

## CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	Restated (note 3) 2003	2004	Restated (note 3) 2003
<i>(millions of dollars except where noted)</i>				
<b>Revenue</b>				
Revenue before Market Power Mitigation Agreement rebate	1,413	1,416	4,553	5,216
Market Power Mitigation Agreement rebate	(201)	(192)	(850)	(1,266)
	<b>1,212</b>	1,224	<b>3,703</b>	3,950
Fuel expense	290	382	870	1,262
<b>Gross Margin</b>	<b>922</b>	842	<b>2,833</b>	2,688
<b>Expenses</b>				
Operations, maintenance and administration	636	550	1,893	1,799
Depreciation and amortization (note 5)	182	149	568	437
Accretion on fixed asset removal and nuclear waste management liabilities	113	109	340	324
Earnings on nuclear fixed asset removal and nuclear waste management funds	(77)	(74)	(255)	(188)
Property and capital taxes	33	27	91	82
	<b>887</b>	761	<b>2,637</b>	2,454
<b>Income before the following</b>	<b>35</b>	81	<b>196</b>	234
Restructuring (note 12)	-	-	16	-
Other income (note 15)	-	17	-	58
Net interest expense	48	39	138	97
<b>(Loss) income before income taxes</b>	<b>(13)</b>	59	<b>42</b>	195
Income tax expenses (recoveries)				
Current	7	5	13	65
Future	(5)	20	21	15
	<b>2</b>	25	<b>34</b>	80
<b>Net (loss) income</b>	<b>(15)</b>	34	<b>8</b>	115
<b>Basic and diluted (loss) earnings per common share (dollars)</b>	<b>(0.06)</b>	0.13	<b>0.03</b>	0.45
<b>Common shares outstanding (millions)</b>	<b>256.3</b>	256.3	<b>256.3</b>	256.3

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (UNAUDITED)

Nine Months Ended September 30

*(millions of dollars)*

	<b>2004</b>	<b>Restated (note 3) 2003</b>
<b>(Deficit) retained earnings, beginning of period as previously reported</b>	<b>(147)</b>	257
Adjustment <i>(note 3)</i>	-	104
<b>(Deficit) retained earnings, beginning of period as restated</b>	<b>(147)</b>	361
Net income	<b>8</b>	115
Dividends	-	(17)
<b>(Deficit) retained earnings, end of period</b>	<b>(139)</b>	459

*See accompanying notes to the consolidated financial statements*

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	Restated (note 3) 2003	2004	Restated (note 3) 2003
<i>(millions of dollars)</i>				
<b>Operating activities</b>				
Net (loss) income	(15)	34	8	115
Adjust for non-cash items:				
Depreciation and amortization	182	149	568	437
Accretion on fixed asset removal and nuclear waste management liabilities	113	109	340	324
Earnings on nuclear fixed asset removal and nuclear waste management funds	(77)	(74)	(255)	(188)
Pension cost	23	(1)	69	(4)
Other post employment benefits and supplemental pension	51	33	132	101
Future income taxes	(5)	20	21	15
Provision for restructuring	-	-	16	-
Transition rate option contracts	(8)	(16)	(34)	(58)
Gain on sale of investments	-	(17)	-	(58)
Mark-to-market on energy contracts (note 10)	-	1	5	(5)
Provision for used nuclear fuel	7	3	22	12
Other	18	2	24	1
	<b>289</b>	243	<b>916</b>	692
Contributions to nuclear fixed asset removal and nuclear waste management funds	(114)	(82)	(341)	(340)
Expenditures on fixed asset removal and nuclear waste management	(18)	(17)	(49)	(48)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management	7	-	15	-
Contributions to pension fund	(38)	(41)	(114)	(121)
Expenditures on other post employment benefits and supplemental pension	(15)	(15)	(45)	(38)
Expenditures on restructuring (note 12)	(4)	(10)	(47)	(54)
Net changes to other long-term assets and liabilities	(11)	(29)	(30)	(70)
Changes in non-cash working capital balances (note 16)	(99)	(691)	(231)	(95)
<b>Cash flow (used in) provided by operating activities</b>	<b>(3)</b>	(642)	<b>74</b>	(74)
<b>Investing activities</b>				
Proceeds on sale of decontrol and other fixed assets	8	-	8	1
Proceeds from sale of investments	-	17	-	58
Purchases of fixed assets	(161)	(139)	(384)	(459)
<b>Cash flow (used in) investing activities</b>	<b>(153)</b>	(122)	<b>(376)</b>	(400)
<b>Financing activities</b>				
Issuance of long-term debt (note 7)	-	-	13	52
Repayment of long-term debt (note 7)	-	-	(4)	-
Dividends paid	-	-	-	(17)
Issuance of short-term notes (note 6)	360	547	545	937
Repayment of short-term notes (note 6)	(343)	(642)	(528)	(1,109)
<b>Cash flow provided by (used in) financing activities</b>	<b>17</b>	(95)	<b>26</b>	(137)
<b>Net (decrease) in cash and cash equivalents</b>	<b>(139)</b>	(859)	<b>(276)</b>	(611)
<b>Cash and cash equivalents, beginning of period</b>	<b>149</b>	872	<b>286</b>	624
<b>Cash and cash equivalents, end of period</b>	<b>10</b>	13	<b>10</b>	13

