

**FROM 18-K
SECURITIES AND EXCHANGE COMMISSION
ANNUAL REPORT OF HYDRO-QUÉBEC
2001**

HYDRO-QUÉBEC

FORM 18-K

For Foreign Governments and Political Subdivisions Thereof

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

ANNUAL REPORT

of

HYDRO-QUÉBEC

QUÉBEC, CANADA

(Name of Registrant)

Date of end of last fiscal year: December 31, 2001

SECURITIES REGISTERED*

(As of close of fiscal year)

Title of issue	Amounts as to which registration is effective	Name of exchanges on which registered
N/A	N/A	N/A

Name and address of persons authorized to receive notices and communications from the Securities and Exchange Commission:

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Rockefeller Center
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Hydro-Québec
75 René-Lévesque Boulevard West
Montréal, Québec, Canada H2Z 1A4

*The Registrant is filing this annual report on a voluntary basis

The information set forth below is to be furnished:

1. *In respect of each issue of securities of the registrant registered, a brief statement as to:*
 - (a) *The general effect of any material modifications, not previously reported, of the rights of the holders of such securities.*

Not applicable.
 - (b) *The title and the material provisions of any law, decree or administrative action, not previously reported, by reason of which the security is not being serviced in accordance with the terms thereof.*

Not applicable.
 - (c) *The circumstances of any other failure, not previously reported, to pay principal, interest, or any sinking fund or amortization instalment.*

Not applicable.
2. *A statement as of the close of the last fiscal year of the registrant giving the total outstanding of:*
 - (a) *Internal funded debt of the registrant. (Total to be stated in the currency of the registrant. If any internal funded debt is payable in a foreign currency, it should not be included under this paragraph (a), but under paragraph (b) of this item.)*

Reference is made to pages 38, 49 and 50 of Exhibit (d) hereto.
 - (b) *External funded debt of the registrant. (Totals to be stated in the respective currencies in which payable. No statement need be furnished as to intergovernmental debt.)*

Reference is made to pages 38 and 50 to 53 of Exhibit (d) hereto.
3. *A statement giving the title, date of issue, date of maturity, interest rate and amount outstanding, together with the currency or currencies in which payable, of each issue of funded debt of the registrant outstanding as of the close of the last fiscal year of the registrant.*

Reference is made to pages 49 to 53 of Exhibit (d) hereto.
4. (a) *As to each issue of securities of the registrant which is registered, there should be furnished a break-down of the total amount outstanding, as shown in Item 3, into the following:*
 - (1) *Total amount held by or for the account of the registrant.*

None.
 - (2) *Total estimated amount held by nationals of the registrant (or if registrant is other than a national government by the nationals of its national government); this estimate need be furnished only if it is practicable to do so.*

Not practicable to do so.
 - (3) *Total amount otherwise outstanding.*

Not applicable.*

*No securities of the registrant are registered under the U.S. Exchange Act of 1934, as amended.

- (b) *If a substantial amount is set forth in answer to paragraph (a) (1) above, describe briefly the method employed by the registrant to reacquire such securities.*

Not applicable.

5. *A statement as of the close of the last fiscal year of the registrant giving the estimated total of:*

- (a) *Internal floating indebtedness of the registrant. (Total to be stated in the currency of the registrant.)*

Reference is made to page 29 of Exhibit (d) hereto. The item “floating indebtedness” refers to indebtedness with an original maturity of less than one year.

- (b) *External floating indebtedness of the registrant. (Total to be stated in the respective currencies in which payable.)*

None. The item “floating indebtedness” refers to indebtedness with an original maturity of less than one year.

6. *Statements of the receipts, classified by source, and of the expenditures, classified by purpose, of the registrant for each fiscal year of the registrant ended since the close of the latest fiscal year for which such information was previously reported. These statements should be so itemized as to be reasonably informative and should cover both ordinary and extraordinary receipts and expenditures; there should be indicated separately, if practicable, the amount of receipts pledged or otherwise specifically allocated to any issue registered, indicating the issue.*

Reference is made to pages 28 to 48 of Exhibit (d) hereto.

7. (a) *If any foreign exchange control, not previously reported, has been established by the registrant (or if the registrant is other than a national government, by its national government), briefly describe such foreign exchange control.*

None.

- (b) *If any foreign exchange control previously reported has been discontinued or materially modified, briefly describe the effect of any such action, not previously reported.*

Not applicable.

This annual report comprises:

- (a) *The cover page and pages numbered 2 to 4 consecutively.*

- (b) *The following exhibits:*

(a) None

(b) None

(c) None

(d) Description of Hydro-Québec, dated as of May 21, 2002 (including audited consolidated financial statements of Hydro-Québec for the year ended December 31, 2001).

(e) Consent of Samson Bélair/Deloitte & Touche and PricewaterhouseCoopers LLP.

This annual report is filed subject to the Instructions for Form 18-K for Foreign Governments and Political Subdivisions Thereof.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized, at Montréal, Canada, on the 21st day of May, 2002.

HYDRO-QUÉBEC

By: /s/ Daniel Leclair _____
Daniel Leclair
Chief Financial Officer

EXHIBIT INDEX

Exhibits

Description

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- (e) Consent of Samson Béclair/Deloitte & Touche and PricewaterhouseCoopers LLP.



This description of Hydro-Québec is dated as of May 21, 2002 and appears as *Exhibit (d)* to Hydro-Québec's annual report on Form 18-K to the U.S. Securities and Exchange Commission for the fiscal year ended December 31, 2001.

This document may be delivered to you at any time but you should assume that the information is accurate only as of May 21, 2002. Hydro-Québec's business, financial condition, results of operations and prospects may have changed since that date.

This document does not constitute an offer to sell or the solicitation of an offer to buy any securities of Hydro-Québec, unless it is included in a registration statement filed under the Securities Act of 1933, as amended.

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FOREIGN EXCHANGE

Canada maintains a floating exchange rate for the Canadian dollar in order to permit the rate to be determined by fundamental forces without intervention except as required to maintain orderly conditions. Annual average noon spot exchange rates for major foreign currencies in which debt of Hydro-Québec is denominated, expressed in Canadian dollars, are shown below.

<u>Foreign Currency</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002⁽¹⁾</u>
United States Dollar	\$1.3844	\$1.4831	\$1.4858	\$1.4852	\$1.5484	1.5911
Deutsche Mark	0.7994	0.8450	0.8102	0.7007	0.7091	n/a
French Franc	0.2375	0.2520	0.2416	0.2089	0.2114	n/a
Euro	n/a	n/a	1.5847	1.3704	1.3868	1.3990
Swiss Franc	0.9548	1.0258	0.9901	0.8793	0.9184	0.9508
Pound Sterling	2.2682	2.4587	2.4038	2.2499	2.2298	2.2760
100 Japanese Yen	1.1450	1.1390	1.3110	1.3780	1.2755	1.2056

(1) Monthly average through the end of April 2002.
Source: Bank of Canada.

In this document, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars.

SUMMARY

The information below is qualified in its entirety by the detailed information contained elsewhere in this document.

	Years ended December 31				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(dollar amounts in millions)				
Statistical Information - Electricity					
Electricity sales (in TWh)					
Québec	147.3	142.8	147.0	152.8	152.2
Outside Québec	15.2	18.6	24.7	37.3	42.8
	<u>162.5</u>	<u>161.4</u>	<u>171.7</u>	<u>190.1</u>	<u>195.0</u>
Revenue from electricity sales					
Québec	\$ 7,331	\$ 7,227	\$ 7,448	\$ 7,794	\$ 7,803
Outside Québec	596	814	1,051	2,380	3,120
	<u>\$ 7,927</u>	<u>\$ 8,041</u>	<u>\$ 8,499</u>	<u>\$ 10,174</u>	<u>\$ 10,923</u>
Average rate increase (Québec) as of May 1	1.6%	1.6%	0.0%	0.0%	0.0%
Customer accounts at end of year (in thousands)	3,457	3,481	3,505	3,529	3,557
Installed capacity at end of period (in MW) ⁽¹⁾	31,397	31,472	31,505	31,512	31,174
Peak requirements for winter beginning in December (in MW)	32,305	35,275	35,577	33,767	32,616
Consolidated financial information					
Total revenue	\$ 8,481	\$ 8,879	\$ 9,608	\$ 11,429	\$ 12,578
Interest expenses (including capitalized interest)	\$ 3,208	\$ 3,365	\$ 3,231	\$ 3,289	\$ 3,158
Net income	\$ 786	\$ 679	\$ 906	\$ 1,078	\$ 1,108
Earnings before interest, depreciation, amortization, decommissioning and non-controlling interest	\$ 5,405	\$ 5,364	\$ 5,664	\$ 6,000	\$ 5,830
Capital expenditures	\$ 2,117	\$ 2,326	\$ 2,098	\$ 3,490	\$ 1,878
Interest coverage ⁽²⁾	1.27	1.25	1.33	1.37	1.43
Assets	\$ 55,238	\$ 57,336	\$ 56,808	\$ 59,038	\$ 59,861
Long-term and perpetual debt	\$ 37,724	\$ 38,385	\$ 36,568	\$ 35,517	\$ 37,821
Shareholder's equity	\$ 12,888	\$ 13,288	\$ 13,741	\$ 14,280	\$ 14,834
Capitalization ratio ⁽³⁾	25.1%	25.0%	26.2%	26.2%	26.8%
Permanent employees at end of year (in thousands) ⁽⁴⁾	17.2	17.5	17.3	17.3	17.7

(1) Of total installed and minimum firm available capacity at December 31, 2001, 93% was hydroelectric and 7% was thermal. In addition, we have access to most of the generation of the Churchill Falls power plants and to all the output from the Matane and Cap-Chat wind farms. The decrease in 2001 reflects a change in the calculation of capacity for some facilities; if we applied this change retroactively, the stated installed capacity for the years 1997 to 2000 would be reduced by 410 MW in each year.

(2) Sum of operating income and net investment income divided by gross interest expense.

(3) Shareholder's equity divided by the sum of shareholder's equity, long-term debt, perpetual debt, short-term borrowings and current portion of long-term debt less financial assets related to debt.

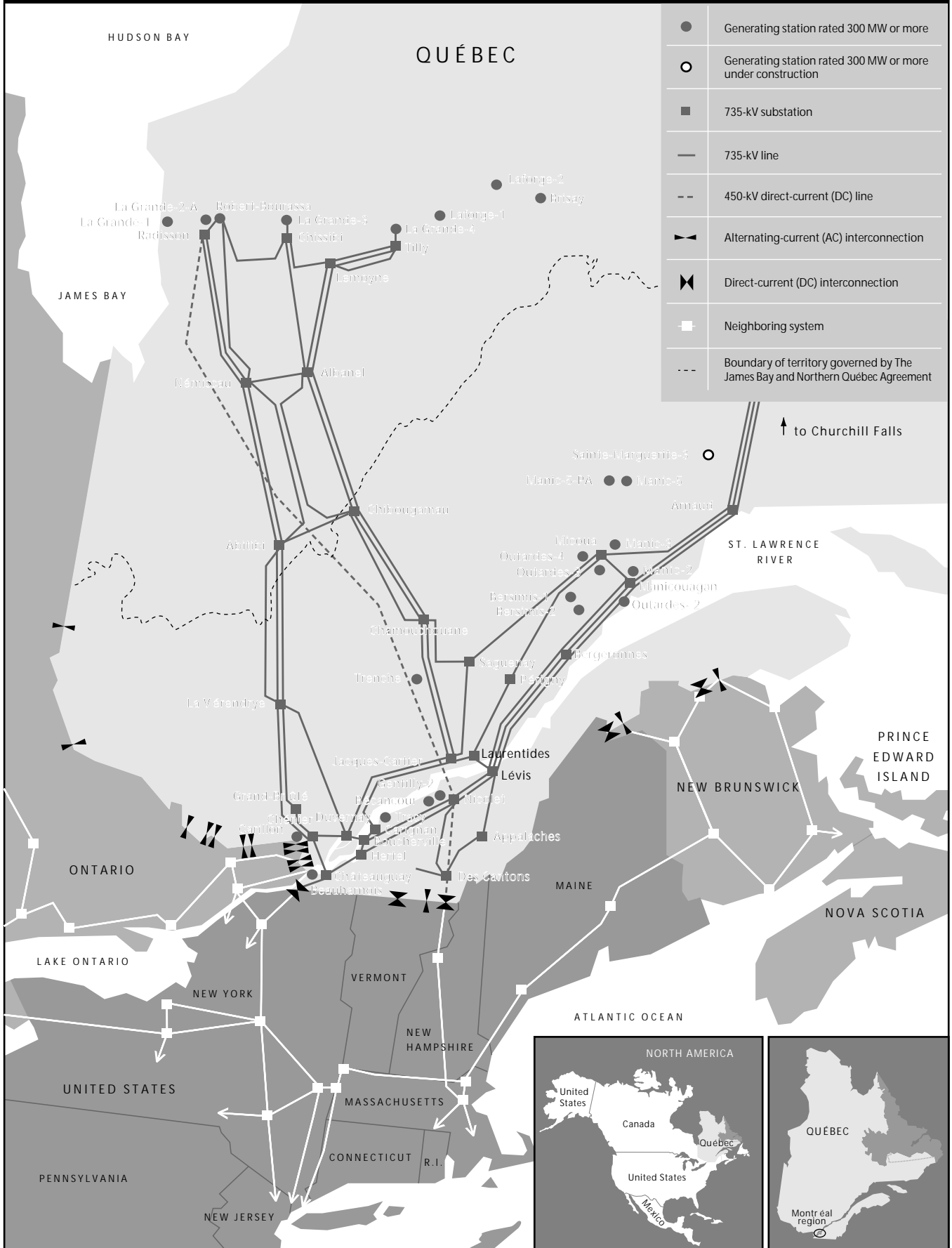
(4) Excludes employees of subsidiaries and joint ventures.

Units of measurement:

GW: gigawatt, or 1 million kilowatts
 MW: megawatt, or 1 million watts
 kWh: kilowatthour, or 1 thousand watthours

GWh: gigawatthour, or 1 million kilowatthours
 TWh: terawatthour, or 1 billion kilowatthours
 kV: kilovolt, or 1 thousand volts

MAP OF MAJOR INSTALLATIONS AT DECEMBER 31, 2001



HYDRO-QUÉBEC

GENERAL

We operate one of the two largest systems in Canada for the generation and distribution of electric power. We supply virtually all electric power distributed in Québec, the largest province in Canada in land area and the second largest in population.

Hydro-Québec was created in 1944 by the *Hydro-Québec Act* of the Parliament of Québec and is an agent of the gouvernement du Québec (the “Government”). All capital stock of Hydro-Québec is held by the Minister of Finance of the Government on behalf of the Government.

Our head office is located at 75 René-Lévesque Boulevard West, Montréal, Québec, Canada H2Z 1A4.

The changing environment of the energy business in North America has prompted electric utilities to reorganize their structures. In 2001, we created three new divisions in addition to our transmission division and reallocated our activities into five operating segments:

- **Distribution:** *Hydro-Québec Distribution* develops and operates our distribution system and is responsible for sales and customer service in Québec.
- **Transmission:** *Hydro-Québec TransÉnergie* develops and operates our Québec transmission system and markets this transmission capacity. It also manages and operates transmission systems abroad.
- **Generation:** *Hydro-Québec Production* operates and develops our generation facilities in Québec and abroad. It guarantees the supply of heritage pool electricity to the Québec market (see “Regulatory Framework – *Energy Board Act*”), sells electricity in the Canadian and U.S. wholesale markets and is responsible for energy trading activities.
- **Engineering, Procurement and Construction:** *Hydro-Québec Ingénierie, approvisionnement et construction* provides engineering services and carries out construction projects in Québec and in other parts of the world. It provides procurement and information technology services to our other business units.
- **Other:** includes activities related to the natural gas sector, research and development as well as corporate and financial services.

DISTRIBUTION

The primary responsibility of *Hydro-Québec Distribution* is to supply Québec customers with the electricity they need. To fulfill this responsibility, the division purchases 165 TWh/year of heritage pool electricity from *Hydro-Québec Production*, at a regulated average fixed price of 2.79 cents per kWh. Beyond this volume, we must supply our Québec customers by issuing calls for tenders from suppliers in the market (see “Regulatory Framework – *Energy Board Act*”). *Hydro-Québec Distribution* oversees the activities of Hydro-Québec ValTech inc., a subsidiary set up to market technology related to the mission of *Hydro-Québec Distribution*.

Facilities

Our distribution system is made up of 66,100 miles of medium voltage lines (almost exclusively 25 kV), as well as 37,000 miles of low voltage lines. Approximately 9% of all such lines are underground.

Québec Market

We sell to a wide range of customers, from industrial users, which accounted for 43.6% of sales volume in 2001, to residential customers and farms, which represented 33.4% of sales volume in the same period. Revenues are also derived from sales to other types of customers, such as commercial and institutional customers as well as municipalities.

Through marketing efforts, we have developed some flexibility in the management of our system. We currently have 1,500 MW of interruptible power and 870 MW of concurrent peak-saving capacity in our residential dual-energy market.

Our rate structure offers large power customers options designed to meet their requirements, such as real-time pricing (based on what it costs on an hourly basis to generate, transmit and distribute electricity), guaranteed rates and U.S. dollar payment. These options permit us to improve demand management and increase sales revenue.

We have in place eight risk and profit-sharing agreements, signed between 1983 and 1991, with certain industrial customers for whom electricity costs represent a substantial portion of their total production costs. These agreements provide for the sale, on a long-term basis, of firm energy at prices that vary in accordance with a formula based on the market price of the commodity produced by such customers. We manage the exposure to fluctuations in aluminum and other commodity prices resulting from these contracts by entering into financial transactions such as futures or swaps (see Note 13 to the Consolidated Financial Statements). In 2001, deliveries under such agreements (primarily to aluminum producers) accounted for approximately 32.3% of the total energy deliveries to industrial users.

Rates

Under the applicable provisions of the *Energy Board Act*, rates are fixed or modified by the Energy Board (see “Regulatory Framework – *Energy Board Act*”). In accordance with the transitional provisions of the *Energy Board Act*, the Government approved an increase of 1.6% for all electricity rates as of May 1, 1998, followed by a rate freeze for the 1999-2002 period. In our Strategic Plan 2002-2006, we have stated that the rate freeze will be extended until April 2004 and we will request moderate rate increases for 2004, 2005 and 2006.

