ONTARIO POWER GENERATION

News
from Ontario Power Generation

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ONTARIO POWER GENERATION REPORTS 2003 EARNINGS

[Toronto]: Ontario Power Generation Inc. ("OPG") today reported its financial and operating results for the year ended December 31, 2003. Net loss for the year was $491 million and included an impairment loss on the coal-fired generating stations of $473 million after tax ($576 million before tax) due to the expected early shutdown of the coal-fired generating stations by 2007. This compared with a net income of $67 million for the year ended December 31, 2002.

Excluding the impairment loss on the coal-fired stations, OPG had a loss of $18 million, a decrease of $85 million compared to last year's earnings. This decrease in earnings from on-going operations was mainly a result of lower electricity production and higher fuel costs for coal, oil and natural gas used for fossil-fueled generation. The impact of these factors was partially offset by provisions recorded in 2002 for transitional price relief to certain power customers and restructuring charges that reduced earnings last year.

Electricity production in 2003 of 109.1 terawatt-hours (TWh) was lower than that of 2002 by 6.7 TWh. The decrease was primarily due to a regulatory requirement for a station containment outage at the Darlington nuclear generating station, higher planned and forced outages at the Pickering B nuclear generating station, lower water levels that reduced hydroelectric generation, and the impact of the power blackout in August 2003 that affected Ontario and the northeastern United States.

"We are continuing to review our overhead cost structure and other operating and maintenance expenditures to ensure that OPG is more competitive," said Acting President and CEO Richard Dicerni. "On the revenue side, however, we continue to be constrained – roughly three quarters of our production is sold for a price that is considerably lower than the price other market participants receive, after taking into account market rebates."

During 2003, OPG obtained five-year licences for the Darlington and Pickering B nuclear stations and returned Unit 4 at the Pickering A nuclear station to service after a six-year lay-up. OPG also completed the installation of emission reduction technologies at the Lambton and Nanticoke stations.

Cash flow provided by operating activities in 2003 was $97 million compared to $844 million in 2002, a decrease of $747 million. The decrease in cash flow was largely due to payments of the Market Power Mitigation Agreement rebate totaling $1,673 million compared to payments of $335 million in 2002. These payments, along with the related changes in the Market Power Mitigation Agreement rebate payable, resulted in a decrease in cash flow of $735 million compared to 2002. Other factors contributing to the decrease in cash flow included increased contributions to the pension fund of $153 million and higher contributions to the nuclear fixed asset removal and nuclear waste management funds of $141 million.

There were significant changes to OPG's corporate governance structure in 2003. In December, the government announced the appointment of a new Chair and Board of Directors following the departure of certain members of senior management and the Board of Directors. The government also formed a committee to provide advice on OPG's structure and role in Ontario's electricity market.

HIGHLIGHTS

Year-ended December 31 *(millions of dollars)*	**2003**	**2002***
Revenue before Market Power Mitigation Agreement rebate	6,688	6,653
Market Power Mitigation Agreement rebate (revenue reduction)	(1,510)	(907)
Fuel expense and power purchased	(1,678)	(1,894)
Expenses excluding impairment of long-lived assets	(3,332)	(3,800)
Impairment of long-lived assets (before tax)	(576)	-
Other income, expense and income taxes	(83)	15
Net (loss) income	(491)	67
Cash flow provided by operating activities	97	844
Market Power Mitigation Agreement rebate payments	1,673	335
Electricity generation (TWh)	109.1	115.8

* In 2003, OPG early adopted the new Canadian Institute of Chartered Accountants ("CICA") accounting standard for asset retirement obligations. In accordance with the CICA requirements, OPG has retroactively applied the new standard and accordingly restated the comparative financial results for 2002.

Ontario Power Generation 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 risk-managed production and sale of electricity from our competitive generation assets, while operating in a safe, open and environmentally responsible manner.

Ontario Power Generation's consolidated financial statements and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2003 can be accessed on OPG's website (www.opg.com) or can be requested from the company.

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ONTARIO POWER GENERATION INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis 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, 2003. OPG's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars. Certain 2002 comparative amounts have been reclassified to conform with the 2003 financial statement presentation. Also certain 2002 amounts have been restated for the retroactive adoption of the new accounting standard on asset retirement obligations.

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 a current or historical fact 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 nuclear recovery plan, fuel costs and availability, nuclear decommissioning and waste management, pension and other post-employment benefit obligations, spot market electricity prices, the on-going 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 focused on the cost effective, safe and environmentally responsible production, sale and purchase of electricity and energy-related risk management products and services in Ontario and the interconnected markets of Quebec, Manitoba and the northeast and midwest regions of the United States. OPG was incorporated under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the "Province"). As discussed in the section entitled "Changing Marketplace and Role of OPG", the nature of the Ontario electricity market and OPG's role in the market are under review. The implications for OPG could be material.

As at December 31, 2003, OPG's electricity generating portfolio consisted of three nuclear stations, six fossil-fueled generating stations, 36 hydroelectric generating stations and an EcoLogo™ - certified green power portfolio including 29 small hydro and three wind generating stations. OPG's Pickering A nuclear generating station was laid up in 1997. During 2003, OPG completed the return to service of the first unit of this four-unit station. In addition, there are two other nuclear generating stations owned by OPG and leased on a long-term basis to Bruce Power L.P. ("Bruce Power"), an entity unrelated to OPG.

HIGHLIGHTS

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

(millions of dollars)	**2003**	2002
Revenue before Market Power Mitigation Agreement rebate	**6,688**	6,653
Revenue after Market Power Mitigation Agreement rebate	**5,178**	5,746
Impairment of long-lived assets	**576**	-
Net (loss) income	**(491)**	67
Cash flow provided by operating activities	**97**	844
Physical electricity sales volume (TWh)		
Total electricity generation	**109.1**	115.8
Purchased power - Generation segment[1]	**-**	7.4
- Energy Marketing segment	**4.2**	2.2
Other	**-**	(0.1)
Total	**113.3**	125.3

[1] Purchased power in 2002 was primarily from Bruce Power L.P. Under an operating lease agreement, OPG was obligated to purchase and resell all of Bruce Power's electricity generation until market opening on May 1, 2002.

The net loss for the year ended December 31, 2003, which included an impairment loss on coal-fired generating stations, was $491 million compared to net income of $67 million in 2002. The significant factors impacting earnings in 2003 compared to 2002, on an after-tax basis, included the following:

(millions of dollars – after tax)	
Net income for the year ended December 31, 2002	67
Higher average energy prices	72
Higher prices for fossil fuel and change in generation mix [1]	(47)
Lower volume and other changes in gross margin [1]	(249)
Lower Pickering A return to service expenses	97
Increased OM&A expenses due to higher nuclear outage and project costs	(14)
Increased depreciation related to increase in fixed assets in service	(28)
Loss on Transition Rate Option contracts for industrial customers [2]	114
Restructuring charges recorded in 2002	141
Decrease in other income	(91)
Increase in future income tax rates	(30)
Other net changes	(50)
Change in earnings excluding impairment loss on long-lived assets	(85)
Impairment of long-lived assets	(473)
Net loss for the year ended December 31, 2003	(491)

[1] On Thursday August 14, 2003, a power blackout affected Ontario and the northeastern United States. It is estimated that the blackout resulted in a reduction in 2003 net income of $40 to $50 million.
[2] OPG recorded a before-tax loss on Transition Rate Option contracts of $30 million in 2003, compared to a before-tax loss of $210 million in 2002. The amount of $114 million represents the after-tax increase in earnings in 2003 related to the reduction in losses on these contracts (see Note 16 to the consolidated financial statements).

In 2003, the Government of Ontario (the "Government") stated its position to phase-out coal-fired generating stations by 2007 and has subsequently confirmed this position. Consequently, the Company recorded an impairment charge of $576 million due to the expected shut-down of its coal-fired generating stations significantly in advance of their previously estimated useful lives.

Cash flow provided by operating activities in 2003 was $97 million compared to $844 million in 2002, a decrease of $747 million. The decrease in cash flow was largely due to payments of the Market Power Mitigation Agreement rebate totaling $1,673 million in 2003 compared to payments of $335 million in 2002. These payments, along with the related changes in the Market Power Mitigation Agreement rebate payable, resulted in a decrease in cash flow of $735 million compared to 2002. The decrease in cash flow was also due to increased contributions to the pension fund and higher contributions to the nuclear fixed asset removal and nuclear waste management funds. The impact of this decrease in cash flow was partially offset by proceeds from the receipt of the $225 million receivable from Bruce Power.

Total production from OPG's generating stations during 2003 was 109.1 TWh compared to 115.8 TWh in 2002. The decrease in generation in 2003 compared to last year was primarily due to the regulatory requirement to shutdown the Darlington nuclear generating station for a month in order to complete a major testing of containment systems, higher planned and forced outage days at OPG's Pickering B nuclear generating station, lower hydroelectric generation due to lower water levels as a result of less rainfall and snowfall in the first half of the year, lower electricity demand in the second half of 2003, and the impact of the August 14, 2003 blackout.

