

**RAPPORT DE MOODY'S INVESTORS SERVICE**





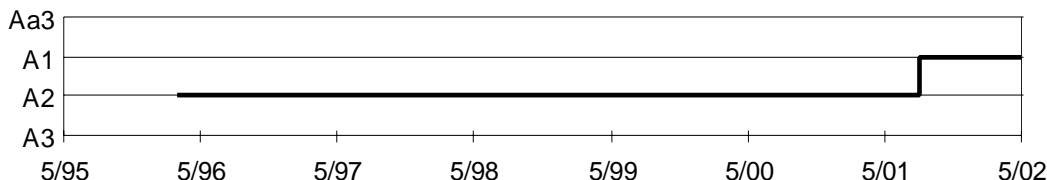
# Hydro-Quebec

## Ratings and Contacts

May 2002

Category	Moody's Rating	Analyst	Phone
Senior Unsecured	A1	Stephen J. Gutkowski/New York	1.212.553.1653
Bkd Commercial Paper	P-1	Cheryl Solometo/New York	
Bkd Other Short Term	P-1	John Diaz/New York	

## Rating History Senior Unsecured



## Operating Statistics

### Hydro-Quebec

	[1]2001	2000	1999	1998	[2]5-Yr.Avg
Revenue (C\$ bil.)	12.6	11.4	9.6	8.8	[3]10.3
Assets (C\$ bil.)	59.9	59.1	56.8	57.3	[3]2.2
Com. Equity (C\$ bil.)	14.8	14.3	13.7	13.3	[3]3.6
Op. Margin (%)	35.6	39.1	42.2	43.6	41.4
ROA(%)	1.9	1.9	1.6	1.2	1.6
ROE(%)	7.6	7.7	6.7	5.2	6.7
Pretax Int. Cov. (X)	1.3	1.3	1.2	1.2	1.2
FFO Int. Cov. (X)	2.1	2.0	1.9	1.6	1.9
FFO % Total Debt	8.3	8.2	7.4	4.5	6.9
RCF % Gross CAPEX	158.4	159.6	158.6	87.4	142.9
Total Cap. (C\$ bil.)	55.8	55.0	53.0	54.0	[3]1.7
TD % Cap.	73.4	74.0	74.1	75.4	74.4
Pfd. Stk. % Cap.	0.0	0.0	0.0	0.0	0.0
Common % Cap.	26.6	26.0	25.9	24.6	25.6

[1] For the 12 months ended December 31. Balance sheet items are as of December 31. [2] Five year average 2001-1997. [3] Five year compound annual growth rate.

## Opinion

### Rating Rationale

The A1 ratings assigned to Hydro Quebec's ("HQ") debt issues reflect the benefits associated with a low cost generating system, rate levels which are among the lowest in North America, strong and stable cash flows, and the guarantee of the Province of Quebec for the timely repayment of interest and principal of HQ's borrowings.

Approximately 97% of the electricity generated by HQ is derived from hydroelectric sources. Due to HQ's Provincial ownership as well on its reliance on hydropower, HQ's customers benefit from some of the lowest electricity rates in North America. Electricity rates are frozen at C\$.0279/kWh until April 30, 2004. Currently, there does not appear to be a benefit from the privatization of HQ and the company is expected to remain a wholly owned entity of the Province for the foreseeable future.

In 2000, HQ generated in excess of C\$3 billion in gross cash flow for the first time. Moody's anticipates that with a

reasonably strong economic environment, the company will continue to perform at this level. Should this level be achieved we expect the company's capital program to be financed internally and for cash flow coverage measures of interest and total debt to remain stable when compared to last year.

### Recent Developments

HQ recently released its Strategic Plan for the 2002-2006 period, in which the company clearly states its intention to improve its overall performance. HQ will continue to develop its generating capability, with the priority on hydroelectric potential within Quebec and plans to increase its annual generating capability by at least 12 TWh by 2006.

### Rating Outlook - Stable

The company's rating outlook is stable reflecting the completion of the rating review on August 8, 2001 and the resulting upgrade to the A1 level.

