



# Quarterly Report

## Third Quarter 2017

### Message from the Chairman of the Board and the President and Chief Executive Officer

#### Third quarter

For the three months ended September 30, 2017, Hydro-Québec posted **net income** of \$288 million.

On markets outside Québec, Hydro-Québec Production's net electricity exports remained strong even though temperatures recorded in the U.S. Northeast were close to normal in 2017, whereas they had been very warm in 2016. The division thus exported 9.6 TWh for a total of \$406 million in the third quarter of 2017, compared to 9.8 TWh and \$400 million a year earlier. Financial expenses increased by \$10 million, mainly on account of the foreign currency effect on working capital denominated in U.S. dollars. The difference with 2016 third-quarter net income, which amounted to \$306 million, is essentially due to these two factors.

#### Summary of results for the first three quarters

For the nine months ended September 30, 2017, Hydro-Québec's **net income** totaled \$2,190 million, which is comparable to the \$2,196 million recorded in 2016.

On markets outside Québec, earnings from net electricity exports were comparable to those in the same period of 2016. The first nine months of 2017 were marked by a historic volume of net exports. Thanks to the skillful execution of the company's sales programs and the solid performance of its generating and transmission facilities, Hydro-Québec Production's net exports totaled 27.1 TWh, or 2.7 TWh more than the previous record, set in 2016.

#### Consolidated results for the first three quarters

**Revenue** totaled \$9,918 million, compared to \$9,857 million in the same period last year. Revenue from electricity sales in Québec amounted to \$8,492 million, a \$6-million decrease compared to 2016 partly resulting from the impact of temperatures, which in particular were 3°C below climate normals in April 2016, whereas they were closer to normal in April 2017. Revenue from electricity sales on markets outside Québec was \$1,269 million, a \$31-million increase compared to \$1,238 million in 2016 due to volume growth in electricity exports. Other revenue increased by \$36 million to \$157 million, in large part because of differences in the net amounts that Hydro-Québec is entitled to recover from customers or is required to pay to them, mainly in connection with revenue variances related to climate conditions and variances in supply costs for electricity in excess of the heritage pool.

## Segmented results for the first three quarters

**Total expenditure** amounted to \$5,870 million, compared to \$5,766 million in 2016. The difference is partly the result of a \$32-million rise in Hydro-Québec Distribution's electricity purchases from third parties, primarily due to the commissioning of new wind farms. It is also attributable to a \$58-million increase in the depreciation and amortization expense, essentially related to regulatory assets and liabilities.

**Financial expenses** totaled \$1,858 million in 2017, compared to \$1,895 million in 2016. This decrease is partly due to the foreign currency effect on working capital denominated in U.S. dollars.

### *Generation*

Hydro-Québec Production posted net income of \$1,459 million, compared to \$1,438 million in 2016. Earnings from net electricity exports were comparable to those in the same period last year. The first three quarters were marked by a historic volume of net exports, which totaled 27.1 TWh, or 2.7 TWh more than in 2016. Net electricity sales to Hydro-Québec Distribution decreased by \$22 million, primarily because of a reduction in the volume of electricity supplies. Financial expenses decreased by \$40 million in 2017, partly on account of the foreign currency effect on working capital denominated in U.S. dollars.

### *Transmission*

Hydro-Québec TransÉnergie's net income was \$530 million in 2017, a \$59-million increase compared to the \$471 million recorded in the first three quarters of 2016. Revenue from native-load transmission service provided to Hydro-Québec Distribution increased by \$86 million following a decision handed down by the Régie de l'énergie.

### *Distribution*

Hydro-Québec Distribution's net income totaled \$185 million, compared to \$215 million in the same period of 2016. Revenue from electricity sales in Québec decreased by \$6 million, mainly on account of temperatures, which in particular had been 3°C below climate normals in April 2016. Other revenue increased by \$42 million compared to 2016, in large part because of differences in the net amounts that Hydro-Québec is entitled to recover from customers or is required to pay to them, mainly in connection with revenue variances related to climate conditions and variances in supply costs for electricity in excess of the heritage pool. Electricity purchases, the related transmission costs and fuel purchases rose by \$112 million. More specifically, supplies from Hydro-Québec Production decreased by \$22 million, while native-load transmission costs incurred with Hydro-Québec TransÉnergie increased by \$86 million and electricity purchases from third parties increased by \$32 million, primarily due to the commissioning of new wind farms.

### *Construction*

The Construction segment includes activities related to the design and execution of construction and refurbishment projects involving power generation and transmission facilities. These projects are carried out by Hydro-Québec Innovation, équipement et services partagés and by Société d'énergie de la Baie James (SEBJ).

The segment's volume of activity totaled \$1,768 million, compared to \$1,497 million in 2016. Projects under way for Hydro-Québec Production mainly include ongoing construction of the Romaine hydroelectric complex. Work in progress for Hydro-Québec TransÉnergie includes the 735-kV Chamouchouane-Bout-de-l'Île project, as well as various projects stemming from continued investment in asset reliability and sustainment, particularly the replacement of PK type circuit breakers.

## **Investment**

In the first nine months of 2017, Hydro-Québec invested \$2,586 million in property, plant and equipment and intangible assets, compared to \$2,308 million a year earlier.

