly efficient electrical technologies such as infrared, ultraviolet, microwave, and others. The program provides both financial and technical support.*

Electrotechnologies offer many benefits. In addition to making better use of electricity, they are often more flexible, safer and cleaner than conventional technologies. With Hydro-Québec's assistance, over 600 companies in many areas have been able to take advantage of this high-tech asset.

"Hydro-Québec's electrotechnology program enabled us to buy a variable-speed log carriage drive system for the carrier that handles and positions the logs ready for the saw. This purchase gave our company a real boost.

"The new system has worked out beautifully, even better than we had imagined. Not only has the production rate increased by about 25%, but we consume less electricity, with a more powerful motor, and the whole system is easier to control.

"Before we made our decision, the Hydro-Québec electrotechnology engineer supplied us with a very detailed cost-effectiveness study, which helped us make the right choice."

Michel Labranche
Scierie Labranche, Saint-Isidore-d'Auckland

Through its activities and purchasing power, Hydro-Québec provides many kinds of support for the economic development of Québec as a whole and its individual regions. To fulfill our role as a responsible corporate citizen, we attach particular importance to public participation in formulating our strategic plan, as well as evaluating our projects and monitoring their environmental impact.

Spinoffs from Hydro-Québec's Activities

In 1994, the James Bay, Lower North Shore, Laurentian, Mauricie and Saguenay regions were the main beneficiaries of spinoffs stemming from the utility's investments. To manage our purchases and improve the distribution of our procurement activities throughout Québec, we have nine regional goods and services acquisition units, including one in Montréal.

Public Participation in Our Strategic Plan

For several years, Hydro-Québec has followed a public participation process that involves some 100 groups, representing the interests of all Quebecers, in choosing the utility's strategic orientations.

The following themes have been selected for discussion about our next strategic plan:

- planning the energy balance;
- Hydro-Québec's contribution to development and its dialogue with regional communities;
- the price/quality ratio for quality of service and business practices;
- diversification of our activities.

In 1994, we added regional consultation to this process, in order to establish organized dialogue with the various groups interested in our activities. The process will be suspended in 1995, however, for the duration of the public debate on energy announced by the Québec government.

Our Relations with Québec's Many Different Communities

It is essential for Hydro-Québec to maintain harmonious, equitable relations with all of Québec's communities. The Integrated Enhancement Policy which we adopted in 1993 defines measures for compensating communities affected by the residual impacts of our projects. It also includes application principles designed to ensure that the compensation is used in accordance with the priorities determined by those communities. To make this policy more efficient and user-friendly, we consulted 120 organizations province-wide. The information gathered will enable us to develop procedures for defining programs covering environmental enhancement, encouragement for regional development and support for Aboriginal communities.

We are also involved in the review of regional county municipality and urban community planning schemes. This exercise affords us an opportunity to pass on our concerns and inform these groups of the utility's orientations, projects and practices. It is also a means of strengthening cooperation with the regional county municipalities and coordinating our respective efforts.

Aboriginal Nations

When we adopted our Integrated Enhancement Policy, negotiations were already in progress with certain Aboriginal communities. In keeping with the Opimiscow-La Grande (1992) Agreement, further agreements were later reached with Inuit communities and with the Montagnais communities of Uashat Maliotenam and Mashteuiatsh.

An agreement covering the development of the Grande-Baleine complex was ratified in April 1994 by the Inuit representatives of Makivik Corporation and by Hydro-Québec. The Kuujjuarapik Agreement in Principle (1993) on the Grande-Baleine complex provides for compensation measures for residual impacts, mitigative measures, Inuit participation in carrying out the work, and environmental protection and enhancement. However, activities relating to the Grande-Baleine project have been postponed pending the outcome of the energy debate to be held in 1995. Consequently, Hydro-Québec and the Inuit have agreed to put off signing a final agreement for another few years.

Two agreements were also reached with Montagnais communities:

- The Mashteuiatsh/Hydro-Québec (1993) agreement concerns the construction of the 12th (735-kV) transmission line, connecting Chissibi substation, in the La Grande complex, with Jacques-Cartier substation, in the Québec City region. This agreement was signed with the Lac Saint-Jean Montagnais band and includes their participation in the line's construction.
- The Uashat Mak Mani-Utenam (1994) agreement deals with the implementation of the Sainte-Marguerite-3 project. It provides for financial compensation, the creation of a corporation made up of representatives of the Montagnais and Hydro-Québec to manage certain remedial works, and a fund to promote traditional Montagnais activities in the region.

As for the Eastmain-1 project, discussions are continuing with representatives of the Cree communities in order to reach an agreement covering financial compensation and remedial measures, among other matters. We are also negotiating with the Attikameks over development of the Haut Saint-Maurice.

Finally, with a view to maintaining harmonious relations with Aboriginal nations, we have established various Indian and Inuit awareness programs which are offered to all Hydro-Québec employees working in Aboriginal communities.

Our Environmental Commitment

To improve our environmental performance, we have revised the mission of our environment branch. Its new role mainly involves:

- proposing environment-related issues and strategic orientations to the utility, supplying corporate action plans and carrying out scientific research;
- measuring the utility's environmental performance and monitoring its environmental commitments and obligations.

Sustainable Development

In order to apply the concept of sustainable development, we are developing methods aimed at making environment an integral part of our strategic planning: this means that we are comparing energy options and evaluating environmental externalities in a long-term perspective. Research on how to establish indicators has also been conducted. Meanwhile, two forums were held – one on externalities, one on sustainable development – as part of the public participation process for the next strategic plan. We are also preparing a corporate action plan on sustainable development, with a view to integrating the concept in all of the utility's daily activities.

Program for Environment Enhancement

Hydro-Québec invested more than $4 million in initiatives designed to enhance the environment of the communities where its projects are located. This enabled 24 organizations to implement 47 initiatives, to which they themselves contributed an additional $900,000. Since the environmental enhancement program was established in 1985, the utility has provided 229 eligible municipalities, regional county municipalities and Aboriginal communities with funding of close to $30 million to carry out some 500 enhancement initiatives.

Financial Resources Devoted to the Environment *(in $M)*

• *Environmental assessments*	$ 23
• *Mitigative and enhancement measures and improvements to facilities*	75*
• *Studies and research*	11
• *Corporate affairs, guidelines and follow-up*	13
	$122

**Estimate.*

Evaluating Our Environmental Performance

To evaluate the impact of our activities in concrete terms, we keep up-to-date indicators relating to PCBs, zones protected during chemical treatment of rights-of-way, and the recycling of insulating oils. We have adopted a new indicator for evaluating distribution projects on an environmental basis, and new indicators for sustainable development will soon be put in place.

We have also instituted a program of environmental audits to assess our facilities' compliance with environmental laws, regulations and internal guidelines. In 1994, we conducted 13 audits regarding the management of hazardous substances and waste, as well as one audit on a hydroelectric generating station under construction.

Grande-Baleine Project

Activities relating to the Grande-Baleine project have been postponed pending the outcome of the public debate on energy which the Québec government is to hold in 1995. This debate will cover such issues as the changing electricity demand in Québec and the means of meeting that demand. Hydro-Québec will re-evaluate the positioning of the project in the light of the energy policy that will flow from the debate.

For the time being, the environmental assessment process has also been postponed. The impact assessment study for this project was subjected to an analysis of acceptability during which interested parties had the opportunity to express their opinions.

These parties included an independent panel of internationally respected Canadian and American researchers, which concluded that the report provides high-quality information concerning the project's rationale and the assessment of its biophysical impacts. As regards the human environment, the group considered the study adequate with respect to the Inuit, but inadequate with respect to the Crees and the evaluation of impacts on their society. The Crees declined to take part in the study, but later conducted their own consultation process. Their report was given to Hydro-Québec early in 1995.

Greenhouse Gases

In late 1993, we launched a research program on greenhouse gases to precisely evaluate the emissions of carbon dioxide and methane from our reservoirs. According to our initial findings, these reservoirs emit 28 to 60 times less greenhouse gas per unit of energy than do competing energy sources (oil, coal and gas).

Mercury

Changes in mercury concentrations caused by the creation of reservoirs have been monitored closely since 1979. The follow-up and research activities prescribed by the Mercury Agreement (1986) have shown that, 15 years after the La Grande-2 reservoir was impounded, mercury levels in most fish species remained higher than in natural environments. This is a temporary phenomenon, however, as concentrations return to their original level after 20 to 30 years.

The monitoring of chronic mercury exposure indicates that the concentrations observed in the majority of James Bay Crees have stabilized at levels that do not pose a health risk. This annual monitoring campaign is carried out by the Cree Board of Health and Social Services, under the auspices of the James Bay Mercury Committee. It further confirms this trend among those individuals at the greatest risk, women of child-bearing age. Among children and teenagers, concentrations are barely detectable.

Flora and Fauna

White-tailed-deer habitat
We studied the effects of our transmission line rights-of-way on deer yards, and are drafting a guideline for siting new installations and for right-of-way maintenance.

Eel survival
A study we carried out at Beauharnois generating station revealed that between 76% and 84% of eels apparently survive their journey through the turbines, contrary to estimates pointing to a 100% mortality rate.

North American Waterfowl Management Plan
Hydro-Québec has become a partner in this plan, adopted by Canada, the United States and Mexico. We also renewed a 40-year agreement with Ducks Unlimited Canada to develop habitats on Hydro-Québec land.

We were also involved in developing a portable device for measuring methylmercury concentrations in water, and we are taking part in several research projects on the effect of methylmercury exposure.

Management of Hazardous Waste

For several years, Hydro-Québec has endeavored to reduce environmental risks through its management of all substances that may be harmful to the health of human, animal and plant populations. The utility is applying an action plan to eliminate all PCBs from its system by 1995. To date, more than 96% of equipment containing this product has been removed.

In addition, we are currently setting up an integrated process for recycling and reusing insulating oils.

Electric and Magnetic Fields

In 1994, Hydro-Québec published the most extensive study ever conducted on the effects of electric and magnetic fields, which involved 223,000 people. This research, carried out jointly with Ontario Hydro and Électricité de France, examined the possibility of a connection between cancer and exposure to these fields in the work environment. For the approximately 4,000 cancers analyzed, no cause-and-effect relation with electric or magnetic fields was established.

Site Decontamination

The utility carried on with two projects for rehabilitating contaminated sites. The first is intended to treat 70,000 metric tons of soil, over a three-year period, on the site of a former gas-turbine plant in Québec City. The second entails recovering 17,000 litres of oil floating on the groundwater near the old thermal generating plant on the Îles de la Madeleine.

Our Social Contribution

In 1994, we gave approximately $8 million in donations and sponsorships to cultural organizations and groups with a socioeconomic or humanitarian mission. Hydro-Québec employees and pensioners, together with the utility itself, contributed over $3 million to the Centraide (United Way) campaign, surpassing last year's amount. We also signed a partnership agreement with the *Fonds de la recherche en santé du Québec* calling for five annual $1.1-million donations to 25 clinical research units. This means that, between 1992 and 1997, we will have provided grants totaling more than $5 million to 11 research projects on cancer, four on cardiovascular disease and eight on genetic diseases, as well as three clinical research projects.

The utility also contributed $2.4 million to Québec universities to support 10 research chairs. As well, we took part in the establishment of two new chairs: one at Montréal's École polytechnique, on contaminated soil, and one at the Université du Québec à Trois-Rivières, on efficient electrothermal processes. The mandate of the mercury research chair at the Université du Québec à Montréal was renewed for another five years. We also awarded numerous research projects to Québec universities, worth close to $1.5 million.

To preserve the Shawinigan facilities as valuable heritage assets, we also pledged $9 million toward an industrial theme park, the *Centre d'interprétation de l'industrie*, scheduled to open in 1997.

A Durable Partnership with Our Suppliers

To make our Vision a reality, we must be able to rely on the input of high-quality resources that, in turn, allow us to offer better service. We therefore re-examined our quality assurance in 1994, in a process that yielded a set of criteria for the quality of the goods and services we purchase. The resulting new quality requirements will apply to our suppliers of strategic products and professional services, starting in 1996.

A Tangible Economic Role

Hydro-Québec ranks as one of the largest buyers of goods and services in Québec. In 1994, we spent close to $2.3 billion to meet our system operations, research and expansion needs. These expenditures include the utility's own activities and those of the *Société d'énergie de la Baie James*, a wholly owned subsidiary.

Hydro-Québec's direct and indirect contribution represents 5.4% of Québec's gross domestic product in 1994. Our investments account for 17% of total investments made in the province. Altogether, some 29,200 direct jobs and 21,800 indirect jobs (in person-years) were supported in 1994 through the combined effects of our investments and our operating activities.

Our goal is to maximize economic spinoffs in Québec from our acquisitions of goods and services. The Québec content of all our acquisitions already averages 60% for goods purchased, and 97% for services (including professional services) and other work. We are attempting to increase these proportions by optimizing our acquisition strategies, particularly in regard to products that are essential to our principal mandate: the generation, transmission and distribution of electricity.

Over the years, through the wise management of our acquisitions, a great many Québec companies have gained innovative, highly specialized and potentially exportable knowledge and expertise.

Hydro-Québec's Supplier Ethics

In awarding contracts for goods and services, Hydro-Québec:

- *treats all suppliers fairly;*
- *guarantees confidentiality and avoids conflicts of interest;*
- *makes sure it gets the best conditions the market can offer;*
- *maintains the best possible business relations with all current or potential suppliers.*

Our Quality Commitment

Since the quality of the goods and services we purchase has an impact on the quality of the product we offer, we count on our suppliers to take an active part in our continuous quality improvement efforts.

In 1994, we laid out a reference framework defining our quality assurance orientation. The measures planned include incorporating performance commitments, linked to improved service, into our contracts with suppliers. We also intend to promote an increasingly systematic approval process for goods purchased, at both the prototype and in-plant production stages. A further aim is to stimulate research and development activities with a view to acquiring products on the leading edge of technology.

Quality Partners

"It's a win-win situation," says ***Pierre St-Arnaud, President of the Power, Transmission and Distribution Segment at Asea Brown Boveri (ABB).*** *The subject is the agreement under which ABB will supply 70% of the shunt capacitor banks Hydro-Québec will need over the next three years.*

"Specialists from Hydro-Québec and ABB worked as a team to develop a competitive product that meets Hydro-Québec's requirements and that is sure to be a great success for ABB on the North American market," Mr. St-Arnaud adds.

The supplier/customer team was a Hydro-Québec initiative designed to improve its product quality. This winning formula is already being applied to other products.

Closer Partnership

Like many other large companies, we will require that our suppliers adhere to a certified quality assurance system. The international benchmark in this area is the 1994 version of the ISO 9000 standard, which is also compatible with Hydro-Québec's total quality management approach.

We have provided for a transition period, however, to allow time to inform suppliers about the new rules of doing business and to enable them to set up appropriate systems and tools. The new requirements will take effect in 1996 for strategic products and professional services, and the following year for contractors.

Introduction of the ISO 9000 standard will foster uniformity in contract clauses, as well as in the qualifying and performance-assessment procedures we apply to suppliers. The partners we seek provide the required quality at the lowest possible cost, offer efficient technology and are actively involved in total quality and continuous improvement.

In short, to be able to meet the most stringent quality criteria ourselves, we will work with the suppliers who perform the best in each sphere of activity.

Definite Benefits for Suppliers

The new partnership framework which we are proposing to our suppliers should create a mutually beneficial synergy. Long-term collaborations stabilize production, help lower costs, and encourage the most dynamic companies to improve their position on local and international markets.

Committing to quality is the best way suppliers can contribute to the development of their products and their respective communities, as well as to the economic positioning of Québec. By helping create a solid network of local suppliers and subcontractors, we are looking to the sustainable development of industry as a whole.