Coupon	Type of Debt	Maturity	Moody's Rating
<b>Hydro-Quebec</b>			
—	Gtd. MTN Program	—	A1
—	Gtd. Euro MTN Program	—	A1
—	Gtd. Canadian MTN Program	—	A1
0.000%	Gtd Var. Rt Canadian MTNs	2060	A1
0.000%	Gtd Var. Rt Canadian MTNs	2060	A1
0.000%	Gtd Var. Rt Canadian MTNs	2060	A1
0.000%	Gtd. Step-Up Canadian MTNs	2060	A1
6.000%	Guaranteed Canadian MTNs	2050	A1
6.000%	Gtd. Canadian Debentures	2031	A1
6.000%	Guaranteed Canadian MTNs	2031	A1
9.500%	Gtd. Debenture	2030	A1
9.500%	Gtd. Debenture	2030	Aaa
9.500%	Gtd. Debenture	2030	Aaa
9.375%	Gtd. Debenture	2030	A1
9.375%	Gtd. Debenture	2030	Aaa
9.375%	Gtd. Debenture	2030	Aaa
9.375%	Gtd. Debenture	2030	Aaa
8.500%	Gtd. Debenture	2029	A1
8.625%	Gtd. Debenture	2029	A1
8.625%	Gtd. Debenture	2029	Aaa
9.500%	Gtd. Medium-Term Notes	2027	Aaa
8.250%	Gtd. Debenture	2027	Aaa
8.250%	Gtd. Debenture	2026	A1
8.875%	Gtd. Debenture	2026	A1
8.875%	Gtd. Debenture	2026	Aaa
8.875%	Gtd. Debenture	2026	Aaa
7.910%	Medium Term Notes	2024	Aaa
8.050%	Gtd. Debenture	2024	A1
8.050%	Gtd. Debenture	2024	A1

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## Opportunities/Strengths

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- A low-cost generating system consisting largely of hydroelectric facilities.
- Strong and stable cash flows.
- Hydro Quebec's new organizational structure promotes greater focus at each of the company's four divisions and enables them to adapt to current market conditions with greater ease.
- Low environmental risk with nearly 93% of generating capability derived from hydroelectric power.
- Pass through mechanism mitigates price-volatility risk when demand growth exceeds the 165 TWh heritage pool.
- Unconditional guarantee of nearly all of the company's funded debt by the province of Quebec.
- Province of Quebec's economy remains strong.

## Risks/Weaknesses

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- High degree of financial leverage relative to its peers.
- Lengthy permitting processes for building low-cost hydroelectric generating stations hampers the company's ability to commission facilities in order to meet the forecasted demand requirements in 2005 and beyond.
- Recently agreements with the Crees and various other parties will result in further project development by Hydro Quebec Production. As a result, increases to an already significant capital budget is expected and will serve to put additional pressure on coverage measures as additional free cash flow is absorbed to finance these projects.

## Company Fundamentals

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Hydro-Quebec (HQ), whose sole shareholder is the Province of Quebec, was created in 1944 by the Hydro Quebec Act of the Parliament of Quebec. HQ continues to be one of the largest public electric utilities in North America and the largest in Canada. HQ exists primarily to supply power and engage in other energy-related services for the benefit of its customers. In addition to supplying nearly all of the electricity consumed in Quebec, HQ also supplies nine municipal systems, one regional cooperative, and approximately 15 electric utilities in the Northeastern U.S., Ontario and New Brunswick.

During 2001, HQ established a new organizational structure with the creation of four separate divisions; Hydro Quebec Distribution, Hydro-Quebec TransEnergie (created in 1997), Hydro Quebec Production and Hydro Quebec Ingenierie, approvisionnement et construction (HQ IAC). This reorganization will allow each of the divisions to focus more clearly on the ever changing market conditions that affect each of their respective businesses while providing them with the flexibility in adjusting to their particular business environments. Additionally, the new structure will enable each division to seize growth opportunities in their respective markets and affords them full control over the services they offer.

### HYDRO QUEBEC DISTRIBUTION

Hydro Quebec Distribution is responsible for supplying power to Quebec customers. HQ Distribution serves approximately 2.8 million customers over 106,000km of distribution lines. Considerable progress has been made in improving quality of service and overall customer satisfaction. To accommodate its supply requirements, HQ Distribution purchases a heritage pool of up to 165 TWh/year from Hydro Quebec Production at a regulated fixed price of 2.79 cents/kWh. Upon demand growth that surpasses 165 TWh, HQ Distribution must supply its customer through calls for tenders from other suppliers, including HQ Production, at then current market rates. It should be noted that according to demand forecasts, demand growth is not expected to exceed the 165 TWh heritage pool level until sometime after 2006. This forecast is based on expected demand growth of approximately 1.2% per annum over the next 15 years, compared with historical growth levels of approximately 2.7% per annum experienced between 1986 through 2001.

## HYDRO QUEBEC PRODUCTION CONTINUES TO INCREASE CAPACITY

While forecasted demand growth is less than what has been experienced historically, it is considered substantial enough to prompt HQ Production to increase its generating capacity and further develop Quebec's hydropower potential. Over the past year, HQ Production has initiated a number of new projects to meet increased demand. These proposed projects include hydroelectric generating stations on the Toulmoustou, Gatineau, and Peribonka Rivers and the partial diversion of the Portneuf and Sault aux Cochons rivers to the Bersimis complex in order to optimize the output of its existing Bersimis generating facilities.

