

PRIVATE PLACEMENT MEMORANDUM

HYDRO-QUÉBEC

NOTES ARE UNCONDITIONALLY GUARANTEED BY QUÉBEC

\$2,250,000,000

**Private Placement
of
Commercial Paper Notes**

THE NOTES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY OTHER APPLICABLE SECURITIES LAW, AND OFFERS AND SALES THEREOF MAY BE MADE ONLY IN COMPLIANCE WITH AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS. BY ITS ACCEPTANCE OF A NOTE, THE PURCHASER WILL BE DEEMED TO REPRESENT THAT IT HAS BEEN AFFORDED AN OPPORTUNITY TO INVESTIGATE MATTERS RELATING TO THE ISSUER AND THE NOTES, THAT IT IS NOT ACQUIRING SUCH NOTE WITH A VIEW TO ANY DISTRIBUTION THEREOF AND THAT IT IS EITHER (A) AN INSTITUTIONAL INVESTOR THAT IS AN ACCREDITED INVESTOR WITHIN THE MEANING OF RULE 501(a) UNDER THE ACT (AN "INSTITUTIONAL ACCREDITED INVESTOR") AND THAT EITHER IS PURCHASING NOTES FOR ITS OWN ACCOUNT, IS A U.S. BANK (AS DEFINED IN SECTION 3(a)(2) OF THE ACT) OR A SAVINGS AND LOAN ASSOCIATION OR OTHER INSTITUTION (AS DEFINED IN SECTION 3(a)(5)(A) OF THE ACT) ACTING IN ITS INDIVIDUAL OR FIDUCIARY CAPACITY OR IS A FIDUCIARY OR AGENT (OTHER THAN A U.S. BANK OR SAVINGS AND LOAN ASSOCIATION) PURCHASING NOTES FOR ONE OR MORE ACCOUNTS EACH OF WHICH IS SUCH AN INSTITUTIONAL ACCREDITED INVESTOR; OR (B) A QUALIFIED INSTITUTIONAL BUYER ("QIB") WITHIN THE MEANING OF RULE 144A UNDER THE ACT WHICH IS ACQUIRING NOTES FOR ITS OWN ACCOUNT OR FOR ONE OR MORE ACCOUNTS, EACH OF WHICH IS A QIB AND WITH RESPECT TO EACH OF WHICH THE PURCHASER HAS SOLE INVESTMENT DISCRETION; AND THE PURCHASER ACKNOWLEDGES THAT IT IS AWARE THAT THE SELLER MAY RELY UPON THE EXEMPTION FROM THE REGISTRATION PROVISIONS OF SECTION 5 OF THE ACT PROVIDED BY RULE 144A. BY ITS ACCEPTANCE OF A NOTE, THE PURCHASER THEREOF SHALL ALSO BE DEEMED TO AGREE THAT ANY RESALE OR OTHER TRANSFER THEREOF WILL BE MADE ONLY (A) IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE ACT, EITHER (1) TO THE ISSUER OR TO OTHER PERSONS DESIGNATED BY THE ISSUER AS A PLACEMENT AGENT FOR THE NOTES (COLLECTIVELY, THE "AUTHORIZED PLACEMENT AGENTS"), NONE OF WHICH SHALL HAVE ANY OBLIGATION TO ACQUIRE SUCH NOTE, (2) THROUGH AN AUTHORIZED PLACEMENT AGENT TO AN INSTITUTIONAL ACCREDITED INVESTOR OR A QIB, OR (3) TO A QIB IN A TRANSACTION THAT MEETS THE REQUIREMENTS OF RULE 144A AND (B) IN MINIMUM AMOUNTS OF \$250,000.

By its purchase of a Note, the purchaser further represents and agrees that (i) it has knowledge and experience (or is a fiduciary or agent with sole investment discretion having such knowledge and experience) in financial and business matters and it (or such fiduciary or agent) is capable of evaluating the merits and risks of investing in the Notes; (ii) it has had access to such information as the purchaser deems necessary in order to make an informed investment decision; (iii) although an Authorized Placement Agent may repurchase Notes, the Authorized Placement Agents are not obligated to do so, and accordingly, the purchaser should be prepared to hold such Note until maturity; (iv) it has had the opportunity to ask questions of, and receive answers from Hydro-Québec and Québec; (v) it acknowledges that the Authorized Placement Agents have not verified any of the information contained or referred to in this Private Placement Memorandum and make no representation of any kind as to the accuracy or completeness of such information; and (vi) it understands that each Note will bear a legend substantially as set forth in capital letters above.

AUTHORIZED PLACEMENT AGENT

TD Securities (USA) Inc.