Hydro-Québec wants to be able to count on reliable, efficient partners in order to achieve its objective of being recognized as Canada's foremost electric utility for the quality of its services by the year 2000.

At the Heart of Change: Our Personnel

For four years, Hydro-Québec has been engaged in a process of in-depth change, with the objective of improving overall performance at the lowest cost. Our employees are the instrument of this change: we rely on their creativity and originality to ensure customer satisfaction. Quality improvement necessarily involves transformation of our employee relations and human resources management.

Restructuring Continues

Hydro-Québec's two largest administrative groups – Customers and Distribution, and Generation, Transmission and Telecommunications – were reorganized in 1993. In 1994, we reviewed the structures of the Installations group as well as Procurement and Services, Finance and Planning, Environment, Aboriginal and Community Affairs, and Communications and Public Relations. In addition, our former marketing unit was split into two groups: New Business Development and International Affairs, and Marketing.

These large-scale restructurings have helped reduce the number of employees and managers, eliminate hierarchical levels, and create a client-supplier type of structure enabling us to offer service that is more rapid and better adapted to customer needs.

Our Workforce

At the end of 1994, Hydro-Québec had 1,375 fewer employees than in 1993. This figure exceeds our initial target for 1994 by 475. It should be remembered that our action plan to control operating expenses for the 1993-1995 period set a personnel reduction target of 2,000 employees over three years. We have introduced programs that reduced new hires by 47% and reassigned 456 employees made surplus by the restructuring of their units to permanent positions. We also facilitated the voluntary departure of 276 employees without positions, and reduced the average annual number of temporary staff by 875.

Partnership with our Unions

For almost two years, we have been using a bargaining approach called "cooperative negotiation" or "principle negotiation," based on specific problem-solving techniques. This new approach has yielded very significant results. After signing a partnership agreement with our unions in 1994, we have now signed an agreement in principle dealing with the performance of the utility as a whole, and especially its customer service functions. In 1995, senior management intends to extend the cooperative negotiation approach to all administrative districts throughout Québec.

Permanent Workforce *(at December 31)*	
1994	20,528
1993	21,028
	-2.4%

Temporary Workforce *(annual average)*	
1994	4,878
1993	5,753
	-15.2%

Representation of Women and Minorities

We believe it is important to ensure equity in employment, and have made progress in this respect over the past few years. Nevertheless, we must keep working to increase the participation of women in the organization. In 1994, the proportion of women in permanent jobs reached 22.3%, a 0.3% increase over the previous year, despite the overall workforce reduction. However, our target for increasing female participation had to be revised from 3% down to 1% for the 1993-1995 period.

Representation of Women in the Permanent Workforce
(at December 31)

1994	22.3%
1993	22.0%
	+0.3%

In addition, to maximize the chances of employment for minority groups, Hydro-Québec developed a training session on how to manage diversity. This training was provided to about a hundred managers in Saint-Laurent region, the administrative unit serving most customers in Greater Montréal, where cultural minorities make up 30% of the population.

Our Personnel: Agents of Change

Employee Recognition and Input

Respect for people is one of the basic principles of our corporate culture. We have therefore prepared a frame of reference for recognizing individual achievement that is to be implemented in 1995.
In addition, we began to implement a systematic and regular process for listening to our employees' opinions, designed on the same model as our "Voice of Customers." This will enable us to determine our employees' expectations regarding factors which, in their opinion, are important to their improved performance, satisfaction and motivation, and therefore to their contribution to customer satisfaction. We also intend to develop a suggestion scheme, with a view to encouraging employee participation, and to empower employees by giving them the scope they need to carry out their duties.

Training

Training is one of our top priorities for attaining the objectives of our total quality project, *Défi performance*. In 1994, Hydro-Québec spent close to 3.6% of total payroll on employee training, which places it among Canadian companies investing the most in this activity. More specifically, we reached the target we had set ourselves, namely an average of 5.6 days of training a year for each permanent employee.

For our senior managers, we drew up skill profiles to be used as a reference for their professional development. And, finally, because we give priority to peer training, we launched a program in 1994 to ensure that new generations of managers are capable of giving such training.

Our Quality Improvement Teams

It is impossible to discuss the changes undertaken at Hydro-Québec without mentioning the Improvement Teams, which are at the heart of Défi performance. *These teams constitute an exceptional opportunity for employees to take an active part in the emergence of a new corporate culture focused entirely on customer satisfaction. In 1994, our 420 teams, comprising some 3,160 employees, generated many improvements using proven management tools.*

Occupational Health and Safety

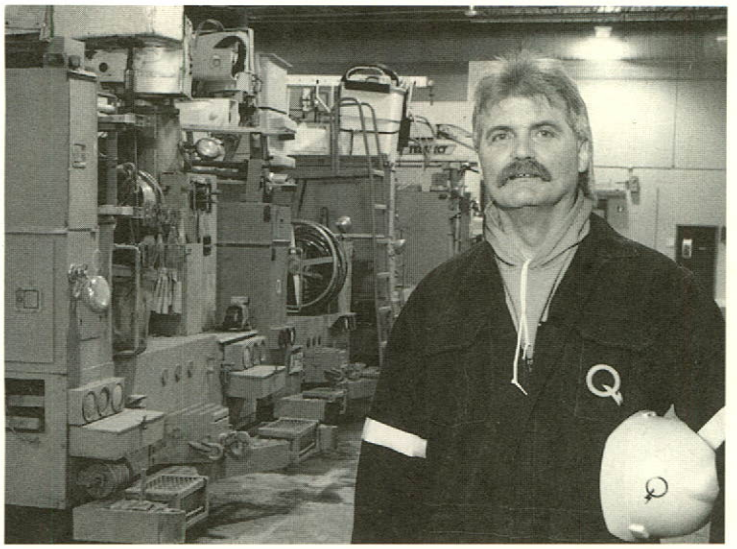
When we launched the *Défi performance* program, one of our objectives was to significantly reduce the frequency of accidents in the workplace. Senior management and the unions have made joint commitments to make occupational safety a priority. Efforts were also focused on accident investigation and analysis, scheduled inspections, and study of high-risk tasks. Our accident frequency rate – the number of accidents involving lost time per million hours worked – dropped from 33 in 1990 to 13 in 1994. For 1995, we are targeting a frequency of 12. To achieve this, we intend to continue and to step up the measures we have been taking, while pursuing our efforts to get injured workers back to work as soon as appropriate.

All our administrative districts drew up action plans adapted to their individual needs. We also created a project team, who helped draw up a list of recommendations for significantly reducing the number of back injuries, which account for 30% of our accidents.

Tools to Promote Change

Work Process Management

To improve productivity and reduce operating costs, we have begun to introduce the process management method. A pilot experiment was undertaken in 1993 in 22 administrative units: the experiences and recommendations of these units' managers lead the way for the implementation of local process management throughout the utility. This method allows us to eliminate unproductive action and to clearly determine the sequence of activities to carry out when offering a product or service to the customer.



Employees Get Top Marks

A Hydro-Québec customer recently wrote the Chairman of the Board and Chief Executive Officer to point out the "remarkable speed" with which our employees got to his house – less than 30 minutes – after he had notified us of an outage one evening last winter.

"We were just doing our job," says ***Pierre Poulin, head lineman in the Richelieu region****, who ran the operation. When bad weather causes power failures, the linemen work up to 16 hours a day, several days in a row. "We don't stop until the last customer has been reconnected."*

This kind of service earned Hydro-Québec an overall public satisfaction rating of 95% in 1994.

Business Plans

In 1994, business plans were drawn up for 1995 not only by corporate units but also by each regional administrative district. This was the first time that the districts were called on to develop this type of plan, which is part of the utility's new operational planning process. The plans include a diagnosis of the situation in each unit, a description of how the unit will contribute to corporate objectives, action plans for attaining improvement targets, and a statement of resources needed.

The Qualimeter

During 1994, we adopted a system, available to all Québec companies through the Québec Institute for Total Quality, which will allow us to progressively and continously assess the quality of our own management. The system, called the Qualimeter, is designed to promote commitment to the main principles of total quality. In 1995, use of the Qualimeter will gradually be extended throughout Hydro-Québec, enabling us to determine how we measure up to the top-performing companies in terms of quality.

Outstanding Savings

Energy accounts for over 25% of production costs for some Québec companies – hence the importance of the **Energy Optimization Program for Industrial Processes**. *Since 1993, this program has been offering Hydro-Québec's large-power customers financial and technical assistance, specially tailored to each project.*

The goal is to support companies that want to reduce their costs, increase productivity and improve product quality. As a result of this program, a number of companies are strengthening their competitive positions.

And what does Hydro-Québec get out of it? Solid industrial customers who are here to stay – and grow.

"Sidbec-Dosco has to compete with steel producers the world over. To stay in the race, it was critical for us to reduce costs at our Contrecoeur steel works, on the south shore of the St. Lawrence.

"Hydro-Québec's assistance enabled us to replace our three old furnaces with two more efficient ones. Our unit costs for energy dropped 10%, substantially improving our competitive position.

"For us, this program was a definite triggering factor. The Hydro-Québec people got us to look at a scenario we would not have considered otherwise. Since then, the Contrecoeur works has been revitalized, and we look forward to a bright future."

Richard Leblanc
Vice President, Production, Sidbec-Dosco (Ispat)

Our R&D activities contribute to the technological development of Québec and serve as a springboard onto the global electricity market. Since 1967, the 200-or-so inventions produced in our laboratories have resulted in our holding more than 1,300 patents all over the world. These sustained R&D efforts have enabled us to position ourselves advantageously on the international scene. Although half our technological products were sold abroad in 1994, 90% of them were manufactured by Québec companies. In other words, we play an important role in the transfer of technology and the start-up of high-tech companies.

A Year of Activity

In 1994, we spent $134 million on R&D, the equivalent of 1.8% of our total electricity sales. Research conducted for other companies generated revenue of close to $23 million.

For the short and medium term, our R&D program focuses on service continuity, quality of power supply, power system operation, and energy uses. These account for close to 60% of the R&D budget. For example, in 1994, we conducted research and tests on 315-kV DC extruded underground cables. In addition, we developed tools for tele-operation systems used for robotized maintenance of our distribution system. We also designed new devices such as a composite insulator tester, a device for analyzing heavy metals in water and biological fluids, and a capacitive divider for supplying distribution substations from high-voltage lines.

At the same time, we developed an underwater robot designed to inspect our hydroelectric dams, certified a new type of 765-kV circuit breaker, and optimized a procedure for recovering aluminum from dross.

Our long-term projects are focused on five major areas: magnetic fusion, hydrogen, ACEP batteries for traction, robotics and superconductivity. We are paying special attention to technologies with a promising outlook in the automotive field, such as vehicles powered by electricity or hythane.

The Electric Car

Hydro-Québec has made an important technological breakthrough in electric vehicles by developing a high-performance powertrain: four motor-wheels powered by a hybrid energy source consisting of a battery together with a low-energy-consumption auxiliary power unit. This advanced technology will be marketed by M4 Technologies, a new subsidiary of Nouveler.

In parallel with this project, we are pursuing the development of high-performance batteries in conjunction with 3M and Argonne National Laboratories in the U.S.

R&D Partnerships

In order to promote technological spinoffs from our R&D projects, we encourage industrial networking. As a result, close to 140 partners invested some $80 million in projects worth a total of $100 million in 1994.

Thus, we maintained our participation in major projects carried out jointly with TDS (Telerobotics Development Systems), for the robotized maintenance of electric power systems, with the *Centre canadien de fusion magnetique,* and with the *Centre d'innovation sur le transport d'énergie du Québec.* We also participated in the Interface project, for the design of advanced person-machine interfaces, and in the Euro-Québec International Hydrogen Transportation Project.

The latter is the world's largest R&D project in the hydrogen area, in which we are taking part with the Commission of European Communities, the Québec government and several Québec companies. To date, $60 million has been invested in this mammoth project, including $12 million in Québec contributions. This sum includes our own input of $900,000 for the 1993-1995 period.

The Hythane Bus

We believe an attractive alternative to conventional fossil fuels might be found in high-performance, environmentally friendly hydrogen. For this reason, we participated in the development of a city bus running on hythane, a mixture of hydrogen and natural gas. In 1995, we also intend to take part in the creation of two commercial consortiums responsible for the manufacture and marketing of various products for the hythane bus, as well as the manufacture of containers for transporting liquid hydrogen.

We also signed agreements with internationally renowned corporations, such as GEC Alsthom and Siemens, to develop leading-edge power-system equipment. In addition, we are conducting research with the Japanese company, Toshiba, and simulating various protection systems for a 500-kV transmission line in Viet Nam on behalf of the French company, Merlin Gerin. Finally, an agreement with Jilin Chemical Industrial Group, in the People's Republic of China, provides technological transfer for the manufacture of anthraquinone – a product used to make dyes – based on an electrolytic process developed at Hydro-Québec's electrotechnology and electrochemical technology laboratories, LTEE.

In Québec, we are developing various decision-support systems with the Volvox research centre. Such systems are used to optimize transmission line routes, and also have environmental health and draft-design management applications.

Turning our Technology to Advantage: Nouveler

In 1994, Hydro-Québec signed 16 license agreements, thus bringing to 77 the number of licences granted to holdings of Nouveler, Hydro-Québec's wholly owned subsidiary, and to outside companies. Sales of products under license totaled $14 million and generated royalties of over $1.4 million.

Nouveler has 19 subsidiaries and technological affiliates which employ more than 720 people in Québec. These companies exported most of their production in 1994, and the group's sales totaled close to $100 million.

World-Wide Customers

***Mitsubishi** Electric Corporation bought a power system simulator from Hydro-Québec International in 1994. "The quality of the product is excellent," says **Toshihiro Shibataki, Supervisory Manager of Power System Control Projects**, in Kōbe, Japan. "Furthermore, Hydro-Québec engineers spent several months here and made very special efforts to meet our various needs."*

Hydro-Québec first developed the simulator for its own power system and is now commercializing the technology world wide. Mitsubishi uses the simulator to analyze control and protection for HVDC and other equipment.

"Hydro-Québec's power system simulation technology is among the best in the world," adds Mr. Shibataki. "We're sure we made the right choice."

In 1994, Nouveler contributed to the start-up of three high-tech companies:

- Microturbines Technologies, which specializes in the development, manufacture and marketing of turbines for small hydropower stations (10 kW to 100 kW);
- Geofit, which develops and markets geo-referenced image systems and surveying techniques;
- ZyTrax Communications, which specializes in the development and marketing of systems for accessing digital telecommunications networks.

Nouveler also created the subsidiary Scompitech, which manufactures and markets a robotized welding system on behalf of Hydro-Québec.

On the international scene, Nouveler developed its business network in Latin America, especially in Brazil, and in the People's Republic of China. It formed a strategic alliance with the Liaoning Chuangye Group, an organization that coordinates the economic development of the province of Liaoning. The agreement will enable several of Nouveler's high-tech subsidiaries to develop business opportunities with this Chinese province.

Hydro-Québec International

Hydro-Québec International (HQI) continued to market Hydro-Québec expertise in Africa, Asia, eastern Europe and Latin America. Following are some of its accomplishments for the year.

- Creation of an electric utility in Guinea, SOGEL *(Société guinéenne d'électricité)*, in partnership with Électricité de France and another French company SAUR INTER;
- The sale to Mitsubishi, of Kōbe, Japan, of a power-system simulator developed at Hydro-Québec's research institute, IREQ;
- A subcontract from Atomic Energy of Canada Ltd. for the start-up of a nuclear power plant in Cernavoda, Romania;
- The validation of technical and economic studies for the Calima III hydroelectric project in Colombia.