During 2001, HQ Production completed the construction of its Sainte-Marguerite-3 generating station and broke ground on the new Grand-Mere hydroelectric plant. Although the construction of Sainte-Marguerite has been completed, the project has not yet been commissioned due to a leakage found in the headrace tunnel. Efforts to resolve the situation are underway and a new commission date has been established for sometime in 2003. In addition, new agreements with the Crees will allow for the construction of Eastmain-1 hydroelectric generating station and undertake draft design studies for Eastmain-1A generating station and the partial diversion of the Rupert River. These projects are expected to increase the company's capital program, illustrated in its recent strategic plan, by approximately CAD\$2.3 billion over the period of 2002 through 2006.

## HYDRO QUEBEC TRANSENERGIE

HQ TransEnergie delivers electricity to its Quebec customers and is involved in developing, maintaining and improving its transmission system to ensure reliability. At year-end 2001, HQ TransEnergie's system was comprised of 32,273 km of lines, 504 substations, and 15 interconnections with neighboring systems. HQ TransEnergie remains focused on pursuing its strategy of leveraging off its technical and operational expertise and capitalizing on opportunities in North America and beyond. Continued investment in HQ TransEnergie's system is expected as it prepares to meet Quebec's growing demand and the opening up of neighboring power markets while maintaining or improving the reliability of its system.

## HYDRO QUEBEC IAC

HQ IAC supplies technological expertise and shared services in engineering, procurement, construction project management and information. It carries out generation and transmission projects, both for Hydro Quebec's various other divisions and internationally. In addition, the division provides information technology services and strategies, and performs engineering and construction work for Hydro Quebec's telecommunications projects.

## HYDRO GENERATORS PROVIDE LOW COST POWER

Approximately 93% of the electricity generated by HQ is derived from hydroelectric sources. Due to HQ's current ownership structure as well on its reliance on hydropower, HQ's customers benefit from some of the lowest electricity rates in North America. Until this situation changes, there does not appear to be a benefit from the privatization of HQ.

As demand growth in Quebec is forecasted at approximately 1.2% per annum, HQ Production is continuing its development of additional hydroelectric generating stations in order to meet this forecasted demand. However, as mentioned previously, the lengthy process of obtaining the necessary authorizations for constructing these generating stations has limited the company's ability to have sufficient hydroelectric sources to meet this demand and, as a result, announced the construction of a 800 MW gas-fired, combined cycle, thermal station that will provide for approximately 6.5 TWh of annual output.

HQ currently has approximately 31,174 MW of owned generating capacity. HQ's hydroelectric owned generating capacity consists of its 51 generating stations and is supplemented by an additional 5,428 MW of capacity it purchases from the Churchill Falls station under a 65-year power purchase agreement that expires in 2041. HQ currently owns a 34.2% equity interest in the Churchill Falls station through a joint venture with Churchill Falls Corporation. HQ's remaining generating capacity of approximately 2,200 MW is comprised of 29 thermal generating stations, including the 675 MW Gentilly 2 nuclear generating facility, the 600 MW Tracy oil-fired generating facility, 3 gas-turbines, and 24 diesel engines.

<b>Table I: Total Installed Capacity</b>		
<b>Generating Station</b>	<b>Commissioning</b>	<b>Capacity (MW)</b>
<b>HYDROELECTRIC</b>		
Robert-Bourassa	1979-1981	5,328
La Grande-4	1984-1986	2,651
La Grande-3	1982-1984	2,304
La Grande-2-A	1991-1992	1,998
Beauharnois	1932 and 1961	1,652
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
Other (41 plants under 1,000 MW)	1910-1999	8,934
		<b>28,906</b>
<b>THERMAL</b>		
Gentilly-2 (nuclear)	1983	675
Tracy (oil-fired)	1964-1968	600
Becancour, La Citiere and Cadillac (gas-turbine)	1976-1993	870
Other (24 diesel units)	1946-2001	121
		2,266
<b>WIND</b>		
St-Ulric	2001	2
<b>TOTAL INSTALLED CAPACITY</b>		<b>31,174</b>
<b>CURRENT PROJECTS</b>		
Sainte-Marguerite-3	2003	882
Toulnostouc	2005	526
Grand-Mere (capacity uprating)	2004	70
Outardes-3 (capacity uprating)	2003-2007	264

## SOVEREIGN RATING FOR THE PROVINCE OF QUEBEC RAISED

Nearly all of HQ's funded debt is unconditionally guaranteed by the province of Quebec. However, derivative instruments, such as interest rate and cross currency swaps used to hedge long-term market exposures, are not guaranteed. HQ's ratings reflect our assessment of the company's financial strength as well as the support provided by the province of Quebec, given the aforementioned debt guarantee and its ownership of HQ. This relationship is beneficial to both parties in that HQ benefits from lower debt costs associated with its investment-grade debt rating while the province of Quebec benefits from some of the lowest power rates in all of North America.