VISION, CORE BUSINESS AND STRATEGY

Since its formation in April 1999, OPG has focused on the production and sale of electricity from competitive generation assets. OPG has directed its resources to pursue the following strategies:

- Increase production efficiencies and the cost competitiveness of its generating operations;
- Capitalize on energy marketing and sales opportunities;
- Optimize its organizational structure to ensure operational flexibility; and
- Undertake sustainable development initiatives intended to improve environmental performance.

Changing Marketplace and Role of OPG

There continue to be significant changes to the Ontario electricity marketplace. Legislation was passed and subsequently amended to fix electricity prices charged to low volume and other designated consumers. These consumers represent approximately one-half of the total electricity demand in Ontario. The remaining half of the electricity demand, comprising larger volume consumers, are now entitled to a rebate equal to 50 per cent of the amount by which the average spot market price exceeds 3.8¢/kWh. A more detailed description of these changes is provided under the section entitled "Ontario Electricity Market".

In December 2003, there were significant changes to OPG's senior management structure, with the Minister of Energy announcing that he had accepted the resignations of OPG's Chairman, President and Chief Executive Officer, Chief Operating Officer and all other members of the Board of Directors. In addition, the Government issued a declaration under the *Ontario Business Corporations Act* which requires prior shareholder approval of certain designated matters. The Government then announced the appointment of a new Chair and Board of Directors for an interim period. The new Board of Directors was asked to undertake a financial review of operations of the Company covering the past five years. Also, in December 2003, the Government formed the OPG Review Committee to provide advice on longer-term issues relating to the Company.

On January 14, 2004, the Government released the report of the Electricity Conservation and Supply Task Force ("Supply Task Force") that was established in June 2003 to provide an action plan outlining ways to attract new electricity generation and to identify and review options for the delivery of demand side management and demand response activities within the electricity sector. Recommendations of the Supply Task Force pertaining to market design addressed regulated pricing of electricity, authority of the IMO and supply arrangements. In addition, the Supply Task Force provided a variety of recommendations designed to encourage conservation; promote renewable power technologies and distributed generation; and improve the responsiveness and reliability of the power grid. The Supply Task Force also made recommendations specifically related to the future role of OPG, recognizing that the OPG Review Committee will be providing more advice on longer term issues related to OPG.

Any changes resulting from the report of the OPG Review Committee and acceptance by the Government of some or all of the recommendations of the Supply Task Force, could alter the objectives, rules, regulations and operations of Ontario's electricity marketplace and significantly impact OPG and its role in the Ontario electricity market. As a result, the operating and financial position of OPG as outlined in this management's discussion and analysis may not be reflective of the on-going operations, financial position and prospects of OPG.

Key Performance Drivers, Strategic Initiatives and Future Direction

Until the various reviews referred to above are complete and further direction is obtained from the Government, OPG is continuing to pursue initiatives to ensure sufficient liquidity, increase productivity and the cost competitiveness of its generating assets, address the Pickering A return to service as well as changes to the management structure and role of OPG, optimize its organizational structure, and undertake sustainable development initiatives aimed at continuous and measurable improvement in environmental performance.

Ensure Sufficient Liquidity

OPG has significant annual cash disbursement requirements, which include expenditures relating to capital improvements and maintenance at generating stations, expenditures necessary to comply with environmental or other regulatory requirements, Market Power Mitigation Agreement rebate payments, annual funding obligations under the Ontario Nuclear Funds Agreement, pension funding and debt maturities with the Ontario Electricity Financial Corporation ("OEFC"). To date, through a combination of funds generated from operations and separate debt deferral arrangements with the OEFC, OPG has had adequate funds to meet its obligations.

In March 2002, OPG reached an agreement with the OEFC to extend the maturity dates on $200 million of debt from 2002 to 2004. OPG also reached agreement with the OEFC in February 2003 to extend the maturity dates on $700 million of debt maturing in 2003 and 2004 by two years. Additionally, in 2003, OPG sold $300 million of its receivables to an independent trust, which holds a variety of third party receivables, and received proceeds of a $225 million note from Bruce Power.

OPG's current credit facilities are adequate to meet expected cash requirements over the next twelve months. However, the cash requirements currently anticipated beyond the twelve month period could exceed the levels in these facilities. In order to meet longer-term liquidity requirements and funding commitments, OPG must successfully access extended or additional sources of liquidity. OPG is examining options which could include additional payment deferrals, incremental borrowings, or other forms of financial or operating restructuring.

Increase Productivity and Cost Competitiveness 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 lower cost hydroelectric generation.

The performance of OPG's nuclear generating stations continued to improve from 1999 through 2002. By 2002, energy production had increased by 7 per cent over 1999 levels, while the net capacity factor had increased to 86 per cent from 80 per cent in 1999. These performance metrics declined in 2003 due to higher planned and forced outage days at the Pickering B nuclear generating station and higher planned outage days at OPG's Darlington nuclear generating station related to the regulatory requirement for major testing of the containment systems. In 2004, OPG plans to focus on initiatives that will improve the material condition of the physical plant and equipment, and improve energy production and capacity factors. It is expected that these initiatives will require significant increases in spending levels over at least the next five years. OPG is also focussing on improvements in control over projects and other productivity improvements.

OPG's fossil-fueled generating stations operate as base load, intermediate and peaking facilities depending on the characteristics of the particular stations. Significant environmental improvements to these stations were completed during 2003, including the installation of selective catalytic reduction equipment for the purpose of emissions reduction on four units, two at Lambton and two at Nanticoke. Energy produced from OPG's fossil stations totaled 39.0 TWh in 2003, slightly below a production high of 42.4 TWh in 2000.

OPG has recently received confirmation from the Government that it will require the phase-out of the coal-fired generating stations by 2007.

In February 2004, the Government announced the selection of a technical advisor to oversee a competitive contracting process to address the Government's commitment to phase out coal-fired plants and to enhance Ontario's supply of renewable energy. The Government is instituting a process to seek up to 2,500 megawatts of new generation capacity and/or demand-side management initiatives to be in place by as early as 2005, but no later than 2007. The Government will also be seeking up to 300 MW of renewable energy capacity to be in service as soon as possible.

OPG's 65 hydroelectric generating stations are utilized primarily for baseload purposes due to their operating characteristics and low marginal production costs. Certain stations with water storage capabilities are also used as intermediate or peaking capacity. OPG's hydroelectric generation has ranged between 31.6 TWh and 38.8 TWh over the past 30 years. Due to significantly lower than normal water levels, hydroelectric generation in 2003 was 32.4 TWh, which is at the lower end of the 30 year average. In 2004, OPG plans to continue to invest in maintaining the long-term viability of its hydroelectric assets.

Pickering A Return To Service

In September 2003, OPG declared Pickering A Unit 4 to be commercially available and informed the IMO that the unit was available for dispatch into the Ontario market, adding 515 MW of base load capacity in Ontario.

In May 2003, in response to concerns related to increasing costs and delays in the return to service of the Pickering A units, Ontario's former Minister of Energy announced that a three-member panel (the "Pickering A Review Panel") had been appointed to review the Pickering A return to service project. The Pickering A Review Panel was asked to: determine the reasons and reasonableness of the changes in the schedule and return to service dates; determine the reasons and reasonableness of cost estimates and cost increases; review the financial reporting for project costs; make recommendations to the Minister on means of improving the management of the project to restore the Pickering A generating station to full operation, including measures to ensure the cost-effective and timely completion of the project; and make such further review, determination or recommendation as the Minister may require.

On December 4, 2003, the Report of the Pickering A Review Panel was released. The Pickering A Review Panel found that initial assumptions about the scope and complexity of the project, regulatory requirements, and work schedule were flawed. The Pickering A Review Panel also found that fundamental failures were evident in areas related to project management, including the failure to sufficiently plan the restart project, as well as to put in place the necessary processes to monitor progress effectively. The Pickering A Review Panel report concluded "the failings of the Unit 4 restart execution have been recognized by OPG, and over the past few months, more appropriate project management and oversight arrangements have been put in place". The Pickering A Review Panel recommended that a decision as to whether to continue with the restart of the remaining units be made as soon as possible. OPG is continuing to focus on the engineering, planning and assessing for the return to service of the second unit. All engineering and other work on the third and fourth units have been suspended.

Changes in Management Structure and Role of OPG

As noted, in December 2003, the Government announced it had accepted the resignations of OPG's Chairman, President and Chief Executive Officer, and Chief Operating Officer, as well as the resignations of all other members of the Board of Directors. The Government appointed an acting President and CEO, Richard Dicerni, who previously served as Executive Vice-President and Corporate Secretary of OPG. In December 2003, a new Board of Directors for OPG was appointed for an interim period, with the Honourable Jake Epp named Chairman of the Board.

The Board of Directors currently act as the Audit Committee. As of December 2003, the other committees of the Board of Directors have been suspended for an interim period. However, the Board of Directors as a whole fulfils the obligations of the other committees.

The Government passed a declaration restricting the powers of the Board of Directors with respect to certain personnel matters and expenditures related to Pickering A units 1, 2 and 3. OPG is also subject to a shareholder's agreement relating to certain aspects of the governance of OPG. The agreement addresses matters such as approvals of business transactions, provision of information and dividend policy.

