

**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
Salary expenses (in M \$)	524.1	574.5	569.9	581.0
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

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- 1 Distributor's total salary, which corresponds to reaching the forecasted indicators
- 2 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
Average annual labour	7 584	7 651	7 862	7 871
Office	3 373	3 277	3 261	3 231
Permanent	2 270	2 227	2 219	2 368
Temporary	1 103	1 050	1 042	863
Trades	2 006	2 024	2 045	2 045
Permanent	1 903	1 895	1 908	1 897
Temporary	103	129	137	148
Technicians	433	451	435	450
Permanent	290	294	324	324
Temporary	143	157	111	126
Engineers	216	236	239	242
Permanent	214	229	231	231
Temporary	2	7	8	11
Specialists	824	869	1 044	1 063
Permanent	800	834	1 011	1 029
Temporary	24	35	33	34
Professional	170	193	211	214
Permanent	160	180	197	202
Temporary	10	13	14	12
Executives/Managements	562	601	627	626
Permanent	562	601	627	626
Average salaries (in \$)	59 216.8	65 899.9	64 780.0	65 836.6
Offices				
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
Trades				
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
Technicians				
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
Engineers				
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
Specialists				
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
Professional				
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
Executives/Management				
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%.

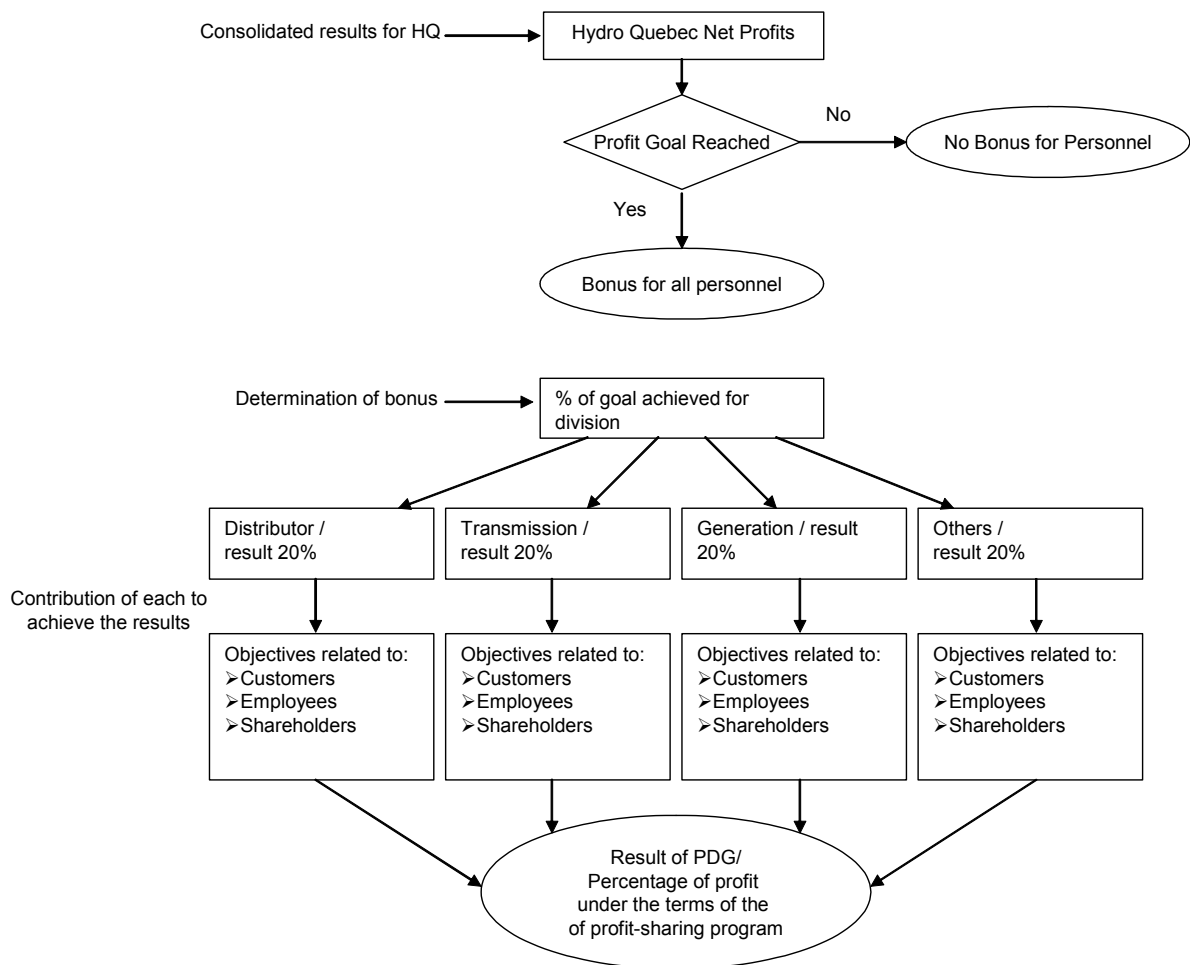
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7 The following diagram shows the process leading to the granting of profit sharing.

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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 ⁽¹⁾	Global ⁽²⁾
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".