

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Ontario Power Generation Inc. are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it considers most appropriate. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The consolidated financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to January 30, 2002.

Management maintains a system of internal controls which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization. These systems are monitored and evaluated by management and by an internal audit service and risk management function.

The consolidated financial statements have been examined by Ernst & Young LLP, independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditors' Report outlines the scope of their examination and their opinion.

The Audit Committee of the Board of Directors is comprised of independent directors. The Audit Committee meets regularly with management, internal audit services and the external auditors to satisfy itself that each group has properly discharged its respective responsibility, and to review the financial statements before recommending approval by the Board of Directors. The external auditors had direct and full access to the Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of Ontario Power Generation Inc.'s financial reporting and the effectiveness of the system of internal controls.

January 30, 2002

Ronald W. Osborne (signed)
President and Chief Executive Officer

Wayne M. Bingham (signed)
*Executive Vice President
and Chief Financial Officer*

Auditors' Report

To the Shareholder of Ontario Power Generation Inc.

We have audited the consolidated balance sheets of Ontario Power Generation Inc. as at December 31, 2001 and 2000 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of Ontario Power Generation Inc's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Ontario Power Generation Inc. as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

ERNST & YOUNG LLP (signed)
Chartered Accountants
Toronto, Canada
January 23, 2002

ONTARIO POWER GENERATION INC.
Consolidated Statements of Income

Years Ended December 31 <i>(millions of dollars except earnings per share)</i>	2001	Restated <i>(notes 2 and 15)</i> 2000
Revenues	<u>6,239</u>	<u>5,978</u>
Operating expenses		
Operation, maintenance and administration	2,559	2,365
Fuel	1,259	1,271
Power purchased	879	180
Depreciation and amortization <i>(notes 5 and 6)</i>	810	764
Property and capital taxes	308	379
Restructuring costs <i>(note 17)</i>	67	-
	<u>5,882</u>	<u>4,959</u>
Operating income	357	1,019
Net interest expense	<u>139</u>	<u>140</u>
Income before income taxes	<u>218</u>	<u>879</u>
Income taxes <i>(note 3)</i>		
Current	(65)	310
Future	<u>131</u>	<u>79</u>
	<u>66</u>	<u>389</u>
Net income	<u>152</u>	<u>490</u>
Basic and fully diluted earnings per common share	<u>0.59</u>	<u>1.91</u>
Common shares outstanding <i>(millions)</i>	<u>256.3</u>	<u>256.3</u>

See accompanying notes to consolidated financial statements

Consolidated Statements of Retained Earnings

Years Ended December 31 <i>(millions of dollars)</i>	2001	Restated <i>(notes 2 and 15)</i> 2000
Retained earnings beginning of year as previously reported	691	291
Adjustment <i>(notes 2 and 15)</i>	<u>(124)</u>	<u>(9)</u>
Retained earnings beginning of year as restated	567	282
Net income	152	490
Dividends	<u>(375)</u>	<u>(205)</u>
Retained earnings end of year	<u>344</u>	<u>567</u>

See accompanying notes to consolidated financial statements

ONTARIO POWER GENERATION INC.
Consolidated Statements of Cash Flows

Years Ended December 31 (millions of dollars)	2001	Restated (notes 2 and 15) 2000
Operating activities		
Net income	152	490
Adjustments for non-cash items:		
Depreciation and amortization	810	764
Deferred pension asset	21	19
Other post employment benefits	(13)	73
Future income taxes	131	79
Provision for restructuring (note 17)	67	-
Other	53	65
	1,221	1,490
Fixed asset removal and nuclear waste management fund	(427)	(414)
Expenditures on nuclear waste management	(56)	(43)
Net changes to other long-term assets and liabilities	(67)	(107)
Non-cash working capital changes:		
Accounts receivable	(50)	(38)
Income taxes recoverable	(77)	-
Fuel inventory	(293)	136
Materials and supplies	(60)	(4)
Accounts payable and accrued charges	33	261
	224	1,281
Cash flow provided by operating activities	224	1,281
Investing activities		
Expenditures for fixed assets	(739)	(585)
Proceeds from Bruce decontrol (note 16)	370	-
Net proceeds (purchases) from short-term investments	296	(335)
Proceeds from sale of fixed assets	12	16
	(61)	(904)
Cash flow used in investing activities	(61)	(904)
Financing activities		
Short-term notes issued (repaid)	(150)	150
Repayment of long-term debt and capital lease obligation (note 7)	(203)	-
Dividends	(375)	(205)
	(728)	(55)
Cash flow used in financing activities	(728)	(55)
Net (decrease) increase in cash and cash equivalents	(565)	322
Cash and cash equivalents, beginning of year	565	243
Cash and cash equivalents, end of year	-	565

See accompanying notes to consolidated financial statements

ONTARIO POWER GENERATION INC.
Consolidated Balance Sheets

As at December 31 <i>(millions of dollars)</i>	2001	Restated <i>(notes 2 and 15)</i> 2000
Assets		
Current assets		
Cash and cash equivalents <i>(note 4)</i>	-	565
Short-term investments <i>(note 4)</i>	39	335
Accounts receivable	1,010	968
Income taxes recoverable	77	-
Fuel inventory	537	288
Materials and supplies	35	37
	1,698	2,193
Fixed assets <i>(note 5)</i>		
Property, plant and equipment	14,460	13,842
Less: accumulated depreciation	1,479	910
	12,981	12,932
Other assets		
Deferred pension asset <i>(notes 2 and 15)</i>	330	482
Fixed asset removal and nuclear waste management fund <i>(note 6)</i>	1,208	781
Long-term note receivable <i>(note 16)</i>	225	-
Materials and supplies	179	192
Long-term accounts receivable and other assets	65	52
	2,007	1,507
	16,686	16,632