The province of Quebec's sovereign rating was upgraded to A1 from A2 in August 2001 reflecting the improved fiscal position and greater budgetary flexibility along with a decline in the debt burden as the primary factors in the rating upgrade. After many years of large, recurring deficits the province brought its budget back into balance in 1998/99, and, for three years has sustained either a balanced or surplus position. In part this improving trend reflects strong economic growth, but also province's conservative budget assumptions.

An increased level of budgetary flexibility has allowed the province to begin to address its comparatively higher tax levels and this remains a key policy goal over the medium term. Moody's also believes that the province is now better positioned to operate in what could become less than optimal economic conditions in the near future. The province's debt ratios are improving, although the stock of debt continues to grow primarily because of differences between cash and accrual accounting and non-budgetary borrowing activities.

## Management Strategy and Competitive Position

In its most recent strategic plan, the company had established numerous strategic initiatives focused on serving its customers better, maintaining the reliability and quality of its operations, and ensuring continued profitable growth.

HQ's customers continue to benefit from a rate freeze that caps their all-in cost until, at least, April 30, 2004. Upon the termination of the rate freeze, HQ aims to raise its rates in order to obtain a reasonable rate of return in a regulated environment, while avoiding customer rate shock like those suffered in California during 2001. Quality of service initiatives have also been established in order to better meet

customers expectations along with efforts to improve the reliability of power supply and ensure that ample supply is obtainable on competitive terms.

HQ plans to continue developing hydroelectric potential in Quebec and its surrounding regions given its economic and environmental benefits. However, potential development will remain subject to strict guidelines related to profitability as well as the impact on both the environment and local communities. Technological innovation will continue to play an integral part in the company's hydroelectric generation, transmission, and distribution businesses.

Additionally, HQ remains focused on participating in the development of both the North American electricity and gas industries. It is the company's intent to seek business opportunities in the electricity transmission sector, particularly in niche markets that require a high level of new technological skills. HQ will focus on the development and application of new technologies designed to reduce congestion in various transmission grids.

## **INTERNATIONAL INVESTMENT STRATEGY**

HQ's activities in the international arena are limited to its hydroelectric generation and both regulated and non-regulated high-voltage transmission businesses. HQ's production operations will continue to look at opportunities internationally that provide strong potential for profitability. The company plans to focus its international activities on the acquisition and management of hydroelectric assets that have power trading potential. Further expansion internationally would most likely stem from its existing footholds in Central America and, to a lesser extent, China.

On the transmission side of the business, HQ's subsidiary TransEnergie HQ, is already active in Peru, Australia, the U.S. and Chile. Currently, the company is pursuing a consolidation strategy for the transmission system in Chile. This division intends to develop its business in stages based on the availability of its expertise. Over the next five years, TransEnergie plans to invest approximately CAD\$300 million in various transmission projects in international markets.

## **Regulation, Rates, and Restructuring**

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Since December 1996 the Regie de l'energie has provided a regulatory framework for energy distribution and, as such, rates in Quebec are subject to its approval. HQ's transmission and distribution activities are subject to the conventional form of regulation based on the cost of service for those activities. As for HQ's power generation activities, they are not subject to jurisdiction by the Regie de l'energie.

The Quebec wholesale electricity market has been opened to competitive alternatives since May 1997. This market is comprised of 11 distributors: HQ, nine distributors operating municipal systems, and one regional electricity cooperative. Hydro Quebec TransEnergie operates the transmission system in Quebec on a non-discriminatory basis for the benefit of all wholesale customers.

Elsewhere in Canada, only British Columbia and Alberta have opened their wholesale markets to competition, with Alberta also partially its retail market. In Ontario, opening of the wholesale and retail markets occurred on May 1, 2002, while New Brunswick is expected to open its market partially in 2003. The market pressures that have led to deregulation in retail markets elsewhere are not significant in Quebec. Given the very low cost of electricity in Quebec there are likely no realizable benefits that would be derived from opening retail market and hence, Quebec's retail market will most likely remain closed in the near term.

## **PASSAGE OF BILL 116**

In June 2000, Bill 116, The Act amending the Act respecting the Regie de l'energie (a.k.a. the Quebec Energy Board) and other legislative provisions was passed. This effectively preserved the social pact ensuring that Quebec customers will continue to benefit from low rates, most notably in the residential sector. The bill locks in 165 TWh/per year of HQ's production and existing long-term supply contracts at a fixed price of 2.79 cents per kilowatt-hour in perpetuity. Transmission and distribution rates are added to this cost, but all-in consumer electricity rates will remain unchanged until at least 2004.