See accompanying notes to the consolidated financial statements

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>(millions of dollars)</i>	<b>September 30 2004</b>	<b>December 31 2003</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	10	286
Accounts receivable <i>(note 4)</i>	313	331
Income taxes recoverable	-	16
Fuel inventory	572	524
Materials and supplies	95	73
	<b>990</b>	<b>1,230</b>
<b>Fixed assets</b>		
Property, plant and equipment	14,951	14,701
Less: accumulated depreciation	2,981	2,514
	<b>11,970</b>	<b>12,187</b>
<b>Other long-term assets</b>		
Deferred pension asset <i>(note 9)</i>	507	464
Nuclear fixed asset removal and nuclear waste management funds <i>(note 8)</i>	5,809	5,228
Long-term materials and supplies	276	278
Long-term accounts receivable and other assets	65	64
	<b>6,657</b>	<b>6,034</b>
	<b>19,617</b>	<b>19,451</b>

*See accompanying notes to the consolidated financial statements*

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>(millions of dollars)</i>	<b>September 30 2004</b>	<b>December 31 2003</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued charges <i>(note 12)</i>	888	1,064
Market Power Mitigation Agreement rebate payable <i>(note 13)</i>	340	409
Short-term notes payable	17	-
Long-term debt due within one year <i>(note 7)</i>	507	4
Deferred revenue due within one year	12	12
Income and capital taxes payable	8	-
	<b>1,772</b>	<b>1,489</b>
<b>Long-term debt <i>(note 7)</i></b>	<b>2,899</b>	<b>3,393</b>
<b>Other long-term liabilities</b>		
Fixed asset removal and nuclear waste management <i>(note 8)</i>	8,239	7,921
Other post employment benefits and supplemental pension <i>(note 9)</i>	1,099	1,013
Long-term accounts payable and accrued charges	229	276
Deferred revenue	159	168
Future income taxes	233	212
	<b>9,959</b>	<b>9,590</b>
<b>Shareholder's equity</b>		
Common shares	5,126	5,126
Deficit	(139)	(147)
	<b>4,987</b>	<b>4,979</b>
	<b>19,617</b>	<b>19,451</b>

Commitments and Contingencies *(notes 6, 10 and 11)*

See accompanying notes to the consolidated financial statements

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003**

### **1. BASIS OF PRESENTATION**

These interim consolidated financial statements were prepared following the same accounting policies and methods as in the most recent annual consolidated financial statements. However, these interim financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles for annual financial statements. Accordingly, the interim consolidated financial statements should be read in conjunction with the most recently prepared annual consolidated financial statements for the year ended December 31, 2003.

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, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Certain of the 2003 comparative amounts have been reclassified from statements previously presented to conform to the 2004 financial statement presentation. In addition, certain of the 2003 comparative amounts have been restated from financial statements previously presented to recognize OPG's retroactive application of the Canadian Institute of Chartered Accountants ("CICA") new standard on accounting for liabilities associated with tangible long-lived assets and related asset retirement costs, which was adopted during 2003.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Fixed Asset Removal and Nuclear Waste Management Liability**

OPG recognizes asset retirement obligations for fixed asset removal and nuclear waste management, discounted for the time value of money. OPG has estimated both the amount and timing of future cash expenditures based on current plans for fixed asset removal and nuclear waste management. The liabilities are initially recorded at their estimated fair value, which is based on a discounted value of the expected costs to be paid.

On an ongoing basis, the liability is increased by the present value of the variable cost portion of the nuclear waste generated each year, with the corresponding amounts charged to operating expenses. Expenses relating to low and intermediate level waste are charged to depreciation and amortization expense. Expenses relating to the disposal of nuclear used fuel are charged to fuel expense. The liability is also adjusted for any changes in the estimated amount or timing of the underlying future cash flows. Upon settlement of the liability, a gain or loss is recorded.

Accretion arises because liabilities for fixed asset removal and nuclear waste management are reported on a net present value basis. Accretion expense is the increase in the carrying amount of the liabilities due to the passage of time. The resulting expense is included in operating expenses.

The asset retirement cost is capitalized by increasing the carrying value of the assets. The capitalized cost is depreciated over the remaining useful life of the assets and is included in depreciation expense.

#### **Reclassification of Accretion Expense and Earnings on Segregated Funds**

Prior to the third quarter of 2003, OPG reported a revalorization charge that was comprised of accretion expense on the fixed asset removal and nuclear waste management liabilities, net of the earnings on the nuclear fixed asset removal and nuclear waste management funds and interest earned on the receivable from the Ontario Electricity Financial Corporation ("OEFEC"). Beginning in the third quarter of 2003, the accretion expense and earnings on the nuclear fixed asset removal and nuclear waste management funds, including interest earned on the receivable from the OEFEC, are disclosed separately in the consolidated statements of income. Prior periods were reclassified to reflect this change.

