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. Ontario Power Generation Inc. chooses accounting principles appropriate to the circumstances. The significant accounting policies followed by Ontario Power Generation Inc. are described in the summary of significant accounting policies contained in Note 3 to the consolidated financial statements. 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, 2001.

Management maintained a system of internal controls designed to provide reasonable assurance that the assets were safeguarded and that reliable financial information was available on a timely basis. The system included formal policies and procedures and an organizational structure that provided for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluated the effectiveness of these internal controls on an ongoing basis and reported its findings to management and the Audit Committee of the Ontario Power Generation Inc. Board of Directors.

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.

For the year ended December 31, 2000, the Ontario Power Generation Inc. Board of Directors, through the Audit Committee, was responsible for ensuring that management fulfilled its responsibilities for financial reporting and internal controls. The Audit Committee met periodically with management, the internal auditors and the external auditors to satisfy itself that each group had 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, 2001

R.W. Osborne
President and Chief Executive Officer

W. M. Bingham
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, 2000 and 1999, the consolidated statements of income (loss), retained earnings (deficit of assets over liabilities) and cash flows of Ontario Power Generation Inc. for the year ended December 31, 2000 and for the nine months ended December 31, 1999, and the consolidated statements of income (loss), retained earnings (deficit of assets over liabilities) and cash flows of the electricity generating business of Ontario Hydro (the Acquired Business) for the three months ended March 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ontario Power Generation Inc. as at December 31, 2000 and 1999, the consolidated results of the operations and cash flows of the Company for the year ended December 31, 2000 and nine months ended December 31, 1999 and the consolidated results of operations and cash flows of the Acquired Business for the three months ended March 31, 1999 in accordance with Canadian generally accepted accounting principles.

ERNST & YOUNG LLP
Chartered Accountants
Toronto, Canada
January 26, 2001

ONTARIO POWER GENERATION INC.
Consolidated Statements of Income (Loss)

(millions of dollars except earnings per share)	**Year ended December 31 2000**	April 1 to December 31 1999	**Acquired Business** *(notes 1 and 3)* January 1 to March 31 1999
Revenues	**5,978**	4,338	1,769
Operating expenses			
Operation, maintenance and administration	**2,186**	1,770	551
Fuel	**1,271**	816	335
Power purchased	**180**	153	45
Depreciation and amortization *(notes 6 and 7)*	**764**	573	385
Property and capital taxes	**379**	277	7
	4,780	3,589	1,323
Operating income	**1,198**	749	446
Interest expense	**140**	134	545
Income (loss) before income taxes	**1,058**	615	(99)
Income taxes *(note 4)*			
Current	**310**	214	-
Future	**143**	75	-
	453	289	-
Net income (loss)	**605**	326	(99)
Earnings per common share	**2.36**	1.27	
Common shares outstanding *(millions)*	**256.3**	256.3	

See accompanying notes to financial statements

Consolidated Statements of Retained Earnings (Deficit of Assets over Liabilities)

(millions of dollars)	**Year ended December 31 2000**	April 1 to December 31 1999	**Acquired Business** *(notes 1 and 3)* January 1 to March 31 1999
Retained earnings (deficit of assets over liabilities), beginning of period *(note 1)*	**291**	-	(442)
Net income (loss)	**605**	326	(99)
Dividends	**(205)**	(35)	-
Retained earnings (deficit of assets over liabilities), end of period	**691**	291	(541)

See accompanying notes to financial statements

ONTARIO POWER GENERATION INC.
Consolidated Statements of Cash Flows

(millions of dollars)	**Year ended December 31 2000**	April 1 to December 31 1999	**Acquired Business** *(notes 1 and 3)* January 1 to March 31 1999
Operating activities			
Net income (loss)	**605**	326	(99)
Adjust for non-cash items:			
Depreciation and amortization	**764**	573	385
Deferred pension asset	**(125)**	39	5
Other post employment benefits	**38**	111	(72)
Future income taxes	**143**	75	-
Used nuclear fuel provisions	**27**	14	33
Other	**38**	(16)	(4)
	1,490	1,122	248
Fixed asset removal and nuclear waste management fund	**(414)**	(367)	-
Expenditures on nuclear waste management provisions	**(43)**	(33)	(10)
Changes to other long-term assets and liabilities	**(83)**	(102)	87
Non-cash working capital increase (decrease) due to:			
Accounts receivable	**(38)**	(154)	(134)
Fuel	**136**	(50)	81
Materials and supplies	**(28)**	(32)	20
Accounts payable and accrued charges	**261**	165	206
Cash flow from operating activities	**1,281**	549	498
Investing activities			
Expenditures for property, plant and equipment	**(585)**	(450)	(35)
Purchases of short-term investments	**(335)**	-	-
Proceeds from sales of property, plant and equipment	**16**	33	-
	(904)	(417)	(35)
Cash flow before financing activities	**377**	132	463
Financing activities			
Short-term notes issued	**150**	-	-
Cash from acquired business *(note 1)*	**-**	146	-
Dividends	**(205)**	(35)	-
Net other financing activities	**-**	-	(440)
	(55)	111	(440)
Increase in cash and cash equivalents during period	**322**	243	23
Cash and cash equivalents, beginning of period *(note 1)*	**243**	-	123
Cash and cash equivalents, end of period	**565**	243	146

See accompanying notes to financial statements

ONTARIO POWER GENERATION INC.
Consolidated Balance Sheets

(millions of dollars)