On December 16, 2003, the Government asked OPG's new Board to undertake a financial review of operations of the Company. In January 2004, the Board appointed KPMG LLP to conduct the review, with a focus on the annual business plans of OPG from 1999 to 2003. The KPMG review will serve to identify and quantify the impact of the changes that occurred in each year, as well as those that occurred relative to the baseline business plan**.**

In addition, in December 2003, the Government also announced the formation of the OPG Review Committee to provide advice on longer-term issues relating to OPG. The OPG Review Committee has been asked to make recommendations on the role of OPG in the Ontario electricity market, the appropriate future structure of OPG, its corporate governance and senior management structure, and the potential return to service of Pickering A Units 1, 2 and 3. The recommendations and the Government's response to them could have a material impact on OPG's operations, financial position, structure and prospects.

Decontrol

OPG's initiatives to meet its originally mandated decontrol obligations have been directly impacted by recent government declarations. To address the possibility that OPG could exercise market power after market opening, the Province in 1999 approved a "Market Power Mitigation" framework to protect the interests of consumers, while ensuring an orderly and gradual transition to an industry structure in which OPG's share of generating capacity available to the Ontario market would be substantially reduced. As part of its obligations under this framework, OPG commenced a decontrol plan. OPG entered into a long-term lease agreement with Bruce Power for the Bruce nuclear generating stations and sold four hydroelectric stations on the Mississagi River. In order to fully satisfy its mandated requirements, further decontrol would be required. However, the Government has stated that there will be no further sale of publicly owned generation assets. OPG expects this issue will be addressed as a result of the report of the OPG Review Committee. Another key element of the Market Power Mitigation framework is the rebate obligation of OPG. (See "Market Power Mitigation Agreement Rebate" section).

Optimize Organizational Structure

OPG continues to pursue initiatives to improve the cost competitiveness and operational flexibility of its business. In December 2001, OPG approved a restructuring plan that targeted a company-wide staff reduction of approximately 2,000 employees. In total, 1,450 employees accepted severance packages. OPG's original target was based on the decontrol of additional generating assets which have not occurred, and certain assumptions with respect to the condition of the nuclear generating stations. OPG's other initiatives, including a continual commitment to workforce skills development and cooperative labour relations, will contribute to greater operational flexibility and enhanced productivity.

Sustainable Development Commitment and Performance

OPG is committed to sustainable development. The Company's goals include: meeting all environmental legislative requirements and voluntary commitments; maintaining our ISO 14001 environmental management system certification; integrating environmental and social factors into planning, decision-making, and business practices; developing the use of renewable energy and energy efficient technologies; and measuring and communicating progress towards achieving sustainable development, as reflected in OPG's Towards Sustainable Development Annual Progress Report.

Other Strategic Initiatives

OPG is contributing to new capacity in Ontario. The Brighton Beach generating station is being constructed near Windsor, Ontario by a limited partnership formed by OPG with ATCO Power Canada Ltd., and ATCO Resources Ltd. The 580 MW gas-fired generating station is scheduled to be in-service by mid-2004. The partnership signed an energy conversion agreement with Coral Energy Canada Inc. ("Coral") under which Coral will deliver natural gas to the station and own, market, and trade all the electricity produced.

In December 2002, OPG entered into a partnership with TransCanada Energy Ltd., called Portlands Energy Centre L.P. The partnership is continuing to pursue the feasibility of developing a 550 MW gas-fired, combined cycle, co-generation 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. OPG is awaiting further details on the process referred to previously, under which the Government is instituting a process to seek up to 2,500 MW of new capacity.

In August 2003, Ontario's former Energy Minister announced that the Government was proceeding with a study for the expansion of the Sir Adam Beck Generating Station near Niagara Falls. The study is expected to be completed by spring 2004. OPG is also reviewing the economic feasibility of an underground tunnel from above Niagara Falls to the existing Sir Adam Beck facility to increase electricity output at the existing generating station. OPG is awaiting further Government direction on its role with regard to this project.

ONTARIO ELECTRICITY MARKET

On May 1, 2002, Ontario opened its wholesale and retail electricity markets to competition ("market opening"). Generators, wholesalers, suppliers and marketers, both from within and outside Ontario compete to sell electricity into, and buy electricity out of, the real-time energy market or spot market administered by the IMO.

Following market opening, OPG and other generators in Ontario had to offer their entire production into the spot market in order to be dispatched by the IMO. In addition to revenue earned from spot market sales, revenue is earned by offering to supply operating reserve and contracting to supply other ancillary services. Generators and other suppliers also earn revenue through offering financial risk management products and sales of energy-related products and services to meet customers' needs for energy solutions.

In December 2002, the Government of Ontario passed into law the *Electricity Pricing, Conservation and Supply Act, 2002* and subsequently, in March 2003, announced a Business Protection Plan for large electricity consumers in Ontario. Along with certain other changes, the legislation and related regulations set electricity commodity prices at 4.3¢/kWh for low volume consumers (consumers using up to 250,000 kWh annually), those consumers who have a demand of 50 kW or less, and other designated consumers. The 4.3¢/kWh price was made retroactive to May 1, 2002. Except for certain designated consumers, all consumers using above 250,000 kWh per year remain in the competitive markets and received rebates under the terms of the existing Market Power Mitigation Agreement for the 12 months ended April 30, 2003. Effective May 1, 2003, rebates to these customers were fixed at 50 per cent of the amount by which the average spot market price exceeds 3.8¢/kWh, and are paid quarterly by the IMO.

In December 2003, the Government of Ontario passed into law the *Ontario Energy Board Amendment Act (Electricity Pricing), 2003*. This legislation amends the *Ontario Energy Board Act, 1998* by setting out a new mechanism by which the commodity price for electricity will be established for low volume and designated consumers. The fixed price of 4.3¢/kWh, previously established for those consumers, will be amended beginning April 1, 2004 to 4.7¢/kWh for the first 750 kWh consumed each month. Consumption beyond 750 kWh each month is priced at 5.5¢/kWh. The new legislation also requires that on or after May 1, 2005, the commodity price for these consumers will be as determined by the Ontario Energy Board ("OEB") in accordance with regulations to be established at a later date. The arrangements in place for consumers using above 250,000 kWh per year, as outlined above, were not amended by the December 2003 legislation.

In addition, as noted under the "Market Power Mitigation Agreement Rebate" section that follows, to date, the changes in legislation and related regulations that fix prices for certain consumers do not impact the calculation of the rebate payments made by OPG to the IMO. OPG continues to be responsible for a rebate commitment based on the existing Market Power Mitigation Agreement.

BUSINESS 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 that 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 IMO-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 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. Prior to market opening, OPG sold electricity directly to wholesale electricity customers in Ontario and to interconnected markets.

OPG has entered into various energy and related sales contracts with its customers to hedge commodity price exposure to changes in electricity prices associated with the spot market for electricity in Ontario. Contracts that are designated as hedges of OPG's generation revenues are included in Generation segment activities. Gains or losses on these hedging instruments are recognized in revenue over the term of the contract when the underlying hedged transactions occur.

Energy Marketing Segment

The Energy Marketing segment derives revenue 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 IMO spot 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 a 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 other services. Non-energy revenue also includes isotope sales to the medical industry and real estate rentals.

DISCUSSION OF OPERATING RESULTS

Generation Segment

(millions of dollars)	**2003**	**2002**
Revenue, net of Market Power Mitigation Agreement rebate	**4,790**	5,364
Fuel expense	**1,678**	1,604
Power purchased	**-**	290
Gross margin	**3,112**	3,470
Operations, maintenance and administration:		
Expenses excluding Pickering A Return to Service	**2,072**	2,052
Pickering A Return to Service	**258**	411
Depreciation and amortization	**496**	459
Accretion on fixed asset removal and nuclear waste management liabilities	**430**	411
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(238)**	(243)
Property and capital taxes	**98**	101
(Loss) income before the following:	**(4)**	279
Impairment of long-lived assets	**576**	-
(Loss) income before income taxes	**(580)**	279

Impairment of Long-lived Assets

Based on the Government's commitment to close the coal-fired generating stations by 2007, the Nanticoke, Lambton, Thunder Bay and Atikokan coal-fired generating stations would be removed from service before the end of their previously estimated useful lives. The service lives for the coal-fired generating stations were previously estimated as follows: Lambton – 2010 to 2020; Nanticoke – 2015; Thunder Bay – 2021; and Atikokan – 2025. The termination of operating cash flows from these stations after 2007 resulted in an impairment loss of $576 million being recognized as a charge to operating expenses.

August 14, 2003 Power Blackout

On August 14, 2003, a power blackout originating in the United States affected most of Ontario and the northeastern United States. Following the blackout, OPG took immediate action to return its generating stations to service. Hydroelectric stations were reconnected to the transmission system within hours of the blackout. By Friday August 15, 2003, about 60 per cent of OPG's generating capacity, including OPG's hydroelectric stations and a significant portion of fossil station capacity and some nuclear capacity, was reconnected to the transmission system. By Monday August 18, 2003, about 85 per cent of OPG's available capacity was reconnected to the transmission system, including all four units at OPG's Darlington nuclear generating station. Generating capacity was fully restored by August 29, 2003.

OPG has estimated that the blackout resulted in a reduction in gross margin of approximately $60 million to $70 million and net income of approximately $40 million to $50 million, including the impact of lost revenue and higher operating costs to restore generating capacity.