Most of Hydro-Québec Production's investments were allocated to ongoing construction of the Romaine complex. A milestone was reached in September with the commissioning of the two units at Romaine-3 generating station (395 MW). The division also carried out several projects to ensure the long-term operability of its facilities and optimize their output, including the refurbishments under way at Robert-Bourassa, Beauharnois and Carillon generating stations.

Hydro-Québec TransÉnergie continued investing in its transmission system. This included work to connect the Romaine complex as part of the expansion of the transmission system in the Minganie region. It is worth noting that the facilities needed to integrate the output from Romaine-3 generating station onto the grid were commissioned in September. In addition, the division continued to build a 735-kV line extending over 400 km as part of the Chamouchouane–Bout-de-l'île project. It also carried out upgrading and modernization work to ensure the reliability and long-term operability of its transmission assets and enhance service quality. One such project is the replacement of PK circuit breakers.

Hydro-Québec Distribution kept up investments to handle the growth of its Québec customer base and to ensure the long-term operability of its facilities. Its growth projects include connecting Judith-Jasmin substation to the distribution system.

## **Financing**

During the third quarter, Hydro-Québec issued bonds in the amount of \$500 million maturing in 2055, at a cost of 3.10%, on the Canadian market.

The funds raised were used to support part of the investment program and to refinance maturing debt.

**Michael D. Penner**

Chairman of the Board

November 17, 2017

**Éric Martel**

President and  
Chief Executive Officer

# CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## CONSOLIDATED STATEMENTS OF OPERATIONS

In millions of Canadian dollars (unaudited)		Three months ended September 30		Nine months ended September 30	
	Notes	2017	2016	2017	2016
<b>Revenue</b>		<b>2,753</b>	2,740	<b>9,918</b>	9,857
<b>Expenditure</b>					
Operations		635	604	1,974	1,907
Other components of employee future benefit cost	2, 8	(83)	(60)	(248)	(181)
Electricity and fuel purchases		392	402	1,409	1,386
Depreciation and amortization	4	649	633	1,944	1,886
Taxes		246	239	791	768
		<b>1,839</b>	1,818	<b>5,870</b>	5,766
<b>Income before financial expenses</b>		<b>914</b>	922	<b>4,048</b>	4,091
Financial expenses	5	626	616	1,858	1,895
<b>Net income</b>		<b>288</b>	306	<b>2,190</b>	2,196

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

In millions of Canadian dollars (unaudited)		Three months ended September 30		Nine months ended September 30	
	Note	2017	2016	2017	2016
<b>Net income</b>		<b>288</b>	306	<b>2,190</b>	2,196
<b>Other comprehensive income</b>					
Change in deferred losses on items designated as cash flow hedges	6	(252)	(2)	(320)	(200)
Reclassification to results of deferred losses (gains) on items designated as cash flow hedges	6	213	(104)	344	127
Reclassification to results of net actuarial losses and past service costs (credits) for employee future benefits		25	28	74	85
Translation differences in financial statements of foreign operations		(1)	(1)	(3)	(1)
		<b>(15)</b>	(79)	<b>95</b>	11
<b>Comprehensive income</b>		<b>273</b>	227	<b>2,285</b>	2,207

The accompanying notes are an integral part of the consolidated financial statements.

## CONSOLIDATED BALANCE SHEETS

In millions of Canadian dollars (unaudited)	Notes	As at September 30, 2017	As at December 31, 2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,203	1,243
Short-term investments		1,148	2,184
Accounts receivable and other receivables		1,652	2,049
Derivative instruments	6	79	100
Regulatory assets		125	123
Materials, fuel and supplies		217	219
		<b>4,424</b>	<b>5,918</b>
Property, plant and equipment		63,520	62,691
Intangible assets		875	938
Investments		891	884
Derivative instruments	6	102	284
Regulatory assets		4,085	4,237
Other assets		724	215
		<b>74,621</b>	<b>75,167</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings		1,653	7
Accounts payable and accrued liabilities		1,998	2,199
Dividend payable		–	2,146
Accrued interest		480	894
Asset retirement obligations		81	86
Derivative instruments	6	30	152
Current portion of long-term debt	6	1,183	1,398
		<b>5,425</b>	<b>6,882</b>
Long-term debt	6	43,205	44,218
Asset retirement obligations		789	774
Derivative instruments	6	5	13
Regulatory liabilities		370	381
Other liabilities		2,587	2,902
Perpetual debt	6	251	293
		<b>52,632</b>	<b>55,463</b>
<b>EQUITY</b>			
Share capital		4,374	4,374
Retained earnings		19,451	17,261
Accumulated other comprehensive income	9	(1,836)	(1,931)
		<b>21,989</b>	<b>19,704</b>
		<b>74,621</b>	<b>75,167</b>
Contingencies	10		

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board of Directors,

**/s/ Michelle Cormier**  
Chair of the Audit Committee

**/s/ Michael D. Penner**  
Chairman of the Board

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

In millions of Canadian dollars  
(unaudited)