To meet the portion of the native load which exceeds the 165 TWh level, suppliers will be invited to tender amounts necessary to meet the increased demand. Market prices to supply this load will be passed through to the end user. In 2001, demand in Quebec declined to approximately 152 TWh from 153TWh in 2000 due in part to a unusually mild December. Growth over the next fifteen years is expected to approximate 1.2% annually, down from 2.7% growth experienced from 1986 to 2001. Continuation of growth at this reduced level would indicate that additional supplier involvement in the market is not expected for some time to come. Transmission and distribution are to be established by the Quebec Energy Board through a rate case mechanism. HQ received its Transmission rate order from the Regie de l'energie on April 30, 2002, however, the company is not expected to file its distribution rate order in June 2002. In its transmission rate order decision, the Regie approved a deemed capital structure comprised of 70% debt and 30% equity capital. The Regie authorized a rate of return on the transmission company's rate base of 9.72%, taking into account a rate of return on equity capital of 9.66% retroactive to January 1, 2001.

## Financial Analysis

HQ's senior unsecured A1 rating is influenced by those of the province of Quebec, the company's sole shareholder. This being the case, HQ's ratings were raised in unison with Quebec's provincial rating in August of 2001. HQ financial profile is characterized by a high degree of financial leverage relative to its peers in the A1 rating category. Nonetheless, HQ continues to provide adequate coverage of its debt obligations through its stable cash flow derived largely from its generation and transmission activities.

HQ achieved strong revenue growth in 2001 generating in excess of CAD\$12.5 billion in revenue, up over 10% from 2000 revenue of CAD\$11.4 billion. These results were derived primarily from increased transaction volume outside of Quebec. During 2001, 42.4 TWh of electricity sales outside of Quebec generated revenue of approximately CAD\$3.1 billion, up over 30% from the prior year. Sales to Hydro Quebec Distribution within Quebec totaled 151.9 TWh and capped at a fixed price of 2.79 cents per kWh. These sales generated just under CAD\$8.0 billion in revenue during 2001, relatively unchanged from the prior year. Despite improvement in HQ's operating revenues during 2001, the effect of lower heating oil and natural gas prices on the U.S. short-term energy markets as well as a mild winter season adversely affected the company's operating margin. HQ's operating profit margin dropped to approximately 36% in 2001, down from 39% in 2000. A favorable interest rate environment somewhat mitigated reduction in the company's operating margin by reducing the company's interest expense despite an overall increase in total debt during the year. Absolute earnings in 2001 improved to CAD\$1.10 billion, up from CAD\$1.08 billion the prior year, but declined as a percentage of total revenues to 8.8% in 2001, down from 9.4% of revenue in 2000.

Moody's expects HQ's earning to continue to improve year-over-year based on higher projected sales in Quebec, which are expected to rise approximately 1.6% per annum through 2006. These growth prospects translate into earnings improvements from just shy of CAD\$1.1 billion in 2002, to nearly CAD\$1.6 billion by 2006.

### HQ REMAINS FOCUSED ON REDUCING LEVERAGE

HQ's balance sheet continues to be burdened with a high degree of financial leverage. Although some improvement was apparent during the year, total debt still comprises approximately 73% of the company's total capitalization. At year-end 2001 total debt (which includes the current portion of long-term debt and short-term borrowings) increased to CAD\$40.4 billion, up slightly from CAD\$40.1 billion at year-end 2000. HQ remains focused on improving its capital structure over the next several years and anticipates that equity will represent over 32% of total capitalization by 2006. HQ's ability to improve its capital structure in the near term is constrained by its substantial debt maturities during the next several years, dividends to the province, and its capital budget. HQ's maturing debt obligations over the next several years are as follows; CAD\$1.87 billion in 2002, CAD\$2.8 billion in 2003 and CAD\$1.7 billion in 2004.

### CASH FLOW REMAINS ADEQUATE IN SUPPORTING OBLIGATIONS

Hydro Quebec's cash flow generating capabilities remain strong and stable with funds from operations (FFO) averaging over CAD\$3.0 billion over the past two years. The company's FFO has been sufficient in meeting most of its funding requirements, excluding debt maturities, including the payment of divi-

tends to the Province of Quebec and the funding of its capital program. Typically, debt maturities have been funded largely through capital market refinancing and, to a lesser extent, internally generated funds. Over the next five years, cash flow from operations (after the payment of dividends) is expected to aggregate to CAD\$17.9 billion. Projected capital spending is expected to aggregate to CAD\$15.5 billion over that same period. HQ expects to fund its capital program purely from operating cash flow with the remaining proceeds used to further reduce its long-term debt. Over the next five years, HQ expects to fund approximately 64% of its maturing debt obligations, dividends, and capital program from internal sources. In addition, approximately one-quarter of HQ's budgeted capital spending is typically associated with future development opportunities and is therefore deemed discretionary in nature.