The following table indicates our average rate increases and the real rates of increase after giving effect to inflation rates over the periods subsequent to the effective dates:

	<u>May 1</u>					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Average rate increase	1.6%	1.6%	nil	nil	nil	nil
Real rate increase (decrease) ⁽¹⁾	0.3%	0.6%	(2.2%)	(2.9%)	(1.9%) ⁽²⁾	(1.2%) ⁽²⁾

(1) Based on the monthly average of the Canadian Consumer Price Index.

(2) Estimate.

Electricity Sales and Revenue

The following table summarizes electricity sales and revenue in Québec by class of customer for the years 1997 through 2001:

ELECTRICITY SALES AND REVENUE IN QUÉBEC					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(TWh)				
ELECTRICITY SALES					
Residential and farm	51.2	47.7	49.3	51.7	50.8
General and institutional.....	29.6	28.8	29.8	30.5	30.4
Industrial.....	61.8	61.8	63.4	66.0	66.3
Other.....	4.7	4.5	4.5	4.6	4.7
TOTAL SALES	<u>147.3</u>	<u>142.8</u>	<u>147.0</u>	<u>152.8</u>	<u>152.2</u>
(millions of dollars)					
REVENUE FROM ELECTRICITY SALES					
Residential and farm.....	\$ 3,066	\$ 2,906	\$ 3,034	\$ 3,167	\$ 3,131
General and institutional.....	1,885	1,894	1,963	2,002	1,973
Industrial.....	2,162	2,214	2,236	2,405	2,482
Other.....	218	213	215	220	217
TOTAL REVENUE FROM ELECTRICITY SALES	<u>\$ 7,331</u>	<u>\$ 7,227</u>	<u>\$ 7,448</u>	<u>\$ 7,794</u>	<u>\$ 7,803</u>
NUMBER OF CUSTOMER ACCOUNTS					
Residential and farm.....	3,157,096	3,182,033	3,206,211	3,228,610	3,257,361
General and institutional.....	280,396	280,067	280,383	281,107	280,796
Industrial.....	13,002	12,803	12,732	13,081	13,215
Other.....	6,222	6,066	5,986	5,941	5,919

TRANSMISSION

In Québec, *Hydro-Québec TransÉnergie* delivers electricity to its customers: its largest being our distribution division. At the end of 2001, 20 customers, including some Québec distributors, private generators, neighboring networks and Canadian and U.S. power marketers, were also accredited to transmit power over our transmission system. The transmission division is also responsible for the management of our foreign transmission assets.

The following subsidiaries and affiliates are also part of this segment:

- Cedars Rapids Transmission Company, Limited (wholly-owned; interconnection between our Les Cèdres plant and the networks of Cornwall Electric, in Ontario, and Niagara Mohawk, in the U.S.)
- HQI Transelec Chile S.A. (“Transelec”) (wholly-owned; the largest electricity transmission provider in Chile)
- TransÉnergie U.S., Ltd (wholly-owned; set up to acquire, develop and manage strategic assets in electric power transmission mainly in the U.S.)
- Cross Sound Cable Company LLC (75% interest; underwater transmission line between Connecticut and Long Island, New York)
- Consorcio TransMantaro S.A. (“Consorcio TransMantaro”) (56.67% interest; transmission line in Peru)
- Directlink (50% interest in unincorporated joint venture; underground merchant transmission line in Australia)
- Murraylink Transmission Company Pty Ltd (“Murraylink”) (50% interest; underground merchant transmission line in Australia)
- TransÉnergie Technologies Inc. (wholly-owned; marketing of the *Hydro-Québec TransÉnergie* value-added technological products and solutions in Québec and worldwide)
- TransÉnergie Services Inc. (wholly-owned; consulting in non-regulated transmission system planning and operation in North America)
- HQ TransEnergy Inc. (wholly-owned; participation in transmission companies and transmission project development and management)

Transmission System in Québec

In Québec, our generation stations are located at substantial distances from consumer centers. As a result, our power transmission system is one of the most extensive and comprehensive in North America, comprising more than 20,000 miles of lines.

This system includes the following facilities:

<u>Voltage</u>	<u>Substations</u>	<u>Lines (miles) ⁽¹⁾</u>
735 kV and 765 kV.....	37	7,009
± 450 kV HVDC.....	2	757
315 kV.....	59	3,071
230 kV.....	50	1,915
161 kV.....	40	1,161
120 kV.....	216	4,068
49 kV and 69 kV.....	100	2,074
TOTAL	<u>504</u>	<u>20,055</u>

(1) Miles covered by the transmission system. Many facilities carry two lines on the same infrastructure.

In May 1997, we opened access to our transmission grid in accordance with the Hydro-Québec Open Access Transmission Tariff. Consequently, electric distributors, producers and marketers in and outside Québec have the option to enter into transactions with distributors and producers located outside Québec to buy or sell electricity and to wheel in, wheel out or wheel through *Hydro-Québec TransÉnergie*'s transmission lines at specified rates. The capacity available on the system is posted on the OASIS (Open Access Same-Time Information System) Web site. Due to Hydro-Québec's cost advantage, to date relatively little electricity has been wheeled through our transmission system.

Hydro-Québec TransÉnergie's System Control Center in Montréal and regional control centers are designed to optimize energy resources, supervise power flow and monitor system security. The transmission system is linked with other major power systems in Canada and the Northeastern United States.

The following table shows existing interconnections with neighboring systems outside Québec, excluding the lines to Churchill Falls:

INTERCONNECTIONS WITH NEIGHBORING SYSTEMS OUTSIDE QUÉBEC

	Maximum Carrying Capacity	Hydro-Québec's Current Reception Capacity	Voltage
	(MW)	(MW)	(kV)
CANADA			
Ontario	1,195 ⁽¹⁾	585	120 and 230
New Brunswick	1,200	785	230, 315 and 345
UNITED STATES			
New York	2,125 ⁽¹⁾	1,000	120 and 765
New England	2,305	1,870	120 and 450

(1) Ontario and New York State are partially served by the same installations, limiting the simultaneous export capacity to these two systems to 2,700 MW.

International

Outside Québec, we have made capital investments in the following international projects:

- all outstanding shares of Compañía Nacional de Transmisión Eléctrica S.A. and other transmission assets previously owned by Empresa Nacional de Electricidad S.A. The company, which has been renamed HQI Transelec Chile S.A., is the largest electricity transmission company in Chile;
- transmission lines in Peru (Consortio TransMantaro) and Australia (Directlink and Murraylink); and
- the Cross Sound project, a submarine interconnection line to be laid between Long Island, New York and Connecticut.

GENERATION

Hydro-Québec Production supplies electricity to the Québec market and is an active player in energy markets in the northeastern part of North America. We sell surplus electricity generated in Québec, purchase electricity for resale and have energy trading operations. We continue to assert our presence on international markets through foreign investments in the Northeastern United States, Latin America and China.

The following subsidiaries and affiliates are also part of this segment:

- Gestion Production H.Q. inc. (wholly-owned; investment in local generation businesses and consulting)
- Churchill Falls (Labrador) Corporation Limited (“CF(L)Co.”) (34.2% interest; generation activities)
- H.Q. Energy Marketing Inc. (“HQEM”) (wholly-owned; energy trading activities and investment in energy trading companies in other Canadian provinces and the U.S.)
- H.Q. Energy Services (U.S.) Inc. (“HQUS”) (wholly-owned; power marketer –in the U.S.)
- Bucksport Energy LLC (69.44% interest; cogeneration plant in Maine)
- Hidroeléctrica Rio Lajas S.A. (50% interest; hydroelectric plant in Costa Rica)
- Empresa de Generación Eléctrica Fortuna S.A. (16.3% interest; hydroelectric plant in Panama)
- Hunan C.C. Power Ltd. (30% interest; hydroelectric plant in the Hunan Province, China)
- Meiya Power Co. (20% interest; holding company with various participations in electric generation facilities in China)

Generation Operations

Facilities

In Québec, our electric generation system comprises 80 power stations currently in service, of which 51 are hydroelectric, 29 are thermal and one is a wind farm, with a total installed capacity of 31,174 MW as of December 31, 2001. The following table lists the generation facilities in service as of such date.

GENERATION FACILITIES IN SERVICE

Hydroelectric			Thermal		
<u>Name of Facility</u>	<u>Years Commissioned</u> ⁽¹⁾	<u>Capacity (MW)</u>	<u>Name of Facility</u>	<u>Years Commissioned</u> ⁽¹⁾	<u>Capacity (MW)</u>
Robert-Bourassa	1979-1981	5,328	Gentilly-2 (nuclear) ⁽²⁾	1983	675
La Grande-4	1984-1986	2,651	Tracy (oil)	1964-1968	600
La Grande-3	1982-1984	2,304	Bécancour, La Citière and Cadillac (gas-turbine)	1976-1993	870
La Grande-2A	1991-1992	1,998	Others (diesel - 24 plants)		121
Beauharnois	1932 and 1961	1,652	Total	1946-2001	<u>2,266</u>
Manic-5	1970-1971	1,422			
La Grande-1	1994-1995	1,368			
Manic-3	1975-1976	1,183			
Bersimis-1	1956-1959	1,055			
Manic-5-PA	1989-1990	1,011			
Others (less than 1,000 MW - 41 facilities)	1910-1999	<u>8,934</u>			
Total		<u>28,906</u>			

Wind Farm		
<u>Name of Facility</u>	<u>Year Commissioned</u> ⁽¹⁾	<u>Capacity (MW)</u>
Saint-Ulric	2001	2

(1) Indicates years when facilities began commercial operation.

(2) The Gentilly-2 plant has a Canada-Deuterium-Uranium heavy water moderated reactor, using heavy water as a moderator and coolant, and uranium dioxide as fuel.

Power Purchases

We purchase power and energy from the Churchill Falls generation station in Labrador through agreements with CF(L)Co, in which Hydro-Québec has a 34.2% equity interest, and from Newfoundland and Labrador Hydro (“N&LH”). Pursuant to the terms of the power contract with CF(L)Co, we have agreed to purchase, through the year 2041, 4,083 MW of power and energy. In June 1999, we signed another agreement with CF(L)Co to guarantee us the availability of 682 MW of additional power until 2041 for each November 1 to March 31 period. In February 2001, we agreed to purchase approximately 1.5 TWh annually from N&LH until March 2004. In 2001, the purchases under the CF(L)Co and N&LH agreements amounted to 29.6 TWh at a cost of \$142 million as compared to 31.7 TWh at a cost of \$120 million in 2000.

We also have an agreement with New Brunswick Power Corporation for the purchase of two blocks of peak power during the winter months until October 31, 2011. This agreement provides for the purchase of 300 MW per contract year through 2002 and 200 MW per contract year from 2002 through 2011.

In addition, we purchase power under long-term contracts with independent power producers located in Québec. During 2001, 2.8 TWh were purchased under these contracts, at a total cost of \$162 million. We expect to purchase approximately 4 TWh of power and energy annually over the initial term of these contracts, which extend through 2029; the majority of these contracts include renewal clauses.

We also purchase power in connection with our trading operations (see “Wholesale and Trading Operation”).

Peak

For Québec markets, we use energy purchased from our neighboring systems, which experience different demand patterns, to meet a portion of our peak power needs (see “Generation – Wholesale and Trading Operations”). The following table summarizes our total peak requirements and installed capacity as at December 31 for the years 1997 through 2001:

	<u>Total Peak Requirements</u> ⁽¹⁾	<u>Installed Capacity</u> ⁽²⁾ (MW)	<u>Total Average Load</u> ⁽³⁾
1997.....	32,305	31,397	20,806
1998.....	35,275	31,472	20,118
1999.....	35,577	31,505	21,461
2000.....	33,767	31,512	22,525
2001.....	32,616	31,174 ⁽⁴⁾	21,307

- (1) Total power requirements at annual peak for the winter beginning in December. The annual peak for winter 2001-2002 occurred at 6 p.m. on January 31, 2002.
- (2) In addition to the output of our own generation stations, we have access to most of the generation of the Churchill Falls power plant (4,213 MW in 1997 and 4,765 MW starting in 1998) and to all the output from 133 turbines (each rated 100 MW) of the Matane and Cap-Chat wind farms.
- (3) Annual energy requirements, including sales outside Québec, divided by the number of hours in the year.
- (4) The decrease in 2001 reflects a change in the calculation of capacity for some facilities; if we applied this change retroactively, the stated installed capacity for the years 1997 to 2000 would be reduced by 410 MW in each year.

Investments outside Québec

In addition to our facilities in Québec, we have invested in generation projects in the U.S., Latin America and China.

We hold an indirect minority interest in Empresa de Generación Eléctrica Fortuna, S.A., which owns and operates a 300 MW hydroelectric plant, the largest generator in Panama. The company’s largest shareholder is the Government of the Republic of Panama.

We also own an indirect interest in Hidroeléctrica Rio Lajas S.A., which owns and operates a 10.6 MW hydroelectric plant with a 34.5 kV transmission line of 8.2 kilometers, at a distance of 80 kilometers from San José, the capital of Costa Rica.

Further, we hold an indirect interest in Bucksport Energy LLC, a thermal energy plant located in Maine. The plant, which started its commercial operations in January 2001, produces about 1 TWh of electricity per year. HQUS supplies the plant with natural gas and receives most of the electricity under fifteen-year contracts through 2015.

Meiya Power Company Limited, a holding company in which we have an indirect interest, manages a portfolio of investments in nine projects, including hydroelectric plants ranging from 54 MW to 700 MW and cogeneration facilities in the People’s Republic of China. We also hold an indirect interest in Hunan C.C. Power Ltd., which owns and operates the 20 MW Qinshan Hydro Power Station.

Wholesale and Trading Operations

Québec Wholesale Market

The Québec wholesale electricity market has been open since May 1, 1997. This market is comprised of 11 distributors: *Hydro-Québec Distribution*, nine distributors operating municipal systems and one regional electricity cooperative. As a result of the opening of the wholesale market, the municipal systems can, subject to the Government’s authorization, purchase electricity from suppliers other than us, and independent generators in Québec can sell their electricity on the wholesale market using our transmission facilities.

Because of our highly competitive electricity rates, no transaction has been recorded to date involving independent generators supplying electricity directly to the Québec wholesale market.

Markets Outside Québec

Currently, our main markets outside Québec consist of neighboring networks located in the Northeastern United States where the industry has evolved toward an open-market system.

In 2001, electricity sales outside Québec accounted for 22.0% of our total electricity sales volume, up from 19.6% in 2000. Additional sales commitments were met using electricity purchases and our surplus Québec generation capacity.

Prior to 1997, electric utilities had joined to create power pools, each of which coordinated a regional interconnected transmission system, operated a control center and managed the region's open access transmission tariff. Beginning in 1997, the PJM Interconnection, followed by New England Power Pool and by the New York Power Pool, began operating regional, bid-based energy markets. They are currently designated as Independent Systems Operators or ISO's and enable participants to buy and sell energy, schedule bilateral transactions and reserve transmission service.

Our wholly-owned U.S. energy-trading subsidiary, HQUS, is a member of New York ISO, ISO NE (New England) and of PJM Interconnection (Pennsylvania, New Jersey, Maryland, Delaware, Virginia and the District of Columbia). In November 1997, HQUS received a permit to sell at market-based rates approved by the U.S. Federal Energy Regulatory Commission.

In March 2001, HQEM, our wholly-owned energy-trading subsidiary operating in Canada, obtained a permit from the Ontario Energy Board to trade in the Ontario wholesale market which opened on May 1, 2002.

The following table shows actual volumes of, and revenues from, electric energy sold and delivered outside Québec for the years 1997 through 2001:

	ELECTRICITY SALES OUTSIDE QUÉBEC				
	1997	1998	1999	2000	2001
	(TWh)				
Canada	3.8	3.0	6.3	2.3	1.3
United States	11.4	15.5	17.9	34.6	41.1
International.....	—	0.1	0.5	0.4	0.4
Total	<u>15.2</u>	<u>18.6</u>	<u>24.7</u>	<u>37.3</u>	<u>42.8</u>
	(millions of dollars)				
Canada.....	\$ 134	\$ 116	\$ 223	\$ 92	\$ 85
United States	462	696	793	2,257	2,997
International.....	—	2	35	31	38
Total	<u>\$ 596</u>	<u>\$ 814</u>	<u>\$ 1,051</u>	<u>\$ 2,380</u>	<u>\$ 3,120</u>

We are committed to long-term export contracts for the sale of energy or power. One such contract is a seasonal diversity contract with Consolidated Edison Company of New York, Inc. ("Con Edison") under which we deliver electricity in the summer and may receive electricity in the winter. The following table summarizes our principal energy export agreements:

PRINCIPAL ENERGY EXPORT AGREEMENTS

	Start of Deliveries	Expiry Date	Power (MW)	Maximum Annual Deliveries (TWh)
<i>Seasonal diversity</i> ⁽¹⁾				
Con Edison	1999	2004	400-700	3.0
<i>Long-term sales - power and energy (not interruptible)</i>				
Cornwall Electric - Canada.....	2000	2019	45	0.2
Vermont Joint Owners ("VJO").....	1990	2020	335 ⁽²⁾	2.0

(1) Quantities to be delivered are subject to annual negotiations; deliveries are made between April and October.

(2) By separate agreement with a VJO Member, 25 MW are being bought back until April 30, 2012.

Electricity Sales and Revenue

The following table summarizes electricity sales and revenue outside Québec by category for the years 1997 through 2001:

ELECTRICITY SALES AND REVENUE OUTSIDE QUÉBEC					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(TWh)				
ELECTRICITY SALES					
Long-term sales	8.1	8.1	8.7	6.8	4.1
Short-term sales	7.1	10.5	16.0	30.5	38.7
TOTAL SALES	<u>15.2</u>	<u>18.6</u>	<u>24.7</u>	<u>37.3</u>	<u>42.8</u>
	(millions of dollars)				
REVENUE FROM ELECTRICITY SALES					
Long-term sales	350	391	427	377	326
Short-term sales	246	423	624	2,003	2,794
TOTAL REVENUE FROM ELECTRICITY SALES	<u>596</u>	<u>814</u>	<u>1,051</u>	<u>2,380</u>	<u>3,120</u>
NUMBER OF CUSTOMER ACCOUNTS					
Wholesale accounts.....	52	61	88	86	86

ENGINEERING, PROCUREMENT AND CONSTRUCTION

This division provides technical and procurement services to our other business units. It is responsible for the construction and maintenance of our generation and transmission facilities in Québec and abroad, and performs engineering and construction work for our telecommunication network; that portion of our mission is carried out for the most part through our subsidiary Société d'énergie de la Baie James. In addition, this division is responsible for the procurement of goods and services in support of our corporate mission and operations, which includes the management of our information technologies ("IT"), from IT infrastructure to office automation and electronic communications. This division also manages our real estate portfolio and our automotive and air fleets.

