ONTARIOPOWER GENERATION

News
from Ontario Power Generation

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March 29, 2005

ONTARIO POWER GENERATION RELEASES 2004 FINANCIAL RESULTS

[Toronto]: Ontario Power Generation Inc. ("OPG" or the "Company") today reported that net income for the year ended December 31, 2004 was $42 million or $0.16 per share compared to a net loss of $491 million or $1.92 per share in 2003. The loss in 2003 included an impairment loss of $576 million before tax as a consequence of the commitment by the Government of Ontario ("Government") to shut down OPG's coal-fired generating stations significantly in advance of their previously estimated useful lives. Excluding the impact of the impairment loss in 2003, before-tax earnings decreased in 2004 by $120 million compared to last year.

"During 2004, we had more production from our nuclear and hydroelectric assets, we increased our investments to enhance the reliability and cost competitiveness of our generating assets and we continued to make substantial contributions to the customer-rebate program," said Acting President and CEO Richard Dicerni.

Total production from the nine operating nuclear reactors was 42.3 terawatt hours (TWh) of electricity, an increase of 4.6 TWh over OPG's nuclear production in 2003. Performance at the hydroelectric plants also was strong as output increased to 35.7 TWh, 3.3 TWh above production in 2003. Production from the fossil-fuelled generating plants declined in 2004 to 27.0 TWh from 39.0 TWh in 2003.

OPG's financial results in 2004 reflected the impact of customer rebates under the Market Power Mitigation Agreement which reduced revenue by $1.154 billion. In 2003, the rebates reduced revenue by $1.510 billion. The reduction in rebates resulted from lower average electricity prices compared to 2003. This rebate program, which has reduced the Company's revenues by more than $3.5 billion since it was put in place in May, 2002, will end on March 31, 2005.

Earnings before tax in 2004 were negatively impacted by:

- a decrease in revenue due to lower electricity prices and volumes
- higher pension and other post employment benefit costs that were primarily the result of changes in economic assumptions related to interest and inflation rates
- an increase in nuclear maintenance and repairs related to improvements in reliability
- higher depreciation charges as a result of the planned early shutdown of the coal-fired generating stations.

These reductions in earnings before tax were largely offset by:

- an improvement in gross margin as a result of increased production from OPG's low marginal cost nuclear and hydroelectric generating stations and lower fuel expense
- savings provided by cost reductions, streamlining and restructuring initiatives.

For 2004, the loss before tax was $38 million, compared to a before-tax loss of $494 million in 2003. OPG's 2003 results included an impairment loss of $576 million before tax due to the Government's commitment to shut down OPG's coal-fired generating stations significantly in advance of their previously estimated useful lives. Under normal circumstances, this would have allowed OPG to record a tax benefit of $196 million. In 2003, OPG was not able to recognize the full income tax benefit of the impairment loss, given the expectation that future taxable income would not be sufficient to utilize that tax benefit. OPG was therefore only able to record $103 million of the tax benefit. In 2004, however, with the commencement of rate regulation effective April 1, 2005 for OPG's baseload hydroelectric and nuclear generating assets, and the resulting changes in OPG's future income tax liability position, OPG was able to record the remaining $93 million tax benefit.

A major focus of the corporation's efforts to increase the electricity supply in Ontario has been the return to service of Unit 1 at the Pickering A Nuclear Generating Station. As noted in the November press release, the return to service is still on track in terms of costs and schedule. Total costs to complete the project are still expected to range between $975 million and $1 billion. The project is more than 85 per cent complete and remains on schedule for completion of the major construction phase between early June and mid-July. The unit will then undergo a three-month commissioning phase before being declared in commercial service.

"The corporation also is investing strategically to improve the reliability and security at the three nuclear generating stations that we operate because of their importance in producing low marginal cost electricity," said Dicerni. "These investments include refurbishing or replacing station equipment and certain components, reducing maintenance backlogs and improving productivity."

HIGHLIGHTS

	Year Ended December 31	
	2004	2003
(millions of dollars)		
Revenue before Market Power Mitigation Agreement rebate	6,072	6,688
Market Power Mitigation Agreement rebate (revenue reduction)	(1,154)	(1,510)
Fuel expense	1,153	1,678
Operations, maintenance and administration	2,594	2,393
Impairment of long-lived assets	-	576
Other expenses	1,209	1,025
Income tax recoveries	80	3
Net income (loss)	42	(491)
Cash flow provided by operating activities*	226	97
Market Power Mitigation Agreement rebate payments	1,124	1,673
Electricity generation (TWh)	105.0	109.1

* The favourable changes in cash flow for the year ended December 31, 2004, compared to 2003, were primarily due to lower payments of the Market Power Mitigation Agreement rebate, increases in earnings before depreciation expense and other non-cash items, partly offset by other changes in non-cash working capital balances.

In February 2005, the Government introduced a new electricity pricing structure for OPG output that will be effective April 1, 2005. OPG's baseload hydroelectric and nuclear stations, representing about 60 per cent of OPG's electricity production, will receive regulated prices. OPG's baseload hydroelectric generation will be priced at $33.00 per megawatt hour, and the price for OPG's nuclear generation will be set at $49.50 per megawatt hour. These prices were determined based on projected production and costs of operation, including an average five per cent return on equity and will be effective until the later of March 31, 2008, or the date that regulated prices are set by the Ontario Energy Board.

OPG's revenues on approximately 85 per cent of the output from its unregulated assets (non-baseload hydroelectric and coal-fired stations) will be set at an upper limit of $47.00 per megawatt hour for a 13 month period from April 1, 2005 to April 30, 2006. The output from OPG's Lennox dual-fired fossil station is exempt from this revenue limit. Revenues above this limit will be rebated to customers at the end of the period. The regulated pricing structure and the revenue limit replace the current Market Power Mitigation Agreement rebate arrangement.

Ontario Power Generation Inc. is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario and to interconnected markets. Our focus is on the efficient production and sale of electricity from our generation assets, while operating in a safe, open and environmentally responsible manner.

Ontario Power Generation Inc.'s audited consolidated financial statements and Management's Discussion and Analysis of financial condition and results of operations as at and for the year ended December 31, 2004 can be accessed on OPG's website (www.opg.com), the Canadian Securities Administrators' website (www.sedar.com), or can be requested from the Company.

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2004 REPORT

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ONTARIO POWER GENERATION INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and accompanying notes of Ontario Power Generation Inc. ("OPG" or the "Company") as at and for the year ended December 31, 2004. OPG's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. Certain 2003 comparative amounts have been reclassified to conform with the 2004 consolidated financial statement presentation. This MD&A is dated March 23, 2005.

FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis contains forward-looking statements that reflect OPG's current views regarding certain future events and circumstances. Any statement contained in this document that is not current or historical is a forward-looking statement. OPG generally uses words such as "anticipate", "believe", "foresee", "forecast", "estimate", "expect", "intend", "plan", "project", "seek", "target", "goal", "strategy", "may", "will", "should", "could" and other similar words and expressions to indicate forward-looking statements. The absence of any such word or expression will not, however, mean that a statement is not a forward-looking statement.

All forward-looking statements involve inherent assumptions, risks and uncertainties and, therefore, could be wrong to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's return to service of units at the Pickering A nuclear generating station, fuel costs and availability, nuclear decommissioning and waste management, pension and other post employment benefit obligations, income taxes, spot market electricity prices, the ongoing evolution of the Ontario electricity industry, market power mitigation, environmental and other regulatory requirements, and the weather. Accordingly, undue reliance should not be placed on any forward-looking statement.

THE COMPANY

OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario and to interconnected markets. OPG's focus is on the risk-managed production and sale of electricity from its generating assets, while operating in a safe, open and environmentally responsible manner. OPG was created under the *Business Corporations Act* (Ontario) with authorized share capital of the Company consisting of an unlimited number of common shares. As at December 31, 2004, 256,300,010 common shares were issued and outstanding, all of which are directly owned by the Province of Ontario (the "Province"). As discussed in the section entitled Vision, Core Business and Strategy, OPG's future role and mandate are under review. The implications for OPG could be material.

As at December 31, 2004, OPG's electricity generating portfolio consisted of three nuclear stations, six fossil-fuelled generating stations, 36 hydroelectric generating stations and an EcoLogo^{M} - certified green power portfolio including 29 small hydro and two wind generating stations. In addition, there is a wind generating facility, which is co-owned by OPG and Bruce Power L.P. ("Bruce Power") and a gas-fired generating station, which is co-owned by OPG, ATCO Power Canada Ltd. and ATCO Resources Ltd. The Pickering A nuclear generating station was laid up in 1997. During 2003, OPG completed the return to service of Unit 4 of this four-unit station. OPG is proceeding with the return to service of a second Pickering A generating station unit (Unit 1). In addition to its electricity generating portfolio, OPG also owns two other nuclear generating stations, which are leased on a long-term basis to Bruce Power.

HIGHLIGHTS/EXECUTIVE SUMMARY

This section provides an overview of OPG's operating results. A detailed review of OPG's performance by business segment is included in a later section.

(millions of dollars)	**2004**	**2003**
Revenue		
Revenue before Market Power Mitigation Agreement rebate	**6,072**	6,688
Market Power Mitigation Agreement rebate	**(1,154)**	(1,510)
	4,918	5,178
Earnings		
(Loss) income before income taxes and impairment loss	**(38)**	82
Impairment loss	**-**	(576)
(Loss) before income taxes	**(38)**	(494)
Income tax recoveries	**80**	3
Net income (loss)	**42**	(491)
Cash flow		
Cash flow provided by operating activities	**226**	97
Electricity generation (TWh)	**105.0**	109.1

Net income for the year ended December 31, 2004 was $42 million compared to a net loss of $491 million in 2003. The loss in 2003 included an impairment loss of $576 million before tax as a consequence of the commitment by the Government of Ontario ("Government") to shut down OPG's coal-fired generating stations significantly in advance of their previously estimated useful lives.

Excluding the impact of the impairment loss in 2003, before-tax earnings decreased in 2004 by $120 million compared to last year. This decrease in earnings before tax was due to higher depreciation as a result of the planned early shutdown of the coal-fired generating stations and an increase in fixed assets in service, increased pension and other post employment benefit ("OPEB") expenses, primarily due to changes in economic assumptions related to interest rates and inflation rates and OPEB claims experience, higher nuclear maintenance and repairs related to improvements in reliability, and a decrease in revenue due to lower average electricity prices and lower volume.

These reductions in earnings before tax were largely offset by an increase in gross margin as a result of higher production from OPG's lower marginal cost nuclear and hydroelectric generating stations and lower fuel expense primarily due to favourable foreign exchange rates and lower costs associated with emissions, and savings resulting from restructuring initiatives and cost reduction measures. In addition, in 2004, future tax assets related to losses incurred in 2003 were recognized, contributing to the improvement in OPG's after-tax earnings.

The following is a summary of the factors impacting OPG's results in 2004 compared to 2003, on a before-tax basis:

(millions of dollars)	
(Loss) before tax for the year ended December 31, 2003	**(494)**
Changes in gross margin from electricity sales	
Change in generation mix – higher hydroelectric and nuclear generation and lower fossil generation	303
Decrease in average energy prices after Market Power Mitigation Agreement rebate	(92)
Decrease in Generation segment sales volume	(125)
Impact of favourable foreign exchange rates on fuel costs, lower costs associated with emissions, and other changes in gross margin	132
	218
Changes in gross margin from Energy Marketing and Non-Energy sales	47
Increased pension and other post employment benefit costs	(137)
Increased nuclear maintenance and repairs	(111)
Increase in depreciation related to:	
Planned early shutdown of coal-fired generating stations	(93)
Increase in fixed assets in service and other changes	(69)
Increase in net interest expense due to lower interest capitalized on construction in progress and decrease in interest income	(45)
Other net favourable changes including reductions in operations, maintenance and administration expenses	70
Decrease in income before tax excluding impairment on long-lived assets	(120)
Impairment of coal-fired generating stations in 2003	576
(Loss) before tax for the year ended December 31, 2004	**(38)**

Total production in 2004 from OPG's generating stations was 105.0 TWh compared to 109.1 TWh during 2003. The decrease in generation for the year was primarily due to the addition of non-OPG low marginal cost generation capacity that displaced OPG's higher marginal cost fossil-fuelled generation and unplanned outages at OPG's Nanticoke fossil-fuelled generating station during the first half of 2004.

Revenue was reduced by the Market Power Mitigation Agreement rebate of $1,154 million in 2004 and $1,510 million in 2003. The decrease in the rebate was due to lower average energy prices in 2004 compared to last year. The Market Power Mitigation Agreement rebate has had a very significant negative impact on OPG's earnings and liquidity since it was introduced effective May 2002.

Cash flow provided by operating activities during 2004 was $226 million compared to $97 million during 2003, an improvement of $129 million. The favourable changes in cash flow in 2004 compared to last year were primarily due to a decrease in Market Power Mitigation Agreement rebate payments of $549 million and an increase in earnings before depreciation expense and other non-cash items of $291 million. These favourable changes were partially offset by a decrease in cash flow due to changes in other non-cash working capital balances of $573 million and the receipt of proceeds in 2003 of $225 million from a note receivable from Bruce Power.

VISION, CORE BUSINESS AND STRATEGY

OPG is concentrating its efforts on further improving generating asset performance through production efficiencies and increased reliability, contributing to new electricity supply in Ontario, effective cost management, and strengthening corporate governance.

Changing Marketplace and Role of OPG

Electricity Restructuring Act, 2004 and Rate Regulation

In December 2004, the *Electricity Restructuring Act, 2004* (Bill 100) received Royal Assent. A regulation made pursuant to that statute in February 2005 provides that OPG will receive regulated prices for its baseload hydroelectric and nuclear facilities. This includes electricity generated by Sir Adam Beck 1, 2 and Pump Generating Station, DeCew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, and Pickering A and B, and Darlington nuclear generating stations.

The initial regulated price for the first 1,900 megawatt hours of production from the regulated hydroelectric facilities in any hour is $33.00/MWh (3.3¢/kWh). As an incentive to encourage maximum hydroelectric production during peak periods, any production from these regulated hydroelectric facilities above 1,900 megawatts per hour will receive the Ontario market price. The initial regulated price for production from the nuclear facilities is $49.50/MWh (4.95¢/kWh). These regulated prices were determined based on total projected production and costs of operation, plus the cost of capital including an average five per cent return on equity. These initial prices take effect April 1, 2005, and continue until the later of March 31, 2008, or the date that regulated prices are set by the Ontario Energy Board ("OEB"). If there are changes to the fundamental assumptions on which these regulated prices were developed, the Province may amend these interim prices.

The regulation provides for the establishment of certain regulatory assets and liabilities. Accounting standards recognize that rate regulation can create economic benefits and obligations, which are reported in the consolidated financial statements as regulatory assets and liabilities. Regulatory assets are typically established where a regulator's decision provides assurance that incurred costs will be recovered in the future. Regulatory liabilities are established where there is current recovery of costs which are expected to be incurred in the future. Regulatory assets and liabilities are discussed further in Note 3 to the consolidated financial statements as at and for the year ended December 31, 2004.

Eighty-five per cent of the generation output from OPG's other generation assets, excluding the Lennox generating station, Transition - Generation Corporation Designated Rate Options ("TRO") volumes and forward sales as of January 1, 2005, will be subject to a revenue limit based on an average price of $47.00/MWh (4.7¢/kWh). This revenue limit will be in place for a period of 13 months, commencing April 1, 2005. Revenues above this limit will be rebated at the end of the period.

Improving the Performance of Generating Assets

OPG's portfolio of generation assets is diversified in terms of technology, fuel type and dispatch flexibility. Production costs are generally competitive with other generators in Ontario and the U.S. northeast and midwest, although higher than generators in Manitoba and Quebec which have a large supply of low cost hydroelectric generation.

OPG is making investments to significantly increase the long-term reliability and performance of its nuclear and hydroelectric generating stations, while maintaining the productive capability of the coal-fired fossil generating stations until their closure.

Nuclear Generating Assets

Nuclear generating stations provide baseload electricity generation as they have low marginal operating costs and are not designed for fluctuating production levels to meet peaking demand. OPG is implementing initiatives to further improve the reliability and predictability of its nuclear assets, including steam generator inspection and rehabilitation programs, feeder tube integrity projects, pressure tube remediation programs such as Spacer Location and Relocation (SLAR), and significant efforts to reduce maintenance backlogs. OPG also has comprehensive inspection and testing programs in place in order to regularly ascertain the physical condition of its nuclear generation stations. As a result of recent inspections of fuel channels, conditions were identified that will require acceleration of some planned remediation programs at the Pickering B station from 2007 and 2008 into 2004 through 2006.

As a follow-up to the August 14, 2003 blackout, some modifications are being made to improve the ability of OPG's generating stations to respond to transmission system instability and withstand extended transmission system interruptions. While an extended transmission failure such as that which occurred on August 14, 2003 is considered rare, OPG is taking action to prepare for possible recurrence of such an event. At OPG's Pickering B nuclear generating station, a temporary standby generator was installed at a cost of approximately $25 million. The generator was declared in service in September 2004 and is expected to operate for a period of approximately two to three years, while a permanent solution is investigated. The cost of a permanent solution is estimated to be in the range of $100 million to $200 million.

Hydroelectric Generating Assets

OPG's hydroelectric stations are utilized primarily for baseload purposes and provide a reliable, low-cost source of renewable energy that is air emission-free. Through significant capital reinvestment, station automation, efficiency improvements and effective plant maintenance, OPG has increased the productive capacity of its hydroelectric plants, extended their service lives and lowered their operating and maintenance costs. Condition and engineering risk assessments are performed to prioritize and determine future expenditures for each facility. An initiative to automate control of all 240 units from seven control centres was completed in 2004. Since 1990, OPG's hydroelectric capacity has increased through refurbishment and upgrading programs at several of its hydroelectric stations. This reinvestment program is continuing, and includes an accelerated runner upgrade program aimed at increasing hydroelectric capacity by an additional 102 MW by 2009.

Fossil-Fuelled Generating Assets

Fossil-fuelled stations provide a flexible source of energy and operate as baseload, intermediate and peaking facilities depending on the characteristics of the particular stations. Fossil-fuelled plant production is determined by electricity demand, price and the availability of nuclear, hydroelectric, and other non-OPG generators. The Government has announced its intention to direct OPG to close its coal facilities. While capital investments, which are required to maintain production and meet environmental objectives will continue, no new major investments are planned for the coal stations. As well, the expenditure profile of coal plants is shifting from a 'replace' to a 'repair' strategy. In particular, maintenance programs have been modified to address the impacts of increased unit starts and manoeuvring of units, in part due to the role that the fossil-fuelled plants are required to perform in the marketplace as intermediate and peaking facilities.

New Supply Initiatives

Pickering A Unit 1 Return to Service

Major construction for the return to service of Unit 1 at the Pickering A nuclear generating station commenced in July 2004. As of December 31, 2004, the fieldwork execution was approximately 68 per cent complete. Although there were some delays and lower than planned productivity experienced during initial mobilization of the construction trades, remedial actions by the major contractor have improved productivity levels. At the end of February 2005, the return to service project was 85 per cent complete and had met all project milestones to date.

Total cumulative expenditures to the end of December 31, 2004 were $676 million. Expenditures to the end of February 2005 were $792 million. These expenditures were related to the engineering, planning, estimating, assessing and project construction activities.

The project remains on schedule for completion of the major construction phase between early June and mid-July 2005. The unit will then undergo a three-month commissioning phase before being declared in commercial service. As previously reported in the third quarter, projected total costs to complete the project are still in the range of $975 million and $1,000 million.

Costs and schedule to complete the project could be impacted by the discovery of additional repairs or refurbishment work that may be identified during the course of the final phases of the project, and by productivity performance.

Brighton Beach

In July 2004, commercial operation commenced at the 580 MW gas-fired generating station constructed by Brighton Beach Power L.P. ("Brighton Beach") near Windsor, Ontario. Brighton Beach is a limited partnership formed by OPG with ATCO Power Canada Ltd. and ATCO Resources Ltd. The partnership has an energy conversion agreement with Coral Energy Canada Inc. ("Coral") under which Coral will deliver natural gas to be used at the station and will own, operate, market, and trade all the electricity produced for a period of 20 years.

Niagara Tunnel

In June 2004, OPG announced and the Government endorsed the decision to proceed with a new water diversion tunnel that will increase the amount of water flowing to existing turbines at the Sir Adam Beck generating stations in Niagara. This tunnel will allow the Beck generating facilities to more effectively utilize available water and is expected to increase annual generation on average by about 1.6 TWh. OPG is undertaking an open and competitive process to select a design-build contractor for the 10.5 km tunnel. In July 2004, OPG called for Expressions of Interest for the design and construction of the tunnel and received responses from several companies. Three companies are submitting detailed design-build proposals. Construction activities are expected to start in the summer of 2005, subject to final Board approval, with completion of the tunnel expected in 2009.