## **Nuclear Fixed Asset Removal and Nuclear Waste Management Funds**

In July 2003, OPG and the Province of Ontario (the "Province") completed arrangements pursuant to the Ontario Nuclear Funds Agreement ("ONFA"), which required the establishment of segregated custodial funds to hold the nuclear fixed asset removal and nuclear waste management funds. To comply with the ONFA, OPG transferred the assets in the nuclear fixed asset removal and nuclear waste management funds to the segregated custodial funds called the Decommissioning Fund and the Used Fuel Fund (together the "Funds"). The Funds are invested in debt and equity securities which are treated as long-term investments and are accounted for at amortized cost. The segregated funds are reported as nuclear fixed asset removal and nuclear waste management funds in the consolidated balance sheets. Realized gains and losses on the segregated funds are recorded in earnings in the consolidated statements of income.

Following the establishment of the segregated funds in July 2003, the amount receivable from the OEFC was transferred into the Decommissioning Fund in the form of an interest-bearing note and is included in the investments reported in the Decommissioning Fund. Previously, the receivable from the OEFC had been offset against fixed asset removal and nuclear waste management liabilities.

## **New Accounting Recommendations**

### *Hedging Relationships*

In December 2001, the Accounting Standards Board ("AcSB") of the CICA issued Accounting Guideline 13, *Hedging Relationships*. This Guideline establishes standards for documenting and assessing the effectiveness of hedging activities. OPG adopted the new accounting standard effective January 1, 2004, with no impact on the existing accounting for hedging relationships.

### *Employee Future Benefits — Additional Disclosures*

In December 2003, the AcSB approved revisions to Section 3461, *Employee Future Benefits*. The revisions require additional annual disclosures effective for years ending on or after June 30, 2004, and additional interim disclosure effective for periods ending on or after June 30, 2004. OPG early adopted the interim requirement, which mandates disclosure of the amount of the total benefit cost.

### 3. CHANGES IN ACCOUNTING POLICIES

#### *Asset Retirement Obligations – Retroactive Adoption of Change in Accounting Standard*

In March 2003, the CICA issued a new standard for the recognition, measurement and disclosure of liabilities associated with the retirement of tangible long-lived assets and the related asset retirement costs. The new standard is effective for fiscal years beginning on or after January 1, 2004. OPG chose to early adopt the CICA standard in 2003. In accordance with the CICA requirements, OPG retroactively applied the new standard. The increases (decreases) in the comparative amounts for the three and nine months ended September 30, 2003, resulting from adoption of the new accounting standard, are summarized below:

	<b>Three Months Ended September 30</b>	<b>Nine Months Ended September 30</b>
<i>(millions of dollars)</i>		
Opening retained earnings	97	104
Fuel expense	(1)	(3)
Depreciation and amortization	4	13
Accretion on fixed asset removal and nuclear waste management liabilities	2	6
Future income tax expense	(2)	(6)
Net income	(3)	(10)
Net income per share	(0.01)	(0.04)

#### *Rate Regulated Accounting*

Accounting standards recognize that rate regulation can create economic benefits and obligations, which are reported in the financial statements as regulatory assets and liabilities. If regulation provides assurance that incurred costs will be recovered in the future, then a regulated entity may defer those costs and report them as a regulatory asset. If current recovery is provided for costs expected to be incurred in the future, then a regulated entity reports a regulatory liability. Rate regulated assets and liabilities could only be established for OPG after the effective date of a regulation establishing the rate regulation of certain OPG assets. A proposed regulation under Bill 100 provides for regulation of certain of OPG's assets, and this regulation is expected to be issued prior to January 1, 2005. It is not known at this time whether the form of this regulation will allow or require OPG to establish such regulatory assets and liabilities.

### 4. SALE OF ACCOUNTS RECEIVABLE

On October 1, 2003, OPG signed an agreement to sell an undivided co-ownership interest in its current and future accounts receivable (the "receivables") to an independent trust. OPG retains an undivided co-ownership interest in the receivables sold to the trust. OPG has reflected the initial transfer to the trust of the co-ownership interest, and subsequent transfers required by the revolving nature of the securitization, as sales in accordance with CICA Accounting Guideline 12, *Transfer of Receivables*. For the three months ended September 30, 2004, OPG has recognized before-tax charges of \$2 million (three months ended September 30, 2003 - nil) on such sales at an average cost of funds of 2.4 per cent (three months ended September 30, 2003 - nil). For the nine months ended September 30, 2004, OPG has recognized before-tax charges of \$6 million (nine months ended September 30, 2003 - nil) on such sales at an average cost of funds of 2.6 per cent (nine months ended September 30, 2003 - nil). As at September 30, 2004, OPG had sold receivables of \$300 million from its total portfolio of \$460 million.