OTHER ACTIVITIES

The Other segment includes our natural gas interests, research and development and other corporate services grouped under the following affiliated companies, divisions and business units:

- Noverco Inc. ("Noverco") (41.2% interest and option to acquire an additional 9.2%; holding company – involved mainly in natural gas transportation and distribution activities in Québec, Ontario and the Northeastern U.S.)
- IREQ (wholly-owned; our energy-technology research and development division)
- Hydro-Québec CapiTech inc. ("HQ CapiTech") (wholly-owned; a venture capital company investing in businesses that provide energy-related high-technology products and services; in 2000, the Board of Directors of Hydro-Québec authorized the creation of a second investment fund with a value of \$192 million; the first investment fund had a value of \$108 million)
- Hydro-Québec IndusTech inc. (wholly-owned; holds a 50 % interest in AVESTOR, Limited Partnership (formed in 2001 to pursue the development of rechargeable lithium-metal-polymer battery technology))
- Connexim, Limited Partnership (30 % interest; telecommunications company)

Natural Gas

In addition to building upon our know-how in the electricity industry, we have also prepared for the convergence of the natural gas and electricity industries, starting with the acquisition of an interest in Noverco which holds a 77.4% interest in Gaz Métropolitain and Company, Limited Partnership (“GMCLP”), the main natural gas distributor in Québec.

As at September 30, 2001, GMCLP had assets of \$2,350 million and sales for the year totalled \$2,068 million. As at December 31, 2001, GMCLP had assets of \$2,456 million and sales for the first quarter ended December 31, 2001 were \$484 million. GMCLP holds interests in the following companies:

- Vermont Gas Systems, Inc. (wholly-owned; the sole gas distributor in Vermont)
- TQM Pipeline and Company, Limited Partnership (50% interest; operates a gas pipeline that connects upstream with that of TransCanada PipeLines and downstream with that of Portland Natural Gas Transmission System (“PNGTS”))
- PNGTS, (20.7% interest; owns a pipeline originating at the Québec border and extending to the suburbs of Boston) and
- Champion Pipe Line Corporation Ltd (wholly-owned; operates two gas pipelines that cross the Ontario border to supply Gaz Métropolitain’s distribution system in northwestern Québec)

As at December 31, 2001, Noverco held 9.9% of the common shares of Enbridge Inc. (“Enbridge”) which owns a 32.0% interest in Noverco and wholly-owns the following companies:

- The Consumers’ Gas Company Ltd. (“Consumers Gas”) (a natural gas distributor in central and eastern Ontario which operates under the name Enbridge Consumers Gas)
- Gazifère Inc. (“Gazifère”) (a natural gas distributor in southern Québec)
- St. Lawrence Gas Company, Inc. (“St. Lawrence”) (a natural gas distributor in northern New York State)
- Niagara Gas Transmission Limited (provides transmission services to Consumers Gas, Gazifère and St. Lawrence, and links southwestern Ontario storage facilities with pipelines in Michigan)
- Cornwall Electric (distributes electricity in Cornwall, Ontario)

Enbridge has also become a partner in Alliance Pipeline Limited Partnership which owns and operates a natural gas transmission system built in 2000 from Fort St. John, British Columbia, to Chicago, Illinois. It is also the sponsor of, and has an interest in, the Vector Pipeline which will transport natural gas from Chicago, Illinois to Dawn, Ontario.

CORPORATE OUTLOOK

Development Strategy

In October 2001, we presented our five-year Strategic Plan (the “Business Plan”) for the 2002-2006 period. The Business Plan sets forth two major goals, namely, to supply high-quality electric power to our Québec customers and to manage our activities so as to create value for our shareholder. More specifically, we are committed to the following goals:

- to serve our customers well by building upon progress we have made in terms of quality of service while improving profitability;
- to deploy a corporate succession plan which provides for the replacement of the aging segment of our workforce with employees with the appropriate new skills and for knowledge maintenance and transfer generally;
- to create value for our shareholder and Québec society by continuing to develop our generation facilities and electricity sales in our local retail market and in wholesale markets;

- to maintain our leadership in technology and to emphasize technological innovation as a key means to improving our overall performance; and
- to improve overall efficiency and synergy by setting specific targets for each of our business divisions, allocating capital, applying efficient financial controls and risk management, minimizing financial expenses, managing talent and developing leadership among our management staff.

The Business Plan requires *Hydro-Québec Distribution* to continue improving customer service. Also, it will be expected to improve profitability and efficiency by controlling costs, developing its most profitable markets, improving demand management and energy efficiency in Québec. We will request progressive rate increases for 2004, 2005 and 2006.

Moreover, we have set concrete targets for improving power supply reliability: one of our principal objectives remains that of ensuring a secure electricity supply for Québec customers on competitive terms. Our distributor's existing supply is at an average fixed price of 2.79 cents per kWh (see "Regulatory Framework – *Energy Board Act*") and additional supply, which may be needed by 2005, will be obtained through competitive bidding. The Business Plan assumes that Québec sales will grow by 13.0 TWh between 2001 and 2006. More than 7.4 TWh of these new sales are expected to be to large-power customers, largely as the result of growing industrial output and the penetration of high-performance electrotechnologies.

Hydro-Québec Production, our generation division, will work to sustain growth of electricity sales in wholesale markets and of generation facilities in Québec. We expect to meet this additional demand by increasing our annual generation capacity in Québec by at least 12 TWh through:

- the commissioning of the Sainte-Marguerite-3 and the new Grand-Mère generation stations for an additional 3 TWh;
- the partial diversion of rivers toward existing generation stations and the commissioning of other committed projects for a gain of 4 TWh; and
- selected generation projects for an additional 7 TWh.

The Business Plan restates the three conditions for undertaking new hydroelectric projects: they must be profitable, environmentally acceptable and well received by local communities. We signed agreements in 1999 with local communities for the partial diversion of rivers towards existing generation stations in the Betsiamites basin and the construction of a new generation station on the Touloustouc river. In February 2002, an agreement was reached between the Government and local communities (see "Litigation – *James Bay Cree*") with respect to the Eastmain 1 and Eastmain 1-A/Rupert diversion projects.

Discussions are ongoing with N&LH to purchase the electricity generated by a future development of the hydroelectric potential of the Churchill River in Labrador. In June 1999, we signed a shareholders' agreement with N&LH to define the corporate governance rules of CF(L)Co, under which we can exercise significant influence over the activities of CF(L)Co, and to ensure its financial stability and the continued reliability of its facilities until 2041 (see Note 6 to the Consolidated Financial Statements).

We intend to continue to take full advantage of opportunities in the wholesale market of the Northeastern United States. Net electricity sales under long-term export contracts have decreased in recent years to approximately 2 TWh and we expect to use available energy to increase the volume of short-term sales transactions in such markets while meeting demand growth in Québec.

Moreover, we intend to use our technological expertise in high voltage transmission to seek business opportunities in the development and application of new technologies designed to reduce congestion in certain transmission corridors. We also plan to make further investments of up to \$300 million in foreign transmission projects.

Capital Investment Program

Our capital investment program includes capital expenditures for fixed assets and investments in, and advances to, affiliates. The following table is a summary of our capital investment program for the years 1997 through 2001. The table also includes estimates for 2002 and the four-year period from 2003 to 2006. The latter estimates are based on expected annual growth in demand for electricity in Québec of 1.2% for the period of 2001 to 2006.

CAPITAL INVESTMENT PROGRAM

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>Estimated</u>	
						<u>2002</u>	<u>2003 through 2006</u>
	(millions of dollars)						
Electricity distribution	\$ 325	\$ 469	\$ 285	\$ 364	\$ 405	\$ 392	\$ 1,810
Electricity transmission ⁽¹⁾	350	656	454	436	354	495	2,169
Electricity generation	630	525	484	537	627	731	3,579
Other ⁽²⁾	812	676	875	2,153	492	1,038 ⁽³⁾	2,974 ⁽⁴⁾
	<u>\$ 2,117</u>	<u>\$ 2,326</u>	<u>\$ 2,098</u>	<u>\$ 3,490</u>	<u>\$ 1,878</u>	<u>\$ 2,656</u>	<u>\$ 10,532</u>

(1) Includes sub-transmission.

(2) Includes buildings, rolling stock and computer equipment ("equipment"), telecommunications, technology, commercial programs and interests in joint ventures. For 2000, includes the acquisition of Transelec.

(3) Allocated as follows: 19% for investments and advances to affiliates; 31% for equipment and buildings; 10% for telecommunications and technology and 40% for interests in joint ventures.

(4) Allocated as follows: 11% for investments and advances to affiliates; 32% for equipment and buildings; 14% for telecommunications and technology, 41% for interests in joint ventures and 2% for commercial programs.

In 2001, capital investments were \$552 million less than the forecasted \$2.4 billion, investment on maintenance of facilities was \$213 million less than forecast and project development expenses were lower than forecast by \$235 million due to delays in some projects.

Changes in the marketplace and the growth strategy described in our Business Plan call for an increased capital expenditure program over the next five years. The planned date of operation of the Sainte-Marguerite generation plant has been delayed by one year to 2003 and the project will require some additional capital for headrace tunnel repairs. In addition to completing the construction of a new hydroelectric complex to replace the existing facility at Grand-Mère, we are currently examining other generation projects, including partial diversions of rivers and a new combined cycle gas-fired power plant in Beauharnois, Québec (le "Suroît") with an expected capacity of 800 MW.

Further to agreements signed with the Cree, we will undertake two hydroelectric projects in the James Bay region: Eastmain-1, with an installed capacity of 480 MW, at an estimated cost of \$1.7 billion, and Eastmain-1A, with an installed capacity of 770 MW, which with the partial diversion of the Rupert River is estimated to cost \$2.1 billion. Also, we are completing draft design studies for the construction of a 450 MW generation station on the Péribonka River, which will require an investment of approximately \$1 billion. We will also complete, at an expected cost of \$431 million, work on the transmission loop for the Montérégie area and a new interconnection with Ontario, which are expected to be in service in 2003 and 2006, respectively.

The total estimated capital investment program for 2002, together with long-term debt repayment and sinking fund requirements of \$1.9 billion, represent cash requirements of approximately \$4.6 billion, exclusive of refinancing of outstanding debt. We expect to obtain approximately 64% of our 2002 requirements from internal sources and the remainder from additional borrowings. Our self-financing ratio is expected to improve in 2002, due to long-term debt maturities of \$1.9 billion, as compared to \$3.5 billion in 2001.

We estimate that, for the period 2003 through 2006, capital investments, long-term debt repayment and the sinking fund will require approximately \$19.0 billion in cash. We expect that more than 76% of our 2006 cash requirements will be covered by funds generated by our operations.

Electricity Distribution

The following table summarizes the allocation of estimated capital expenditures for 2002 and for the period from 2003 through 2006 among the two major distribution system requirements.

	<u>Estimated Capital Expenditures</u>	
	<u>2002</u>	<u>2003 through 2006</u>
	(millions of dollars)	
System maintenance	\$ 178	\$ 739
System improvements & customers and demand growth	214	1,071
	<u>\$ 392</u>	<u>\$ 1,810</u>

Electricity Transmission

The following table summarizes the allocation of estimated capital expenditures on transmission facilities for 2002 and for the period from 2003 through 2006.

TRANSMISSION FACILITIES ⁽¹⁾

	<u>Planned Date of Operation</u>	<u>Estimated Capital Expenditures</u>	
		<u>2002</u>	<u>2003 through 2006</u>
		(millions of dollars)	
Lines and substations	—	\$ 4	\$ 168
Equipment improvement	Continuous program	300	1,171
System improvement program			
Transmission line for Montérégie area	2003	97	56
Interconnection with Ontario	2005	13	265
Other projects	Continuous program	83	509
		<u>\$ 497</u>	<u>\$ 2,169</u>

(1) Includes sub-transmission facilities.

Electricity Generation

The table below summarizes the generation facilities currently under construction and under study and the related estimated capital expenditures for 2002 and the period from 2003 through 2006.

GENERATION FACILITIES UNDER CONSTRUCTION AND UNDER STUDY

	<u>Available Power at Peak</u>	<u>Planned Date of Operation</u>	<u>Estimated Capital Expenditures</u>	
			<u>2002</u>	<u>2003 through 2006</u>
	(MW)		(millions of dollars)	
FACILITIES UNDER CONSTRUCTION				
Base-load equipment (hydroelectric)				
Grand-Mère	220	2004	\$ 124	\$ 200
Improvement and rebuilding of facilities	—	—	310	1,502
Toulustuc	440	2005	209	544
FACILITIES UNDER STUDY				
Combined cycle gas-fired Le Suroît	800	2006	17	530
Eastmain 1A - Rupert	770	2007-2010	3	24
Péribonka	450	2009	13	172
Other projects	—	—	56	607
			<u>\$ 732</u>	<u>\$ 3,579</u>

Regulatory Framework

Hydro-Québec Act

Under the *Hydro-Québec Act*, our objectives are 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 *Hydro-Québec Act* provides that we shall estimate the energy needs of Québec and the means of meeting them within the scope of the Government's energy policies.

Under the *Hydro-Québec Act*, the Government is entitled to declare a dividend from Hydro-Québec when certain financial criteria are met (see Note 16 to the Consolidated Financial Statements).

Energy Board Act

In December 1996, the National Assembly of Québec adopted the *Act respecting the Régie de l'énergie* (the "*Energy Board Act*"). The *Energy Board Act* established the Régie de l'énergie (the "Energy Board") which has jurisdiction over certain aspects of our activities and those of natural gas distributors in Québec.

Under the *Energy Board Act*, we have been granted exclusive rights for the distribution of electric power throughout Québec, excluding the territories served by distributors operating a municipal or private electric system as of May 13, 1997.

The Energy Board has the authority to:

- fix, or modify, after holding public hearings, our rates and conditions for the transmission and distribution of electric power;
- approve our electric power supply plan;
- approve operating standards, including standards of reliability for our transmission system;
- authorize our transmission and distribution investment projects;
- approve our distribution commercial programs; and
- rule upon complaints from customers concerning rates or service.

Generation. Under the *Energy Board Act* as amended, the Government removed generation from the Energy Board's jurisdiction and required us to supply heritage pool electricity. Heritage pool electricity corresponds to the net annual consumption of Québec markets, up to 165 TWh per year, for which the average cost is set at 2.79 cents per kWh. Energy generated in excess of the heritage pool electricity may be sold on the market at market based rates. Import and export transactions are unregulated under the *Energy Board Act*.

Transmission. Transmission rates are subject to approval of the Energy Board.

Distribution. Electricity required to meet Québec market needs in excess of the heritage pool electricity must be purchased through a competitive bidding process. We are therefore required to obtain approval from the Energy Board for a supply plan as well as for a Call for Tenders and Contract Awarding Procedure and a Code of Ethics on Conducting Calls for Tenders.

Rates applicable to a particular class of customers must be uniform throughout the whole distribution system and the Energy Board may not modify rates applicable to a class of customers in order to alleviate the cross-subsidization of rates applicable to other classes of customers.

Applications to the Energy Board. Applications decided upon since the beginning of 2001 or still pending included the following:

- in August 2000, we filed an application for the review of our transmission rates. A ruling on rates applicable retroactively to January 1, 2001 was issued at the end of April 2002. Rates were set based on Hydro-Québec TransÉnergie's required rate of return on equity of 9.66%;

- in June 2001, we filed an application for the approval of a rate applicable to non-firm emergency power for industrial customers who obtain all or a portion of their power requirements from forest biomass. Approval was obtained in February 2002;
- in October 2001, we filed an application for the approval of our electric power supply plan for 2002-2011 (the “Plan”). Pursuant to a favorable decision for the years 2006 and 2007, we issued a first call for tenders in February 2002 for the same period. Hearings on the Plan were held in April and May 2002 and a ruling is expected in the near future;
- in December 2001, we filed an application for the determination of the heritage pool electricity cost attributable to each class of customers. We are expecting a ruling by the end of June 2002; and
- in December 2001, we filed two applications for the approval of our transmission and distribution investment projects respectively for the year 2002. Favorable rulings were issued in April 2002.

National Energy Board Act

Our exports of electric power are subject to the *National Energy Board Act* which provides that a permit or license must be obtained from the National Energy Board of Canada (the “National Board”) for such exports. We hold two permits which were granted by the National Board in December 1994 and which authorize us to export annually, for a continuous period of no more than five years for any single contract, up to 30 TWh of interruptible energy and up to 20 TWh of firm energy to the United States. The permits cover a 16-year period from December 1, 1994 to December 31, 2010, and allow us to take advantage of the spot market in the United States. Longer-term export contracts (more than five years) remain, however, subject to the prior issuance of specific permits or licenses by the National Board.

On April 8, 1999, our subsidiary, HQEM, obtained two permits from the National Board. They enable HQEM, as a power marketer outside Québec, to export firm and interruptible energy up to 30 TWh annually to the United States from interconnections located in other provinces, under contracts with a term of five years or less. The permits cover a 10-year period from April 8, 1999 to April 7, 2009.

Environmental Regulation

Our activities are subject to federal, provincial and municipal environmental laws, regulations and by-laws.

Before beginning new construction, our projects are subject to environmental impact assessment studies as well as information and consultation processes. The studies are submitted for review and approval by government departments and agencies responsible for issuing governmental authorizations. In some instances, the approval process includes public hearings by an independent body.

We have formal policies, procedures and guidelines regarding environmental matters. For over 25 years, we have responded to environmental concerns in the planning, design and construction of new facilities. For example, we conduct studies and research on various issues such as mercury levels in reservoirs and the biological effects of electric and magnetic fields.

We also carry out projects in the areas of recycling. Moreover, we have been working since 1997 on the implementation of ISO 14001, the environmental management standard of the International Organization for Standardization. So far, we have obtained the following certifications:

- certificates have been granted to the procurement unit of our engineering, procurement and construction division;
- our distribution division has been certified for all its activities related to electricity distribution;
- our business units responsible for environmental evaluations, engineering and construction of new installations and refurbishing projects have obtained certificates;
- we have obtained certification for our generation business unit; and
- certificates have been granted to our research and development unit.

We have yet to obtain other certificates for the procurement unit of our engineering, procurement and construction division, the electricity generation activities of our distribution facilities which are located in remote communities and not linked to our transmission grid, our transmission business unit and our customer service unit.

Litigation

James Bay Cree

In April 1990, representatives of the James Bay Cree instituted an action against Canada, Québec and us, among others, seeking judicial recognition of aboriginal rights and of title over certain areas of land in Québec and an order restraining us from proceeding with the Grande-Baleine project. This action also alleges breaches of the 1975 James Bay and Northern Québec Agreement (the "Agreement") between us, the Federal and Québec governments, and representatives of the James Bay native peoples, namely the Cree and the Inuit.