Portlands Energy Centre

In December 2002, OPG entered into a partnership with TransCanada Energy Ltd. ("TransCanada"), called Portlands Energy Centre L.P. ("PEC"), to pursue the development of a 550 MW gas-fired, combined cycle station on the site of the former R.L. Hearn generating station, near downtown Toronto. The generating station would help to meet the growing energy needs of Toronto's downtown core. In September 2004, the Government issued a Request for Proposals for 2,500 MW of New Clean Generation and Demand Side Management Projects. PEC has submitted a bid to the Government under this process.

PEC has proceeded under the Environmental Screening Process pursuant to the *Guide to Environmental Assessments Requirements for Electricity Projects*. A decision has been made by the Minister of the Environment that, subject to the conditions outlined in the decision, there is no requirement for an individual environmental assessment.

Effective Cost Management

Throughout 2004, OPG implemented initiatives to improve its cost competitiveness. OPG enhanced its review and control process over operating and capital expenditures, resulting in significant savings during the year. In addition, OPG conducted a review of operating expenditures, including an assessment of corporate and business unit support provided to generating stations, the results of which will provide future cost savings.

OPG is taking steps to streamline its business operations to enable a greater focus on core operations. OPG is restructuring its Energy Marketing business with the objective of consolidating functions and discontinuing certain non-commodity energy services.

OPG's Board of Directors has approved the managed exit from investment activities conducted by OPG Ventures Inc. OPG Ventures Inc., a wholly owned subsidiary of OPG, was incorporated in March 2001 with the mandate to make energy related investments to optimize financial returns and growth opportunities for OPG. OPG's Board has approved the managed exit from this investment activity and has restricted future investments to commitments and to follow-on investments which have an anticipated value growth. The carrying value of the investments held by OPG Ventures Inc., at cost, was $38 million as at December 31, 2004, which included an impairment loss of $8 million.

Corporate Governance

In October 2004, OPG announced the appointment of seven additional Board members and the re-election of three existing Board members. In February 2005, one additional member was appointed to the Board of Directors. OPG's new Board is made up of individuals with substantial expertise in managing and restructuring large businesses, managing and operating nuclear stations, managing capital intensive companies, and overseeing regulatory, government and public relations. The changes to the Board continue the building process needed to strengthen the organization. The Board will provide stewardship to OPG, as well as support the Government with decisions about the future direction, structure and role of OPG.

OPG has established a number of Board committees. These include Audit and Risk, Compensation and Human Resources, Investment Funds Oversight, and the Nuclear Operations Committee. These committees are supplemented by special committees, including the Pickering A Oversight Committee and the Major Projects Committee.

OPG has continued to enhance controls related to corporate governance over the past two years following initiatives introduced in the United States and recently released requirements in Canada. While OPG is exempt from certain of these initiatives as a venture issuer, controls and governance pertaining to annual and interim filings have been adapted to follow current practices. The following is a summary of certain controls, procedures and other enhancements implemented by OPG:

- Disclosure controls over financial reporting were enhanced to include a comprehensive internal certification process and due diligence procedures. These controls support the certification of disclosure controls over financial reporting by OPG's CEO and CFO
- OPG has initiated a project to review and update business process documentation, identify risk areas related to internal controls, assess the effectiveness of controls and conduct detailed testing
- OPG has established a Disclosure Committee comprised of senior management to review annual and interim filings and other disclosures to ensure compliance with legal and regulatory requirements
- The Audit and Risk Committee charter has been revised and approved by the Board of Directors
- OPG's Audit and Risk Committee pre-approves audit and non-audit services by OPG's independent external auditor
- OPG has a practice of early adopting of best practice changes in disclosure where practical.

OPG has implemented the new audit committee rules as required by the Canadian Securities Administrators, which became effective for the first audit committee meeting after July 1, 2004.

Outlook

OPG's Board of Directors and the Government are discussing the future role and mandate of OPG. As a result, the operating and financial position of OPG, as outlined in this Management's Discussion and Analysis, may not be indicative of the future ongoing operations, financial position and prospects of OPG.

ONTARIO ELECTRICITY MARKET TRENDS

Ontario's electricity industry has undergone fundamental legislative and regulatory changes since the market opened to competition in 2002. OPG has adapted to these changes while continuing to focus on generating electricity at the lowest possible cost. A transition from an unregulated industry to a hybrid model incorporating both a regulated and an unregulated segment is underway.

Changes in the price of electricity have had a significant impact on OPG's financial performance. Fluctuating supply and demand, both from within and outside the Province of Ontario, have a significant impact on electricity market prices. Electricity prices typically peak during the day/month when demand is at its highest, since high marginal cost peaking generating stations are required to meet that demand. Electricity prices also exhibit seasonal variations related to changes in demand. Average electricity prices in Ontario were 3.9 per cent lower in 2004 than in 2002 and 7.6 per cent lower in 2004 compared to 2003. Key reasons for this decline include increased capacity and more moderate weather. In the future, the impact of fluctuating electricity prices on OPG will be significantly reduced by the application of fixed electricity prices to those OPG generating assets subject to rate regulation and the effect of the revenue limit on eighty-five per cent of generation output from OPG's other generating assets, excluding the Lennox generating station and volumes related to existing contracts.

Electricity demand is primarily impacted by weather and economic activity. Ontario is connected to a number of other markets. Electricity flows into and out of the Ontario market are dependent upon relative market prices. Ontario electricity demand increased by an average of approximately 1.1 per cent per year over the 1999 to 2004 period and is expected to continue to grow at approximately 1 per cent per year over the next 10 years.

At the end of 2004, Ontario's existing installed generation capacity was 31,164 MW. The Independent Electricity System Operator ("IESO" – formerly the Independent Electricity Market Operator) estimates that by 2014, approximately 12,850 MW of Ontario's electricity requirements will need to be met with new supply, refurbished generation or conservation measures.

Fuel prices can have a significant impact on revenue and operating profits, both in terms of the underlying commodity price and the U.S./Canadian dollar exchange rate. During 2004, there have been marked increases in the spot price for Appalachian coal, uranium, natural gas and oil, all of which are used to meet OPG's fuel requirements. OPG has a fuel hedging program. In addition to fixed price contracts for fossil and nuclear fuels, OPG periodically employs derivative instruments to hedge its fuel price risk. Foreign exchange derivatives are used to hedge exposure to anticipated U.S. dollar denominated purchases.

BUSINESS SEGMENTS

OPG has two reportable business segments: Generation and Energy Marketing. A separate category, Non-Energy and Other, includes revenue and certain costs that are not allocated to the business segments. Future changes in OPG's structure and operations, including the impact of rate regulation, are expected to change the definition of business segments.

Generation Segment

OPG's principal business segment operates in Ontario, generating and selling electricity. All of OPG's electricity generation is sold into the IESO administered real-time energy spot market. As such, the majority of OPG's revenue is currently derived from spot market sales. In addition to revenue earned from spot market sales, revenue is also earned through offering available generating capacity as operating reserve and through the supply of other ancillary services including voltage control/reactive support, certified black start facilities and automatic generation control. As of April 1, 2005, as noted under the Ontario Electricity Market Trends section, the impact of fluctuating electricity spot market prices on OPG will be significantly reduced.

Key Generation Performance Indicators

OPG's revenue is primarily dependent upon the quantity of electricity produced by its generating stations and the price at which that electricity is sold. Electricity production is dependent on the availability of stations to deliver energy and on electricity demand. Nuclear stations and the majority of hydroelectric generating stations are used primarily to provide baseload capacity as they have low marginal operating costs. Other hydroelectric and fossil-fuelled stations provide the bulk of the intermediate and peaking capacity. OPG evaluates the performance of stations using a number of key performance indicators, which may vary depending on the generation technology. OPG has included the following two key indicators in the section entitled Discussion of Operating Results.

- Nuclear Unit Capability Factor - the amount of energy that the unit(s) generated over a period of time, adjusted for external energy losses such as transmission or demand limitations, as a percentage of the amount of energy that would have been produced over the same period had the unit(s) produced maximum generation.

- Fossil-fuelled and Hydroelectric Equivalent Forced Outage Rate (EFOR) - an index of the reliability of the generating unit measured by the ratio of time a generating unit is forced out of service, including any forced deratings, compared to the amount of time the generating unit operates.

Energy Marketing Segment

The Energy Marketing segment derives revenue from various physical energy market and financial transactions with large and medium volume end-use consumers and intermediaries such as utilities, brokers, aggregators, traders and other power marketers and retailers. OPG purchases and sells electricity through the IESO spot market and the interconnected markets of other provinces and the U.S. northeast and midwest. Energy Marketing includes trading, sales of financial risk management products and sales of energy-related products and services to meet consumers' needs for energy solutions. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value, with changes in fair value recorded in Energy Marketing revenue as gains or losses.

Non-Energy and Other

OPG derives Non-Energy revenue under the terms of a lease arrangement with Bruce Power related to the Bruce nuclear generating stations. The arrangement includes lease revenue, interest income and revenue from engineering analysis and design, technical and other services. OPG also earns revenue from its joint venture share of Brighton Beach related to an energy conversion agreement between Brighton Beach and Coral. In addition, Non-Energy revenue includes isotope sales to the medical industry and real estate rentals.

DISCUSSION OF OPERATING RESULTS

Generation Segment

(millions of dollars)	**2004**	**2003**
Revenue, net of Market Power Mitigation Agreement rebate	**4,483**	4,790
Fuel expense	**1,153**	1,678
Gross margin	**3,330**	3,112
Operations, maintenance and administration		
Expenses excluding Pickering A return to service	**2,259**	2,072
Pickering A return to service	**271**	258
Depreciation and amortization	**669**	496
Accretion on fixed asset removal and nuclear waste management liabilities	**453**	430
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(313)**	(238)
Property and capital taxes	**88**	98
(Loss) before the following	**(97)**	(4)
Restructuring	**20**	-
Impairment of long-lived assets	**-**	576
(Loss) before income taxes	**(117)**	(580)

Revenue

(millions of dollars)	2004	2003
Spot market sales, net of hedging instruments	**5,547**	6,223
Market Power Mitigation Agreement rebate	**(1,154)**	(1,510)
Other	**90**	77
Total generation revenue	**4,483**	4,790

Generation revenue was $4,483 million for the year ended December 31, 2004 compared to $4,790 million in 2003, a decrease of $307 million. The decrease in generation revenue was primarily related to lower electricity generation and lower average electricity sales prices.

Electricity Prices

OPG's average spot market sales price for 2004 was 5.3¢/kWh compared to 5.7¢/kWh for 2003. After taking into account the Market Power Mitigation Agreement rebate, OPG's average spot market sales price for 2004 was 4.2¢/kWh compared to 4.4¢/kWh for 2003. OPG's average spot market sales price for 2004 decreased compared to last year due primarily to additional sources of low marginal cost generation and the impact on prices of cooler summer weather, partly offset by the impact of higher Ontario demand and increased exports of electricity.

OPG recorded a Market Power Mitigation Agreement rebate of $1,154 million during 2004 compared to $1,510 million during 2003. Since May 1, 2002, OPG has been required under its generation licence, issued by the OEB, to comply with prescribed market power mitigation measures, including a rebate mechanism. Under the Market Power Mitigation Agreement, OPG has been required to pay a rebate to the IESO equal to the excess, if any, of the average hourly spot energy price over 3.8¢/kWh for the amount of energy sales subject to the rebate mechanism for those generating stations that OPG continues to control. The IESO passed the rebate on to consumers. The amount of energy generated by OPG that has been subject to the rebate mechanism was approximately 80 TWh on an annual basis.

The Market Power Mitigation Agreement will be replaced effective April 1, 2005 by the implementation of regulated pricing for OPG's generation from regulated assets and with a revenue limit for 13 months on eighty-five per cent of the generation output from unregulated assets, excluding generation from the Lennox generating station and volumes related to existing contracts. Changes in the liability are disclosed in Note 16 to the consolidated financial statements for the years ended December 31, 2004 and 2003.

Volume

	2004	2003
Electricity generation (TWh):		
Nuclear	**42.3**	37.7
Fossil	**27.0**	39.0
Hydroelectric	**35.7**	32.4
Total electricity generation	**105.0**	109.1

OPG's results are impacted by changes in demand resulting from variations in seasonal weather conditions. During the 2004 year, there were 3,751 Heating Degree Days[1] and 233 Cooling Degree Days[2] compared to 3,963 Heating Degree Days and 317 Cooling Degree Days, respectively, during 2003. The ten-year average for the year is 3,731 Heating Degree Days and 336 Cooling Degree Days. While temperatures during 2004 were more moderate compared to 2003 as evidenced by the reduction in Heating and Cooling Degree Days, total demand for electricity increased. This increase was partly due to the impact on demand of the August 14, 2003 blackout that affected Ontario and the northeastern United States and higher demand for exports in 2004.

OPG's electricity sales volume for 2004 was 105.0 TWh compared to 109.1 TWh for 2003. The 4.1 TWh decrease in volume was primarily due to the addition of non-OPG low marginal cost generation capacity in Ontario that displaced OPG's higher marginal cost fossil-fuelled generation, and increased unplanned outages at OPG's Nanticoke generating station during the first half of 2004.

Nuclear generation increased by 4.6 TWh during 2004 compared to 2003. The increase was partly due to increased generation of 2.4 TWh from the Pickering A nuclear generating station with the return to service of Unit 4 in September 2003. In addition, generation from the Darlington and Pickering B generating stations increased by 2.2 TWh. Performance at the Pickering B generating station improved compared to 2003 and the Darlington generating station continued to perform well during 2004. As well, during 2003, generation for Darlington was reduced as a result of the regulatory requirement for a station containment outage affecting all four units, which occurs every six years. Also, during the third quarter of 2003, generation from the Darlington and Pickering B stations was negatively impacted by the August 14, 2003 blackout. Hydroelectric generation increased by 3.3 TWh during 2004 compared to 2003 as a result of significantly higher water levels. Fossil generation decreased by 12.0 TWh in 2004 compared to 2003 as a result of the higher hydroelectric and nuclear generation, additional non-OPG low marginal cost baseload generation, increased unplanned outages due to unforeseen equipment breakdowns at the Nanticoke generating station, and due to more moderate weather. The Nanticoke generating station reliability and performance was impacted by the many starts and stops required to operate in the current marketplace. The Nanticoke units collectively experienced 373 starts in 2004 versus 182 starts in 2003.

The unit capability factors for nuclear generating stations and the equivalent forced outage rates for fossil-fuelled and hydroelectric generating stations are shown below:

	2004	**2003**
Nuclear unit capability factor (per cent)[1]		
Darlington	**88.2**	82.9
Pickering A[2]	**75.7**	70.3
Pickering B	**69.8**	69.0
Equivalent forced outage rate (per cent)		
Nanticoke	**33.0**	19.9
Fossil-fuelled generating stations excluding Nanticoke	**16.0**	18.3
Hydroelectric	**1.6**	1.1

[1] Capability factors by industry definition exclude grid-related unavailability such as the impact of the August 14, 2003 blackout.
[2] OPG completed the return to service of the first unit (Unit 4) of the Pickering A generating station in September 2003.

1 Heating Degree Days represent the aggregate of the average daily temperatures below 18^{0}C, as measured at Pearson International Airport in Toronto.

2 Cooling Degree Days represent the aggregate of the average daily temperatures above 18^{0}C, as measured at Pearson International Airport in Toronto.

Fuel Expense

Fuel expense for the year ended December 31, 2004 was $1,153 million compared to $1,678 million in 2003, a decrease of $525 million. The decrease during 2004 was primarily due to the change in generation mix related to higher production from OPG's hydroelectric and nuclear generating stations and the significantly lower generation from fossil-fuelled generating stations. Favourable foreign exchange rates in 2004 also contributed to the reduction in fuel expense.

Since 2000, OPG has recorded liabilities for greenhouse gas emission reduction credits as a charge to fuel expense, based on the excess of actual CO_2 emissions over a voluntary CO_2 emissions target. In 2003, in light of the Government's commitment to close the coal-fired generating stations in 2007, which will eliminate CO_2 emissions from the coal stations, and the uncertainty surrounding the Kyoto Protocol, OPG decided to apply its voluntary commitment over the period 2001 to 2010 rather than on an annual basis. Therefore, in 2004, OPG decided that there was no longer a need for the previously established voluntary commitment and the related liabilities were eliminated, resulting in a decrease in fuel expense of approximately $30 million.

Operations, Maintenance and Administration

Operations, maintenance and administration ("OM&A") expenses, excluding the Pickering A return to service initiative, were $2,259 million for the year ended December 31, 2004 compared to $2,072 million for 2003, an increase of $187 million. Pension and other post employment benefit expenses increased by $137 million, compared to 2003, primarily the result of changes in economic assumptions related to discount rates and inflation rates, and other post employment benefit claims experience. As part of OPG's objective to improve the performance of generating assets, the Company has committed additional resources for its nuclear generating stations in an effort to maximize the operating availability and reliability of those stations. OM&A expenses for nuclear maintenance and repairs increased by $111 million compared to last year. The expenditures related to improvement projects and refurbishments to address plant condition, regulatory requirements and expenditures to mitigate the deterioration of equipment. In addition, wages and salaries increased by $28 million in accordance with the collective agreements with the unions.

During 2004, OPG focused on cost reduction measures throughout the company, which have significantly offset other necessary increases in operating expenses.

Pickering A Return to Service

OM&A expenses related to the Pickering A return to service initiative were $271 million during the year ended December 31, 2004 compared to $258 million in 2003, an increase of $13 million. Expenditures in 2004 were primarily related to the planning, estimating, assessing and construction activities for Unit 1. The 2003 expenditures were related to construction and commissioning activities for Unit 4, which returned to service in September 2003.

Depreciation and Amortization

Depreciation and amortization expense for 2004 was $669 million compared to $496 million in 2003, an increase of $173 million. The higher depreciation during 2004 compared to 2003 was primarily due to a decrease in the estimated useful lives of the coal-fired generating stations as a result of the Government's commitment to the closing of these stations by the end of 2007. As well, depreciation expense was higher due to an increase in the value of assets in service, including the return to service of Unit 4 at the Pickering A nuclear generating station. Depreciation expense is expected to be approximately $500 million higher during the period from 2004 to 2007 compared to what would otherwise have been recorded during that period if the coal-fired generating stations had remained in service until the end of their previously estimated useful lives.

Concurrent with the decision to proceed with the return to service of Pickering A Unit 1, and as a result of the lay-up of Pickering A Unit 4 before its return to service, OPG has extended, for purposes of calculating depreciation, the remaining service life of Pickering A Unit 4 by five years, from 2012 to 2017. This reduces depreciation expense by approximately $20 million annually.

Accretion

OPG records the present value of its future costs for fixed asset removal and nuclear waste management as a long-term liability. This liability is discussed in detail in Note 8 to the consolidated financial statements as at and for the year ended December 31, 2004. Accretion expense reflects the change in the present value of this liability since the end of the prior period. This expense is impacted by factors such as any changes in the estimate of the amount of the future liability for fixed asset removal and nuclear waste management, any changes to the discount rate used to determine the present value, and the increase in the present value due to the passage of time.

Accretion expense for 2004 was $453 million compared with $430 million for 2003. The increase of $23 million for 2004 was due to the higher liability base compared to last year as a result of the increase in the present value of the liability due to the passage of time.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

As required under the Ontario Nuclear Funds Agreement ("ONFA"), OPG maintains segregated custodial funds to fund the future costs of managing used nuclear fuel created by OPG's nuclear plants (the "Used Fuel Fund") and to fund the future costs of decommissioning these plants, including the long-term management of low and intermediate level waste (the "Decommissioning Fund"). Under the ONFA, the Used Fuel Fund and the Decommissioning Fund (together the "Funds") are segregated from the rest of OPG's assets. The Province has a security interest in the Funds. OPG's obligations relate to the Pickering and Darlington nuclear plants that are operated by OPG, and also the Bruce nuclear plant that is leased by OPG to Bruce Power.

OPG deposits amounts into the Funds on a quarterly basis consistent with approved cost estimates and payment schedules. In 2004, OPG contributed $454 million to the Funds. Assets in the Funds are invested in fixed income and equity securities, which are recorded as long-term investments and accounted for at their amortized cost by OPG. Therefore, gains and losses are only recognized upon sale of the underlying security. As such, there may be unrealized gains and losses associated with the Funds which OPG does not recognize on its balance sheet. The balance of the Funds, on an amortized cost basis, as at December 31, 2004 was $5,976 million compared to $5,228 million as at December 31, 2003.