## 5. DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense for the three months ended September 30, 2004 and 2003 consists of the following:

For the three months ended September 30 <i>(millions of dollars)</i>	2004	Restated 2003
Depreciation and amortization	180	149
Nuclear waste management costs	2	-
	182	149

Depreciation and amortization expense for the nine months ended September 30, 2004 and 2003 consists of the following:

For the nine months ended September 30 <i>(millions of dollars)</i>	2004	Restated 2003
Depreciation and amortization	563	435
Nuclear waste management costs	5	2
	568	437

### *Impairment of Long-Lived Assets*

In July 2004, the Government endorsed the recommendation of OPG's Board of Directors to return to service Unit 1 of the Pickering A nuclear generating station. Plans to return Units 2 and 3 to service have been deferred, until such time as OPG has conducted a full assessment of the cost and schedule to return these units to service. The carrying amount of fixed assets in service and construction in progress for Units 2 and 3 was \$61 million at September 30, 2004 (\$64 million at December 31, 2003). If OPG discontinues the refurbishment work required to place Units 2 and 3 in service, an impairment loss equal to the carrying amount of these units would be recognized. In such an event, OPG would also have to assess the prospect of additional charges.

The accounting estimates related to asset impairment require significant management judgement to identify factors such as short and long-term forecasts for future sales prices, the supply of electricity in Ontario, the return to service dates of laid-up generating stations, inflation, fuel prices and station lives. The amount of the future cash flow that OPG will ultimately realize with respect to these assets could differ materially from the carrying values recorded in the consolidated financial statements. As a result of Bill 100 and the changing marketplace in Ontario, certain of the assumptions around future sales prices may be significantly impacted and result in a change of circumstances requiring OPG to assess whether any of its generating assets require the recording of an impairment loss. As at September 30, 2004, no such assessment has been performed as no additional indicators were considered to be present during the three and nine months ended September 30, 2004.

## 6. SHORT-TERM CREDIT FACILITIES

In May 2004, OPG renewed its \$1,000 million revolving short-term committed bank credit facility with its bank lending group for a further 364-day term. Notes issued under OPG's commercial paper program are supported by the bank credit facility. As at September 30, 2004, OPG had \$17 million outstanding borrowing under this commercial paper program (December 31, 2003 - nil). As at September 30, 2004, OPG had no other outstanding borrowing under this facility.

OPG also maintains \$27 million (December 31, 2003 - \$28 million) in short-term uncommitted overdraft facilities as well as \$200 million (December 31, 2003 - \$173 million) of short-term uncommitted credit facilities, in the form of Letters of Credit. OPG is required to post the Letters of Credit as collateral with Local Distribution Companies ("LDCs") as prescribed by the Ontario Energy Board's ("OEB") Retail Settlement Code, and to support the supplementary pension plan. At September 30, 2004, there were approximately \$154 million (December 31, 2003 - \$125 million) of Letters of Credit issued for collateral requirements to the LDC's and for the supplementary pension plan.

## 7. LONG-TERM DEBT

Long-term debt consists of the following:

	September 30 2004	December 31 2003
<i>(millions of dollars)</i>		
Notes payable to the OEFC	3,200	3,200
Capital lease obligations	4	8
Share of limited partnership debt	202	189
	<b>3,406</b>	<b>3,397</b>
Less: due within one year		
Notes payable to the OEFC	500	-
Capital lease obligations	4	4
Share of limited partnership debt	3	
	<b>507</b>	<b>4</b>
<b>Long-term debt</b>	<b>2,899</b>	<b>3,393</b>

In February 2003, OPG reached an agreement with the OEFC to defer payment on \$700 million principal amount of senior notes maturing in 2003 and 2004 by extending the maturity dates by two years. The interest rates remain unchanged.

Interest paid during the three months ended September 30, 2004 was \$105 million (three months ended September 30, 2003 - \$97 million), of which \$103 million relates to interest paid on long-term debt (three months ended September 30, 2003 - \$96 million). Interest paid during the nine months ended September 30, 2004 was \$216 million (nine months ended September 30, 2003 - \$195 million), of which \$208 million relates to interest paid on long-term debt (nine months ended September 30, 2003 - \$192 million). Interest on the notes payable to the OEFC is paid in the first and third quarters of the year. Interest of \$6 million was capitalized during the three months ended September 30, 2004 (three months ended September 30, 2003 - \$11 million). Interest of \$23 million was capitalized during the nine months ended September 30, 2004 (nine months ended September 30, 2003 - \$45 million).

## 8. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT

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

	September 30 2004	December 31 2003
<i>(millions of dollars)</i>		
Liability for nuclear used fuel management	4,638	4,451
Liability for nuclear decommissioning and low and intermediate level waste management	3,415	3,289
Liability for non-nuclear fixed asset removal	186	181
<b>Fixed asset removal and nuclear waste management liability</b>	<b>8,239</b>	<b>7,921</b>

The change in the fixed asset removal and nuclear waste management liability for the nine months ended September 30, 2004 and year ended December 31, 2003 is as follows:

	September 30 2004	December 31 2003
<i>(millions of dollars)</i>		
Liability, beginning of period	7,921	7,539
Increase in liability due to accretion	340	430
Increase in liability due to nuclear used fuel and nuclear waste management variable expenses	27	24
Liabilities settled by expenditures on waste management	(49)	(72)
<b>Liability, end of period</b>	<b>8,239</b>	<b>7,921</b>

### Ontario Nuclear Funds Agreement (ONFA)

OPG sets aside funds to be used specifically for discharging OPG's nuclear fixed asset removal and nuclear waste management liabilities. In July 2003, OPG and the Province completed arrangements pursuant to the ONFA, which required the establishment of segregated custodial funds to hold the nuclear fixed asset removal and nuclear waste management funds. To comply with the ONFA, OPG transferred the assets in its existing nuclear fixed asset removal and nuclear waste management funds to a Decommissioning Fund and a Used Fuel Fund, held in segregated custodial accounts. In addition, a receivable due from the OEFC of \$3.1 billion was transferred into the Decommissioning Fund in the form of a \$1.2 billion cash payment and a \$1.9 billion interest-bearing note receivable.

