

GREEN BOND NEWSLETTER

PROVINCE OF QUÉBEC

February 2018

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CHARACTERISTICS OF GREEN BONDS ISSUED BY QUÉBEC

Québec Green Bonds are used to raise capital for specific projects that generate tangible benefits with regard to protecting the environment, reducing greenhouse gas (GHG) emissions or adapting to climate change in Québec.

Eligible green projects (excluding electricity generation projects involving fossil fuels and nuclear energy) **correspond to one of the following categories:**

- Public Transit
- Energy Efficiency
- Renewable Energy
- Sustainable Waste Management
- Sustainable Land Development
- Water Management or Water Treatment
- Forest, Agricultural Land, and Land Management
- Climate Adaptation and Resilience

Québec Green Bonds have the same characteristics as conventional bonds in terms of price, yield, maturity and credit ratings.

They constitute valid bonds of Québec and rank *pari passu* with each other and with all other debt issued by Québec.

Holders of these bonds do not assume any project-related risks.

BASIS OF QUÉBEC GREEN BONDS

Québec's Green Bond program draws on the Green Bond Principles (GBP), a set of guidelines created to bring more transparency to the issuing process, the disclosure and the reporting.

CICERO (Center for International Climate and Environmental Research) issued an independent opinion on the framework and the selection process of Québec's Green Bond program.

- Québec's Green Bond framework was awarded the highest possible rating—dark green.

Consult document¹
from CICERO

1 http://www.finances.gouv.qc.ca/documents/Autres/en/AUTEN_Quebec_2nd_Opinion.pdf

QUÉBEC'S FIRST GREEN BOND ISSUE

ISSUE DETAILS

Issuer:	Province of Québec
Ratings*:	Aa2/AA-/AA- (Stable/Stable/Stable)
Size:	Can\$500 million
Pricing date:	February 24, 2017
Issue date:	March 3, 2017
Maturity date:	March 3, 2022
Coupon:	1.65%
Yield:	1.672%
Price:	\$99.895
Re-offer spread:	+ 57 bps
Benchmark:	CAN 0.50% March 1, 2022
Exchanges:	Luxembourg Green Exchange (LGX) -Euro MTF Market
Leads:	HSBC, RBC Capital Markets and TD Securities
Senior co-lead and Green structuring agent:	SEB

* S&P upgraded the rating to AA- in June 2017.



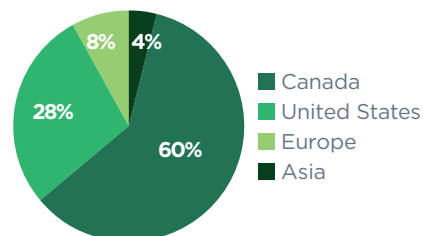
EXECUTION

- Tuesday, February 21, 2017: A mandate announcement was released at the market open and an invitation to a global investor conference call was sent to market participants. Over 70 people took part in the conference call, which highlighted Québec's Green Bond framework, eligible Green Bond projects and the planned use of proceeds from the transaction.
- Wednesday, February 22, 2017: Québec followed up on investors' questions.
- Thursday, February 23, 2017: The transaction was officially announced.
- Friday, February 24, 2017: The transaction was officially launched and priced. At the time of the pricing, the order book exceeded Can\$1.1 billion.

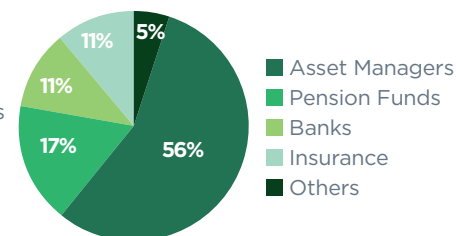
HIGHLIGHTS

- On February 24, 2017, Québec issued its first-ever Green Bond, becoming the second government to issue a Green Bond in the Canadian market.
- With a focus on the acquisition of new AZUR métro cars, Québec identified four public transit projects that met the selection criteria and would be eligible for funding as part of the current Green Bond issue.
- The issue received strong interest from investors with green mandates or investor signatories to the United Nations Principles for Responsible Investment (UN PRI), who represented over 90% of overall sales.
- The issue was offered to domestic and international investors through a global offering format. As a result, Québec was able to achieve wide primary market distribution with over 60 investors, of which Canada accounted for 60%, the United States, 28%, Europe, 8%, and Asia, 4%. The breakdown by investor type was 56% for asset managers, 17% for pension funds, 11% for banks, 11% for insurance and 5% for other investors.
- The issue was included in the following Green Bond indices:
 - Bloomberg Barclays MSCI Green Bond Index
 - BofA Merrill Lynch Green Bond Index
 - Solactive Green Bond index
 - S&P Green Bond Index
- As noted, this is Québec's inaugural Green Bond issue. Québec plans to become a regular issuer of Green Bonds in the coming years.

DISTRIBUTION BY : Geography



Investor Type



USE OF PROCEEDS FROM QUÉBEC GREEN BONDS

- An amount equal to the net proceeds from each Green Bond issue is credited to a designated account, in order to track the use and allocation of funds related to eligible projects.
- As long as the account has a positive balance, amounts equivalent to the funds disbursed are deducted from the balance as they are allocated to eligible projects approved under Québec's Green Bond framework.
- The first disbursements required for the projects selected must be made within 12 months following the Green Bond issue or within six months prior to the issue.
- Pending subsequent disbursements, the unallocated balance is invested in short-term Treasury bills or in short-term notes issued or guaranteed by the Québec government or another Canadian government.