The date of this Private Placement Memorandum is December 6th, 2001.

The information set forth herein was obtained from sources which we believe reliable, but we do not guarantee its accuracy. Neither the information, nor any opinion expressed, constitutes a solicitation by us of the purchase or sale of any instruments. The information contained herein will not typically be distributed or updated upon each new sale of commercial paper notes, although the information may be updated from time to time. Further, the information herein is not intended as substitution for the investor's own inquiry into the creditworthiness of the issuer or another party providing credit support for the notes, as the case may be, and investors are encouraged to make such inquiry.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

CREDIT RATINGS¹

Standard & Poor's Ratings Group
Moody's Investors Service, Inc.

Commercial Paper

A-1+
P-1

¹Such ratings are only accurate as of the date hereof, as they have been obtained with the understanding that Standard & Poor's Ratings Group and Moody's Investors Service would continue to monitor the credit of the Issuer and the Guarantor and make future adjustments to such ratings to the extent warranted. The ratings may be changed, superseded or withdrawn, and therefore, a prospective purchaser should check the current ratings before purchasing the Notes.

TERMS OF COMMERCIAL PAPER NOTES

Issuer:	Hydro-Québec (the "Issuer").
Guarantor of Notes:	Québec ("Québec" or the "Guarantor").
Program Size:	Authorized to a maximum outstanding of \$2,250,000,000.
Securities:	Promissory notes (the "Notes"), ranking pari passu with Hydro-Québec's other unsubordinated and unsecured indebtedness.
Exemption:	The Notes are exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2), and cannot be resold unless registered or an exemption from registration is available.
Offering Price:	Par less a discount representing an interest factor or, if interest bearing, at par.
Denominations:	Minimum of \$250,000 and in integral multiples of \$1,000.
Maturities:	Up to 364 days from date of issue.
Redemption:	The Notes will not be redeemed prior to maturity or be subject to voluntary prepayment.
Form:	Each Note will be evidenced by (i) a note certificate issued in bearer form or (ii) a master note registered in the name of the nominee of The Depository Trust Company ("DTC"). The master note (the "Book-Entry Note") will be deposited with the Issuing and Paying Agent as subcustodian for DTC or its successor. DTC will record, by appropriate entries on its book-entry registration and transfer system, the respective amounts payable in respect of Book-Entry Note. Payments by DTC participants to purchasers for whom a DTC participant is acting as agent in respect of Book-Entry Note will be governed by the standing instructions and customary practices under which securities are held at DTC through DTC participants.
Settlement:	Unless otherwise agreed to, same day basis, in immediately available funds.
Issuing & Paying Agent:	Bankers Trust Company.

ISSUER'S DESCRIPTION

Hydro-Québec operates one of the two largest systems in Canada for the generation and distribution of electric power. Hydro-Québec supplies virtually all electric power distributed in Québec. Hydro-Québec conducts its business in three segments: its Electricity segment which supplies electric power in Québec, other Canadian provinces, the U.S. and other countries; its Gas segment which supplies gas in Québec and holds interests in other gas distributors in Canada and the U.S.; and its Expertise and Technology segment which provides electricity-related services and holds strategic investments in Québec, the U.S. and other countries. Hydro-Québec offers multi-energy services to its customers either directly or through its TransÉnergie division, its subsidiaries, affiliates and strategic partners. Hydro-Québec's electric generation system in Québec comprises 80 power stations currently in service, of which 51 are hydroelectric and 29 are thermal, with a total installed capacity of 31,512 MW as of December 31, 2000. TransÉnergie's power transmission system in Québec is one of the most extensive and comprehensive transmission systems in North America, comprising more than 20,000 miles of lines. Hydro-Québec's distribution system in Québec is made up of 66,146 miles of medium voltage lines, of which 60,349 miles are overhead and 5,797 miles are underground, as well as 37,450 miles of low voltage lines, of which 34,470 miles are overhead and 2,980 miles are underground.

Hydro-Québec was created in 1944 by the *Hydro-Québec Act* of the Parliament of Québec and is an agent of the Government of Québec. The Government of Québec, through its Minister of Finance, holds all the capital stock of Hydro-Québec.

GUARANTOR'S DESCRIPTION

Québec is the largest by area of the ten provinces in Canada (594,860 square miles, representing 15.4% of the geographical area of Canada) and the second largest by population (7.4 million, representing 23.9% of the population of Canada, as of January 2001).