See accompanying notes to consolidated financial statements

ONTARIO POWER GENERATION INC.
Consolidated Balance Sheets

As at December 31 <i>(millions of dollars)</i>	2001	Restated <i>(notes 2 and 15)</i> 2000
Liabilities		
Current liabilities		
Accounts payable and accrued charges	1,505	1,406
Short-term notes payable <i>(note 8)</i>	-	150
Deferred revenue due within one year <i>(note 16)</i>	13	-
Long-term debt due within one year <i>(note 7)</i>	205	204
	1,723	1,760
Long-term debt <i>(note 7)</i>	3,015	3,219
Other liabilities		
Fixed asset removal and nuclear waste management <i>(note 6)</i>	4,724	4,482
Other post employment benefits <i>(notes 2 and 15)</i>	924	1,032
Long-term accounts payable and accrued charges	336	298
Deferred revenue <i>(note 16)</i>	215	-
Future income tax liabilities <i>(note 3)</i>	279	148
	6,478	5,960
Shareholder's equity		
Common shares <i>(note 10)</i>	5,126	5,126
Retained earnings <i>(notes 2 and 15)</i>	344	567
	5,470	5,693
	16,686	16,632

Contingencies and commitments *(note 14)*

See accompanying notes to consolidated financial statements

On behalf of the Board of Directors:

William A. Farlinger (signed)
Chairman

Ronald W. Osborne (signed)
President and Chief Executive Officer

ONTARIO POWER GENERATION INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000

1. DESCRIPTION OF BUSINESS

Ontario Power Generation Inc. was incorporated on December 1, 1998 pursuant to the *Business Corporations Act* (Ontario). As part of the reorganization of Ontario Hydro, under the *Electricity Act, 1998* and the related restructuring of the electricity industry in Ontario, Ontario Power Generation Inc. and its subsidiaries (collectively "OPG") purchased and assumed certain assets, liabilities, employees, rights and obligations of the electricity generation business of Ontario Hydro on April 1, 1999 and commenced operations on that date. Ontario Hydro has continued as Ontario Electricity Financial Corporation ("OEFC"), responsible for managing and retiring Ontario Hydro's outstanding debt and other obligations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The consolidated financial statements of OPG have been prepared in accordance with Canadian generally accepted accounting principles which requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities.

Consolidation

The consolidated financial statements include the accounts of Ontario Power Generation Inc. and its subsidiaries. Ontario Power Generation Inc. accounts for its interests in jointly controlled entities using the proportionate consolidation method.

Inventories

Fuel inventory is valued at the lower of average cost or net realizable value.

Materials and supplies are valued at the lower of average cost or net realizable value with the exception of specific replacement parts which are unique to nuclear and fossil generating stations. The cost of the unique replacement parts inventory is charged to operations on a straight-line basis over the remaining life of the related facilities and are classified as long-term assets.

Fixed Assets and Depreciation

Property, plant and equipment are recorded at cost. Interest costs incurred during construction are capitalized as part of the cost of the asset.

Depreciation rates for the various classes of assets are based on their estimated service lives. Any asset removal costs that have not been specifically provided for in current or previous periods are also charged to depreciation expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED...

Fixed assets are depreciated on a straight-line basis except for computers and transport and work equipment, which are depreciated on a declining balance basis as noted below:

Nuclear generating stations	25 to 40 years
Fossil generating stations	40 to 50 years
Hydroelectric generating stations	100 years
Administration and service facilities	50 years
Computers and transport and work equipment assets - declining balance	9 to 40 %
Major application software	7 years

Fixed Asset Removal and Nuclear Waste Management

OPG recognizes a liability for fixed asset removal and nuclear waste management, taking into account the time value of money since it is able to estimate both the amount and timing of future cash expenditures on these activities. On April 1, 1999, when OPG commenced operations, the following costs were recognized as a liability:

- The present value of the costs of dismantling the nuclear and fossil production facilities at the end of their useful lives.
- The present value of the fixed cost portion of any nuclear waste management programs that are required regardless of volume of waste generated.
- The present value of the variable cost portion of any nuclear waste management program to take into account actual waste volumes incurred up to April 1, 1999.

The liability for nuclear waste management costs is increased for waste generated each year with the corresponding amounts charged to operations through depreciation and amortization expense or fuel expense. OPG funds the nuclear fixed asset removal and nuclear waste management liability based on a pre-determined payment stream. This funding is segregated and used only for fixed asset removal or nuclear waste management. It is OPG's intent to have these funds held by a custodian outside of the Company. Actual costs incurred to operate waste management programs are applied against the segregated funds.

Revalorization arises because liabilities for used nuclear waste disposal and future fixed asset removal costs are stated in the balance sheet on a net present value basis. The revalorization charge is the adjustment that results from restating the liabilities to reflect the effect of inflation on the cost estimates and the time value of money effect on the future liabilities. Revalorization is disclosed in the consolidated financial statements as part of depreciation and amortization.

Ongoing operating costs incurred for temporary storage of used nuclear fuel during the generating station's operating life are reflected as ongoing operating and capital expenditures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED...

Revenue

Revenues are earned primarily through the sale of electricity to wholesale and large industrial customers in Ontario and to interconnected markets in the United States, Quebec and Manitoba. The wholesale electricity prices charged to Ontario customers are billed on a bundled basis including transmission and other related charges. OPG receives the bundled payments and distributes funds to the successor entities of Ontario Hydro under the terms of revenue allocation arrangements. The revenue allocation arrangements were designed so the undistributed balance of funds would provide OPG with planned revenue of 4¢/kWh based on forecasted energy demand and customer mix, together with a fixed amount for ancillary services. Variations between actual and forecast demand and customer mix result in changes to OPG's actual revenue per kWh.

Non-energy revenues include revenues from engineering analysis and design, technical and ancillary services, isotope sales, lease revenue, interest income related to the Bruce Power lease agreement and foreign exchange gains and losses. For other contracts, revenues are recognized as services are provided or products are delivered.

Foreign Currency Translation

Current monetary assets and liabilities in foreign currencies are translated into Canadian currency at year-end rates of exchange. Any resulting gain or loss is reflected in other revenue.

Derivatives

OPG enters into various hedging instruments in order to manage foreign exchange risk and commodity price risk through derivatives such as forward agreements, call or put options and energy swaps. When derivative contracts are used as a hedge to manage OPG's exposure to commodity price movements or foreign currency movements, the gain or loss on hedging instruments is recognized when the underlying transaction occurs. Gains or losses from foreign currency hedges are recorded in other revenue. Gains or losses from commodity price hedges are recorded in energy revenues or power purchases.

Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents include cash on deposit and liquid money market securities with an original term to maturity that is less than 90 days on the date of purchase. All other liquid money market securities with an original term to maturity on the date of purchase greater than 90 days and less than one year are recorded as short-term investments. These securities are carried on the consolidated balance sheets at the lower of cost or market.

Interest earned on cash and cash equivalents and short-term investments is offset against interest expense in the consolidated statements of income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED...

Income and Other Tax

Under the *Electricity Act, 1998*, OPG is responsible for making payments in lieu of taxes to the OEFC. These payments are calculated in accordance with the *Income Tax Act (Canada)* and the *Corporations Tax Act (Ontario)*, and are modified by regulations made under the *Electricity Act, 1998*.

OPG uses the liability method of tax allocation which requires that future income taxes reflect the net tax effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

OPG is also required to make payments in lieu of property taxes on its generating assets to the OEFC. These payments, together with property taxes and a Gross Revenue Charge ("GRC"), are intended to approximate the total property tax paid by privately owned companies. The GRC was introduced by the Province effective January 1, 2001 to restructure the payment of municipal property taxes, water rentals and payments in lieu of property taxes from OPG's hydroelectric generating facilities. The GRC payments are set based on the gross revenue derived from the annual generation of electricity from these hydroelectric generating stations and are dependent on both energy prices and hydroelectric production.

Research and Development

Development costs related directly to the design or construction of a specific fixed asset are capitalized as part of the cost of the asset. Research and development costs, which are incurred to discharge long-term obligations such as the nuclear waste management liabilities, for which specific provisions have already been made, are charged to the related liability. All other research and development costs which do not qualify for deferral, are charged to operations in the year incurred.

Pension and Other Post Employment Benefits

OPG's post employment benefit programs include pension, group life insurance, health care, long-term disability and workers' compensation benefits. OPG accrues its obligations under pension and other post employment benefit ("OPEB") plans. Pension fund assets are valued using market-related values for purposes of determining actuarial gains or losses. When the recognition of the transfer of employees and employee related benefits gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement. Pension and OPEB expenses and obligations are determined annually by independent actuaries using management's best estimates.

Pension and OPEB expenses include current service costs, interest costs on the obligations, the expected return on pension plan assets, adjustments for plan amendments and changes in assumptions, that result in actuarial gains or losses. Past service costs arising from pension and OPEB plan amendments are amortized on a straight line basis over the expected average remaining service life of the employees covered by the plan (EARSL). The excess of the net cumulative unamortized gain or loss, over 10% of the greater of the benefit obligation and the market-related value of the plan assets, is also amortized over EARSL.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED...

During 2001, OPG changed its policy of accounting for the changes in the net actuarial gain or loss, to amortize the net cumulative unamortized gain or loss in excess of 10% of the greater of the benefit obligation and the market-related value of the plan assets. Previously, the entire change in the net actuarial gain or loss was amortized over EARSL and plan assets were valued at market for purposes of determining actuarial gains and losses. The change in accounting policy for pensions and OPEB was applied retroactively to April 1, 1999.

The impact of the change in the accounting policy for pension and OPEB, in addition to a revision to OPEB resulting from an assessment of OPG's claims history for 2000, is noted below:

<i>(millions of dollars)</i>	<u>2001</u>	<u>2000</u>
Decrease in opening retained earnings - January 1	(124)	(9)
Increase (decrease) in net income due to:		
Change in accounting policy for pensions	(40)	(144)
Change in accounting policy for OPEB	10	(3)
Revision for OPEB (<i>note 15</i>)	-	(32)
Income tax	<u>(2)</u>	<u>64</u>
Decrease in closing retained earnings - December 31	<u>(156)</u>	<u>(124)</u>
Decrease in basic and fully diluted earnings per share	<u>(0.12)</u>	<u>(0.45)</u>

Earnings per share

In 2000, The Canadian Institute of Chartered Accountants ("CICA") issued a revised Handbook Section 3500, Earnings Per Share, which became effective for fiscal years beginning on or after January 1, 2001. OPG has not issued any dilutive instruments since April 1, 1999, therefore, there is no impact on these consolidated financial statements.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

3. INCOME TAXES

A reconciliation between the statutory and the effective rate of income taxes is as follows:

<i>(millions of dollars)</i>	2001	Restated (notes 2 and 15) 2000
Income before income taxes	<u>218</u>	<u>879</u>
Combined Canadian federal and provincial statutory income tax rates, including surtax	<u>41.2%</u>	<u>43.9%</u>
Statutory income tax rates applied to accounting income	<u>90</u>	<u>386</u>
Increase (decrease) in income taxes resulting from:		
Large corporations tax in excess of surtax	33	25
Substantively enacted changes in income tax rates	(46)	(18)
Other	(11)	(4)
	<u>(24)</u>	<u>3</u>
Provision for income taxes	<u>66</u>	<u>389</u>
Effective rate of income taxes	<u>30.3%</u>	<u>44.3%</u>

Significant components of the provision for income tax expense are presented in the table below:

<i>(millions of dollars)</i>	2001	Restated (notes 2 and 15) 2000
Current income tax expense (recovery)	(65)	310
Future income tax expense (benefits):		
Change in temporary differences	177	97
Substantively enacted changes in income tax rates	(46)	(18)
Provision for income taxes	<u>66</u>	<u>389</u>

The amount of income taxes paid for the year ended December 31, 2001 was \$207 million (2000 - \$136 million).