Gross Margin

Gross margin from electricity sales in the Generation segment was $3,112 million for 2003 compared to $3,470 million for 2002, a decrease of $358 million. The decrease in gross margin was mainly due to lower electricity generation, including the impact of the blackout, and higher costs for coal, oil, and natural gas for fossil-fueled stations. The impact of these factors on gross margin was partially offset by higher average energy prices for 2003 compared to last year.

Upon closing the operating lease agreement for the Bruce nuclear generating stations with Bruce Power in May 2001, OPG was obligated to purchase and resell all of Bruce Power's electricity generation up to May 1, 2002, the date the Ontario electricity market opened. Upon market opening, Bruce Power began selling electricity directly into the IMO-administered real-time energy spot market, thereby lowering OPG's volume and revenue and eliminating the associated costs for power purchases from Bruce Power. The impact on gross margin of discontinuing the purchases and resale of electricity from Bruce Power in 2003 compared to 2002 was not significant.

Revenue

(millions of dollars)	**2003**	**2002**
Spot market sales, net of financial transactions	**6,223**	4,250
Market Power Mitigation Agreement rebate	**(1,510)**	(907)
Electricity sales (prior to market opening)	**-**	1,939
Other	**77**	82
Total generation revenue	**4,790**	5,364

Generation revenue was $4,790 million for the year ended December 31, 2003 compared to $5,364 million for 2002, a decrease of $574 million. The decrease in generation revenue was primarily due to lower electricity sales volumes resulting from lower production from OPG's generating stations and the termination, upon market opening, of the agreement to purchase and resell all of Bruce Power's electricity generation. The impact of the reduction in volumes on revenue was partially offset by higher average electricity prices in 2003 compared to 2002.

Electricity Prices

A significant portion of OPG's energy sales are subject to an average annual revenue cap of 3.8¢/kWh through the Market Power Mitigation Agreement rebate mechanism. OPG's average spot market sales price for 2003, after taking into account the Market Power Mitigation Agreement rebate, was 4.4¢/kWh. This compared to 4.4¢/kWh for the period May 1, 2002 to December 31, 2002, subsequent to market opening, and the fixed revenue rate of 4.0¢/kWh prior to market opening in 2002.

Spot market prices in Ontario during the first half of 2003 were higher compared to the same period last year due primarily to the impact of prolonged cold winter temperatures, a cool spring, and higher natural gas prices. For the first six months of 2003, OPG's average spot market price after taking into account the Market Power Mitigation Agreement rate was 4.6¢/kWh compared to 3.5¢/kWh for May and June of 2002, and the fixed revenue rate of 4.0¢/kWh prior to market opening in 2002. Spot market prices during the second half of 2003 decreased compared to last year primarily due to more moderate summer and fall temperatures and lower electricity demand. For the second half of 2003, OPG's average spot market prices were 4.1¢/kWh compared to 4.8¢/kWh for the same period last year. There were 3,971 Heating Degree Days[1] and 312 Cooling Degree Days[2] during 2003 compared to 3,632 Heating Degree Days and 517 Cooling Degree Days during 2002. The ten-year weather normal average is 3,772 Heating degree Days and 338 Cooling Degree Days.

Market Power Mitigation Agreement Rebate

To address the potential for OPG to exercise market power in Ontario, OPG is required by its generation licence, issued by the OEB, to comply with prescribed market power mitigation measures, including a rebate mechanism (the "Market Power Mitigation Agreement"). Under the rebate mechanism, for the first four years after market opening, a significant portion of OPG's expected energy sales in Ontario is subject to an average annual revenue cap of 3.8¢/kWh. OPG is required to pay a rebate to the IMO equal to the excess, if any, of the average hourly spot energy price over 3.8¢/kWh for the amount of energy sales subject to the rebate mechanism.

Under OPG's generation licence, the Company has the ability to reduce the amount of energy subject to the Market Power Mitigation Agreement rebate by the transfer of effective control of certain of its generating facilities to other market participants. As OPG transfers effective control of facilities and meets certain milestones, it can apply to the OEB for an order determining that the transactions represent the transfer of effective control and thereby reduce a portion of the Market Power Mitigation Agreement rebate obligation. As previously noted, the Government has stated that there will be no further sale of publicly owned generation assets.

In May 2001, OPG completed the agreement to lease its Bruce nuclear generating stations to Bruce Power and in May 2002, OPG completed the sale of four hydroelectric generating stations located on the Mississagi River to the Mississagi Power Trust. In April 2003, in response to applications filed with the OEB, the OEB ruled that OPG had transferred effective control of the Bruce nuclear generating stations and the Mississagi River stations. Accordingly, the OEB agreed to a reduction in the amount of energy subject to the rebate mechanism. The approval of these applications reduced volumes subject to the Market Power Mitigation Agreement rebate for the twelve-month settlement period ended April 30, 2003 from 101.8 TWh to 81.4 TWh. This reduction in the amount of energy subject to the rebate mechanism also applies to the balance of the rebate obligation period. These approvals do not affect the rebate provided to customers under the Business Protection Plan.

In accordance with the Market Power Mitigation Agreement, the rebate is calculated after taking into account the amount of energy sales subject to the rebate mechanism for only those generating stations that OPG continues to control. Since the average hourly spot price during 2003 and 2002 exceeded the 3.8¢/kWh revenue cap, OPG recorded a Market Power Mitigation Agreement rebate of $1,510 million during 2003 and $907 million in 2002. The total Market Power Mitigation Agreement rebate of $2,417 million represented 23 per cent of generation segment revenue since market opening.

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

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

In April 2003, the former Minister of Energy issued a Directive changing the procedure for calculating, allocating and passing through the Market Power Mitigation Agreement rebate. Under the Directive, the first rebate payment was based on the nine-month period that commenced on market opening, May 1, 2002, and ended January 31, 2003, less OPG's interim payment to the IMO of $335 million in 2002. For subsequent periods through April 30, 2006, OPG makes quarterly rebate payments to the IMO. OPG paid a total of $1,673 million in rebates to the IMO during 2003. The IMO passes the rebate payments on to market participants in accordance with the terms of the Directive and the Business Protection Plan.

At December 31, 2003, the Market Power Mitigation Agreement rebate payable was $409 million, which represents the rebate for the period August 1, 2003 to December 31, 2003. At December 31, 2002, the Market Power Mitigation Agreement rebate payable was $572 million.

Volume

	2003	**2002**
Total Energy Available for the Generation Segment (TWh)		
Electricity generation:		
Nuclear	**37.7**	41.9
Fossil	**39.0**	39.6
Hydroelectric	**32.4**	34.3
Total electricity generation	**109.1**	115.8
Power purchased	**-**	7.4
Other	**-**	(0.1)
Total Energy Available for the Generation Segment	**109.1**	123.1

Electricity sales volumes for 2003 were 109.1 TWh compared to 123.1 TWh for 2002. The decrease in volume was due to the completion of the agreement to purchase and resell electricity produced by the Bruce nuclear generating stations from Bruce Power, and lower production from OPG's generating stations. OPG purchased and resold 6.8 TWh of electricity from Bruce Power between January 1, 2002 and May 1, 2002. The decrease in generation was due in part to the impact on nuclear production of the regulatory requirement for a station containment outage at OPG's Darlington generating station, which occurs every 6 years, higher planned and forced outage days at OPG's Pickering B generating station and the impact of the blackout. Hydroelectric generation decreased in 2003 compared to last year as a result of significantly lower water levels during the first half of 2003 compared to 2002. Less water flowed into the system during the 2003 spring freshet (water produced from melting snow) due to a lack of rain and lower than normal snowfall. Fossil generation was slightly lower in 2003 compared to 2002 as a result of lower demand in the second half of 2003, resulting from the more moderate summer and fall temperatures compared to last year.

Fuel Expense

Fuel expense for 2003 was $1,678 million compared to $1,604 million for 2002, an increase of $74 million. The increase was due to higher costs for coal, oil and natural gas used for fossil-fueled generation. The impact of higher fuel costs was partially offset by lower fuel consumption due to a decrease in generation from OPG's fossil and nuclear generating stations, and a decrease in the Gross Revenue Charge ("GRC") resulting from lower hydroelectric production. GRC payments are based on the gross revenue derived from the annual generation of electricity from the hydroelectric generating stations and are dependent on both electricity prices and hydroelectric production. For 2003, gross revenue was calculated based on a fixed electricity price of $40/MWh under the regulations of the *Electricity Act,* 1998.

Power Purchases

During 2003, there were no power purchases attributable to the Generation segment. Subsequent to market opening, OPG no longer has a requirement to purchase electricity from Bruce Power or a requirement to purchase electricity to meet Ontario market demand. For 2002, power purchased was $290 million based on purchases of 7.4 TWh, primarily from Bruce Power.

Operations, Maintenance and Administration

Operations, maintenance and administration ("OM&A") expenses, excluding the Pickering A return to service initiative, were $2,072 million for 2003 compared to $2,052 million for 2002, an increase of $20 million. Increases in the scope and extent of planned and forced outage work and improvements at OPG's Pickering B nuclear generating station, and planned outage work at OPG's Darlington nuclear generating station contributed to an increase in OM&A expenses in 2003 of $77 million compared to last year. Increases to scheduled outage work and extended maintenance work for OPG's fossil stations also contributed to an increase in OM&A expenses of $32 million compared to 2002. In addition, there was a one-time reduction in expenses in 2002 of $24 million resulting from a settlement agreement with the Worker's Safety and Insurance Board ("WSIB"), which assumed the liabilities with respect to OPG's existing and future worker's compensation claims in exchange for a cash payment.