The Decommissioning Fund will be used to fund the future costs of nuclear fixed asset removal and long-term low and intermediate level waste management and a portion of used fuel storage costs after station life. The initial funding of the Decommissioning Fund, including the note receivable from the OEFC, is intended to be sufficient to fully discharge the 1999 estimate of the liability. Any shortfall of this fund must be made up by OPG.

The Used Fuel Fund will be used to fund future costs of long-term nuclear used fuel waste management. OPG is responsible for the risk and liability for cost increases for used fuel waste management, subject to graduated liability thresholds specified in the ONFA, which limit OPG's total financial exposure at approximately \$6.0 billion, a present value amount at April 1, 1999 (approximately \$8.2 billion in 2004 dollars). OPG makes quarterly payments over the life of its nuclear generating stations, as specified in the ONFA. Required funding for 2004 under the ONFA is \$454 million, of which OPG has contributed

\$341 million as at September 30, 2004. Of the annual contribution, \$100 million must be deposited into The Ontario NFWA Trust (the "Trust").

The *Nuclear Fuel Waste Act* (Canada) ("NFWA") was proclaimed into force in November 2002. In accordance with the NFWA, the Nuclear Waste Management Organization was formed during 2002 to prepare and review alternatives, and to provide recommendations to the Federal Government for long-term management of nuclear fuel waste. This submission is to occur within three years of NFWA coming into force. The Federal Government will determine the strategy for dealing with the long-term management of nuclear fuel waste based on submitted plans. As required under the NFWA, OPG made an initial deposit of \$500 million into the Trust in November 2002 and contributed \$100 million in 2003. Under the NFWA, OPG must deposit \$100 million annually into the Trust until the Federal Government has approved a long-term plan, which is not expected before 2006. During the nine months ended September 30, 2004, OPG contributed \$100 million to the Trust, satisfying its funding requirement for the year, as stipulated by the NFWA. Future contributions to the Trust beyond 2005 will be dependent on the direction chosen by the Federal Government. Given that the Trust forms part of the Used Fuel Fund, contributions to the Trust, as required by the NFWA, are applied towards the ONFA payment obligations.

The nuclear fixed asset removal and nuclear waste management funds as at September 30, 2004 and December 31, 2003 consist of the following:

	September 30, 2004		December 31, 2003	
	Amortized Cost Basis	Fair Value	Amortized Cost Basis	Fair Value
<i>(millions of dollars)</i>				
Decommissioning Fund	3,820	3,987	3,641	3,801
Used Fuel Fund <sup>1</sup>	1,989	1,989	1,587	1,587
	<b>5,809</b>	<b>5,976</b>	5,228	5,388

<sup>1</sup> The Ontario NFWA Trust represents \$778 million as at September 30, 2004 (December 31, 2003 - \$648 million) of the Used Fuel Fund on an amortized cost basis.

As required by the *Nuclear Safety and Control Act* (Canada), and under the terms of the ONFA, effective as at July 31, 2003, the Province issued a guarantee to the Canadian Nuclear Safety Commission ("CNSC"), on behalf of OPG, for up to \$1,510 million. This is a guarantee that there will be sufficient funds available to discharge the current nuclear decommissioning and waste management liabilities. The provincial guarantee will supplement the Used Fuel Fund and the Decommissioning Fund until they have accumulated sufficient funds to cover the accumulated liabilities for nuclear decommissioning and waste management. The guarantee, taken together with the Used Fuel Fund and Decommissioning Fund, was in satisfaction of OPG's nuclear licencing requirements with the CNSC. OPG pays the Province an annual guarantee fee of 0.5 per cent of the amount guaranteed by the Province. OPG paid the annual guarantee fee of \$8 million in the first quarter of 2004.

Under ONFA, the Province guarantees OPG's annual return in the Used Fuel Fund at 3.25 per cent plus the change in the Ontario Consumer Price Index ("committed return"). The difference between the committed return on the Used Fuel Fund and the actual market return, based on the fair value of fund assets, which includes realized and unrealized returns, is due to or due from the Province. Since OPG accounts for the investments in the segregated funds on an amortized cost basis, the amount due to or due from the Province recorded in the consolidated financial statements is the difference between the committed return and the actual return based on realized returns only. At September 30, 2004, the Used Fuel Fund accounts included an amount due from the Province of \$2 million (December 31, 2003 – amount due from the Province of \$10 million). If the investments in the Used Fuel Fund were accounted for at fair market value in the consolidated financial statements, at September 30, 2004, there would be an amount due to the Province of \$63 million (December 31, 2003 – amount due to the Province of \$71 million).