Under the ONFA, OPG's liability for nuclear used fuel costs is effectively capped at $5.94 billion on a present value basis as of January 1, 1999, assuming no more than 2.23 million bundles of used fuel waste are produced. OPG is responsible for all incremental costs relating to the management of used fuel bundles in excess of 2.23 million.

Under the ONFA, the Province guarantees the annual rate of return in the Used Fuel Fund at 3.25 per cent plus the change in the Ontario Consumer Price Index ("committed return"). OPG recognizes the committed return on the Used Fuel Fund in earnings on the nuclear fixed asset removal and nuclear waste management funds. 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 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 December 31, 2004, the Decommissioning Fund was fully funded based on the estimate of costs to complete decommissioning under the current approved ONFA Reference Plan (the 1999 Reference Plan). The earnings recognized on the investments in the Decommissioning Fund would be limited such that the amortized cost balance of the fund would equate to the cost estimate of the liability. These realized gains may be recognized in subsequent periods provided the fund balance does not exceed that cost estimate. At December 31, 2004, net unrealized gains in the Decommissioning Fund totalled approximately $273 million (fund assets at amortized cost of $3,858 million and market value of $4,131 million). Under the ONFA, if there is a surplus in the Decommissioning Fund such that the liabilities, as defined by the approved ONFA Reference Plan, are at least 120 per cent funded, OPG may direct up to 50 per cent of the surplus over 120 per cent as a contribution to the Used Fuel Fund, and the Ontario Electricity Financial Corporation ("OEFC") is entitled to a distribution of an equal amount. Any overfunding of the liability is payable to the Province on termination of the fund.

Earnings on the Funds for the year ended December 31, 2004 were $313 million compared to $238 million for last year, an increase of $75 million. Earnings have increased during 2004 as a result of a higher asset base due to contributions and favourable capital market conditions.

Energy Marketing Segment

OPG transacts with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities of typically one year or less in duration. These activities relate primarily to physical energy that is purchased and sold at the Ontario border, sales of financial risk management products and sales of energy-related products and services to meet consumers' needs for energy solutions.

(millions of dollars)	**2004**	**2003**
Revenue, net of power purchases	**47**	68
Operations, maintenance and administration	**6**	8
Income before income taxes	**41**	60

Revenue

Energy Marketing revenue for 2004 was $47 million compared to $68 million in 2003. The decrease of $21 million compared to last year was primarily due to reduced trading in the Ontario market and changes in the fair value of open positions.

Interconnected purchases and sales (including those to be physically settled) and mark-to-market gains and losses (realized and unrealized) on energy trading contracts are disclosed on a net basis in the consolidated statements of income. On a gross basis, revenue and power purchases for 2004 would have increased by $170 million (2003 - $189 million), with no impact on net income.

Non-Energy and Other

(millions of dollars)	**2004**	**2003**
Revenue	**388**	320
Operations, maintenance and administration	**58**	55
Depreciation and amortization	**96**	107
Property and capital taxes	**15**	16
Loss on transition rate option contracts	**-**	30
Income before the following	**219**	112
Other income	**8**	58
Net interest expense	**189**	144
Income before income taxes	**38**	26

Revenue

Non-Energy revenue was $388 million in 2004 compared to $320 million in 2003. The increase of $68 million in 2004 was mainly due to an increase in rent from Bruce Power with the restart of two units at the

Bruce A nuclear generating station, revenue earned from OPG's share of its 50 per cent partnership in Brighton Beach, which commenced operations in July 2004, and higher isotope sales.

Other Income

Other income was $8 million in 2004 compared to $58 million in 2003. In 2004 other income related to the sale of fixed assets and a favourable pension liability settlement, whereas in 2003, OPG recorded gains on the sale of long-term investments.

Net Interest Expense

Net interest expense for 2004 was $189 million compared to $144 million in 2003. The increase in expense of $45 million during 2004 was mainly due to a reduction in interest capitalized on construction in progress due primarily to the return to service of Unit 4 of the Pickering A nuclear generating station, and a decrease in interest income due to lower cash balances.

Income Tax

Income tax recoverable in 2004 was $80 million compared to $3 million in 2003. A reconciliation between the income tax recoverable and the recoverable amount based on the combined federal and provincial statutory income tax rate is as follows:

(millions of dollars)	**2004**	**2003**
(Loss) before income taxes	**(38)**	(494)
Combined Canadian federal and provincial statutory income tax rates, including surtax	**36.1%**	36.6%
Statutory income tax rates applied to accounting income	**(14)**	(181)
Increase (decrease) in income taxes resulting from:		
Valuation allowance	**(93)**	93
Large corporations tax in excess of surtax	**30**	37
Adjustment for changes in future income tax rates	**-**	30
Other	**(3)**	18
	(66)	178
Recovery of income taxes	**(80)**	(3)

The difference between the income tax recoverable in 2004 and the recoverable amount based on the statutory income tax rates was primarily due to the recognition of tax benefits in 2004 related to the valuation allowance established in 2003. The impact of these tax benefits in 2004 was partially offset by the impact of Large Corporations Tax, which is not dependent on earnings.

Valuation Allowance

During the fourth quarter of 2003, an impairment charge of $576 million was recorded for accounting purposes to reflect the Government's commitment to shut-down the coal fired generating stations in advance of their previously estimated useful lives. Based on the statutory tax rate, the potential future income tax recovery related to the impairment charge would have been $196 million. However, in light of the Company's consecutive taxable losses, the amount of future income tax recovery that could be recorded was limited under the accounting rules to $103 million, being the amount of certain existing future income tax liabilities. Consequently, a valuation allowance of $93 million was established in 2003 to recognize that it was more likely than not that this amount of future income taxes recoverable would not be realized.

As a consequence of the introduction of rate regulation, the valuation allowance established in 2003 was no longer required in 2004. Under rate regulated accounting, OPG will be recording income taxes for its regulated business on a taxes payable method and will not be recognizing any future income tax assets or liabilities for that business. Therefore, in moving to rate regulation in April 2005, OPG will reverse the future income tax assets and liabilities related to the regulated business and as a consequence, the unregulated business will have a significant future income tax liability position. This expected liability position enabled OPG to record, in 2004, the remaining tax benefit of $93 million associated with the 2003 impairment of coal-fired generating stations.

STATEMENT OF CASH FLOWS

Year ended December 31	**2004**	2003	Explanation
Cash and cash equivalents, beginning of year	**286**	624	
Cash flow provided by (used in):			
Operating activities	**226**	97	Increase in cash flow due to lower payments of the Market Power Mitigation Agreement rebate of $549 million and an increase in earnings before depreciation expense and other non-cash items of $291 million, partly offset by other changes in non-cash working capital balances of $573 million and the receipt of proceeds in 2003 of $225 million from the Bruce Power note receivable.
Investing activities	**(543)**	(283)	Investing activities in 2003 were reduced by proceeds of $300 million from the securitization of accounts receivable.
Financing activities	**33**	(152)	In 2004, there was a net issuance of short-term notes, compared to a net repayment of short-term notes in 2003.
Net (decrease)	**(284)**	(338)	
Cash and cash equivalents, end of year	**2**	286	

LIQUIDITY AND CAPITAL RESOURCES

OPG is in a capital-intensive business that requires continued investment in plant and technologies to improve operating efficiencies, increase generating capacity of its existing plant and to maintain and improve service, reliability, safety and environmental performance. In addition, other significant disbursement requirements include Market Power Mitigation Agreement rebate payments, annual funding obligations under the ONFA, pension funding, and debt maturities with the OEFC.

Capital expenditures during 2004 were $561 million compared with $643 million in 2003. The decrease compared to 2003 was primarily due to the completion of the installation of selective catalytic reduction equipment at the Nanticoke and Lambton fossil-fuelled generating stations during the fourth quarter of 2003. OPG's anticipated capital expenditures for 2005 are approximately $600 million. New potential supply initiatives would require additional amounts in 2005, if approved. The amount of the expenditures could vary significantly, depending on OPG's future role in the Ontario electricity market.

OPG made contributions of $154 million to the pension plan during the year ended December 31, 2004 compared to $153 million during the year ended December 31, 2003. Using a going-concern funding basis, with assets at market value, OPG estimates that there is a registered pension fund deficit of $1.5 billion at December 31, 2004 (2003 - $1.3 billion). These estimates can vary significantly with changes to the discount rate and other actuarial assumptions. The difference between this deficit and the deferred pension asset on the balance sheet is the result of unamortized losses and past service costs and different economic assumptions used in the accounting for the registered pension plan.

As required under the ONFA, which came into effect in July 2003, OPG made contributions to the nuclear fixed asset removal and nuclear waste management funds of $454 million during 2004, compared to $453 million in 2003.

OPG did not pay any dividends to the Province during 2004 compared to dividends of $17 million in 2003. Dividends may be declared and paid to achieve an effective 35 per cent pay-out based on annual net income, subject to Board approval.

OPG's contractual obligations and other commercial commitments as at December 31, 2004 are outlined in Note 13 to the consolidated financial statements as at and for the year ended December 31, 2004.

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 December 31, 2004, OPG had borrowings of $26 million outstanding under this commercial paper program (December 31, 2003 - nil). As at December 31, 2004, OPG had no other outstanding borrowing under this facility.

In addition, OPG maintains $26 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 OEB's Retail Settlement Code, and to support the supplementary pension plan. At December 31, 2004, there were approximately $155 million (December 31, 2003 - $125 million) of Letters of Credit issued for supplementary pension plan and collateral requirements to the LDC's.

OPG made Market Power Mitigation Agreement rebate payments of $1,124 million in 2004 and $1,673 million during 2003. Since the Ontario market opened to competition on May 1, 2002, OPG had paid rebates totalling $3,132 million as of December 31, 2004, resulting in a significant unfavourable impact on OPG's financing requirements and liquidity position.

In December 2004, the Company reached an agreement with the OEFC to defer payment on $500 million principal amount of senior notes maturing in 2005 by extending the maturity dates by five years. The interest rates remain unchanged. The notes deferred and the new maturities are as follows:

Principal Amount of Senior Notes *(millions of dollars)*	Maturity Prior to Deferral	New Maturity
100	March 2005	March 2010
150	March 2005	March 2010
100	September 2005	September 2010
150	September 2005	September 2010

The Company also reached an agreement in December 2004 with the OEFC to satisfy, via an additional senior note of $95 million to mature in 2010, its $95 million interest obligation due in March 2005 related to the debt owing to the OEFC of $3.2 billion. In addition, the OEFC has agreed that the interest payment of $98 million due in September 2005 will be satisfied via an additional senior note of $98 million. OPG is continuing to review its financing requirements with the Province related to ongoing operations, taking into account the recently announced regulations with respect to rate regulation, and for financing of any approved electricity expansion project expenditures.

In March 2005, the Company reached an agreement with the OEFC to obtain additional financing up to $600 million.

At December 31, 2004, OPG's long-term credit rating was established as BBB+ by Standard & Poor's and A (low) by Dominion Bond Rating Service. Maintaining an investment grade credit rating is essential for corporate liquidity, future capital market access, and to facilitate energy and financial product sales and trading activities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

OPG's significant accounting policies, including the impact of future accounting pronouncements, are outlined in Note 3 to the consolidated financial statements as at and for the year ended December 31, 2004. Certain of these policies are recognized as critical accounting policies by virtue of the subjective and complex judgments and estimates required around matters that are inherently uncertain and could result in materially different amounts being reported under different conditions or assumptions. The critical accounting policies and estimates that affect OPG's consolidated financial statements, the likelihood that materially different amounts would be reported under varied conditions and estimates and the impact of changes in certain conditions or assumptions, are highlighted below.

Impairment of Generating Stations and Other Fixed Assets

OPG's business is capital intensive and requires significant investment in property, plant and equipment ("fixed assets"). At December 31, 2004, the net book value of OPG's fixed assets was $11,940 million.

Property, plant and equipment are tested for recoverability whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Recoverability of property, plant and equipment is determined by comparing the carrying amount of an asset to the undiscounted future net cash flows expected to be generated from the asset over its estimated useful life. In cases where the undiscounted expected future cash flows are less than the carrying amounts, an impairment loss is recognized equal to the amount by which the carrying amount exceeds the fair value, or discounted cash flows.

Various assumptions and accounting estimates are required to determine whether an impairment loss should be recognized and, if so, the value of such loss. This includes factors such as short-term and long-term forecasts of the future market price of electricity, the demand for and supply of electricity, the in-service dates of new and laid-up generating stations, inflation, fuel prices, capital expenditures and station lives. The amount of the future net cash flow that OPG expects to receive from its fixed assets could differ materially from the net book values recorded in OPG's consolidated financial statements.

Lennox Generating Station

Under the Government "Request for Information/Request for Proposal for 2500 MW of New Clean Generation and Demand Side Management Projects" issued in September 2004, new generators would be allowed to recover fixed costs and an agreed upon rate of return on investment through contractual arrangements. New legislation was passed in December 2004 which provides for the contracted procurement of electricity capacity by the Ontario Power Authority ("OPA"). As a result, new entrants are expected to recover fixed costs through contractual arrangements with the OPA, thereby reducing anticipated prices in the wholesale electricity market as the new entrants will need to recover only fuel and other variable costs from this market. As a relatively high variable cost plant, the Lennox generating station will not be able to recover its fixed and variable costs from the wholesale market in the future. As a result, OPG has entered into discussions with the Province, which it expects will result in an arrangement that will provide for recovery of its fixed and variable costs. If subsequently, a decision is made not to enter into such an agreement, OPG will then be required to record an impairment loss up to the $205 million carrying value of the generating station, and to assess the possibility of providing for additional losses.

Pickering A Nuclear Generating Station

OPG expects to make a decision during the second quarter of 2005 regarding the return to service of Units 2 and 3. The net book value of Units 2 and 3 was $61 million at December 31, 2004 and $64 million at December 31, 2003. If the decision is made that Units 2 and 3 will not be returned to service, an impairment loss equal to the net book value of these units would be recognized. In such an event, OPG would also have to assess the prospect of additional charges.

Asset Retirement Obligations

OPG's asset retirement obligations are comprised of liabilities for nuclear fixed asset removal and nuclear waste management costs and non-nuclear fixed asset removal costs related to the decommissioning of fossil-fuelled generating stations. The liabilities associated with decommissioning the nuclear generating stations and long-term used nuclear fuel management comprise the most significant amounts of the total obligation. The estimates of the nuclear liabilities are reviewed on an annual basis as part of the ongoing, overall nuclear waste management program. Changes in the nuclear liabilities resulting from changes in assumptions or estimates that impact the amount of the originally estimated undiscounted cash flows are recorded as an adjustment to the liabilities, with a corresponding change in the related asset retirement cost capitalized as part of the carrying amount of the long-lived asset.

The estimates of nuclear fixed asset removal and nuclear waste management costs require significant assumptions in the calculations since the programs run for many years. Significant assumptions underlying operational and technical factors are used in the calculation of the accrued liabilities and are subject to periodic review. Changes to these assumptions, including changes in the timing of programs, technology employed, inflation rate, and discount rate, could result in significant changes in the value of the accrued liabilities.

Pension and Other Post Employment Benefits

OPG's accounting for pension and other post employment benefits are dependent on management's accounting policies and assumptions used in calculating such amounts.

Accounting Policy

In accordance with Canadian generally accepted accounting principles, actual results that differ from the assumptions used, as well as adjustments resulting from changes in assumptions, are accumulated and amortized over future periods and therefore generally affect recognized expense and the recorded obligation in future periods.

Under OPG's policy on accounting for pension and OPEB, certain actuarial gains and losses have not been charged to expense and are therefore not reflected in OPG's pension and OPEB obligations as a result of the following:

- Pension fund assets are valued using market-related values for purposes of determining actuarial gains or losses and the expected return on plan assets. The market-related value recognizes gains and losses on equity assets relative to a 6 per cent assumed real return over a five year period
- For pension and OPEB, the excess of the net cumulative unamortized gain or loss, over 10 per cent of the greater of the benefit obligation and the market-related value of the plan assets (the "corridor"), is amortized over the expected average remaining service life.

In addition, past service costs arising from pension and OPEB plan amendments are amortized over future periods and therefore affect recognized expense and the recorded obligation in future periods.

At December 31, 2004, the unamortized net actuarial loss and unamortized past service costs for the pension plan and other post employment benefits amounted to $1,604 million (2003 - $1,411 million). Details of the unamortized net actuarial loss and total unamortized past service costs at December 31, 2004 and 2003 are as follows:

(millions of dollars)	Registered Pension Plan		Supplementary Pension Plan		Other Post Employment Benefits	
	2004	2003	**2004**	2003	**2004**	2003
Net actuarial loss not yet subject to amortization due to use of market-related values	**476**	890	**-**	-	**-**	-
Net actuarial loss not subject to amortization due to use of corridor	**536**	34	**14**	10	**150**	131
Net actuarial loss subject to amortization in following year	**-**	-	**14**	-	**272**	182
Unamortized net actuarial loss	**1,012**	924	**28**	10	**422**	313
Unamortized past service costs	**119**	137	**5**	6	**18**	21

Accounting Assumptions

Assumptions used in determining projected benefit obligations and the costs for the Company's employee benefit plans are evaluated periodically by management in consultation with an independent actuary. Critical assumptions such as the discount rate used to measure the Company's benefit obligations, the expected long-term rate of return on plan assets and health care cost projections are evaluated and updated annually.

A change in these assumptions, holding all other assumptions constant, would increase/(decrease) 2004 costs, excluding amortization components, as follows:

(millions of dollars)	Registered Pension Plan	Supplementary Pension Plan	Other Post Employment Benefits
Expected long-term rate of return			
0.25% increase	(18)	na	na
0.25% decrease	18	na	na
Discount rate			
0.25% increase	(10)	(1)	(2)
0.25% decrease	10	1	2
Inflation			
0.25% increase	29	1	na
0.25% decrease	(27)	(1)	na
Salary increases			
0.25% increase	8	2	-
0.25% decrease	(7)	(2)	-
Health care cost trend rate			
1% increase	na	na	21
1% decrease	na	na	(19)

na – change in assumption not applicable

Income Taxes

OPG is exempt from tax under the *Income Tax Act* (Canada). However, under the *Electricity Act, 1998,* OPG is required to make payments in lieu of corporate income and capital taxes to the OEFC. These payments are calculated in accordance with the *Income Tax* Act (Canada) and the *Corporations Tax Act* (Ontario), and are modified by regulations made under the *Electricity Act, 1998*.

OPG's operations are complex and the computation of the provision for income taxes involves interpretation of the various tax statutes and regulations. The *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario) have a large body of technical interpretations and case law to help determine the Company's filing position. However, the *Electricity Act, 1998,* is relatively new and apart from the regulations, has no other interpretive body. It was therefore necessary for OPG to take certain filing positions in calculating the amount of the income tax provision. These filing positions may be challenged on audit and possibly disallowed, resulting in a potential significant increase in OPG's tax provision upon reassessment. Although management believes that it has adequately provided for income taxes based on all information currently available, there is uncertainty given how recently the legislation was introduced.

With regard to the provision for future income taxes, in accordance with Canadian GAAP, OPG uses the liability method and provides future income taxes for income tax temporary differences. The process involves an estimate of OPG's actual current tax liability and an assessment of the Company's future income taxes as a result of temporary differences arising from the difference between the tax basis of an asset or liability and its carrying value in the balance sheet. In addition, OPG has to assess whether the future tax assets can be realized and to the extent that recovery is not considered likely, a valuation allowance must be established. Judgment is required in determining the provision for income taxes, future income tax assets and liabilities and any related valuation allowance. To the extent a valuation allowance is created or revised, current period earnings will be affected.

Based on the above, future tax assets of $3,462 million have been recorded on the consolidated balance sheet at December 31, 2004. These are comprised primarily of nuclear fixed assets removal and nuclear waste management provisions and non-capital loss carry-forwards**.** The company believes there will be sufficient taxable income and capital gains that will permit the use of these deductions and carry-forwards.

Future tax liabilities of $3,573 million have been recorded on the consolidated balance sheet at December 31, 2004. Significant components of the future tax liabilities include the nuclear fixed asset removal and nuclear waste management fund and the timing of deductions associated with fixed assets.