	December 31 2000	December 31 1999
Assets		
Current assets		
Cash and cash equivalents *(note 5)*	**565**	243
Short-term investments	**335**	-
Accounts receivable	**968**	930
Fuel	**288**	424
Materials and supplies	**229**	201
	2,385	1,798
Fixed assets *(note 6)*		
Property, plant and equipment	**13,842**	13,285
Less: accumulated depreciation	**910**	383
	12,932	12,902
Other assets		
Deferred pension asset *(note 16)*	**641**	516
Fixed asset removal and nuclear waste management fund *(note 7)*	**781**	367
Long-term accounts receivable and other assets	**52**	27
	1,474	910
	16,791	15,610

See accompanying notes to financial statements

ONTARIO POWER GENERATION INC.
Consolidated Balance Sheets

(millions of dollars)

	December 31 2000	December 31 1999
Liabilities		
Current liabilities		
Accounts payable and accrued charges	**1,406**	1,145
Short-term notes payable *(note 9)*	**150**	-
Long-term debt due within one year *(note 8)*	**204**	4
	1,760	1,149
Long-term debt *(note 8)*	**3,219**	3,422
Other liabilities		
Fixed asset removal and nuclear waste management *(note 7)*	**4,482**	4,235
Other post employment benefits *(note 16)*	**997**	959
Long-term accounts payable and accrued charges	**298**	353
Future income tax liability *(note 4)*	**218**	75
	5,995	5,622
Shareholder's equity		
Common shares *(note 11)*	**5,126**	5,126
Retained earnings	**691**	291
	5,817	5,417
	16,791	15,610

Contingencies and Commitments *(notes 7 and 15)*

See accompanying notes to financial statements

On behalf of the Board of Directors,
January 30, 2001:

W. A. Farlinger
Chairman
Toronto, Canada

R. W. Osborne
President and Chief Executive Officer
Toronto, Canada

ONTARIO POWER GENERATION INC.
Notes to the Consolidated Financial Statements

1. INCORPORATION, ACQUISITION OF BUSINESS AND COMMENCEMENT OF OPERATIONS

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 (the "Acquired Business") 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.

In consideration for the transfer of assets, liabilities, employees, rights and obligations of the electricity generation business of Ontario Hydro, OPG issued to OEFC notes payable in the aggregate principal amount of $8,526 million, including a note in the principal amount of $5,126 million (the "Equity Note") and assumed a capital lease obligation of Ontario Hydro in the amount of $30 million on April 1, 1999. The Province of Ontario (the "Province") has assumed all of OPG's obligations under the Equity Note and OEFC has released OPG from its obligations thereunder. In connection therewith, OPG issued to the Province 256,300,000 common shares as fully paid and non-assessable shares. OEFC has agreed that without the consent of OPG, it will not sell its remaining $3,400 million of notes, of which $2,650 million are senior notes and $750 million are subordinated notes of OPG.

OPG has recorded the purchase of the Acquired Business at its fair value as of April 1, 1999 as follows:

(millions of dollars)	**Fair value as at April 1, 1999**
Assets	
Current assets	1,465
Fixed assets	12,872
Other assets	598
	14,935
Liabilities	
Current liabilities	1,073
Liabilities and capital leases	5,336
	6,409
Net assets acquired	8,526

The purchase price of $8,526 million was determined based on the present value of estimated future operating results and cash flows of the Acquired Business in a deregulated market. The purchase of the Acquired Business from the related party, OEFC, was recorded at the exchange amount of $8,526 million in view of the substantive change in ownership interests arising from the transaction. The aggregate value of the net assets acquired was allocated to assets and liabilities based on their estimated fair values.

The results of operations and cash flows presented in these financial statements for the three months ended March 31, 1999 represent the operations of Ontario Hydro pertaining to the Acquired Business now conducted by OPG. These financial statements have been prepared through specific identification of assets, liabilities (other than debt), revenues and expenses relating to such businesses, and through an allocation of certain common financial statement accounts and items of Ontario Hydro. In particular, a portion of Ontario Hydro's revenues and debt, and corresponding portion of related interest and other financial expenses, have been allocated to the Acquired Business. The financial position and operating results of OPG differ significantly from those of the Acquired Business prior to April 1, 1999 because of changes in the regulatory environment, financing and other factors.

2. RESTRUCTURING OF THE ONTARIO ELECTRICITY INDUSTRY

The restructuring of the electricity market in Ontario is being accomplished in two stages. The first stage, the Transition Period, began on April 1, 1999 with the reorganization of Ontario Hydro and will end with the introduction of a competitive market for electricity. The second stage, Open Access, is expected to begin in the fall of 2001 or spring of 2002. After Open Access, customers will have access to the electricity supplier of their choice. The transmission and distribution system in Ontario will be open to all users in a competitive marketplace.

The Province has adopted a framework for market power mitigation designed to address issues regarding OPG's market position in Ontario. Under these arrangements, OPG must reduce its control over specified sources of electricity generating capacity. OPG must relinquish effective control of at least 4,000 MW of fossil generating capacity within 42 months of Open Access, with the option of substituting up to 1,000 MW of hydroelectric generating capacity for an equal amount of fossil generating capacity. Within 10 years of Open Access, OPG must reduce its effective control over generation capacity to a level that is no more than 35% of the overall Ontario market's supply.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of OPG are 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.