**Table I: Coverage Measures  
Hydro Quebec**

	FY2001	FY2000	FY1999	FY1998
EBIT Interest Coverage	1.42x	1.36x	1.32x	1.22x
EBITDA Interest Coverage	2.00x	1.93x	1.86x	1.69x
FFO Interest Coverage	2.08x	1.99x	1.86x	1.70x
Post Tax Interest Coverage	1.35x	1.33x	1.28x	1.22x

Moody's anticipates HQ's FFO interest coverage to remain in the 2.0x range over the next several years driven largely by strong growth in electricity demand in both in and out of Quebec combined with modest debt reduction. It is estimated that by 2006, growth in electricity demand in Quebec will generate an additional 10.5TWh in additional sales. However, recently announced agreements with the Crees and various other parties has resulted in further project development that will increase the company's capital budget by CAD\$2.3 billion over the next five years. While the majority of this additional spending will occur in the tail years of its strategic plan, the company's debt service capabilities may be pressured as free cash flow is absorbed by its increased capital budget.

Under the Hydro Quebec Act, HQ is required to pay dividends to its sole shareholder, the province of Quebec, so long as it does not cause HQ's equity ratio to fall below 25%. The dividend is declared once a year and cannot exceed the distributable surplus, equal to 75% of that years operating and net investment income less interest expenses. In 2001, dividends declared to the province of Quebec for fiscal 2000 totaled CAD\$539 million and represented 50% of net income for that year. HQ expects that it will pay the province approximately CAD\$3.0 billion in dividends over the next five years.

## LIQUIDITY MANAGEMENT REVIEW

HQ manages its balance sheet with the necessary cash to meet its cash requirements for approximately 30 days. Additional short-term liquidity could be obtained through HQ's readily marketable securities portfolio that totaled approximately CAD\$600 million at September 30, 2001.

HQ's authorized commercial paper program was reduced to US\$2.25 billion from US\$2.70 billion resulting from the reduction in the company's future cash requirements. HQ's use of commercial paper is limited to bridging gaps in its cash flow or until permanent financing is utilized. At year-end 2001, HQ had approximately \$41.6 million outstanding under its commercial paper program. HQ maintains US\$1.5 billion in committed revolving credit facilities, a US\$1.0 billion, 5-year facility expiring in 2006 and a US\$500 million, 364-day renewable facility. In addition to its committed credit facilities, HQ also maintains a US\$350 million, 1-year, line of credit. HQ's credit agreements include a Material Adverse Change (MAC) clause, however, certification is only required only upon signing of the agreements and not prior to each subsequent drawdown thereby substantially reducing the likelihood of restricted access in times of need. The loan agreements do not contain any financial covenants that could impact the company's access to funding in times of financial stress. There are currently no outstanding amounts under either of these credit facilities.

## FIRST QUARTER 2002 ON TRACK WITH ANTICIPATED RESULTS

HQ's results for the first quarter of fiscal 2002 were impacted by a much milder than expected heating season as well the decline in energy prices in the northeastern U.S. region. As a result, HQ's revenues declined by approximately 7% to CAD\$3.6 billion in the first quarter of 2002 when compared to 2001.

These unfavorable market conditions resulted in lower sales volumes at Hydro Quebec Production, and as a result, adversely impacted this segments earnings by approximately 18% when compared to the prior years results. However, results in the company's other business segments during the first quarter 2002 all showed substantial improvement over the prior year period and served to partially mitigate the effects of unfavorable market conditions. All told, HQ earned CAD\$690 million in the first quarter of 2002, up nearly 25% from restated earnings of CAD\$553 million in the first quarter of 2001. HQ's first quarter 2001 results were restated to reflect a new accounting standard concerning foreign currency translation adjustments and resulted in a CAD\$202 million reduction in earnings for the period. The retroactive application of this standard reduced the company's equity by CAD\$1.2 billion to CAD\$14.3 billion at March 31, 2002 from its equity position at year-end 2001.