RISK MANAGEMENT

OPG's portfolio of generation assets and its electricity trading and marketing operations are subject to inherent risks, including financial, operational, and strategic risks. To manage these risks, OPG's Board of Directors and management have implemented an integrated enterprise-wide risk management framework for the governance, identification, measurement, monitoring and reporting of risk across all of OPG and its business operations. Implementation and coordination of corporate-wide risk management activities are undertaken through a centralized risk management group, separate and independent from operational management. Risk information from the business units is independently assessed and aggregated by the risk management group, and is reported by the Chief Risk Officer to Audit and Risk Committee on a quarterly basis. Risk based processes are incorporated into strategic and financial planning to ensure the company's sustainability and achievement of its stated objectives.

While OPG believes it is pursuing appropriate risk management strategies, there can be no assurance that one or more of the risks outlined or other risk factors will not have a material adverse impact on OPG. In particular, the *Electricity Restructuring Act, 2004* and related regulations, the imposition of a revenue limit on the non-regulated assets excluding the Lennox generating station and volumes related to existing contracts, and other future changes to the Ontario electricity marketplace and OPG's role in it could have a material impact on OPG.

Risk Classification

For purposes of tracking and communicating risk information, the Company uses the following three major risk categories including:

- Financial Risk: the risk of financial loss caused by external market factors, including market prices and volatilities, credit, foreign exchange, interest rate, liquidity and other factors
- Operational Risk: the risk of direct or indirect loss resulting from external events or from inadequate or failed internal processes, people, equipment and systems. These include changes in generation reliability, fuel supply and availability, security, business process risks, business interruption, human resources risks and information technology risks
- Strategic Risk: the risk that adverse events or conditions in OPG's regulatory, economic, political and social environment will prevent OPG from achieving its objectives. These include risks from adverse regulatory changes or onerous existing regulations; risks from unexpected economic conditions; the risk of financial loss or damaged reputation resulting from unexpected political actions, and succession planning risk.

Risk Management Tools

In addition to qualitative indicators provided through risk-based internal audits, reviews and self-assessments, OPG uses quantitative tools and metrics for monitoring and managing risks. OPG continuously assesses the appropriateness and reliability of risk management tools and metrics in light of the changing risk environment. Some of the tools and metrics that OPG currently uses to measure, manage and report on risk are:

- Business Unit Risk Self-assessments (BURSA ©) are conducted across the Company annually, and updated quarterly. Using standard criteria for assessing the probability and consequence of risk events, OPG business units assess the risks in their processes, operations and projects. The output from the BURSA process helps the business units develop risk mitigation plans and make risk-based capital allocation decisions
- Value-at-Risk (VaR*)* analysis is used to measure and manage market risks in OPG's electricity trading portfolio. The VaR approach is used to derive a quantitative measure specifically for market risks under normal market conditions. For a given portfolio, VaR measures the possible future loss (in terms of market value) which, under normal market conditions, will not be exceeded within a defined probability and time period
- Stress tests help to determine the effects of potentially extreme market developments on the market values of electricity trading and marketing positions. Stress testing is used to determine the amount of economic capital OPG needs to allocate to cover market risk exposure under extreme market conditions
- Economic capital is a measure of the amount of equity capital needed at any given date to absorb unexpected losses arising from exposures on that date. Currently, OPG calculates economic capital in relation to Energy Markets activities.

Financial Risk

Commodity Price Risk

Commodity price risk is the risk that changes in the market price of electricity or of the fuels used to produce electricity will adversely impact OPG's earnings and cash flow from operations. To manage this risk, the Company seeks to maintain a balance between the commodity price risk inherent in its electricity production and plant fuel portfolios to the extent that trading liquidity in the relevant commodities markets provides the opportunity to do so in an economically justified manner. To manage the input risk, OPG has a fuel hedging program. In addition to fixed price contracts for fossil and nuclear fuels, OPG periodically employs derivative instruments to hedge its fuel price risk.

Given the recent passage of new legislation for the Ontario electricity market and OPG, the amount of expected electricity production that OPG had previously hedged through regulatory commitments and forward electricity transactions has changed materially. The Market Power Mitigation Agreement has been replaced with a regulated price for baseload hydroelectric and nuclear generation. Eighty-five per cent of the remaining unregulated OPG electricity generation, excluding generation from the Lennox generating station and volumes relating to existing contracts, is subject to a revenue limit of $47.00/MWh, in place from April 1, 2005 to April 30, 2006. OPG is assessing its risk management strategy in light of the recent regulatory changes.

The percentages of OPG's expected generation, emission requirements and fuel requirements hedged are shown below. The percentage of fuel requirements hedged is based on a forecast of how much fuel would be burned to generate electricity in the real-time spot market.

	2005	2006	2007
Estimated generation output hedged [1]	89%	70%	58%
Estimated fuel requirements hedged [2]	93%	85%	77%
Estimated Nitric Oxide (NO) emission requirement hedged [3]	100%	88%	63%
Estimated Sulphur Dioxide (SO_2) emission requirement hedged [3]	100%	100%	100%

[1] Represents the portion of megawatt-hours of expected future generation production, including power purchases, for which the Company has sales commitments and contracts including the obligations under the transition rate option contracts and Market Power Mitigation Agreement rebate or a regulated price for baseload hydroelectric and nuclear generation and revenue limit for non-prescribed assets.

[2] Represents the approximate portion of megawatt hours of expected generation production (and fossil year-end inventory target) from all types of facilities (fossil, nuclear and hydroelectric) for which OPG has entered into some form of contractual arrangements or obligations in order to secure either the expected availability and/or price of fuel and/or fuel related services. Excess fuel in inventories in a given year is attributed to the next year for the purpose of measuring hedge ratios. Since production from hydroelectric facilities is primarily influenced by expected weather and weather patterns, fuel hedge ratios for hydroelectric facilities are assumed to be 100%. The percentage hedged by fuel type varies considerably and therefore a change in circumstances could have a significant impact on OPG's overall position.

[3] Represents the approximate portion of megawatt-hours of expected fossil production for which OPG has purchased, allocated or been granted emission allowances and emission reduction credits to meet OPG's obligations under Ontario Environmental Regulations 397/01.

Open trading positions are subject to measurement against Value at Risk (VaR) limits. VaR utilization ranged between $0.4 million and $2.2 million during the year ended December 31, 2004, compared to $0.2 million and $1.6 million during the year ended December 31, 2003. VaR utilization is within the risk tolerance of the Company, under approved VaR limits.

Trading liquidity continues to be constrained in Ontario and interconnected markets due to broader energy market fundamentals. In addition, the revenue limit of $47.00/MWh will limit customer exposure to electricity spot market prices and further constrain trading liquidity in the period to April 30, 2006. Constrained liquidity continues to limit portfolio hedging and optimization opportunities.

Credit Risk

Credit risk is the financial risk of non-performance by contractual counterparties. Credit risk excludes any operational risk resulting from a third party failing to deliver a product or service as expected. OPG derives revenue from several other sources including the sale of energy products and financial risk management products to third parties. However, the majority of OPG revenues are derived from sales through the IESO administered spot market.

Credit exposure to the IESO fluctuates based on spot price and generated volume and is reduced each month upon settlement of the accounts. Credit exposure to the IESO peaked at $901 million during the year ended December 31, 2004 and at $1,134 million during the year ended December 31, 2003.

OPG's management believes that the IESO is an acceptable credit risk due to its primary role in the Ontario market. The IESO manages its own credit risk and its ability to pay generators by mandating that all registered IESO spot market participants meet specific IESO standards for creditworthiness and collateralization. Additionally, in the event of an IESO participant default, each market participant shares the exposure pro rata. Given OPG's position in the marketplace, the Company would bear approximately 35 per cent of the exposure, residual of collateral and recovery.

OPG also monitors and reports its credit exposure with counterparties. OPG's management believes these are within acceptable limits and does not anticipate any material effect on its results of operations or cash flows arising from potential defaults.

The following table provides information on credit risk from energy sales and trading activities as at December 31, 2004:

			Potential Exposure for Largest Counterparties	
Credit Rating [1]	Number of Counterparties [2]	Potential Exposure [3]	Number of Counterparties	Counterparty Exposure
		(millions of dollars)		*(millions of dollars)*
AAA to AA-	45	16	-	-
A+ to A-	48	77	4	50
BBB+ to BBB-	85	67	1	10
BB+ to BB-	29	100	5	89
Below BB-	29	2	-	-
Subtotal	236	262	10	149
IESO	1	514	1	514
Total	237	776	11	663

[1] Credit ratings are based on OPG's own analysis, taking into consideration external rating agency analysis where available, as well as recognizing explicit credit support provided through guarantees and letters of credit or other security.

[2] OPG Counterparties are defined by each Master Agreement.

[3] Potential exposure is OPG's assessment of the maximum exposure over the life of each transaction at 95 per cent confidence.

For all counterparties, OPG's contracts allow for active collateral management to mitigate credit exposures. The contracts provide for a counterparty to post performance guarantees in excess of the established threshold. OPG may employ such guarantees as a result of market price changes or upon the occurrence of credit-related events. The threshold amount represents credit limits established in accordance with the corporate credit policy. Inability to post collateral is sufficient cause to terminate a contract and liquidate all positions.

Liquidity Risk

OPG operates in a capital intensive business. Significant financial resources are required to fund capital improvement projects and maintenance at generating stations and potential expenditures necessary to comply with environmental or other regulatory requirements. In addition, the Company has other significant disbursement requirements including Market Power Mitigation Agreement rebate payments, annual funding obligations under ONFA, pension funding and continuing debt maturities with the OEFC. A discussion of corporate liquidity is included in the Liquidity and Capital Resources section.

Foreign Exchange and Interest Rate Risk

OPG's foreign exchange exposure is attributable to two primary factors: U.S. dollar ("USD") denominated transactions such as the purchase of fossil fuels; and the influence of USD denominated commodity prices on Ontario electricity spot market prices, impacting OPG's revenues. The magnitude and direction of the exposure to the USD from OPG's operations is impacted by generation reliability and price volatility of USD denominated commodities. OPG currently manages its exposure using forwards and other derivative products to periodically hedge portions of its anticipated USD exposures according to approved risk management policies.

OPG has interest rate exposure on its short-term borrowings and investment programs. The majority of OPG's debt is fixed on a long-term basis. Interest rate risk arises with the need to undertake new financing and with the potential addition of variable rate debt. Interest rate risk may be hedged using derivative instruments. The management of these risks is undertaken by selectively hedging in accordance with corporate risk management policies.

Operational Risk

OPG identifies and assesses operational risk through a risk self-assessment process. In addition to identifying and reporting on operational risk, self-assessments are used to develop risk mitigation plans and are an input to business planning and capital allocation decisions. Business units are responsible for implementing a risk self-assessment and mitigation framework based on corporate standards.

OPG's top operational risks presently identified include generation availability risk and project management process risk related to the refurbishment of the Pickering A nuclear facility.

Generation Risk

OPG is exposed to the financial impacts of uncertain output from its generating units. The amount of electricity generated by OPG is affected by fuel supply, equipment malfunction, maintenance requirements, and regulatory and environmental constraints. To mitigate earnings volatility due to generation risk, OPG enters into multiple short-term and long-term fuel supply agreements and long-term water use agreements, manages fuel supply inventories, and follows industry practices for maintenance and outage scheduling. In addition, OPG ensures regulatory requirements are met, particularly with respect to licensing of its nuclear facilities, and manages environmental constraints utilizing programs such as emission reduction credits.

OPG is exposed to considerable technology risk around the aging of the nuclear fleet. Technology risks that could lead to significant impacts on the production capability or operating life of these assets are not fully predictable and OPG attempts to identify and mitigate these risks through ongoing management review and assessments, internal audits and from experience of nuclear units around the world. OPG has undertaken an ongoing life cycle management program to assess the condition of major components of the nuclear units, including steam generators, fuel channels and feeder pipes, and address the active degradation mechanisms associated with these major components. Current predictions for unit end of life are based on the end of life predictions for the fuel channels.

Thinning of feeder pipes occurs to varying degrees at all of OPG's reactors. This condition is most significant at the Darlington nuclear generating station, but also affects the Pickering A and B stations to a lesser degree. If the currently observed thinning rate at Darlington continues, this situation may require replacement of significant numbers of feeder pipes before the projected end of life. Mitigation options are under development by OPG which may extend feeder pipe life, reduce the thinning rate, and improve the capability to replace feeders.

Cracking of feeder pipes has been experienced at two CANDU plants located outside Ontario. The affected sections of pipe were replaced and the units were returned to service. OPG has not experienced any feeder pipe cracking at any of its nuclear facilities but is carrying out inspections during regularly planned outages. The scale of these inspections has been increased in response to these external events to address the concern that the risk of cracking may be increasing in OPG's units. OPG is also participating in research and development with other CANDU operators to establish the degradation mechanisms.

Late in 2004, as a result of steam generator inspection activities, OPG noted the existence of a new degradation mechanism on one of the Pickering A steam generators. This mechanism, intergranular attack, previously has not been seen in reactors owned and operated by OPG, but has been seen in other reactors. In combination with other degradation mechanisms, this mechanism could impact the life of the steam generator. The scope of upcoming inspections on Pickering A steam generators has been expanded to determine the extent of this degradation mechanism.

OPG maintains general public liability, property and business interruption insurance, subject to deductibles. The occurrence of a significant event that is not fully insured or indemnified against, or the failure of a party to meet its indemnification obligations, could materially and adversely affect OPG's consolidated results of operations and financial position.

Environmental Risk

OPG incurs substantial capital and operating costs to comply with environmental laws. The regulatory requirements relate to discharges to the environment; the handling, use, storage, transportation, disposal and clean-up of hazardous materials, and waste; and the decommissioning of generation facilities at the end of their useful lives.

OPG's Sustainable Energy Development Policy commits OPG to meet all applicable legislative requirements and voluntary environmental commitments, integrate environmental factors into business planning and decision-making, and apply the precautionary principle in assessing risks to human health and the environment. This policy also commits OPG to maintain comprehensive environmental management systems ("EMSs") consistent with the ISO 14001 standard.

OPG monitors emissions into the air and water and regularly reports the results to various regulators, including the Ministry of Environment, Environment Canada and the Canadian Nuclear Safety Commission. OPG has developed and implemented internal monitoring, assessment and reporting programs to manage environmental risks such as air and water emissions, discharges, spills, radioactive emissions and radioactive wastes. OPG also continues to address historical land contamination through its voluntary land assessment and remediation program.

OPG's sulphur dioxide (SO_2) and nitrogen oxides (NO_x) emissions are managed through the installation of specialized equipment such as scrubbers to reduce SO_2 emissions, low NO_x burners and selective catalytic reduction equipment to reduce NO_x emissions, and through the purchase of low sulphur fuel. OPG also utilizes a regulatory approved emissions trading program to manage emission levels within regulatory limits.

The Kyoto Protocol, to which Canada is a signatory, came into force on February 16, 2005. Under the Protocol, Canada is required to reduce annual emissions of greenhouse gases (GHG) by six per cent from 1990 levels in the period 2008 to 2012. The Federal Government is preparing to announce revisions to its Climate Change Plan which are expected to include the creation of a technology investment fund and a regulated greenhouse gas ("GHG") limit for large point sources, including the thermal electricity sector. Since 2000, OPG has operated under a voluntary commitment to stabilize its net GHG emissions at 1990 levels. GHG emissions have been managed primarily through improvements in energy efficiency and the purchase of GHG emission reduction credits. Implementation of the Government's commitment to close the coal fired stations by the end of 2007 would significantly reduce the impact of GHG limits on OPG. OPG suspended the purchase of GHG emission reduction credits and has subsequently eliminated the voluntary commitment.

Changes to environmental laws could require the installation of additional equipment or control technologies. In addition, a failure to comply with applicable environmental laws may result in enforcement actions, including the potential for orders or charges. Further, some of OPG's activities have the potential to cause contamination to land or water that may require remediation. The potential liability associated with any of these events could have a material adverse effect on the business.

Strategic Risk

OPG's operations are subject to government regulation that may change. Matters that are subject to regulation include: structure of the electricity market, nuclear operations including regulation pursuant to the *Nuclear Safety and Control Act* (Canada), the *Nuclear Liability Act* (Canada) and the *Emergency Plans Act* (Ontario), nuclear waste management and decommissioning, water rentals, environmental matters including air emissions, and proxy tax payments. Because legal requirements can be subject to change and are subject to interpretation, OPG is unable to predict the impact of such changes on the Company and its operations. The potential impacts of the *Electricity Restructuring Act, 2004* and related regulations are discussed in the introduction to the Risk Management section and the Commodity Price Risk section. Further discussion is contained in the Changing Marketplace and Role of OPG section.

CONTINUOUS DISCLOSURE

Fourth Quarter

Net income for the three months ended December 31, 2004 was $34 million compared to a net loss of $606 million in 2003. The net loss in the fourth quarter of 2003 included the impairment loss of $576 million before tax as a consequence of the Government's commitment to shut down the Company's coal-fired generating stations in advance of their previously estimated useful lives. Excluding the impact of the impairment loss in 2003, earnings before tax increased during the three months ended December 31, 2004 by $33 million compared to last year. This increase in earnings was primarily due to a higher gross margin from the sale of electricity due to higher generation from OPG's lower marginal cost nuclear and hydroelectric generating stations and lower fuel expenses, an increase in non-energy revenue due to an increase in rent from Bruce Power with the restart of two units at the Bruce A nuclear generating station, revenue earned from OPG's share of its 50 per cent partnership in Brighton Beach, which commenced operations in July 2004, and higher isotope sales, and a decrease in other costs including property taxes and transition rate option contracts. The impact of these favourable changes was partially offset by higher OM&A expenses related to Pickering A return to service, increased pension and other post employment benefit expenses, increased nuclear maintenance and repairs, and higher depreciation expense related to the early shutdown of the coal-fired generating stations.

After-tax earnings in the fourth quarter of 2003 were negatively impacted as a result of the establishment of a valuation allowance to recognize that it was more likely than not that a portion of income taxes recoverable would not be realized. In 2004, earnings were favourably impacted by the elimination of the valuation allowance and the corresponding increase in income taxes recoverable.

The details of the change in gross margin and other changes impacting fourth quarter income in 2004 compared to 2003, on a before-tax basis, are as follows:

(millions of dollars)	Three Months
(Loss) before tax for the three months ended December 31, 2003	**(689)**
Changes in gross margin from electricity sales	
Change in generation mix – higher hydroelectric and nuclear generation and lower fossil generation	50
Decrease in Generation segment sales volume	(21)
Elimination of voluntary commitment related to CO_2 emissions	30
Impact of favourable foreign exchange rates on fuel costs, lower costs associated with emissions and other changes in gross margin	41
	100
Changes in gross margin from Energy Marketing and Non-Energy sales	20
Increase in Pickering A return to service expenses	(47)
Increased pension and OPEB costs	(33)
Increased nuclear maintenance and repairs	(43)
Increase in depreciation related to planned early shutdown of coal-fired generating stations and increase in fixed assets in service and other changes	(31)
Other net favourable changes including operations, maintenance and administration cost savings	67
Decrease in loss before tax excluding impairment on long-lived assets	33
Impairment of coal-fired generating stations in 2003	576
(Loss) before tax for the three months ended December 31, 2004	**(80)**

Cash flow provided by operating activities during the fourth quarter of 2004 was $152 million compared to $171 million during the fourth quarter of 2003, a decrease of $19 million. The unfavourable change in cash flow in the fourth quarter ended December 31, 2004 compared to the same period last year was primarily due to an increase in Market Power Mitigation Agreement rebate payments and changes in other non-cash working capital items, partially offset by an increase in earnings before depreciation expense and other non-cash items.

Summary of Quarterly Results

The following tables set out certain unaudited consolidated financial statement information for each of the 12 most recent quarters ended December 31, 2004. The information has been derived from OPG's unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements. These operating results are not necessarily indicative of results for any future period.