Prior to April 1, 1999, Ontario Hydro was governed by the *Power Corporation Act* (Ontario), which provided it with broad power to generate, supply and deliver electricity throughout Ontario. Ontario Hydro's Board of Directors had the authority, for rate setting purposes, to specify that an amount be included in its results of operations for a period that differed from the period in which it would be recognized under generally accepted accounting principles for enterprises operating in a non-rate regulated environment. In such cases, the accounting treatment was the same as its treatment for rate setting purposes.

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 one of the nuclear or 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.

Fixed Assets and Depreciation

Property, plant and equipment acquired by OPG on April 1, 1999 were recorded at fair values. Additions to property, plant and equipment subsequent to April 1, 1999 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. Assets are depreciated on a straight-line basis except for computers and transport and work equipment, which are depreciated on the declining balance basis. Generating stations are depreciated on a straight-line basis over estimated service lives ranging from 25 to 40 years for nuclear generating stations, 40 to 50 years for fossil generating stations and 100 years for hydroelectric generating stations.

Administration and service facilities are depreciated on a straight-line basis over 5 to 50 years. Computers and transport and work equipment assets are depreciated at rates varying between 9% and 40%. Any asset removal costs that have not been specifically provided for in current, or previous periods, are also charged to depreciation expense.

Major application software acquisition costs are capitalized when future benefits are reasonably assured. These costs are amortized over the useful life of the application software.

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 the Acquired Business was transferred to OPG, 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.

Waste generated after April 1, 1999 will result in an increase to this liability with the corresponding amounts charged to operations through depreciation and amortization expense or fuel expense. OPG funds the 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 outside of OPG. 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. The revalorization charge is sensitive to movements in interest and inflation rates. Revalorization is disclosed in the financial statements as part of depreciation and amortization.

Ongoing operating costs incurred for temporary storage of used nuclear fuel in wet fuel bays and dry storage containers during station operating life are reflected as ongoing operating and capital expenditures.

Prior to April 1, 1999, the Acquired Business recognized decommissioning and nuclear waste liabilities over the expected operating lives of the nuclear and fossil plants or as quantities of waste were produced. As a result, the liability as stated under the Acquired Business was substantially lower than the liability recognized by OPG.

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. During the Transition Period, the average wholesale electricity prices charged to Ontario customers remain fixed and customers are billed on a bundled basis. OPG distributes the funds to the successor entities of Ontario Hydro under the terms of revenue allocation arrangements. The revenue allocation arrangements provide relatively fixed amounts to the other businesses. 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, together with a fixed amount for ancillary services. Changes in forecast demand and customer mix will vary OPG's actual revenue per kWh.

Prior to April 1, 1999, the Acquired Business operated in a rate-regulated environment. The electricity rates to customers were established to provide power at cost. The revenues disclosed for the three months ended March 31, 1999 were determined by an internal revenue allocation mechanism used by Ontario Hydro.

Non-energy revenues include earnings from services provided by OPG such as project management, engineering analysis and design, construction and field maintenance of power generation facilities, the sale of various nuclear isotopes and generation by-products, and foreign exchange gains and losses. OPG uses the percentage of completion method to recognize revenue on fixed price contracts with a defined scope of work. For other contracts, revenue is recognized as services are provided or products are delivered. Price escalation adjustments are recognized when they are established by specific contract terms. Commissions are recognized as earned.

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. Gains and losses on translation of foreign currency long-term liabilities are deferred and amortized over the period to maturity.

Derivatives

OPG enters into various hedging instruments in order to manage foreign exchange risk through derivatives such as forward rate agreements. When derivatives are used to manage OPG's exposure to foreign currency movements, the revenue or expense is recognized over the life of the transaction in other revenue. Where the derivatives have been designated as a hedge, the realized gains or losses are deferred and amortized over the life of the hedged assets or liabilities in other revenue.

Short-term Investments

OPG enters into short-term purchases of securities under reverse repurchase agreements. Under these agreements, OPG commits to resell the securities back to the original counterparty at a specified price and on a specified date. These securities are carried on the balance sheet at their original cost. Reverse repurchase agreements conducted with the same counterparty are reported on a net basis. Interest earned on reverse repurchase agreements is netted against interest expense in the Income Statement.

Income and Other Tax

OPG is responsible under the *Electricity Act*, 1998 for making payments in lieu of taxes (proxy taxes) to OEFC. These payments are calculated in accordance with the *Income Tax Act* (Canada) and *Corporations Tax Act* (Ontario), and are modified by regulations made under the *Electricity Act*, 1998. Prior to April 1, 1999 the Acquired Business was not required to pay income or capital taxes.

Effective January 1, 2000, OPG changed its method of accounting for income taxes from the deferral method to the liability method of tax allocation as required by The Canadian Institute of Chartered Accountants' Handbook Section 3465, *Accounting for Income Taxes*. Under the liability method, 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 amounts used for income tax purposes. The deferral method uses an income statement approach and records deferred taxes using current tax rates with no adjustment for subsequent tax rate changes. The cumulative effect as at January 1, 2000 of adopting these recommendations was not material. Therefore, prior year financial statements have not been restated. For comparative 1999 periods, the deferred income tax component of income tax expense is disclosed in the financial statements as future income taxes.

OPG is also required to make payments in lieu of property and school taxes on its generating assets. The amount is equal to the difference between the amount it would be required to pay if the assets were privately owned and the amount of such taxes that OPG actually pays on those assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 provision has 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 current market values. Pension and OPEB expenses and obligations are determined annually by independent actuaries using management's best estimates.