## Hydro-Quebec

(C\$ mil. )	2001	2000	1999	1998	1997
<b>INCOME STATEMENT (\$ millions)</b>					
Revenue	12,578	11,429	9,579	8,812	8,287
Operating Expense	8,102	6,964	5,541	4,968	4,446
Earnings Before Interest, Taxes, Depr. & Amort.	6,321	6,361	5,769	5,433	5,386
Depreciation and Amortization	1,845	1,896	1,731	1,589	1,545
Earnings Before Interest & Taxes	4,476	4,465	4,038	3,844	3,841
Other Income	-458	-337	-102	-2	-6
Gross Interest Expense	3,158	3,289	3,228	3,328	3,049
Pretax Income	1,108	1,078	906	679	786
Income Taxes	0	0	0	0	0
Preferred Dividends	0	0	0	0	0
Net Income Available for Common Stock	1,108	1,078	906	679	786
<b>Coverage Analysis</b>					
EBITDA Interest Coverage	2.0	1.9	1.8	1.6	1.8
EBITDA Interest Coverage(Incl. Other Income)	1.9	1.8	1.8	1.6	1.8
EBIT Interest Coverage	1.4	1.4	1.3	1.2	1.3
EBIT Interest Coverage(Incl. Other Income)	1.3	1.3	1.2	1.2	1.3
Pretax Interest Coverage	1.3	1.3	1.2	1.2	1.3
FFO Interest Coverage	2.1	2.0	1.9	1.6	1.8
(FFO-Gross Capital Expenditures) Interest Coverage	1.5	1.5	1.4	0.9	1.3
Fixed Charge Coverage	1.3	1.3	1.2	1.2	1.3
<b>Earnings Analysis</b>					
Operating Margin	35.6	39.1	42.2	43.6	46.3
Return on Equity	7.6	7.7	6.7	5.2	6.2
Return on Asset	1.9	1.9	1.6	1.2	1.4
Return on Capital	7.3	7.6	7.4	7.3	7.4
AFUDC % Net Income	22.4	22.2	21.9	24.3	0.0
<b>BALANCE SHEET (\$ millions)</b>					
Cash and Equivalents	868	746	488	295	395
Net Plant and Equipment	50,044	49,640	48,226	48,042	47,653
Goodwill	297	557	291	203	202
Total Assets	59,861	59,111	56,785	57,295	55,194
Current Portion of LT Debt, Leases & Pref.	3,087	3,484	2,598	2,496	1,317
Short-Term Debt	88	1,774	107	59	46
Long-Term Debt	37,821	35,439	36,513	38,175	37,668
Total Debt	40,996	40,697	39,218	40,730	39,031
Preferred Equity	0	0	0	0	0
Common Equity	14,834	14,280	13,741	13,288	12,888
Total Capitalization	55,830	54,977	52,959	54,018	51,919
Tangible Capitalization (net worth)	55,533	54,420	52,668	53,815	51,717
Market Capitalization (ending period)	0	0	0	0	0
<b>Capital Structure</b>					
Retained Earnings	10,460	9,906	9,367	8,914	8,514
Total Debt - Cash and Equivalents	40,128	39,951	38,730	40,435	38,636
Deferred Charges % Common Equity	39.2	39.3	36.2	46.9	36.9
STD + Curr. Portion of LTD, Leases & Pref. % Capitalization	5.7	9.6	5.1	4.7	2.6
Total Debt % Capitalization	73.4	74.0	74.1	75.4	75.2
<b>Asset Composition</b>					
Net Plant and Equipment % Total Assets	83.6	84.0	84.9	83.9	86.3
Investments % Total Assets	1.4	1.3	1.1	0.8	0.5
Current Assets % Total Assets	5.3	5.2	5.2	4.5	4.5
Deferred Charges % Total Assets	9.7	9.5	8.8	10.9	8.6

## Hydro-Quebec

(C\$ mil. )	2001	2000	1999	1998	1997
<b>CASH FLOW STATEMENT (\$ millions)</b>					
Funds From Operations	3,406	3,345	2,884	1,832	2,389
Preferred Dividends	0	0	0	0	0
Common Dividends	539	453	279	0	0
Retained Cash Flow	2,867	2,892	2,605	1,832	2,389
Gross Capital Expenditures	1,810	1,812	1,642	2,097	1,590
Free Cash Flow	1,057	1,080	963	-265	799
Issuance of Long-Term Debt	4,544	2,200	2,302	1,723	1,415
Retirement of Long-Term Debt	0	0	0	0	0
Net Change in Long-Term Debt	4,544	2,200	2,302	1,723	1,415
Issuance of Preferred Equity	0	0	0	0	0
Retirement of Preferred Equity	0	0	0	0	0
Net Change in Preferred Equity	0	0	0	0	0
Change in Working Capital	82	77	67	-113	21
<b>Cash Flow Analysis</b>					
FFO % Gross Capital Expenditures	188.2	184.6	175.6	87.4	150.3
FFO % Total Debt	8.3	8.2	7.4	4.5	6.1
Total Debt / FFO	12.0	12.2	13.6	22.2	16.3
Total Debt / (FFO - Gross Capital Expenditures)	25.7	26.5	31.6	-153.7	48.8
RCF % Gross Capital Expenditures	158.4	159.6	158.6	87.4	150.3
RCF % Total Debt	7.0	7.1	6.6	4.5	6.1
<b>Construction Analysis</b>					
Gross Capital Expenditures % Capitalization	3.2	3.3	3.1	3.9	3.1
CWIP % Common Equity	11.0	28.0	27.3	25.2	22.0
<b>OPERATING STATISTICS</b>					
<b>Market Analysis</b>					
Electric % Total Revenue	86.8	89.0	88.7	90.9	95.7
Gas % Total Revenue	0.0	0.0	0.0	0.0	0.0
Other % Total Revenue	13.2	11.0	11.3	9.1	4.3
Residential % Electric Revenue	28.7	31.1	35.7	36.3	38.7
Commercial % Electric Revenue	18.1	19.7	23.1	23.7	23.8
Industrial % Electric Revenue	22.7	23.6	26.3	27.2	27.1
Wholesale % Electric Revenue	28.6	23.4	12.4	10.2	7.5
<b>Competitive Position</b>					
Fuel Per Mwhr	0.0	0.0	0.0	0.0	0.0
Non-Fuel Per Mwhr	0.0	0.0	0.0	0.0	0.0
Investment Per Mwhr	0.0	0.0	0.0	0.0	0.0
Total Cost Per Mwhr	0.0	0.0	0.0	0.0	0.0