			2004 Quarters Ended		
(millions of dollars)	**March 31**	**June 30**	**September 30**	**December 31**	**Total Year**
Revenue after Market Power Mitigation Agreement rebate	**1,350**	**1,141**	**1,212**	**1,215**	**4,918**
Net income (loss)	**64**	**(41)**	**(15)**	**34**	**42**
Net income (loss) per share	**$0.25**	**$(0.16)**	**$(0.06)**	**$0.13**	**$0.16**

			2003 Quarters Ended		
(millions of dollars)	March 31	June 30	September 30	December 31	Total Year
Revenue after Market Power Mitigation Agreement rebate	1,480	1,246	1,224	1,228	5,178
Net income (loss)	73	8	34	(606)	(491)
Net income (loss) per share	$0.28	$0.03	$0.13	($2.36)	($1.92)

			2002 Quarters Ended		
(millions of dollars)	March 31	June 30	September 30	December 31	Total Year
Revenue after Market Power Mitigation Agreement rebate	1,550	1,270	1,612	1,314	5,746
Net (loss) income	(213)	70	220	(10)	67
Net (loss) income per share	($0.83)	$0.27	$0.86	($0.04)	$0.26

Balance Sheets as at December 31 *(millions of dollars)*	**2004**	**2003**	**2002**
Total assets	**19,830**	19,511	20,137
Total long-term liabilities	**13,366**	13,043	12,644
Cash dividends declared per share	**-**	0.07	0.52

Off-Balance Sheet Arrangements

Securitization

In October 2003, OPG completed a revolving securitization agreement with an independent trust. Under the securitization agreement, OPG sold an undivided co-ownership interest in certain current and future accounts receivable generated in the normal course of business. The amount of the co-ownership interest sold is removed from the balance sheet with each revolving securitization. OPG also retains an undivided co-ownership interest in the receivables sold to the trust. This retained interest is accounted for at cost on OPG's balance sheet. The independent trust is not controlled by OPG, nor is OPG the primary beneficiary of the trust's expected losses, and, as such, the results of the trust are not consolidated.

The securitization provides OPG with an opportunity to obtain an alternative source of cost-effective funding. For the year ended December 31, 2004, the average all-in cost of funds was 2.6 per cent and the pre-tax charges on sales to the trust were $8 million. The initial net cash proceeds from this transaction of $300 million were used by OPG in the operation of its business. Termination of the arrangement, which in the absence of early termination, occurs in August 2006, would likely require OPG to pursue alternative liquidity arrangements to meet the ongoing operations of the business.

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 its share of the Brighton Beach financing, whereby it is responsible for contributing its share of equity related to cost overruns associated with the construction of the generating station. As at December 31, 2004, OPG remains responsible for contributing its share of equity related to cost overruns, up to $6 million. As Brighton Beach commenced commercial operation in July 2004, any cost overruns are now primarily limited to settlement of construction liens registered by some contractors associated with the construction project. Brighton Beach is currently negotiating settlement of these liens. The project performance tests were completed in November 2004, and therefore recourse to OPG associated with the financing of Brighton Beach has been extinguished.

Derivative Instruments

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. Foreign exchange derivative instruments are used to hedge the exposure to anticipated USD denominated purchases. When such derivative instrument ceases to exist or when designation of a hedging relationship is terminated, any associated deferred gains or losses are carried forward to be recognized in income in the same period as the corresponding gains or losses associated with the hedged item. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in the current period's consolidated statement of income. The deferred loss on electricity derivative instruments treated as hedges was $71 million as at December 31, 2004, compared to a deferred loss on electricity and foreign exchange derivatives of $16 million as at December 31, 2003. See Note 10 to the consolidated financial statements for more information.

All contracts not designated as hedges are recorded as assets or liabilities at fair value with changes in fair value recorded in Energy Marketing revenue.

RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province, the other successor entities of Ontario Hydro, including Hydro One Inc. ("Hydro One"), the IESO, and the OEFC. OPG also enters into related party transactions with its joint ventures. The transactions between OPG and related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

These transactions are summarized below:

(millions of dollars)	**Revenues**	**Expenses**	**Revenues**	**Expenses**
	2004		**2003**	
Hydro One				
Electricity sales	**40**	**-**	36	-
Services	**-**	**12**	14	16
Settlement Transactions	**-**	**33**	-	36
Province of Ontario				
GRC water rentals and land tax	**-**	**152**	-	132
Guarantee fee	**-**	**8**	-	3
Used Fuel Fund rate of return guarantee	**-**	**14**	-	(10)
Other	**-**	**2**	-	-
OEFC				
GRC and proxy property tax	**-**	**214**	-	205
Interest income on receivable	**-**	**(101)**	-	(155)
Interest expense on long-term notes	**-**	**191**	-	191
Capital tax	**-**	**49**	-	51
Income taxes	**-**	**(80)**	-	(3)
Indemnity fees	**-**	**5**	-	5
IESO				
Electricity sales	**5,465**	**304**	6,212	331
Market Power Mitigation Agreement rebate	**(1,154)**	**-**	(1,510)	-
Ancillary services	**90**	**-**	77	-
Other	**1**	**1**	1	1
	4,442	**804**	4,830	803

At December 31, 2004, accounts receivable included $14 million (2003 - $14 million) due from Hydro One and $158 million (2003 - $134 million) due from the IESO. Accounts payable and accrued charges at December 31, 2004 included $3 million (2003 - $5 million) due to Hydro One.

AUDIT AND RISK COMMITTEE INFORMATION

Multilateral Instrument 52-110, Audit Committees (the "Instrument") has been implemented by Canadian securities regulatory authorities to encourage reporting issuers to establish and maintain strong, effective and independent audit committees, which enhance the quality of financial disclosure and ultimately foster increased investor confidence in Canada's capital markets. Information on OPG's Audit and Risk Committee is as follows.

Audit and Risk Committee Charter

Purpose

The purpose of the Audit and Risk Committee (the "Committee") is to assist the Board in fulfilling its oversight responsibilities by reviewing, advising and making recommendations to the Board on:

- The integrity, quality and transparency of the Company's financial information,
- The adequacy of the financial reporting process,
- The systems of internal controls and risk management, and the Company's related principles, policies and procedures which Management have established,
- The performance of the Company's internal audit function and the external auditors,
- The external auditors' qualifications and independence, and
- The Company's compliance with related legal and regulatory requirements and internal policies.

The function of the Audit and Risk Committee is oversight. Management is responsible for the preparation, presentation and integrity of the financial statements of the Company. Management of the Company is responsible for maintaining appropriate accounting and financial reporting principles and policy and internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations.

Organization

Members
The Audit and Risk Committee shall consist of three or more independent Directors appointed by the Board of Directors, none of whom shall be employees of the Company or any of the Company's affiliates.

A majority of the members of the Committee, but not less than two, will constitute a quorum.

Each of the members of the Audit and Risk Committee shall satisfy the applicable independence and financial literacy requirements of the laws and regulations governing the Company.

The Board of Directors shall designate one member of the Audit and Risk Committee as the Committee Chair. Members of the Audit and Risk Committee shall serve at the pleasure of the Board of Directors for such term or terms as the Board of Directors may determine.

The Board of Directors shall determine whether and how many members of the Audit and Risk Committee qualify as a financial expert, as such qualification is interpreted by the Board of Directors in its business judgment.

Meetings
The Committee will meet at least quarterly or more frequently as circumstances require and at any time at the request of a member.

The Committee will meet regularly and at least annually with the external auditors, the internal auditors and Management in separate sessions to discuss any matters that the Committee believes should be discussed and to provide a forum for any relevant issues to be raised.

Reports
The Committee will report its activities and actions to the Board of Directors with recommendations, as the Committee deems appropriate.

The Committee will provide for inclusion in the Company's financial information or regulatory filings any report from the Audit and Risk Committee required by applicable laws and regulations and stating among other things whether the Audit and Risk Committee has:

- Reviewed and discussed the audited financial statements with Management.
- Discussed pertinent matters with the internal and external auditors.
- Received disclosures from the external auditors regarding the auditors' independence and discussed with the auditors their independence.
- Recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report.

Authority

While the Audit and Risk Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit and Risk Committee to plan or conduct audits or risk assessments, or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibility of Management and the external auditor.

In carrying out its oversight responsibilities, the Audit and Risk Committee and the Board will necessarily rely on the expertise, knowledge and integrity of the Company's Management, and internal and external auditors.

The Audit and Risk Committee shall have the authority to set and pay the compensation for any advisors employed by the Committee.

The Audit and Risk Committee shall have the authority to communicate directly with the internal and external auditors.

Access to Management and Outside Advisors
The Audit and Risk Committee shall have unrestricted access to members of Management and relevant information.

The Audit and Risk Committee may retain independent counsel, accountants or other advisors to assist it in the conduct of any investigation, as it determines necessary to carry out its duties.

Committee Responsibilities and Duties

The Committee shall:

General
- Conduct or authorize investigations into any matters within the Committee's scope of responsibilities.
- Review and recommend approval to the Board, the appointment or replacement of the Chief Financial Officer ("CFO") and the Chief Risk Officer ("CRO")
- Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company.

Risk Management and Internal Controls
- Review and evaluate the Company's policies and processes for assessing significant risks or exposures and the steps Management has taken to monitor and control such risks to the Company; including the organizational structure and the adequacy of resources.
- Consider and review with the CRO and Management the critical risks to the Company, the potential impact of such risks, and related mitigation.
- Ascertain whether the Company has an effective process for determining risks and exposure from actual and potential litigation and claims relating to non-compliance with laws and regulations.
- Review with Management, reports demonstrating compliance with risk management policies.
- Review with the Company's General Counsel and others any legal, tax, or regulatory matters that may have a material impact on Company operations and the financial statements, including, but not limited to, violations of securities law or breaches of fiduciary duty.
- Review with Management, internal audit, and the external auditors, the scope of review of internal control over financial reporting, significant findings, recommendations and Management's responses for implementation of actions to correct weaknesses in internal controls.
- Review disclosures made by the Chief Executive Officer ("CEO") and CFO during the certification process regarding significant deficiencies in the design or operation of internal controls or any fraud that involves Management or other employees who have a significant role in the Company's internal controls.
- Review the expenses of the Chairman, CEO and the CEO's direct reports on a semi-annual basis, and of any other senior officers and employees the Committee considers appropriate.

Internal Audit
- Evaluate the internal audit process and define expectations in establishing the annual internal audit plan and the focus on risk, including the organizational structure and the adequacy of resources.
- Approve the Charter of the internal audit function annually.
- Evaluate the audit scope and role of internal audit.
- Consider and review with the CRO and Management:
  - Significant findings and Management's response including the timetable for implementation of Management Actions to correct weaknesses.
  - Any difficulties encountered in the course of their audit (such as restrictions on the scope of their work or access to information).
  - Any changes required in the planned scope of the audit plan.
  - The internal audit budget.

External Auditor

- Recommend to the Board of Directors the external auditor to be nominated for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Company, and the compensation of the external auditor.
- Oversee the work of the external auditor engaged for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Company, including the resolution of disagreements between management and the external auditor regarding financial reporting.
- Review the independence and qualifications of the external auditor.
- At least annually, obtain and review a report by the external auditor describing the auditing firm’s internal quality control procedures, any material issues raised by the most recent internal quality-control review or peer review of the auditing firm or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the external auditor and any steps taken to deal with any such issues and all relationships between the external auditors and the Corporation.
- Review the scope and approach of the annual audit plan with the external auditors.
- Discuss with the external auditor the quality and acceptability of the Company’s accounting principles including all critical accounting policies and practices used, any alternative treatments that have been discussed with Management as well as any other material communications with Management.
- Assess the external auditor's process for identifying and responding to key audit and internal control risks.
- Ensure the rotation of the lead audit partner every five years and other audit partners every seven years, and consider regular rotation of the audit firm.
- Evaluate the performance of the external auditor annually and present its findings to the Board of Directors.
- Determine which non-audit services the external auditor is prohibited by law or regulation, or as determined by the Audit and Risk Committee, from providing and pre-approve all services provided by the external auditors. The Committee may delegate such pre-approval authority to a member of the Committee. The decision of any Committee member to whom pre-approval authority is delegated must be presented to the full Audit and Risk Committee at its next scheduled meeting.
- Review and approve all related-party transactions.

Financial Reporting

- Review with Management and the external auditors the Company's interim financial information and disclosures under Management Discussion and Analysis and earnings press release, prior to filing.
- Satisfy itself that adequate procedures are in place for the review of the Company’s public disclosure of financial information extracted or derived from the Company’s financial statements, other than the public disclosure referred to above, and periodically assess the adequacy of those procedures.
- Review with Management and the external auditors, at the completion of the annual audit:
  - The Company's annual financial statements, MD&A, related footnotes and any documentation required by the Securities Act to be prepared and filed by the Company or that the Company otherwise files with the Ontario Securities Commission.
  - The external auditors' audit of the financial statements and their report.
  - Any significant changes required in the external auditors’ audit plan.
  - Any difficulties or disputes with Management encountered during the audit.
  - The Company's accounting principles.
  - Other matters related to conduct, which should be communicated to the Committee under generally accepted auditing standards.
- Review significant accounting and reporting issues and understand their impact on the financial statements. These include complex or unusual transactions and highly judgmental areas; major issues regarding accounting principles and financial presentations, including significant changes in the Company’s selection or application of accounting principals; the effect of regulatory and accounting initiatives, as well as off-balance sheet arrangements, on the financial statements of the Company.
- Review analysis prepared by Management and/or the external auditor detailing financial reporting issues and judgments made in connection with the preparation of financial information, including analysis of the effects of alternative GAAP methods.

- Advise Management, based upon the Audit and Risk Committee’s review and discussion, whether anything has come to the Committee's attention that causes it to believe that the financial statements contain an untrue statement of material fact or omit to state a necessary material fact.

Compliance with Code of Business Conduct

- Review and monitor the administration of and compliance with the Company's Code of Business Conduct as it may affect the integrity of the Company’s financial statements, internal controls and risk management, including the process for communicating the Code of Business Conduct to Company personnel.
- Obtain regular updates from Management regarding such compliance matters.

Treatment of Complaints

- Establish procedures for the receipt, recording and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters.
- Establish procedures for the confidential and anonymous submission by employees of concerns regarding accounting or auditing matters of the Company.

Annual Review and Assessment

The Committee shall conduct an annual review and assessment of its performance, including a review of its compliance with this Charter, in accordance with the evaluation process approved by the Board.

The Committee shall also review and assess the adequacy of this Charter on an annual basis taking into account all legislative and regulatory requirements applicable to the Committee as well as any best practice guidelines recommended by regulators with whom OPG has a reporting relationship, and if appropriate, shall recommend changes to the Board.

Composition of the Audit and Risk Committee

Each Audit and Risk Committee member named below is independent and financially literate.

James Hankinson

James Hankinson has broad management experience in energy, transportation, resource and manufacturing-based businesses. He served as president and chief executive officer of New Brunswick Power Corporation from 1996 to 2002, and during that time, had a significant impact on improving the financial position of the company. In 1973, he joined Canadian Pacific Limited, and served as chief operating officer from 1990 to 1995. A chartered accountant, Mr. Hankinson has a Master of Business Administration from McMaster University, and an Honourary Doctor of Laws degree from Mount Allison University. He also sits on the boards of CAE Inc., Maple Leaf Foods Inc. and is Chairman of ROW Entertainment Trust.

Gary Kugler

Dr. Gary Kugler recently retired from Atomic Energy of Canada, Limited (AECL), where he was Senior Vice President, Nuclear Products and Services. He was responsible for delivering major nuclear projects and providing operating station support services to CANDU utilities world-wide. During his 34 years with the AECL, he also held various technical, project management, business development positions. Dr. Kugler holds a B.Sc. and Ph.D. in nuclear physics from McMaster University.

M. George Lewis

George Lewis is Chairman and Chief Executive Officer of RBC Asset Management Inc. Canada’s largest single fund company with assets over $51 billion under management. Mr. Lewis is also Head of Brokerage, Asset Management and Products for the Personal and Business Canada division of RBC FG, Canada’s largest bank. Formerly he was Managing Director, Head of Institutional Equity Sales, Trading and Research with RBC Dominion Securities and was Canada’s top-rated analyst for 3 consecutive years. He has 18 years of experience in the investment industry and has a Master of Business

Administration degree with distinction from Harvard University, a Bachelor of Commerce degree with high distinction from Trinity College at the University of Toronto and is a chartered financial analyst and chartered accountant.

C. Ian Ross

Ian Ross served at the Richard Ivey School of Business at the University of Western Ontario from 1997 to September 2003. Most recently he held the position of Senior Director, Administration in the Dean's Office, and was also Executive in Residence for the School's Institute for Entrepreneurship, Innovation and Growth. He has served as Governor and President and CEO of Ortech Corporation; Chairman, President and CEO of Provincial Papers Inc.; and President and CEO of Paperbound Industries Corp. Mr. Ross currently serves as a Director for a number of corporations including World Heart Corporation, GrowthWorks Canadian Fund Inc., PetValu Canada Inc., Comcare Health Services and Praeda Managements Systems. He is also a member of the Law Society of Upper Canada.

David G. Unruh

David Unruh is a lawyer currently serving as Vice Chairman of Duke Energy Gas Transmission Canada, a Duke Energy company. In this role, he acts as Vice Chairman and as a director of Westcoast Energy Inc. (based in Vancouver and Calgary) and Union Gas Limited (based in Ontario). He is also a director of Pacific Northern Gas Ltd, a director of the Wawanesa Insurance Group of companies, and a director of RAV Project Management Ltd. Prior to his current position, Mr. Unruh served as Senior Vice President and General Counsel for Houston based Duke Energy Gas Transmission and, before that, as Senior Vice President, Law and Corporate Secretary for Westcoast Energy Inc. Mr. Unruh practiced corporate/ commercial law in Winnipeg before joining Westcoast Energy Inc. in Vancouver in 1993.

Audit and Risk Committee Oversight

There have been no recommendations of our Audit and Risk Committee to nominate or compensate an external auditor which have not been adopted by our Board of Directors.

Reliance on Certain Exemptions

There has been reliance upon the exemption in Section 6.1 of Multilateral Instrument 52-110 Audit Committees ("Instrument 52-110") as it relates to Section 5, *Reporting Obligations*. OPG has, however, in accordance with Section 6.2 of Instrument 52-110, provided the disclosure required by Form 52-110F2.

Pre-Approval Policies and Procedures

In accordance with the provisions of its mandate, the Audit and Risk Committee ratifies all non-audit services to be provided to the Corporation by its external auditor.

External Auditor Service Fees

The following fees were billed by Ernst & Young LLP:

(thousands of dollars)	**2004**	**2003**
Audit Fees	1,267	708
Audit-Related Fees	995	837
Tax Fees	122	386

Audit Fees

These fees included the audit of OPG's consolidated financial statements, quarterly reviews of the financial statements, pension fund audit, and the audits of the financial statements of certain subsidiaries.

Audit Related Fees

These fees included work with respect to internal controls, accounting assistance, French translation of consolidated financial statements and MD&A, and special audits and reviews.

Tax Fees and Other

These fees included commodity tax services related to sales tax refund review, and services for other tax related matters.

SUPPLEMENTAL EARNINGS MEASURES

In addition to providing earnings measures in accordance with Canadian generally accepted accounting principles, OPG presents gross margin as a supplemental earnings measure. This measure does not have any standardized meaning prescribed by Canadian generally accepted accounting principles and is, therefore, unlikely to be comparable to similar measures presented by other companies. This measure is provided to assist readers of the consolidated financial statements in assessing income performance from ongoing operations, and has been consistently applied as in prior years and throughout these consolidated financial statements and Management's Discussion and Analysis.

For further information, please contact:	Investor Relations	416-592-6700 1-866-592-6700 investor.relations@opg.com
	Media Relations	416-592-4008 1-877-592-4008

www.opg.com
www.sedar.com

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Ontario Power Generation Inc. ("OPG" or the "Company") are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. Where alternative accounting methods exist, management has selected those it considers most appropriate in the circumstances. The preparation of the consolidated 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.

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

The Audit and Risk Committee meets regularly with management, internal audit services and the independent external auditors to satisfy itself that each group has properly discharged its respective responsibility, and to review the consolidated financial statements and independent Auditors' Report, and to discuss significant financial reporting issues and auditing matters before recommending approval of the consolidated financial statements by the Board of Directors.

The consolidated financial statements have been audited by Ernst & Young LLP, independent external auditors appointed by the Board of Directors. The Auditors' Report outlines the auditors' responsibilities and the scope of their examination and their opinion on OPG's consolidated financial statements. The independent external auditors had direct and full access to the Audit and Risk Committee, with and without the presence of management, to discuss their audit and their findings therefrom as to the integrity of OPG's financial reporting and the effectiveness of the system of internal controls.