Under the ONFA, a rate of return target of 5.75 per cent per annum was established for the Decommissioning Fund. If the rate of return deviates from 5.75 per cent, or if the value of the liabilities changes under the OPG Reference Plan, the Decommissioning Fund may become over or under funded. Under the ONFA, if there is a surplus in the Decommissioning Fund such that the liabilities, as defined by the OPG Reference Plan, are at least 120 per cent funded, OPG may direct up to 50 per cent of the surpluses to be treated as a contribution to the Used Fuel Fund, and the OEFC is entitled to a distribution of an equal amount. In addition, upon termination of the ONFA, the Province has a right to any excess funds, which is the extent to which the fair market value of the Decommissioning Fund exceeds the estimated completion costs approved under the current OPG Reference Plan. At September 30, 2004, estimated completion costs under the Current Approved ONFA Reference Plan are fully funded. The Decommissioning Fund has no excess amount due to the Province on an amortized cost basis. If the investments in the Decommissioning Fund were accounted for at fair market value in the consolidated financial statements, at September 30, 2004 and the Decommissioning Fund was terminated under the ONFA, there would be an amount due to the Province of \$159 million (December 31, 2003 - \$128 million).

## 9. BENEFIT PLANS

The post employment benefit programs include pension, group life insurance, health care and long-term disability benefits. Pension and other post employment benefits obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions and experience gains or losses. The 2004 costs are based on a measurement of the pension and other post employment benefits obligations and the pension fund assets, at December 31, 2003.

Total benefit costs are as follows:

	Three Months Ended		Nine Months Ended	
	September 30 2004	September 30 2003	September 30 2004	September 30 2003
<i>(millions of dollars)</i>				
Registered pension plan	23	(1)	69	(4)
Supplementary pension plan	4	5	12	14
Other post employment benefits	47	28	120	87

## 10. FINANCIAL INSTRUMENTS

Fair values of derivative instruments have been estimated by reference to quoted market prices for actual or similar instruments where available. Where quoted market prices are not 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.

Trading activities and liquidity in the Ontario electricity market have been limited as companies are generally entering only into short-term contracts. As a result, forward pricing information for contracts may not accurately represent the cost to enter into these contracts. For Ontario based contracts that are not entered into for hedging purposes, OPG established liquidity reserves against the fair market value of the assets and liabilities equal to the gain or loss on these contracts. These reserves increased Energy Marketing revenue by \$2 million during the nine months ended September 30, 2004 (nine months ended September 30, 2003 - \$1 million). Contracts for transactions outside of Ontario continue to be carried on the consolidated balance sheets as assets or liabilities at fair value, with changes in fair value recorded in Energy Marketing revenue as gains or losses.

### Derivative instruments used for hedging purposes

The following table provides the estimated fair value of derivative instruments designated as hedges. The majority of OPG's derivative instruments are treated as hedges, with gains or losses recognized upon settlement when the underlying transactions occur. OPG holds financial commodity derivatives primarily to hedge the commodity price exposure associated with changes in the price of electricity.

	September 30, 2004			December 31, 2003		
	Notional quantity	Terms	Fair Value	Notional quantity	Terms	Fair Value
<i>(millions of dollars except where noted)</i>						
(Loss)/gain						
Electricity derivative instruments	13.2 TWh	1-3 yrs	(107)	23.9 TWh	1-3 yrs	(13)
Foreign exchange derivative instruments	-	-	-	\$40 U.S.	Jan/04	(3)
Option to purchase emission reduction credits	5,000,000 – 18,000,000 tonnes	2005	-	3,000,000 tonnes	2004	-

Foreign exchange derivative instruments are used to hedge the exposure to anticipated U.S. dollar denominated purchases. There are no fixed exchange rate contracts outstanding at September 30, 2004. The weighted average fixed exchange rate for contracts outstanding at December 31, 2003 was U.S. \$0.72 for every Canadian dollar.

### Derivative instruments not used for hedging purposes

The carrying amount (fair value) of derivative instruments not designated for hedging purposes is as follows:

	September 30, 2004		December 31, 2003	
	Notional Quantity	Fair Value	Notional Quantity	Fair Value
<i>(millions of dollars except where noted)</i>				
Commodity derivative instruments				
Assets	8.0 TWh	8	7.9 TWh	8
Liabilities	1.3 TWh	(11)	1.6 TWh	(8)
		(3)		-
Ontario market liquidity reserve		(4)		(5)
Total		(7)		(5)

## 11. COMMITMENTS AND CONTINGENCIES

### Litigation

Various claims, lawsuits and administrative proceedings are pending or threatened against OPG or its subsidiaries, covering a wide range of matters that arise in the ordinary course of its business activities. Each of these matters is subject to various uncertainties. In July 2004, OPG was charged with criminal negligence causing death and criminal negligence causing bodily harm in relation to the 2002 accident at Barrett Chute. Some of these matters may be resolved unfavourably with respect to OPG. These contingencies are provided for when they are likely to occur and are reasonably estimable. Management believes that the ultimate resolution of these matters will not have a material effect on OPG's financial position.