Pension and OPEB expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions, and experience gains or losses, which are amortized on a straight-line basis over the expected average remaining service life of the employees covered by the plan. Pension and OPEB expenses are recorded during the year in which employees render services.

4. INCOME TAXES

OPG became obligated to make payments in lieu of taxes on April 1, 1999. There was no income or capital taxes in the periods prior to April 1, 1999 related to the Acquired Business.

The liability method of tax allocation was adopted by OPG effective January 1, 2000.

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

(millions of dollars)	**Year ended December 31 2000**	April 1 to December 31 1999
Income before income taxes	**1,058**	615
Combined Canadian federal and provincial statutory income tax rates, including surtaxes	**43.9%**	44.6%
Statutory income tax applied to accounting income	**464**	274
Increase (decrease) in income taxes resulting from :		
Large corporation tax in excess of surtax	**25**	19
Manufacturing and processing credit	**(7)**	(9)
Other	**4**	5
Reduction in future income taxes resulting from reduction in tax rates	**(33)**	-
	(11)	15
Provision for income taxes	**453**	289

4. INCOME TAXES CONTINUED

(millions of dollars)	**Year ended December 31 2000**	April 1 to December 31 1999
The provision for income taxes consists of:		
Current	**310**	214
Future income tax expense relating to temporary differences	**143**	75
Provision for income taxes	**453**	289
Effective rate of income taxes	**42.8%**	47.0%

The sources of temporary differences and their tax effects on future income taxes were: the carrying value of fixed assets in excess of tax value - $1,609 million (nine months ended December 31, 1999 - capital cost allowance in excess of depreciation - $66 million) and the tax value of other items in excess of carrying value - $1,391 million (nine months ended December 31, 1999 – other items deducted for tax purposes in advance of accounting purposes - $9 million).

The amount of taxes paid for the year ended December 31, 2000, was $136 million (nine months ended December 31, 1999 - $237 million).

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on account and short-term money market instruments of $616 million (1999 - $255 million) with yields ranging from 5.55% to 5.96% and maturities of less than three months.

6. FIXED ASSETS AND DEPRECIATION AND AMORTIZATION

The depreciation and amortization expense consists of the following:

(millions of dollars)			Acquired Business
	Year ended December 31 2000	April 1 to December 31 1999	January 1 to March 31 1999
Depreciation and amortization	**540**	383	299
Revalorization (5.75% rate)	**202**	165	45
Liability for fixed asset removal and nuclear waste management	**21**	20	37
Asset removal costs	**1**	5	4
	764	573	385

6. FIXED ASSETS AND DEPRECIATION AND AMORTIZATION CONTINUED

The fixed assets consist of the following:

(millions of dollars)	**December 31 2000**	December 31 1999
Property, plant and equipment		
Generating stations	**12,361**	12,093
Other fixed assets	**706**	530
Construction in progress	**775**	662
	13,842	13,285
Less: accumulated depreciation		
Generating stations	**744**	339
Other fixed assets	**166**	44
	910	383
	12,932	12,902

Interest capitalized at 6% during the year ended December 31, 2000 was $19 million (nine months ended December 31, 1999 - $11 million, three months ended March 31, 1999 - $8 million).

7. 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 and therefore need to be safely decommissioned. OPG is also required to decommission its non-nuclear facilities.

The net liability for fixed asset removal and nuclear waste management is as follows:

(millions of dollars)	**December 31 2000**	December 31 1999
Liability for nuclear waste management		
Used fuel disposal	**3,320**	3,295
Used fuel storage	**937**	719
Low level waste	**223**	213
Intermediate level waste	**81**	77
	4,561	4,304
Liability for nuclear fixed asset removal	**2,417**	2,287
	6,978	6,591
Liability for non-nuclear fixed asset removal	**126**	124
	7,104	6,715
Less: provincial receivable	**2,622**	2,480
Fixed asset removal and nuclear waste management	**4,482**	4,235

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 for discounting was 5.75% (1999 - 5.75%) and cost escalation rates ranged from 2% to 3% (1999 - 2% to 4%).

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 period operations is charged to fuel costs for the period.

The costs of low and intermediate level waste management include both the costs of managing such wastes during the operation of the nuclear stations 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: construction of disposal facility for low level waste to be in place by 2015; 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 period are charged to depreciation and amortization for the period.

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 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 period 2005 to 2025.

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.

Provincial Receivable 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 the provincial receivable of $2,622 million represents the Province's liability of $2,480 million as at January 1, 2000, as well as interest in the amount of $142 million accrued during the year ended December 31, 2000 based on a rate of 5.75%. (nine months ended December 31, 1999 - 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 for 2000 is not expected to result in a material difference to the liability balance.

7. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT CONTINUED

Segregated Funds

OPG is contributing to segregated funds to provide for or discharge the remaining unfunded nuclear liabilities. It is OPG's intent that these funds be held outside of OPG and be used solely for nuclear waste management and nuclear fixed asset removal. Until such time as the legal nature of the segregated funds is finalized, OPG is setting aside these funds internally and is managing their investment and growth distinct from its other cash holdings. The annual contribution to segregated funds is approximately $429 million per year for the next 5 years. 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:

(millions of dollars)	**December 31 2000**	December 31 1999
Nuclear fixed asset removal fund	**462**	215
Nuclear waste management fund	**319**	152
	781	367

Included in the segregated fund is interest earned of $39 million (1999 - $6 million) on the balance in the fund during 2000.