Coupon	Type of Debt	Maturity	Moody's Rating
<b>Hydro-Quebec (cont'd)</b>			
8.050%	Gtd. Debenture	2024	Aaa
9.625%	Gtd. Global Debentures	2022	A1
9.625%	Gtd. Global Debentures	2022	A1
9.800%	Medium Term Notes	2022	Aaa
8.400%	Gtd. Debenture	2022	A1
8.400%	Gtd. Debenture	2022	Aaa
8.400%	Gtd. Debenture	2022	Aaa
8.400%	Gtd. Debenture	2022	Aaa
9.400%	Gtd. Debenture	2021	A1
9.400%	Gtd. Debenture	2021	Aaa
9.400%	Gtd. Debenture	2021	Aaa
9.400%	Gtd. Debenture	2021	Aaa
9.750%	Gtd. Debenture	2018	A1
7.500%	Debentures	2016	A1
12.625%	Gtd. Eurobonds	2015	A1
13.250%	Gtd. Debenture	2013	A1
8.000%	Gtd. Debenture	2013	A1
8.000%	Gtd. Debenture	2013	Aaa
11.750%	Gtd. Debenture	2012	A1
6.300%	Gtd. Global Notes	2011	A1
6.500%	Gtd. Canadian Debentures	2011	A1
6.000%	Gtd. Eurobonds	2009	A1
5.375%	Gtd. Euro Medium Term Notes	2008	A1
5.875%	Gtd. Eurobonds	2008	A1
3.600%	Gtd. Euro Medium Term Notes	2008	A1
7.010%	Gtd. Euro Medium Term Notes	2007	A1
5.750%	Gtd. Canadian Debentures	2007	A1
—	Guar. Floating Rate Canadian MTNs	2006	A1
6.200%	Guaranteed Canadian MTNs	2006	A1
6.200%	Guaranteed Canadian MTNs	2006	A1
—	Gtd. Flt. Rt. Euronotes	2005	A1
8.500%	Gtd. Canadian Bonds	2005	A1
6.000%	Guaranteed Canadian MTNs	2005	A1
—	Guar. Floating Rate Canadian MTNs	2005	A1
—	Guar. Floating Rate Canadian MTNs	2005	A1
—	Guar. Floating Rate Canadian MTNs	2005	A1
—	Guar. Floating Rate Canadian MTNs	2005	A1
—	Gtd. Floating Rate Global Notes	2005	A1
—	Guar. Floating Rate Canadian MTNs	2004	A1
—	Guar. Floating Rate Canadian MTNs	2004	A1
7.000%	Gtd. Global Bonds	2004	A1
7.000%	Guaranteed Canadian MTNs	2004	A1
—	Guar. Floating Rate Canadian MTNs	2004	A1
3.000%	Gtd. Euro Medium Term Notes	2004	A1
—	Guar. Floating Rate Canadian MTNs	2004	A1
—	Guar. Floating Rate Canadian MTNs	2004	A1
5.500%	Gtd. Canadian Debentures	2003	A1
7.000%	Guaranteed Canadian MTNs	2003	A1
7.375%	Gtd. Debenture	2003	A1
—	Guar. Floating Rate Canadian MTNs	2003	A1

Coupon	Type of Debt	Maturity	Moody's Rating
<b>Hydro-Quebec (cont'd)</b>			
—	Gtd. Flt. Rt. Euronotes	2002	A1
—	Commercial Paper	—	P-1
—	Commercial Paper	—	P-1
—	Commercial Paper	—	P-1
—	415 Shelf Registration	—	(P)A1







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