## Guarantees

As part of normal business, OPG and certain of its subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees, stand-by Letters of Credit and surety bonds.

OPG has provided limited guarantees in connection with the Brighton Beach Power L. P. ("Brighton Beach") financing. If the partnership fails to meet specific performance requirements under the financing agreement by September 30, 2006, OPG may be required to repurchase its proportionate share of the outstanding debt, up to a total of \$202 million. As at September 30, 2004, OPG remains responsible for contributing its share of equity related to cost overruns, up to \$10 million. If the energy conversion agreement is terminated prior to the date the performance requirements under the financing agreement are satisfied, OPG has proportional guarantees relating to debt service, from the date of such termination to the earlier of the entry into a replacement agreement and September 30, 2006. In July 2004, Brighton Beach was commercially operational.

## 12. RESTRUCTURING

The change in the restructuring liability for severance for the nine months ended September 30, 2004 and year ended December 31, 2003 is as follows:

	September 30 2004	December 31 2003
<i>(millions of dollars)</i>		
Liability, beginning of period	52	120
Restructuring charges	16	-
Payments	(47)	(68)
Liability, end of period	21	52

OPG recorded restructuring charges of \$16 million for termination benefits and related pension and other post employment benefits expenses associated with its Lakeview generating station during the second quarter of 2004. OPG is required by regulation to cease burning coal at its Lakeview generating station by the end of April 2005. OPG has communicated its plan to shut down the Lakeview generating station to all employees. As at September 30, 2004, 81 employees had accepted the termination package offered.

## 13. MARKET POWER MITIGATION AGREEMENT REBATE

OPG is required under its generating licence to comply with prescribed market power mitigation measures to address the potential for OPG to exercise market power in Ontario. The market power mitigation measures include both a rebate mechanism and the requirement to decontrol generating capacity. Under the rebate mechanism, for the first four years after the electricity market opened to competition on May 1, 2002, a significant majority of OPG's expected energy sales in Ontario are subject to an average annual revenue cap of 3.8¢/kilowatt hour ("kWh"). OPG is required to pay a rebate to the IMO equal to the excess, if any, of the average hourly spot energy price over 3.8¢/kWh for a twelve month settlement period, multiplied by the amount of energy subject to the rebate mechanism.

In accordance with the Market Power Mitigation Agreement, the rebate is calculated after taking into account the amount of energy sales subject to the rebate mechanism for only those generating stations that OPG continues to control. Since the average hourly spot price during the nine months ended September 30, 2004 exceeded the 3.8¢/kWh revenue cap, OPG provided \$850 million (nine months ended September 30, 2003 - \$1,266 million) as a Market Power Mitigation Agreement rebate.

The change in the Market Power Mitigation Agreement rebate liability for the nine months ended September 30, 2004 and year ended December 31, 2003 were as follows:

	<b>September 30 2004</b>	<b>December 31 2003</b>
<i>(millions of dollars)</i>		
Liability, beginning of period	<b>409</b>	572
Increase to provision during the period	<b>850</b>	1,510
Payments	<b>(919)</b>	(1,673)
Liability, end of period	<b>340</b>	409

#### 14. BUSINESS SEGMENTS

<b>Segment Income for the three months ended September 30, 2004</b>	<b>Generation</b>	<b>Energy Marketing</b>	<b>Non-Energy and Other</b>	<b>Total</b>
<i>(millions of dollars)</i>				
Revenue				
Revenue before Market Power Mitigation Agreement rebate	<b>1,293</b>	<b>10</b>	<b>110</b>	<b>1,413</b>
Market Power Mitigation Agreement rebate	<b>(201)</b>	-	-	<b>(201)</b>
	<b>1,092</b>	<b>10</b>	<b>110</b>	<b>1,212</b>
Fuel expense	<b>290</b>	-	-	<b>290</b>
Gross margin	<b>802</b>	<b>10</b>	<b>110</b>	<b>922</b>
Operations, maintenance and administration excluding Pickering A return to service	<b>558</b>	<b>2</b>	<b>14</b>	<b>574</b>
Pickering A return to service	<b>62</b>	-	-	<b>62</b>
Depreciation and amortization	<b>157</b>	-	<b>25</b>	<b>182</b>
Accretion on fixed asset removal and nuclear waste management liabilities	<b>113</b>	-	-	<b>113</b>
Earnings on nuclear fixed asset removal and nuclear waste management funds	<b>(77)</b>	-	-	<b>(77)</b>
Property and capital taxes	<b>27</b>	-	<b>6</b>	<b>33</b>
(Loss) income before the following	<b>(38)</b>	<b>8</b>	<b>65</b>	<b>35</b>
Net interest expense	-	-	<b>48</b>	<b>48</b>
(Loss) income before income taxes	<b>(38)</b>	<b>8</b>	<b>17</b>	<b>(13)</b>