Nuclear Risk-Sharing

OPG and senior staff at the Ontario Ministry of Finance reached an understanding on key principles for the development of a nuclear liability agreement under which the Province or its agent would risk-share certain nuclear waste management costs in the event that the estimated present value of these costs were to exceed certain thresholds. In order to implement the nuclear liability agreement, OPG must negotiate a definitive agreement and obtain the necessary authorizations from the Province including any necessary Orders in Council. Execution of this agreement would effectively limit OPG's exposure to significant increases in the estimated present value costs of nuclear waste management.

In addition to a nuclear liability agreement, the Province has also agreed to provide to the Canadian Nuclear Safety Commission ("CNSC", formerly the Atomic Energy Control Board), as required by federal regulation, a guarantee that there will be funds available to discharge 100% of the nuclear decommissioning and waste liabilities that exist at any point in time within OPG. This would represent that portion of the liabilities that are not funded. 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 2001, once the nuclear liability agreement is finalized.

Role of External Parties in the Management of Nuclear Wastes and Impact on Liabilities

In response to a December 1998 policy statement by the Federal Government, OPG continues its discussions with both the Province and the Federal Government regarding the establishment of a Waste Management Organization ("WMO") to manage all future operating expenditures for the life cycle management of nuclear waste. The exact structure and mandate of the WMO is under review.

Segregated funds would likely be held independent of OPG with access to those funds managed and monitored by several parties, including the CNSC. OPG has a requirement to contribute to those segregated funds in a pre-determined manner that will be established based on estimates and assumptions calculated by external bodies. The Federal Government will likely introduce draft legislation within the next year that would establish the role of a WMO and define government oversight responsibilities.

8. LONG-TERM DEBT

The long-term debt consists of the following:

(millions of dollars)	**December 31 2000**	December 31 1999
Notes payable to OEFC	**3,400**	3,400
Capital lease obligations	**23**	26
	3,423	3,426
Less: payable within one year		
5.35% senior notes payable to OEFC	**200**	-
Capital leases	**4**	4
	204	4
Long-term debt	**3,219**	3,422

Details of OPG's long-term notes outstanding as at December 31, 2000, are as follows:

		Principal Outstanding ($ Canadian)		
Year of Maturity	**Interest Rate (%)**	**Senior Notes**	**Subordinated Notes**	**Total**
2001	5.35	200	-	200
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
		2,650	750	3,400

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. OPG's exposure to interest rate risk is limited by the fixed rates on the long-term debt.

Interest paid during the year ended December 31, 2000 was $206 million (nine months ended December 31, 1999 - $95 million; three months ended March 31, 1999 - $588 million)

9. 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.

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, 2000, OPG had issued $150 million of commercial paper at yields ranging from 5.81% to 5.89%.

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

Fair Value

The following table presents the carrying amounts and fair values of OPG's financial instruments:

(*millions of dollars*)	**2000**		1999	
	Carrying Value	**Fair Value(1)**	Carrying Value	Fair Value (1)
Financial Assets				
Cash and cash equivalents	**565**	**565**	243	243
Short-term investments	**335**	**335**	-	-
Accounts receivable	**968**	**968**	930	930
Fixed asset removal and nuclear waste management fund	**781**	**803**	367	367
Long-term accounts receivable and other assets	**52**	**52**	27	27
Financial Liabilities				
Accounts payable and accrued charges	**1,406**	**1,406**	1,145	1,145
Short-term notes payable	**150**	**150**	-	-
Long-term debt due within one year	**204**	**204**	4	4
Long-term debt	**3,219**	**3,188**	3,422	3,270
Long-term accounts payable and accrued charges	**298**	**298**	353	353

(1) Year-end quoted market prices for specific or similar instruments are used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value. For derivative financial instruments, the fair value is determined using pricing models that take into account the current value of the underlying instruments, the time value of money, and mid-market yield curve and volatility factors. The carrying values of cash, short-term investments, accounts receivable, bank indebtedness, short-term notes payable and accounts payable approximate fair value because of the short maturity of those instruments.

Credit risk

Credit risk relates to the risk of loss as a result of non-performance of contractual obligations by counterparties. OPG has established and enforced credit policies that minimize credit risk through a continuous evaluation of its counterparties.

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 2000, approximately 72% related to municipal utilities. Based on OPG's policies and the current market and regulatory environment, OPG does not expect any material credit losses.

Risk Management Instruments

OPG makes purchases and sales denominated in United States dollars, which give rise to a risk that its earnings 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 commitments for purchases and sales using risk management instruments such as forward foreign exchange contracts. All of the forward contracts entered into during the year were short-term in nature. OPG had no forward contracts outstanding as at December 31, 2000.

11. COMMON SHARES

OPG is authorized to issue an unlimited number of common shares without nominal or par value. Common shares issued and outstanding at December 31, 2000, and December 31, 1999, are as follows:

	Shares	($ millions)
Issued to the Province upon incorporation on December 1, 1998	**10**	-
Issued to the Province in settlement of debt on April 1, 1999	**256,300,000**	5,126
	256,300,010	5,126

12. RELATED PARTY TRANSACTIONS

OPG, the Province, and the other successor entities of Ontario Hydro, which include Hydro One Inc. ("Hydro One"), Independent Electricity Market Operator ("IMO"), OEFC, and Ontario Electricity Pension Services Corporation ("OEPSC"), which manages the pension fund on behalf of OPG, became related parties as of April 1, 1999. Prior to April 1, 1999, the Province was a related party to Ontario Hydro and its fully integrated business units.