Richard Dicerni (signed)
Acting President and Chief Executive Officer

Donn W.J. Hanbidge (signed)
Acting Chief Financial Officer

March 23, 2005

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, 2004 and 2003 and the consolidated statements of income (loss), retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of Ontario Power Generation Inc.'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 financial position of Ontario Power Generation Inc. as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

ERNST & YOUNG LLP (signed)
Chartered Accountants
Toronto, Canada
March 23, 2005

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

Years Ended December 31 *(millions of dollars except where noted)*	**2004**	**2003**
Revenue		
Revenue before Market Power Mitigation Agreement rebate	**6,072**	6,688
Market Power Mitigation Agreement rebate	**(1,154)**	(1,510)
	4,918	5,178
Fuel expense	**1,153**	1,678
Gross margin	**3,765**	3,500
Expenses		
Operations, maintenance and administration	**2,594**	2,393
Depreciation and amortization *(note 5)*	**765**	603
Accretion on fixed asset removal and nuclear waste management liabilities	**453**	430
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(313)**	(238)
Property and capital taxes	**103**	114
Loss on transition rate option contracts *(note 15)*	**-**	30
	3,602	3,332
Income before the following	**163**	168
Restructuring *(note 14)*	**20**	-
Impairment of long-lived assets *(note 5)*	**-**	576
Other income *(note 20)*	**(8)**	(58)
Net interest expense	**189**	144
(Loss) before income taxes	**(38)**	(494)
Income tax expenses (recoveries) *(note 11)*		
Current	**21**	80
Future	**(101)**	(83)
	(80)	(3)
Net income (loss)	**42**	(491)
Basic and diluted income (loss) per common share *(dollars)*	**0.16**	(1.92)
Common shares outstanding *(millions)*	**256.3**	256.3

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years Ended December 31 *(millions of dollars)*	**2004**	**2003**
(Deficit) retained earnings, beginning of year	**(147)**	361
Net income (loss)	**42**	(491)
Dividends	**-**	(17)
(Deficit), end of year	**(105)**	(147)

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 *(millions of dollars)*	**2004**	**2003**
Operating activities		
Net income (loss)	**42**	(491)
Adjust for non-cash items:		
Depreciation and amortization	**765**	603
Accretion on fixed asset removal and nuclear waste management liabilities	**453**	430
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(313)**	(238)
Pension cost (income)	**92**	(6)
Other post employment benefits and supplementary pension	**157**	118
Future income taxes *(note 11)*	**(117)**	(100)
Provision for restructuring	**20**	-
Transition rate option contracts	**(52)**	(43)
Impairment of long-lived assets	**-**	576
Gain on sale of assets	**(3)**	-
Gain on sale of investments	**-**	(58)
Mark-to-market on energy contracts *(note 10)*	**5**	(5)
Provision for used nuclear fuel	**28**	21
Other	**29**	8
	1,106	815
Contributions to nuclear fixed asset removal and nuclear waste management funds	**(454)**	(453)
Expenditures on fixed asset removal and nuclear waste management	**(71)**	(72)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management	**19**	-
Contributions to pension fund	**(154)**	(153)
Expenditures on other post employment benefits and supplementary pension	**(60)**	(56)
Expenditures on restructuring *(note 14)*	**(51)**	(68)
Net changes to other long-term assets and liabilities	**(26)**	(82)
Changes in non-cash working capital balances *(note 21)*	**(83)**	166
Cash flow provided by operating activities	**226**	97
Investing activities		
Sale of accounts receivable	**-**	300
Proceeds on sale of assets	**18**	1
Proceeds from sale of investments	**-**	59
Investment in fixed assets	**(561)**	(643)
Cash flow (used in) investing activities	**(543)**	(283)
Financing activities		
Issuance of long-term debt *(note 7)*	**13**	51
Repayment of long-term debt *(note 7)*	**(6)**	(4)
Dividends paid	**-**	(17)
Net increase (decrease) in short-term notes *(note 6)*	**26**	(182)
Cash flow provided by (used in) financing activities	**33**	(152)
Net (decrease) in cash and cash equivalents	**(284)**	(338)
Cash and cash equivalents, beginning of year	**286**	624
Cash and cash equivalents, end of year	**2**	286

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31 *(millions of dollars)*	**2004**	**2003**
Assets		
Current assets		
Cash and cash equivalents	**2**	286
Accounts receivable *(note 4)*	**346**	347
Future income taxes *(note 11)*	**44**	60
Fuel inventory	**569**	524
Materials and supplies	**92**	73
	1,053	1,290
Fixed assets *(note 5)*		
Property, plant and equipment	**15,114**	14,701
Less: accumulated depreciation	**3,174**	2,514
	11,940	12,187
Other long-term assets		
Deferred pension asset *(note 9)*	**524**	464
Nuclear fixed asset removal and nuclear waste management funds *(note 8)*	**5,976**	5,228
Long-term materials and supplies	**281**	278
Long-term accounts receivable and other assets	**56**	64
	6,837	6,034
	19,830	19,511

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31 *(millions of dollars)*	**2004**	**2003**
Liabilities		
Current liabilities		
Accounts payable and accrued charges *(notes 14 and 15)*	**949**	1,064
Market Power Mitigation Agreement rebate payable *(note 16)*	**439**	409
Short-term notes payable *(note 6)*	**26**	-
Long-term debt due within one year *(note 7)*	**5**	4
Deferred revenue due within one year	**12**	12
Income and capital taxes payable	**12**	-
	1,443	1,489
Long-term debt *(note 7)*	**3,399**	3,393
Other long-term liabilities		
Fixed asset removal and nuclear waste management *(note 8)*	**8,339**	7,921
Other post employment benefits and supplementary pension *(note 9)*	**1,105**	1,013
Long-term accounts payable and accrued charges	**212**	276
Deferred revenue	**156**	168
Future income taxes *(note 11)*	**155**	272
	9,967	9,650
Shareholder's equity		
Common shares (*note 12)*	**5,126**	5,126
Deficit	**(105)**	(147)
	5,021	4,979
	19,830	19,511

Commitments and Contingencies *(notes 2, 5, 6, 8, 10, 11 and 13)*

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

Honourable Jake Epp
Chairman

James Hankinson
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

1. DESCRIPTION OF BUSINESS

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

2. BASIS OF PRESENTATION

The consolidated financial statements of OPG have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of consolidated 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.

The consolidated financial statements include the accounts of Ontario Power Generation Inc. and its subsidiaries. OPG accounts for its interests in jointly controlled entities using the proportionate consolidation method. All significant inter-company transactions have been eliminated on consolidation.

Certain of the 2003 comparative amounts have been reclassified from statements previously presented to conform to the 2004 consolidated financial statement presentation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents include cash on deposit and money market securities with a maturity of less than 90 days on the date of purchase. All other money market securities with a maturity on the date of purchase that is greater than 90 days, but less than one year, are recorded as short-term investments. These securities are valued at the lower of cost or market.

Interest earned on cash and cash equivalents and short-term investments of $5 million (2003 – $21 million) at an average effective rate of 2.2 per cent (2003 - 3.0 per cent) is offset against interest expense in the consolidated statements of income (loss).

Sales of Accounts Receivable

Asset securitization involves selling assets such as accounts receivable to independent entities or trusts, which buy the receivables and then issue interests in them to investors. These transactions are accounted for as sales, given that control has been surrendered over these assets in return for net cash consideration. For each transfer, the excess of the carrying value of the receivables transferred over the estimated fair value of the proceeds received is reflected as a loss on the date of the transfer, and is included in net interest expense. The carrying value of the interests transferred is allocated to accounts receivable sold or interests retained according to their relative fair values on the day the transfer is made.

Fair value is determined based on the present value of future cash flows. Cash flows are projected using OPG's best estimates of key assumptions, such as discount rates, weighted average life of accounts receivable and credit loss ratios.

As part of the sales of accounts receivable, certain financial assets are retained and consist of interests in the receivables transferred. Any retained interests held in the receivables are accounted for at cost. The receivables are transferred on a fully serviced basis and do not create a servicing asset or liability.

Inventories

Fuel inventory is valued at weighted average cost.

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

Fixed Assets and Depreciation

Property, plant and equipment are recorded at cost. Interest costs incurred during construction are capitalized as part of the cost of the asset based on the interest rate on OPG's long-term debt. Expenditures for replacements of major components are capitalized.

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

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

Nuclear generating stations	25 and 40 years [1]
Fossil generating stations	40 to 50 years [2]
Hydroelectric generating stations	100 years
Administration and service facilities	50 years
Computers, and transport and work equipment assets – declining balance	9% to 40% per year
Major application software	7 years

1 The nuclear stations are depreciated for accounting purposes over 25 years with the exception of Pickering A. The Pickering A station is depreciated over a 40 year operating life as a result of the completion, during the 1980s, of the retubing of the Pickering A station.
2 Commencing January 1, 2004, the coal-fired generating stations will be depreciated over the period from 2004 to 2007, due to the expected shutdown of these stations by the end of 2007.

Impairment of Fixed Assets

OPG evaluates its property, plant and equipment for impairment whenever conditions indicate that estimated undiscounted future net cash flows may be less than the net carrying amount of assets. In cases where the undiscounted expected future cash flows are less than the carrying amount, an impairment loss is recognized equal to the amount by which the carrying amount exceeds the fair value. Fair value is determined using expected discounted cash flows when quoted market prices are not available.

Long-Term Portfolio Investments

Long-term portfolio investments are stated at amortized cost and include the nuclear fixed asset removal and nuclear waste management funds. Gains and losses on long-term investments are recognized in other income when investments are sold. When a decline in the value of investments occurs, which is considered to be other than temporary, a provision for loss is established.

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 may also be adjusted due to any changes in the estimated amount or timing of the underlying future cash flows. Upon settlement of the liability, a gain or loss would be 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 related fixed assets. The capitalized cost is depreciated over the remaining useful life of the related fixed assets and is included in depreciation expense.

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 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 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 (loss).

With the establishment of the segregated funds accounts 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.

Revenue Recognition

All of OPG's electricity generation is sold into the real-time energy spot market administered by the Independent Electricity System Operator ("IESO"), formerly known as the Independent Electricity Market Operator ("IMO"). Revenue is recorded as electricity is generated and metered based on the spot market sales price, net of the Market Power Mitigation Agreement rebate and hedging activities. At each balance sheet date, OPG computes the average spot energy price that prevailed since the beginning of the current settlement period and recognizes a Market Power Mitigation Agreement rebate if the average price exceeds 3.8¢/kilowatt-hour ("kWh"), based on the amount of energy subject to the rebate. OPG also sells into, and purchases from, interconnected markets of other provinces and the U.S. northeast and midwest. All contracts that are not designated as hedges are recorded in the consolidated balance sheets at market value with gains or losses recorded in the consolidated statements of income (loss). Gains and losses on energy trading contracts (including those to be physically settled) are recorded on a net basis in the consolidated statements of income (loss). Accordingly, power purchases of $170 million in 2004 and $189 million in 2003 were netted against revenue.

OPG derives non-energy revenue under the terms of a lease arrangement with Bruce Power L.P. ("Bruce Power") related to the Bruce nuclear generating stations. This includes lease revenues, interest income and revenues for engineering analysis and design, technical and ancillary services. OPG also earns revenue from its joint venture share of the Brighton Beach Power Limited Partnership ("Brighton Beach") related to an energy conversion agreement between Brighton Beach and Coral Energy Canada Inc. ("Coral"). In addition, Non-Energy revenue includes isotope sales to the medical industry and real estate rentals. Revenues from these activities are recognized as services are provided or products are delivered.

Foreign Currency Translation

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

Derivatives

OPG is exposed to changes in electricity prices associated with an open wholesale spot market for electricity in Ontario. To hedge the commodity price risk exposure associated with changes in the wholesale price of electricity, OPG enters into various energy and related sales contracts. These contracts are expected to be effective as hedges of the commodity price exposure on OPG's generation portfolio. Gains or losses on hedging instruments are recognized in income over the term of the contract when the underlying hedged transactions occur. These gains or losses are included in generation revenue and are not recorded on the consolidated balance sheets. All contracts not designated as hedges are recorded as assets or liabilities at fair value with changes in fair value recorded in Energy Marketing revenue.

OPG also uses derivative contracts to manage the Company's exposure to foreign currency movements. Foreign exchange translation gains and losses on these foreign currency denominated derivative contracts are recognized as an adjustment to the purchase price of the commodity or goods received.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. When such derivative instrument ceases to exist or be effective as a hedge, or when designation of a hedging relationship is terminated, any associated deferred gains or losses are carried forward to be recognized in income in the same period as the corresponding gains or losses associated with the hedged item. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in the current period's consolidated statement of income.

Emission Reduction Credits and Allowances

OPG utilizes emission reduction credits ("ERCs") and allowances to manage emissions within the prescribed regulatory limits. ERCs are purchased from trading partners in Canada and the United States. Emission allowances are obtained from the Province and purchased from trading partners in Ontario. The cost of ERCs and allowances are held in inventory and charged to OPG's operations at average cost as part of fuel expense as required. Options to purchase ERCs are accounted for as derivatives and are recorded at estimated market value.

Research and Development

Research and development costs are charged to operations in the year incurred. Research and development costs incurred to discharge long-term obligations such as the nuclear waste management liabilities, for which specific provisions have already been made, are charged to the related liability.

Pension and Other Post Employment Benefits

OPG's post employment benefit programs include a contributory defined benefit registered pension plan, a defined benefit supplementary pension plan, group life insurance, health care and long-term disability benefits. OPG accrues its obligations under pension and other post employment benefit ("OPEB") plans. The obligations for pension and other post retirement benefit costs are determined using the projected benefit method pro-rated on service. The obligation for long-term disability benefits is determined using the projected benefit method on a terminal basis. The obligations are affected by salary levels, inflation, and cost escalation. Pension and OPEB costs and obligations are determined annually by independent actuaries using management's best estimates.

Pension fund assets are valued using market-related values for purposes of determining actuarial gains or losses and the expected return on plan assets. The market-related value recognizes gains and losses on equity assets relative to a six per cent assumed real return over a five year period.

Pension and OPEB costs include current service costs, interest costs on the obligations, the expected return on pension plan assets, adjustments for plan amendments and adjustments for actuarial gains or losses, which result from changes in assumptions and experience gains and losses. Past service costs arising from pension and OPEB plan amendments are amortized on a straight-line basis over the expected average remaining service life of the employees covered by the plan, since OPG will realize the economic benefit over that period. Due to the long-term nature of post-employment liabilities, the excess of the net cumulative unamortized gain or loss, over 10 per cent of the greater of the benefit obligation and the market-related value of the plan assets, is also amortized over the expected average remaining service life.

When the recognition of the transfer of employees and employee-related benefits gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's liability.

Taxes

Under the *Electricity Act, 1998*, OPG is responsible for making payments in lieu of corporate income and capital taxes to the OEFC. These payments are calculated in accordance with the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), and are modified by the *Electricity Act, 1998* and related regulations. This effectively results in OPG paying taxes similar to what would be imposed under the federal and Ontario tax acts.

OPG uses the liability method of accounting for income taxes, whereby income taxes are recognized as a result of temporary differences arising from the difference between the tax basis of an asset or liability and its carrying value in the balance sheet, the carry-forward of unused tax losses and income tax reductions. Future income tax assets and liabilities are measured using income tax rates expected to apply in the years in which temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period the change is substantively enacted. Future income tax assets are evaluated and if realization is not considered 'more likely than not', a valuation allowance is established.

OPG makes payments in lieu of property tax on its nuclear and fossil-fuelled generating assets to the OEFC, and also pays property taxes to municipalities.

OPG pays charges on gross revenue derived from the annual generation of electricity from its hydroelectric generating assets. The gross revenue charge ("GRC") includes a fixed percentage charge applied to the annual hydroelectric generation derived from stations located on provincial Crown lands, in addition to graduated rate charges applicable to all hydroelectric stations. GRC costs are included in fuel expense.

Business Segments

OPG operates in two reportable business segments: Generation and Energy Marketing. A separate category, Non-Energy and Other, includes revenue and costs not allocated to the two business segments. Future changes in OPG's structure and operations, including the impact of rate regulation, may change the definition of business segments.

Changes in Accounting Policies

Hedging Relationships

In June 2003, the Accounting Standards Board ("AcSB") of the Canadian Institute of Chartered Accountants ("CICA"), amended Accounting Guideline 13, *Hedging Relationships,* originally issued in December 2001. This Guideline, effective for fiscal years beginning on or after July 1, 2003, 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 during the first quarter of 2004, which mandates disclosure of the amount of the total benefit cost. OPG's 2004 annual disclosure complies with the additional requirements.

New Accounting Recommendations

Consolidation of Variable Interest Entities

In September 2004, the CICA amended Accounting Guideline 15, *Consolidation of Variable Interest Entities*, originally issued in June 2003, to harmonize with the new Financial Accounting Standards Board ("FASB") Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46R"). The new guideline requires the consolidation of variable interest entities ("VIEs") by the primary beneficiary. A VIE is an entity where (a) its equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others and/or where certain essential characteristics of a controlling financial interest are not met, and (b) it does not meet specified exemption criteria. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIEs' expected losses, expected residual returns, or both.

OPG is involved with various joint venture and other arrangements and has sold trade receivables under an asset securitization arrangement. The Company assessed these arrangements in advance of the guideline becoming effective January 1, 2005. OPG concluded that the joint venture arrangements with which it is involved are not VIEs, and that it is not the primary beneficiary of, nor does it have a significant variable interest in, the trust to which it sold trade receivables. OPG continues to review its other arrangements.

Rate Regulated Accounting

In December 2004, the *Electricity Restructuring Act, 2004 (Bill 100)* received Royal Assent. A regulation made pursuant to that statute prescribes that OPG's nuclear and baseload hydroelectric facilities will receive regulated prices for their output. Accounting standards recognize that rate regulation can create economic benefits and obligations, which are reported in the consolidated 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 identifying those assets to be regulated.

4. Sale of Accounts Receivable

On October 1, 2003, the Company signed an agreement to sell an undivided co-ownership interest in its current and future accounts receivable (the "receivables") to an independent trust. The Company also retains an undivided co-ownership interest in the receivables sold to the trust. Under the agreement, the Company continues to service the receivables. The transfer provides the trust with ownership of a share of the payments generated by the receivables, computed on a monthly basis. The trust's recourse to the Company is generally limited to its income earned on the receivables.

The Company 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*. In accordance with this Guideline, the proceeds of each sale to the trust were deemed to be the cash received from the trust net of the undivided co-ownership interest retained by the Company. For the year ended December 31, 2004, the Company has recognized pre-tax charges of $8 million (2003 - $3 million) on such sales.

The accounts receivable reported and securitized by the Company are as follows:

(millions of dollars)	**Principal amount of receivables as at December 31**		**Average balance of receivables for year ended December 31**	
	2004	**2003**	**2004**	**2003**
Total receivables portfolio[1]	**490**	464	**470**	443
Receivables sold	**300**	300	**300**	300
Receivables retained	**190**	164	**170**	143
Average cost of funds			**2.6%**	2.8%

[1] Amount represents receivables outstanding including receivables that have been securitized since October 1, 2003, which the Company continues to service.

An immediate 10 per cent or 20 per cent adverse change in the discount rate would not have a material effect on the current fair value of the retained interest. There were no credit losses for the year ended December 31, 2004 (2003 – nil).

Details of cash flows from securitizations for the years ended December 31 are as follows:

(millions of dollars)	**2004**	**2003**
Proceeds from new sales	**-**	300
Collections reinvested in revolving sales [1]	**3,600**	900
Cash flows from retained interest	**2,043**	415

[1] Given the revolving nature of the securitization, the cash collections received on the receivables securitized are immediately reinvested in additional receivables resulting in no further cash proceeds to the Company over and above the initial cash amount of $300 million. The amounts reflect the cumulative of 12 monthly amounts.

5. Fixed Assets

Depreciation and amortization expense consists of the following:

(millions of dollars)	**2004**	**2003**
Depreciation and amortization	**758**	600
Nuclear waste management costs	**7**	3
	765	603

Fixed assets consist of the following:

(millions of dollars)	2004	2003
Property, plant and equipment		
Nuclear generating stations	**4,253**	4,087
Fossil-fuelled generating stations	**1,591**	1,578
Hydroelectric generating stations	**7,767**	7,659
Other fixed assets	**938**	636
Construction in progress	**565**	741
	15,114	14,701
Less: accumulated depreciation		
Generating stations	**2,890**	2,281
Other fixed assets	**284**	233
	3,174	2,514
	11,940	12,187

Assets under capital leases of $203 million (2003 - $203 million) are included in other fixed assets. Accumulated depreciation on these leased assets at December 31, 2004 was $53 million (2003 - $45 million). Interest capitalized to construction in progress at 6.0 per cent (2003 - 6.0 per cent) during the year ended December 31, 2004 was $30 million (2003 - $54 million).

Impairment of Long-Lived Assets

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.

Coal-Fired Generating Stations

In 2003, the Government committed to phase out coal-fired generating stations by 2007. As a result, OPG recognized an impairment loss of $576 million to reflect the termination of cash flows from these stations after 2007, and reduced the carrying amount of the fossil-fuelled generating stations by $576 million.