Nine months ended  
September 30

	Note	Share capital	Retained earnings	Accumulated other comprehensive income	Total equity
Balance as at January 1, 2017		4,374	17,261	(1,931)	19,704
Net income		–	2,190	–	2,190
Other comprehensive income	9	–	–	95	95
<b>Balance as at September 30, 2017</b>		<b>4,374</b>	<b>19,451</b>	<b>(1,836)</b>	<b>21,989</b>
Balance as at January 1, 2016		4,374	16,546	(1,445)	19,475
Net income		–	2,196	–	2,196
Other comprehensive income	9	–	–	11	11
<b>Balance as at September 30, 2016</b>		<b>4,374</b>	<b>18,742</b>	<b>(1,434)</b>	<b>21,682</b>

The accompanying notes are an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

In millions of Canadian dollars (unaudited)		Three months ended September 30		Nine months ended September 30	
	Notes	2017	2016	2017	2016
<b>Operating activities</b>					
Net income		288	306	2,190	2,196
Adjustments to determine net cash flows from operating activities					
Depreciation and amortization	4	649	633	1,944	1,886
Amortization of premiums, discounts and issue expenses related to debt securities		48	44	140	128
Deficit of net cost recognized with respect to amounts paid for employee future benefits		(46)	(69)	(159)	(181)
Other		111	208	344	277
Regulatory assets and liabilities		(11)	(245)	(145)	(277)
Change in non-cash working capital items	7	175	160	(211)	(312)
		<b>1,214</b>	<b>1,037</b>	<b>4,103</b>	<b>3,717</b>
<b>Investing activities</b>					
Additions to property, plant and equipment		(1,027)	(829)	(2,519)	(2,249)
Additions to intangible assets		(23)	(17)	(67)	(59)
Net change in short-term investments and sinking fund		(200)	(741)	452	(253)
Other		4	3	9	(7)
		<b>(1,246)</b>	<b>(1,584)</b>	<b>(2,125)</b>	<b>(2,568)</b>
<b>Financing activities</b>					
Issuance of long-term debt		597	999	636	2,011
Repayment of long-term debt		(14)	(15)	(1,404)	(1,916)
Cash receipts arising from credit risk management	6	758	2,602	4,017	8,348
Cash payments arising from credit risk management	6	(1,391)	(2,669)	(4,706)	(8,976)
Net change in borrowings		515	864	1,635	2,125
Dividend paid		–	–	(2,146)	(2,360)
Other		(19)	23	(31)	(154)
		<b>446</b>	<b>1,804</b>	<b>(1,999)</b>	<b>(922)</b>
<b>Foreign currency effect on cash and cash equivalents</b>		<b>(9)</b>	<b>1</b>	<b>(19)</b>	<b>(22)</b>
<b>Net change in cash and cash equivalents</b>		<b>405</b>	<b>1,258</b>	<b>(40)</b>	<b>205</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>798</b>	<b>1,595</b>	<b>1,243</b>	<b>2,648</b>
<b>Cash and cash equivalents, end of period</b>		<b>1,203</b>	<b>2,853</b>	<b>1,203</b>	<b>2,853</b>
Supplementary cash flow information	7				

The accompanying notes are an integral part of the consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three- and nine-month periods ended September 30, 2017 and 2016

Amounts in tables are in millions of Canadian dollars, unless otherwise indicated.

## Note 1 Basis of Presentation

Hydro-Québec's consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP).

These quarterly consolidated financial statements, including these notes, do not contain all the required information regarding annual consolidated financial statements and should therefore be read in conjunction with the consolidated financial statements and accompanying notes in Hydro-Québec's *Annual Report 2016*.

The accounting policies used to prepare the quarterly consolidated financial statements are consistent with those presented in Hydro-Québec's *Annual Report 2016*, except for the recent changes.

Management is of the opinion that these quarterly consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hydro-Québec.

Hydro-Québec's quarterly results are not necessarily indicative of results for the year on account of seasonal temperature fluctuations. Because of higher electricity demand during winter months, revenue from electricity sales in Québec is higher during the first and fourth quarters.

Management has reviewed events occurring until November 17, 2017, the date of approval of these quarterly consolidated financial statements by the Board of Directors, to determine whether circumstances warranted the recording or presentation of events subsequent to the balance sheet date.

## Note 2 Changes to Accounting Policies

### RECENT CHANGES

#### ***Employee future benefits***

On January 1, 2017, Hydro-Québec early adopted Accounting Standards Update (ASU) 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, as issued by the Financial Accounting Standards Board (FASB). This ASU states that current service cost is the only component of net employee future benefit cost that can be presented under Expenditure – Operations, and that only this component is eligible for capitalization in assets.

ASU 2017-07 was applied on a modified retrospective basis for the presentation of the other components of employee future benefit cost in the consolidated statements of operations. Using the allowed practical expedient, Hydro-Québec applied the amounts disclosed in the "Employee Future Benefits" note to the 2016 consolidated financial statements for the restatement of comparative information. For the three- and nine-month periods ended September 30, 2017, the new presentation led to a reclassification of \$(83) million and \$(248) million, respectively, from Expenditure – Operations to Other components of employee future benefit cost [\$60 million and \$(181) million, respectively, for the three- and nine-month periods ended September 30, 2016].

The ASU was applied prospectively for the capitalization of related costs in assets. For the three- and nine-month periods ended September 30, 2017, this amendment resulted in an increase of \$4 million and \$14 million, respectively, in net income and property, plant and equipment.