Québec has a modern, developed economy, in which the service sector contributed 70%, the manufacturing industry 22%, the construction industry 5% and the primary sector 3% of real GDP at factor cost in 2000. The leading manufacturing industries in Québec include electrical, electronic and computer products, food, beverage and tobacco products, transportation equipment (including aircraft and motor vehicles and associated parts), paper products, primary metals (including aluminum smelting and copper refining industries) and chemical products (notably pharmaceuticals). Québec also has significant hydroelectric resources, generating approximately one-third of the electricity produced in Canada.

Montréal and Ville de Québec, the capital of Québec, are the centers of Québec economic activity. Montréal is one of the main industrial, commercial and financial centers of North America and is Canada's second largest urban area as measured by population. Montréal is also Canada's largest port, situated on the St. Lawrence River, which provides access to both the Atlantic Ocean and the inland navigation system of the Great Lakes.

French is the official language of Québec and is spoken by approximately 95% of its population.

FINANCIAL INFORMATION OF THE GUARANTOR

The following table summarizes the consolidated financial transactions of the Government of Québec for the two years ended March 31, 2000, the preliminary results for fiscal 2001, the revised budget forecast for fiscal 2002 and the budget forecast for fiscal 2003. All dollar amounts are expressed in Canadian dollars.

Summary of Consolidated Financial Transactions

	<u>Year ending March 31,</u>				
	<u>1999</u>	<u>2000</u>	<u>Preliminary Results 2001</u>	<u>Revised Forecast 2002</u>	<u>Budget Forecast 2003</u>
	(Canadian dollar amounts in millions)				
Budgetary Transactions:					
Own-source revenue	\$38,605	\$41,047	\$42,856	\$40,298	\$42,691
Government of Canada transfers	8,090	6,352	8,161	9,660	9,247
Total revenue.....	<u>46,695</u>	<u>47,399</u>	<u>51,017</u>	<u>49,958</u>	<u>51,938</u>
Operating expenditure	(39,382)	(39,997)	(41,959)	(43,506)	(44,582)
Debt service.....	(7,187)	(7,372)	(7,606)	(7,402)	(7,356)
Total expenditure	<u>(46,569)</u>	<u>(47,369)</u>	<u>(49,565)</u>	<u>(50,908)</u>	<u>(51,938)</u>
Budgetary reserve ⁽¹⁾					
Funds allocated to reserve	—	—	(950)	—	—
Financing new spending.....	—	—	—	280 ⁽⁵⁾	—
Maintaining a balanced budget.....	—	—	—	670 ⁽⁵⁾	—
Budgetary surplus after reserve.....	<u>126</u>	<u>30</u>	<u>502</u>	<u>—</u>	<u>—</u>
Non-Budgetary Transactions:					
Investments, loans and advances	(1,402)	(2,022)	(1,632)	(1,317)	(1,432)
Capital investments	(217)	(359)	(473)	(691)	(1,195)
Retirement plans.....	1,020	1,740	1,793	1,987	1,969
Other accounts ⁽²⁾	996	1,328	(706)	(686)	13
	<u>397</u>	<u>687</u>	<u>(1,018)</u>	<u>(707)</u>	<u>(645)</u>
Net Financial Surplus (Requirements).....	<u>\$ 523</u>	<u>\$ 717</u>	<u>\$ (516)</u>	<u>\$ (707)</u>	<u>\$ (645)</u>
Financing Transactions:					
Change in cash position	(1,983)	2,246	(473)	941	1,422
Change in direct debt ⁽³⁾	2,490	(132)	3,008	2,032	1,459
Retirement plans sinking fund ⁽⁴⁾	(1,030)	(2,831)	(2,019)	(2,266)	(2,236)
Total Financing of Transactions.....	<u>\$ (523)</u>	<u>\$ (717)</u>	<u>\$ 516</u>	<u>\$ 707</u>	<u>\$ 645</u>

⁽¹⁾ In 2001, \$950 million was placed in reserve: \$600 million for the health and social services sector, \$200 million for the education sector, \$100 million for social solidarity and \$50 million for research.

⁽²⁾ Reflects year-to-year changes in accounts payable and receivable, cash on hand and outstanding bank deposits and checks.

⁽³⁾ Represents mainly new borrowings of \$9,651 million, \$6,080 million, \$8,594 million, \$7,374 million and \$5,565 million for each of its fiscal years ending March 31, 1999 through 2003, respectively, less repayment of borrowings.

⁽⁴⁾ Reflects the proceeds of Québec debt issues used to partially fund the Government of Québec's obligations in respect of its retirement plans.

⁽⁵⁾ Use of funds allocated to reserve.

2000-2001 Preliminary Results

The preliminary results of the Government of Québec's financial transactions for the year ending March 31, 2001 indicate that there will be a surplus of \$502 million in its fiscal year ending March 31, 2001 after creation of a reserve of \$950 million.