3. INCOME TAXES CONTINUED...

The income tax effects of temporary differences that give rise to future income tax assets and income tax liabilities are presented in the table below:

<i>(millions of dollars)</i>	2001	Restated (notes 2 and 15) 2000
Future income tax assets:		
Fixed asset removal and nuclear waste management	1,388	1,552
Other liabilities	297	358
	1,685	1,910
Future income tax liabilities:		
Fixed assets	1,393	1,608
Fixed asset removal and nuclear waste management fund	364	278
Other assets	207	172
	1,964	2,058
Net future income tax liabilities	279	148

4. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash and cash equivalents as at December 31, 2001 include cash on account of nil (2000 - bank indebtedness of \$51 million) and cash equivalents of nil (2000 - \$616 million). Short-term investments were \$39 million as at December 31, 2001 (2000 - \$335 million). The yield earned on outstanding short-term investments as at December 31, 2001 was 3.75% (2000 - 5.55% to 5.96%).

5. FIXED ASSETS AND DEPRECIATION AND AMORTIZATION

The depreciation and amortization expense consists of the following:

<i>(millions of dollars)</i>	<u>2001</u>	<u>2000</u>
Depreciation and amortization	576	540
Revalorization (5.75% rate)	198	202
Liability for fixed asset removal and nuclear waste management	34	21
Asset removal costs	2	1
	<u>810</u>	<u>764</u>

The fixed assets consist of the following:

<i>(millions of dollars)</i>	<u>2001</u>	<u>2000</u>
Property, plant and equipment		
Generating stations	12,738	12,361
Other fixed assets	770	706
Construction in progress	952	775
	<u>14,460</u>	<u>13,842</u>
Less: accumulated depreciation		
Generating stations	1,227	744
Other fixed assets	252	166
	<u>1,479</u>	<u>910</u>
	<u>12,981</u>	<u>12,932</u>

Interest capitalized at 6% (2000 - 6%) during the year ended December 31, 2001 was \$29 million (2000 - \$19 million).

6. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT

OPG's nuclear generating stations produce nuclear waste in the form of radioactive nuclear fuel bundles along with low and intermediate level radioactive waste. In addition, certain components of the plants become contaminated over time and therefore each of the nuclear generating stations needs to be completely dismantled and safely decommissioned. OPG is also required to decommission its non-nuclear facilities.

The net liability for fixed asset removal and nuclear waste management on a present value basis consists of the following:

<i>(millions of dollars)</i>	<u>2001</u>	<u>2000</u>
Liability for nuclear waste management	4,814	4,561
Liability for nuclear fixed asset removal	<u>2,556</u>	<u>2,417</u>
	7,370	6,978
Liability for non-nuclear fixed asset removal	<u>127</u>	<u>126</u>
	7,497	7,104
Less: Receivable from Province of Ontario	<u>2,773</u>	<u>2,622</u>
Fixed asset removal and nuclear waste management	<u>4,724</u>	<u>4,482</u>

The accrual of fixed asset removal and nuclear waste management costs requires significant assumptions in their calculations, since these programs run for several decades. The decommissioning of nuclear stations requires cash flow estimates to 2071. The interest rate used to calculate the present value of each of the above liabilities at December 31, 2001 was 5.75% (2000 - 5.75%) and the cost escalation rates ranged from 2% to 3% (2000 - 2% to 3%). Under the terms of the lease agreement with Bruce Power L.P. ("Bruce Power"), OPG continues to be responsible for the nuclear fixed asset and nuclear waste management liabilities associated with the Bruce nuclear generating stations.

Significant assumptions underlying many operational and technical factors are also used in the calculation of the accrued liabilities and are subject to periodic review. Changes to these assumptions, as well as changes to assumptions on the timing of the programs or the technology employed, could result in significant changes to the value of the accrued liabilities. With programs of this duration and the evolving technology to handle the nuclear waste, there is a degree of risk surrounding the measurement of the costs for these programs, which may increase or decrease over time.

Liability for Nuclear Waste Management Costs

The liability for nuclear waste management costs represents the cost of managing the highly radioactive used nuclear fuel bundles as well as the cost of managing other low and intermediate level radioactive wastes generated by the nuclear stations. The current assumptions that have been used to establish the accrued used fuel costs include: long-term management of the spent fuel bundles through deep geological disposal; an in-service date of 2025 for used nuclear fuel disposal facilities; and an average transportation distance of 1,000 kilometers between nuclear generating facilities and the disposal facilities. Alternatives to deep geological disposal may be technically feasible and will be explored. The increase in the accrued costs for used nuclear fuel from current year's operations is charged to fuel costs.

6. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT CONTINUED...

The costs of low and intermediate level waste management, include the costs of managing such wastes during the operation of the nuclear stations, interim waste management, as well as the costs of ultimate long-term disposal of these wastes. The current assumptions used to establish the accrued low and intermediate level waste management costs include: an in-service date of 2015 for disposal facilities for low level waste; co-locating some of the intermediate level waste with low level waste starting in 2015; and co-locating the remainder of the intermediate level waste with used fuel starting in 2034. The increase in the accrued costs for low and intermediate level waste due to the waste produced during the year are charged to depreciation and amortization.

Liability for Nuclear Fixed Asset Removal Costs

Accrued nuclear fixed asset removal costs are the costs of decommissioning nuclear generating stations after the end of their service lives. The significant assumptions used in estimating future nuclear fixed asset removal costs include: decommissioning of nuclear generating stations in the 2028 to 2058 period on a deferred dismantlement basis (reactors will remain safely shut down for a 30-year period prior to dismantlement) and an average transportation distance of 1,000 kilometers between nuclear generating facilities and disposal facilities.

Liability for Non-nuclear Fixed Asset Removal Costs

Accrued non-nuclear fixed asset removal costs are primarily the costs of decommissioning fossil generating stations and the heavy water production facility after the end of their service lives. The significant assumption used in estimating future fossil generating station removal costs is that the estimated retirement date of these stations is in the 2005 to 2025 period.

OPG does not provide for the removal costs associated with its hydroelectric generating facilities as the costs cannot be reasonably estimated because of the long service life of these assets. With either maintenance efforts or rebuilding, the water control structures are assumed to be required for the foreseeable future.

Receivable from Province of Ontario for Nuclear Waste Management

On April 1, 1999, the Province agreed that the Province or its agent would fund certain fixed asset removal and nuclear waste management liabilities that were incurred prior to April 1, 1999. Details of which liabilities will be funded are being finalized with the Province. The balance of \$2,773 million represents the Province's liability of \$2,622 million as at January 1, 2001, as well as interest in the amount of \$151 million accrued during the year ended December 31, 2001 based on a rate of 5.75% (2000 - 5.75%). The interest rate is under negotiation with the Province and is subject to change. The impact of the finalization of the interest rate is not expected to result in a material difference to the liability balance.