<b>Segment Income for the three months Ended September 30, 2003 (restated)</b>	<b>Generation</b>	<b>Energy Marketing</b>	<b>Non-Energy and Other</b>	<b>Total</b>
<i>(millions of dollars)</i>				
Revenue				
Revenue before Market Power Mitigation Agreement rebate	1,335	13	68	1,416
Market Power Mitigation Agreement rebate	(192)	-	-	(192)
	1,143	13	68	1,224
Fuel expense	382	-	-	382
Gross margin	761	13	68	842
Operations, maintenance and administration excluding Pickering A return to service	484	2	14	500
Pickering A return to service	50	-	-	50
Depreciation and amortization	123	-	26	149
Accretion on fixed asset removal and nuclear waste management liabilities	109	-	-	109
Earnings on nuclear fixed asset removal and nuclear waste management funds	(74)	-	-	(74)
Property and capital taxes	24	-	3	27
Income before the following	45	11	25	81
Other income	-	-	17	17
Net interest expense	-	-	39	39
Income before income taxes	45	11	3	59

<b>Segment Income for the nine months ended September 30, 2004</b>	<b>Generation</b>	<b>Energy Marketing</b>	<b>Non-Energy and Other</b>	<b>Total</b>
<i>(millions of dollars)</i>				
Revenue				
Revenue before Market Power Mitigation Agreement rebate	4,245	34	274	4,553
Market Power Mitigation Agreement rebate	(850)	-	-	(850)
	3,395	34	274	3,703
Fuel expense	870	-	-	870
Gross margin	2,525	34	274	2,833
Operations, maintenance and administration excluding Pickering A return to service	1,672	5	30	1,707
Pickering A return to service	186	-	-	186
Depreciation and amortization	497	-	71	568
Accretion on fixed asset removal and nuclear waste management liabilities	340	-	-	340
Earnings on nuclear fixed asset removal and nuclear waste management funds	(255)	-	-	(255)
Property and capital taxes	73	-	18	91
Income before the following	12	29	155	196
Restructuring	16	-	-	16
Net interest expense	-	-	138	138
(Loss) income before income taxes	(4)	29	17	42

<b>Segment Income for the nine months Ended September 30, 2003 (restated)</b>	<b>Generation</b>	<b>Energy Marketing</b>	<b>Non-Energy and Other</b>	<b>Total</b>
<i>(millions of dollars)</i>				
Revenue				
Revenue before Market Power Mitigation Agreement rebate	4,935	55	226	5,216
Market Power Mitigation Agreement rebate	(1,266)	-	-	(1,266)
	3,669	55	226	3,950
Fuel expense	1,262	-	-	1,262
Gross margin	2,407	55	226	2,688
Operations, maintenance and administration excluding Pickering A return to service	1,535	6	38	1,579
Pickering A return to service	220	-	-	220
Depreciation and amortization	356	-	81	437
Accretion on fixed asset removal and nuclear waste management liabilities	324	-	-	324
Earnings on nuclear fixed asset removal and nuclear waste management funds	(188)	-	-	(188)
Property and capital taxes	73	-	9	82
Income before the following	87	49	98	234
Other income	-	-	58	58
Net interest expense	-	-	97	97
Income before income taxes	87	49	59	195

<b>Selected Balance Sheet Information</b>	<b>Generation</b>	<b>Energy Marketing</b>	<b>Non-Energy and Other</b>	<b>Total</b>
<i>(millions of dollars)</i>				
September 30, 2004				
Segment property, plant and equipment, net	<b>11,064</b>	-	<b>906</b>	<b>11,970</b>
December 31, 2003				
Segment property, plant and equipment, net	11,252	-	935	12,187

<b>Selected Cash Flow Information</b>				
<i>(millions of dollars)</i>				
Three months ended September 30, 2004				
Capital expenditures	<b>154</b>	-	<b>7</b>	<b>161</b>
Three months ended September 30, 2003				
Capital expenditures	116	-	23	139
Nine months ended September 30, 2004				
Capital expenditures	<b>343</b>	-	<b>41</b>	<b>384</b>
Nine months ended September 30, 2003				
Capital expenditures	397	-	62	459

## 15. OTHER INCOME

Other income in 2003 was comprised of the gain on sale of long-term investments of \$17 million for the three months ended September 30, 2003 and \$58 million for the nine months ended September 30, 2003.

## 16. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	Restated 2003	2004	Restated 2003
<i>(millions of dollars)</i>				
Accounts receivable	(18)	18	18	156
Note receivable	-	-	-	225
Income taxes recoverable	-	(10)	16	54
Fuel inventory	(37)	(88)	(48)	(45)
Materials and supplies	(5)	3	(22)	2
Market Power Mitigation Agreement rebate payable	(66)	(614)	(69)	(299)
Accounts payable and accrued charges	26	-	(134)	(188)
Income and capital taxes payable	1	-	8	-
	(99)	(691)	(231)	(95)
<b>Supplementary Disclosure</b>				
Income taxes paid	6	9	11	17

## 17. SEASONAL OPERATIONS

OPG's quarterly results are impacted by changes in demand resulting from variations in seasonal weather conditions. Historically, OPG's revenues are higher in the first and third quarters of a fiscal year as a result of winter heating demands in the first quarter and air conditioning/cooling demands in the third quarter. The Market Power Mitigation Agreement rebate and OPG's hedging strategies significantly reduce the impact of seasonal price fluctuations on the results of operations.