Increases in OM&A expenses in 2003 were partially offset by additional savings of $50 million related to OPG's restructuring initiative. Also, in 2002, OPG recorded a $25 million charge for surplus and obsolete materials and supplies at the nuclear generating stations. Other reductions in OM&A expenses in 2003 compared to last year, including lower pension and other post employment benefit expenses, totaled $38 million.

Pickering A Return To Service

OM&A expenses related to the Pickering A return to service initiative were $258 million for 2003 compared to $411 million for 2002, a decrease of $153 million. The decrease was primarily due to a reduction in the level of construction activities in 2003 as work was completed on the first unit being returned to service.

Depreciation and Amortization

Depreciation and amortization expense for 2003 was $496 million compared to $459 million for the same period in 2002, an increase of $37 million. The higher depreciation in 2003 compared to last year was due to an increase in the value of assets in service with the completion of the first unit at Pickering A and the completion of the selective catalytic reduction equipment.

As a result of the expected early shutdown of the coal-fired generating stations by the end of 2007, depreciation expense is expected to increase by approximately $500 million during the period from 2004 to 2007, compared to what would otherwise be recorded during that period if the coal-fired generating stations remained in service until the end of their previously estimated useful lives

Accretion

Accretion arises because liabilities for fixed asset removal and nuclear waste management are reported on a net present value basis, using a credit-adjusted risk-free rate of 5.75 per cent to discount the cash flows. Accretion expense is the increase in the carrying amount of the liabilities due to the passage of time. Accretion expense for 2003 was $430 million compared with $411 million in 2002. The increase of $19 million was due to the higher liability base in 2003, to which the credit-adjusted risk-free rate is applied.

Prior to 2003, OPG reported a revalorization expense that was comprised of accretion expense, net of the interest earned on the receivable from the OEFC and earnings on the nuclear fixed asset removal and nuclear waste management funds. Beginning in 2003, earnings on the funds and accretion expense are disclosed separately. Comparable amounts for 2002 have been reclassified.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

In July 2003, OPG and the Province completed arrangements pursuant to the Ontario Nuclear Funds Agreement ("ONFA"), which required the establishment of a segregated custodial funds arrangement to hold the nuclear fixed asset removal and nuclear waste management funds. To comply with ONFA, OPG transferred the assets in the nuclear fixed asset removal and nuclear waste management funds to segregated custodial funds called the Decommissioning Fund and the Used Fuel Fund. In addition, the receivable due from the OEFC of $3.1 billion was transferred into the Decommissioning Fund in the form of a $1.2 billion cash payment and an interest bearing note of $1.9 billion.

Prior to the establishment of the new segregated funds, investments were primarily made in fixed income securities. Assets in the new segregated funds are invested in debt and equity securities. The segregated fund assets are treated as long-term investments and accounted for at amortized cost. As such, there may be unrealized gains and losses at each reporting date. Earnings on the nuclear fixed asset removal and nuclear waste management funds for 2003 were $238 million compared to $243 million in 2002, a decrease of $5 million. At December 31, 2003, net unrealized gains in the Decommissioning Fund totaled approximately $160 million (fund assets at amortized cost of $3,641 million and market value of $3,801 million).

Under ONFA, the Province guarantees the rate of return in the Used Fuel Fund at Ontario Consumer Price Index ("CPI") plus 3.25 per cent ("committed return"). OPG recognizes the committed return on the Used Fuel Fund as earnings on the fixed asset removal and nuclear waste management funds. The difference between the committed return on the Used Fuel Fund and the actual net return, based on the fair value of the fund assets, which includes realized and unrealized returns, is due to or due from the Province. As a result of the committed return, the recognized income of the Used Fuel Fund, using either amortized cost of investments or market values, is the same.

Operating Licences

In June 2003, the Canadian Nuclear Safety Commission announced its decision to renew the operating licences of OPG's Pickering A and Pickering B nuclear generating stations. The licence for Pickering B is a five year operating licence, ending June 30, 2008. The Pickering A operating licence is for two years, ending June 30, 2005. OPG's Darlington nuclear station was granted its five-year licence in February 2003.

Energy Marketing Segment

Since market opening in May 2002, OPG has transacted with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities ranging from one day to one year. These activities relate primarily to physical energy that is purchased and sold at the Ontario border, the sale of financial risk management products and sales of energy-related products and services to meet customers' needs for energy solutions. Prior to market opening, OPG's energy marketing activity was not a reportable business segment. Accordingly, the comparative amounts for 2002 reflect only the activities from May 1, 2002 to December 31 2002.

(millions of dollars)	**2003**	**2002**
Revenue, net of power purchases	**68**	59
Operations, maintenance and administration	**8**	6
Income before income taxes	**60**	53

Revenue

For the year ended December 31, 2003, Energy Marketing revenue was $68 million compared to $59 million in 2002. The increase of $9 million reflected a full year of operations in 2003 compared to eight months in 2002, subsequent to market opening in May 2002. Moderate temperatures in the summer and fall of 2003 resulted in lower volatility in the electricity market and limited the opportunities for short-term trading activities compared to the same period last year.

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 the year ended December 31, 2003 would have increased by $189 million (2002 - $91 million), with no impact on net income.

Non-Energy and Other

(millions of dollars)	**2003**	**2002**
Revenue	**320**	323
Operations, maintenance and administration	**55**	55
Depreciation and amortization	**107**	102
Property and capital taxes	**16**	14
Loss on transition rate option contracts	**30**	210
Income (loss) before the following:	**112**	(58)
Restructuring	**-**	222
Other income	**58**	171
Net interest expense	**144**	150
Income (loss) before income taxes	**26**	(259)

Revenue

Non-energy revenue primarily consists of lease and other revenue derived under the lease agreement with Bruce Power. Under this agreement, the Company leased its Bruce A and Bruce B nuclear generating stations until 2018, with options to renew for up to another 25 years. Non-energy revenue for 2003 was $320 million compared to $323 million in 2002. The decrease in revenue of $3 million in 2003 was mainly due to lower revenue from engineering services and the reduction of interest income related to the $225 million note receivable from Bruce Power, upon receipt of the amount outstanding in February 2003.

Loss on Transition Rate Options

Under a 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 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 expectations of 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.

Other Income

Other income was $58 million in 2003 compared to $171 million in 2002, a decrease of $113 million. OPG recorded total gains of $58 million in 2003 from the sale of long-term investments. During 2002, OPG recorded total gains of $54 million from the sale of long-term investments, a gain of $99 million from the sale of four hydroelectric generating stations located on the Mississagi River, $11 million from the sale of the Nuclear Safety Analysis Division and $7 million from the sale of OPG's investments in New Horizon Systems Solutions and Kinectrics Inc.

Income Tax

The effective income tax recoverable rate on the loss before income taxes was 0.6 per cent. Note 11 to the consolidated financial statements outlines the reasons for the differences in 2003 between the effective income tax recoverable rate and the combined Canadian federal and provincial statutory income tax rate of 36.6 per cent. The lower effective income tax recovery rate was primarily due to a valuation allowance to recognize that based on current prospects, it is more likely than not that a portion of the income taxes recoverable related to the impairment loss will not be realized. In addition, the income tax recoverable rate was further reduced by the impact of large corporations tax, which is not dependent on earnings, and a change in the future income tax rate from 30.1 per cent to 34.1 per cent as a result of the increase in the Provincial income tax rate. The effective income tax rate for 2002 was 8.2 per cent.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow provided by operating activities in 2003 was $97 million compared to $844 million in 2002, a decrease of $747 million. The decrease in cash flow was largely due to payments of the Market Power Mitigation Agreement rebate totaling $1,673 million in 2003 compared to payments of $335 million in 2002. These payments, along with the related changes in the Market Power Mitigation Agreement rebate payable, resulted in a net decrease in cash flow of $735 million compared to 2002. The decrease in cash flow was also due to increased contributions of $153 million to the pension fund and higher contributions of $141 million to the nuclear fixed asset removal and nuclear waste management funds. The impact of this decrease in cash flow was partially offset by proceeds from the receipt of the $225 million receivable from Bruce Power and other changes in non-cash working capital and other factors of $57 million.

Electricity prices exhibit seasonal variations related to changes in demand. Prices are expected to be higher in the first and third quarters of a fiscal year as a result of winter heating demands in the first quarter and air conditioning/cooling demands in the third quarter. Although the Market Power Mitigation Agreement rebate and the Company's hedging strategies significantly reduce the impact of the seasonal price fluctuations on the Company's results from operations, there can be significant volatility in earnings resulting from fluctuations in prices related to weather and other factors such as natural gas prices.

OPG is in a capital intensive business that requires OPG to continue to invest 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. Capital expenditures during 2003 were $643 million compared with $869 million during 2002. The decrease was primarily due to lower expenditures on the Pickering A return to service initiative due to a reduction in the level of construction activities in 2003, and the completion of certain major projects during 2003.