Segregated Funds and the Role of External Parties

OPG is contributing to segregated funds to provide for the remaining unfunded nuclear liabilities related to nuclear fixed asset removal and nuclear waste management. It is OPG's intent that these funds be held ultimately by a custodian outside of OPG and be used solely for nuclear fixed asset removal and nuclear waste management.

6. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT CONTINUED...

In April 2001, the Department of Natural Resources Canada introduced the Nuclear Fuel Waste Act which requires Canadian nuclear waste producers to establish a separately incorporated Waste Management Organization ("WMO") and to establish a fund for the discharge of their nuclear used fuel liability. The WMO will propose options related to the long-term management of used fuel and make a recommendation on the approach that should be adopted. This includes periodic approval of management plans by the Federal Government and the level of contribution required by each nuclear waste producer. Approval of the legislation is expected to take place in 2002.

In addition to the fund established through the WMO with respect to used fuel management, OPG will maintain segregated funds related to the disposal of other nuclear waste and nuclear fixed asset removal. Until such time as the legal nature of the segregated funds is finalized, OPG will continue to set aside these funds internally and will manage their investment and growth distinct from its other cash holdings. The contribution to segregated funds will be approximately \$400 million per year. OPG plans to contribute to the segregated funds over the estimated remaining lives of its nuclear generating stations.

The fixed asset removal and nuclear waste management fund consists of the following:

<i>(millions of dollars)</i>	<u>2001</u>	<u>2000</u>
Nuclear fixed asset removal fund	491	462
Nuclear waste management fund	<u>717</u>	<u>319</u>
	<u>1,208</u>	<u>781</u>

Included in the segregated fund is interest earned of \$57 million (2000 - \$39 million) on the balance in the fund during 2001.

Nuclear Funds Agreement

OPG and senior staff at the Ontario Ministry of Finance have reached an understanding on key principles for the development of an agreement to establish, fund, and manage segregated funds to ensure sufficient funds are available to pay the costs of nuclear station decommissioning and long-term nuclear waste management. OPG would be required to make contributions to nuclear segregated funds over the planned remaining operating lives of the nuclear station that, together with income earned and a contribution to be made by OEFC would cover all eligible costs estimated as of April 1, 1999. The Province or its agent would limit OPG's financial exposure with respect to increases in certain nuclear waste management costs in the event that the present value of those costs exceeds certain thresholds. In order to implement these principles, however, it will be necessary to successfully negotiate a definitive agreement and obtain necessary authorizations from the Province, including necessary Orders in Council.

As part of the proposed agreement the Province or its agent would provide to the Canadian Nuclear Safety Commission ("CNSC"), as required by the federal Nuclear Safety and Control Act, a guarantee that there will be funds available to discharge 100% of the nuclear decommissioning and waste liabilities. This guarantee relates to the portion of the liabilities that are not funded by OPG's segregated funds held internally or by the Provincial receivable to date. In return, OPG will pay to the Province a fee of 0.5% of the value of that guarantee. This guarantee is expected to commence in 2002, once the proposed agreement is finalized.

7. LONG-TERM DEBT

The long-term debt consists of the following:

<i>(millions of dollars)</i>	<u>2001</u>	<u>2000</u>
Notes payable to the OEFC	3,200	3,400
Capital lease obligations	<u>20</u>	<u>23</u>
	<u>3,220</u>	<u>3,423</u>
Less: payable within one year		
Senior notes payable to the OEFC	200	200
Capital lease obligations	<u>5</u>	<u>4</u>
	<u>205</u>	<u>204</u>
Long-term debt	<u><u>3,015</u></u>	<u><u>3,219</u></u>

Details of OPG's long-term notes outstanding as at December 31, 2001 are as follows:

Year of Maturity	Interest Rate (%)	Principal Outstanding (\$ Canadian)		
		Senior Notes	Subordinated Notes	Total
2002	5.44	200	-	200
2003	5.49	200	-	200
2004	5.62	300	-	300
2005	5.71	300	-	300
2006	5.78	300	-	300
2007	5.85	400	-	400
2008	5.90	400	-	400
2009	6.01	350	-	350
2010	6.60	-	375	375
2011	6.65	-	375	375
		<u>2,450</u>	<u>750</u>	<u>3,200</u>

Holders of the senior debt are entitled to receive, in full, amounts owing in respect of the senior debt before holders of the subordinated debt are entitled to receive any payments.

Interest paid during the year ended December 31, 2001 was \$202 million (2000 - \$206 million) of which \$199 million relates to interest paid on long-term debt in 2001 (2000 - \$202 million).

8. SHORT-TERM CREDIT FACILITIES

OPG maintains a credit facility for \$600 million with certain Canadian chartered banks ("Bank Credit Agreement") to fund working capital requirements and for general corporate purposes. This facility may be drawn upon in either Canadian or U.S. dollars at varying rates based on certain benchmark rates, including a prime rate, a bankers' acceptance rate, and a LIBOR rate. This facility is subject to renewal in March 2002.

OPG implemented a commercial paper ("CP") program in 2000. Under the CP program, OPG has the authority to issue short-term promissory notes up to a maximum outstanding principal amount of \$600 million in Canadian currency, or the equivalent thereof in United States currency. Notes issued under the CP program are secured under the Bank Credit Agreement. As at December 31, 2001, there were no outstanding short-term notes issued under the CP program (2000 - \$150 million; yields ranged from 5.81% to 5.89%).