The fair value of the coal-fired generating assets was determined using a discounted cash flow method. The fair value determined was then compared to the carrying value of the generating assets in order to determine the amount of the impairment loss.

Lennox Generating Station

Under the Government "Request for Information/Request for Proposal for 2500 MW of New Clean Generation and Demand Side Management Projects" issued in September 2004, new generators would be allowed to recover fixed costs and an agreed upon rate of return on investment through contractual arrangements. New legislation was passed in December 2004 which provides for the contracted procurement of electricity capacity by the Ontario Power Authority ("OPA"). As a result, new entrants are expected to recover fixed costs through contractual arrangements with the OPA, thereby reducing anticipated prices in the wholesale electricity market as the new entrants will need to recover only fuel and other variable costs from this market. As a relatively high variable cost plant, the Lennox generating station will not be able to recover its fixed and variable costs from the wholesale market in the future. As a result, OPG has entered into discussions with the Province, which it expects will result in an arrangement that will provide for recovery of its fixed and variable costs. If subsequently, a decision is made not to enter into such an agreement, OPG will then be required to record an impairment loss up to the $205 million carrying value of the generating station, and to assess the possibility of providing for additional losses.

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. During 2004, commercial paper of $1,383 million (2003 - $965 million) was issued to cover short-term funding requirements, and $1,357 million (2003 - $1,147 million) was repaid. As at December 31, 2004, OPG had $26 million of commercial paper outstanding under this program (2003 - nil). As at December 31, 2004 and 2003, OPG had no other outstanding borrowing under this facility.

OPG also maintains $26 million (2003 - $28 million) in short-term uncommitted overdraft facilities as well as $200 million (2003 - $173 million) of short-term uncommitted credit facilities, which support the issuance 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 December 31, 2004, there were approximately $155 million (2003 - $125 million) of Letters of Credit issued for supplementary pension plan and collateral requirements to the LDC's.

7. Long-Term Debt

Long-term debt consists of the following:

(millions of dollars)	**2004**	2003
Notes payable to the OEFC	**3,200**	3,200
Capital lease obligations	**3**	8
Share of non-recourse limited partnership debt	**201**	189
	3,404	3,397
Less: due within one year		
Capital lease obligations	**3**	4
Share of limited partnership debt	**2**	-
	5	4
Long-term debt	**3,399**	3,393

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. The OEFC currently holds all of OPG's outstanding senior and subordinated notes.

The maturity dates as at December 31, 2004 for notes payable to the OEFC are as follows:

		Principal Outstanding *(millions of dollars)*		
Year of Maturity	Interest Rate (%)	Senior Notes	Subordinated Notes	Total
2006	5.44	100	-	100
2006	5.62	300	-	300
2006	5.94	100	-	100
2006	5.78	300	-	300
2007	5.85	400	-	400
2008	5.90	400	-	400
2009	6.01	350	-	350
2010	5.49	200	-	200
2010	5.71	300	-	300
2010	6.60	-	375	375
2011	6.65	-	375	375
		2,450	750	3,200

In December 2004, OPG reached an agreement with the OEFC to defer payment on $500 million principal amount of senior notes maturing in 2005 by extending the maturity dates by five years. The interest rates remain unchanged. This change in maturity dates is reflected in the table above.

In March 2005, the Company reached an agreement with the OEFC to obtain additional financing up to $600 million.

The Company also reached an agreement with the OEFC to satisfy, via an additional senior note of $95 million to mature in 2010, its $95 million interest obligation due in March 2005 related to the debt owing to the OEFC of $3.2 billion. In addition, the OEFC has agreed that the interest payment of $98 million due in September 2005 will be satisfied via an additional senior note of $98 million.

In September 2002, Brighton Beach, a limited partnership formed by OPG, ATCO Power Canada Ltd., ATCO Resources Ltd. and Brighton Beach Power Ltd., completed a $403 million private bond and term debt financing for its 580-megawatt power project under construction in Windsor, Ontario. Brighton Beach also signed an energy conversion agreement with Coral under which Coral will deliver natural gas to the plant and own, market and trade all the electricity produced. OPG proportionately consolidates its 50 per cent interest in the Brighton Beach partnership. As at December 31, 2004, $403 million (2003 - $378 million) was outstanding under the loan and accordingly $201 million (2003 - $189 million) was reported by OPG. The project and performance tests were completed in November 2004 and, therefore, any recourse to OPG associated with the above-noted financing of Brighton Beach has been extinguished.

Interest paid during the year ended December 31, 2004 was $218 million (2003 - $219 million), of which $213 million relates to interest paid on long-term debt (2003 - $210 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:

(millions of dollars)	2004	2003
Liability for nuclear used fuel management	**4,693**	4,451
Liability for nuclear decommissioning and low and intermediate level waste management	**3,457**	3,289
Liability for non-nuclear fixed asset removal	**189**	181
Fixed asset removal and nuclear waste management liability	**8,339**	7,921

The change in the fixed asset removal and nuclear waste management liability for the years ended December 31, 2004 and 2003 is as follows:

(millions of dollars)	2004	2003
Liability, beginning of year	**7,921**	7,539
Increase in liability due to accretion	**453**	430
Increase in liability due to nuclear used fuel and nuclear waste management variable expenses	**35**	24
Fixed asset removal of partnership interests	**1**	-
Liabilities settled by expenditures on waste management	**(71)**	(72)
Liability, end of year	**8,339**	7,921

OPG's asset retirement obligations are comprised of expected costs to be incurred up to and upon termination of operations and the closure of nuclear and fossil-fuelled generating plant facilities. Costs will be incurred for activities such as dismantling, demolition and disposal of facilities and equipment, remediation and restoration of sites and the ongoing and long-term management of nuclear used fuel and low and intermediate level waste material.

The following costs are recognized as a liability:

- The present value of the costs of dismantling the nuclear and fossil-fuelled 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 based on the total volume of waste expected to be generated over the assumed life of the stations
- The present value of the variable cost portion of any nuclear waste management program to take into account actual waste volumes incurred to date.

The determination of the accrual for fixed asset removal and nuclear waste management costs requires significant assumptions, since these programs run for many years. Plant closures are projected to occur between one and 30 years from today, depending on the plant. Current plans include cash flow estimates to 2057 for decommissioning nuclear stations and to approximately 2100 for nuclear used fuel management. The undiscounted amount of estimated cash flows associated with the liability expected to be incurred up to and upon closure of generating stations is approximately $19 billion. The discount rate used to calculate the present value of the liabilities at December 31, 2004 was 5.75 per cent (2003 - 5.75 per cent) and the cost escalation rates ranged from 1 per cent to 4 per cent in 2004 and 2003. Under the terms of the lease agreement with Bruce Power, OPG continues to be responsible for the nuclear fixed asset removal and nuclear waste management liabilities associated with the Bruce nuclear generating stations.

The significant assumptions underlying operational and technical factors used in the calculation of the accrued liabilities are subject to periodic review. Changes to these assumptions, including changes to assumptions on the timing of the programs, financial indicators 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 significant degree of uncertainty surrounding the measurement accuracy of the costs for these programs, which may increase or decrease over time.

Liability for Nuclear Used Fuel Management Costs

The liability for nuclear used fuel management represents the cost of managing the highly radioactive used nuclear fuel bundles. 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 2035 for used nuclear fuel disposal facilities; and an average transportation distance of 1,000 kilometres between nuclear generating facilities and the disposal facilities. Alternatives to deep geological disposal are being studied by Canadian nuclear utilities as part of the options study required by the federal *Nuclear Fuel Waste Act* (Canada) ("NFWA"). The options study is to be completed by 2005, with a federal government decision expected no earlier than 2006.

Liability for Nuclear Decommissioning and Low and Intermediate Level Waste Management Costs

The liability for nuclear decommissioning and low and intermediate level waste management represents the estimated costs of decommissioning nuclear generating stations after the end of their service lives, as well as the cost of managing low and intermediate level radioactive wastes generated by the nuclear stations. The significant assumptions used in estimating future nuclear fixed asset removal costs include decommissioning of nuclear generating stations on a deferred dismantlement basis where the reactors will remain in a safe storage state for a 30-year period prior to a 10-year dismantlement period. Low and intermediate level waste arising during decommissioning will be disposed of at the facilities developed for disposal of operational low and intermediate level waste.

The life cycle costs of low and intermediate level waste management include the costs of processing and storage of such radioactive wastes during and following 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: an in-service date of 2015 for disposal facilities for low level waste; co-locating short-lived intermediate level waste with low level waste starting in 2015; and co-locating long-lived intermediate level waste with used fuel starting in 2035.

Liability for Non-Nuclear Fixed Asset Removal Costs

The liability for non-nuclear fixed asset removal is based on third-party cost estimates after an in-depth review of active plant sites and an assessment of required clean-up and restoration activities. This liability represents the estimated costs of decommissioning fossil-fuelled generating stations at the end of their service lives. The estimated retirement date of these stations is between 2005 and 2034.

In addition to the $154 million liability for active sites, OPG also has an asset retirement obligation liability of $35 million for decommissioning and restoration costs associated with plant sites that have been divested or are no longer in use.

OPG has no legal obligation associated with the decommissioning of its hydroelectric generating facilities. Also, 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 used for the foreseeable future. Accordingly, OPG has not recognized a liability for the decommissioning of its hydroelectric generating facilities.

Ontario Nuclear Funds Agreement

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 Funds in the form of a $1.2 billion cash payment and a $1.9 billion interest-bearing note receivable which is classified as an asset of the Funds and is intended to be funded over the next three years.

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 $8.3 billion in 2004 dollars) based on used fuel bundle projections consistent with station life included within the financial reference plan. OPG makes quarterly payments over the life of its nuclear generating stations, as specified in the ONFA. Required funding for 2004 under the ONFA was $454 million, including a contribution of $100 million to The Ontario NFWA Trust (the "Trust").

The NFWA was proclaimed into force in November 2002. In accordance with the NFWA, the Nuclear Waste Management Organization was formed to prepare and review alternatives, and to provide recommendations to the federal government for long-term management of nuclear fuel waste by November 2005. The federal government will select the option 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 each of 2003 and 2004. 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. 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 December 31, 2004 and 2003 consist of the following:

(millions of dollars)	**Amortized Cost Basis**		**Fair Value**	
	2004	2003	**2004**	2003
Decommissioning Fund	**3,858**	3,641	**4,131**	3,801
Used Fuel Fund[1]	**2,118**	1,587	**2,118**	1,587
	5,976	5,228	**6,249**	5,388

[1] The Ontario NFWA Trust represents $794 million as at December 31, 2004 (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, 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 licensing 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 for 2004 of $8 million in the first quarter of 2004.

Under the 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 December 31, 2004, the Used Fuel Fund accounts included an amount due to the Province of $4 million (2003 – amount due from the Province, $10 million). If the investments in the Used Fuel Fund were accounted for at fair market value in the consolidated financial statements, at December 31, 2004, there would be an amount due to the Province of $156 million (2003 – $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 estimate of the liabilities changes under the current approved ONFA 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 Current Approved ONFA Reference Plan, are at least 120 per cent funded, OPG may direct up to 50 per cent of the surplus over 120 per cent 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 approved ONFA Reference Plan. At December 31, 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 December 31, 2004, and the Decommissioning Fund was terminated under the ONFA, there would be an amount due to the Province of $249 million (2003 - $128 million).

The amortized cost and fair value of the securities invested in the segregated funds, which include the Used Fuel Fund and Decommissioning Fund, as at December 31, 2004 and 2003 are as follows:

(millions of dollars)	**Amortized Cost Basis**		**Fair Value**	
	2004	**2003**	**2004**	**2003**
Cash and cash equivalents and short-term investments	**211**	139	**211**	139
Marketable equity securities	**3,056**	2,556	**3,472**	2,795
Bonds and debentures	**723**	635	**732**	637
Receivable from the OEFC	**1,993**	1,892	**1,993**	1,892
Administrative expense payable	**(3)**	(4)	**(3)**	(4)
	5,980	5,218	**6,405**	5,459
Due (to) from Province – Used Fuel Fund	**(4)**	10	**(156)**	(71)
Total	**5,976**	5,228	**6,249**	5,388

The bonds and debentures held in the Used Fuel Fund and the Decommissioning Fund as at December 31, 2004 and 2003 mature according to the following schedule:

(millions of dollars)	**Fair Value**	
	2004	**2003**
Less than 1 year	**-**	19
1 - 5 years	**259**	204
5 - 10 years	**233**	260
More than 10 years	**240**	154
Total maturities of debt securities	**732**	637
Average yield	**4.1%**	4.3%

The receivable of $1,993 million (2003 - $1,892 million) from the OEFC does not have a specified maturity date. The effective rate of interest on the OEFC receivable was 5.3 per cent in 2004 (2003 - 5.0 per cent since commencement of the ONFA in July 2003).

9. BENEFIT PLANS

The post employment benefit programs include pension, group life insurance, health care and long-term disability benefits. The registered pension plan is a contributory, defined benefit plan covering all regular employees and retirees. Pension fund assets include equity securities and corporate and government debt securities, real estate and other investments which are managed by professional investment managers. The fund does not invest in equity or debt securities issued by OPG. The supplementary pension plan is a defined benefit plan covering certain employees and retirees.

Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions and experience gains or losses. The pension and OPEB obligations, and the pension fund assets, are measured at December 31, 2004.

	Registered and Supplementary Pension Plans		**Other Post Employment Benefits**	
	2004	2003	**2004**	2003
Weighted Average Assumptions – Benefit Obligation at Year End				
Rate used to discount future benefits	**6.00%**	6.25%	**5.88%**	6.17%
Salary schedule escalation rate	**3.25%**	3.25%	**-**	-
Rate of cost of living increase to pensions	**2.25%**	2.25%	**-**	-
Initial health care trend rate	**-**	-	**7.03%**	6.33%
Ultimate health care trend rate	**-**	-	**4.46%**	4.46%
Year ultimate rate reached	**-**	-	**2014**	2010
Rate of increase in disability benefits	**-**	-	**2.25%**	2.25%

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2004	2003	**2004**	2003
Weighted Average Assumptions – Cost for the Year				
Expected return on plan assets net of expenses	**7.00%**	7.00%		
Rate used to discount future benefits	**6.25%**	6.75%	**6.17%**	6.60%
Salary schedule escalation rate	**3.25%**	3.00%	**-**	-
Rate of cost of living increase to pensions	**2.25%**	2.00%	**-**	-
Initial health care trend rate	**-**	-	**6.33%**	6.42%
Ultimate health care trend rate	**-**	-	**4.46%**	4.13%
Year ultimate rate reached	**-**	-	**2010**	2010
Rate of increase in disability benefits	**-**	-	**2.25%**	2.00%
Average remaining service life for employees (years)	**12**	12	**12**	11

	Registered Pension Plan		Supplementary Pension Plan		Other Post Employment Benefits	
(millions of dollars)	**2004**	2003	**2004**	2003	**2004**	2003
Changes in Plan Assets						
Fair value of plan assets at beginning of year	**6,449**	5,727	**-**	-	**-**	-
Contributions by employer	154	153	**6**	5	**54**	51
Contributions by employees	52	52	**-**	-	**-**	-
Actual return on plan assets net of expenses	693	783	**-**	-	**-**	-
Settlements	(4)	-	**-**	-	**-**	-
Benefit payments	(288)	(266)	**(6)**	(5)	**(54)**	(51)
Fair value of plan assets at end of year	**7,056**	6,449	**-**	-	**-**	-
Changes in Projected Benefit Obligation						
Projected benefit obligation at beginning of year	**7,046**	5,965	**117**	125	**1,307**	1,079
Employer current service costs	143	107	**8**	8	**41**	29
Contributions by employees	52	52	**-**	-	**-**	-
Interest on projected benefit obligation	442	402	**7**	9	**82**	64
Curtailment loss (gain)	2	-	**-**	-	**(1)**	-
Settlement gain	(4)	-	**-**	-	**-**	-
Benefit payments	(288)	(266)	**(6)**	(5)	**(54)**	(51)
Net actuarial loss (gain)	270	786	**18**	(20)	**124**	186
Projected benefit obligation at end of year	**7,663**	7,046	**144**	117	**1,499**	1,307
Funded Status – Surplus (Deficit) at end of year	**(607)**	(597)	**(144)**	(117)	**(1,499)**	(1,307)

	2004	2003
Registered pension plan fund asset investment categories		
Equities	**65%**	65%
Fixed income	**33%**	34%
Cash and short-term	**2%**	1%
Total	**100%**	100%

The assets of the OPG pension fund are allocated among three principal investment categories. Furthermore, equity investments are diversified across Canadian, U.S. and non-North American stocks. The fund also has a small real estate portfolio that is less than one per cent of plan assets.

The most recently filed funding valuation was done as at April 1, 2002. Using a going-concern funding basis, with assets at market value, OPG estimates that there was a pension fund deficit of $1.5 billion at December 31, 2004 (2003 - $1.3 billion deficit). The deficit disclosed in the next filed funding valuation, which must have an effective date of no later than April 1, 2005, could be significantly different.

The supplementary plan is not funded, but is secured by letters of credit totalling $125 million.

	Registered Pension Plan		**Supplementary Pension Plan**		**Other Post Employment Benefits**	
(millions of dollars)	**2004**	2003	**2004**	2003	**2004**	2003
Reconciliation of Funded Status to Accrued Benefit Asset (Liability)						
Funded status – surplus (deficit) at end of year	**(607)**	(597)	**(144)**	(117)	**(1,499)**	(1,307)
Unamortized net actuarial loss	**1,012**	924	**28**	10	**422**	313
Unamortized past service costs	**119**	137	**5**	6	**18**	21
Accrued benefit asset (liability) at end of year	**524**	464	**(111)**	(101)	**(1,059)**	(973)
Short-term portion	**-**	-	**(6)**	(3)	**(59)**	(58)
Long-term portion	**524**	464	**(105)**	(98)	**(1,000)**	(915)

	Registered Pension Plan		**Supplementary Pension Plan**		**Other Post Employment Benefits**	
(millions of dollars)	**2004**	2003	**2004**	2003	**2004**	2003
Components of Cost Recognized						
Current service costs	**143**	107	**8**	8	**41**	29
Interest on projected benefit obligation	**442**	402	**7**	9	**82**	64
Expected return on plan assets net of expenses	**(511)**	(502)	**-**	-	**-**	-
Curtailment loss (gain)	**2**	-	**-**	-	**(1)**	-
Amortization of past service costs	**18**	18	**1**	1	**3**	3
Amortization of net actuarial (gain) loss	**-**	(31)	**-**	2	**15**	2
Cost (income) recognized	**94**	(6)	**16**	20	**140**	98

(millions of dollars)	Registered Pension Plan 2004	2003	Supplementary Pension Plan 2004	2003	Other Post Employment Benefits 2004	2003
Components of Cost Incurred and Recognized						
Current service costs	**143**	107	**8**	8	**41**	29
Interest on projected benefit obligation	**442**	402	**7**	9	**82**	64
Actual return on plan assets net of expenses	**(693)**	(783)	**-**	-	**-**	-
Curtailment loss (gain)	**2**	-	**-**	-	**(1)**	-
Net actuarial loss (gain)	**270**	786	**18**	(20)	**124**	186
Cost incurred in year	**164**	512	**33**	(3)	**246**	279
Differences between costs incurred and recognized in respect of:						
Actual return on plan assets net of expenses	**182**	281	**-**	-	**-**	-
Past service costs	**18**	18	**1**	1	**3**	3
Net actuarial (gain) loss	**(270)**	(817)	**(18)**	22	**(109)**	(184)
Cost (income) recognized	**94**	(6)	**16**	20	**140**	98

A 1.0 per cent increase or decrease in the health care trend rate would result in an increase in the service and interest components of the 2004 OPEB cost recognized of $21 million (2003 - $14 million) or a decrease in the service and interest components of the 2004 OPEB cost recognized of $19 million (2003 - $11 million), respectively. A 1.0 per cent increase or decrease in the health care trend rate would result in an increase in the projected OPEB obligation at December 31, 2004 of $221 million (2003 - $169 million) or a decrease in the projected OPEB obligation at December 31, 2004 of $175 million (2003 - $152 million).

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 decreased Energy Marketing revenue by $2 million during 2004 (2003 – increased by $2 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.