In a second action instituted against the same defendants and served upon us in February 1997, representatives of the James Bay Cree are seeking damages or compensation of \$2.8 billion for the breaches of the Agreement alleged in the 1990 action and breaches of various other undertakings and commitments. Alternatively, plaintiffs are seeking performance by the defendants of their obligations under the Agreement and damages or compensation of \$400 million.

In a response by plaintiffs to a motion for particulars, plaintiffs indicated that the claim for damages or compensation would be increased to \$5.4 billion and, possibly, to a greater amount. Plaintiffs later revised their claim to \$3.0 billion. Such actions are still at a preliminary stage of proceedings.

Under an agreement signed between the Government and the James Bay Cree on February 7, 2002, however, the James Bay Cree agreed to discontinue certain claims made in such actions against the Government and us and to suspend for a period of three years the remaining claims against such defendants so as to facilitate their resolution through an agreed upon dispute resolution mechanism.

Ice Storm

In January 1998, Québec experienced a severe ice storm and our transmission and distribution systems were heavily damaged. At the end of January 1998, the Government and we were served with a motion seeking authorization to institute a class action against us, as joint and several defendants, on behalf of individuals having suffered damages (which have not yet been quantified) as a result of power failures caused by the ice storm which left close to 1.4 million customers without electricity for varying periods of time. We have contested this petition. A date for the hearing of the motion is in the process of being set and it is expected that the motion could be heard in the near future.

In January 2001, 18 actions for damages, many of them by insurance companies, were instituted against us claiming more than \$320 million plus interest as compensation for damages allegedly suffered as a result of the power outages caused by the ice storm. So far, most of these actions have been settled out of court.

Employees

We had 17,679 permanent employees as at December 31, 2001, and an average of 3,545 temporary employees during the year 2001. These numbers do not include employees of our subsidiaries and joint ventures. Unionized employees represent 85.5% of Hydro-Québec's workforce.

Most of our unionized employees are covered by collective agreements which will terminate in December 2003. These agreements provide for an annual average salary increase of approximately 2.5% and a profit-sharing plan tied to the attainment of Hydro-Québec's objectives.

MANAGEMENT'S FINANCIAL DISCUSSION

Financial Objectives

Our business objectives are to promote continuously improved customer service, sustainable growth and profitability. Our ability to meet these objectives and our financial position are dependent upon certain key economic variables, including:

- the rate of economic growth in Québec and, consequently, the growth rate of electricity sales in Québec;
- the average interest rate on Hydro-Québec's borrowings;
- exchange rates between the Canadian dollar and other currencies; and
- the world price of crude oil and other commodities, upon which electricity prices under certain sales or purchase contracts are pegged.

We have been seeking to alleviate the impact of some of these variables by pursuing the following objectives:

- to diversify our sources of financing through public issues of debt securities, private borrowings and medium term-note issues in North America, Europe and Asia;
- to minimize foreign exchange risk by conducting a large portion of our financing activities in Canadian dollars when market conditions are favorable and by using swaps to manage foreign exchange risks associated with issues in foreign currencies other than United States dollars; exposure to the latter currency's fluctuation is partly hedged by United States dollar revenues;
- to stagger debt refinancing by seeking maturities that offer the best conditions in terms of cost, while avoiding large repayments in a single year; and
- to maintain floating-rate debt at approximately 25% of Hydro-Québec's total debt.

Consolidated Financial Results for the year ended December 31, 2001

In 2001, our revenue grew to \$12.6 billion, as compared to \$11.4 billion in 2000, which represents an increase of \$1.2 billion or 10%. Net income was \$1.1 billion, up \$30 million, or 2.8% over 2000, and \$28 million over forecast. The increase in revenue results mainly from a larger volume of transactions on the U.S. markets and revenue from our Chilean subsidiary Transelec which was acquired in the last quarter of 2000. Our profit margin was down slightly from 9.4% to 8.8% due to a reduction in the volume of Québec-generated electricity sold to U.S. markets, and the decline in heating oil and natural gas prices on short-term energy markets in the U.S. Exceptionally mild temperatures in December also had a negative impact.

Self-financing (defined as cash from operations less dividends paid, divided by sum of investments, maturity of long-term debt and sinking fund redemption) was 54.6% in 2001, as compared to 48.7% in 2000, when Transelec was acquired. This number takes into account maturity of long-term debt and sinking fund redemptions of \$3.5 billion in 2001.

Expenditure

In 2001, expenditure rose by \$1,138 million, or 16.3%, to \$8,102 million, as a result of a larger volume of short-term electricity purchases made for resale operations in the U.S. and the addition of operating expenses of our recently acquired foreign subsidiaries.

Operating Expenses. In 2001, operating expenses were maintained at \$2,134 million, or approximately the same level as in the previous year.

Electricity and Fuel Purchased. Purchases of electricity and fuel increased by \$1,124 million or 46.7% to \$3,532 million, mostly as a part of our U.S. energy trading operations.

Depreciation, Amortization and Decommissioning. These expenses amounted to \$1,845 million as compared to \$1,896 million in 2000. The reduction was partly due to the effect of the reevaluation of our projects portfolio made in 2000.

Taxes. Tax expense rose by \$66 million, or 12.6%, to \$591 million. A technical modification in the capital tax calculation, which was made in 2000 and applied retroactively to 1995, contributed to a reduction of the tax expense. Had we not benefited from a refund in 2000, the expense for 2001 would have been similar to that of the previous year.

Financial Expenses

In 2001, financial expenses decreased slightly by \$19 million, or 0.6%, from \$3,369 million in 2000 to \$3,350 million. We reduced our interest expense by almost \$245 million by taking advantage of lower short-term interest rates on the variable portion of our long-term debt, which we maintained at 25%, and obtained financing at lower long-term rates as a result of the slowdown in the U.S. economy.

The negative effect of the weak Canadian dollar on our U.S. dollar-denominated liabilities amounted to \$175 million, but it was partly offset by the positive impact of sales in U.S. dollars.

Finally, the financing of the Transelec acquisition in October 2000 increased our financial expenses by approximately \$67 million for 2001.

Segment Information

Further to the implementation of our new organizational structure and operating segments, we have amended the presentation of our financial position and results.

Our power distribution and transmission activities in Québec are now regulated. Consequently, our financial results reflect the following regulated revenues and charges:

- transmission rates approved by the Energy Board;
- electricity rates for Québec customers set in 1998 and frozen until 2004; and
- an average fixed price of 2.79 cents per kWh to be charged by *Hydro-Québec Production* to *Hydro-Québec Distribution* for heritage pool electricity (165 TWh per year), regardless of whether the electricity is generated or purchased.

All intersegment revenue and expenses not related to electricity are valued at full cost. Revenue, operating expenses and purchases of electricity and fuel are earned or incurred directly by the respective segments.

Depreciation, amortization and decommissioning expenses related to fixed or other assets are allocated to the respective segments. Taxes and financial expenses are managed by corporate units but allocated to the operating segments. Taxes are generally allocated according to the net assets managed by the segments. Financial expenses are allocated based on the financing rates applied to the net assets of each segment. Finally, expenses related to corporate activities, or corporate expenses, are generally allocated to the segments based on their operating expenses.

The following table shows segmented results for the year 2001 and changes from the previous year.

	SEGMENT RESULTS FOR 2001						
	<u>Distribution</u>	<u>Transmission</u>	<u>Generation</u>	<u>EPC*</u>	<u>Other</u>	<u>Eliminations**</u>	<u>Consolidated</u>
	(millions of dollars)						
Revenue							
External customers	7,934	301	3,218	20	1,120	(15)	12,578
Change 2000-2001	47	235	695	(88)	251	9	1,149
Intersegment revenue	23	2,727	4,091	1,142	211	(8,194)	–
Change 2000-2001	(2)	17	0	(108)	24	69	–
Total Revenue	<u>7,957</u>	<u>3,028</u>	<u>7,309</u>	<u>1,162</u>	<u>1,331</u>	<u>(8,209)</u>	<u>12,578</u>
Change 2000-2001	45	252	695	(196)	275	78	1,149
Net income (loss)	(454)	436	1,170	(16)	(28)	–	1,108
Change 2000-2001	(11)	37	(83)	14	73	–	30

* *Engineering, Procurement and Construction.*

** *Intersegment eliminations for consolidation purposes.*

Financial Results of the Distribution Segment

The segment's results were down slightly by \$11 million in 2001. Total revenue was up slightly, by \$45 million, but growth in distribution operations and improvements in service quality put upward pressure on expenses.

Electricity Sales in Québec

In 2001, increased demand for electricity in Québec generated additional revenue of \$90 million. However, this was not enough to offset the \$100 million drop in revenue as a result of unusually mild temperatures in December. Electricity sales were down slightly by 0.6 TWh, or 0.4%, from 2000 to 152.2 TWh and electricity sales revenue totaled \$7,803 million, which represents an increase of \$9 million over that of 2000.

The following table shows the variation in sales and revenue by category of customers between 2000 and 2001.

ELECTRICITY SALES IN QUÉBEC, BY CATEGORY

	Sales			Revenue		
	2001 (TWh)	Change 2000-2001 (TWh)	(%)	2001 (\$M)	Change 2000-2001 (\$M)	(%)
Residential and farm	50.8	(0.9)	(1.7)	3,131	(36)	(1.1)
General and institutional.....	30.4	(0.1)	(0.3)	1,973	(29)	(1.4)
Industrial.....	66.3	0.3	0.5	2,482	77	3.2
Other.....	4.7	0.1	2.2	217	(3)	(1.4)
Total.....	<u>152.2</u>	<u>(0.6)</u>	<u>(0.4)</u>	<u>7,803</u>	<u>9</u>	<u>0.1</u>

Residential and Farm Category. Electricity sales to this group of customers decreased by 0.9 TWh, or 1.7%, to 50.8 TWh. Stronger housing starts and a higher rental occupancy rate drove up demand for electricity by 0.7 TWh but the reduction in demand in the mild month of December was greater, at 1.4 TWh. Since rates are frozen until 2004, the reduction in electricity sales also translated into a reduction of \$36 million, to \$3,131 million in sales revenue.

General and Institutional Category. Overall, sales revenue decreased as a result of one day less in the 2001 calendar than in the preceding leap year in 2000, a slight reduction in demand and other factors. Overall, electricity sales declined by 0.1 TWh, or 0.3%, to 30.4 TWh and revenues by \$29 million, or 1.4%, to \$1,973 million.

Industrial Category. The growth in demand in this market category continued in 2001 with an increase of 0.3 TWh, a slower pace than in 2000 due to the downturn in the economy. However, this sector benefited from the effect of the higher exchange rate on sales in U.S. dollars. Total revenue increased by \$77 million, or 3.2%.

Other Category. This category consists of independent distributors, namely nine municipal networks and one regional cooperative. A net reduction in revenue of \$3 million results from the effects of milder temperatures, one day less in the 2001 calendar and other factors, despite increased demand. None of the distributors have yet taken advantage of the deregulation of the wholesale market which began in May 1997.

Other Activities

A gain of nearly \$10 million resulted from the sale, through our subsidiary Hydro-Québec ValTech inc., of our interest in M3i Systems Inc., an integrated outage management software design firm in the power distribution field.

We are pursuing our divestment strategy in international distribution activities to concentrate instead on technical assistance services on a limited scale.

Financial Results of the Transmission Segment

In 2001, sales in this segment reached \$3,028 million, as compared to \$2,776 million in 2000, which represents an increase of \$252 million, or 9%, primarily due to international activities. Net income of \$436 million was up \$37 million or 9% over the previous year.

Our revenue from regulated transmission operations in Québec remained unchanged, as the rates are still those set by the 1997 decree of the Government. Most of our revenue was generated by tolling charges collected from *Hydro-Québec Distribution* and was related to the electricity transmission requirements of our Québec customers.

The strong growth in international sales was due to the addition of the results of Transelec which had sales of \$205 million, comprising more than 82% of all foreign sales. As at December 31, 2001, the assets of Transelec, Consorcio TransMantaro and Directlink together accounted for \$2 billion, or 11%, of our total transmission assets of \$18 billion.

Total expenditure amounted to \$2,592 million, up \$215 million or 9% over 2000. The inclusion of foreign operations accounted for \$197 million of this increase.

Financial Results of the Generation Segment

In 2001, revenue from electricity sales of \$7,309 million was up \$695 million from 2000. This growth was mainly due to an increase in selling prices and energy trading volumes on U.S. markets.

Electricity and fuel purchases made by this segment rose from \$1.8 billion to \$2.7 billion, up \$902 million or 49% over 2000. Short-term electricity purchases directly related to energy trading transactions outside Québec were almost entirely responsible for this growth.

The segment's net income amounted to \$1.2 billion in 2001, down \$83 million from 2000. This was mainly due to a 7.1 TWh decrease in sales of Québec-generated electricity on U.S. markets in 2001. However, this decrease in volume was partially offset by better sales prices.

Electricity Sales to Hydro-Québec Distribution

Electricity sales to our distribution division amounted to 151.9 TWh for revenues of \$4.1 billion in 2001. Sales were stable as compared to 2000 as a result of weather and economic conditions. In addition, sales to the distributor are at an average fixed price of 2.79 cents per kWh.

Electricity Sales Outside Québec

In 2001, revenue from electricity sales outside Québec, mostly to the United States, exceeded \$3 billion, representing an increase in revenue of \$733 million. Electricity sales reached 42.4 TWh.

Electricity sales in connection with energy trading on the U.S. markets reached 32.2 TWh and sales of Québec-generated electricity on markets outside Québec, mainly in the Northeastern United States, were 10.2 TWh.

International sales of electricity, including sales by our joint ventures, primarily in Panama, contributed additional revenues of \$38 million, up \$7 million over 2000.

Financial Results of the Engineering, Procurement and Construction and Other Segments

In 2001, the Engineering, Procurement and Construction segment posted revenues of \$1.2 billion, including \$500 million for procurement, information technology, building management and other services to our other divisions, and \$700 million for services related to our engineering and construction projects, mostly for some of our generation facilities in Québec.

The Other segment recorded a net loss of \$28 million, compared with a loss of \$101 million in 2000. Our interest in Noverco generated net income of \$27 million in 2001, up \$7 million over the previous year, due to Enbridge's improved operating results. Hydro-Québec CapiTech, our venture-capital company, ended 2001 with a \$7 million loss, \$1 million more than in 2000. Finally, we realized a \$7 million gain on the sale of a portion of our interests in the telecommunications company Connexim.

WHERE YOU CAN FIND MORE INFORMATION

This document appears as an exhibit to Hydro-Québec's annual report filed with the U.S. Securities and Exchange Commission (the "Commission") on Form 18-K for the fiscal year ended December 31, 2001. Additional information with respect to Hydro-Québec is available in the annual report or in other exhibits or amendments to the annual report. You may read and copy any document Hydro-Québec files with the Commission at the Commission's public reference rooms at 450 West Street, N.W., Washington, DC 20549. Please call the Commission's toll free number at 1-800-SEC-0330 if you need further information about the operation of the Commission's public reference rooms. In addition, you may request a copy of these filings at no cost by telephoning Hydro-Québec at (514) 289-2519. This document is also available on Hydro-Québec's home page at www.hydroquebec.com; however, any other information available on such home page (such website listed in the 18-K is an inactive textual reference only) shall not be deemed to form a part of this document or the annual report to which it appears as an exhibit.

FORWARD-LOOKING STATEMENTS

Various statements made throughout this document are forward looking and contain information about financial results, economic conditions and trends, including, without limitation, the statements under the caption Corporate Outlook - Capital Investment Program. The words "estimate", "believe", "expect", "forecast", "anticipate", "intend" and "plan" and similar expressions identify forward-looking statements. You are cautioned that any such forward-looking statements are not guarantees of future performance. Forward-looking statements involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statements as a result of various factors. Such factors may include, among others, business risks, such as variations in runoff given the nature of Hydro-Québec's generation facilities and general levels of economic activity which affect demand for electricity, and risks related to economic parameters, such as changes in interest and exchange rates. You are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date of this document. We undertake no obligation to publicly release the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

SUMMARY OF CERTAIN DIFFERENCES BETWEEN CANADIAN GAAP AND US GAAP

BACKGROUND

Financial statements in the U.S. are prepared in accordance with generally accepted accounting principles issued by the Financial Accounting Standards Board ("US GAAP"). In Canada, financial statements are prepared in accordance with generally accepted accounting principles issued by the Canadian Institute of Chartered Accountants ("Canadian GAAP"). As well, some accounting practices applicable to regulated entities, such as Hydro-Québec, differ from accounting practices otherwise applied by unregulated companies (see Note 1 to the Consolidated Financial Statements). Certain differences between US GAAP and Canadian GAAP are set out below. The matters discussed below have not been audited and do not necessarily reveal all applicable differences between US GAAP and Canadian GAAP.

CERTAIN DIFFERENCES ARISING BETWEEN US GAAP AND CANADIAN GAAP IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS OF HYDRO-QUÉBEC

Regulated Enterprises – Accounting for the Effects of Certain Types of Regulation

As mentioned above, Hydro-Québec follows some accounting practices applicable to regulated enterprises which differ from accounting practices otherwise applied by unregulated enterprises (see Note 1 to the Consolidated Financial Statements).

Under US GAAP, SFAS 71 requires that an enterprise's operations meet three criteria in order to qualify as a regulated enterprise: 1) the enterprise's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers; 2) the regulated rates are designed to recover the enterprise's costs of providing the regulated services or products; and 3) in view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will enable the enterprise to recover its costs can be charged to and collected from customers. This last criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs.

Under US GAAP, Hydro-Québec does not meet the criteria of a regulated enterprise because its generation activities are not regulated by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers. Furthermore, the distribution rates have not yet been approved by the Régie de l'énergie.

Foreign Currency Translation

In accordance with Canadian GAAP, exchange gains and losses resulting from the translation into Canadian currency of debt securities denominated in foreign currencies are deferred and amortized on a straight-line basis over their remaining term, except when they relate to debt securities hedged by future revenue streams in U.S. dollars, which include contracts and expected recurring sales, in which case they are deferred until the date of repayment of such debt.

Under US GAAP, long-term debt is reported at current rates of exchange but resulting gains or losses from foreign currency translation must be included in the statement of operations for the respective periods to which they relate.

Joint Ventures

Under Canadian GAAP, interests in joint ventures are accounted for using the proportionate consolidation method, whereas, under US GAAP, they are accounted for using the equity method.