2001-2002 Revised Forecast

A balanced budget will be achieved again in 2001-2002 following the use of the budgetary reserve of \$950 million created in 2000-2001. Of this amount, \$280 million will be used to finance new spending and \$670 million to maintain a balanced budget. The draft legislation respecting the budgetary reserve will be amended to allow the fund to be used in this manner.

Consolidated budgetary revenue for 2001-2002 is \$1,178 million less than anticipated in the March 2001 Budget. Own-source revenue is \$1,354 million lower than originally budgeted. These changes are attributable mainly to the impact of the measures announced in November 2001 Budget, the effects of the economic slowdown on revenue from income taxes and other taxes and the impact of the downturn in the financial markets on revenue from government enterprises. Federal transfers are \$176 million higher than budgeted last March. Equalization revenue has been revised upward despite the decline in provincial revenue that is subject to this program mainly as a result of a decrease in Québec's relative fiscal capacity with regard to corporate tax, and an upward adjustment to payments in respect of 1998-1999.

Consolidated budgetary expenditure was adjusted downward by \$228 million. These change stems, on the one hand, from the use of the budgetary reserve to carry out new spending of \$280 million on certain departments, principally for health and social services, on the other hand, from the decrease in debt service of \$508 million. This revision in debt service is essentially due to the sharp drop in short-term interest rates since the beginning of fiscal 2001-2002.

2002-2003 Budget Forecast

A balanced budget will also be achieved in 2002-2003, as prescribed by the Act respecting the elimination of the deficit and a balanced budget.

Consolidated budgetary revenue for 2002-2003 is estimated at \$1,980 million more than in the preceding year. Own-source revenue should grow by \$2,393 million. This increase is mainly due to the Budget measures, notably the six-month deferral of tax instalments for the last quarter of 2001 for small and medium-sized enterprises and the tobacco tax increase, and the improvement in the financial position of government corporations as a whole. Federal transfers are expected to be \$413 million lower, mainly as a result of the expiry of two of the three Canada Health and Social Transfer trust accounts in 2001-2002.

Consolidated budgetary expenditure is estimated to be \$1,030 million higher than in the preceding year. The operating expenditure is expected to grow by \$1,076 million and debt service to decrease by \$46 million.

Available Information

Hydro-Québec and the Guarantor file reports and other information with the Securities and Exchange Commission (the "Commission"). Such reports and other information may be inspected without charge at the public reference facilities maintained by the Commission at 450 Fifth Street, NW, Washington, D.C. 20549, and at the Regional Offices of the Commission. Copies thereof may be obtained from the Commission upon payment of the prescribed fees. Hydro-Québec and the Guarantor will provide without charge to each purchaser of the Notes, upon oral or written request, a copy of any and all documents filed with the Commission and any and all publicly available financial information. Hydro-Québec's most recent 18/K report filed with the Commission and its annual and interim financial statements are also available on Hydro-Québec's home page at www.hydroquebec.com. Likewise, the Guarantor's most recent 18/K report filed with the Commission and its annual, interim and amended budget and statements of revenues and expenditures are also made available on the Guarantor's home page at www.finances.gouv.qc.ca. However, any other information available on either of such home pages (such websites listed in this Private Placement are inactive textual references only) shall not be deemed to form a part of this Private Placement Memorandum. Requests should also be directed to the contacts listed below.

If you have any questions or require any additional information please contact:

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Canada
(514) 289-2516

As to Guarantor: Ministère des Finances
Direction de l'émission des emprunts
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(418) 643-8141

As to Dealer: TD Securities (USA) Inc.
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31 West 52nd St., 21st floor
New York, NY 10019
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IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER, THE GUARANTOR AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

WE MAY FROM TIME TO TIME ACT AS AN UNDERWRITER FOR PUBLIC OFFERINGS OF, OR MAKE A MARKET FOR, SECURITIES OF THE ISSUER OR ITS AFFILIATES AND MAY HAVE A LONG OR SHORT POSITION IN SUCH SECURITIES. IN ADDITION, WE MAY PERFORM OTHER INVESTMENT AND COMMERCIAL BANKING SERVICES FOR THE ISSUER OR ITS AFFILIATES. ALTHOUGH WE MAY PURCHASE AND SELL, AS PRINCIPAL OR AGENT, OUTSTANDING COMMERCIAL PAPER OF THE ISSUER, WE ASSUME NO OBLIGATION TO PURCHASE OR MAKE A MARKET IN ANY SUCH OUTSTANDING COMMERCIAL PAPER.