#### ***Investments***

On January 1, 2017, Hydro-Québec adopted ASU 2016-07, *Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*, as issued by the FASB. This ASU simplifies the application of the equity method of accounting in the case where a reporting entity increases its level of investment in another entity or its degree of influence over such an entity. It was applied prospectively and has not had any impact on Hydro-Québec's consolidated financial statements.



## Note 2 Changes to Accounting Policies (continued)

### STANDARDS ISSUED BUT NOT YET ADOPTED

#### **Hedge accounting**

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. This ASU amends the requirements related to hedging relationships in order to simplify the application of hedge accounting and to improve the transparency of information provided in the financial statements regarding an entity's risk management activities. It will apply on a modified retrospective basis to interim and annual financial statements for annual periods beginning on or after January 1, 2019. Hydro-Québec is currently examining the impact of this ASU on its consolidated financial statements.

#### **Statement of cash flows**

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This ASU clarifies how certain items are presented and classified in the statement of cash flows. It will apply on a full retrospective basis to interim and annual financial statements for annual periods beginning on or after January 1, 2018, and should not have any significant impact on Hydro-Québec's consolidated financial statements.

#### **Leases**

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU provides guidance on lease definition, recognition and presentation and requires, in particular, the recognition of assets and liabilities by lessees for all operating and finance leases with a term of more than 12 months. It will apply on a modified retrospective basis to interim and annual financial statements for annual periods beginning on or after January 1, 2019. Hydro-Québec is currently examining the impact of this ASU on its consolidated financial statements.

#### **Financial instruments**

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU provides guidance on the recognition and measurement of financial assets and financial liabilities. It will be applied on a modified retrospective basis to interim and annual financial statements for annual periods beginning on or after January 1, 2018, and should not have any significant impact on Hydro-Québec's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU provides new guidance on the impairment of financial assets that are not accounted for at fair value through net income. It will be applied on a modified retrospective basis to the consolidated financial statements for annual periods beginning on or after January 1, 2021. Hydro-Québec is currently examining the impact of this ASU on its consolidated financial statements.

#### **Revenue**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU provides guidance on the recognition of revenue at the time that goods or services are transferred to a client, for an amount that reflects the payment which the entity expects to receive in exchange for the goods or services.

In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of this guidance by one year.

In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. This ASU clarifies the guidance used to determine if an entity is acting on its own behalf or as an intermediary.

In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. This ASU clarifies guidance on identifying performance obligations and the licensing of intellectual property rights.

In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. This ASU clarifies the guidance on assessing collectibility, on noncash considerations and on completed contracts on the date of initial application.

These ASUs will apply on a full or modified retrospective basis to consolidated financial statements for annual periods beginning on or after January 1, 2018. Hydro-Québec is currently examining their impact on its consolidated financial statements.

## Note 3 Regulation

### DISTRIBUTION

In decision D-2017-034 of March 22, 2017, the Régie de l'énergie (the Régie) authorized an increase of 0.7% in all Hydro-Québec electricity rates except Rate L, for which the increase was set at 0.2%. The new rates are effective as of April 1, 2017. The authorized return on the rate base was set at 6.90%, assuming a capitalization with 35% equity.

In decision D-2017-022 of March 1, 2017, the Régie authorized the Distributor to exceptionally include in its 2017–2018 rates a net amount of \$160 million for revenue variances related to climate conditions from 2010 to 2016.

### TRANSMISSION

In decision D-2017-049 of April 28, 2017, the Régie set Hydro-Québec's power transmission rates for 2017. The authorized return on the rate base was set at 6.80%, assuming a capitalization with 30% equity.

In decision D-2017-021 of March 1, 2017, the Régie authorized the Transmission Provider to amortize over a five-year period the deferral account for costs related to the project involving the replacement of PK type circuit breakers.

## Note 4 Depreciation and Amortization

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Property, plant and equipment	553	555	1,648	1,652
Intangible assets	43	45	132	131
Regulatory assets and liabilities	44	29	133	87
Retirement of capital assets	9	4	31	16
	<b>649</b>	<b>633</b>	<b>1,944</b>	<b>1,886</b>

## Note 5 Financial Expenses

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Interest on debt securities	634	623	1,887	1,867
Net exchange loss (gain)	6	(3)	10	31
Guarantee fees related to debt securities	54	55	163	164
	<b>694</b>	<b>675</b>	<b>2,060</b>	<b>2,062</b>
Less				
Capitalized financial expenses	59	52	170	141
Net investment income	9	7	32	26
	<b>68</b>	<b>59</b>	<b>202</b>	<b>167</b>
	<b>626</b>	<b>616</b>	<b>1,858</b>	<b>1,895</b>

## Note 6 Financial Instruments

In the course of its operations, Hydro-Québec carries out transactions that expose it to certain financial risks, such as market, liquidity and credit risk. Exposure to such risks and the impact on results are reduced through careful monitoring and implementation of strategies that include the use of derivative instruments.

### MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. Hydro-Québec is exposed to three main types of market risk: currency risk, interest rate risk and risk associated with energy and aluminum prices. Active integrated management of these three types of risk aims to limit exposure to each risk and reduce their overall impact on results.

