Tabled by the Government House Leader
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K. Hawkins-George

Hydro Québec

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Press Release

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Hydro-Québec delivers a strong performance in challenging times

Hydro-Québec is announcing net income of $3,288 million for 2023, the fifth highest in its history. Despite being impacted by the decrease in electricity sales on markets outside Québec caused by low runoff, net income in 2023 is higher than the average income of the past ten years.

"To meet the major challenge of the energy transition, in November we launched our *Action Plan 2035*, a roadmap for the coming years," said President and CEO, Michael Sabia. "The plan aims to decarbonize the economy and create wealth, while meeting growing demand and offering our customers simple, reliable and affordable service. Making these ambitions a reality will require substantial investments and we will need to become a more agile company. I am certain that with the talent and expertise of Hydro-Québec's employees, in 2024 we will complete important milestones required for us to reach the Plan's goals."

"From a financial standpoint, after an exceptional year in 2022, the company was faced with low runoff, a drop in energy prices and warmer temperatures in Québec," said Maxime Aucoin, Executive Vice President – Strategy and Finance. "Despite these challenges, we still performed well on export markets, thanks in particular to the skilled implementation of marketing and risk management strategies, resulting in a net income of over $3 billion for a third consecutive year. Our success will enable us to pay a dividend of $2.5 billion to the Québec government."

2023 Highlights

- **Low runoff**
  - Scant snow cover in late winter 2022–2023, lower-than-usual spring runoff and modest summer and fall precipitation in northern Québec
  - Volume of sales outside Québec dropped by 12.6 TWh or 35%, compared to 2022
- **Continued growth in electricity demand in Québec**
  - Normalized electricity sales (excluding the impact of temperatures) on the rise for the fifth consecutive year
  - Growth of nearly 10 TWh since 2019
- **Successful implementation of risk management strategy**
  - Favorable effect of the risk management strategy more than offset the marked decrease in prices on the export markets

        - Average price obtained (including hedging effect): 10.3¢/kWh
        - Average market price: 5.2¢/kWh
- **Increase in the frequency of weather events**
    - Major freezing rain event in April, forest fires and violent storms during the summer
    - Total cost of service restoration: $77 million
        - These costs are borne by Hydro-Québec, with no impact on electricity rates
- **Substantial contribution to Québec's economy**
    - $4.7 billion contributed to the Québec government's revenue
    - $4.9 billion in investments in property, plant and equipment and intangible assets throughout Québec
        - Over two thirds of investments allocated to asset sustainment
        - Asset sustainment amounts were over 50% higher than they were five years ago

Consolidated Results

Revenue from electricity sales on markets outside Québec declined by $547 million compared to 2022, mainly due to the water inflows, which were well below average in the major hydroelectric reservoirs in northern Québec. It should be noted that periods of high and low runoff have occurred over the years since the 60s. As a result, to optimize resource management, Hydro-Québec lowered its export volume by over one third. However, the positive impact of the risk management strategy that Hydro-Québec implemented to reduce price volatility more than offset the decrease in prices on the energy markets. Thanks to the implementation of this strategy, the company was able to benefit from the high forward prices in 2022 arising from the global geopolitical situation, which had a positive impact on revenue in 2023.

In Québec, electricity sales were $284 million higher than in 2022. The indexation of rates on April 1, 2022 and 2023, resulted in additional revenue of $471 million, while the positive impact of the aluminum price hedging strategy on revenues associated with certain special contracts offset the drop in the prices for this raw material on the markets, boosting revenue from electricity sales by $109 million. However, these two factors were mitigated by milder temperatures, which resulted in a decrease of $349 million in sales. This impact was felt mainly in January, which was 9°C warmer, on average, than January 2022, which was exceptionally cold.

Revenue from other activities declined by $279 million compared to the previous year. This is due to the recognition of a negative amount of $284 million in the share of the results of Hydro-Québec's investment in Innergex énergie renouvelable inc. This adjustment was made following a comparison of the carrying value of the investment with its fair value.

Finally, operational expenditure rose by $288 million, in part due to the measures taken to improve service quality and reliability, including the intensification of servicing and maintenance work, along with the increase in expenses related to digital services to support Hydro-Québec's technological development and respond to its growing business needs. The impact of this rise was partially offset by a decrease in the current service cost of employee future benefit plans related to the increase, in late 2022, in long-term interest rates on the capital markets. As for other components of employee future benefit cost, their recognition led to a negative variance of $331 million, essentially due to the higher interest expense on obligations attributable to the increase in long-term interest rates.

Investments

Our investment program in property, plant and equipment and intangible assets totaled $4.9 billion in 2023, compared to $4.3 billion the previous year. Most of this amount was allocated to large-scale asset sustainment projects and to major development projects. In particular, Hydro-Québec continued to invest in its generation facilities to ensure their long-term operability and, in some cases, increase their generation capacity to be better equipped to meet the anticipated growth in electricity demand. In addition, substantial funds were allocated to the construction of transmission lines to strengthen the grid and increase operating flexibility. An important milestone in this area was the completion of one of the largest worksites in recent years: the commissioning of the 735-kV line connecting Micoua substation, in Côte-Nord, to Saguenay substation, in Saguenay-Lac-Saint-Jean. This 262 km line will help maintain the reliability of Hydro-Québec's transmission system and reduce electrical losses associated with the distances covered. Lastly, the company carried out work to optimize the operation and improve the quality of distribution system assets, in addition to allocating considerable funds to various projects to handle the growing customer base in Québec.

Financing

In a context marked by rising interest rates, Hydro-Québec carried out several fixed-rate issues on the Canadian capital market during the year, bringing in $3.7 billion: $1.8 billion in medium-term notes maturing in 2029, at an average cost of 3.87%, and $1.9 billion in bonds maturing in 2063, at an average cost of 4.27%.

For more information on Hydro-Québec's 2023 financial results, visit www.hydroquebec.com/en (https://www.hydroquebec.com/about/publications-reports/annual-report.html).

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