As part of HQI's investments abroad, the Asia Power Group (APG) was formed and, at the end of 1994, opened an overseas office in Hong Kong. AGP, which includes Ontario Hydro International, Power Corporation and HQI, was created to invest in the construction and operation of generating stations, as well as power transmission and distribution systems, specifically in Asia.

HQI is also responsible for a variety of cooperation programs with electricity companies in foreign countries, which take the form of bilateral agreements such as those with Tunisia, China and Cameroon, or of ad hoc projects.

Under its international cooperation program for French-speaking nations, HQI carried out several technology transfers, and continued to assist in the development of electric utilities, as well as in the dissemination of various techniques, especially with regard to rate structures and customer account management.

Relations with Other Institutions Throughout the World

We had formal meetings with some 20 companies from some 15 countries in 1994. These meetings led to three levels of cooperation: information exchanges, collaboration in specific areas such as R&D or energy-efficiency programs, and joint participation in international projects. Five agreements for structured collaboration were signed in 1994 with the Northeast China Electric Power Group, Electrabel of Belgium, Instituto Corriense de Electricidad of Costa Rica, Ontario Hydro, and the Central Research Institute of Electric Power Industry of Japan.

In addition, we participated in numerous events, including a UNIPEDE symposium in the UK and an International Commission on Large Dams congress in South Africa. In Montréal, we organized the annual forum of the Energy Council of Canada as well as the FORELEC 1994 Forum, which brought together communicators from UNIPEDE member-countries.

At the third summit of the E7, held in Tokyo, we adopted and signed the E7 Sustainable Energy Charter. The E7, which brings together the world's largest electric utilities, agreed to measures promoting sustainable development in the generation, transmission and distribution of electricity. Three years ago, to help developing countries benefit from its expertise, the group created the E7 Network of Expertise for the Global Environment, whose secretariat is located in Montréal. At present, 12 E7 projects are under way and 35 are under study. Hydro-Québec is responsible for one project in India and another in Thailand.

Considerable Growth in Sales

Electricity sales revenue grew notably in 1994, especially in the industrial sector. This growth, however, was not enough to fully offset the impact of major commissionings undertaken in 1993 and 1994 as part of Phase II of the La Grande complex. Consequently, net income in 1994 stands at $667 million, compared with $761 million in 1993.

These commissionings resulted in an increase in depreciation and interest expense. From the time of commissioning, interest is no longer capitalized; instead, it is charged as an expense. In addition, the borrowings used to finance a portion of our investments resulted in an increase of capital tax and related loan guarantee fees.

On the upside, hydraulic inflows to our reservoirs in 1994 contributed to maintaining our balanced energy situation. In fact, our energy reserve allowed us to benefit from the market for short-term purchases and sales with our neighboring Canadian – and especially American – systems.

The industrial sector posted strong growth of firm electricity sales in Québec. In addition, we benefited from an increase in the price of aluminum, which translated into increased revenue. The soft Canadian dollar improved our income growth because of sales in U.S. dollars to American systems and under certain industrial contracts in Québec. This additional revenue did not, however, fully offset the mounting interest expense attributable to fluctuating interest rates.

Our ongoing efforts to streamline the utility paid off, allowing us to bring down operating expenses to $1,766 million, a decrease of $34 million over 1993. This improvement results from, among other things, a reduction in staff which, in itself, yielded savings of $45 million.

Funds from our operating activities provided internal financing of investments, surpassing levels of the previous five years. The use of funds borrowed from external sources was therefore reduced by a corresponding amount. However, because of favorable financial market conditions, we advanced our 1995 financing program. This factor, combined with lower-than-expected investments in 1994, contributed to the rise in cash, which totaled $1,318 million at December 31, 1994.

The total volume of electricity sales at December 31, 1994, was 158.2 TWh, up 6.1 TWh, or 4.0%, over 1993. This growth is primarily the result of the increase in short-term sales to the United States, and the resurgence in activity of a number of large-power users in the pulp and paper, smelting and refining, and mining industries.

Total sales revenue amounted to $7,267 million, an increase of $263 million, or 3.8%, over 1993.

Total Electricity Sales

	1994		1993		Variation 1994/1993			
	TWh	*$M*	*TWh*	*$M*	*TWh*	*%*	*$M*	*%*
In Québec	**139.0**	**6,740**	137.0	6,552	2.0	1.5	188	2.9
Outside Québec	**19.2**	**527**	15.1	452	4.1	27.2	75	16.6
Total	**158.2**	**7,267**	152.1	7,004	6.1	4.0	263	3.8

Sales in Québec

The volume of electricity sales in Québec surpassed the 1993 level by 2.0 TWh, for a total of 139.0 TWh, explained by increased demand in the industrial sector. Unusually mild weather in the fall of 1994 virtually negated the effect of the exceptionally cold weather recorded in the early months of 1994, such that the overall related demand for electricity was down from 1993.

Revenue from electricity sales in Québec was $6,740 million, up $188 million, or 2.9%, over 1993. Rate increases account for $81 million of this growth.

Electricity Sales in Québec

	1994		1993		Variation 1994/1993			
Sector	*TWh*	*$M*	*TWh*	*$M*	*TWh*	*%*	*$M*	*%*
Residential and farm	**49.4**	**2,866**	49.3	2,815	0.1	0.2	51	1.8
General and institutional	**28.3**	**1,809**	28.4	1,798	(0.1)	(0.4)	11	0.6
Industrial	**56.6**	**1,839**	54.6	1,706	2.0	3.7	133	7.8
Other	**4.7**	**226**	4.7	233	–	–	(7)	(3.0)
Total	**139.0**	**6,740**	137.0	6,552	2.0	1.5	188	2.9

Variation in Sales by Sector

	Total variation		Rate increases	Demand			
				Temperature		Other	
Sector	*TWh*	*$M*	*$M*	*TWh*	*$M*	*TWh*	*$M*
Residential and farm	**0.1**	**51**	35	(0.4)	(20)	0.5	36
General and institutional	**(0.1)**	**11**	21	(0.2)	(10)	0.1	–
Industrial	**2.0**	**133**	22	–	–	2.0	111
Other	–	**(7)**	3	–	(1)	–	(9)
Total	**2.0**	**188**	**81**	**(0.6)**	**(31)**	**2.6**	**138**

Residential and Farm Sector Electricity sales to the residential and farm sector increased modestly by 0.1 TWh, or 0.2%, in 1994, to 49.4 TWh.

Whereas various energy efficiency measures offered to residential customers contributed to decreased consumption by Québec households, basic consumption of electricity nevertheless edged up 0.5 TWh, mainly due to construction of some 40,000 new housing units. This gain was offset by a 0.4 TWh decrease in volume due to the weather, which was milder in 1994 than in 1993.

Sales revenue in 1994 was $2,866 million, compared with $2,815 million in 1993, an increase of $51 million, $35 million of which is derived from rate increases.

General and Institutional Sector Electricity sales to the general and institutional sector stood at 28.3 TWh, down 0.1 TWh, or 0.4%, from 1993. This decline is due to reduced consumption by dual-energy commercial, institutional and industrial customers, which could not be offset, despite the 25% discount on off-peak consumption offered to these customers to improve the competitive position of electricity.

The upswing in the economy, which was somewhat tempered by more efficient use of workspace, fostered a 0.2 TWh rise in electricity consumption; however, the milder temperatures of 1994 reduced consumption by an equal amount.

Weather conditions in 1994 also explain why, despite the $21 million of additional revenue generated through rate increases, overall revenue for the general and institutional sector was up only $11 million, to $1,809 million.

Industrial Sector Electricity sales to the industrial sector rose by 2.0 TWh, to 56.6 TWh in 1994. This increase resulted from growth in the activities of various large-power users such as the smelting and refining, pulp and paper and, to a lesser degree, the mining industry. Part of this growth is attributable to the Additional Energy Sales Option for industrial customers, introduced in the last quarter of 1993.

Sales revenue reached $1,839 million in 1994, up $133 million, or 7.8%, from 1993. This gain stems from the growth in demand for electricity, the increase of over 15% in the average price of aluminum and the persistently weak Canadian dollar. Rate increases generated $22 million.

Other Sector The volume of electricity sales in the *Other* sector remained stable at 4.7 TWh. Sales revenue was $226 million, down by $7 million, or 3.0%, in spite of the effect of rate increases, estimated at $3 million.

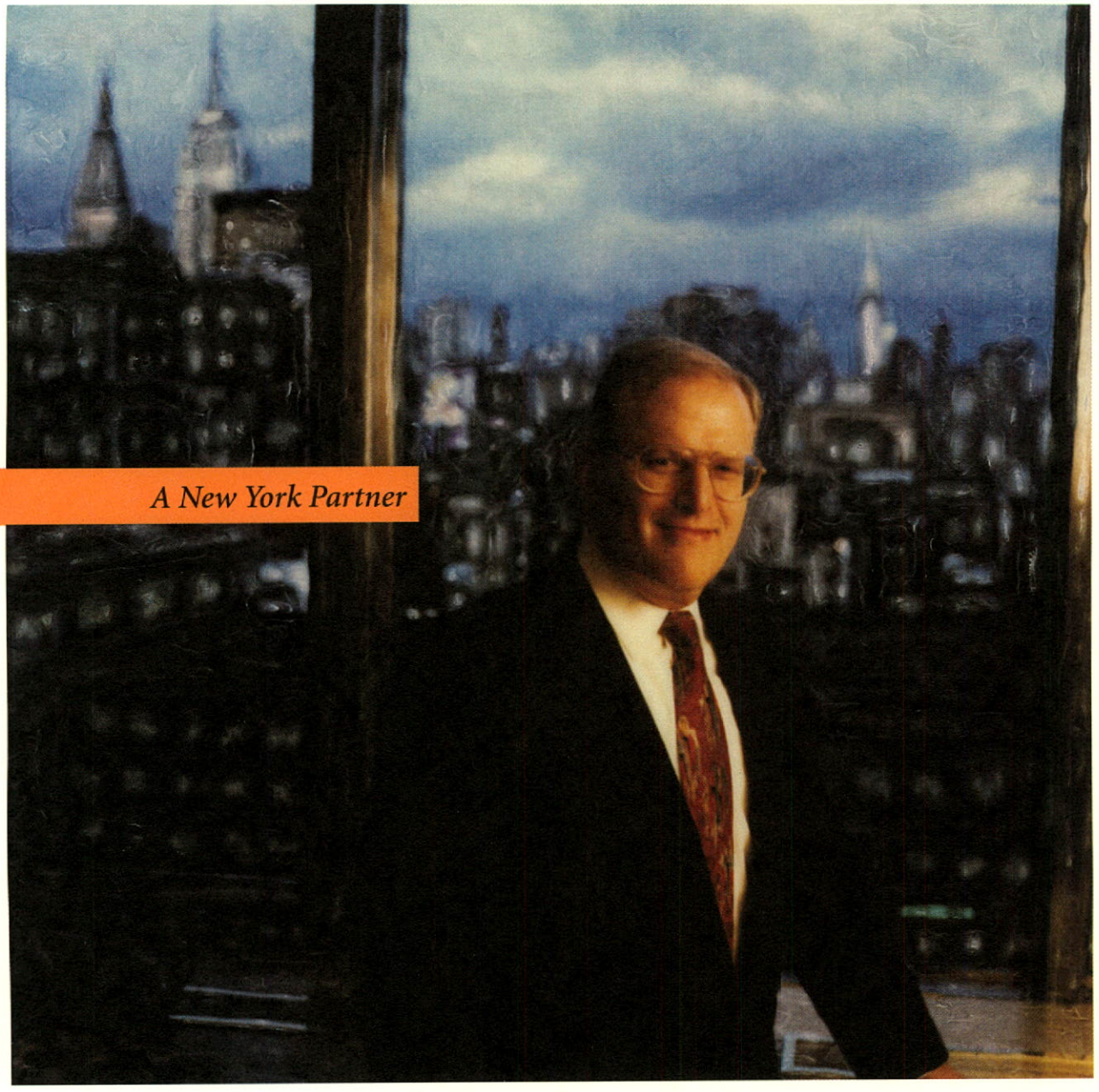
The number of municipalities subscribing to full public lighting service fell again in 1994, since many assumed ownership of their own lighting systems for public roads. This partially explains the decrease in revenue.

Sales Outside Québec

In 1994, the volume of electricity sales outside Québec reached 19.2 TWh, an increase of 4.1 TWh compared with 1993. Corresponding revenue increased by $75 million, to $527 million, in 1994. This rise is attributable to the increase in short-term sales to the United States and other Canadian provinces. Short-term sales accounted for 54% of sales outside Québec, compared with 34% in 1993.

Sales Outside Québec

	1994		1993		Variation 1994/1993			
	TWh	*$M*	*TWh*	*$M*	*TWh*	*%*	*$M*	*%*
Other provinces								
Firm sales	**0.5**	**19**	1.1	46	(0.6)	(54.5)	(27)	(58.7)
Short-term sales	**2.1**	**47**	0.8	21	1.3	–	26	–
	2.6	**66**	1.9	67	0.7	36.8	(1)	(1.5)
United States								
Firm sales	**8.3**	**263**	8.8	268	(0.5)	(5.7)	(5)	(1.9)
Short-term sales	**8.3**	**198**	4.4	117	3.9	88.6	81	69.2
	16.6	**461**	13.2	385	3.4	25.8	76	19.7
Total	**19.2**	**527**	15.1	452	4.1	27.2	75	16.6



A New York Partner

Con Edison provides electric service for New York City. It purchases electricity from Hydro-Québec through the New York Power Authority (NYPA) under a 20-year contract.

From April to October, Hydro-Québec supplies Con Edison with close to 800 MW, around 10% of the New York utility's requirements. The arrangement is mutually beneficial: New York experiences its energy-consumption peak in summer, for air conditioning, whereas Québec's peak occurs in winter.

Con Edison and Hydro-Québec enjoy an increasingly close relationship.

"Con Edison buys power from Hydro-Québec for several reasons. First of all, it's very competitively priced. It's also an environmentally sound form of energy, which helps us reduce our oil and gas consumption. Finally, it's very reliable.

"On a day-to-day basis, the service provided by Hydro-Québec has been excellent. Communications are now more direct and more personal, and this helps foster a better understanding on both sides.

"We're very pleased with Hydro-Québec's efforts in meeting our needs and we hope the relationship continues for many more years to come."

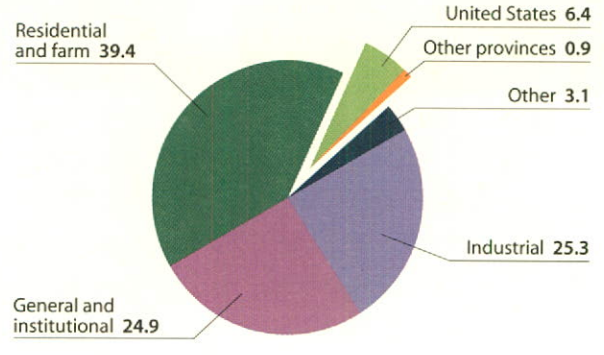
***Jack Feinstein,** Vice President*
System and Transmission Operations
Con Edison, New York

As in 1993, approximately 87% of the electricity sold to neighboring systems outside of Québec was to the United States. The increase of 3.9 TWh in the volume of short-term sales, or 88.6%, more than offset the decrease in the volume of firm sales. Total sales to the United States increased by 3.4 TWh, with revenue totaling $461 million, or $76 million more than in 1993. Over one-third of this increase, or $26 million, is due to the weak Canadian dollar. Firm sales to the United States are primarily to New England Utilities and Vermont Joint Owners.

