

**SALARY EXPENSE  
AND  
LABOUR**



## 1. SALARY COMPONENTS

1 The following table provides details on the components of the Distributor's salary  
2 expenses. Expenses related to human resources represent more than 65% of  
3 the Distributor's gross direct expenses.

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|   | <i>Financial Period Ending December 31</i> |              |              |                 |
|---|--|--------------|--------------|-----------------|
|   | Historic Years                             |              | Base Year    | Forecasted Year |
|   | 2001                                       | 2002         | 2003         | 2004            |
| <b>Salary expenses (in M \$)</b>          | <b>524.1</b>                               | <b>574.5</b> | <b>569.9</b> | <b>581.0</b>    |
| Base salary                               | 398.6                                      | 431.4        | 430.9        | 437.0           |
| Overtime                                  | 51.7                                       | 43.4         | 35.1         | 36.3            |
| Profit Sharing and miscellaneous revenues | 23.3                                       | 26.9         | 25.5         | 26.5            |
| Corporate profit-sharing program          | 7.7  | 10.5         | 11.7         | 12.0            |
| Other                                     | 15.6                                       | 16.4         | 13.8         | 14.5            |
| Social benefits                           | 50.5                                       | 72.8         | 78.4         | 81.2            |

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6 During the period 2001-2004, the Distributor's salary expenses increased  
7 annually at 3.5%. This growth derives mainly from the collective bargaining  
8 agreements reached with the trade unions representing the employees of the  
9 Company.

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11 Notably, the improvements provided from the various social programs and their  
12 use by employees, as well as the increase in expenses related to health, account  
13 for about half of this growth.

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15 A portion of Hydro Quebec's and the Distributor's employees' salaries are  
16 associated with corporate profit sharing in order to align labour around common  
17 objectives. The profit sharing payment is conditional on meeting certain regularly  
18 measured indicators, such as the net profit of Hydro Quebec. The level of  
19 indication required for distribution of profit sharing is established according to  
20 three criteria: threshold, target and ideal. During the period 2001 to 2004, profit  
21 sharing distributed on this basis represent on average close to 2% of the

22  
23  
24 Distributor's total salary, which corresponds to reaching the forecasted indicators

- 1 in accordance to the target scenario of the company.