Fixed Assets

Under Canadian GAAP, fixed assets are carried at cost, which includes materials, labor and other costs directly contributing to construction activities. US GAAP require that certain costs be expensed when incurred.

Internal Use Software

Under Canadian GAAP, computer system development costs for internal use software are capitalized when the project is expected to be of continuing benefit, and otherwise expensed. Under US GAAP, certain development costs for internal use software, particularly costs associated with the preliminary stage of the project, should be expensed when incurred.

Depreciation Method

Under Canadian GAAP, the sinking fund method of depreciation of fixed assets is allowed, whereas, under US GAAP this method is generally not used.

Development Expenses

Under Canadian GAAP, development expenses are deferred and amortized on a straight-line basis over a maximum of five years after the year in which they were incurred. US GAAP require that development costs be expensed when incurred.

Pre-operating Expenses

Under Canadian GAAP, pre-operating expenses are deferred and amortized on a straight-line basis. US GAAP require that pre-operating expenses be expensed when incurred.

Employee Future Benefits

In 1999, new Canadian standards for employee future benefits were adopted principally to harmonize Canadian GAAP with US GAAP.

Derivative Instruments and Hedging Activities

Under US GAAP, the Financial Accounting Standards Board issued SFAS 133 “Accounting for Derivative Instruments and Hedging Activities”, amended by SFAS 137 and SFAS 138. SFAS 133, as amended, requires that all derivatives be recognized at fair value on the balance sheet and all changes in fair value be recognized currently in earnings or deferred as a component of other comprehensive income, depending on the intended use of the derivative, its designation and its effectiveness if designated as a hedge. Under Canadian GAAP, there is no such requirement.

Energy Trading Contracts

Under US GAAP, the Emerging Issues Task Force of the Financial Accounting Standards Board issued EITF 98-10 which requires that energy trading contracts be measured at fair value determined as of the balance sheet date, with related gains and losses included in earnings and separately disclosed in the financial statements or notes. Under Canadian GAAP, there is no accounting standard defining an energy trading contract and specifying how it should be treated for accounting purposes.

Comprehensive Income

Under US GAAP, comprehensive income and its components must be reported in a specific financial statement. There is no such requirement in Canada.

AUDITORS' REPORT

To the Minister of Finance of Québec:

We have audited the consolidated balance sheets of Hydro-Québec as at December 31, 2001 and 2000, and the consolidated statements of operations, retained earnings and cash flows for each of the years in the five-year period ended December 31, 2001. 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 audits.

We conducted our audits in accordance with Canadian 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, 2001 and 2000, and the results of its operations and its cash flows for each of the years in the five-year period ended December 31, 2001 in accordance with Canadian generally accepted accounting principles as described in Note 1. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Samson Béclair/Deloitte & Touche
Chartered Accountants

PricewaterhouseCoopers LLP
Chartered Accountants

Montréal, Québec
February 21, 2002

CONSOLIDATED FINANCIAL STATEMENTS

HYDRO-QUÉBEC

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the year ended December 31				
	2001	2000	1999	1998	1997
	(in millions of dollars)				
Revenue	\$ 12,578	\$ 11,429	\$ 9,608	\$ 8,879	\$ 8,481
Expenditure					
Operations	2,134	2,135	1,912	1,681	1,724
Electricity and fuel purchased	3,532	2,408	1,109	899	529
Depreciation, amortization and decommissioning (note 2)	1,845	1,896	1,731	1,589	1,545
Taxes (note 3)	591	525	592	610	583
	<u>8,102</u>	<u>6,964</u>	<u>5,344</u>	<u>4,779</u>	<u>4,381</u>
Operating income	4,476	4,465	4,264	4,100	4,100
Financial expenses (note 4)	<u>3,350</u>	<u>3,369</u>	<u>3,345</u>	<u>3,410</u>	<u>3,308</u>
Income before non-controlling interest	1,126	1,096	919	690	792
Non-controlling interest	<u>18</u>	<u>18</u>	<u>13</u>	<u>11</u>	<u>6</u>
Net income	<u>\$ 1,108</u>	<u>\$ 1,078</u>	<u>\$ 906</u>	<u>\$ 679</u>	<u>\$ 786</u>

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	For the year ended December 31				
	2001	2000	1999	1998	1997
	(in millions of dollars)				
Balance at beginning of year	\$ 9,906	\$ 9,367	\$ 8,914	\$ 8,514	\$ 8,085
Net income	<u>1,108</u>	<u>1,078</u>	<u>906</u>	<u>679</u>	<u>786</u>
	11,014	10,445	9,820	9,193	8,871
Dividends (note 16)	<u>554</u>	<u>539</u>	<u>453</u>	<u>279</u>	<u>357</u>
Balance at end of year	<u>\$ 10,460</u>	<u>\$ 9,906</u>	<u>\$ 9,367</u>	<u>\$ 8,914</u>	<u>\$ 8,514</u>

CONSOLIDATED FINANCIAL STATEMENTS

HYDRO-QUÉBEC

CONSOLIDATED BALANCE SHEETS

	<u>As at December 31</u>	
	<u>2001</u>	<u>2000</u>
	(in millions of dollars)	
ASSETS		
Fixed assets (note 5).....	\$ 50,044	\$ 49,887
Current assets		
Cash and cash equivalents.....	251	112
Investments.....	617	569
Accounts receivable.....	1,766	1,861
Financial assets related to debt.....	106	89
Materials, fuel and supplies.....	427	407
	<u>3,167</u>	<u>3,038</u>
Other long-term assets		
Investments (note 6).....	841	750
Deferred charges (note 7).....	5,031	4,309
Financial assets related to debt (note 8).....	299	372
Other assets (note 9).....	479	682
	<u>6,650</u>	<u>6,113</u>
	<u>\$ 59,861</u>	<u>\$ 59,038</u>
LIABILITIES AND EQUITY		
Long-term debt (note 10).....	\$ 37,269	\$ 34,965
Current liabilities		
Borrowings.....	88	1,774
Dividends payable.....	554	539
Accounts payable.....	1,343	1,398
Accrued interest.....	1,201	1,264
Current portion of long-term debt.....	3,087	3,406
	<u>6,273</u>	<u>8,381</u>
Other long-term liabilities (note 11).....	755	673
Perpetual debt (note 12).....	552	552
Non-controlling interest	178	187
Shareholder's equity (note 16)		
Share capital.....	4,374	4,374
Retained earnings.....	10,460	9,906
	<u>14,834</u>	<u>14,280</u>
	<u>\$ 59,861</u>	<u>\$ 59,038</u>

CONSOLIDATED FINANCIAL STATEMENTS

HYDRO-QUÉBEC

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31				
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(in millions of dollars)				
Operating activities					
Net income	\$ 1,108	\$ 1,078	\$ 906	\$ 679	\$ 786
Depreciation of fixed assets.....	1,696	1,587	1,538	1,383	1,297
Amortization of deferred charges.....	590	449	382	399	276
Change in non-cash working capital items (note 17).....	57	24	105	(118)	15
Other.....	12	142	(47)	(118)	28
	<u>3,463</u>	<u>3,280</u>	<u>2,884</u>	<u>2,225</u>	<u>2,402</u>
Investing activities					
Fixed assets.....	(1,810)	(1,812)	(1,642)	(2,092)	(1,590)
Business acquisition (note 15).....	-	(1,576)	(95)	-	(434)
Long-term investments	21	(65)	(216)	(160)	(27)
Net change in short-term investments.....	(46)	(131)	(129)	49	(12)
Other.....	(89)	(37)	(145)	(74)	(66)
	<u>(1,924)</u>	<u>(3,621)</u>	<u>(2,227)</u>	<u>(2,277)</u>	<u>(2,129)</u>
Financing activities					
Issue of long-term debt	4,544	2,200	2,302	1,295	1,402
Maturity of long-term debt and sinking fund redemption.....	(3,471)	(2,317)	(2,279)	(1,400)	(1,797)
Repayment in advance of long-term debt	(289)	(737)	(406)	(48)	(81)
Receipts resulting from credit risk management.....	25	-	-	427	(19)
Net change in short-term borrowings.....	(1,827)	1,678	40	-	20
Dividends paid.....	(539)	(453)	(279)	(357)	-
Other.....	157	(18)	32	71	71
	<u>(1,400)</u>	<u>353</u>	<u>(590)</u>	<u>(12)</u>	<u>(404)</u>
Net change in cash and cash equivalents.....	139	12	67	(64)	(131)
Cash and cash equivalents at beginning of year.....	112	100	33	97	228
Cash and cash equivalents at end of year.....	\$ <u>251</u>	\$ <u>112</u>	\$ <u>100</u>	\$ <u>33</u>	\$ <u>97</u>
Supplementary information					
Interest paid	3,018	2,967	3,004	3,086	2,982

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Significant Accounting Policies

Under the provisions of the *Hydro-Québec Act*, the publicly owned corporation Hydro-Québec (the “Corporation”) is mandated 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 consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and take into account generally accepted accounting methods and practices recognized by regulatory bodies. The regulatory accounting practices adopted by the Corporation, which differ from the accounting practices applied in unregulated enterprises, relate specifically to certain deferred charges, such as those concerning canceled major projects and personnel reduction and renewal measures, and the depreciation of fixed assets that are disposed of.

CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation, its subsidiaries, all of which are wholly owned, and its interests in jointly controlled enterprises (collectively “Hydro-Québec”).

Interests in jointly controlled enterprises, that is, joint ventures, are accounted for using the proportionate consolidation method. Investments in companies over which Hydro-Québec can exercise a significant influence are accounted for on an equity basis, whereas venture capital investments are generally recorded at cost. Other long-term investments are also recorded at cost.

The operations and cash flows of Noverco Inc. and of Hydro-Québec International (HQI) holdings are consolidated with a one-quarter lag. The financial positions of these companies disclosed in the Hydro-Québec consolidated balance sheet are as at September 30.

GOODWILL

The excess of the cost of investments in subsidiaries and joint ventures over the fair value of the share of the net assets acquired is recorded as goodwill and amortized on a straight-line basis over a period not exceeding 40 years. Each year, Hydro-Québec reviews the book value of goodwill to determine if there has been a permanent impairment in value by measuring the estimated fair value of the investments using the discounted cash flow method.

REGULATION

The *Act respecting the Régie de l'énergie* grants the Régie de l'énergie exclusive authority to determine or modify the rates and conditions under which electricity is transmitted and distributed by the Corporation.

The joint venture Noverco Inc. wholly owns Gaz Métropolitain, inc., whose main subsidiary, Gaz Métropolitain and Company, Limited Partnership, is involved primarily in the distribution of natural gas by pipeline. Most aspects of the limited partnership's operations are monitored and controlled by the Régie de l'énergie. In exercising its authority, the Régie de l'énergie makes decisions that influence the adoption and use of certain accounting policies, in particular those with respect to employee future benefits, income taxes and certain deferred charges.

REVENUE

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.

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 the closing 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.

The exchange gains or losses resulting from the translation of current monetary items are included in the consolidated statement of operations. Those resulting from the translation of long-term monetary items are deferred to the date of repayment when they relate to liabilities hedged by future revenue streams in U.S. dollars. In all other cases, they are deferred and amortized on a straight-line basis over the remaining term of the asset or liability.

Note 1 — Significant Accounting Policies (continued)

Currency swaps used to manage exchange risk related to principal payments on long-term debt and future revenue streams in U.S. dollars are translated at the closing exchange rates in effect at the balance sheet date. Those that constitute financial assets are presented as Financial assets related to debt, while those representing financial liabilities are presented as Long-term debt. Gains or losses on these currency swaps are deferred and amortized on a straight-line basis over their remaining terms.

Hydro-Québec uses the temporal method for translating the financial statements of foreign operations considered to be integrated in terms of financial and operational management. The financial statements of the foreign operations considered to be self-sustaining in terms of financial and operational management are translated on a current rate basis using the foreign currency as the measuring unit, except for a subsidiary of Hydro-Québec International, which uses the U.S. dollar.

FIXED ASSETS

Fixed assets are carried at cost, which comprises materials, labor, other costs directly contributing to construction activities and borrowing costs capitalized during construction. Capitalized borrowing costs are based on the previous year's average cost of long-term debt issued by the Corporation.

The costs of fixed assets in progress are transferred to fixed assets in service when construction is completed and the facilities are in commercial operation. As for generating facilities, the costs are transferred in installments as generating units of the facilities are completed and commissioned.

Fixed assets are depreciated over their useful life. Under the *Hydro-Québec Act*, the depreciation period is restricted to a maximum of 50 years. The depreciation periods for the main classes of fixed assets are as follows:

Distribution substations and lines	25 to 40 years
Transmission substations and lines	30 to 50 years
Hydraulic generation.....	45 to 50 years
Nuclear generation.....	25 to 30 years
Thermal generation, other than nuclear.....	15 to 30 years
Administrative and service buildings	50 years
Construction, operating and research equipment	3 to 30 years

Fixed assets are depreciated according to the sinking fund method at the rate of 3%, with the exception of construction, operating and research equipment, which is depreciated according to the straight-line method.

Upon disposal, the cost of fixed assets and the cost of their dismantlement, net of accumulated depreciation and salvage value, are charged to a separate account and amortized over a maximum period of 10 years, according to the sinking fund method, at the rate of 3%. However, when the fixed assets are replaced, the cost of dismantlement, less the salvage value, is added to the cost of the new fixed assets and then depreciated according to the method appropriate to the new asset.

CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash and cash equivalents comprise cash and liquid short-term investments with a maturity of three months or less from the date of acquisition. Investments with a maturity of three to twelve months are disclosed separately under Current assets in the balance sheet.

Short-term investments are shown at amortized cost. The book value of the investments approximates their fair value.

DEFERRED CHARGES

- Marketing programs and development expenses

Deferred charges related to marketing programs and development expenses are amortized on a straight-line basis over a maximum of five years starting the year after the year in which they were incurred.

- Canceled major projects

Capital expenditure project costs are reviewed periodically. Costs deemed irretrievable at the time of cancellation of a major project are deferred and amortized on a straight-line basis over a period of three years.

Note 1 — Significant Accounting Policies (continued)

PERSONNEL REDUCTION AND RENEWAL MEASURES

The Corporation introduced various temporary measures to facilitate the reduction and renewal of its personnel from 1997 to 2000. The most significant of these measures involved improvements to the Pension Plan as well as severance pay, the cost of which is amortized on a straight-line basis over a period of 60 months, beginning the month following each individual commitment. The cost of the measures relating to the Pension Plan is included in the accrued benefit obligation of the Pension Plan, the cost of severance pay is presented as Deferred charges, and the amortization is recorded in Expenditure - Operations.

SINKING FUNDS

Sinking funds are created through the purchase of the Corporation's debentures, Government of Canada bonds, or bonds issued or guaranteed by the Québec government. The Corporation's debentures are deducted from long-term debt. Government issued or guaranteed bonds are presented as Financial assets related to debt.

Sinking fund securities are carried at unamortized cost, a method whereby the difference between the cost and the par value at maturity is amortized over the remaining term of the security.

DERIVATIVE INSTRUMENTS

Hydro-Québec uses various derivative instruments to mitigate foreign exchange and interest rate risk related to long-term debt, foreign exchange risk related to sales and the risk related to fluctuating energy and raw material prices.

Interest exchanges, which arise from swap agreements used to change long-term interest rate exposure, are matched to interest expense on the borrowings to which they are related.

Derivative instruments used in the short term to manage financial risk over a period of no more than three years are recorded at cost. Gains or losses realized are deferred and charged to operations on a basis consistent with the recognition of the gains or losses of the underlying position.

When derivative instruments are used to manage risks related to energy-price fluctuations, they constitute hedges. Gains or losses related to these instruments are deferred and charged to operations on a basis consistent with the recognition of the gains or losses of the underlying position.

Derivative instruments used for trading purposes are valued at market value. Changes in value are recognized in the statement of operations in the period in which they occur.

DECOMMISSIONING OF NUCLEAR GENERATING STATION

The future costs of decommissioning Gentilly-2 nuclear generating station are charged progressively to operations and reflected in Other long-term liabilities. These estimated costs essentially relate to dismantling the station and removing the irradiated fuel.

The Corporation revises these costs periodically based on the various assumptions and estimates underlying the calculations, possible technological advances and changes in the standards and regulations governing the decommissioning of nuclear generating stations.

USE OF ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires Management to make estimates and assumptions which affect the amounts reported in the financial statements. Actual amounts could differ from those estimates.

RECLASSIFICATION

Some figures of the previous year have been reclassified in order to respect the presentation adopted in the current year.