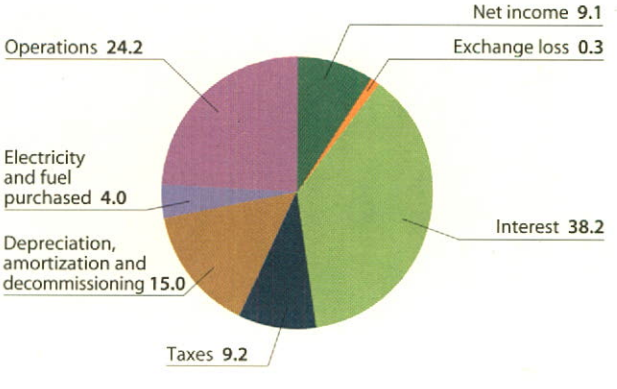
For the other provinces, sales volume was up 0.7 TWh, or 36.8%, climbing from 1.9 TWh in 1993 to 2.6 TWh in 1994. Our marketing efforts enabled us to increase our short-term sales to other provinces by 1.3 TWh, generating $26 million in additional revenue in 1994. This gain in short-term sales offset the $27 million drop in firm sales. The termination of deliveries under our firm energy and power contract with New Brunswick in the last quarter of 1993 was the key factor contributing to this decline.

Short-term sales to the United States and other Canadian provinces allowed us to generate $245 million in revenue in 1994. These sales are also intended to respond to the day-to-day needs of neighboring systems, while making optimum use of Hydro-Québec's interconnections and reservoirs.

Source of Sales Revenue Dollar in 1994 *(in %)*



Allocation of 1994 Revenue Dollar *(in %)*



Expenditure for 1994 rose to $3,821 million, up $60 million, or 1.6%, compared with 1993. Although our efforts to control operating expenses were successful, certain other expenses showed significant increases. The major commissionings undertaken in 1993 and 1994 pushed up depreciation expense, while increased debt related to completion of construction work increased the tax burden.

Operating Expenses

Operating expenses were $1,766 million, compared with $1,800 million in 1993, a drop of $34 million, or 1.9%, reflecting our commitment to contain these expenses.

This reduction, the first in several years, reflects our continuing efforts to control costs throughout the utility. Measures were taken to reduce labor costs, which represent approximately 70% of total operating expenses. We continued with the staff reductions initiated in 1993, thereby saving approximately $45 million in wages. Permanent staff was reduced from 21,028 at the end of 1993 to 20,528 in 1994, and the average annual number of temporary staff went down from 5,753 to 4,878. Our ongoing control of overtime, combined with wage freezes in 1994, also contributed to the overall reduction of $20 million in payroll expense. The cost of employee benefits rose, however, by $20 million in 1994 as a result of a revision of the actuarial assumptions used in the calculation of pension expense.

Aside from wage expense, other operating expenses fell by $14 million, or 3.5%. However, environmental protection costs for the decontamination of equipment containing PCBs were $20 million in 1994. Because of the forecast evolution of the energy balance, we canceled or postponed some natural gas cogeneration projects. This decision led to additional expenses of $16 million related to indemnities under certain contracts.

As part of our restructuring initiative, we continued our efforts to increase productivity by implementing total quality management. This restructuring, which began in 1992, incurred expenses totaling $18 million in 1994, compared with $40 million in 1993. We expect to recoup these expenses many times over through improved performance.

The amounts allocated for routine maintenance of our system and for service-quality enhancement account for more than one quarter of total operating expenses. At December 31, 1994, these amounts totaled $468 million, compared with $489 million in 1993.

Total operating expenses include $83 million of research and development expenditures, to improve the quality of service. (For further information, see pages 33 and 34 of *Year in Review.*)

Maintenance and Service Quality *(in $M)*

	1994	1993
Maintenance	**$405**	$411
Service quality	**63**	78
Total	**$468**	$489

In 1994, energy efficiency remained a priority, although related expenditures were down $13 million from 1993. Investments in fixed assets and deferred expenses were $113 million combined. Energy efficiency involves three areas: energy consumption, conservation and management. (For more information, see pages 11, 12 and 17 of *Year in Review.*)

Energy Efficiency *(in $M)*

	1994	1993
Expenditures	**$ 37**	$ 50
Investment		
Deferred expenses	**94**	105
Fixed assets	**19**	14
Total	**$150**	$169

This year Hydro-Québec allocated $49 million to its various training programs, compared with $48 million in 1993. In keeping with our commitment to provide our customers with quality service, nearly 60% of this amount was spent to train personnel involved in system operations and customer service activities.

Customer bad debts were reduced to $28 million in 1994, compared with $51 million in 1993. This $23 million improvement is evidence of our concerted efforts in the area of accounts recovery, which had the effect of reducing bad debts by half, to 0.4% in 1994 from 0.8% in 1993.

Electricity and Fuel Purchased

Electricity and fuel purchases totaled $293 million for 1994, compared with $291 million in 1993.

Commissioning the first six units at La Grande-1 generating station and the last four units at Laforge-1 generating station increased our flexibility regarding our energy situation. The continuous operation of Tracy thermal generating station remained unnecessary, and fuel costs were stable at approximately $30 million in 1994.

More importantly, the level of our energy reserve allowed us to take advantage of short-term market opportunities. We were able to optimize system use and profit from opportunities to purchase electricity at attractive prices and resell it for additional revenue. As in 1993, aggregate short-term purchases in 1994 amounted to $42 million.

A reduction of $19 million in firm-electricity purchases was due in part to a decline in winter demand. Since December 1993, no purchases have been made from the New York Power Authority (NYPA) under the seasonal diversity contract, terminated in May 1994. In addition, low runoff in Labrador forced us to reduce our purchases from Churchill Falls (Labrador) Corporation. Purchases concluded under the terms of contracts with private producers rose to $30 million, compared with $15 million in 1993.

Depreciation, Amortization and Decommissioning

Expenses related to depreciation, amortization and decommissioning amounted to $1,096 million, an increase of $76 million, or 7.5%, compared with 1993. The main item in this component is depreciation of fixed assets; however, it also includes amortization of marketing programs, write-off of preliminary projects and decommissioning costs of Gentilly-2 nuclear generating station (see Note 3 to the financial statements).

At December 31, 1994, depreciation of fixed assets was $985 million. The increase of $76 million was mainly due to the major commissionings at Phase II of the La Grande complex since the last quarter of 1993. In addition to the 1994 commissionings, there were also those at Brisay generating station, the first two generating units of Laforge-1 generating station and the northern section of the 12th (735-kV) line in 1993.

Expenses related to the write-off of preliminary projects amounted to $31 million in 1994, compared with $42 million in 1993 (see Note 3 to the financial statements). This amount includes amortization of the final portion of deferred expenses related to the write-off of the Nottaway-Broadback-Rupert project.

Finally, amortization of marketing programs rose to $66 million in 1994, from $56 million in 1993.

Taxes

Taxes stood at $666 million, up $16 million, or 2.5%, from 1993. The major portion of this increase is attributable to the additional debt necessary to finance a portion of our investments, which in turn pushed up capital tax and loan guarantee fees.

Interest

Total interest costs amounted to $3,339 million at December 31, 1994, compared with $3,204 million at the same date in 1993. Interest expense, or the total interest cost less interest capitalized and net investment income, grew to $2,785 million, up by $302 million, or 12.2%, compared with 1993.

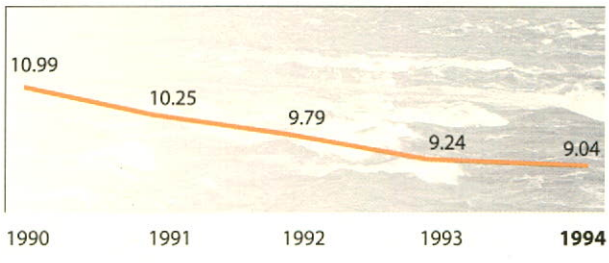
Interest *(in $M)*

	1994	1993
Total interest cost	**$3,339**	$3,204
Less		
Borrowing costs capitalized to Construction in progress	**477**	640
Net investment income	**77**	81
Interest expense	**$2,785**	$2,483

The rise in interest expense is primarily attributable to major commissionings in 1993 and 1994. It is worth noting that when a facility is commissioned, interest is no longer capitalized to Construction in progress; instead, interest is charged to operations. Fluctuations in interest rates and, in particular, the depreciation of the Canadian dollar in relation to the U.S. dollar also contributed to increasing the interest burden.

On the plus side, renegotiation of existing debt at lower interest rates resulted in savings. The weighted average interest rate on our long-term debt was reduced from 9.24% at year-end 1993 to 9.04% at December 31, 1994, our lowest interest rate in several years.

Weighted Average Interest Rate on Long-Term Debt *(in %)*



Exchange Loss

Exchange loss has been relatively low for the past few years since a high proportion of our debt payable in U.S. dollars is hedged by our future sales in this currency. Exchange loss declined from $31 million in 1993 to $24 million in 1994, a decrease of $7 million, or 22.6%. This drop can be explained by the fact that, in 1994, the volume of bond maturities payable in U.S. dollars was lower than in 1993.

The year 1994 was witness to an 18% decrease in total investments, which fell from $4,030 million in 1993 to $3,299 million in 1994. Investment in fixed assets totaled $3,167 million, down $767 million, or 19%, from 1993.

With construction of a number of projects almost completed and the commissionings of generating stations, substations and transmission lines in their final stages, investments in generation and transmission declined in 1994. However, investments made at Laforge-2 and Lac-Robertson generating stations were greater than in 1993. Investments in the transmission system were directed mainly to the southern section of the 12th (735-kV) line and its associated substations, to overall subtransmission projects, as well as to improving transmission system reliability.

Investments in the distribution system declined by 4%, whereas more marked reductions were made in other investments, in the order of 17%, principally due to decreased investments in administrative buildings.

The major commissionings undertaken in 1994, totaling $4,460 million, combined with decreased investments, brought the value of Construction in progress down to $4,627 million, a reduction of $1,279 million, or 21.7%.

Investment in Fixed Assets *(in $M)*

	1994	1993	Variation *(in %)*
Generation	**$1,328**	$1,744	(24)
Transmission	**956**	1,207	(21)
Distribution	**509**	532	(4)
Other	**374**	451	(17)
Total	**$3,167**	$3,934	(19)

Investment in Fixed Assets

As in 1993, work on Phase II of the La Grande complex absorbed the major portion of investment in fixed assets allocated to generating facilities and the transmission system.

Investments in construction of La Grande-1, Laforge-1, Laforge-2 and the completion of the Brisay project amounted to $660 million at December 31, 1994. To date, over $5,372 million of the $5,912 million allocated to these projects has been spent. The Lac-Robertson, Sainte-Marguerite and Beauharnois projects required $146 million, $108 million, and $69 million respectively.

We spent $179 million for the construction of the southern portion of the 12th (735-kV) line, linking Chibougamau, Chamouchouane and Jacques-Cartier substations, as well as $176 million for the program to improve reliability of the transmission system. Our investment in subtransmission equipment was $268 million.

We spent $509 million for our distribution system, $175 million of which went to equipment purchase and renewal and $90 million for new-customer connection work.

As regards other investments in fixed assets, $88 million was invested in our telecommunications installations and $183 million was allocated to support equipment, of which $36 million was spent on automotive equipment and $53 million on computer equipment.

For all of these investments, $51 million was slated for research and development activities.

Commissioning of New Facilities

The year 1994 saw major commissionings of generating and transmission facilities valued at $3,591 million. Six of the twelve units of La Grande-1 went into service during the year, accounting for a total of $1,201 million and boosting installed capacity by 684 MW. The commissioning of the last four units of Laforge-1 generating station represents an additional $1,076 million in fixed assets in service and adds 559 MW to the system.

To ensure transmission of this additional energy to the main power system, we commissioned the southern section of the 12th (735-kV) line, linking Chibougamau, Chamouchouane and Jacques-Cartier at a cost of $369 million. The northern section of this line was commissioned in 1993.

Commissionings resulted in costs of $516 million for distribution facilities, $114 million for administrative buildings and $151 million for support equipment.

Investment in Marketing Programs

The utility earmarked $113 million for its energy efficiency programs in 1994. Of this investment, $61 million went toward energy conservation programs, $16 million of which was invested in Phase 1 of the commercial and institutional Energy Efficient Lighting Program.

An amount of $48 million was set aside for consumption management programs, $24 million of which went toward the residential New Dual Energy Program, in keeping with commitments made at the end of the program in 1993.

Hydro-Québec borrowings exceeded their forecast level in 1994. Since financial markets were receptive in 1994, we decided to advance financing of our 1995 program by approximately $800 million.

Our financing activities resulted in debt issues totaling $3,594 million in 1994. Deducting amounts related to renegotiation of existing debt, valued at $581 million, we contracted new borrowings with a nominal value of $3,013 million. Repayment of maturing debt totaled $657 million. We also took advantage of favorable market conditions to repay $139 million of debt in advance. Taking into account borrowing discounts and expenses, the net proceeds of financing activities stood at $2,209 million.

One of our most important transactions in 1994 was the issuing of a $700 million debt in U.S. currency, maturing in 2024 and payable after 12 years at the investors' option. This offering, the biggest of its kind on the U.S. domestic market, has been exceptionally successful and has become a benchmark for the market.

Overall financing operations contributed to reducing the weighted average interest rate on long-term debt to 9.04% at the end of 1994, compared with 9.24% at the end of 1993.

In 1994, we continued to direct our attention to the following five objectives under our program to borrow at the best cost and effectively manage our existing debt.

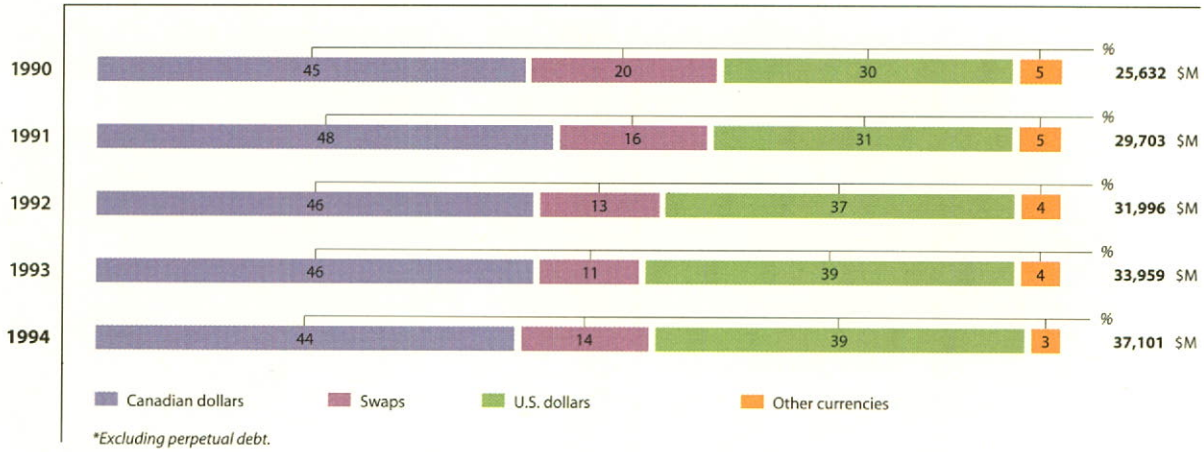
Diversify Sources of Financing

Once again this year, Hydro-Québec maintained its presence on the European market with a variable-rate borrowing in U.S. dollars and by initiating the first issues of medium-term, multi-currency notes. This program has proven even more advantageous than first envisaged as issues were made at a lower cost than comparable issues on other markets.

The utility also consolidated its presence on the international financial markets by completing its fourth global issue in Canadian dollars, distributed simultaneously in Canada, the United States, Europe and Asia.

Finally, we pursued our investor relations program, keeping our financial partners informed of changes in our financial situation and maintaining a permanent dialogue with them. This program helps ensure good penetration for our securities in target markets and maintains a climate of confidence for our borrowing program.