OPG made contributions of $153 million to the pension plan during 2003. OPG did not contribute to the pension plan in 2002. Using a going-concern funding basis, with assets at market value, OPG estimates that there is a registered pension fund deficit of $1.3 billion at December 31, 2003 (2002 - $1.6 billion deficit).

OPG also made contributions of $453 million to the nuclear fixed asset removal and nuclear waste management funds during 2003 compared to $312 million in 2002. OPG reduced its contributions to the nuclear fixed asset removal and nuclear waste management funds in 2002 in order to adjust for over-contributions in previous years.

The Company paid dividends to the Province of $17 million during 2003, related to 2002 net income, compared with $134 million in 2002. The amount paid in 2002 included a dividend related to proceeds received from the decontrol of the Bruce nuclear generating stations. Dividends are declared and paid to achieve an effective 35 per cent pay-out based on annual net income.

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

The interest rates on these notes did not change. The notes deferred and the new maturities are as follows:

Principal Amount of Senior Notes *(millions of dollars)*	Maturity Prior to Deferral	New Maturity
200	2003	2005
100	2004	2006
300	2004	2006
100	2004	2006

In March 2003, OPG renewed its $1,000 million revolving short-term committed bank credit facility. The credit facility had a revolving 364-day term, whereby if drawn, it could be extended for a two-year term. In December 2003, OPG extended the renewal date of the facility from March 2004 to May 2004. OPG has since extended the facility for a 364-day term, without the two-year term extension option, commencing May 2004. As noted, OPG has debt maturities and other payments after 2004, which may require additional financing.

Notes issued under the Company's Commercial Paper ("CP") program are supported by the bank credit facility. At December 31, 2003, OPG had no short-term notes outstanding under the CP program, compared with $182 million in 2002.

In May 2003, after consultation with the Province, OPG obtained approval from its Board of Directors to proceed with a securitization financing. In October 2003, OPG completed a revolving securitization agreement with an independent trust. Under the securitization agreement, the Company has sold an undivided co-ownership interest in certain current and future accounts receivable generated in the normal course of business. The securitization provides OPG with an opportunity to obtain an alternative source of funding. The average cost of funds for 2003 was 2.8 per cent. The initial net cash proceeds from this transaction of $300 million were used by OPG in the operation of its business.

Under the terms of the original operating lease agreement with Bruce Power, a $225 million note receivable was payable to OPG in two installments of $112.5 million, no later than four and six years from the date the transaction was completed. In February 2003, British Energy plc. disposed of its entire 82.4 per cent interest in Bruce Power. Upon closing of this transaction, the $225 million note receivable from Bruce Power was paid to OPG. Under ONFA, proceeds from the note are to be applied towards OPG's funding requirements with respect to the nuclear fixed asset removal and nuclear waste management liabilities by March 2008. Also, upon closing, lease payments commenced to be paid monthly. Minimum annual payments under the lease for 2004 to 2008 will be $190 million, subject to limited exceptions. The remaining terms of the operating lease agreement remain substantially unchanged.

Certain Energy Marketing agreements specify that additional collateral in the form of letters of credit or cash may become necessary under certain conditions. Additional collateral may become necessary if

OPG's debt rating were to decline and/or if market prices, relative to the contract prices, were to increase. OPG is also required to post collateral with Local Distribution Companies ("LDC's") as prescribed by the OEB's Retail Settlement Code. The amount of collateral required by LDCs varies depending on the size of OPG's customers embedded within a LDC franchise area. At December 31 2003, there were approximately $125 million of letters of credit issued for collateral requirements with LDC's, and also to support the supplementary pension plan.

The Company's contractual obligations and other commercial commitments as at December 31, 2003 are as follows:

(millions of dollars)	**2004**	**2005**	**2006**	**2007**	**2008**	**Thereafter**	**Total**
Fuel supply agreements	692	230	197	108	109	70	1,406
Contributions under ONFA	454	454	454	454	679	2,103	4,598
Long-term debt repayment	-	500	800	400	400	1,100	3,200
Unconditional purchase obligations	69	38	22	15	11	14	169
Long-term accounts payable	28	28	28	25	-	-	109
Operating lease obligations	10	10	9	9	9	10	57
Capital lease obligations	4	4	-	-	-	-	8
Other	60	7	7	7	7	23	111
Total	1,317	1,271	1,517	1,018	1,215	3,320	9,658

PICKERING A RETURN TO SERVICE

OPG completed the safety and environmental upgrades and other refurbishment work that were required to return to service Unit 4 at the Pickering A nuclear generating station. In September 2003, OPG declared Unit 4 to be commercially available and informed the Independent Electricity Market Operator that the unit was available for dispatch into the Ontario market.

OPG is continuing to focus on the engineering, planning and assessing for the return to service of the second unit. The design engineering work is largely complete. The planning, assessing and other activities that are required to finalize the cost and schedule estimate are expected to be largely complete by the spring of 2004. A limited amount of pre-requisite and advance project construction activity is underway to reduce the critical path, should there be a decision to proceed with the second unit. All engineering and other work on the third and fourth units have been suspended in order to reduce cost and permit a total focus on the second unit.

The OPG Review Committee appointed by the Government has been asked to report to the Minister of Energy with respect to its recommendations regarding the refurbishment of the remaining three units. The Board of Directors and the Province as shareholder, with input from the OPG Review Committee, will make a determination as to whether the remaining units will be returned to service.

Cumulative total expenditures on completing the return to service for Unit 4 and the common operating systems for the station totaled approximately $1,250 million. The total cumulative expenditures on all four units to the end of 2003 were $1,560 million.

CRITICAL ACCOUNTING POLICIES

OPG's significant accounting policies are outlined in note 3 to the consolidated financial statements. 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 that affect the Company's financial statements are listed below. In addition, the likelihood that materially different amounts would be reported under varied conditions and estimates and the impact of changes in certain conditions or assumptions is highlighted.

Impairment of Generating Stations and Other Fixed Assets

OPG's business is capital intensive and has required, and will continue to require, significant investments in property, plant and equipment. At December 31, 2003, the carrying amount of OPG's property, plant and equipment was $12,234 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. This approach is consistent with the requirement for determining impairment under the new Canadian Institute of Chartered Accountants ("CICA") accounting standard, *Impairment of Long-Lived Assets*, which OPG chose to early adopt in 2003.

The Government has expressed a commitment to phase-out OPG's coal-fired generating stations by 2007 and recently confirmed this commitment with OPG. This change in circumstance resulted in a requirement for OPG to test the recoverability of the carrying amount of its Nanticoke, Lambton, Thunder Bay and Atikokan generating stations. OPG has recognized an impairment loss of $576 million as a result of the termination of cash flows from these stations after 2007. The fair value of the 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.

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 the coal-fired generating stations and other assets could differ materially from the carrying values recorded in the financial statements.

OPG is required by regulation to cease burning coal at its Lakeview generating station by the end of April 2005. The Company has given notice to the IMO of the Company's intention to deregister the Lakeview generating station at that time. The carrying amount of the Lakeview generating station assets at December 31, 2003 was nil.

The Government has asked the OPG Review Committee to report to the Minister of Energy with respect to the return to service of the three units at the Pickering A nuclear generating station that remain out of service. The carrying amount of these three units, including construction in progress, was $161 million at December 31, 2003. If OPG does not proceed with the refurbishment work required to return these units to service, an impairment loss 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 for non-nuclear fixed asset removal costs related to the decommissioning of fossil generating stations. During the year, OPG early adopted the accounting standard issued by the CICA on asset retirement obligations, given the importance of this standard as it relates to OPG's asset retirement obligations. The new standard was adopted retroactively to 1999 when the liabilities were initially measured, resulting in a restatement of 2002.

As a result of the adoption of the new accounting standard, the asset retirement obligation and the related property, plant and equipment amounts have decreased to reflect the net reduction in the cost estimates for decommissioning and nuclear waste management. The net income impact was a reduction of $17 million in 2003 compared with an increase of $20 million in 2002. The changes resulting from adoption of the new accounting standard are summarized below:

Balance Sheets as at December 31 *(millions of dollars)*	**2003**	**2002**
Increase (decrease)		
Materials and supplies	**-**	(7)
Property, plant and equipment	**(233)**	(267)
Accumulated depreciation	**(142)**	(112)
Fixed asset removal and nuclear waste management	**(221)**	(314)
Future income taxes	**43**	48
Opening retained earnings	**104**	84

Statements of Income for Years ended December 31 *(millions of dollars)*	**2003**	**2002**
Increase (decrease)		
Fuel expense	**(3)**	(6)
Depreciation and amortization expense	**18**	(7)
Accretion on fixed asset removal and nuclear waste management liabilities	**7**	(16)
Future income tax expense	**(5)**	9
Net (loss) income	**(17)**	20

The estimate of nuclear fixed asset removal and nuclear waste management costs requires 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, and inflation rate, could result in significant changes in the value of the accrued liabilities.

Changes in the nuclear liability 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 liability, with a corresponding change in the related asset retirement cost capitalized as part of the carrying amount of the long-lived asset. Previously, these changes in assumptions were recognized over the remaining useful life of the nuclear facilities. Changes in the accrued liability due to the passage of time continue to be recognized over the life of the nuclear facilities based on the credit adjusted risk-free rate applicable when the liability was initially measured.