(millions of dollars except where noted)	**Notional Quantity**	**Terms**	**Fair Value**	**Notional Quantity**	**Terms**	**Fair Value**
		2004			**2003**	
(Loss)/gain						
Electricity derivative instruments	**10.4 TWh**	**1-3 yrs**	**(71)**	23.9 TWh	1-3 yrs	(13)
Foreign exchange derivative instruments	**US $10**	**Jan/05**	**-**	US $40	Jan/04	(3)
Option to purchase emission reduction credits	**-**	**-**	**-**	3,000,000 tonnes	2004	-

Foreign exchange derivative instruments are used to hedge the exposure to anticipated U.S. dollar denominated purchases. The weighted average fixed exchange rate for contracts outstanding at December 31, 2004 was US $0.81 (2003 – US $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:

(millions of dollars except where noted)	**Notional Quantity**	**Fair Value**	**Notional Quantity**	**Fair Value**
	2004		**2003**	
Commodity derivative instruments				
Assets	**7.9 TWh**	**12**	7.9 TWh	8
Liabilities	**1.3 TWh**	**(12)**	1.6 TWh	(8)
		-		-
Ontario market liquidity reserve		**(7)**		(5)
Total		**(7)**		(5)

Fair Value of Other Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued charges, Market Power Mitigation Agreement rebate payable, short-term notes payable, and long-term debt due within one year approximate their fair values due to the immediate or short-term maturity of these financial instruments. Fair values for other financial instruments have been estimated by reference to quoted market prices for actual or similar instruments where available.

The carrying values and fair values of these other financial instruments are as follows:

(millions of dollars)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
	2004		**2003**	
Financial Assets				
Nuclear fixed asset removal and nuclear waste management funds	**5,976**	**6,249**	5,228	5,388
Long-term accounts receivable and other assets	**56**	**56**	64	64
Financial Liabilities				
Long-term debt	**3,399**	**3,577**	3,393	3,516
Long-term accounts payable and accrued charges	**212**	**212**	276	276

Credit Risk

The majority of OPG's revenues are derived from electricity sales through the IESO administered spot market. OPG also derives revenue from several other sources including the sale of financial risk management products to third parties. OPG manages counterparty credit risk by monitoring and limiting its exposure to counterparties with lower credit ratings, evaluating its counterparty credit exposure on an integrated basis, and by performing periodic reviews of the credit worthiness of all counterparties, including obtaining credit security for all transactions beyond approved limits.

11. INCOME TAXES

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

(millions of dollars)	**2004**	**2003**
(Loss) before income taxes	**(38)**	(494)
Combined Canadian federal and provincial statutory income tax rates, including surtax	**36.1%**	36.6%
Statutory income tax rates applied to accounting income	**(14)**	(181)
Increase (decrease) in income taxes resulting from:		
Large corporations tax in excess of surtax	**30**	37
Lower future tax rate on temporary differences	**(3)**	4
Non-taxable income items	**(4)**	(3)
Adjustment for changes in future income tax rates	**-**	30
Valuation allowance	**(93)**	93
Other	**4**	17
	(66)	178
Recovery of income taxes	**(80)**	(3)
Effective rate of income taxes	**210.5%**	0.6%

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

(millions of dollars)	**2004**	**2003**
Current income tax expense	**21**	80
Future income tax expense (benefits):		
Change in temporary differences	**50**	(64)
Non-capital loss carry-forward	**(67)**	(101)
Future recoverable Ontario minimum tax	**-**	(41)
Valuation allowance (reversal)	**(93)**	93
Adjustment for changes in future income tax rates	**-**	30
Other	**9**	-
Income tax recoveries	**(80)**	(3)

At December 31, 2004, OPG had approximately $493 million (2003 – $296 million) of non-capital loss carry-forwards for which the Company recognized future tax assets of $67 million in 2004 and $101 million in 2003 for financial reporting purposes. The 2003 loss will expire in 2010 and the 2004 loss will expire in 2014.

The amount of cash income taxes paid in the year ended December 31, 2004 was $17 million (2003 - $28 million). OPG reported nil in other current income tax amounts recoverable (2003 - $16 million).

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

(millions of dollars)	**2004**	**2003**
Future income tax assets:		
Fixed asset removal and nuclear waste management liabilities	**2,806**	2,664
Other liabilities and assets	**446**	443
Non-capital loss carry-forward	**168**	101
Future recoverable Ontario minimum tax	**42**	41
	3,462	3,249
Future income tax liabilities:		
Fixed assets	**1,211**	1,422
Fixed asset removal and nuclear waste management fund	**2,039**	1,784
Other liabilities and assets	**323**	255
	3,573	3,461
Net future income tax liabilities	**111**	212
Represented by:		
Current portion	**(44)**	(60)
Long-term portion	**155**	272
	111	212

OPG has taken certain filing positions for corporate income and capital taxes that may be challenged on audit and possibly disallowed and result in a significant increase in the tax obligation upon reassessment. Accordingly, there is uncertainty around the amount of the tax provision and management is not able to determine the impact on the consolidated financial statements.

12. COMMON SHARES

As at December 31, 2004 and 2003, OPG had 256,300,010 common shares issued and outstanding at a stated value of $5,126 million. OPG is authorized to issue an unlimited number of common shares without nominal or par value. Dividends are declared and paid to achieve an effective 35 per cent pay-out based on annual net income.

13. COMMITMENTS AND CONTINGENCIES

Litigation

Various lawsuits are pending 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. 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.

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. These charges are still pending and OPG has some reasonable defences. However, regardless of whether OPG is convicted of these charges, OPG does not anticipate a material adverse effect on OPG's financial position.

Aboriginal Claims and Litigation

The Slate Falls First Nation claim is for $40 million. The First Nation has commenced an action in the Ontario Court for declaratory relief and unspecified damages for interference with reserve and traditional land rights from flooding and other acts of trespass. The Government of Canada is also a defendant to this claim. The First Nation is composed of former members of a number of different bands including Osnaburgh. Ontario Hydro had previously entered into a settlement agreement with the Mishkeegogamang First Nation, which was previously known as the Osnaburgh First Nation. Both the Government of Canada and OPG are considering the potential overlap of beneficiaries between the present litigation and the prior settlement. The parties are in the preliminary stage of gathering documentary evidence to assist in the assessment of liability and potential damages, and therefore, are unable to evaluate the claim at this time.

Preliminary motions have been resolved in favour of Slate Falls First Nation. As a result, a member of the Slate Falls First Nation has been granted status to represent some 200 living and dead aboriginal people who are or were members of the Slate Falls First Nation. OPG and Canada's motion for summary judgment dismissing the plaintiff's action was dismissed. All appeals are now complete and Canada is seeking to add the Province of Ontario and Mishkeegogamang as parties. Canada is being separately sued by Mishkeegogamang and is seeking to have OPG and Ontario added as parties to this proceeding. Any monies OPG would have to pay to Canada by way of indemnity in this action would, under the terms of the settlement it reached with Mishkeegogamang, be credited against the monies OPG owes under the settlement.

The Whitesand and Red Rock First Nations have commenced a claim for damages in an unspecified amount for interference with reserve and traditional land rights in the Nipigon River Basin, north of Thunder Bay, from flooding and other acts of trespass. The federal and provincial Crowns and Hydro One are also defendants.

Environmental

OPG was required to assume certain environmental obligations from Ontario Hydro. A provision of $76 million was established as at April 1, 1999 for such obligations. During the year ended December 31, 2004, expenditures of $2 million (2003 - $4 million) were recorded against the provision.

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

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 its share of the Brighton Beach financing, whereby it is responsible for contributing its share of equity related to cost overruns associated with the construction of the generating station. As at December 31, 2004, OPG remains responsible for contributing its share of equity related to cost overruns, up to $6 million. As Brighton Beach commenced commercial operation in July 2004, any cost overruns are now primarily limited to settlement of construction liens registered by some contractors associated with the construction project. The maximum potential future payments are unknown because Brighton Beach has yet to complete its review and resolution of existing liens. Brighton Beach is currently negotiating settlement of these liens.

Contractual Commitments

The Company's contractual obligations and other commercial commitments as at December 31, 2004 are as follows:

(millions of dollars)	2005	2006	2007	2008	2009	Thereafter	Total
Fuel supply agreements	526	386	203	120	36	34	1,305
Contributions under ONFA	454	454	454	679	350	1,753	4,144
Long-term debt repayment	-	800	400	400	350	1,345	3,295
Interest on long-term debt	99	191	145	122	99	86	742
Unconditional purchase obligations	39	27	16	12	14	50	158
Long-term accounts payable	28	28	28	10	-	-	94
Operating lease obligations	7	5	4	4	-	19	39
Other	76	35	36	37	37	25	246
Total	1,229	1,926	1,286	1,384	886	3,312	10,023

14. RESTRUCTURING

The change in the restructuring liability for termination benefits for the years ended December 31, 2004 and 2003 is as follows:

(millions of dollars)	**2004**	**2003**
Liability, beginning of year	**52**	120
Restructuring charges	**19**	-
Payments	**(51)**	(68)
Liability, end of year	**20**	52

OPG recorded restructuring charges of $16 million, which consisted of $15 million for termination benefits and $1 million in 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 December 31, 2004, 81 employees had accepted the termination package offered. OPG also recorded restructuring charges of $4 million related to its Energy Marketing segment.

15. TRANSITION RATE OPTION CONTRACTS

Under regulation known as Transition - Generation Corporation Designated Rate Options ("TRO"), OPG is required to provide transitional price relief upon market opening to certain power customers for up to four years based on the consumption and average price paid by each customer during a reference period of July 1, 1999 to June 30, 2000. The TRO is treated as a hedge of generation revenue. The maximum anticipated volume subject to the transitional price relief is approximately 5.4 TWh in the first year after market opening, 3.6 TWh in the second year and 1.8 TWh in each of the third and fourth years. The maximum length of the program is four years.

A provision of $210 million on the TRO contracts was recorded in the first quarter of 2002 based on the estimated future loss on these contracts. The provision was determined at that time using management's best estimates of the forward price curve for electricity, wholesale electricity market fees, impact of decontrol on these contracts, interruptions of volume, and the recovery of Market Power Mitigation Agreement rebates. The provision for the TRO contracts was established based on meeting decontrol targets within three years of market opening. OPG no longer expects to meet the decontrol targets necessary for TRO contracts to expire after three years. As a result, an additional charge of $30 million related to the fourth year of the TRO contracts was recorded in 2003.

During 2004, $52 million (2003 - $73 million) was charged against the provision and included in Generation revenue.

16. MARKET POWER MITIGATION AGREEMENT REBATE

Until April 1, 2005, 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, a significant majority of OPG's expected energy sales in Ontario are subject to an average annual revenue cap of 3.8¢/kWh. During the term of the MPMA, OPG is required to pay a rebate to the IESO equal to the excess, if any, of the average hourly spot energy price over 3.8¢/kWh for a 12-month settlement period, multiplied by the amount of energy subject to the rebate mechanism. The Market Power Mitigation Agreement is being replaced effective April 1, 2005, by a regulated price for baseload hydroelectric and nuclear generation. In addition, eighty-five per cent of unregulated OPG electricity generation, excluding generation from the Lennox generating station and volumes relating to existing contracts will be subject to a revenue limit based on an average price of 4.7¢/kWh. This revenue limit will be in place for a period of 13 months.

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 2004 average hourly spot price exceeded the 3.8¢/kWh revenue cap, OPG provided $1,154 million (2003 - $1,510 million) as a Market Power Mitigation Agreement rebate.

The change in the Market Power Mitigation Agreement rebate liability for the years ended December 31, 2004 and 2003 were as follows:

(millions of dollars)	**2004**	**2003**
Liability, beginning of year	**409**	572
Increase to provision during the year	**1,154**	1,510
Payments	**(1,124)**	(1,673)
Liability, end of year	**439**	409

17. Research and Development

For the year ended December 31, 2004, $21 million (2003 - $21 million) of research and development expenses were charged to operations.

18. Business Segments

Description of Reportable Segments

With the opening of Ontario's electricity market to competition on May 1, 2002, OPG began operating two reportable business segments: Generation and Energy Marketing. A separate category, Non-Energy and Other, includes revenue and certain costs which are not allocated to the business segments.

Generation Segment

OPG's principal business segment operates in Ontario, generating and selling electricity. Commencing with the opening of the Ontario electricity market on May 1, 2002, all of OPG's electricity generation is sold into the IESO-administered real-time energy spot market. As such, the majority of OPG's revenue is derived from spot market sales. In addition to revenue earned from spot market sales, revenue is also earned through offering available capacity as operating reserve and through the supply of other ancillary services including voltage control/reactive support, certified black-start facilities and automatic generation control.

Energy Marketing Segment

The Energy Marketing segment derives revenues from various financial and physical energy market transactions with large and medium volume end-use customers and intermediaries such as utilities, brokers, aggregators, traders and other power marketers and retailers. Energy marketing in deregulated markets includes trading, the sale of financial risk management products and sales of energy-related products and services to meet customers' needs for energy solutions. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value, with changes in fair value recorded in Energy Marketing revenue as gains or losses. OPG purchases and sells electricity through the IESO market and the interconnected markets of other provinces and the U.S. northeast and midwest.

Non-Energy and Other

OPG derives Non-Energy revenue under the terms of its long-term lease arrangement with Bruce Power related to the Bruce nuclear generating stations. This includes lease revenue, interest income and revenue from engineering analysis and design, technical and ancillary services. Non-energy revenue also includes isotope sales to the medical industry and real estate rentals.

Bruce Nuclear Generating Stations

In May 2001, the Company leased its Bruce A and Bruce B nuclear generating stations to Bruce Power until 2018, with options to renew for up to 25 years. As part of the initial payment, OPG received $370 million in cash proceeds and a $225 million note receivable, which was repaid in 2003.

Under the terms of the lease, OPG agreed to transfer certain fuel and material inventory to Bruce Power, in addition to certain fixed assets. Pension assets and liabilities related to the approximately 3,000 employees were transferred to Bruce Power. Bruce Power assumed the liability for other post employment benefits for these employees. OPG makes payments to Bruce Power in respect of other post employment benefits of approximately $2.3 million per month over a 72-month period, ending in 2008.

As part of the closing, OPG recorded deferred revenue to reflect the initial payment less net assets transferred to Bruce Power under the lease agreement. The deferred revenue is being amortized over the initial lease term of approximately 18 years and is recorded as Non-Energy revenue.

In December 2002, British Energy plc. entered into an agreement to dispose of its entire 82.4 per cent interest in Bruce Power. The transaction was completed in February 2003 and a consortium of Canadian companies assumed the lease of the Bruce A and Bruce B nuclear generating stations that was formerly held by British Energy plc. The Bruce facilities will continue to be operated by Bruce Power. Upon closing of the transaction, the $225 million note receivable was paid to OPG, and lease payments commenced to be paid monthly. Proceeds from the note are to be applied by March 2008 against OPG's funding requirements with respect to the nuclear fixed asset removal and nuclear waste management liabilities. In addition, for 2004 through 2008, minimum payments under the lease are $190 million annually, subject to limited exceptions. The lease revenue of $236 million (2003 - $189 million) was recorded in Non-Energy revenue. The remaining terms of the operating lease agreement remain substantially unchanged.

The net book value of fixed assets on lease to Bruce Power at December 31, 2004, was $590 million (2003 - $680 million).

Segment Income for year ended December 31, 2004	**Generation**	**Energy Marketing**	**Non-Energy and Other**	**Total**
(millions of dollars)				
Revenues				
Revenue before Market Power Mitigation Agreement rebate	**5,637**	**47**	**388**	**6,072**
Market Power Mitigation Agreement rebate	**(1,154)**	**-**	**-**	**(1,154)**
	4,483	**47**	**388**	**4,918**
Fuel expense	**1,153**	**-**	**-**	**1,153**
Gross margin	**3,330**	**47**	**388**	**3,765**
Operations, maintenance and administration excluding Pickering A return to service	**2,259**	**6**	**58**	**2,323**
Pickering A return to service	**271**	**-**	**-**	**271**
Depreciation and amortization	**669**	**-**	**96**	**765**
Accretion on fixed asset removal and nuclear waste management liabilities	**453**	**-**	**-**	**453**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(313)**	**-**	**-**	**(313)**
Property and capital taxes	**88**	**-**	**15**	**103**
(Loss) income before the following:	**(97)**	**41**	**219**	**163**
Restructuring	**20**	**-**	**-**	**20**
Other income	**-**	**-**	**(8)**	**(8)**
Net interest expense	**-**	**-**	**189**	**189**
(Loss) income before income taxes	**(117)**	**41**	**38**	**(38)**

Segment Income for year ended December 31, 2003	**Generation**	**Energy Marketing**	**Non-Energy and Other**	**Total**
(millions of dollars)				
Revenues				
Revenue before Market Power Mitigation Agreement rebate	6,300	68	320	6,688
Market Power Mitigation Agreement rebate	(1,510)	-	-	(1,510)
	4,790	68	320	5,178
Fuel expense	1,678	-	-	1,678
Gross margin	3,112	68	320	3,500
Operations, maintenance and administration excluding Pickering A return to service	2,072	8	55	2,135
Pickering A return to service	258	-	-	258
Depreciation and amortization	496	-	107	603
Accretion on fixed asset removal and nuclear waste management liabilities	430	-	-	430
Earnings on nuclear fixed asset removal and nuclear waste management funds	(238)	-	-	(238)
Property and capital taxes	98	-	16	114
Loss on transition rate option contracts	-	-	30	30
(Loss) income before the following:	(4)	60	112	168
Impairment of long-lived assets	576	-	-	576
Other income	-	-	(58)	(58)
Net interest expense	-	-	144	144
(Loss) income before income taxes	(580)	60	26	(494)

Selected Balance Sheet Information	**Generation**	**Energy Marketing**	**Non-Energy and Other**	**Total**
(millions of dollars)				
December 31, 2004				
Segment property, plant and equipment, net	**11,065**	**-**	**875**	**11,940**
December 31, 2003				
Segment property, plant and equipment, net	11,252	-	935	12,187
Selected Cash Flow Information				
(millions of dollars)				
Year ended December 31, 2004				
Capital expenditures	**513**	**-**	**48**	**561**
Year ended December 31, 2003				
Capital expenditures	546	-	97	643

Substantially all sales were in Canada. All of OPG's electricity generation was sold into the real-time energy spot market administered by the IESO. As such, the majority of OPG's revenue was derived from spot market sales. Sales to the IESO represented 91 per cent of total revenues for the year ended December 31, 2004 (2003 - 93 per cent) and 47 per cent of accounts receivable as at December 31, 2004 (2003 - 40 per cent).

19. Related Party Transactions

Given that the Province owns all of the shares of OPG, related parties include the Province, the other successor entities of Ontario Hydro, including Hydro One Inc. ("Hydro One"), the IESO, and the OEFC. OPG also enters into related party transactions with its joint ventures. The transactions between OPG and related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

These transactions are summarized below:

(millions of dollars)	**Revenues**	**Expenses**	**Revenues**	**Expenses**
	2004		**2003**	
Hydro One				
Electricity sales	**40**	**-**	36	-
Services	**-**	**12**	14	16
Settlement Transactions	**-**	**33**	-	36
Province of Ontario				
GRC water rentals and land tax	**-**	**152**	-	132
Guarantee fee	**-**	**8**	-	3
Used Fuel Fund rate of return guarantee	**-**	**14**	-	(10)
Other	**-**	**2**	-	-
OEFC				
GRC and proxy property tax	**-**	**214**	-	205
Interest income on receivable	**-**	**(101)**	-	(155)
Interest expense on long-term notes	**-**	**191**	-	191
Capital tax	**-**	**49**	-	51
Income taxes	**-**	**(80)**	-	(3)
Indemnity fees	**-**	**5**	-	5
IESO				
Electricity sales	**5,465**	**304**	6,212	331
Market Power Mitigation Agreement rebate	**(1,154)**	**-**	(1,510)	-
Ancillary services	**90**	**-**	77	-
Other	**1**	**1**	1	1
	4,442	**804**	4,830	803

At December 31, 2004, accounts receivable included $14 million (2003 - $14 million) due from Hydro One and $158 million (2003 - $134 million) due from the IESO. Accounts payable and accrued charges at December 31, 2004 included $3 million (2003 - $5 million) due to Hydro One.

20. Other Income

Other income of $8 million in 2004 was comprised of $3 million from the sale of assets and $5 million from a favourable pension liability settlement. In 2003, other income of $58 million was from the gain on sale of long-term investments.

21. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

(millions of dollars)	**2004**	**2003**
Accounts receivable	**(15)**	105
Note receivable	**-**	225
Income taxes recoverable	**16**	64
Future income tax asset	**16**	17
Fuel inventory	**(45)**	(10)
Materials and supplies	**(19)**	-
Market Power Mitigation Agreement rebate payable	**30**	(163)
Accounts payable and accrued charges	**(78)**	(72)
Income and capital taxes payable	**12**	-
	(83)	166