Breakdown of Total Debt by Currency*



*Excluding perpetual debt.

Minimize Foreign Exchange Risk

Our swap program was a hub of particularly intense activity this year. Conversion of the high volume of medium-term, multi-currency notes of which the equivalent of $732 million Canadian was outstanding at the end of 1994 accounted for most of this activity.

Including swaps, 67% of our financing activities were conducted in Canadian dollars in 1994. Consequently, the portion of total debt denominated in Canadian dollars, including swaps, inched up to 58% at December 31, 1994, compared with 57% at December 31, 1993.

Manage Current Debt Effectively

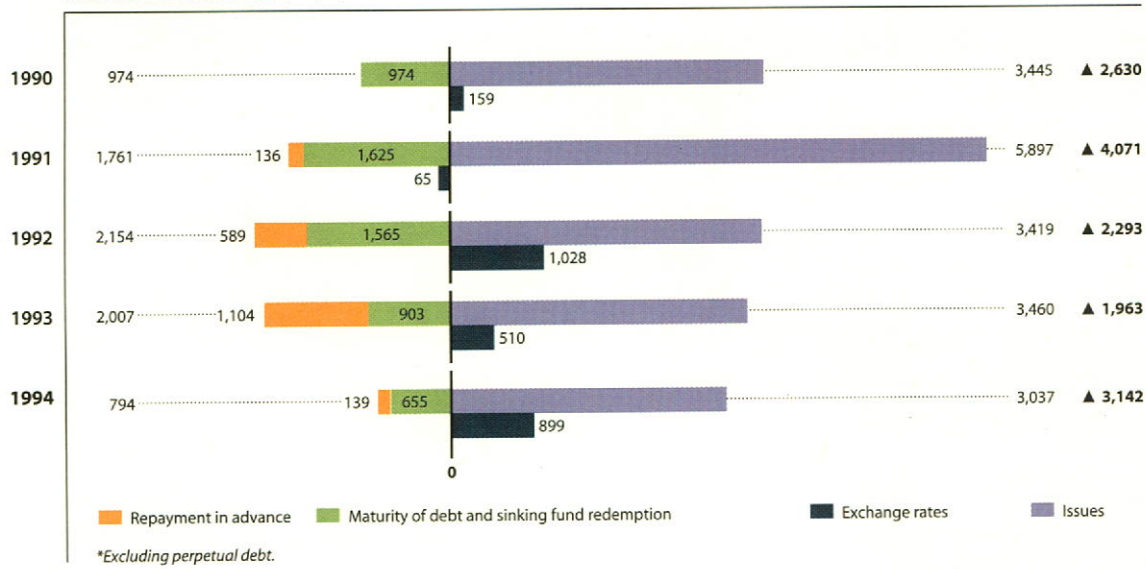
In 1994, as in past years, Hydro-Québec took advantage of favorable interest rates to renegotiate and repay $720 million of debt in advance.

To strengthen our counterparty risk management policy, we focused our attention on credit risk management related to derivative portfolios in order to maintain a high degree of quality.

Seek an Optimum Interest Rate Structure

To minimize the impact of changes in inflation on net income, the utility maintains the average annual percentage of variable-rate to total debt, including perpetual debt, at between 7% and 20%. As a result of 1994 financing activities, the percentage rose to 20.7% from 14.9% at the end of 1993.

Variation in Total Debt* *(in $M)*



*Excluding perpetual debt.

Stagger Debt Refinancing

In 1994, the amount of new borrowings with terms of 10 or more years was 59%. We undertook several advantageous shorter-term transactions, particularly in our medium-term, multi-currency notes program on international financial markets. Excluding renegotiations, the average term for borrowings made in 1994 is 10.7 years. The average term of total debt at December 31, 1994 is 13.9 years, compared with 15.1 years at December 31, 1993.

At the close of 1994, total debt rose to $37,101 million (see Note 9 to the financial statements), an increase of $3,142 million. The depreciation of the Canadian dollar, especially against the U.S. dollar, accounted for an increase in debt of $899 million.

Finally, as part of its short-term financing plan, Hydro-Québec is authorized to issue up to U.S. $2,750 million of commercial paper, or its Canadian-dollar equivalent, on the Canadian and U.S. markets, and U.S.$250 million on the European market. This year these programs, with $23 million outstanding at the end of 1994, showed an average outstanding amount equivalent to $130 million Canadian. Our revolving standby credit and bank credit facilities total approximately U.S. $2,155 million.

Major commissionings undertaken since the last quarter of 1993 had a significant impact on income for the year. As expected, certain ratios were lower in 1994. Nevertheless, gains achieved in sales and operating activities enabled the utility to maintain its financial position and improve certain other ratios.

Interest coverage went from 1.03 in 1993 to 1.07 in 1994, an improvement resulting from a reduction in operating expenses and an increase in short-term sales and sales to the industrial sector.

These factors were not sufficient, however, to offset the additional expenses incurred by the major commissionings. As expected, profit margin and return on shareholder's equity fell, from 10.8% and 7.2% in 1993 to 9.1% and 5.9% respectively in 1994.

Our self-financing ratio saw a strong improvement, growing from 37.9% in 1993 to 47.9% in 1994. The reduced construction and the increase in funds generated by our operating activities contributed to our self-financing more investments in 1994 than in any of the preceding five years.

Finally, the capitalization ratio was 23.5% at December 31, 1994, compared with 23.9% in 1993. This slight decrease is the result of an increase in long-term debt, partly attributable to the slide in the Canadian dollar and the prefinancing activities of 1994. These activities also contributed to an increase in cash. Since the capitalization ratio was below 25% (see Note 12 to the financial statements), no dividend will be paid for 1994.

Management Report

Hydro-Québec's consolidated financial statements and all additional information contained in the Annual Report are the responsibility of Management and were approved by the Board of Directors. Management's responsibility also includes the selection of appropriate accounting practices in accordance with generally accepted accounting principles, and the preparation of reasonable estimates. Financial data contained elsewhere in the Annual Report are consistent with the financial statements.

Management, in keeping with its responsibilities, maintains an internal control system, designed among other things to provide reasonable assurance that the utility's assets are adequately safeguarded and that the accounting records form an appropriate basis for the preparation of reliable financial statements. An internal auditing process allows evaluation of the sufficiency and efficiency of these internal and management controls, as well as of the utility's policies and procedures. Recommendations ensuing from this process are submitted to Management and the Audit Committee.

Every year, the Board of Directors appoints an audit committee, composed solely of directors who do not hold a full-time position at Hydro-Québec or one of its subsidiaries. This committee is responsible for ensuring that the financial statements present fairly the utility's financial position, changes in financial position, and results of operations. The Audit Committee meets regularly with Management, the General Auditor and the external auditors to review the results of their audits and the reports on the utility's accounting methods and policies and internal control systems.

The utility has also established a code of ethics primarily to ensure the proper management of its resources and the orderly conduct of business.

The consolidated financial statements have been audited jointly by Samson Bélair Deloitte & Touche and Caron Bélanger Ernst & Young, Chartered Accountants, in accordance with generally accepted auditing standards. Their responsibility consists in expressing their professional opinion on the fairness of the financial statements. The Auditors' Report, which appears overleaf, specifies the extent of their audit and gives their opinion on these financial statements.

In the opinion of Management, these financial statements incorporate, within reasonable limits, all important elements and data available at January 31, 1995.

Richard Drouin, QC
Chairman of the Board and
Chief Executive Officer

Armand Couture
President and
Chief Operating Officer

André Delisle
Chief Financial Officer and
Executive Vice President,
Corporate Planning

Montréal, Canada
January 31, 1995

Auditors' Report

To the Gouvernement du Québec,

We have audited the consolidated balance sheet of Hydro-Québec as at December 31, 1994 and the consolidated statements of operations, retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of Hydro-Québec's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Hydro-Québec as at December 31, 1994 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Samson Bélair
Deloitte & Touche

Chartered Accountants

Caron Bélanger
Ernst & Young

Chartered Accountants

Montréal, Canada
January 31, 1995

Consolidated Statement of Operations

(in millions of dollars)	For the year ended December 31 1994	1993
Revenue		
Sales of electricity *(Note 2)*	**$7,267**	$7,004
Other operating revenue	**30**	32
	7,297	7,036
Expenditure		
Operations	**1,766**	1,800
Electricity and fuel purchased	**293**	291
Depreciation, amortization and decommissioning *(Note 3)*	**1,096**	1,020
Taxes *(Note 4)*	**666**	650
	3,821	3,761
Income before interest and exchange loss	**3,476**	3,275
Interest *(Note 5)*	**2,785**	2,483
Exchange loss	**24**	31
	2,809	2,514
Net income	**$ 667**	$ 761

Consolidated Statement of Retained Earnings

(in millions of dollars)	For the year ended December 31 1994	1993
Balance at beginning of year	**$6,508**	$5,747
Net income	**667**	761
Balance at end of year	**$7,175**	$6,508

Consolidated Balance Sheet

Assets (in millions of dollars)	As at December 31 **1994**	1993
Fixed assets *(Note 6)*		
In service	**$48,282**	$43,958
Less accumulated depreciation	**8,184**	7,295
	40,098	36,663
Construction in progress	**4,627**	5,906
	44,725	42,569
Current assets		
Cash and temporary investments	**1,341**	639
Accounts receivable	**1,340**	1,335
Materials, fuel and supplies	**251**	269
	2,932	2,243
Other assets		
Investments *(Note 7)*	**220**	180
Deferred expenses *(Note 8)*	**3,731**	2,887
	3,951	3,067
	$51,608	$47,879

Jean-André Élie
Chairman of the Audit Committee

Richard Drouin, QC
Chairman of the Board and
Chief Executive Officer

Montréal, Canada
February 9, 1995

Liabilities and Shareholder's Equity (in millions of dollars)	As at December 31 1994	1993
Long-term debt *(Note 9)*	**$36,047**	$33,204
Current liabilities		
Short-term borrowings	**23**	119
Accounts payable	**1,093**	1,147
Accrued interest	**1,119**	1,086
Current portion of long-term debt *(Note 9)*	**1,054**	755
	3,289	3,107
Other liabilities		
Long-term liabilities	**70**	72
Other postretirement benefits	**67**	34
Decommissioning of nuclear generating station	**34**	28
	171	134
Perpetual debt *(Note 10)*	**552**	552
Shareholder's equity		
Share capital		
Authorized 50,000,000 shares, par value of $100 each		
Issued and fully paid 43,741,090 shares	**4,374**	4,374
Retained earnings	**7,175**	6,508
	11,549	10,882
	$51,608	$47,879

Consolidated Statement of Changes in Financial Position

(in millions of dollars)	For the year ended December 31 1994	1993
Operating activities		
Net income	**$ 667**	$ 761
Depreciation of fixed assets	**985**	909
Amortization of deferred expenses	**179**	174
Difference between expenses and disbursements related to postretirement benefits	**35**	9
Other	**30**	(3)
	1,896	1,850
Net change in other current assets or current liabilities		
Accounts receivable	**(5)**	(6)
Materials, fuel and supplies	**18**	22
Accounts payable	**(54)**	118
Accrued interest	**33**	33
	(8)	167
	1,888	2,017
Financing activities		
Issue of long-term debt	**3,005**	3,183
Maturity of long-term debt and sinking fund redemption	**(657)**	(856)
Repayment in advance of long-term debt	**(139)**	(1,104)
	2,209	1,223
Investing activities		
Fixed assets	**(3,167)**	(3,934)
Marketing programs	**(94)**	(104)
Other	**(38)**	8
	(3,299)	(4,030)
Change in cash during year	**798**	(790)
Cash at beginning of year	**520**	1,310
Cash at end of year	**$1,318**	$ 520

Cash comprises Cash and temporary investments less Short-term borrowings.

Note 1

December 31, 1994

Significant accounting policies

a) Hydro-Québec mandate and rates

Under the provisions of its Act, Hydro-Québec's mandate is to supply power and to pursue endeavors in energy-related research and promotion, energy conversion and conservation, and any field connected with or related to power or energy.

The rates and conditions under which power is supplied must be consistent with sound financial administration. The *Hydro-Québec Act* stipulates that the rates must be maintained at a level sufficient to defray at least all operating expenditures, interest on debt, and depreciation of fixed assets over a maximum period of 50 years. The rates are established by Hydro-Québec and are subject to the approval of the Gouvernement du Québec.

b) Consolidation

The consolidated financial statements include the financial statements of Hydro-Québec and its subsidiaries.

c) Sales of electricity

Revenue from sales of electricity is recorded on the basis of cyclical billings and also includes revenue accrued in respect of electricity delivered but as yet unbilled.

d) Fixed assets

Fixed assets include generating, transmission and distribution facilities and administration and service buildings, as well as construction, operating and research equipment. Fixed assets are carried at cost, which comprises material, direct and indirect labor, and an appropriate allocation of the administration overhead, and engineering and management expenses capitalized during construction. Cost also includes borrowing costs capitalized to Construction in progress as explained in (f) below.

Upon disposal of asset units, the cost of the units and the cost of their dismantlement, net of accumulated depreciation and salvage value, are charged to a separate account and amortized over 10 years according to the sinking fund method based on an interest rate of 3%. However, when the disposed asset units are replaced, the cost of dismantlement, less the salvage value, is added to the cost of the new units and then depreciated according to the method and useful life appropriate to the new asset.

The costs of generating facilities, up to an amount equal to the accumulated cost at date of transfer, are transferred to Fixed assets in service in instalments equal to the number of generating units completed and in service proportionate to the total number scheduled for the new facility, on the basis of the present value of the total estimated cost. The costs of transmission, distribution and other facilities are transferred to Fixed assets in service when these facilities are completed and in commercial operation.

e) Depreciation of fixed assets

Fixed assets (other than construction, operating and research equipment) are depreciated over their useful life according to the sinking fund method at an interest rate of 3%.

Construction, operating and research equipment is depreciated over its useful life according to the straight-line method.

Note 1

***Significant accounting policies** (continued)*

The useful lives of Hydro-Québec's main classes of fixed assets are as follows:

Hydraulic generation	50 years
Nuclear generation	30 years
Thermal generation (other than nuclear)	15 to 20 years
Transmission	40 to 50 years
Distribution	25 to 40 years
Administration and service buildings	50 years
Construction, operating and research equipment	3 to 30 years

Hydro-Québec revises the useful lives of its fixed assets on a regular basis.

f) Borrowing costs capitalized to Construction in progress

Borrowing costs are added to the cost of construction in progress at a rate equivalent to the weighted average of the effective interest rates on Hydro-Québec's debt securities issued to finance such construction. This rate, which takes into account the exchange loss on the principal amount of these debt securities, was 9.39% in 1994 and 10.37% in 1993.

g) Materials, fuel and supplies

Inventories of materials, fuel and supplies are valued on an average cost basis.

h) Temporary investments

Temporary investments are shown at amortized cost, which approximates market value.

i) Foreign currency translation

Revenue and expenditure resulting from transactions in foreign currencies are translated into the Canadian dollar equivalent at exchange rates in effect at the transaction date. Monetary assets and liabilities are translated into Canadian dollars at exchange rates in effect at the balance sheet date, and non-monetary items are translated into Canadian dollars at exchange rates in effect at the transaction date. However, monetary items covered by monetary agreements against exchange risks are translated into Canadian dollars at the exchange rates established under the terms of the relevant agreement. These monetary agreements are primarily currency swaps.

The exchange gains or losses resulting from these translations are included in the Consolidated Statement of Operations; those pertaining to the capital of long-term debt are deferred and amortized on a straight-line basis over the remaining life of the debt securities, except when they relate to debt securities hedged by future revenue streams in United States dollars, in which case they are deferred until the date of repayment of such debt.

j) Derivative financial instruments

Hydro-Québec uses different derivative financial instruments to manage foreign exchange and interest rate risks related to long-term debt as well as the risk of price changes in raw materials inherent to certain sales contracts for electricity.