### MANAGEMENT OF LONG-TERM RISK

#### *Management of risk associated with debt*

Currency risk and interest rate risk – Hydro-Québec uses forward contracts and currency swaps to manage the currency risk associated with long-term debt and perpetual debt, as well as forward contracts and interest rate swaps to modify long-term exposure to interest rate risk. When designated as hedging items, these derivative instruments are recognized as cash flow hedges or fair value hedges, depending on the risk hedged. The impact on results of foreign currency hedging transactions and those associated with debt interest rates is recognized in Financial expenses.

The following table shows the notional amounts, expressed in Canadian dollars and foreign currencies, of forward contracts and swaps used to manage long-term risk:

	As at September 30, 2017 <sup>a</sup>	As at December 31, 2016 <sup>a</sup>
<b>Forward contracts</b>		
U.S. dollars	202	1,223
<b>Swaps</b>		
Canadian dollars	(6,905)	(7,969)
U.S. dollars	5,730	5,730
Yen	–	1,000

a) Figures in parentheses represent amounts to be paid.

### MANAGEMENT OF SHORT-TERM RISK

Currency risk – Hydro-Québec uses forward contracts to manage its foreign currency risk exposure over the short term. When designated as hedging items, these derivative instruments are recognized as cash flow hedges. The impact of currency risk hedging transactions on results is recognized in the line item affected by the hedged item, namely Revenue, Electricity and fuel purchases, or Financial expenses. The notional amounts of open positions in currency sales and purchase contracts as at September 30, 2017, were US\$1,014 million and US\$496 million, respectively (US\$1,175 million in currency sales contracts and no open position in currency purchase contracts as at December 31, 2016).

Interest rate risk – Hydro-Québec uses forward rate agreements and interest rate swaps to manage short-term interest rate risk. When designated as hedging items, these derivative instruments are recognized as cash flow hedges. The impact on results of transactions to hedge short-term interest rate risk is recognized in the line item affected by the hedged item, namely Financial expenses.

Price risk – Hydro-Québec uses mainly commodity futures and swaps to manage risk resulting from fluctuations in energy and aluminum prices. When designated as hedging items, these derivative instruments are recognized as cash flow hedges. The impact on results of transactions to hedge the risk related to energy and aluminum prices is recognized in the line item affected by the hedged item, namely Revenue or Electricity and fuel purchases. In this context, Hydro-Québec has traded electricity futures and swaps for which open positions as at September 30, 2017, totaled 22.2 TWh (19.9 TWh as at December 31, 2016), natural gas futures and petroleum product swaps for which there were no open positions at September 30, 2017 (0.5 million MMBtu and 2.6 million litres, respectively, as at December 31, 2016), as well as aluminum swaps for which open positions as at September 30, 2017, totaled 429,825 tonnes (254,050 tonnes as at December 31, 2016).



## Note 6 Financial Instruments (continued)

The impact of offsetting derivative instruments is presented in the table below:

	As at September 30, 2017				As at December 31, 2016			
	Gross amounts of derivatives recognized	Gross amounts offset <sup>a</sup>	Cash (received) paid as collateral <sup>b</sup>	Net amounts presented on the balance sheet	Gross amounts of derivatives recognized	Gross amounts offset <sup>a</sup>	Cash (received) paid as collateral <sup>b</sup>	Net amounts presented on the balance sheet
<b>Assets</b>								
Current	297	(215)	(3)	<b>79</b>	223	(110)	(13)	100
Long-term	1,254	(473)	(679)	<b>102</b>	1,740	(974)	(482)	284
	1,551	(688)	(682)	<b>181</b>	1,963	(1,084)	(495)	384
<b>Liabilities</b>								
Current	(465)	434	1	<b>(30)</b>	(1,091)	939	–	(152)
Long-term	(259)	254	–	<b>(5)</b>	(158)	145	–	(13)
	(724)	688	1	<b>(35)</b>	(1,249)	1,084	–	(165)
<b>Total</b>	<b>827</b>	<b>–</b>	<b>(681)</b>	<b>146</b>	<b>714</b>	<b>–</b>	<b>(495)</b>	<b>219</b>

a) The gross amounts of derivatives offset are related to contracts traded according to International Swaps and Derivatives Association (ISDA) guidelines and constituting enforceable master netting arrangements. Such master netting arrangements apply to all derivative instrument contracts traded over the counter.

b) Cash amounts offset are amounts received or paid under collateral exchange agreements signed in compliance with ISDA guidelines.

Moreover, although certain derivatives cannot be offset for lack of enforceable master netting arrangements, margin calls may result in amounts received from or paid to clearing agents, based on the fair value of the instruments concerned. As at September 30, 2017, there was no amount receivable from clearing agents in consideration of net cash payments included in Accounts receivable and other receivables, under Current assets on the balance sheet (\$27 million as at December 31, 2016). However, an amount of \$45 million payable to clearing agents in consideration of net cash receipts was included in Accounts payable and accrued liabilities, under Current liabilities on the balance sheet (\$16 million as at December 31, 2016).

## Note 6 Financial Instruments (continued)

The impact of derivative instruments on results and other comprehensive income is presented in the tables below. It should be noted that most derivative instruments traded are designated as cash flow hedges or fair value hedges and therefore reduce the volatility of results, except for the ineffective portion of the hedges, which is insignificant. Derivative instruments which are not designated as hedges, but which nonetheless provide an economic hedge for at-risk opposite positions, also reduce the volatility of results. The sensitivity of results is thus limited to net exposure to unhedged risks.