Pension and Other Post Employment Benefits

OPG's accounting for pension and other post employment benefits ("OPEB") 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 are not yet subject to amortization 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 real return over a 5 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.

At December 31, 2003, the unamortized net actuarial loss for the pension plan and other post employment benefits amounted to $1,247 million. Details on the unamortized net actuarial loss at December 31, 2003 are as follows:

(millions of dollars)	Registered Pension Plan	Supplementary Pension Plan	Other Post Employment Benefits
Net actuarial loss not yet subject to amortization due to use of market-related values	890	-	-
Net actuarial loss not subject to amortization due to use of corridor	34	10	131
Net actuarial loss subject to amortization in 2004	-	-	182
Unamortized net actuarial loss	924	10	313

Accounting Assumptions

Assumptions used in determining projected benefit obligations and the fair values of plan assets 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) costs for 2003 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	(24)	(1)	(4)
0.25% decrease	26	1	4
Inflation			
0.25% increase	40	1	na
0.25% decrease	(38)	(1)	na
Salary increases			
0.25% increase	7	4	na
0.25% decrease	(7)	(3)	na
Health care cost trend rate			
1% increase	na	na	24
1% decrease	na	na	(14)

na – change in assumption not applicable

RISK MANAGEMENT

OPG's portfolio of generation assets and electricity trading and marketing operations are subject to inherent risks, including financial, operational, regulatory and strategic risks. To manage these risks, OPG has implemented an enterprise-wide risk management framework which includes governance policies, organizational structures, and risk measurement and monitoring processes. While OPG believes it is pursuing appropriate risk management strategies, there can be no assurance that one or more of the risks outlined will not have a material adverse impact on OPG. The results following from the recommendations of the OPG Review Committee could have a material impact on these issues.

Oversight for risk management at OPG begins with the Board of Directors, who regularly monitor the Company's risk exposures and have approved the overriding governance policies, structures and limits for management of OPG's risks. A Risk Oversight Committee, which consists of senior officers and executives of OPG, has been established by the Chief Executive Officer to approve markets and products, monitor policies and compliance issues, and ensure the continuing effectiveness of overall corporate governance under the direction of the Board of Directors. Coordination of corporate-wide risk management activities occurs through a centralized corporate risk office. A well defined separation and independence exists between the corporate risk office and operational management.

OPG maintains a comprehensive trade capture and risk management system with related processes and controls. OPG's commercial activities are separated into portfolios to capture the risks inherent in each transaction for each portfolio. This process facilitates the effective identification and measurement of risks, and the application of appropriate position and risk limits for performance and risk management purposes. The methodology used to measure these risks includes the use of consistent and recognized risk measures for monitoring trading activities and the generation portfolio.

Risk Classification

For purposes of tracking and communicating risk information, the Company uses four major risk categories including financial, operational, regulatory and strategic:

- 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, human resources risks and information technology risks.
- Regulatory Risk: risk arising from uncertainty in existing or potential regulations, rules and laws, as well as possible non-compliance with those rules that could adversely impact the Company's competitive position and ability to achieve its business objectives. These include risks related to environmental, health and safety and nuclear regulations, and legal issues.
- Strategic Risk: these risks include potential changes in the business and political environment, reputational risks, business interruption 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. The following are the most important tools and metrics that OPG currently uses to measure, manage and report on risk:

- 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 in a certain period.
- Gross-Profit-at-Risk (GPaR) measures the full financial risk of highly volatile spot electricity prices by accounting for the duration of the contract in the calculation. GPaR is a longer-term measure and assumes that positions are taken through to delivery.
- 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 primarily in relation to Energy Markets.
- Risk self-assessments are conducted across OPG. Using standard criteria for assessing the probability and consequence of risk events, OPG business units conduct risk self-assessments and develop necessary risk mitigation plans. Risk information from the business units is independently assessed and aggregated by a central enterprise risk management function, which reports on enterprise-wide risk to the Audit Committee on a quarterly basis.

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, from fossil-fueled and hydroelectric facilities, will adversely impact OPG's earnings and cash flow from operations. A variable portion of both OPG's electricity production and overall fuel requirements are exposed to fluctuating spot market prices. To manage this risk, the Company maintains a balance between the commodity price risk inherent in its electricity production and plant fuel portfolios.

Open trading positions are subject to measurement against VaR limits, which measure the potential change in the portfolio's market value due to price volatility over a one-day holding period, with a 95 per cent confidence interval. VaR utilization ranged between $0.2 million to $1.6 million during 2003. VaR utilization ranged between $0.7 million to $2.4 million during 2002.

In addition to fixed price contracts for fossil and nuclear fuels, the Company periodically employs derivative instruments to hedge its commodity price risk. The percentage of OPG's generation and fuel requirements hedged over the next three years is shown below:

	2004	**2005**	**2006**
Estimated generation output hedged [1]	82%	79%	74%
Estimated fuel requirements hedged [2]	96%	80%	78%

[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 its Market Power Mitigation Agreement rebate and transition rate option contracts.

[2] Represents the approximate portion of megawatt-hours of expected generation production from all types of facilities (fossil, nuclear and hydroelectric) for which OPG has entered into some form of contractual arrangement or obligation in order to secure either the expected availability and/or price of fuel and/or fuel related services. Fuel in inventory is included. The percentage hedged by fuel type varies considerably and therefore a change in circumstances could have a significant impact on OPG's overall position.

Credit Risk

Credit risk is the potential for loss arising from the failure of counterparties to perform their contractual obligations. The majority of OPG's revenues are derived from sales through the IMO-administered spot market. OPG also derives revenue from several other sources including the sale of financial risk management products to third parties.

OPG's credit exposure is concentrated in the physical electricity market with the IMO. Credit exposure to the IMO fluctuates based on timing and is reduced each month upon settlement of the accounts. Credit exposure to the IMO peaked at $1,207 million during 2003. OPG's management believes that the IMO is an acceptable credit risk due to its primary role in the Ontario market. The IMO manages its own credit risk and its ability to pay generators by mandating that all registered IMO spot market participants meet specific IMO standards for creditworthiness and collateralization. OPG also measures its credit concentrations 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, 2003:

(millions of dollars)			Potential Exposure [2] for 10 Largest Counterparties	
Credit Rating [1]	Number of Counterparties	Potential Exposure [2]	Number of Counterparties	Counterparty Exposure
AAA to AA-	11	21	-	-
A+ to A-	42	222	6	174
BBB+ to BBB-	78	144	3	37
BB+ to BB-	23	32	1	12
B+ to B-	23	11	-	-
	177	430	10	223
IMO	1	493	1	493
Total	178	923	11	716

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

For all other counterparties, OPG's contracts allow for active collateral management to mitigate credit exposures. The contracts provide for a counterparty to post letters of credit or cash for exposure in excess of the established threshold. This could happen as a result of market moves 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.

The cash requirements currently anticipated beyond the next twelve month period could exceed OPG's current credit facilities. In order to meet these longer-term liquidity requirements and funding commitments, OPG must successfully access extended or additional sources of liquidity. OPG is currently examining options which could include additional payment deferrals, incremental borrowings, or other forms of financial or operating restructuring.

OPG's ability to arrange third-party financing is dependent on a number of factors including: general economic and capital market conditions; credit and capital availability from its Shareholder, banks and other financial institutions; maintenance of acceptable credit ratings; and the status of electricity market restructuring in Ontario.

The Company's liquidity is highly dependent on its debt rating and the mark-to-market value of contracts with counterparties. A change in the rating could result in additional collateral requirements with counterparties, depending on the mark-to-market value of the contracts. In particular, where counterparties are in a positive mark-to-market position and OPG is in a negative position, a downgrade of OPG's long-term debt ratings could trigger increased collateral requirements based on the provisions of the contracts.

Foreign Exchange and Interest Rate Risk

OPG's foreign exchange risk exposure is significant and is attributable to U.S. dollar-denominated transactions such as the purchase of fossil fuels. In addition, OPG's spot market revenues are materially influenced by the impact of changes in U.S. dollar exchange rates on fuel costs. OPG currently manages its exposure by periodically hedging portions of its anticipated U.S. dollar cash flows 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

Operational Risk is the risk of direct or indirect loss resulting from external events or from inadequate or failed internal processes, people, equipment and systems. 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. Business units are responsible for implementing a risk self-assessment and mitigation framework based on corporate standards.

Operational risk related to electricity trading and sales is quantified using a mathematical model based on banking industry practices. OPG plans to quantify operational risk across the company, in conjunction with standardized process for collecting loss data, key risk indicators and self-assessment results.

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 market impacts of uncertain output from its generating units or generation risk. The amount of electricity generated by OPG is affected by such risks as 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 these risks through on-going management review and assessments, internal audits and from experience of nuclear units around the world. The impact of these risks is assessed and mitigation strategies are developed and executed.

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 and its voluntary environmental programs. The regulatory requirements relate to discharges to the environment; the handling, use, storage, transportation, disposal and clean-up of hazardous materials, including both hazardous and non-hazardous wastes; and the dismantlement, abandonment and restoration 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 to apply the precautionary approach 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 became one of the first electric utilities in North America to obtain ISO 14001 registration for the EMSs at all its facilities. This registration is obtained and kept current annually by independent audits.