Swaps used to change long-term interest rate risk exposure are recorded at historical cost. Interest rate exchanges concluded in accordance with these swaps are matched to interest expense on the borrowings to which they are related.

Derivative financial instruments used to manage short-term financial risks of not more than three years are recorded at historical cost. Gains or losses realized are deferred and charged to operations when the reverse risk item is recognized.

k) Borrowing discount and expenses

Borrowing discount and expenses are deferred and amortized on a straight-line basis over the life of the borrowings.

Note 1

***Significant accounting policies** (continued)*

l) Marketing programs

Hydro-Québec has implemented a number of marketing programs aimed at consumption management, energy conservation and market optimization. The deferred expenses related to these programs are amortized on a straight-line basis over a period not exceeding five years after the year in which they are incurred.

m) Nottaway-Broadback-Rupert project

As construction of the Nottaway-Broadback-Rupert project is planned for the distant future, certain expenses incurred on that project have been transferred from Construction in progress to Deferred expenses. These expenses are amortized on a straight-line basis over three years.

n) Sinking funds

The sinking funds are created through the purchase of Hydro-Québec debentures, Government of Canada bonds, or bonds issued or guaranteed by the Gouvernement du Québec. These funds are deducted from long-term debt. Government issued or guaranteed bonds are carried at cost; Hydro-Québec debentures are carried at par, which may not be indicative of cost or current market value. The gain or loss resulting from the redemption of these debentures and bonds is included under Interest. The unamortized discount and expenses are written off when these debt securities are cancelled.

o) Postretirement benefits

Pension plan

The costs of the Pension Plan are determined periodically by independent actuaries. Pension expense is charged to operations and comprises the total of the following:

- The cost of pension benefits provided in exchange for employees' services rendered during the year, calculated using the projected benefit method pro rated on services, and
- Amortization over the employees' expected average remaining service life, according to the straight-line method, of (i) adjustments arising from changes in the Plan or in assumptions, (ii) experience gains or losses, and (iii) the Plan surplus determined upon adoption of the 1986 recommendations of the Canadian Institute of Chartered Accountants.

The cumulative difference between pension expense and contributions made to the pension funds is reflected in Deferred expenses.

Other postretirement benefits

In addition to pension benefits, Hydro-Québec offers its current and retired employees group life-insurance, medical and hospitalization plans. These plans are not funded. Postretirement expenses from these plans are charged to operations for the year in which the benefits are vested to the employees and include amortization, under the straight-line method and over the employees' expected average remaining service life, of the initial estimate of liabilities upon adoption of this accounting policy in 1993.

The cumulative difference between the amounts recorded as other postretirement benefits and the premiums paid to insurance companies is shown under Other postretirement benefits.

Note 1

***Significant accounting policies** (continued)*

p) Decommissioning of nuclear generating station

The estimated future costs of decommissioning the Gentilly-2 nuclear generating station are charged to operations, and comprise the total of the following:

- The present value of the estimated cost of dismantlement, allocated on a straight-line basis over the remaining life of the generating station,
- The present value of the expected cost for final disposal of the irradiated fuel, allocated in proportion to the consumption of the fuel,
- Interest calculated on the amounts charged in preceding years, at the rate used to discount the above amounts.

These costs are revised periodically in accordance with the various assumptions and estimates underlying the calculations, and with any technological advances that may arise in the decommissioning of nuclear generating stations.

Note 2

Sales of electricity

Sales of electricity include $461 million from sales to the United States ($385 million in 1993).

Note 3

Depreciation, amortization and decommissioning

(in millions of dollars)	**1994**	1993
Depreciation of fixed assets	**$ 985**	$ 909
Amortization of marketing programs	**66**	56
Amortization of Nottaway-Broadback-Rupert project	**17**	18
Write-off of preliminary projects	**14**	24
Decommissioning of nuclear generating station	**6**	6
Other	**8**	7
	$1,096	$1,020

Note 4

Taxes

(in millions of dollars)	**1994**	1993
Capital tax	**$256**	$259
Tax on gross revenue as municipal real estate tax on certain immovables	**194**	189
Loan guarantee fees	**174**	164
Municipal and school taxes	**42**	38
	$666	$650

Note 5

Interest

(in millions of dollars)	**1994**	1993
Interest on debt securities	**$3,284**	$3,201
Amortization of borrowing discount and expenses	**52**	43
Net loss (net gain) on redemption of long-term debt	**3**	(40)
	3,339	3,204
Less		
Borrowing costs capitalized to Construction in progress	**477**	640
Net investment income	**77**	81
	554	721
	$2,785	$2,483

Note 6

Fixed assets

(in millions of dollars)	1994			1993		
	In service	Accumulated depreciation	Construction in progress	In service	Accumulated depreciation	Construction in progress
Generation						
Hydraulic	**$20,201**	**$2,950**	**$3,226**	$17,785	$2,731	$4,403
Nuclear	**1,537**	**399**	**31**	1,526	355	15
Thermal (other than nuclear)	**945**	**306**	**44**	929	264	30
	22,683	**3,655**	**3,301**	20,240	3,350	4,448
Transmission						
Substations	**8,174**	**1,191**	**648**	7,503	1,044	727
Lines	**6,528**	**919**	**244**	6,153	844	330
	14,702	**2,110**	**892**	13,656	1,888	1,057
Distribution						
Substations	**133**	**45**	**8**	128	38	4
Lines	**6,801**	**1,170**	**108**	6,303	998	99
	6,934	**1,215**	**116**	6,431	1,036	103
Other						
Administration and service buildings	**1,437**	**172**	**76**	1,332	152	116
Construction, operating and research equipment	**1,376**	**779**	**102**	1,270	682	78
Sundry	**1,150**	**253**	**140**	1,029	187	104
	3,963	**1,204**	**318**	3,631	1,021	298
Total	**$48,282**	**$8,184**	**$4,627**	$43,958	$7,295	$5,906

Note 7

Investments

(in millions of dollars)	**1994**	1993
Investments at cost		
Churchill Falls (Labrador) Corporation *(Note 14)*		
General Mortgage Bonds, 7½%, due 1995 through 2010 (par value $74 million in 1994 and $76 million in 1993)	**$ 67**	$ 68
Common shares	**34**	34
	101	102
Other	**28**	29
Investments at equity	**91**	49
	$220	$180

Note 8

Deferred expenses

(in millions of dollars)	**1994**	1993
Unrealized exchange loss	**$2,377**	$1,507
Borrowing discount and expenses	**627**	644
Pension expense	**363**	365
Marketing programs	**272**	244
Nottaway-Broadback-Rupert project	**–**	17
Other	**92**	110
	$3,731	$2,887

Note 9

Long-term debt

Debenture and other long-term debt maturities translated into Canadian dollars are shown in the following table. These maturities include requirements of the sinking funds.

	1994		1993	
Years of maturity	(in millions of dollars)	Weighted average interest rate **	(in millions of dollars)	Weighted average interest rate **
1994	$ –		$ 755	
1995	1,054		1,071	
1996	1,650		1,638	
1997	1,581		986	
1998	1,294		1,295	
1999	2,464		–	
1 – 5 years	8,043	8.55%	5,745	8.69%
6 – 10 years	10,724	8.99%	10,551	9.17%
11 – 15 years	3,047	9.19%	2,552	10.25%
16 – 20 years	3,762*	9.53%	3,948	9.60%
21 – 25 years	930	7.76%	799	7.46%
26 – 30 years	7,086*	9.53%	7,036	9.57%
31 – 35 years	1,856	8.49%	763	8.44%
36 – 40 years	1,639	9.65%	2,550	9.22%
41 – 45 years	8	6.28%	7	6.28%
46 – 50 years	6	6.28%	8	6.28%
	37,101	**9.04%**	33,959	9.24%
Less Current portion	**1,054**		755	
	$36,047		$33,204	

* Includes $53 million and $120 million in zero-coupon bonds, shown at their discounted value at an interest rate calculated semi-annually of 10.95% and 10.67% respectively. Their par value will reach $282 million and $1,729 million in 2010 and 2020 respectively.

** Weighted average interest rate takes into account the effect of interest rate swaps whose notional principal amount represents $10.6 billion ($7.7 billion as at December 31, 1993). The variable-rate portion of long-term debt is 19.5% as at December 31, 1994 (13.5% as at December 31, 1993).

Note 9

***Long-term debt** (continued)*

Repayments to be made in Canadian dollars and in foreign currencies, with their Canadian dollar equivalent, are shown in the following table.

	(in millions of units)			1994 Total (in millions of dollars)	1993 Total (in millions of dollars)
	1995 to 1999	2000 to 2042	Total	1995 to 2042	1994 to 2042
Canadian dollars	3,351	12,861	16,212	**$16,212**	$15,392
At rates established according to the terms of the monetary agreements*					
United States dollars	827	277	1,104	**1,415**	860
Deutsche marks	607	699	1,306	**907**	960
Swiss francs	176	609	785	**590**	720
Yen	72,450	9,000	81,450	**979**	475
Pounds sterling	275	100	375	**777**	378
ECUs	125	–	125	**157**	157
Guilders	45	–	45	**28**	38
French francs	–	1,000	1,000	**209**	209
				21,274	19,189
At rates in effect at balance sheet date					
United States dollars**	686	9,721	10,407	**14,589**	13,251
Deutsche marks	16	504	520	**412**	386
Swiss francs	44	86	130	**139**	115
Pounds sterling	–	300	300	**687**	1,018
				15,827	14,770
				$37,101	$33,959

* Monetary agreements are primarily currency swaps.

** These repayments are 94% hedged by future revenue streams in United States dollars (100% as at December 31, 1993).

Hydro-Québec's debentures are guaranteed by the Gouvernement du Québec. Other long-term debt, in the amount of $313 million at the end of 1994 and 1993, is not guaranteed.

Hydro-Québec has undrawn revolving standby credits totaling U.S.$1,750 million which expire between 1996 and 1999. Any borrowing under these lines of credit will bear interest at a rate based on the London Interbank Offered Rate (LIBOR).

Note 10

Perpetual debt

Perpetual notes in the amount of U.S.$400 million bear interest at a rate based on the London Interbank Offered Rate (LIBOR) established twice yearly. They are guaranteed by the Gouvernement du Québec and are redeemable at Hydro-Québec's option. These notes are translated into Canadian dollars at the exchange rate in effect at date of issue ($561 million at exchange rate in effect at balance sheet date).

Note 11

Derivative financial instruments

Derivative financial instruments used by Hydro-Québec are always associated with a reverse risk position.

Hydro-Québec concludes currency swaps that reduce the foreign exchange risk associated with repayments of principal on long-term debt and with interest payments. Some of these currency swaps also allow for interest rate exchanges to change the utility's long-term exposure to interest rate risk. Interest rate swaps that do not allow for exchanges of principal are also used to manage this risk. The valuation of these swaps, with terms from 1995 to 2015, shows a positive fair value of $1,029 million as at December 31, 1994 (positive fair value of $1,137 million as at December 31, 1993).

In managing short-term financial risks, Hydro-Québec makes continual comprehensive evaluations of the impact of variations in exchange rates, interest rates and prices of raw materials. Based on the results, several derivative financial instruments are used in the integrated management of Hydro-Québec's exposure to these various risks. Foreign exchange forward contracts and options used to protect against foreign exchange risk show a negative fair value of $3 million as at

Note 11

Derivative financial instruments (continued)

December 31, 1994 (positive fair value of $7 million as at December 31, 1993). Forward rate agreements, options and swaps used to manage interest rate risk show a positive fair value of $5 million as at December 31, 1994 (negative fair value of $5 million as at December 31, 1993). The valuation of the forward exchange contracts and options used in the risk management of changes in the price of aluminum shows a negative fair value of $69 million as at December 31, 1994 (positive fair value of $16 million as at December 31, 1993). The derivative financial instruments as at December 31, 1994 mature to April 1996.

Fair value method

The fair value of derivative financial instruments reflects the amount that Hydro-Québec would receive or pay to terminate these instruments as at the balance sheet date.

The fair value of derivative financial instruments is determined based on the forward rates or prices available at market closing as at the balance sheet date. Without this information for a given instrument, reference is made to the available forward rate or price for an equivalent instrument. The Black-Scholes valuation model is used to estimate the fair value of options.

Credit risk

Derivative financial instruments include an element of risk in the event of failure by one counterparty to meet its obligations. However, this risk is minimized as Hydro-Québec deals only with Canadian and international financial institutions with high credit ratings. Credit risk exposure is also reduced by applying a credit policy that limits credit risk concentrations with a same counterparty. As at December 31, 1994, Hydro-Québec did not foresee incurring any loss due to counterparty default.

Note 12

Restrictions on dividends

Under the *Hydro-Québec Act*, the dividends to be paid by Hydro-Québec are declared once a year by the Gouvernement du Québec, which also determines the terms and conditions of payment. For a given financial year, they cannot exceed the distributable surplus, which is established as follows: 75% of income before interest and exchange loss and the year's net investment income, less interest on debt securities and amortization of borrowing discount and expenses. This calculation is made on the basis of the consolidated financial statements.

However, in respect of a given financial year no dividend may be declared in an amount that would have the effect of reducing the rate of capitalization to less than 25% at the end of the year. This rate corresponds to the ratio between shareholder's equity (less dividends declared for the year) and the total of long-term debt, short-term borrowings, perpetual debt and shareholder's equity (less dividends declared for the year).

The government declares the dividends for a given year within 30 days after the transmission by Hydro-Québec to the government of the financial data relative to the distributable surplus. On expiry of the time prescribed, any distributable surplus or part thereof which has not been subject to a dividend declaration may no longer be distributed to the shareholder as a dividend.

Dividends declared are deducted from the retained earnings of the year for which they were declared.

Note 13

Pension plan

The Hydro-Québec Pension Plan is a contributory defined benefit pension plan based on final pay, under which benefits payable are guaranteed by Hydro-Québec. At December 31, 1994, 24,584 employees were contributing to the Plan. An actuarial valuation was made in 1994 in order to determine the present value of accrued benefits based on employees' expected basic salary until retirement. The assets of the pension funds are valued at market-related values.

At December 31, 1994, the date of the most recent valuation, the Pension Plan showed a surplus as follows:

	(in millions of dollars)
Assets of the pension funds	$5,076
Present value of accrued benefits	4,731
Surplus	**$ 345**

For the year ended December 31, 1994, pension expense amounted to $133 million ($108 million in 1993).

Note 14

Commitments and projected capital expenditures

Churchill Falls generating station

On May 12, 1969, Hydro-Québec signed a contract with Churchill Falls (Labrador) Corporation [CF(L)Co] whereby Hydro-Québec undertook to purchase virtually all the power generated at the Churchill Falls generating station for a period of 40 years from September 1, 1976, except for an amount not to exceed 300,000 kilowatts of such power which may be recaptured by CF(L)Co. This contract will be automatically renewed for a further period of 25 years upon already agreed terms.

Under the terms of this contract, Hydro-Québec agreed to make payment for energy whether or not taken, subject to certain limitations and compensations, and to pay CF(L)Co an amount equal to a portion of the interest charges on the debt incurred by CF(L)Co to finance the construction of the plant as well as an amount equal to a portion of the losses on foreign exchange incurred to service the debt issued in United States dollars. Hydro-Québec could also be required to make additional advances, against the issue of units of Subordinate Debentures and shares of Common Stock, to service the debt of CF(L)Co and to cover its expenses if funds are not otherwise available.

Projected capital expenditures

Hydro-Québec plans call for capital expenditures of $2,985 million for 1995.