Note 2 — Depreciation, Amortization and Decommissioning

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(in millions of dollars)				
Depreciation of fixed assets	\$ 1,696	\$ 1,587	\$ 1,538	\$ 1,383	\$ 1,297
Amortization of marketing programs	14	67	58	73	92
Amortization of canceled major projects	44	43	44	63	63
Amortization of development expenses	9	33	29	—	—
Write-off of projects	1	81	7	7	56
Decommissioning of nuclear generating station	13	12	10	9	8
Other	68	73	45	54	29
	<u>\$ 1,845</u>	<u>\$ 1,896</u>	<u>\$ 1,731</u>	<u>\$ 1,589</u>	<u>\$ 1,545</u>

Note 3 — Taxes

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(in millions of dollars)				
Capital tax	\$ 284	\$ 243	\$ 320	\$ 334	\$ 322
Tax on gross revenue as municipal real estate tax on certain immovables	228	218	211	216	209
Municipal, school and other taxes	79	64	61	60	52
	<u>\$ 591</u>	<u>\$ 525</u>	<u>\$ 592</u>	<u>\$ 610</u>	<u>\$ 583</u>

Note 4 — Financial Expenses

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(in millions of dollars)				
Interest					
Interest on debt securities	\$ 3,105	\$ 3,231	\$ 3,177	\$ 3,309	\$ 3,153
Amortization of borrowing discount and expenses	53	58	54	56	55
	<u>3,158</u>	<u>3,289</u>	<u>3,231</u>	<u>3,365</u>	<u>3,208</u>
Less					
Capitalized borrowing costs	248	239	198	165	153
Net investment income	51	42	19	115	(13)
	<u>299</u>	<u>281</u>	<u>217</u>	<u>280</u>	<u>140</u>
	2,859	3,008	3,014	3,085	3,068
Exchange loss	306	174	134	136	52
Loan guarantee fees	185	187	197	189	188
	<u>\$ 3,350</u>	<u>\$ 3,369</u>	<u>\$ 3,345</u>	<u>\$ 3,410</u>	<u>\$ 3,308</u>

Note 5 — Fixed Assets

	2001			
	In service	Accumulated depreciation	In progress	Total
	(in millions of dollars)			
Distribution				
Substations and lines	\$ 9,310	\$ 2,652	\$ 201	\$ 6,859
Administrative and service buildings.....	672	197	5	480
Construction, operating and research equipment.....	718	519	57	256
Sundry.....	707	392	17	332
	<u>11,407</u>	<u>3,760</u>	<u>280</u>	<u>7,927</u>
Transmission				
Substations and lines	19,735	4,434	785	16,086
Administrative and service buildings.....	276	103	—	173
Construction, operating and research equipment.....	1,906	964	123	1,065
Sundry.....	26	16	90	100
	<u>21,943</u>	<u>5,517</u>	<u>998</u>	<u>17,424</u>
Generation				
Hydraulic	23,965	5,500	2,885	21,350
Nuclear	1,645	794	19	870
Thermal, other than nuclear	773	365	3	411
Administrative and service buildings.....	599	126	2	475
Construction, operating and research equipment.....	280	195	23	108
Sundry.....	211	75	67	203
	<u>27,473</u>	<u>7,055</u>	<u>2,999</u>	<u>23,417</u>
Engineering, Procurement and Construction				
Administrative and service buildings.....	214	82	4	136
Construction, operating and research equipment.....	400	262	19	157
	<u>614</u>	<u>344</u>	<u>23</u>	<u>293</u>
Other				
Administrative and service buildings.....	62	28	14	48
Construction, operating and research equipment.....	218	182	4	40
Sundry.....	1,324	439	10	895
	<u>1,604</u>	<u>649</u>	<u>28</u>	<u>983</u>
	<u>\$ 63,041</u>	<u>\$ 17,325</u>	<u>\$ 4,328</u>	<u>\$ 50,044</u>

Note 5 — Fixed Assets (continued)

	2000			
	In service	Accumulated depreciation	In progress	Total
	(in millions of dollars)			
Distribution				
Substations and lines	\$ 8,904	\$ 2,376	\$ 244	\$ 6,772
Administrative and service buildings	678	181	6	503
Construction, operating and research equipment.....	665	472	64	257
Sundry	659	340	7	326
	<u>10,906</u>	<u>3,369</u>	<u>321</u>	<u>7,858</u>
Transmission				
Substations and lines	19,253	4,019	839	16,073
Administrative and service buildings	272	95	2	179
Construction, operating and research equipment.....	1,814	878	131	1,067
Sundry	25	2	41	64
	<u>21,364</u>	<u>4,994</u>	<u>1,013</u>	<u>17,383</u>
Generation				
Hydraulic.....	23,827	5,087	2,462	21,202
Nuclear	1,638	724	11	925
Thermal, other than nuclear.....	699	336	70	433
Administrative and service buildings	599	113	1	487
Construction, operating and research equipment.....	255	177	24	102
Sundry	206	53	56	209
	<u>27,224</u>	<u>6,490</u>	<u>2,624</u>	<u>23,358</u>
Engineering, Procurement and Construction				
Administrative and service buildings	209	72	3	140
Construction, operating and research equipment.....	358	216	24	166
	<u>567</u>	<u>288</u>	<u>27</u>	<u>306</u>
Other				
Administrative and service buildings	60	26	1	35
Construction, operating and research equipment.....	231	189	5	47
Sundry	1,290	404	14	900
	<u>1,581</u>	<u>619</u>	<u>20</u>	<u>982</u>
	<u>\$ 61,642</u>	<u>\$ 15,760</u>	<u>\$ 4,005</u>	<u>\$ 49,887</u>

As at December 31, 2001, the Corporation had cumulative costs related to suspended draft design projects amounting to \$514 million (\$509 million as at December 31, 2000), recorded under Fixed assets in progress. The Corporation has therefore ceased capitalizing the related borrowing expenses.

As certain projects have longer completion timelines, their cumulative costs are periodically reviewed.

During such reviews, Management must use estimates and make assumptions that have an impact on the amounts reported for draft design projects at the balance sheet date. Such projects are assessed in terms of profitability based on prevailing market conditions at the time of their commissioning, compliance with sustainable development principles and how well they are received by local communities. A significant change in the assessment based on these criteria could result in a reduction of the balance for draft design projects.

Note 6 — Investments

	<u>2001</u>	<u>2000</u>
	(in millions of dollars)	
At cost		
Noverco Inc. (note 14)		
Notes ^(a)	\$ 141	\$ 141
Churchill Falls (Labrador) Corporation Limited (note 19)		
Bonds ^(b)	58	59
Other ^(c)	269	181
	<u>468</u>	<u>381</u>
At equity		
Enbridge Inc.	211	207
Churchill Falls (Labrador) Corporation Limited (note 19).....	39	35
Connexim, Limited Partnership	32	41
Meiya Power Company Limited	91	86
	<u>373</u>	<u>369</u>
	<u>\$ 841</u>	<u>\$ 750</u>

- (a) Subordinate debentures, interest rate based on the annual average rate of Government of Canada bonds with terms of over 10 years plus 4.45%, due in 2031, redeemable.
- (b) Bonds secured by a general mortgage, 7.50%, due 2002 through 2010 (par value of \$64 million in 2001 and \$65 million in 2000).
- (c) Includes venture capital investments at a cost of \$118 million and with a fair value of \$118 million as at December 31, 2001 (\$90 million and \$143 million as at December 31, 2000). The fair value of listed shares is based on the trading price at the balance sheet date; the fair value of unlisted shares is cost.

Note 7 — Deferred Charges

	<u>2001</u>	<u>2000</u>
	(in millions of dollars)	
Deferred charges related to debt ^(a)	\$ 3,974	\$ 3,191
Employee future benefit asset (note 18).....	635	545
Marketing programs.....	53	49
Development expenses.....	53	91
Canceled major projects.....	—	44
Personnel reduction and renewal measures.....	60	117
Other.....	256	272
	<u>\$ 5,031</u>	<u>\$ 4,309</u>

- (a) Mainly comprises a deferred exchange loss of \$3,838 million (\$3,063 million as at December 31, 2000).

Note 8 — Financial Assets Related to Debt

	<u>2001</u>	<u>2000</u>
	(in millions of dollars)	
Currency swaps.....	\$ 316	\$ 232
Sinking funds.....	89	229
	<u>405</u>	<u>461</u>
Less		
Current portion	106	89
	<u>\$ 299</u>	<u>\$ 372</u>

Note 9 — Other Assets

	<u>2001</u>	<u>2000</u>
	(in millions of dollars)	
Goodwill	\$ 297	\$ 302
Government reimbursement for the 1998 ice storm ^(a)	182	380
	<u>\$ 479</u>	<u>\$ 682</u>

(a) Corresponds to compensation payments, from 2003 to 2007, in the amount of \$182 million for the net cost of restoring the system. As at December 31, 2000, the balance also included an amount of \$186 million for reimbursement of the cost of emergency measures that was received during 2001.

Note 10 — Long-Term Debt

COMPOSITION AND MATURITIES

Debentures, other long-term debt and currency swaps representing financial liabilities, translated into Canadian dollars at the closing exchange rates in effect at the balance sheet date, are summarized in the following table. These amounts are presented by year of maturity, and take into account the requirements of the sinking funds.

Year of maturity	Debt of the Corporation				Subsidiaries and joint ventures	2001	2000
	Canadian dollars	U.S. dollars	Other currencies	Total		Total	Total
	(in millions of dollars)						
2001	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,406
2002	520	2,085	450	3,055	32	3,087	2,990
2003	1,430	1,199	293	2,922	383	3,305	2,858
2004	1,485	32	56	1,573	26	1,599	1,185
2005	1,543	652	171	2,366	162	2,528	2,298
2006	416	1,760	425	2,601	28	2,629	—
1 to 5 years	5,394	5,728	1,395	12,517	631	13,148	12,737
6 to 10 years	2,999	1,703	1,296	5,998	1,117	7,115	5,242
11 to 15 years	1,133	2,530	609	4,272	86	4,358	5,100
16 to 20 years	2,722	1,928	13	4,663	103	4,766	2,755
21 to 25 years	1,956	2,516	—	4,472	91	4,563	6,152
26 to 30 years	1,084	3,297	—	4,381	136	4,517	3,981
31 to 35 years	1,143	—	—	1,143	40	1,183	2,109
36 to 40 years	209	—	—	209	67	276	209
41 to 45 years	2	—	—	2	—	2	4
46 to 50 years	50	—	—	50	—	50	50
51 to 55 years	—	—	—	—	—	—	—
56 to 60 years	378	—	—	378	—	378	32
	<u>17,070^(a)</u>	<u>17,702</u>	<u>3,313</u>	<u>38,085^(b)</u>	<u>2,271</u>	<u>40,356</u>	<u>38,371^(b)</u>
Less							
Current portion....	520	2,085	450	3,055	32	3,087	3,406
	<u>\$ 16,550</u>	<u>\$ 15,617</u>	<u>\$ 2,863</u>	<u>\$ 35,030</u>	<u>\$ 2,239</u>	<u>\$ 37,269</u>	<u>\$ 34,965</u>

(a) Includes \$113 million and \$249 million in zero-coupon bonds, reported at their discounted value at a semi-annually compounded interest rate of 10.95% and 10.67% respectively. Their par value will reach \$282 million and \$1,729 million in 2010 and 2020 respectively. A specific sinking fund was created for this debt and totaled \$30 million as at December 31, 2001. Other bonds, reported at their discounted value and amounting to \$1,097 million, will reach a par value of \$1,333 million on maturity.

(b) Includes \$36,835 million in bonds guaranteed by the Québec government (\$36,108 million as at December 31, 2000).

Note 10 — Long-Term Debt (continued)

ALLOCATION OF DEBT BY CURRENCY AT TIME OF ISSUE AND IMPACT OF FINANCIAL ASSETS RELATED TO DEBT

The following table summarizes long-term debt, including the current portion, in Canadian dollars and currency units. Also shown are the effects of currency swaps and sinking funds allocated to repay debt, which are presented on the balance sheet under Financial assets related to debt.

	2001			2000	
	Long-term debt		Financial assets related to debt		Total
	(in millions of dollars or millions of currency units)				
In Canadian dollars and currency units	At closing exchange rates at balance sheet date ^(a)	Currency swaps and sinking funds	Total	Total	
Debt of the Corporation					
Canadian dollars	17,070	\$ 17,070	\$ (88)	\$ 16,982	\$ 16,779
U.S. dollars	10,887	17,702	(172)	17,530	16,003
Other currencies					
Japanese yen	57,500	876	(82)	794	882
Deutsche marks	974	860	(39)	821	1,317
Pounds sterling	300	786	(20)	766	999
Swiss francs	97	96	—	96	229
French francs	2,500	695	—	695	654
		<u>3,313</u>	<u>(141)</u>	<u>3,172</u>	<u>4,081</u>
		38,085	(401)	37,684	36,863
Subsidiaries and joint ventures ^(b)		<u>2,271</u>	<u>(4)</u>	<u>2,267</u>	<u>1,047</u>
		\$ <u>40,356</u>	\$ <u>(405)</u>	\$ <u>39,951</u>	\$ <u>37,910</u>

(a) Includes \$945 million of financial liabilities composed of currency swaps (\$765 million as at December 31, 2000) and \$452 million of Hydro-Québec securities held in the sinking funds (\$240 million as at December 31, 2000).

(b) Includes \$835 million in Canadian dollars, \$1,092 million in U.S. dollars, \$336 million in Unidades de Fomento (indexed Chilean pesos) and \$4 million in Chinese renminbi (\$809 million in Canadian dollars, \$236 million in U.S. dollars and \$2 million in Chinese renminbi as at December 31, 2000).

ALLOCATION OF DEBT BY CURRENCY AT TIME OF ISSUE AND AT TIME OF REPAYMENT

The following table shows the allocation of debt, net of sinking funds, converted into Canadian dollars after taking swaps into account, according to the currency at time of issue and the currency at time of repayment.

	2001		2000	
	At time of issue	At time of repayment	At time of issue	At time of repayment
	(in millions of dollars)			
Debt of the Corporation				
Canadian dollars	\$ 16,982	\$ 17,371	\$ 16,779	\$ 17,477
U.S. dollars	17,530	20,313 ^(a)	16,003	19,099 ^(a)
Other currencies	3,172	—	4,081	287
	<u>37,684</u>	<u>37,684</u>	<u>36,863</u>	<u>36,863</u>
Debt of subsidiaries and joint ventures				
Canadian dollars	835	835	809	809
U.S. dollars	1,092	937	236	236
Other currencies	340	495	2	2
	<u>2,267</u>	<u>2,267</u>	<u>1,047</u>	<u>1,047</u>
	\$ <u>39,951</u>	\$ <u>39,951</u>	\$ <u>37,910</u>	\$ <u>37,910</u>

(a) These balances are 83% hedged by future revenue streams in U.S. dollars (76% as at December 31, 2000).

Note 10 — Long-Term Debt (continued)

INTEREST RATES

The Hydro-Québec interest rates presented in the following table take into account nominal interest rates on borrowings, the related discounts and expenses, and the effect of interest rate swaps.

<u>Year of maturity</u>	<u>Canadian dollars</u>	<u>U.S. dollars</u>	<u>Other currencies</u>	<u>2001 weighted average</u>	<u>2000 weighted average</u>
1 to 5 years.....	3.62	6.54	3.65	4.87	7.08
6 to 10 years.....	6.20	4.78	5.51	5.56	7.37
11 to 15 years.....	10.87	8.40	10.27	9.29	9.72
16 to 20 years.....	11.06	9.73	3.26	10.50	10.24
21 to 25 years.....	9.94	8.69	6.20	9.16	9.78
26 to 30 years.....	6.68	9.13	—	8.46	9.03
31 to 35 years.....	6.34	—	—	6.34	6.51
36 to 40 years.....	6.41	—	—	6.41	6.43
41 to 45 years.....	6.56	—	—	6.56	6.29
46 to 50 years.....	6.44	—	—	6.44	6.45
51 to 55 years.....	—	—	—	—	—
56 to 60 years.....	6.62	—	—	6.62	6.33
Weighted average	8.02	8.24	6.81	8.05	8.82

The variable-rate portion of Hydro-Québec's debt amounted to 24.6%, or 25.6% after perpetual debt, as at December 31, 2001 (25.2%, or 26.3% after perpetual debt, as at December 31, 2000). For information purposes, a change of 1% in the interest rate would change net income by \$104 million (\$101 million in 2000), not including the impact of derivative instruments used to manage short-term financial risk (Note 13).

FAIR VALUE

As at December 31, 2001, the fair value of Hydro-Québec's debt, net of sinking funds and after swaps, amounted to \$47,468 million (\$45,019 million as at December 31, 2000).

Fair value is obtained by discounting future cash flows, based on term and closing interest rates as at the balance sheet date for similar instruments available on financial markets. Changes in fair value reflect sensitivity to financial market interest rates. However, Management intends to retain these debt securities until maturity. Therefore, as at December 31, 2001, Hydro-Québec did not foresee any significant debt repayments that could result in the realization of this fair value.

Hydro-Québec has undrawn revolving standby credits totaling US\$1,500 million and expiring between 2002 and 2006. Any borrowing under these lines of credit will bear interest at a rate based on the London Interbank Offered Rate (LIBOR).

Note 11 — Other Long-Term Liabilities

	<u>2001</u>	<u>2000</u>
	<u>(in millions of dollars)</u>	
Accounts payable.....	\$ 312	\$ 275
Employee future benefit liability (note 18).....	343	311
Decommissioning of nuclear generating station.....	100	87
	<u>\$ 755</u>	<u>\$ 673</u>

Note 12 — Perpetual Debt

Perpetual notes in the amount of US\$400 million bear interest at a rate established semi-annually based on LIBOR. They are guaranteed by the Québec government and are only redeemable at the Corporation's option. These notes are shown on the balance sheet at the exchange rate in effect on the date of issue (\$637 million at the closing exchange rate in effect at the balance sheet date). As at December 31, 2001, their fair value was \$566 million (\$520 million as at December 31, 2000). As at December 31, 2001 and 2000, the LIBOR for perpetual notes was 3.09% and 6.88%, respectively.

Note 13 — Derivative Instruments

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

Hydro-Québec concludes currency swaps in order to manage the foreign exchange risk associated with payments of principal on long-term debt, interest payments and future revenue streams in U.S. dollars. Some of these currency swaps allow for interest rate exchanges to change 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 through 2017, showed a negative fair value of \$338 million (negative fair value of \$318 million as at December 31, 2000).

The following table shows the notional amount of these swaps, expressed in Canadian dollars or other currencies.

	<u>2001^(a)</u>	<u>2000^(a)</u>
	(in millions of currency units)	
Canadian dollars	(389)	(698)
U.S. dollars	(1,768)	(2,136)
Other currencies		
Japanese yen	57,500	65,500
Deutsche marks.....	856	1,456
Pounds sterling	300	310
Swiss francs	97	247
French francs	2,500	2,500
Euros.....	61	—
Unidades de Fomento (indexed Chilean pesos)	(4)	—

(a) Figures in parentheses represent amounts to be paid.

In managing short-term financial risks, Hydro-Québec assesses, on an ongoing basis, the overall impact of variations in exchange rates, interest rates and the prices of raw materials. Hydro-Québec holds options and forward contracts designed to hedge several positions. It also uses derivative instruments to manage market risks resulting from fluctuations in energy prices. The fair value of these instruments is presented by specific risk in the following table. These derivative instruments mature through October 2004.

Note 13 — Derivative Instruments (continued)

The fair value of derivative instruments reflects the amount that Hydro-Québec would receive (*financial assets*) or pay (*financial liabilities*) as at the balance sheet date in terminating these instruments.

	<u>2001</u>	<u>2000</u>
	(in millions of dollars)	
Exchange risk		
Forward exchange contracts and options		
Financial assets	\$ 38	\$ 39
Financial liabilities.....	(2)	(43)
	<u>36</u>	<u>(4)</u>
Interest rate risk		
Forward rate agreements, options and swaps		
Financial assets	33	1
Financial liabilities.....	(89)	—
	<u>(56)</u>	<u>1</u>
Risk of change in energy and raw material prices		
Forward contracts, options and swaps		
Financial assets	32	30
Financial liabilities.....	(60)	(21)
	<u>(28)</u>	<u>9</u>
	<u>\$ (48)</u>	<u>\$ 6</u>

The fair value of derivative instruments is based on the spot rates or forward rates or prices in effect at market closing as at the balance sheet date. Without this information for a given instrument, Management refers to the available forward rate or price for an equivalent instrument. Different valuation models recognized by financial markets are used to estimate the fair value of options.