	Three months ended September 30, 2017				
	Losses (gains) on derivatives designated as fair value hedges	Losses (gains) on derivatives designated as cash flow hedges			Losses (gains) on derivatives not designated as hedges
	Recognized in results	Effective portion recognized in Other comprehensive income	Ineffective portion recognized in results	Effective portion reclassified from Other comprehensive income to results	Recognized in results
Contracts – Currency risk	–	200	–	237 <sup>a</sup>	52
Contracts – Currency risk and interest rate risk	–	–	–	–	–
Contracts – Interest rate risk	67	(3)	–	–	(3)
Contracts – Price risk	–	55	(5) <sup>b</sup>	(24) <sup>b</sup>	(4)
	<b>67<sup>c</sup></b>	<b>252</b>	<b>(5)</b>	<b>213</b>	<b>45<sup>d</sup></b>
Impact of hedged items on results	<b>(65)</b>			<b>(213)</b>	<b>(53)</b>

	Three months ended September 30, 2016				
	Losses (gains) on derivatives designated as fair value hedges	Losses (gains) on derivatives designated as cash flow hedges			Losses (gains) on derivatives not designated as hedges
	Recognized in results	Effective portion recognized in Other comprehensive income	Ineffective portion recognized in results	Effective portion reclassified from Other comprehensive income to results	Recognized in results
Contracts – Currency risk	–	38	–	(81) <sup>a</sup>	(30)
Contracts – Currency risk and interest rate risk	–	–	–	–	–
Contracts – Interest rate risk	(11)	–	–	–	–
Contracts – Price risk	–	(36)	1 <sup>b</sup>	(23) <sup>b</sup>	(4)
	<b>(11)<sup>c</sup></b>	<b>2</b>	<b>1</b>	<b>(104)</b>	<b>(34)<sup>d</sup></b>
Impact of hedged items on results	<b>9</b>			<b>104</b>	<b>32</b>

a) In 2017, \$(31) million was recognized in Revenue [\$(18) million in 2016], and \$268 million in Financial expenses [\$(63) million in 2016].

b) In 2017, \$(29) million was recognized in Revenue [\$(22) million in 2016].

c) This amount, including the ineffective portion totaling \$2 million in 2017 [\$(2) million in 2016], was recognized in Financial expenses.

d) These instruments are essentially related to integrated risk management transactions. The impact of these instruments on results is recognized in the line item affected by the managed risk. Therefore, in 2017, \$2 million was recognized in Revenue (\$5 million in 2016), \$(6) million in Electricity and fuel purchases [\$(7) million in 2016], and \$49 million in Financial expenses [\$(32) million in 2016].

## Note 6 Financial Instruments (continued)

	Nine months ended September 30, 2017				
	Losses (gains) on derivatives designated as fair value hedges	Losses (gains) on derivatives designated as cash flow hedges			Losses (gains) on derivatives not designated as hedges
	Recognized in results	Effective portion recognized in Other comprehensive income	Ineffective portion recognized in results	Effective portion reclassified from Other comprehensive income to results	Recognized in results
Contracts – Currency risk	–	387	(1) <sup>a</sup>	478 <sup>a</sup>	32
Contracts – Currency risk and interest rate risk	–	–	–	–	–
Contracts – Interest rate risk	110	(7)	–	2 <sup>b</sup>	(5)
Contracts – Price risk	–	(60)	6 <sup>c</sup>	(136) <sup>c</sup>	(50)
	<b>110<sup>d</sup></b>	<b>320</b>	<b>5</b>	<b>344</b>	<b>(23)<sup>e</sup></b>
<b>Impact of hedged items on results</b>	<b>(107)</b>			<b>(344)</b>	<b>(41)</b>

	Nine months ended September 30, 2016				
	Losses (gains) on derivatives designated as fair value hedges	Losses (gains) on derivatives designated as cash flow hedges			Losses (gains) on derivatives not designated as hedges
	Recognized in results	Effective portion recognized in Other comprehensive income	Ineffective portion recognized in results	Effective portion reclassified from Other comprehensive income to results	Recognized in results
Contracts – Currency risk	–	419	–	472 <sup>a</sup>	190
Contracts – Currency risk and interest rate risk	(1)	–	–	–	–
Contracts – Interest rate risk	(179)	(2)	–	2 <sup>b</sup>	–
Contracts – Price risk	–	(217)	1 <sup>c</sup>	(347) <sup>c</sup>	(50)
	<b>(180)<sup>d</sup></b>	<b>200</b>	<b>1</b>	<b>127</b>	<b>140<sup>e</sup></b>
<b>Impact of hedged items on results</b>	<b>168</b>			<b>(127)</b>	<b>(191)</b>

a) In 2017, \$(41) million was recognized in Revenue (\$35 million in 2016), and \$518 million in Financial expenses (\$437 million in 2016).

b) In 2017 and 2016, \$2 million was recognized in Financial expenses.

c) In 2017, \$(130) million was recognized in Revenue [\$(346) million in 2016].

d) This amount, including the ineffective portion totaling \$3 million in 2017 [\$(12) million in 2016], was recognized in Financial expenses.

e) These instruments are essentially related to integrated risk management transactions. The impact of these instruments on results is recognized in the line item affected by the managed risk. Therefore, in 2017, \$(45) million was recognized in Revenue [\$(56) million in 2016], \$(9) million in Electricity and fuel purchases [\$(12) million in 2016], and \$31 million in Financial expenses (\$208 million in 2016).