## 2. LABOUR OF THE DISTRIBUTOR AND AVERAGE SALARIES

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|                                 | <i>Financial Period Ending December 31</i> |                 |                 |                 |
|---------------------------------|--|-----------------|-----------------|-----------------|
|                                 | Historic Years                             |                 | Base Year       | Forecasted Year |
|                                 | 2001                                       | 2002            | 2003            | 2004            |
| <b>Average annual labour</b>    | <b>7 584</b>                               | <b>7 651</b>    | <b>7 862</b>    | <b>7 871</b>    |
| <b>Office</b>                   | <b>3 373</b>                               | <b>3 277</b>    | <b>3 261</b>    | <b>3 231</b>    |
| Permanent                       | 2 270                                      | 2 227           | 2 219           | 2 368           |
| Temporary                       | 1 103                                      | 1 050           | 1 042           | 863             |
| <b>Trades</b>                   | <b>2 006</b>                               | <b>2 024</b>    | <b>2 045</b>    | <b>2 045</b>    |
| Permanent                       | 1 903                                      | 1 895           | 1 908           | 1 897           |
| Temporary                       | 103  | 129             | 137             | 148             |
| <b>Technicians</b>              | <b>433</b>                                 | <b>451</b>      | <b>435</b>      | <b>450</b>      |
| Permanent                       | 290  | 294             | 324             | 324             |
| Temporary                       | 143  | 157             | 111             | 126             |
| <b>Engineers</b>                | <b>216</b>                                 | <b>236</b>      | <b>239</b>      | <b>242</b>      |
| Permanent                       | 214  | 229             | 231             | 231             |
| Temporary                       | 2  | 7               | 8               | 11              |
| <b>Specialists</b>              | <b>824</b>                                 | <b>869</b>      | <b>1 044</b>    | <b>1 063</b>    |
| Permanent                       | 800  | 834             | 1 011           | 1 029           |
| Temporary                       | 24   | 35              | 33              | 34              |
| <b>Professional</b>             | <b>170</b>                                 | <b>193</b>      | <b>211</b>      | <b>214</b>      |
| Permanent                       | 160  | 180             | 197             | 202             |
| Temporary                       | 10   | 13              | 14              | 12              |
| <b>Executives/Managements</b>   | <b>562</b>                                 | <b>601</b>      | <b>627</b>      | <b>626</b>      |
| Permanent                       | 562  | 601             | 627             | 626             |
| <b>Average salaries (in \$)</b> | <b>59 216.8</b>                            | <b>65 899.9</b> | <b>64 780.0</b> | <b>65 836.6</b> |
| <b>Offices</b>                  |  |                 |                 |                 |
| Permanent                       | 47 164.4                                   | 48 863.9        | 50 987.0        | 52 462.0        |
| Temporary                       | 41 866.3                                   | 43 634.8        | 45 888.0        | 47 571.0        |
| <b>Trades</b>                   |  |                 |                 |                 |
| Permanent                       | 57 771.0                                   | 62 161.0        | 64 880.0        | 66 785.0        |
| Temporary                       | 48 602.0                                   | 50 270.0        | 52 524.0        | 54 114.0        |
| <b>Technicians</b>              |  |                 |                 |                 |
| Permanent                       | 64 362.0                                   | 66 848.0        | 69 837.0        | 71 975.0        |
| Temporary                       | 49 150.0                                   | 51 035.0        | 53 418.0        | 55 132.0        |
| <b>Engineers</b>                |  |                 |                 |                 |
| Permanent                       | 79 593.0                                   | 82 979.0        | 87 780.0        | 90 857.0        |
| Temporary                       | 68 477.0                                   | 71 475.0        | 75 172.0        | 77 349.0        |
| <b>Specialists</b>              |  |                 |                 |                 |
| Permanent                       | 73 059.0                                   | 75 425.0        | 79 281.0        | 82 234.0        |
| Temporary                       | 59 568.0                                   | 58 891.0        | 61 299.0        | 62 954.0        |
| <b>Professional</b>             |  |                 |                 |                 |
| Permanent                       | 76 467.0                                   | 80 041.0        | 84 067.0        | 87 133.0        |
| Temporary                       | 60 486.0                                   | 60 569.0        | 63 091.0        | 64 823.0        |
| <b>Executives/Management</b>    |  |                 |                 |                 |
| Permanent                       | 89 318.3                                   | 92 574.2        | 96 737.0        | 101 260.0       |

### **3. CORPORATE PROFIT-SHARING PROGRAM**

1 Within the framework of the decision D-2003-93, the Régie requires the  
2 Distributor to separately identify the portion of the profit-sharing program  
3 associated with Hydro Quebec's integrated results.

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5 To respond to this request properly, it is important to consider the guiding  
6 principles of the Hydro-Quebec's profit-sharing program. The profit-sharing  
7 program is negotiated between Hydro-Quebec and the trade unions. The  
8 conditions set for the divisions and corporate employees are established in  
9 various collective agreements. The distribution of profit sharing under the terms  
10 of the program is conditional to the results of the financial statement. This  
11 statement, approved by the Hydro Quebec Board of Directors sets the level of  
12 desired net profit. If the targeted net profit for a given year is not achieved, no  
13 distribution of profit sharing is made.

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15 The Chief Executive Officer (CEO) of Hydro-Quebec sets the performance by  
16 which the calculation of the profit sharing is subject. The performance set by the  
17 CEO is a composite of the performance of the divisions and corporate units.  
18 Each division (and other units) has 3 categories of objectives to reach:

- 19 • those related to the customers (customers' satisfaction index and  
20 reliability of the service);
- 21 • those related with the employees (performance index and workplace  
22 health and safety);
- 23 • and those related with the shareholder (return on investment index and  
24 the division profits).

1 The weighting of the categories of objectives differs from one unit to another. The  
2 Generator, the Transmission Operator and the Distributor each contribute 20% to  
3 the performance level set by the CEO. Hydro Quebec Equipment, Human  
4 Resources and the Centre of Shared Services Group and the corporate units  
5 contribute the remaining 40%.