The transactions between OPG and related parties are in the normal course of business under normal trade terms. These transactions are summarized below:

	Year ended December 31, 2000		April 1 to December 31, 1999	
(millions of dollars)	**Revenues**	**Purchases**	**Revenues**	**Purchases**
Hydro One				
Electricity sales	**867**	**-**	640	-
Services	**16**	**92**	45	40
IMO-ancillary services	**102**	**-**	75	-
OEPSC-services	**16**	**-**	10	-
	1,001	**92**	770	40

For the year ended December 31, 2000, payments to the Province for water rentals were $117 million (nine months ended December 31, 1999 - $90 million, three months ended March 31, 1999 - $30 million). Payments to the Province for the debt guarantee fee were nil for the year ended December 31, 2000 (nine months ended December 31, 1999 - nil, three months ended March 31, 1999 - $31 million).

As at December 31, 2000, OPG had $93 million of related party receivables due from Hydro One (1999 - $90 million), $9 million of related party receivables due from the IMO (1999 - $8 million) and $2 million of related party receivables due from OEPSC (1999 - $1 million). Related party payables due to Hydro One were $15 million as at December 31, 2000 (1999 - $13 million).

13. RESEARCH AND DEVELOPMENT

For the year ended December 31, 2000, $39 million (nine months ended December 31, 1999 - $19 million, three months ended March 31, 1999 - $15 million) of research and development expenses were charged to operations, and there were no charges to accrued liabilities (nine months ended December 31,1999 - $10 million, three months ended March 31, 1999 - $2 million). Development costs of $6 million were capitalized (nine months ended December 31, 1999 - $2 million, three months ended March 31, 1999 - nil).

14. 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 were $273 million for the year ended December 31, 2000 (nine months ended December 31, 1999 - $200 million; three months ended March 31, 1999 - $10 million). Sales to two customers represent 31% of total revenue for the year ended December 31, 2000 (nine months ended December 31, 1999 - 30%) and 26% of accounts receivable as at December 31, 2000 (nine months ended December 31, 1999 - 25%).

15. CONTINGENCIES AND COMMITMENTS

Municipal Electric Utilities (MEU)

On April 24, 1997, three MEUs (the "Applicants") issued a notice of application against Ontario Hydro in the Ontario Court (General Division) (the "MEU Litigation"). The MEU Litigation has been certified as a class proceeding on behalf of all MEUs in Ontario. The Applicants seek declarations that certain rates and pricing options offered by Ontario Hydro to corporations contravened the provisions of the *Power Corporation Act*, (Ontario) and that these rates and pricing options improperly increased costs to the MEUs that purchase their power from OPG. They seek recovery of the increased costs in the amount of approximately $145 million and a declaration that Ontario Hydro improperly diverted, from miscellaneous revenues, monies, in an indeterminate amount, which should have been used to reduce the cost of power supplied to these MEUs. The Applicants are also seeking declarations that Ontario Hydro breached legislative provisions prescribing the operation of the Reserve for Stabilization of Rates and Contingencies and an equity account of Ontario Hydro known as the accumulated debt retirement appropriation (the “ADR account”), and an order requiring repayment to the ADR account in the amount of $5,050 million. The Province will indemnify OPG from and against all claims relating to the creation, treatment, payment to or from or other dealings with the ADR account, and the financial statements of Ontario Hydro in relation to the ADR account including any amount relating to any judgment, settlement or other payment in connection with the MEU Litigation, subject to a $20 million deductible amount.

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. Until the Appeal Court renders its decision, OPG is unable to ascertain the impact of this application on its business, results of operations, financial condition or prospects. The Bruce used fuel storage facility is required within the next 2 to 3 years to allow for the continued generation of nuclear power at the Bruce Nuclear site, given the remaining vacant storage available for used fuel bundles.

Environment

OPG inherited legacy environmental obligations from the Acquired Business. A provision of $76 million was established as at April 1, 1999 for such obligations. Charges of $3 million were made against this provision during the year ended December 31, 2000 (nine months ended December 31, 1999 - $6 million). Also, OPG’s 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.

15. CONTINGENCIES AND COMMITMENTS CONTINUED

Fuel Supply Agreements

OPG has entered into firm fuel supply agreements, some of which extend beyond 2001. The future obligation of $1,464 million (1999 - $727 million) under these agreements for each of the next five years and 2006 and beyond are as follows:

(millions of dollars)

Due in:	
2001	851
2002	256
2003	156
2004	34
2005	32
2006 and beyond	135
Total	1,464

16. BENEFIT PLANS

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

The pension information presented in the financial statements is derived from the OPG pension plan including OPG's proportionate share of the OEFC pension plan assets and liabilities taking into account actual employees and pensioners. Other post employment benefit information presented in the financial statements is also based on OPG's actual employees and pensioners. Prior to April 1, 1999, such information was based on the Acquired Business's proportionate share of Ontario Hydro's payroll, resulting in allocation adjustments.

OPG amended its benefit plans during 2000, resulting in pension and other post employment obligations for past service.

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. Until that date, employees and pensioners continued as members of the OEFC pension plan, formerly the Ontario Hydro Pension and Insurance Plan.

Pension fund assets held with OEFC 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 the Province, Hydro One, IMO, ESA, OEFC, or OPG.

The pension plan has a substantial excess of assets over obligations ("Surplus"). OPG has suspended contributions to the plan as permitted under the *Pension Benefits Act* (Ontario) and the *Electricity Act, 1998*.