## Note 6 Financial Instruments (continued)

During the first nine months of 2017 and 2016, Hydro-Québec did not reclassify any amounts from Accumulated other comprehensive income to results after having discontinued cash flow hedges.

As at September 30, 2017, the net loss presented in Accumulated other comprehensive income that would be reclassified to results in the next 12 months was estimated at \$34 million (net gain of \$101 million as at September 30, 2016).

As at September 30, 2017 and 2016, the maximum period during which Hydro-Québec hedged its exposure to the variability of cash flows related to anticipated transactions was three years.

### FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

Fair value measurements for other financial instruments are Level 2 measurements. Fair value is obtained by discounting future cash flows, based on rates observed on the balance sheet date for similar instruments traded on capital markets.

The fair value of cash equivalents, receivables – accounts receivable, other receivables and financial liabilities approximates their carrying amount because of the short-term nature of these financial instruments, except in the case of the items presented in the table below:

	As at September 30, 2017		As at December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt <sup>a</sup>	44,388	58,254	45,616	60,931
Perpetual debt	251	214	293	217

a) Including the current portion.

### ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

Accounts receivable and other receivables include unbilled electricity deliveries, which totaled \$743 million as at September 30, 2017 (\$1,206 million as at December 31, 2016).

## Note 7 Supplementary Cash Flow Information

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
<b>Change in non-cash working capital items</b>				
Accounts receivable and other receivables	410	576	386	594
Materials, fuel and supplies	2	(2)	2	(6)
Accounts payable and accrued liabilities	166	(20)	(158)	(451)
Accrued interest	(403)	(394)	(441)	(449)
	175	160	(211)	(312)
<b>Investing activities not affecting cash</b>				
Increase in property, plant and equipment	24	113	56	155
<b>Interest paid</b>	<b>875</b>	877	<b>1,928</b>	1,964



## Note 8 Employee Future Benefits

	Three months ended September 30			
	Pension Plan		Other plans	
	2017	2016	2017	2016
Current service cost	108	105	11	11
Other components of employee future benefit cost				
Interest on obligations	198	192	11	12
Expected return on plan assets	(356)	(334)	–	(1)
Amortization of net actuarial loss	56	62	6	6
Amortization of past service costs (credits)	3	4	(1)	(1)
	(99)	(76)	16	16
<b>Net cost recognized</b>	<b>9</b>	<b>29</b>	<b>27</b>	<b>27</b>

	Nine months ended September 30			
	Pension Plan		Other plans	
	2017	2016	2017	2016
Current service cost	323	317	33	34
Other components of employee future benefit cost				
Interest on obligations	594	574	36	36
Expected return on plan assets	(1,067)	(1,001)	(2)	(3)
Amortization of net actuarial loss	167	185	19	19
Amortization of past service costs (credits)	8	12	(3)	(3)
	(298)	(230)	50	49
<b>Net cost recognized</b>	<b>25</b>	<b>87</b>	<b>83</b>	<b>83</b>

## Note 9      Accumulated Other Comprehensive Income

	Nine months ended September 30, 2017			
	Cash flow hedges	Employee future benefits	Translation differences	Accumulated other comprehensive income
Balance, beginning of period	(135)	(1,799)	3	<b>(1,931)</b>
Other comprehensive income before reclassifications	(320)	–	(3)	<b>(323)</b>
Amounts reclassified to results	344	74	–	<b>418</b>
Other comprehensive income	24	74 <sup>a</sup>	(3)	<b>95</b>
Balance, end of period	(111)	(1,725)	–	<b>(1,836)</b>

	Nine months ended September 30, 2016			
	Cash flow hedges	Employee future benefits	Translation differences	Accumulated other comprehensive income
Balance, beginning of period	233	(1,678)	–	(1,445)
Other comprehensive income before reclassifications	(200)	–	(1)	(201)
Amounts reclassified to results	127	85	–	212
Other comprehensive income	(73)	85 <sup>a</sup>	(1)	11
Balance, end of period	160	(1,593)	(1)	(1,434)

a) Other comprehensive income includes the change in the employee future benefit regulatory asset, which totaled \$(117) million as at September 30, 2017 [\$(128) million as at September 30, 2016].

## **Note 10      Contingencies**

### **GUARANTEES**

In accordance with the terms and conditions of certain debt securities issued outside Canada, Hydro-Québec has undertaken to increase the amount of interest paid to non-residents in the event of changes to Canadian tax legislation governing the taxation of non-residents' income. Hydro-Québec cannot estimate the maximum amount it might have to pay under such circumstances. Should an amount become payable, Hydro-Québec has the option of redeeming most of the securities in question. As at September 30, 2017, the amortized cost of the long-term debts concerned was \$3,288 million.

### **LITIGATION**

In the normal course of its development and operating activities, Hydro-Québec is sometimes party to claims and legal proceedings. Management is of the opinion that an adequate provision has been made for these legal actions. Consequently, it does not foresee any significant adverse effect of such contingent liabilities on Hydro-Québec's consolidated operating results or financial position.