9. FAIR VALUE OF FINANCIAL INSTRUMENTS, CREDIT RISK, AND RISK MANAGEMENT INSTRUMENTS

Fair Value

The carrying value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued charges, short-term notes payable, and the current portion of the long-term debt approximates their fair value due to the immediate or short-term maturity of these financial instruments. Fair values for other financial instruments have been estimated by reference to quoted market prices for actual or similar instruments where available. The carrying values and fair values of these other financial instruments are as follows:

(millions of dollars)

	2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Fixed asset removal and nuclear waste management fund	1,208	1,263	781	803
Long-term note receivable	225	268	-	-
Long-term accounts receivable and other assets	65	65	52	52
Financial Liabilities				
Long-term debt and long-term portion of capital lease	3,015	2,982	3,219	3,188
Long-term accounts payable and accrued charges	336	346	298	298

Credit Risk

OPG manages counterparty credit risk by monitoring and limiting its exposure to counterparties with lower credit ratings, evaluating its counterparty credit exposure on an integrated basis, and by performing periodic reviews of the credit-worthiness of all counterparties, including obtaining credit security for all transactions beyond approved limits.

OPG's diverse portfolio of counterparties in the Ontario and interconnected markets is made up of industrial, commercial and electric utility organizations. OPG's customers are primarily derived from the Ontario market where the credit risk is minimized mainly through a combination of OPG policies and transitional market rules. OPG accepts counterparties to forwards and other derivative contracts primarily through investment grade entities and through credit enhancements. Of the total credit extended in 2001, approximately 72% related to municipal utilities (2000 - 72%).

9. FAIR VALUE OF FINANCIAL INSTRUMENTS, CREDIT RISK, AND RISK MANAGEMENT INSTRUMENTS CONTINUED...

Risk Management Instruments

OPG makes purchases and sales denominated in United States dollars, which give rise to a risk that its income and cash flows may be adversely impacted by changes in foreign exchange amounts. In order to reduce OPG's exposure to fluctuations in the value of the Canadian dollar, OPG hedges anticipated transactions for purchases and sales using risk management instruments such as forward foreign exchange contracts. The \$4 million book value of the outstanding forward foreign exchange contracts approximates fair value at December 31, 2001 (2000 - nil). The weighted average fixed exchange rate for the outstanding contracts at December 31, 2001 was U.S. \$0.6373 for every Canadian dollar.

In 2002, OPG will be exposed to changes in electricity prices associated with an open spot market for electricity in Ontario. To hedge this commodity price exposure associated with changes in the price of electricity when the market opens in May 2002, OPG entered into various energy sales contracts with its customers in 2001. At December 31, 2001, OPG had energy sales contracts with terms ranging from 1 to 5 years and a notional contract volume in the aggregate of 14.3 TWh. Based on management's best estimate of the electricity forward price curve, the fair value (contract value as compared to management's best estimate of the forward price curve) of the energy contracts is not material.

In addition, OPG is required to provide transitional price relief to certain large power customers based on the consumption and average price paid by each customer during a reference period from July 1, 1999 to June 30, 2000. The maximum anticipated volume subject to the transitional price relief is approximately 5.4 TWh in the first year after market opening, 3.6 TWh in the second year and 1.8 TWh in each of the third and fourth years. The maximum length of the program is four year, with the possibility that it will expire after only two years if certain decontrol targets are met. The total unrealized loss on these energy contracts, based on management's best estimate of the forward price curve and assuming the maximum term of four years, is in the range of \$250 to \$300 million. These contracts have not yet been finalized and are subject to negotiation.

The fair value of OPG's currency derivative financial instruments as at December 31, 2001 was based on quoted forward rates. Forward price quotations for the Ontario electricity market after market opening are not widely available. OPG considers various factors to estimate forward prices, including market prices and price volatility in neighbouring electricity markets, market prices for fuel, and other factors.

10. COMMON SHARES

The issued and outstanding common shares of OPG as at December 31, 2001 and 2000 consist of 256,300,010 common shares at a stated value of \$5,126 million. OPG is authorized to issue an unlimited number of common shares without nominal or par value.

11. RELATED PARTY TRANSACTIONS

Related parties include the Province of Ontario, the other successor entities of Ontario Hydro, including Hydro One Inc. (“Hydro One”), the Independent Electricity Market Operator (“IMO”), the OEFC, and the Ontario Electricity Pension Services Corporation (“OEPSC”), which previously managed the pension fund on behalf of OPG. OPG also enters into related party transactions with its joint ventures and equity-owned investments that are subject to significant influence. The transactions between OPG and related parties are in the normal course of business under normal trade terms. These transactions are summarized below:

<i>(millions of dollars)</i>	2001		2000	
	Revenues	Expenses	Revenues	Expenses
Hydro One				
Electricity sales	1,146	-	867	-
Services	8	36	16	92
Province of Ontario				
Gross revenue charge/water rentals	-	109	-	117
OEFC				
Gross revenue charge/property tax	-	194	-	261
IMO-ancillary services	102	2	102	-
Joint venture companies				
Services	9	42	-	-
Systems	-	12	-	-
OEPSC-services	6	-	16	-
	1,271	395	1,001	470

At December 31, 2001, accounts receivable included \$131 million (2000 - \$93 million) due from Hydro One, \$9 million (2000 - \$9 million) due from the IMO, \$2 million (2000 - nil) due from joint venture companies and \$1 million (2000 - \$2 million) due from OEPSC. Accounts payable and accrued charges at December 31, 2001 included \$3 million (2000 - \$15 million) due to Hydro One, \$2 million due to the IMO (2000 - nil), \$1 million (2000 - nil) due to joint venture companies and \$1 million (2000 - \$2 million) due to OEPSC.

12. RESEARCH AND DEVELOPMENT

For the year ended December 31, 2001, \$39 million (2000 - \$39 million) of research and development expenses were charged to operations. Development costs of \$3 million were also capitalized (2000 - \$6 million).

13. SEGMENTED INFORMATION

OPG operates as a single segment business generating electricity in Ontario. Substantially all sales are in Canada. Electricity sales to the United States for the year ended December 31, 2001 were \$195 million (2000 - \$273 million). Sales to two customers represented 31% of total revenues for the year ended December 31, 2001 (2000 - 31%) and 31% of accounts receivable as at December 31, 2001 (2000 - 26%).