CREDIT RISK

Derivative instruments include an element of risk, since a counterparty might not meet its obligations. However, this risk is moderate 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 limiting credit risk concentrations and a customer credit risk evaluation program, as well as by adopting credit limits, where necessary. As at December 31, 2001, Hydro-Québec did not foresee any material loss arising from counterparty default.

Note 14 — Interests in Joint Ventures

The share of the principal joint venture items included in the consolidated financial statements is presented in the following table. These joint ventures specifically include the interest in Noverco Inc. and the Corporation's interests in various foreign joint ventures through Hydro-Québec International.

	<u>2001</u>	<u>2000</u>
	(in millions of dollars)	
Operations		
Revenue	\$ 1,148	\$ 864
Expenditure and financial expenses	1,095	807
Non-controlling interest	18	18
<i>Net income</i>	<u>\$ 35</u>	<u>\$ 39</u>
Balance sheet		
Current assets	\$ 186	\$ 191
Long-term assets	1,793	1,687
Current liabilities	216	256
Long-term liabilities	1,096	1,028
Non-controlling interest	174	180
<i>Net assets</i>	<u>\$ 493</u>	<u>\$ 414</u>
Cash flows		
Operating activities	\$ 125	\$ 92
Investing activities	(121)	(144)
Financing activities	(1)	63
<i>Net change in cash and cash equivalents</i>	<u>\$ 3</u>	<u>\$ 11</u>

NOVERCO INC.

Hydro-Québec holds 41% of the outstanding common shares of Noverco Inc. and options on an additional 9%. Under the Noverco Inc. shareholders' agreement, the Corporation agreed to mechanisms enabling the joint owners to convert their interests into liquidities under certain conditions.

Noverco Inc., through its interest in Gaz Métropolitain and Company, Limited Partnership (GMCLP), disclosed unrecorded future income taxes of \$98 million on regulated activities in its 2001 financial statements using the tax liability method (\$141 million in 2000 with the deferral method). In the past, the Régie de l'énergie and the National Energy Board have allowed these future income taxes to be included in GMCLP's rates as they become payable.

GMCLP charges pension and other retirement benefits to income as the amounts are disbursed, in accordance with regulatory practice.

FOREIGN JOINT VENTURES

The Corporation holds interests in joint ventures through HQI. These joint ventures are essentially involved in the operation and construction of transmission systems and hydroelectric generating stations. They mainly operate in South and Central America and in Australia.

A contract for the sale of Senelec's shares, which takes effect in 2001, was signed on December 29, 2000. As at December 31, 2000, the investment in Senelec is reflected in short-term investments at its fair value of \$49 million. Before this transaction, it was recorded using the proportionate consolidation method (cost of \$64 million).

Note 15 — Business Acquisition

On October 23, 2000, the Corporation, through HQI, acquired the aggregate of the outstanding common shares of Compañía Nacional de Transmisión Eléctrica S.A. (Transelec), a major Chilean power transmission company. The acquisition was recorded using the purchase method.

Note 15 — Business Acquisition (continued)

Following the finalization of the acquisition price on June 29, 2001 for an amount of \$1,635 million, the fair value of the assets acquired and liabilities assumed are as follows:

Cash.....	50
Current assets	13
Long-term assets.....	1,529
	<u>1,592</u>
Current liabilities.....	(14)
Long-term liabilities	(15)
	<u>1,563</u>
Net assets.....	72
Goodwill.....	<u>1,635</u>
Purchase price	
Consideration comprises:	
Cash, net of cash acquired.....	1,576
Other.....	9
	<u>1,585</u>

As at December 31, 2000, no results had been recorded, pursuant to Hydro-Québec's practice of consolidating international interests on a quarter lag basis.

Note 16 — Shareholder's Equity

The authorized share capital comprises 50,000,000 shares with a par value of \$100 each, and 43,741,090 shares were issued and paid.

Under the *Hydro-Québec Act*, any dividends to be paid by the Corporation are declared once a year by the Québec government, which also determines the terms and conditions of payment. For a given fiscal year, they cannot exceed the distributable surplus, equal to 75% of the year's operating income and net investment income, less interest on debt securities and amortization of borrowing discounts and expenses. This calculation is made on the basis of the consolidated financial statements.

However, in respect of a given fiscal 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. The government declares the dividends for a given year within 30 days after the Corporation has sent the government the financial data relative to the distributable surplus. On expiry of the time prescribed, any distributable surplus or part thereof that has not been subject to a dividend declaration may no longer be distributed to the shareholder as a dividend.

For 2001, the Québec government declared dividends of \$554 million, which is less than the maximum permitted.

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

ACCOUNTING CHANGE IN 2002

In December 2001, the Canadian Institute of Chartered Accountants published a revised version of *CICA Handbook* Section 1650, "Foreign Exchange Translation". The revised accounting standard abolishes the method of deferring and amortizing unrealized exchange gains and losses on foreign currency-denominated monetary items recorded in the balance sheet. The change applies to years beginning on or after January 1, 2002, and its application is retroactive.

As at January 1, 2002, initial application of these recommendations will reduce retained earnings by approximately \$1,300 million.

Note 17 — Change in Non-Cash Working Capital Items

	<u>2001</u>	<u>2000</u>
	(in millions of dollars)	
Accounts receivable.....	\$ 26	\$ 30
Materials, fuel and supplies.....	(23)	(24)
Accounts payable.....	92	31
Accrued interest.....	(38)	(13)
	<u>\$ 57</u>	<u>\$ 24</u>

Note 18 — Employee Future Benefits

The Corporation offers all its employees a contributory defined benefit pension plan, based on final pay. The Corporation's pension plan (the "Pension Plan") is a funded plan that ensures pension benefits based on number of years of service and average five best years of earnings. The Corporation also offers its active and retired employees other benefits including group life, medical and hospitalization, and salary insurance plans. However, most of these plans are not funded, with the exception of the long-term disability salary insurance plan, which is fully funded, and the supplementary group life insurance plan, which is partially funded.

The cost of pension benefits and other retirement benefits provided in exchange for services rendered during the year is calculated using the projected benefit method prorated on years of service, and is based on best estimate economic and demographic assumptions as determined by Management.

The following table presents information concerning the defined benefit plans, established by independent actuaries:

	2001 Pension Plan	2000 Pension Plan	2001 Other plans	2000 Other plans
	(in millions of dollars)			
Accrued benefit obligation				
Balance at beginning of year.....	\$ 6,966	\$ 5,988	\$ 522	\$ 460
Current service cost	214	171	19	16
Benefit payments and refunds.....	(321)	(322)	(31)	(26)
Interest on obligation	451	436	33	32
Actuarial losses (gains).....	(79)	647	(20)	40
Adjustments arising from plan amendments.....	—	—	(12)	—
Adjustments arising from personnel reduction programs	—	46	—	—
Balance at end of year.....	<u>\$ 7,231</u>	<u>\$ 6,966</u>	<u>\$ 511</u>	<u>\$ 522</u>
Plan assets at fair value				
Balance at beginning of year.....	\$ 9,452	\$ 8,958	\$ 31	\$ 31
Actual return on plan assets during the year	33	831	1	—
Employee contributions	13	3	—	—
Hydro-Québec contributions.....	—	1	13	4
Benefit payments and refunds.....	(321)	(322)	(5)	(4)
Administrative fees.....	(28)	(19)	—	—
Balance at end of year.....	<u>\$ 9,149</u>	<u>\$ 9,452</u>	<u>\$ 40</u>	<u>\$ 31</u>
Surplus (deficit) at end of year	\$ 1,918	\$ 2,486	\$ (471)	\$ (491)
Unamortized past service costs ^(a)	256	278	—	—
Unamortized net loss (gain) ^(b)	194	(428)	(39)	(19)
Unamortized transitional obligation (asset) ^(a)	(1,825)	(1,977)	165	193
Unamortized adjustments arising from personnel reduction programs ^(c)	92	186	2	6
Accrued benefit asset (liability)	<u>\$ 635</u>	<u>\$ 545</u>	<u>\$ (343)</u>	<u>\$ (311)</u>
Significant actuarial assumptions (%)				
Discount rate.....	6.62	6.61	6.62	6.61
Expected rate of return on plan assets ^(d)	7.67	7.90	4.98	5.59
Salary escalation rate ^(e)	2.95	2.95	—	—

(a) Past service costs arising from plan amendments and transitional balances relating to the Pension Plan and other defined retirement benefits as at January 1, 1999, are amortized on a straight-line basis over the employees' expected average remaining service life. The transitional obligation relating to salary insurance plans is amortized on a straight-line basis over a period of five years.

(b) Amortization of actuarial gains or losses is recognized in the expense for the year if the unamortized net actuarial gain or loss at the beginning of the year exceeds 10% of the value of the accrued benefit obligation or 10% of the market-related value of the assets of the plan fund, whichever is greater. Amortization corresponds to the excess divided by employees' expected average remaining service life.

(c) Adjustments arising from personnel reduction programs are amortized on a straight-line basis over a period of 60 months, beginning the month following each individual commitment.

(d) The expected return on Pension Plan assets is based on a market-related value determined by using a five-year moving average for equity securities held, and by valuing other asset classes at their fair value.

(e) This rate is a weighted average which takes salary increases into account as well as promotion opportunities while in service.

As at December 31, 2001, health-care costs were based on an annual growth rate of 7.9% in 2002.

Thereafter, based on the assumption used, this rate gradually decreases until it reaches the ultimate rate of 3.7% in 2012.

Note 18 — Employee Future Benefits (continued)

Plan assets include securities issued by the Corporation and certain related companies. These securities are grouped under the following asset classes:

	2001 Pension Plan	2000 Pension Plan	2001 Other plans	2000 Other plans
	(in millions of dollars)			
Bonds and debentures.....	\$ 689	\$ 742	\$ —	\$ —
Shares	12	10	—	—
Short-term investments	—	20	35	31
	<u>\$ 701</u>	<u>\$ 772</u>	<u>\$ 35</u>	<u>\$ 31</u>
Plan expense (credit)				
Current service cost, net of employee contributions ^(a)	\$ 185	\$ 157	\$ 19	\$ 16
Administrative fees ^(b)	28	19	—	—
Interest on obligation	451	436	32	33
Expected return on plan assets.....	(718)	(650)	(1)	(1)
Amortization of transitional obligation (asset).....	(152)	(152)	16	16
Amortization of net actuarial gain	—	—	(1)	(1)
Amortization of adjustments arising from personnel reduction programs	94	90	4	4
Amortization of past service costs	22	22	—	—
Expense (credit) for the year	<u>\$ (90)</u>	<u>\$ (78)</u>	<u>\$ 69</u>	<u>\$ 67</u>

(a) The value of the contribution holiday granted to employees for the year is disclosed net of service cost of contributions deemed paid and amortized using the method for amortizing actuarial gains and losses. For the long-term disability salary insurance plan, current service cost corresponds to the cost of new disability cases for the year.

(b) Administrative fees chargeable to the Pension Plan are fully billed by the Corporation.

The Corporation and most of its employees have benefited from a Pension Plan contribution holiday since May 10, 1999.

During the year, changes were made to the funding formula for the supplementary group life insurance plan. These changes came into force in September and apply to all individuals insured under the plan, except for engineers, researchers and specialists, and retirees in those categories. These amendments, coupled with certain changes to the assumptions used, result in a reduction of \$12 million in the accrued benefit obligation of Other plans.

Note 19 — Commitments and Contingent Liabilities**ELECTRICITY PURCHASED**

On May 12, 1969, the Corporation signed a contract with Churchill Falls (Labrador) Corporation Limited (CF(L)Co) whereby the Corporation undertook to purchase substantially all the energy generated at Churchill Falls generating station, which has a rated capacity of 5,428 MW. Under this agreement, the Corporation could be required to provide additional funding to service the debt of CF(L)Co and to pay its expenses should CF(L)Co be unable to do so. Expiring in 2016, this contract will be automatically renewed for a further 25 years under agreed-upon terms and conditions. On June 18, 1999, the Corporation and CF(L)Co also entered into a contract to guarantee the availability of 682 MW of additional power until 2041 for the November 1 to March 31 winter period.

As at December 31, 2001, the Corporation was committed under 77 contracts to purchase electricity from independent power producers for a potential capacity of about 810 MW. The Corporation expects to purchase approximately 4 TWh of energy annually over the initial term of these contracts, which extend through 2029. The majority of these contracts include renewal clauses.

GUARANTEES

Hydro-Québec had issued letters of credit or guarantees for an amount of \$1,504 million as at December 31, 2001.

Note 19 — Commitments and Contingent Liabilities (continued)

CAPITAL EXPENDITURES

The Corporation expects to invest approximately \$2,000 million in fixed assets in 2002.

LITIGATION

In the normal course of business, Hydro-Québec is party to claims and legal proceedings. Management is of the opinion that the outcome of these legal actions, which can currently be determined with reasonable certainty, will not have an adverse effect on the financial position or consolidated operating results of Hydro-Québec, given the provision for such expenditures.

Most of the claims that the Corporation received in respect of the 1998 ice storm have been withdrawn.

Note 20 — Segmented Information

Hydro-Québec's operations are divided into four segments based on its organizational structure, which reflects the method of managing the Corporation's activities:

Distribution: Hydro-Québec Distribution develops and operates the Corporation's distribution system and is responsible for sales and service to Québec customers.

Transmission: Hydro-Québec TransÉnergie develops and operates the Corporation's transmission system in Québec, in addition to managing and operating foreign transmission systems and carrying out development projects. The division also manages Hydro-Québec's telecommunications network.

Generation: Hydro-Québec Production operates and develops the Corporation's generating facilities in Québec as well as a number of foreign facilities. The division also sells electricity on external markets and engages in energy trading activities.

Engineering, Procurement and Construction: Hydro-Québec Ingénierie, approvisionnement et construction provides engineering services and constructs power facilities nationally and internationally. The division also provides other services, particularly in procurement and information technology, to Hydro-Québec's business units.

Other: This segment comprises research and development, corporate activities, financial services and activities related to the gas sector.

The amounts presented for each segment are based on the financial information used to establish the consolidated financial statements. The accounting policies used in each segment are as described in Note 1.

Intersegment transactions related to electricity sales are recorded based on the supply and transmission rates provided under the *Act to amend the Act respecting the Régie de l'énergie*. The supply rate is determined in the Act for a maximum annual volume of heritage pool electricity consumption of 165 TWh. This volume was not reached in 2001.

The transmission rates used are those decreed by the Québec government in March 1997 pending a decision of the Régie de l'énergie with respect to the application for a transmission rate increase effective January 2001. Should changes be made, they would only affect intersegment revenue.

Note 20 — Segmented Information (continued)

Other intersegment products and services are valued at full cost.

The following tables contain information related to operations and assets by segment and certain geographical information:

SEGMENTS

	<u>2001</u>						
	Distribution	Transmission	Generation	EPC ^(a)	Other	Intersegment ^(b)	Total
	(in millions of dollars)						
Revenue							
External customers.....	\$ 7,934	\$ 301	\$ 3,218	\$ 20	\$ 1,120	\$ (15)	\$ 12,578
Intersegment.....	\$ 23	\$ 2,727	\$ 4,091	\$ 1,142 ^(c)	\$ 211	\$ (8,194)	\$ —
Depreciation, amortization and decommissioning.....	\$ 429	\$ 578	\$ 671	\$ 66	\$ 101	\$ —	\$ 1,845
Financial expenses.....	\$ 573	\$ 1,139	\$ 1,502	\$ 20	\$ 122	\$ (6)	\$ 3,350
Net income (loss).....	\$ (454)	\$ 436	\$ 1,170	\$ (16)	\$ (28)	\$ —	\$ 1,108
Capital expenditures.....	\$ 482	\$ 549	\$ 664	\$ 53	\$ 62	\$ —	\$ 1,810
Total assets.....	\$ 9,545	\$ 18,223	\$ 24,275	\$ 533	\$ 2,282	\$ 5,003	\$ 59,861
	<u>2000</u>						
	Distribution	Transmission	Generation	EPC ^(a)	Other	Intersegment ^(b)	Total
	(in millions of dollars)						
Revenue							
External customers.....	\$ 7,887	\$ 66	\$ 2,523	\$ 108	\$ 869	\$ (24)	\$ 11,429
Intersegment.....	\$ 25	\$ 2,710	\$ 4,091	\$ 1,250 ^(c)	\$ 187	\$ (8,263)	\$ —
Depreciation, amortization and decommissioning.....	\$ 416	\$ 554	\$ 735	\$ 54	\$ 137	\$ —	\$ 1,896
Financial expenses.....	\$ 591	\$ 1,060	\$ 1,578	\$ 33	\$ 107	\$ —	\$ 3,369
Net income (loss).....	\$ (443)	\$ 399	\$ 1,253	\$ (30)	\$ (101)	\$ —	\$ 1,078
Capital expenditures.....	\$ 429	\$ 695	\$ 603	\$ 30	\$ 55	\$ —	\$ 1,812
Total assets.....	\$ 9,781	\$ 18,065	\$ 24,390	\$ 571	\$ 2,091	\$ 4,140	\$ 59,038

a) *Engineering, Procurement and Construction.*

b) *Includes assets related to long-term financing that have not been allocated to the operating segments.*

c) *Intersegment revenue generated by the EPC segment includes an amount of \$653 million (\$786 million in 2000) that corresponds to capital expenditures in respect of its customers.*

GEOGRAPHICAL INFORMATION

	<u>2001</u>		<u>2000</u>	
	Revenue	Fixed assets and goodwill	Revenue	Fixed assets and goodwill
	(in millions of dollars)			
Québec.....	\$ 9,100	\$ 48,071	\$ 8,862	\$ 48,027
Canada, outside Québec.....	114	2	113	—
United States.....	3,055	277	2,331	226
Chile.....	222	1,639	—	1,597
Other countries.....	87	352	123	339
	<u>\$ 12,578</u>	<u>\$ 50,341</u>	<u>\$ 11,429</u>	<u>\$ 50,189</u>

LONG-TERM DEBT BY ISSUE

The following table sets forth the non-consolidated long-term debt of Hydro-Québec outstanding as of December 31, 2001, expressed in Canadian dollars and in currency units:

Series	Interest Rate %	Year of Issue	Year of Maturity	<u>December 31, 2001</u>	
				<u>Canadian Dollars</u> (in thousands)	References
Payable in Canadian Dollars					
JB	5.75	1997	2002	\$ 400,000	(h)
IE	9.00	1992	2003	100,000	(a)
JE	5.50	97/98	2003	850,000	(a)
IM	7.00	1994	2004	1,000,000	(a)
IR	8.50	95/96	2005	800,000	(a)
JI	Floating	2000	2005	500,000	(a)
FT2	12.25	85/88	2006	203,000	(a)
JA	7.00	1996	2007	350,000	(a)
GO*	9.75	1987	2007	18,000	(d)
GZ	11.25	1988	2008	100,000	(a)
GC2	11.25	1985	2008	100,000	(b)
JH	6.00	1999	2009	500,000	(a)
HN	—	1990	2010	112,638	(a)
HF	10.00	89/98	2011	579,980	(a)
JK	6.50	2000/01	2011	1,300,000	(a)
GU2	10.25	87/90	2012	1,117,000	(a)
HG	10.00	1989	2019	100,000	(a)
II	10.25	1993	2020	167,303	(a)
HL	11.00	90/91	2020	1,110,000	(a)
HM	—	90/91	2020	249,291	(a)
HX	10.50	1991	2021	1,100,000	(a)
IC	9.625	92/95	2022	1,950,000	(a)
IH	11.00	1993	2031	230,120	(a)
JG	6.00	1999/2001	2031	825,675	(a)
Medium-term notes issued under Canadian MTN program					
0006	5.75	1997	2002	15,000	(i)
0021	Floating	1999	2002	50,000	(j)
0022	5.75	1999	2002	50,000	(a)
0001	7.50	1996	2003	47,000	(a)
0013	Floating	1998	2003	50,000	(k)
0025	7.00	1999	2003	150,000	(a)
0027	Floating	2000	2003	295,940	(a)
0028	Floating	2000	2003	20,000	(a)
0005	6.25	1996	2004	25,000	(l)
0023	5.50	1999	2004	15,000	(a)
0024	7.00	1999	2004	110,000	(a)
0029	6.00	2000	2004	20,000	(a)
0035	Floating	2001	2004	187,000	(a)
0036	Floating	2001	2004	50,000	(a)
0041	Floating	2001	2004	45,000	(a)
0043	Floating	2001	2004	75,000	(a)
0026	6.50	1999	2005	20,000	(a)
0034	6.00	2001	2005	135,000	(a)
0042	Floating	2001	2005	15,000	(a)
0044	Floating	2001	2005	100,000	(a)
0030	6.20	2000	2006	205,000	(a)
0008	5.50	1998	2008	10,000	(a)
0015	5.75	1998	2008	55,000	(a)
0010	6.00	1998	2010	15,000	(a)
0003	Various	1996	2021	26,356	(m)
0017	6.50	1999	2029	75,000	(a)
0038	6.00	2001	2031	4,325	(a)
0009	6.50	1998	2035	686,500	(a)
0011	Various	1998	2035	14,108	(p)
0012	Various	1998	2035	36,688	(q)
0014	Various	1998	2035	13,368	(n)
0016	Various	1998	2035	101,214	(o)

December 31, 2001

Series	Interest Rate %	Year of Issue	Year of Maturity	Canadian Dollars (in thousands)	References
0018	6.50	1999	2035	294,000	(a)
0019	6.00	1999	2040	200,500	(a)
0032	6.00	2000	2050	50,000	(a)
0033	Various	2000	2060	205,639	(x)
0037	Various	2001	2060	33,164	(y)
0039	Various	2001	2060	124,049	(z)
0040	Various	2001	2060	15,525	(aa)
Opimiscow Agreement				32,250	
Present value of lease obligations for regional offices and service facilities for a period not exceeding 25 years ending in 2010				49,169	
Others				7,825	
Less: Sinking Funds Investments				(510,653)	
Debt and swaps classified by currency of issue				16,981,974	
Obligations under swaps				388,583	
Debt and swaps classified by currency of repayment				17,370,557	

December 31, 2001

Series	Interest Rate %	Year of Issue	Year of Maturity	Canadian Dollars (in thousands)	Currency Units	References
Payable in U.S. Dollars						
IB	8.625	1992	2002	\$ 796,300	US\$ 500,000	(a)
FY	Floating	1985	2002	318,520	200,000	(e)
IF1	7.375	1993	2003	796,300	500,000	(a)
IJ	Floating	1993	2005	318,520	200,000	(a)
JL	6.30	2001	2011	1,194,450	750,000	(a)
FU*	11.75	1985	2012	318,520	200,000	(a)
IF2	8.00	1993	2013	1,592,600	1,000,000	(a)
IU	7.50	1996	2016	637,040	400,000	(a)
GW	9.75	1988	2018	398,150	250,000	(c)
HS	9.40	1991	2021	1,433,340	900,000	(a)
HY	8.40	1992	2022	1,592,600	1,000,000	(a)
IO	8.05	94/95	2024	1,592,600	1,000,000	(f)
GF*	8.875	1986	2026	398,150	250,000	(a)
GH*	8.25	1986	2026	398,150	250,000	(a)
GQ	8.25	1987	2027	398,150	250,000	(a)
HE	8.625	1989	2029	398,150	250,000	(a)
HH	8.50	1989	2029	796,300	500,000	(a)
HK	9.375	1990	2030	796,300	500,000	(a)
HQ	9.50	1990	2030	796,300	500,000	(a)

Medium-term notes issued under U.S. MTN program

B-29	8.17	1991	2002	4,778	3,000	(a)
B-60	8.35	1992	2002	7,963	5,000	(a)
B-76	7.58	1992	2002	11,148	7,000	(a)
B-77	7.57	1992	2002	7,963	5,000	(a)
B-78	7.625	1992	2002	15,926	10,000	(a)
B-79	7.68	1992	2002	4,778	3,000	(a)
B-80	7.70	1992	2002	7,963	5,000	(a)
B-82	7.695	1992	2002	7,963	5,000	(a)
B-83	7.72	1992	2002	3,185	2,000	(a)
B-108	6.37	1993	2002	44,513	27,950	(a)
B-109	6.35	1993	2002	31,852	20,000	(a)
B-110	6.375	1993	2002	23,889	15,000	(a)
B-111	6.36	1993	2002	31,852	20,000	(a)
B-112	6.38	1993	2002	23,889	15,000	(a)
B-66	7.52	1992	2003	11,148	7,000	(a)
B-67	7.55	1992	2003	7,963	5,000	(a)
B-68	7.55	1992	2003	10,591	6,650	(a)
B-69	7.63	1992	2003	15,926	10,000	(a)
B-70	7.63	1992	2003	15,926	10,000	(a)
B-71	7.61	1992	2003	6,370	4,000	(a)
B-72	7.54	1992	2003	11,148	7,000	(a)
B-73	7.54	1992	2003	3,185	2,000	(a)

December 31, 2001

Series	Interest Rate %	Year of Issue	Year of <u>Maturity</u>	(in thousands)		References
				Canadian Dollars	Currency Units	
B-74	7.50	1992	2003	7,963	5,000	(a)
B-75	7.49	1992	2003	31,852	20,000	(a)
B-107	6.53	1993	2003	15,926	10,000	(a)
B-113	6.54	1993	2003	39,815	25,000	(a)
B-114	6.49	1993	2003	8,919	5,600	(a)
B-115	6.49	1993	2003	18,315	11,500	(a)
B-116	6.50	1993	2003	8,600	5,400	(a)
B-117	6.48	1993	2003	28,667	18,000	(a)
B-84	6.98	1993	2005	66,889	42,000	(a)
B-85	6.98	1993	2005	11,148	7,000	(a)
B-86	7.00	1993	2005	19,270	12,100	(a)
B-87	6.98	1993	2005	3,902	2,450	(a)
B-88	6.97	1993	2005	15,926	10,000	(a)
B-89	6.94	1993	2005	15,926	10,000	(a)
B-90	6.87	1993	2005	6,370	4,000	(a)
B-91	6.72	1993	2005	4,778	3,000	(a)
B-92	6.77	1993	2005	3,185	2,000	(a)
B-93	6.62	1993	2005	4,778	3,000	(a)
B-94	6.72	1993	2005	15,130	9,500	(a)
B-95	7.00	1993	2005	16,722	10,500	(a)
B-96	7.01	1993	2005	5,574	3,500	(a)
B-96	7.01	1993	2005	1,593	1,000	(a)
B-97	7.02	1993	2005	39,815	25,000	(a)
B-98	6.85	1993	2005	7,963	5,000	(a)
B-99	6.82	1993	2005	7,963	5,000	(a)
B-100	6.86	1993	2005	39,815	25,000	(a)
B-101	6.99	1993	2005	7,963	5,000	(a)
B-102	6.94	1993	2005	4,778	3,000	(a)
B-103	6.92	1993	2005	3,185	2,000	(a)
B-104	7.01	1993	2005	7,963	5,000	(a)
B-105	7.00	1993	2005	15,926	10,000	(a)
B-106	7.00	1993	2005	4,778	3,000	(a)
B-118	6.52	1994	2006	79,630	50,000	(a)
B-119	6.52	1994	2006	31,852	20,000	(a)
B-120	6.49	1994	2006	39,815	25,000	(a)
B-121	6.49	1994	2006	7,963	5,000	(a)
B-122	6.51	1994	2006	1,593	1,000	(a)
B-129	6.75	1997	2007	127,408	80,000	(a)
B-123	9.125	1994	2009	39,815	25,000	(a)
B-126	7.58	1995	2010	23,889	15,000	(u)
B-30	8.62	1991	2011	63,704	40,000	(a)
B-37	8.54	1991	2011	31,852	20,000	(a)
B-128	7.125	1997	2012	15,926	10,000	(r)
B-7	9.40	1990	2020	15,926	10,000	(a)
B-48	8.68	1991	2021	79,630	50,000	(a)
B-49	9.80	1992	2022	79,630	50,000	(v)
B-64	9.75	1992	2022	31,852	20,000	(t)
B-124	8.91	1994	2024	39,815	25,000	(a)
B-125	8.40	1995	2025	87,593	55,000	(a)
B-127	6.27	1996	2026	79,630	50,000	(s)
B-63	9.50	1992	2027	31,852	20,000	(a)
B-130	6.625	1998	2028	79,630	50,000	(a)
Medium-term note issued under Euro MTN program						
35	7.01	1997	2007	477,780	300,000	(w)
Conditional sale transaction (Turbines).....				126,749	79,586	
Long-term debt before swaps.....				17,365,290 ⁽¹⁾	10,903,736	
Net currency swaps ⁽²⁾				194,456	—	
Less Sinking Fund Investments.....				(29,748)	(17,000)	
Debt and swaps classified by currency of issue.....				17,529,998	US\$ 10,886,736	
Debt and swap classified by currency of repayment.....				20,313,129	US\$ 12,754,696	

Series	Interest Rate %	Year of Issue	Year of Maturity	December 31, 2001		References
				Canadian Dollars	Currency Units	
				(in thousands)		
Payable in Deutsche Marks						
IT	Floating	1996	2006	\$	76,718	DM 105,780 (a)
D15B*	6.00	1986	2016		85,860	118,385 (a)
Medium-term note issued under Euro MTN program						
36	5.375	1998	2008		543,949	750,000 (a)
Long-term debt before swaps.....					706,527 (1)	974,165
Net currency swaps (2).....					114,740	—
Debt and swaps classified by currency of issue.....					821,267	DM 974,165
Debt and swaps classified by currency of repayment.....					—	DM —
Payable in Japanese Yen						
J6	Floating	1995	2005	\$	60,785	¥ 5,000,000 (a)
Medium-term notes issued under Euro MTN program payable						
8	4.10	1994	2002		12,157	1,000,000 (a)
14	2.90	1995	2002		60,785	5,000,000 (a)
31	1.70	1997	2002		60,785	5,000,000 (a)
17	3.05	1995	2003		24,314	2,000,000 (a)
22	3.265	1996	2003		60,785	5,000,000 (a)
16	3.00	1995	2004		36,471	3,000,000 (a)
11	3.55	1995	2005		15,804	1,300,000 (a)
15	4.10	1995	2005		13,373	1,100,000 (a)
18	4.30	1995	2005		18,235	1,500,000 (a)
19	4.30	1995	2005		24,314	2,000,000 (a)
21	4.40	1996	2006		121,570	10,000,000 (a)
23	4.17	1996	2006		42,550	3,500,000 (a)
24	4.02	1996	2006		14,588	1,200,000 (a)
25	4.00	1996	2006		12,157	1,000,000 (a)
26	3.90	1996	2006		36,471	3,000,000 (a)
27	3.90	1996	2006		12,157	1,000,000 (a)
28	3.70	1996	2006		17,020	1,400,000 (a)
29	3.10	1997	2007		12,157	1,000,000 (a)
30	3.15	1997	2007		12,157	1,000,000 (a)
38	2.50	1999	2009		6,079	500,000 (a)
32	4.40	1997	2012		12,157	1,000,000 (a)
34	4.85	1997	2017		12,157	1,000,000 (a)
Long-term debt before swaps.....					699,028 (1)	57,500,000
Net currency swaps (2).....					95,321	—
Debt and swaps classified by currency of issue.....					794,349	¥ 57,500,000
Debt and swaps classified by currency of repayment.....					—	¥ —
Payable in Swiss Francs						
Medium-term note issued under Euro MTN program						
37	3.60	1998	2008	\$	92,611	SF 96,500 (a)
Long-term debt before swaps.....					92,611 (1)	96,500
Net currency swaps (2).....					2,883	—
Debt and swaps classified by currency of issue.....					95,494	SF 96,500
Debt and swaps classified by currency of repayment.....					—	SF —

Series	Interest Rate %	Year of Issue	Year of Maturity	Canadian Dollars	Currency Units	References
				(in thousands)		
Payable in Pounds Sterling						
FH	13.24	1983	2003	\$ 138,960	£ 60,000	(a)
EG	15.00	1981	2011	92,640	40,000	(a)
HI	12.625	1990	2015	347,400	150,000	(g)
FA	12.75	1982	2015	115,800	50,000	(a)
Long-term debt before swaps.....				694,800 ⁽¹⁾	300,000	
Net currency swaps ⁽²⁾				70,747	—	
Debt and swaps classified by currency of issue				765,547	£ 300,000	
Debt and swaps classified by currency of repayment				—	£ —	
Payable in French Francs						
HZ	9.00	1992	2002	\$ 216,248 (1)	FF 1,000,000	(a)
Medium-term note issued under Euro MTN program						
33	5.875	1997	2008	324,373	1,500,000	(a)
Long-term debt before swaps.....				540,621	2,500,000	
Net currency swaps ⁽²⁾				154,436	—	
Debt and swaps classified by currency of issue				695,057	FF 2,500,000	
Debt and swaps classified by currency of repayment				—	FF —	
Total Long-Term Debt.....				\$ 37,683,686		

(1) Translated at rates in effect at December 31, 2001.

(2) Difference between the rate established under swaps and the rate at December 31, 2001 applied on the portion of the debt covered by swaps.

(a) Non redeemable.

(b) Redeemable at par at the option of Hydro-Québec at any time from September 25, 2003.

(c) Redeemable at par at the option of Hydro-Québec at any time from January 15, 2003.

(d) Redeemable at par in annual installments for sinking fund purposes one year after the date of issue.

(e) Redeemable at par at interest payment dates.

(f) Redeemable at par at the option of the Holder in whole, or in part, on July 7, 2006.

(g) Redeemable anytime at the highest of par or adjusted price as per the Fiscal Agency Agreement at the option of Hydro-Québec.

(h) Exchangeable at par at their maturity date at the option of the Holder in whole or in part for 7% Debentures, Series JA due February 15, 2007.

(i) Extendible at par, at their maturity date, at the option of the Holder, to February 15, 2012 bearing interest at 7%.

(j) A payment of Index Return on July 17, 2002 based on the return of the DS Barra Government Bond Index plus 80 basis points compounded annually at Index flat. Extendible at the option of Hydro-Québec to July 17, 2009 bearing fixed interest rate.

(k) A payment of Index Return on July 4, 2003 based on the return of the DS Barra Government Bond Index plus 40 basis points compounded annually at Index flat. Extendible at the option of Hydro-Québec to July 4, 2011 bearing fixed interest rate.

(l) Extendible at par, at their maturity date, at the option of the Holder, to November 7, 2024 bearing interest at 7.5%.

(m) Aggregate principal amount of \$88 million sold at deep discount maturing semi-annually from February 15, 2011 to August 15, 2021 in equal payments.

(n) Aggregate principal amount of \$73.5 million sold at deep discount maturing semi-annually from January 16, 2025 to July 16, 2035 in various payment amounts.

(o) Interest coupons of \$3 million semi-annually from January 16, 1999 to January 16, 2014. Interest coupons of \$5.525 million semi-annually from July 16, 2014 to January 16, 2035.

(p) Fixed coupon amounts of \$1.6 million semi-annually from January 16, 2022 to maturity date.

(q) Fixed rate coupon of 6.5% semi-annually commencing on July 16, 2025.

(r) Redeemable at par at the option of Hydro-Québec on interest coupon dates starting February 14, 2002.

(s) Redeemable at par at the option of the Holder on January 3, 2003.

(t) Redeemable at par at the option of the Holder on May 10, 2002.

(u) Redeemable at par at the option of the Holder on April 20, 2002.

(v) Redeemable at 95% of the nominal amount at the option of the Holder on February 15, 2002.

(w) Redeemable at par at the option of the Holder on June 10, 2002.

(x) No interest payment until February 15, 2030 exclusive. Fixed rate coupon of 45% semi-annually commencing on February 15, 2030.

(y) No interest payment until February 15, 2041 exclusive. Interest coupons of \$50 million annually from February 15, 2041 to February 15, 2045. Interest coupons of \$35 million annually from February 15, 2046 to February 15, 2050. Interest coupons of \$20 million annually from February 15, 2051 to February 15, 2055. Interest coupons of \$10 million annually from February 15, 2056 to February 15, 2059.

(z) No interest payment until February 15, 2040 exclusive. Fixed rate coupon of 100% semi-annually commencing on February 15, 2040.

(aa) No interest payment until February 15, 2050 exclusive. Interest coupons of \$45 million annually from February 15, 2050 to February 15, 2052. Interest coupons of \$40 million annually from February 15, 2053 to February 15, 2055. Interest coupons of \$35 million annually from February 15, 2056 to February 15, 2058. Interest coupon of \$30 million on February 15, 2059.

* Sinking-fund debentures.

AUDITORS' CONSENT

We hereby consent to the inclusion of our report dated February 21, 2002 concerning the Consolidated Financial Statements for each of the years in the five-year period ended December 31, 2001 in the annual report on Form 18-K of Hydro-Québec for the year ended December 31, 2001 and to the incorporation by reference in the Registration Statement No. 33-76074.

Samson Bélair
Deloitte & Touche
Chartered Accountants

May 21, 2002

PricewaterhouseCoopers LLP
Chartered Accountants