Among other ongoing actions, some Aboriginal communities have instituted proceedings against the governments of Canada and Québec, as well as against Hydro-Québec, based on demands concerning their ancestral rights. In particular, the Innus of Uashat mak Mani-Utenam are demanding \$1.5 billion in damages resulting from various operations carried out on land they claim as their own. Hydro-Québec is challenging the legitimacy of these claims.

As well, in November 2006, the Innus of Pessamit reactivated a case instituted in 1998 aimed at obtaining, among other things, the recognition of ancestral rights related to Québec lands on which certain hydroelectric generating facilities belonging to the Manic-Outardes complex are located. The Innus of Pessamit are claiming \$500 million. Hydro-Québec is challenging the legitimacy of this claim. In July 2015, the Superior Court granted a motion in which the Innus of Pessamit requested that proceedings be suspended until the end of January 2017. In February 2017, the Innus obtained an extension from the case management judge until the end of September 2017. A case management conference is scheduled for November, so that proceedings can resume under a new timeframe.

## Note 11 Segmented Information

The following tables present information on segment results and assets:

							Three months ended September 30, 2017
	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Intersegment eliminations and adjustments	Total
Revenue							
External customers	449	18	2,281	–	5	–	<b>2,753</b>
Intersegment customers	945	828	18	768	410	(2,969)	–
Net income (loss)	301	175	(205)	–	17	–	<b>288</b>

							Three months ended September 30, 2016
	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Intersegment eliminations and adjustments	Total
Revenue							
External customers	444	9	2,271	–	16	–	2,740
Intersegment customers	960	792	18	570	425	(2,765)	–
Net income (loss)	325	165	(215)	–	31	–	306

							Nine months ended September 30, 2017
	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Intersegment eliminations and adjustments	Total
Revenue							
External customers	1,397	57	8,437	–	27	–	<b>9,918</b>
Intersegment customers	3,444	2,479	59	1,768	1,234	(8,984)	–
Net income	1,459	530	185	–	16	–	<b>2,190</b>
Total assets as at September 30, 2017	32,952	22,255	12,934	69	6,605	(194)	<b>74,621</b>

							Nine months ended September 30, 2016
	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Intersegment eliminations and adjustments	Total
Revenue							
External customers	1,363	52	8,401	–	41	–	9,857
Intersegment customers	3,456	2,355	58	1,497	1,291	(8,657)	–
Net income	1,438	471	215	–	72	–	2,196
Total assets as at September 30, 2016	32,934	21,110	13,203	57	8,500	(180)	75,624

## Note 12 Comparative Information

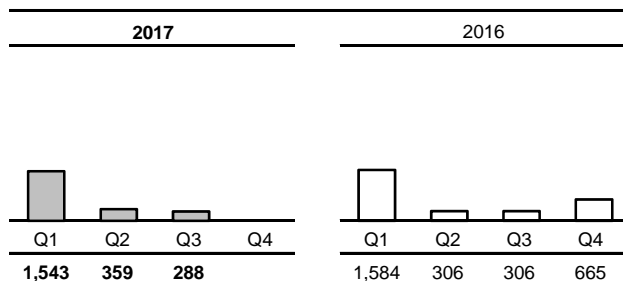
Some corresponding period data of the prior year have been reclassified to conform to the presentation adopted in the current period.

# CONSOLIDATED FINANCIAL HIGHLIGHTS (UNAUDITED)

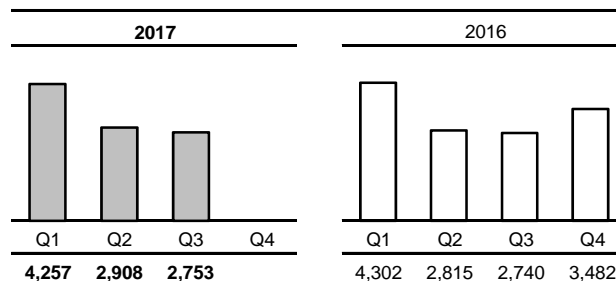
Amounts shown in tables are in millions of Canadian dollars.

Summary of Results	Three months ended September 30				Nine months ended September 30			
	2017	2016	Change (%)		2017	2016	Change (%)	
Revenue	<b>2,753</b>	2,740	0.5	↑	<b>9,918</b>	9,857	0.6	↑
Expenditure	<b>1,839</b>	1,818	1.2	↑	<b>5,870</b>	5,766	1.8	↑
Financial expenses	<b>626</b>	616	1.6	↑	<b>1,858</b>	1,895	2.0	↓
Net income	<b>288</b>	306	5.9	↓	<b>2,190</b>	2,196	0.3	↓

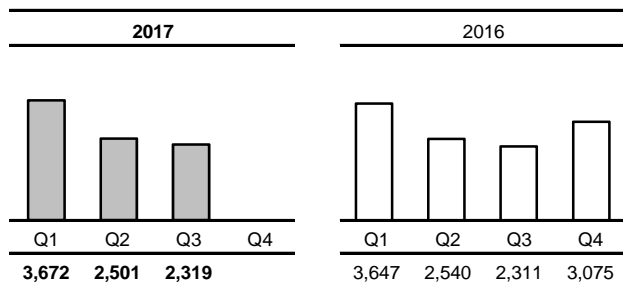
## Net Income



## Revenue



## Revenue from Electricity Sales in Québec



## Revenue from Electricity Sales Outside Québec