Note 15

Grande-Baleine project

As at December 31, 1994, Hydro-Québec had incurred $519 million in costs related to the Grande-Baleine project, $220 million of which was in interest expense. These costs were recorded under Construction in progress.

In December 1994, the Gouvernement du Québec announced its intention to hold a public hearing on energy in 1995, primarily to examine changes in demand for electricity in Québec and the means to meet this demand. Moreover, pursuant to a decree issued in December 1994 by the Gouvernement du Québec, Hydro-Québec will submit its next development plan by November 1, 1996, at the latest. All activities relating to the Grande-Baleine project have been suspended, pending the results of this public hearing and Québec's energy policy orientations. Consequently, Hydro-Québec discontinued capitalizing interest as of December 1, 1994.

Following the results of the hearing on energy, Hydro-Québec will re-evaluate the position of the Grande-Baleine project and the accounting treatment of the related costs.

Note 16

Reclassification

Some of the figures for 1993 were reclassified in order to conform to the presentation adopted in 1994.

Consolidated Results and Financial Ratios

(in millions of dollars)	1994	1993	1992	1991	1990
Revenue					
Sales of electricity	**$7,267**	$7,004	$6,764	$6,210	$5,821
Other operating revenue	**30**	32	43	42	39
	7,297	7,036	6,807	6,252	5,860
Expenditure					
Operations	**1,766**	1,800	1,770	1,723	1,524
Electricity and fuel purchased	**293**	291	358	226	383
Depreciation, amortization and decommissioning	**1,096**	1,020	907	810	754
Taxes	**666**	650	594	392	361
	3,821	3,761	3,629	3,151	3,022
Income before interest and exchange loss	**3,476**	3,275	3,178	3,101	2,838
Interest					
Interest on debt securities	**3,284**	3,201	3,098	3,011	2,790
Amortization of borrowing discount and expenses	**52**	43	31	28	23
(Net gain) net loss on redemption of long-term debt	**3**	(40)	(15)	(20)	(1)
Borrowing costs capitalized to Construction in progress	**(477)**	(640)	(544)	(480)	(385)
Net investment income	**(77)**	(81)	(180)	(245)	(88)
	2,785	2,483	2,390	2,294	2,339
Exchange loss	**24**	31	64	47	95
	2,809	2,514	2,454	2,341	2,434
Net income	**$ 667**	$ 761	$ 724	$ 760	$ 404
Financial ratios					
Interest coverage	**1.07**	1.03	1.07	1.10	1.04
Capitalization *(in %)*	**23.5**	23.9	23.7	23.7	24.8
Self-financing *(in %)**	**47.9**	37.9	29.8	28.7	30.7
Return on equity *(in %)*	**5.9**	7.2	7.4	8.4	4.8
Return on revenue *(in %)*	**9.1**	10.8	10.6	12.2	6.9

$$\text{Interest coverage} = \frac{\text{Income before interest and exchange loss + Net investment income}}{\text{Gross interest charges}}$$

$$\text{Capitalization} = \frac{\text{Shareholder's equity}}{\text{Shareholder's equity + Long-term debt + Perpetual debt + Short-term borrowings + Current portion of long-term debt}}$$

$$\text{Self-financing} = \frac{\text{Cash provided from operations – Declared dividends}}{\text{Investment + Maturity of long-term debt and sinking fund redemption}}$$

$$\text{Return on equity} = \frac{\text{Net income}}{\text{Shareholder's equity (year's average)}}$$

$$\text{Return on revenue} = \frac{\text{Net income}}{\text{Revenue}}$$

* To conform to the presentation adopted in 1994, the self-financing ratios for the years prior to 1994 have been recalculated.

Operating Statistics

(in millions of kilowatthours)	1994	1993	1992	1991	1990	Average annual increase (in %) 1994/1990
Electricity sales						
In Québec:						
Residential and farm	49,437	49,282	49,221	46,250	46,993	1.3
General and institutional	28,315	28,358	28,176	28,264	28,314	–
Industrial	56,580	54,646	49,766	48,087	46,009	5.3
Other	4,670	4,692	4,799	4,630	4,649	0.1
	139,002	136,978	131,962	127,231	125,965	2.5
Outside Québec:						
Firm sales	8,759	9,865	10,691	9,423	8,752	–
Short-term sales	10,405	5,256	1,900	392	451	–
	19,164	15,121	12,591	9,815	9,203	20.1
Total sales	**158,166**	152,099	144,553	137,046	135,168	4.0
Revenue from electricity sales (in millions of dollars)						
In Québec:						
Residential and farm	$2,866	$2,815	$2,744	$2,468	$2,334	5.3
General and institutional	1,809	1,798	1,741	1,655	1,568	3.6
Industrial	1,839	1,706	1,650	1,552	1,404	7.0
Other	226	233	247	231	215	1.3
	6,740	6,552	6,382	5,906	5,521	5.1
Outside Québec:						
Firm sales	282	314	325	290	286	(0.4)
Short-term sales	245	138	57	14	14	–
	527	452	382	304	300	15.1
Total revenue from sales	**$7,267**	$7,004	$6,764	$6,210	$5,821	5.7
Number of customer accounts (at December 31)						
Residential and farm	3,054,270	3,017,826	2,978,510	2,925,349	2,862,225	1.6
General and institutional	271,317	269,640	269,815	269,735	268,200	0.3
Industrial	13,156	13,369	13,639	13,481	12,961	0.4
Other	6,846	6,851	6,975	7,094	7,152	(1.1)
Total	**3,345,589**	3,307,686	3,268,939	3,215,659	3,150,538	1.5
Number of employees*						
Permanent at December 31	20,528	21,028	21,161	20,755	20,067	0.6
Women	4,576	4,631	4,607	4,396	4,118	2.7
Temporary (year's average)	4,878	5,753	6,073	5,985	5,222	(1.7)

* These figures exclude employees on loan to subsidiaries.

Unit Revenue, Unit Expenditure, and Other Ratios

	1994	1993	1992	1991	1990
Unit revenue – electricity sales *(in cents per kilowatthour)*					
In Québec:	4.85	4.78	4.84	4.64	4.38
Residential and farm	5.80	5.71	5.58	5.34	4.97
General and institutional	6.39	6.34	6.18	5.86	5.54
Industrial	3.25	3.12	3.32	3.23	3.05
Other	4.84	4.96	5.14	4.98	4.64
Outside Québec:	2.75	2.99	3.03	3.10	3.25
Firm sales	3.22	3.18	3.03	3.08	3.26
Short-term sales	2.36	2.63	3.02	3.55	3.06
Unit revenue – total sales	4.59	4.61	4.68	4.53	4.31
Unit expenditure *(in cents per kilowatthour)*					
Expenditure:					
Operations	1.12	1.19	1.22	1.26	1.13
Electricity and fuel purchased	0.19	0.19	0.25	0.16	0.28
Depreciation, amortization and decommissioning	0.69	0.67	0.63	0.59	0.56
Taxes	0.42	0.43	0.41	0.29	0.27
	2.42	2.48	2.51	2.30	2.24
Interest and exchange loss:					
Interest	1.76	1.63	1.65	1.68	1.73
Exchange loss	0.02	0.02	0.05	0.03	0.07
	1.78	1.65	1.70	1.71	1.80
Total unit expenditure	**4.20**	4.13	4.21	4.01	4.04
Total assets at December 31 *(in dollars per customer account)*	15,426	14,475	13,724	13,015	11,644
Long-term debt at December 31 *(in dollars per customer account)*	10,774	10,038	9,536	8,742	7,641
Annual investment *(in dollars per customer account)*	986	1,218	1,262	1,267	1,009
Average annual consumption Residential and farm sector *(in kilowatthours per customer account)*	16,186	16,438	16,674	15,983	16,592
Rate increase, May 1st All categories *(in %)*	1.0	1.5	3.5	6.9	7.4
Representation of women* **Permanent employees at December 31** *(in %)*	22.3	22.0	21.8	21.2	20.5

* These figures exclude employees on loan to subsidiaries.

Energy and Power Requirements of System

Energy requirements

(in millions of kilowatthours)	1994	1993	1992	1991	1990	Average annual increase (in %) 1994/1990
Total requirements						
Generated (gross)	140,471	131,552	126,348	121,886	115,208	5.1
McCormick generation	2,307	2,289	2,217	1,913	1,691	8.1
Received:						
Purchased	31,882	34,235	32,181	28,137	31,679	0.2
Received as per agreement	3,759	2,930	3,001	5,402	4,314	(3.4)
	35,641	37,165	35,182	33,539	35,993	(0.2)
Total requirements	**178,419**	171,006	163,747	157,338	152,892	3.9
Québec requirements						
Sales of electricity	139,002	136,978	131,962	127,231	125,965	2.5
Deliveries as per agreement	3,742	3,744	4,339	5,164	5,133	(7.6)
McCormick generation	2,307	2,289	2,217	1,913	1,691	8.1
Capitalized generating-station service	108	68	44	57	69	11.9
Total consumption	**145,159**	143,079	138,562	134,365	132,858	2.2
Generating-station service	632	616	606	570	668	(1.4)
Own use	417	399	396	376	359	3.8
Losses and other	10,889	10,969	10,942	11,145	9,129	4.5
Total Québec requirements	**157,097**	155,063	150,506	146,456	143,014	2.4
Requirements outside Québec						
Firm sales	8,759	9,865	10,691	9,423	8,752	–
Short-term sales	10,405	5,256	1,900	392	451	–
Deliveries as per agreement	1,048	115	158	588	346	31.9
Generating-station service	82	61	43	39	31	27.5
Losses and other	1,028	646	449	440	298	36.3
Total requirements outside Québec	**21,322**	15,943	13,241	10,882	9,878	21.2
Total requirements	**178,419**	171,006	163,747	157,338	152,892	3.9

Power requirements for the winter beginning in December*

(in thousands of kilowatts)	1994	1993	1992	1991	1990	Average annual increase (in %) 1994/1990
Total requirements	**35,443**	33,600	30,070	32,040	28,494	5.6
Priority requirements	**31,531**	30,609	28,131	29,922	27,522	3.5

Total installed capacity**

(in thousands of kilowatts)	1994	1993	1992	1991	1990	Average annual increase (in %) 1994/1990
Installed capacity	**30,435**	29,131	28,145	26,839	25,682	4.3

* The power requirements of 1994 correspond to data available at February 7, 1995. These requirements include all interruptible power.

** In addition to the installed capacity of its own generating stations, Hydro-Québec has access to most of the generation of the Churchill Falls power plant, which has a nominal capacity of 5,428 MW.

(in millions of dollars)	Three-month period ended March 31	June 30	Sept. 30	Dec. 31	Twelve-month period ended Dec. 31
		(non-audited)			(audited)
1994					
Revenue					
Sales of electricity	$2,292	$1,560	$1,503	$1,912	$7,267
Other operating revenue	7	8	8	7	30
	2,299	1,568	1,511	1,919	7,297
Expenditure					
Operations	463	459	449	395	1,766
Electricity and fuel purchased	84	57	67	85	293
Depreciation, amortization and decommissioning	270	280	271	275	1,096
Taxes	171	171	175	149	666
	988	967	962	904	3,821
Income before interest and exchange (gain) loss	1,311	601	549	1,015	3,476
Interest	669	660	705	751	2,785
Exchange (gain) loss	(1)	13	10	2	24
	668	673	715	753	2,809
Net income (loss)	$ 643	$ (72)	$ (166)	$ 262	$ 667
1993					
Revenue					
Sales of electricity	$2,119	$1,499	$1,463	$1,923	$7,004
Other operating revenue	12	11	9	–	32
	2,131	1,510	1,472	1,923	7,036
Expenditure					
Operations	464	457	448	431	1,800
Electricity and fuel purchased	79	62	68	82	291
Depreciation, amortization and decommissioning	254	251	262	253	1,020
Taxes	159	170	160	161	650
	956	940	938	927	3,761
Income before interest and exchange loss	1,175	570	534	996	3,275
Interest	638	614	613	618	2,483
Exchange loss	17	7	4	3	31
	655	621	617	621	2,514
Net income (loss)	$ 520	$ (51)	$ (83)	$ 375	$ 761

Hydro-Québec's Board of Directors comprises a maximum of 17 persons appointed by the Québec government. The Deputy Minister of Natural Resources is automatically a member, but has no voting rights. All other directors are appointed for a period not to exceed five years.

Richard Drouin, QC*
Chairman of the Board and Chief Executive Officer

Armand Couture*
President and Chief Operating Officer

Directors

Marcel Aubut[1]
Senior Partner
Aubut, Chabot, Lawyers,
Québec City
(Until December 1994)

Henri Audet[5,7]
Chairman of the Board and
Chief Executive Officer, COGECO

Mario Bertrand[1]
Director
(Until May 1994)

Michel Clair
Deputy Minister of
Natural Resources,
Gouvernement du Québec
(Since November 1994)

Robert Demers[5]
President, Demers Conseil
(Until September 1994)

Pierre Desjardins
Director

Jean-Louis Dulac[3,4]
President and Chief Executive
Officer, M & M Nord Ouest

Jean-André Élie[1,6]
Director

François Geoffrion
Deputy Minister of
Natural Resources,
Gouvernement du Québec
(Until September 1994)

Jeannine Guillevin Wood[3]
President and Chief Executive
Officer, Guillevin International

Georges Laberge[1,6]
President, Placements
Georges Laberge
(Until December 1994)

Pierre H. Lessard[3,4,7]
President and Chief Executive
Officer, Métro-Richelieu

Nycol Pageau-Goyette[4,6,7]
President, Pageau Goyette
et Associés

Michel Plessis-Bélair[1,5]
Executive Vice President and
Chief Financial Officer,
Power Corporation of Canada

Raymond C. Setlakwe[6]
President, A. Setlakwe

Louise Sicard
Director
(Until September 1994)

Committees of the Board of Directors

1 **Executive Committee**
2 **Marketing Affairs Committee**
3 **Finance Committee**
4 **Human Resources Committee**
5 **Research, Development and Technology Committee**
6 **Audit Committee**
7 **Ethics Committee**

* Richard Drouin and Armand Couture are members of all the committees except the Audit Committee.