Information about OPG's pension plan is as follows:

(millions of dollars)	**December 31 2000**	December 31 1999
Pension Plan Assumptions		
Expected return on plan assets	**7.75%**	7.25%
Rate used to discount future pension benefits	**6.75%**	7.25%
Salary schedule escalation rate	**3.25%**	3.50%
Rate of cost of living increase to pensions	**2.50%**	2.50%
Average remaining service life for employees (years)	**11**	12

16. Benefit plans Continued

(millions of dollars)	**December 31 2000**	December 31 1999
Change in Pension Plan Assets		
Fair value of plan assets at beginning of year	**7,274**	7,908
Contributions by OPG	**-**	-
Contributions by the employees	**33**	49
Actual return on plan assets	**527**	1,018
Benefit payments	**(181)**	(245)
Administrative expense	**(11)**	(13)
Allocation adjustment	**-**	(1,443)
Fair value of plan assets at end of year	**7,642**	7,274
Change in Projected Pension Benefit Obligation		
Projected benefit obligation at beginning of year	**5,174**	7,098
Current service cost	**184**	218
Past service costs	**189**	-
Interest on projected benefit obligation	**389**	359
Benefit payments	**(160)**	(192)
Net actuarial (gain) loss	**440**	(1,098)
Allocation adjustment	**-**	(1,211)
Projected benefit obligation at end of year	**6,216**	5,174
Pension Plan Surplus	**1,426**	2,100
Reconciliation of Pension Plan Surplus		
Pension plan surplus	**1,426**	2,100
Unamortized net actuarial (gain) loss	**(957)**	(1,584)
Unamortized past service costs	**172**	-
Deferred pension asset	**641**	516

	Year ended December 31 2000	April 1 to December 31 1999	**Acquired Business** January 1 to March 31 1999
Components of Pension (Credit)/Expense			
Current service cost	**154**	124	42
Interest on projected benefit obligation	**389**	269	106
Expected return on plan assets	**(540)**	(339)	(142)
Amortization of past service costs	**17**	-	-
Amortization of net actuarial (gain) loss	**(145)**	(15)	(1)
Pension (credit)/expense	**(125)**	39	5

16. BENEFIT PLANS CONTINUED

Other Post Employment Benefits

Payments for OPEB benefits during 2000 are $49 million (nine months ended December 31, 1999 - $35 million, three months ended March 31, 1999 - $15 million). The long-term annual increase in the per capita cost of the major benefits ranges between 2.5% and 4.5% (1999 - 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 7.00% at December 31, 2000 (1999 - between 7.0% and 7.5%).

Information about OPG's OPEB is as follows:

(millions of dollars)	**December 31 2000**	December 31 1999
Change in Projected OPEB Obligation		
Projected OPEB obligation at beginning of year	**828**	1,088
Current service cost	**37**	41
Interest on projected benefit obligation	**65**	56
Benefit payments	**(42)**	(40)
Net actuarial (gain) loss	**71**	(180)
Past service costs	**42**	-
Allocation adjustment	**-**	(137)
Projected OPEB obligation at end of year	**1,001**	828
Reconciliation of OPEB Obligation		
Accrued OPEB obligation at end of year		
Long-term obligation	**997**	959
Short-term obligation	**46**	43
Unamortized net actuarial (gain) loss	**(79)**	(174)
Unamortized past service costs	**37**	-
Projected OPEB obligation at end of year	**1,001**	828

	Year ended December 31 2000	April 1 to December 31 1999	**Acquired Business** January 1 to March 31 1999
Components of OPEB Expense			
Current service cost	37	32	12
Interest on projected benefit obligation	65	42	16
Amortization of net actuarial (gain) loss	(17)	(3)	-
Amortization of past service costs	4	-	-
OPEB expense	89	71	28

17. PRO FORMA CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

A pro forma consolidated statement of income has been prepared to reflect the purchase of the Acquired Business as if the purchase of net assets had occurred on January 1, 1999.

	1999			
		Acquired Business		
(millions of dollars)	**April 1 to December 31 Actual**	**January 1 to March 31 Actual**	**Adjustments**	**Year ended December 31 Pro Forma**
Revenues	4,338	1,769	(312)	**5,795**
Operating expenses				
Operation, maintenance and administration	1,770	551	16	**2,337**
Fuel	816	335	(35)	**1,116**
Power purchased	153	45	-	**198**
Depreciation and amortization	573	385	(193)	**765**
Property and capital taxes	277	7	85	**369**
	3,589	1,323	(127)	**4,785**
Interest expense	134	545	(500)	**179**
Income taxes	289	-	96	**385**
Net income	326	(99)	219	**446**

Basis of Presentation and Pro Forma Assumptions and Adjustments

The pro forma consolidated statement of income for the year ended December 31, 1999 is comprised of the consolidated statement of income for OPG for the nine months ended December 31, 1999 and a pro forma consolidated statement of income for the three months ended March 31, 1999 based on the consolidated statement of income of the Acquired Business. The pro forma consolidated statement of income is not necessarily indicative of the results of operations that would have occurred had the transactions taken place on the relevant dates, because of significant changes in the business and regulatory environments, financing and other factors.

OPG is an unregulated commercial enterprise, whereas the Acquired Business was a rate-regulated entity. Since accounting policies followed by rate regulated enterprises differ in some respects from those followed by non-rate regulated enterprises, certain of the liabilities and expenses recorded by the Acquired Business would have been recorded differently by OPG.