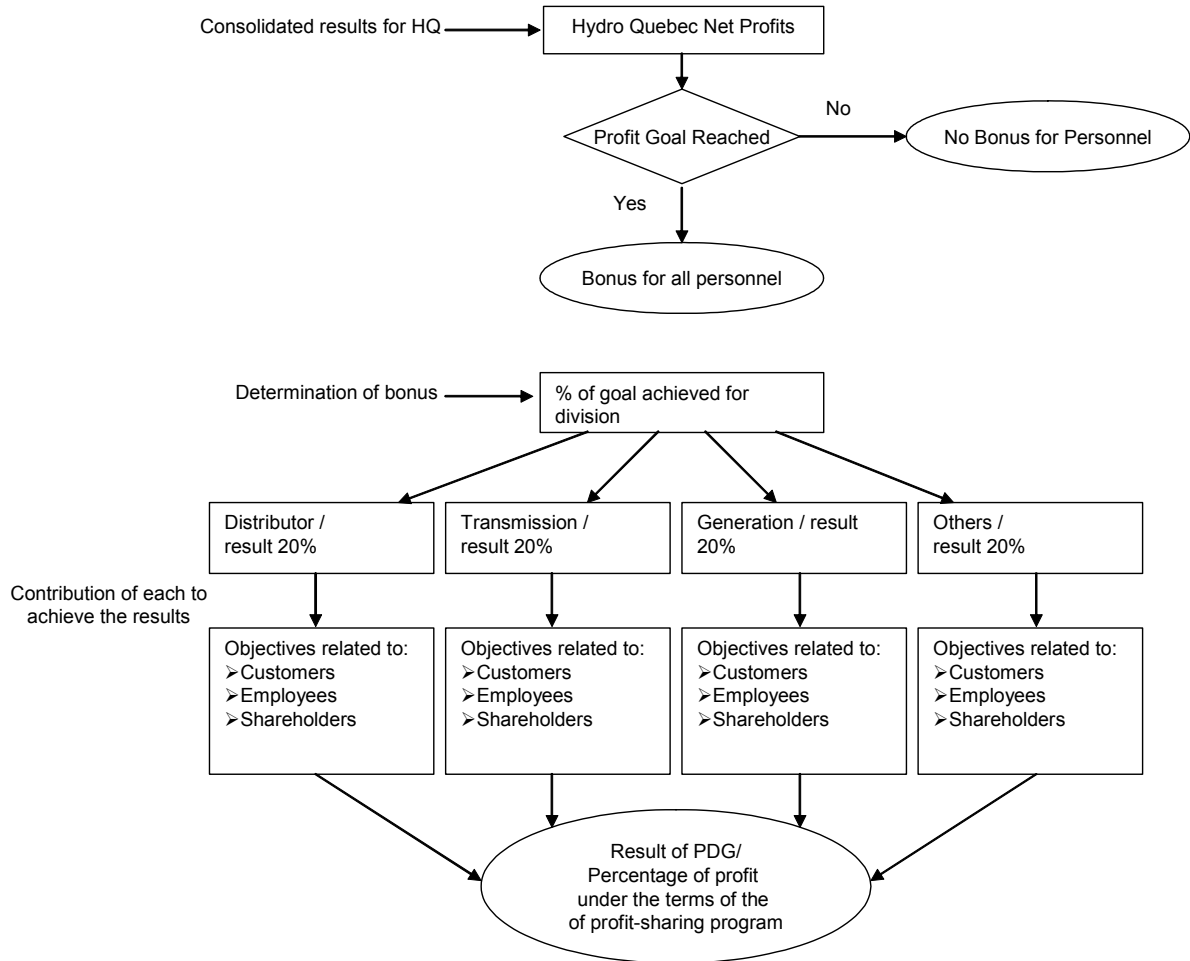
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7 The following diagram shows the process leading to the granting of profit sharing.

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#### 4. STUDIES ON THE SALARY SCALE

1 At the request of the Régie, the Distributor is required to file the results of the  
2 2002 update of the study carried out in 1999 on the salary position of Hydro  
3 Quebec.

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| Employment Group      | Variation with the Average Market Salary |                       |
|-----------------------|--|-----------------------|
|                       | Base <sup>(1)</sup>                      | Global <sup>(2)</sup> |
| Executives/Management | + 8%                                     | + 9%                  |
| Professional          | + 3%                                     | + 5%                  |
| Specialists           | + 11%                                    | + 8%                  |
| Engineers             | + 3%                                     | + 2%                  |
| Technicians           | + 13%                                    | + 15%                 |
| Office                | + 4%                                     | + 3%                  |
| Trades                | + 3%                                     | + 4%                  |

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6 (1) Base: Maximum of the salary scales

7 (2) Global: Maximum of the salary scales, target profit sharing, social benefits including holidays  
8 and vacations but excluding the public program such as health insurance.

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10 Recall that a variation of +/- 5% is considered significant to the "market  
11 average".