Hydro-Québec Management

(At December 31, 1994)

Senior Management

Richard Drouin, QC
Chairman of the Board and Chief Executive Officer

Marie-José Nadeau
Secretary General

Finance and Planning	Marketing	New Business Development and International Affairs	Quality and Human Resources	Communications and Public Relations	Corporate Audit	Law
André Delisle *Chief Financial Officer and Executive Vice President, Corporate Planning*	**Michel Grignon** *Executive Vice President*	**Pierre Bolduc** *Executive Vice President*	**Jean-Marie Gonthier** *Executive Vice President*	**Daniel Granger** *Director*	**Daniel Lafleur** *General Auditor*	**Gilles Marchand** *General Counsel*

Armand Couture
President and Chief Operating Officer

Customers and Distribution	Generation, Transmission and Telecommunications	Installations	Aboriginal and Community Affairs	Environment	Procurement and Services	Technology and IREQ
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Accounting and Internal Control

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Financing, and Treasurer

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Computer Services

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External Markets

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Quality and Human Resources

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Quality

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Matapédia Region

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Vice President
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Saint-Laurent Region

André Mercier
Vice President
Montmorency Region

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Installations

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Engineering

District Managers

(By Hydro-Québec region)

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C.P. 2000
Radisson (Québec) J0Y 2X0

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401, boul. Rideau
Rouyn-Noranda (Québec)
J9X 5Y7

Réal Duquette
Secteur Des Rapides
1399, avenue Larivière
Rouyn-Noranda (Québec)
J9X 5B7

Guy Laberge
Secteur Mise en Exploitation
C.P. 2000
Radisson (Québec) J0Y 2X0

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Rouyn-Noranda (Québec)
J9X 5N4

Laurentides Region

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Joliette (Québec) J6E 3Z1

Jean-Louis Cadieux
Secteur Outaouais
200, rue Jean-Proulx
Hull (Québec) J8Z 1V8

Jean-Paul Côté
Secteur Laval
1881, rue Michelin
Laval (Québec) H7L 4T5

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22, boul. Desjardins est
Sainte-Thérèse (Québec) J7Z 1C1

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Saint-Jérôme (Québec) J7Z 4B7

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5250, rue Armand Frappier
Saint-Hubert (Québec) J3Z 1G3

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Saint-Antoine des Laurentides
(Québec) J7Z 6Y3

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Baie-Comeau (Québec) G4Z 2H8

Rhéaume Veilleux
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Baie-Comeau (Québec) G4Z 2H8

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Îles-de-la-Madeleine
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Gaspé (Québec) G0C 1R0

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Rimouski (Québec) G5L 8L4

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Québec (Québec) G2C 1P1

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Rimouski (Québec) G5L 8L4

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Secteur Exploitation
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Trois-Rivières (Québec) G8Y 6K5

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Trois-Rivières (Québec) G9A 6H1

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5130, boul. de la Rive-Sud
Lévis (Québec) G6V 4Z7

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Secteur Appalaches
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Thetford Mines (Québec)
G6G 5S6

Marcel St-Onge
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Director, Strategic Planning

Hydro-Québec International

Pierre Bolduc
Chairman of the Board

Pierre Bolduc
(interim)
President and Chief Executive Officer

HQI exports the know-how and products of Hydro-Québec and its subsidiaries. It also invests in the field of energy on international markets, providing maximum support for the activities of Québec consulting engineering firms abroad, and for other Québec exports. HQI engages in such activities insofar as they are self-financing. In addition, it carries out mandates which Hydro-Québec assigns to it in the area of international affairs.

Nouveler

Pierre Bolduc
Chairman of the Board

Gérard Prévost
President and Chief Executive Officer

This subsidiary markets, by itself or with partners, technologies developed by Hydro-Québec or related to its mission. Nouveler participates in managing and developing the companies in which it invests, based on profitability criteria. It also actively promotes the emergence of innovative, competitive high-technology firms, to further Québec's sustainable development.

Société d'énergie de la Baie James

Armand Couture
Chairman of the Board

Jean-Guy René
President and Chief Executive Officer

SEBJ manages the major construction projects for Hydro-Québec's power system.

In addition, Hydro-Québec has:

- a 34.2% holding in Churchill Falls (Labrador) Corporation, which operates the Churchill Falls power plant, most of whose output is sold to Hydro-Québec under a long-term contract;
- a 50% holding in ACEP, which has patent rights and know-how relative to solid-polymer electrolyte batteries and conducts research and development;
- a 50% holding in CITEQ (*Centre d'innovation sur le transport d'énergie du Québec*), founded jointly with Asea Brown Boveri, which specializes in the development of systems and equipment related to alternating-current and direct-current power transmission.

Generating Stations	Installed Capacity
Hydroelectric	*(in kilowatts)*
La Grande-2	5,328,000
La Grande-4	2,650,500
La Grande-3	2,304,000
La Grande-2-A	1,998,000
Beauharnois	1,656,560
Manic-5	1,528,000
Manic-3	1,183,200
Manic-5-PA	1,064,000
Manic-2	1,015,200
Bersimis-1	936,000
Laforge-1	837,900
Bersimis-2	798,000
Outardes-3	756,200
La Grande-1*	684,000
Carillon	654,500
Outardes-4	632,000
Outardes-2	453,900
Brisay	446,500
Trenche	302,400
Paugan	250,100
Beaumont	243,000
La Tuque	224,000
Rapide-Blanc	201,600
Shawinigan-2	191,500
Manic-1	184,410
Shawinigan-3	171,900
Les Cèdres	162,000
Grand-Mère	149,575
Chelsea	148,020
Rapides-des-Îles	146,520
La Gabelle	136,580
Première-Chute	124,200
Rapides-Farmers	98,250
Rapides-des-Quinze	94,560
Chute-des-Chats	89,300
Bryson	61,000
Rapide-7	57,000
Hart-Jaune	48,450
Rivière-des-Prairies	48,300
Rapide-2	48,000
Chute-Hemmings	28,800
Hull-2	27,280
Sept-Chutes	18,720
Saint-Narcisse	15,000
Drummondville	14,600
Mitis-1	6,400
Pont-Arnaud	5,450
Chute-Bell	4,800
Mitis-2	4,250
Saint-Alban	3,000
Chute-Garneau	2,240
Magpie	1,800
Chute-Burroughs	1,600
L'Anse-Saint-Jean	400

Generating Stations	Installed Capacity
Thermal	*(in kilowatts)*
Nuclear	
Gentilly-2	675,000
Oil	
Tracy	600,000
Gas-turbine	
Bécancour	428,200
La Citière	200,880
Cadillac	162,000
Diesel units	
Îles-de-la-Madeleine	67,200
Blanc-Sablon	11,200
La Tabatière	6,800
Kuujjuaq	3,935
La Romaine	3,800
Saint-Augustin	3,600
Kuujjuarapik	3,405
Obedjiwan	2,900
Povungnituk	2,870
Port-Menier	2,790
Inukjuak	2,735
Weymontachie	2,615
Salluit	2,000
Kangiqsualujjuaq	2,000
Kangiqsujuaq	1,520
Île-d'Entrée	1,190
Ivujivik	1,050
Kangirsuk	1,050
Umiujaq	1,050
Quaqtaq	900
Akulivik	850
Aupaluk	550
Clova	530
Tasiujaq	525

*At December 31, 1994, six of the twelve generating units were in service. The six others will go into operation in 1995, bringing the installed capacity to 1,368 MW.

Total installed capacity at December 31, 1994*	*(in kilowatts)*
Hydroelectric generating stations (54)	28,241,465
Thermal generating stations (29)	2,193,145
Total generating stations (83)	30,434,610

Generating Stations Under Construction	***Commissioning Date***	***Installed Capacity***
Hydroelectric		*(in kilowatts)*
La Grande-1**	1995	684,000
Lac-Robertson	1995	21,000
Laforge-2	1996	310,000
Sainte-Marguerite-3	2001-2002	882,000

* Hydro-Québec also has access to most of the generation of the Churchill Falls power plant, which has a nominal capacity of 5,428 MW.

** At December 31, 1994, six of the twelve generating units were in service. The six others will go into operation in 1995, bringing the installed capacity to 1,368 MW.

Transmission and Distribution Lines

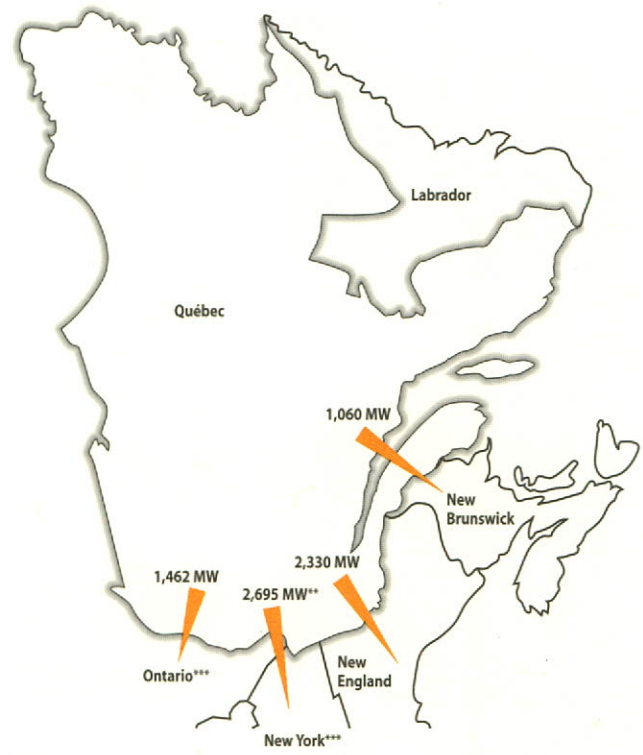
(Overhead and underground)

(in kilometres)	**1994**	1993	1992	1991	1990
Transmission					
735 and 765 kV	**10,834**	10,265	10,008	10,008	10,008
450 kV	**1,203**	1,207	1,207	1,201	1,201
315 kV	**4,302**	4,286	4,043	4,040	3,810
230 kV	**3,033**	3,029	3,029	3,067	3,041
161 kV	**1,615**	1,615	1,580	1,552	1,521
120 kV	**6,166**	6,064	5,944	6,153	6,053
49 and 69 kV	**3,325**	3,403	3,533	3,663	3,675
	30,478	29,869	29,344	29,684	29,309
Distribution					
34 kV	**586**	552	531	588	624
25 kV	**93,883**	93,147	90,002	87,581	85,375
4 and 12 kV	**6,816**	7,209	7,906	8,752	9,403
	101,285	100,908	98,439	96,921	95,402


Canada
Québec
Newfoundland
Labrador
Hudson Bay
Churchill Falls
Brisay
Laforge-1
La Grande-4
Tilly
La Grande-3
La Grande-2-A
Chissibi
La Grande-2
Lemoyne
Radisson
La Grande-1
Montagnais
Sainte-Marguerite-3
Arnaud
Manic-5-PA
Manic-5
Manic-3
Micoua
Manic-2
Outardes-4
Outardes-3
Manicouagan
Outardes-2
James Bay
Albanel
Némiscau
Bersimis-1
Bersimis-2
Chibougamau
Chamouchouane
Bergeronnes
Abitibi
Périgny
New Brunswick
Saguenay
St. Lawrence River
Laurentides
Lévis
Jacques-Cartier
La Vérendrye
Appalaches
Gentilly-2
Bécancour
Nicolet
Maine
Tracy
Carignan
Grand-Brûlé
Duvernay
Des Cantons
Boucherville
Chénier
Carillon
Hertel
Châteauguay
Beauharnois
Ontario
Vermont
New York
New Hampshire
United States
Massachusetts
Generating station rated 350 MW or more
Generating station rated 350 MW or more under construction
735-kV substation
Interconnection
735-kV line
735-kV line under construction
765-kV line
450-kV direct-current line
Map background: satellite photo
© Natural Resources Canada

*Interconnections with Neighboring Systems**

(At December 31, 1994)



* Total interconnection capacity is 7,547 MW.

** New York State's reception capacity is limited to 2,495 MW.

*** Ontario and New York State are served by the same installations, limiting the simultaneous export capacity to these two systems to 3,107 MW. Hydro-Québec's total simultaneous export capacity is 6,497 MW.

Energy Flows in 1994

(in millions of kilowatthours)

Energy In

Generation	
Hydraulic	
Hydro-Québec	134,327
McCormick	2,307
Thermal	6,144

Energy received	
From Churchill Falls	27,413
From other neighboring systems	8,228

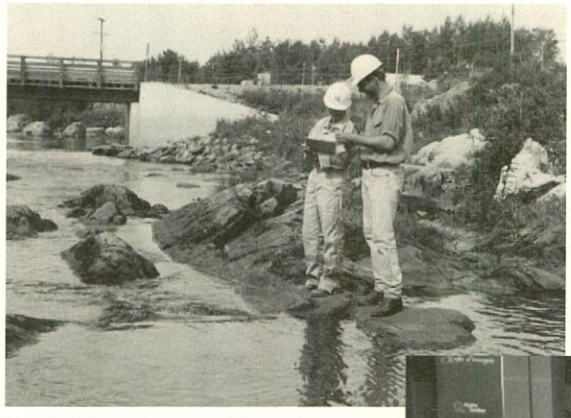
142,778	35,641		178,419
145,051	20,212	13,156	178,419

In Québec	
Electricity sales	139,002
Deliveries as per agreement	3,742
McCormick	2,307

Outside Québec	
Firm electricity sales	8,759
Short-term sales	10,405
Deliveries as per agreement	1,048

System losses and other

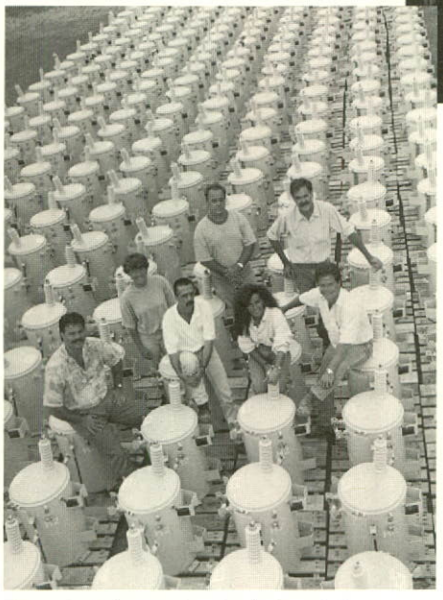
Energy Out



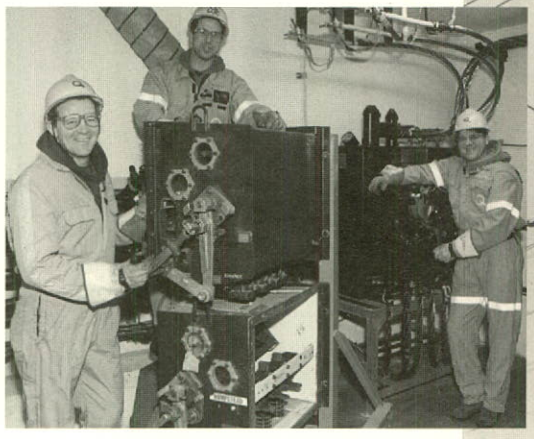
Sustainable development of the environment.

Courteous customer service.

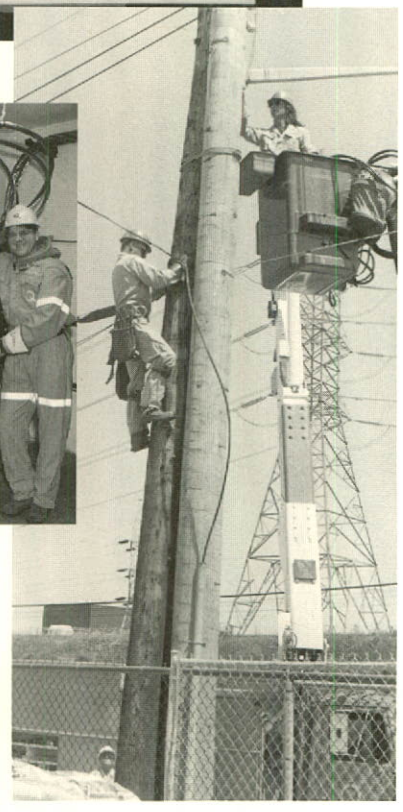
April 1994
Celebrating our
50th anniversary.



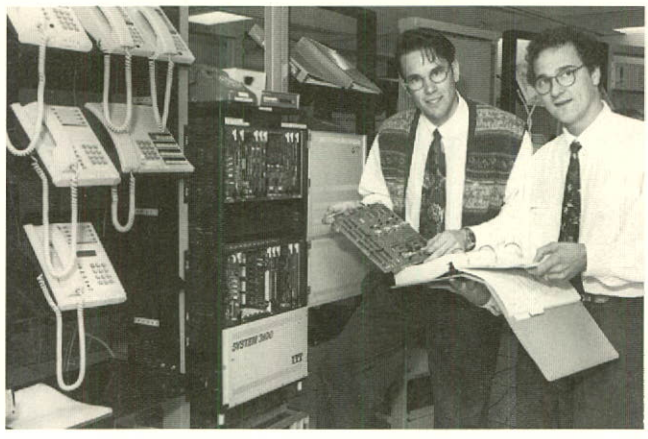
The quality of materials is checked carefully.



Making the underground system safer.



Improving the continuity of the power supply.



Employees at the leading edge of technology.

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