14. CONTINGENCIES AND COMMITMENTS

Request for Judicial Review

In May 1999, an application was commenced by the Inverhuron & District Ratepayers Association ("IDRA") in the Federal Court Trial Division, requesting judicial review of the decisions of the federal Minister of the Environment, the Minister of Fisheries and Oceans and the CNSC with regard to the Bruce used fuel dry storage facility project. The goal of the application was to overturn the decisions pursuant to the *Canadian Environmental Assessment Act* ("CEAA") that would allow the project to proceed. The application also sought to have the project referred to a review panel or mediator.

In May 2000, the Federal Court Trial Division refused the application. The IDRA appealed the Court's decision. The Federal Court of Appeal heard the appeal of the matter in May 2001 and released its decision in June 2001. A unanimous Federal Court of Appeal affirmed the decision of the Federal Court dismissing the IDRA's judicial review application. In September 2001, OPG was served with the IDRA's application for leave to appeal to the Supreme Court of Canada. OPG is expecting a decision from the Supreme Court in the late winter or early spring of 2002. Until OPG has this decision, OPG cannot be certain of the impact of this application on its business, results of operations, financial condition or prospects.

Environment

OPG inherited legacy environmental obligations from Ontario Hydro. A provision of \$76 million was established as at April 1, 1999 for such obligations. During the year ended December 31, 2001, charges of \$3 million (2000 - \$3 million) were made against this provision.

Current operations are subject to regulation with respect to air, soil and water quality and other environmental matters by federal, provincial and local authorities. The cost of obligations associated with current operations is provided for on an ongoing basis. Management believes it has made adequate provision in its financial statements to meet OPG's current environmental obligations.

OPG has undertaken an initiative to install Selective Catalytic Reduction ("SCR") technology on two units at each of the Nanticoke and Lambton fossil generating stations, at an estimated cost of \$285 million. The SCR's are scheduled to be in-service by the end of 2003 and will reduce 80% of all nitrogen oxide emissions from these four units.

Energy Conversion Agreement

Brighton Beach Power L.P. ("Brighton Beach"), a partnership formed by OPG and ATCO Power Ltd. ("ATCO"), has signed an energy conversion agreement with Coral Energy Canada Inc. ("Coral"). Under the energy conversion agreement, Brighton Beach will construct and own a 580 megawatt combined cycle natural gas-fired power plant in Windsor, Ontario. Coral will deliver natural gas to the plant and will own, market and trade all the electricity produced. The energy conversion agreement has a term of 20 years.

14. CONTINGENCIES AND COMMITMENTS CONTINUED...

Fuel Supply Agreements

OPG has entered into firm fuel supply agreements, some of which extend beyond 2002. The future obligation of \$2,334 million (2000 - \$1,464 million) under these agreements for each of the next five years and beyond is as follows:

(millions of dollars)

Due in:	
2002	1,005
2003	560
2004	340
2005	138
2006	122
2007 and beyond	169
Total	2,334

15. BENEFIT PLANS

The post employment benefit programs include pension, group life insurance, health care, long-term disability and workers' compensation benefits. Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions and experience gains or losses.

OPG amended its benefit plans during 2001 and 2000, which resulted in pension and OPEB obligations for past service.

Curtailed and Settlements in 2001

OPG approved a restructuring plan which will include the reduction of approximately 2,000 employees, resulting in the curtailment of pension and OPEB benefit entitlements. The total amount of the curtailment loss that was recognized from restructuring activities for the year ended December 31, 2001 was \$27 million.

In May 2001, OPG completed the close of the operating lease agreement with Bruce Power, which included the transfer of approximately 3,000 employees. A curtailment and a settlement of the pension and OPEB benefits occurred as a result of the transfer of employees to Bruce Power.

Pension Plan

The pension plan is a contributory, defined benefit plan covering all regular employees. OPG's pension plan was established effective December 31, 1999. In 2001, the transfer of the pension plan assets that were previously held by the OEFC was approved by the Financial Services Commission of Ontario under the *Pension Benefits Act* (Ontario). Subsequently, the pension plan assets were transferred to OPG's pension plan.

Pension fund assets principally include marketable equity securities and corporate and government debt securities, which are selected by professional investment managers. The fund does not invest in equity or debt securities issued by OPG.

15. BENEFIT PLANS CONTINUED...

Information about OPG's pension plan is as follows:

(millions of dollars)

	<u>2001</u>	<u>Restated 2000</u>
Pension Plan Assumptions		
Expected return on plan assets	7.75%	7.75%
Rate used to discount future pension benefits	6.75%	6.75%
Salary schedule escalation rate	3.25%	3.25%
Rate of cost of living increase to pensions	2.50%	2.50%
Average remaining service life for employees (years)	11	11
Change in Pension Plan Assets		
Fair value of plan assets at beginning of year	7,642	7,274
Contributions by employees	20	33
Actual return on plan assets	(11)	527
Settlements	(1,080)	-
Benefit payments	(219)	(181)
Administrative expense	(10)	(11)
	<u>6,342</u>	<u>7,642</u>
Fair value of plan assets at end of year		
Change in Projected Pension Benefit Obligation		
Projected benefit obligation at beginning of year	6,216	5,174
Current service costs	192	187
Past service costs	87	189
Interest on projected benefit obligation	393	389
Curtailment loss	80	-
Settlement gain	(896)	-
Benefit payments	(219)	(181)
Net actuarial loss	142	458
	<u>5,995</u>	<u>6,216</u>
Projected benefit obligation at end of year		
Pension Plan Surplus	<u>347</u>	<u>1,426</u>

15. BENEFIT PLANS CONTINUED...

<i>(millions of dollars)</i>	<u>2001</u>	<u>Restated 2000</u>
Reconciliation of Pension Plan Surplus		
Pension plan surplus	347	1,426
Unamortized net actuarial gain	(199)	(1,116)
Unamortized past service costs	<u>182</u>	<u>172</u>
Deferred pension asset	<u><u>330</u></u>	<u><u>482</u></u>
Components of Pension Expense		
Current service costs	172	154
Interest on projected benefit obligation	393	389
Expected return on plan assets	(523)	(504)
Curtailment loss	25	-
Settlement loss	8	-
Amortization of past service costs	19	17
Amortization of net actuarial gain	<u>(27)</u>	<u>(37)</u>
Pension expense	<u><u>67</u></u>	<u><u>19</u></u>

Other Post Employment Benefits

In 2001, an assessment of OPG's claims history for OPEB resulted in a revision to OPEB expense and the accrued OPEB obligation in 2000 of \$32 million, an increase in unamortized net actuarial loss to \$90 million and a \$20 million decrease in retained earnings for the year ended December 31, 2000. The revision was accounted for retroactive to January 1, 2000.