USE OF PROCEEDS AS AT JANUARY 31, 2018

NET PROCEEDS FROM FIRST GREEN BOND ISSUE	CAN\$498 725 000
PROCEEDS USED FOR THE AZUR MÉTRO CARS PROJECT	CAN\$497 750 000
BALANCE AS AT JANUARY 31, 2018	CAN\$975 000

SELECTION PROCESS OF ELIGIBLE PROJECTS

The Green Bond Advisory Committee (GBAC) selects eligible projects complying with the standards and strict policies of the Québec government.

The GBAC is comprised of representatives from various Québec government departments and agencies:

- Ministère des Finances (MFQ)
- Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques (MDDELCC)
- Ministère des Transports, de la Mobilité durable et de l'Électrification des transports (MTMDET)
- Secrétariat du Conseil du trésor (SCT)



When issuing Green Bonds, the MFQ selects projects from the list drawn up by the GBAC.

The value of each project must be over Can\$25 million.



PROJECT FINANCED THROUGH QUÉBEC'S FIRST GREEN BOND ISSUE

ACQUISITION OF NEW AZUR MÉTRO CARS



PROJECT DESCRIPTION

- On October 22, 2010, the Société de transport de Montréal (STM) signed a contract with the Bombardier-Alstom Consortium to purchase 468 métro cars (52 trains). This project, which spans several years, calls for a major investment of \$1.2 billion, financed jointly by the MTMDET (75%) and the urban agglomeration of Montréal (25%).
- The gradual replacement of the MR-63 cars, which have been running since the métro opened in 1966, will mark a major change in the history of Montréal's public transit system. For users, the new rolling stock significantly improves service: an 8% increase in capacity, high-tech information systems, a new ventilation system, 27% wider doors than the previous ones and an optimized layout.
- Like trains in other major cities, including Munich, Berlin, Bangkok, Shanghai, Mexico City, Delhi and Madrid, the new nine-car AZUR trains are "boa"-type trains enabling passengers to move freely from one car to another.
- Powered 100% by hydroelectricity, these cars manufactured with 60% Canadian content will be 92.5% recyclable at the end of their useful life.
- Thanks in part to the AZUR métro cars, the STM aims to increase electric-powered travel on its network from 69.5% in 2015 to 88.6% in 2025.
- Following an adjustment to the agreement with the Consortium, a total of 54 nine-car trains will run in the network.

PROJECT FINANCED THROUGH QUÉBEC'S FIRST GREEN BOND ISSUE



ACQUISITION OF NEW AZUR MÉTRO CARS

PROJECT PROGRESS

- On April 28, 2014, the first AZUR prototype car, containing the driver's cab, arrived at the STM's facilities. In February 2016, after several months of testing, the first AZUR train was put into service on the Orange Line, the busiest line since the métro's extension to Laval. In August 2017, the STM put an AZUR train into service on the Green Line. Since then, the STM has continued the gradual integration of the AZUR trains on this line. At the same time, the STM put two AZUR trains into service on the Green Line, to make sure that there are no issues when the AZUR trains are deployed on this line as of spring 2018.
- As at January 31, 2018, 35 AZUR trains had been transferred to the STM.

All proceeds from Québec Green Bonds issued in February 2017 were used to finance 27 nine-car trains, or 243 AZUR cars.

Québec had initially identified four public transit projects that met the selection criteria and that could have been financed under this Green Bond issue, while prioritizing the acquisition of AZUR métro cars.

PROJECT NAME	CATEGORY	FINAL FUNDING ALLOCATION (%)
New AZUR métro cars	Public transit	100%
Réno-Systèmes	Public transit	0%
Réno-Infrastructures	Public transit	0%
Purchase of hybrid buses	Public transit	0%

PROJECT FINANCED THROUGH QUÉBEC'S FIRST GREEN BOND ISSUE

ACQUISITION OF NEW AZUR MÉTRO CARS

ESTIMATED BENEFITS FOR THE ENVIRONMENT

Thanks to the AZUR cars, the STM aims to:

- reach 440 million public transit trips on the STM network by 2025;
- increase electric-powered travel on its network from 69.5% to 88.6% in 2025;
- reduce GHG emissions per passenger-kilometre by 6% by 2025 (from 47.4 g of CO₂ eq. per passenger-kilometre in 2015 to 44.7 g of CO₂ eq. per passenger-kilometre in 2025);
- ensure reclamation of over 85% of the 8 200 tons of materials from the 333 MR-63 cars.

RECLAMATION OF MR-63 CARS

As at December 31, 2017, 209 MR-63 cars had been recycled and 124 cars (37.2%) were still in operation. The reclamation rate of the MR-63 cars is 85%. More than 50 types of parts will be reused on the MR-73 cars, the MR-63 cars still in service and the locotracors, resulting in major savings.

MR-63 RECLAMATION APPROACH HONoured AT NOVÆGALA

The quality of the work performed by the STM to ensure reclamation of the MR-63 cars, and its conclusive results, motivated the jury of the Novae Citizen Enterprise Awards to present the STM with an award in the “Residual Materials Management” category. The Novae Awards recognize best practices in sustainable development and social responsibility in Québec.

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TO REACH US

Ministère des Finances du Québec
12 rue Saint-Louis
Québec City (Québec) G1R 5L3

Email: info@finances.gouv.qc.ca
Phone: 418 528-9323
Fax: 418 646-1631