The pro forma consolidated statement of income for the year ended December 31, 1999 includes the following assumptions and adjustments to the historical results of the Acquired Business:

Revenues: During the Transition Period of the Ontario electricity industry, all consumers will continue to pay their electricity bills on a bundled basis. OPG's share of revenue out of this bundled pool in 1999 was planned to be 4¢/kWh for Ontario sales, based on estimated demand for 1999, together with a fixed amount for ancillary services. The impact of this new revenue allocation arrangement is a reduction in revenue of $336 million for the three months ended March 31, 1999. Revenues were increased by $24 million to reflect other adjustments including the reclassification of revenues that were previously recognized as internal revenues and credited to operations, maintenance and administration expenses (OM&A), and foreign exchange losses previously recorded as interest expense.

OM&A: OM&A expenses for the three months ended March 31, 1999, have been adjusted by $16 million which includes the reclassification of revenues previously recognized as internal revenues and an adjustment for certain grants in lieu of property taxes that were previously included in OM&A expense.

17 PROFORMA CONSOLIDATED STATEMENTS OF INCOME (Unaudited) CONTINUED

Fuel: As part of the restructuring of Ontario Hydro, the obligation to fund the future costs of nuclear waste disposal and nuclear plant decommissioning was transferred to OPG. OPG recognized the full committed liability of $6,317 million as at April 1, 1999. As a result, the amount charged to operations for these periods with respect to the future obligation for these liabilities, is less than the amount formerly charged to operations. Accordingly, for the three months ended March 31, 1999, fuel expense has been adjusted by $35 million with respect to nuclear waste disposal.

Depreciation and amortization*:* The net book value of the fixed assets of the Acquired Business, which amounted to $26,850 million, was adjusted by an amount of $13,978 million, reducing the net book value of fixed assets to their fair value of $12,872 million as at April 1, 1999. As a result of the new asset base, depreciation and amortization expense has been reduced by $177 million for the three months ended March 31, 1999. Other adjustments include a reduction in depreciation of $30 million for the three months ended March 31, 1999, to reflect lower charges to current operations resulting from the recognition of the full committed liability for nuclear plant decommissioning and an increase of $14 million related to revalorization.

Interest expense*:* Interest expense includes interest on debt financing. As a result of the new capitalization of OPG and lower interest rates for OPG's long-term debt, interest expense decreased by $484 million for the three months ended March 31, 1999. The Province no longer guarantees OPG's debt to third parties after April 1, 1999. Accordingly, OPG will not incur the provincial debt guarantee fee previously included in interest expense. The elimination of this guarantee fee, which had an impact of $31 million for the three months ended March 31, 1999, is reflected in the net reduction in interest expense. An adjustment of $15 million for the three months ended March 31, 1999, was made to reclassify certain foreign exchange losses to other revenue.

Income, property and capital taxes: The Acquired Business was exempt from tax under the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario*).* However, pursuant to the *Electricity Act, 1998* OPG is required to pay to OEFC an amount referred to as a "proxy tax". The proxy tax is generally equal to the amount of income and capital taxes OPG would be liable to pay under the *Income Tax Act* (Canada*)* and the *Corporations Tax Act* (Ontario) if it were not exempt*.* The *Electricity Act, 1998* also provides that OPG is required to make additional payments in lieu of property tax each year to OEFC on its electricity generating assets. Accordingly, the pro forma adjustments reflect the recognition of property and capital taxes of $85 million for the three months ended March 31, 1999. In addition, proxy taxes in lieu of federal and Ontario income taxes plus the federal large corporations tax was recognized in the amount of $96 million for the three months ended March 31, 1999.

18. DECONTROL, JOINT VENTURES AND PARTNERSHIPS

Leasing of Bruce Nuclear Generating Stations

On July 11, 2000, OPG entered into an agreement to lease its Bruce A and Bruce B nuclear generating facilities to Bruce Power L.P. as part of OPG's decontrol commitment whereby it is required to reduce its share of generating capacity available in Ontario. Bruce Power is an entity controlled by British Energy plc. The operating lease will have an initial lease term of approximately 18 years and will include options to extend the lease for up to an additional 25 years. The completion of the transaction, which is expected to take place in 2001, is subject to usual closing conditions, including obtaining the necessary licenses from the CNSC and the Ontario Energy Board.

The lease agreement requires an initial payment of $625 million, payable in three installments. This includes $400 million, subject to closing adjustments, payable to OPG on closing and $225 million payable in two equal installments of $112.5 million, no later than 4 and 6 years from the date the transaction is completed. Bruce Power will also make annual lease payments during the initial lease term that will consist of both fixed and variable payments. In aggregate, the initial payment and annual lease payments to OPG are estimated at $3.1 billion. OPG will continue to be responsible for nuclear waste and decommissioning liabilities at the Bruce site.

Information Technology Initiative

In November, OPG entered into an agreement to form a joint venture with Business Transformation Services Inc. ("BTS"), a wholly-owned subsidiary of Cap Gemini Ernst & Young to transfer OPG's Information Services Group ("ISG") to New Horizon System Services Inc. ("New Horizon"), a joint venture that will be owned 51 per cent by BTS and 49 per cent by OPG. Approximately 600 employees within ISG will be transferred to New Horizon. The ten-year agreement is expected to close in early 2001 and includes provisions that allow BTS to re-assess the joint venture agreement up to 2002.

19. Comparative Figures

Certain of the 1999 comparative figures have been reclassified to conform to the 2000 financial statement presentation.