The long-term annual increase in the per capita cost of the major benefits ranges between 2.5% and 4.5% (2000 - between 2.5% and 4.5%), depending on the nature of the benefit. The discount rate used in determining the actuarial present value of the OPEB obligation ranges between 6.25% and 6.75% at December 31, 2001 (2000 - between 6.25% and 7.00%).

15. BENEFIT PLANS CONTINUED...

Information about OPG's OPEB is as follows:

<i>(millions of dollars)</i>	<u>2001</u>	<u>Restated 2000</u>
Change in Projected OPEB Obligation		
Projected OPEB obligation at beginning of year	1,207	828
Current service costs	51	43
Interest on projected benefit obligation	82	78
Benefit payments	(56)	(49)
Curtailement gain	(1)	-
Settlement gain	(138)	-
Net actuarial loss	91	264
Past service costs	11	43
	<u>1,247</u>	<u>1,207</u>
Reconciliation of OPEB Obligation		
Accrued OPEB obligation at end of year		
Long-term obligation	924	1,032
Short-term obligation	126	46
Unamortized net actuarial loss	160	90
Unamortized past service costs	37	39
	<u>1,247</u>	<u>1,207</u>
Components of OPEB Expense		
Current service costs	51	43
Interest on projected benefit obligation	82	78
Curtailement loss	6	-
Amortization of net actuarial loss (gain)	1	(1)
Amortization of past service costs	5	4
	<u>145</u>	<u>124</u>
OPEB expense	<u>145</u>	<u>124</u>

16. DECONTROL, JOINT VENTURES AND PARTNERSHIPS

Decontrol of Bruce Nuclear Generating Stations

In May 2001, OPG completed the closing of the operating lease transaction to lease its Bruce A and Bruce B nuclear generating stations to Bruce Power. As part of the initial payment, OPG received \$370 million in cash proceeds and a \$225 million note receivable. Under the terms of the lease, OPG transferred to Bruce Power materials, certain fixed assets and pension assets and liabilities and OPEB obligations.

16. DECONTROL, JOINT VENTURES AND PARTNERSHIPS CONTINUED...

Inventory and fixed assets

Under the terms of the lease, OPG transferred certain fuel and material inventory to Bruce Power, in addition to certain fixed assets. The total book value of the assets transferred was \$185 million.

Deferred pension asset and other post employment benefits

OPG will transfer pension assets and liabilities related to the approximately 3,000 employees who transferred from OPG to Bruce Power. Bruce Power also assumed the liability for OPEB for these employees. OPG will pay Bruce Power for the liability that existed on, or before, the date of close, in respect of OPEB benefits over 72 months, with the first payment to commence one year from the date of closing plus applicable interest. The impact to the deferred pension asset and the value of the OPEB obligation will be finalized through actuarial processes which are expected to be completed in the first quarter of 2002.

Deferred revenue

Deferred revenue was recorded to reflect the amount of the initial payment, net of assets transferred as part of the lease agreement, and all closing costs and adjustments. The book value of the deferred revenue at December 31, 2001 was \$228 million. The deferred revenue is being amortized over the initial lease term of approximately 18 years and is recorded as non-energy revenue.

Long-term note receivable

The initial payment of \$225 million is payable to OPG in two installments of \$112.5 million no later than four and six years from the date the transaction was completed. Interest is currently charged on the initial payment at a rate of 10.5%, escalating over time to 18% annually. The interest is recorded as non-energy revenue.

Nuclear fixed asset removal and nuclear waste management liabilities

Under the terms of the lease agreement, OPG continues to be responsible for the nuclear fixed asset removal and nuclear waste management liabilities. In addition to lease revenues earned for the management of used fuel, OPG earns service revenue for the management of low and intermediate level waste.

Decontrol of Fossil and Hydroelectric Generating Stations

As a condition of OPG's Ontario Energy Board issued generation licence, OPG is required to decontrol 4,000 MW of price-setting capacity within 42 months of market opening which is expected to be May 1, 2002. In 2001, OPG initiated processes to decontrol four fossil generating stations including the 1,140 MW Lakeview station, the 2,140 MW Lennox station, the 310 MW Thunder Bay station and the 215 MW Atikokan station. OPG is also proceeding with the process to decontrol four hydroelectric stations, representing approximately 500 MW of capacity along the Mississagi River. Any transactions resulting from this process are expected to be completed during 2002.

17. PROVISION FOR RESTRUCTURING

In 2001, OPG approved a restructuring plan designed to improve OPG's future cost competitiveness. Completion of significant decontrol activities and completion of a number of other major initiatives over the next two years requires the restructuring of areas within OPG that support these operations. The restructuring charges are related to a reduction in the workforce of approximately 2,000 employees and include severance costs and related pension and OPEB expenses.

The provision for restructuring costs recorded for the year ended December 31, 2001 was \$67 million. This amount consists of severance costs of \$40 million, calculated based on the termination of approximately 600 employees in 2002, and costs of \$27 million associated with the curtailment of pension and OPEB.

18. SUBSEQUENT EVENTS

In 2001, OPG finalized its ten-year agreement with Business Transformation Services Inc. ("BTS"), a wholly owned subsidiary of Cap Gemini Ernst & Young to form New Horizon System Solutions Inc. ("New Horizon"), which also acquired OPG's processing and system services. The agreement included the transfer of approximately 600 employees to New Horizon, a joint venture owned 51% by BTS and 49% by OPG. By March 2002, OPG plans to have divested its ownership interest in New Horizon through the sale of its 49% interest to BTS.

19. COMPARATIVE FIGURES

Certain of the 2000 comparative figures have been reclassified and restated to conform to the 2001 financial statement presentation.