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 implemented internal monitoring, assessment and reporting programs to manage environmental risks such as air and water emissions, discharges, spills, radioactive emissions and radioactive wastes. Further, OPG makes regular reports to the Ministry of Environment with respect to its contaminated property remediation program.

In addition to the regular reports made to various regulators, the public receives frequent communications from OPG regarding OPG's environmental performance through community-based advisory groups representing communities surrounding OPG's major generating stations, annual environmental performance reports, community newsletters, open houses and the dissemination of information on OPG's website.

OPG manages its emissions of sulphur dioxide (SO_2) and nitrogen oxides (NO_x). Emissions are reduced through plant improvements and installation of specialized environmental 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 emission reduction credits (ERCs) to manage emission levels of nitric oxide within the prescribed regulatory limits and voluntary caps. ERCs are created when a source reduces emissions below the lower of previous actual emissions or the level required by regulation.

Canada has ratified the Kyoto Protocol requiring a six per cent reduction in greenhouse gas emissions from 1990 levels by the period 2008 to 2012. Prior to the ratification of the Kyoto Protocol, OPG voluntarily committed to reduce its greenhouse gas emissions, net of emission reduction credits used, to 1990 levels in 2000 and beyond. Negotiations with the federal and provincial governments to define OPG's target under the Kyoto regime began in 2003. Currently, there is no assurance that such limits would not impose significant costs on fossil electricity generators such as OPG, although the federal government has promised to cap the cost of CO_2 credits at $15 per tonne.

Regulation

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 *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.

RESULTS OF OPERATIONS

The following tables set out certain unaudited consolidated financial statement information for each of the eight most recent quarters ended December 31, 2003, and for the year ended December 31, 2001. The information reflects the retroactive change in accounting for asset retirement obligations adopted during 2003 and the reclassification of certain 2002 and 2001 comparative amounts to conform to the 2003 financial statement presentation. 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.

	2003 Quarters Ended				
(millions of dollars)	**March 31**	**June 30**	**September 30**	**December 31**	**Total Year**
Revenues	**1,480**	**1,246**	**1,224**	**1,228**	**5,178**
Gross margin	**997**	**849**	**842**	**812**	**3,500**
Depreciation and amortization	**141**	**147**	**149**	**166**	**603**
Accretion on fixed asset removal and nuclear waste management liabilities	**108**	**108**	**108**	**106**	**430**
Impairment of long-lived assets	**-**	**-**	**-**	**576**	**576**
Net income (loss)	**73**	**8**	**34**	**(606)**	**(491)**
Net (loss) per share based on 256.3 million shares					**$(1.92)**

	2003 Quarters as at			
(millions of dollars)	**March 31**	**June 30**	**September 30**	**December 31**
Property, plant and equipment	**14,891**	**15,051**	**15,183**	**14,775**
Accumulated depreciation	**2,090**	**2,232**	**2,381**	**2,541**
Fixed asset removal and nuclear waste management	**7,637**	**7,734**	**7,829**	**7,921**
Opening retained earnings	**361**	**417**	**425**	**459**

	2002 Quarters Ended				
(millions of dollars)	**March 31**	**June 30**	**September 30**	**December 31**	**Total Year**
Revenues	1,550	1,270	1,612	1,314	5,746
Gross margin	933	865	1,202	852	3,852
Depreciation and amortization	137	140	141	143	561
Accretion on fixed asset removal and nuclear waste management liabilities	103	103	102	103	411
Net (loss) income	(213)	70	220	(10)	67
Net income per share based on 256.3 million shares					$0.26

(millions of dollars)	2002 Quarters as at March 31	June 30	September 30	December 31
Property, plant and equipment	14,302	14,252	14,468	14,747
Accumulated depreciation	1,524	1,646	1,784	1,956
Fixed asset removal and nuclear waste management	7,272	7,353	7,448	7,539
Opening retained earnings	428	81	151	371

For the year ended December 31 *(millions of dollars)*	**2001**
Revenues	**6,239**
Net income	**189**
Net income per share based on 256.3 million shares	**$0.74**

Balance Sheets as at December 31 *(millions of dollars)*	**2003**	**2002**	**2001**
Total assets	**19,451**	20,137	19,267
Total long-term liabilities	**12,983**	12,644	11,990
Cash dividends declared per share	**$0.07**	$0.52	$1.46

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 IMO, 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)	2003		Restated 2002	
	Revenues	**Expenses**	**Revenues**	**Expenses**
Hydro One				
Electricity sales	**36**	**-**	742	-
Services	**14**	**16**	3	13
Province of Ontario				
GRC and water rentals	**-**	**132**	-	138
Used Fuel Fund rate of return guarantee	**-**	**(10)**	-	-
OEFC				
GRC and proxy property tax	**-**	**203**	-	215
Interest income on receivable	**-**	**(155)**	-	(165)
Interest expense on long-term notes	**-**	**191**	-	192
Capital tax	**-**	**51**	-	48
Income taxes	**-**	**(3)**	-	6
Indemnity and guarantee fees	**-**	**8**	-	5
IMO				
Electricity sales	**6,230**	**-**	4,195	-
Market Power Mitigation Agreement rebate	**(1,510)**		(907)	
Ancillary services	**77**	**-**	82	-
Other	**1**	**1**	8	2
	4,848	**434**	4,123	454

At December 31, 2003, accounts receivable included $14 million (2002 - $4 million) due from Hydro One and $134 million (2002 - $551 million) due from the IMO. Accounts payable and accrued charges at December 31, 2003 included $5 million (2002 - nil) due to Hydro One.

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 financial statements in assessing income performance from on-going operations, and has been consistently applied as in prior years and throughout these financial statements and management's discussion and analysis.

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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 Committee meets regularly with management, internal audit services and the external auditors to satisfy itself that each group has properly discharged its respective responsibility, and to review the financial statements and independent Auditors' Report, and to discuss significant financial reporting issues and auditing matters before recommending approval of the 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 auditors had direct and full access to the Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of OPG's financial reporting and the effectiveness of the system of internal controls.

Richard Dicerni (signed)
Acting President and Chief Executive Officer

David W. Drinkwater (signed)
Executive Vice President
and Chief Financial Officer

March 15, 2004

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, 2003 and 2002 and the consolidated statements of income (loss), retained earnings and cash flows for the years then ended. These financial statements are the responsibility of Ontario Power Generation Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Ontario Power Generation Inc. as at December 31, 2003 and 2002 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 15, 2004

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

Years Ended December 31 *(millions of dollars except where noted)*	**2003**	**Restated** ***(notes 3 and 8)*** **2002**
Revenues		
Revenue before Market Power Mitigation Agreement rebate	**6,688**	6,653
Market Power Mitigation Agreement rebate	**(1,510)**	(907)
	5,178	5,746
Fuel expense	**1,678**	1,604
Power purchased	**-**	290
Gross Margin	**3,500**	3,852
Expenses		
Operations, maintenance and administration	**2,393**	2,524
Depreciation and amortization *(note 5)*	**603**	561
Accretion on fixed asset removal and nuclear waste management liabilities	**430**	411
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(238)**	(243)
Property and capital taxes	**114**	115
Loss on transition rate option contracts *(note 16)*	**30**	210
	3,332	3,578
Income before the following:	**168**	274
Restructuring *(note 15)*	**-**	222
Impairment of long-lived assets *(note 5)*	**576**	-
Other income *(note 22)*	**58**	171
Net interest expense	**144**	150
(Loss) income before income taxes	**(494)**	73
Income taxes (recoveries) *(note 11)*		
Current	**80**	29
Future	**(83)**	(23)
	(3)	6
Net (loss) income	**(491)**	67
Basic and diluted (loss) earnings per common share *(dollars)*	**(1.92)**	0.26
Common shares outstanding *(millions) (note 12)*	**256.3**	256.3

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years Ended December 31 *(millions of dollars)*	**2003**	**Restated** ***(notes 3 and 8)*** **2002**
Retained earnings, beginning of year as previously reported	**257**	344
Adjustment *(note 3)*	**104**	84
Retained earnings, beginning of year as restated	**361**	428
Net (loss) income	**(491)**	67
Dividends	**(17)**	(134)
(Deficit of assets over liabilities) retained earnings, end of year	**(147)**	361

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 *(millions of dollars)*	**2003**	**Restated** ***(notes 3 and 8)*** **2002**
Operating activities		
Net (loss) income	**(491)**	67
Adjust for non-cash items:		
Depreciation and amortization	**603**	561
Accretion on fixed asset removal and nuclear waste management liabilities	**430**	411
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(238)**	(243)
Pension (income) cost	**(6)**	16
Other post employment benefits and supplemental pension	**118**	107
Future income taxes *(note 11)*	**(83)**	(23)
Provision for restructuring *(note 15)*	**-**	222
Transition rate option contracts *(note 16)*	**(43)**	144
Impairment of long-lived assets	**576**	-
Gain on sale of investments	**(58)**	(72)
Gain on sale of decontrol fixed assets	**-**	(99)
Mark to market on energy contracts *(note 10)*	**(5)**	2
Provision for used nuclear fuel	**21**	32
Other	**8**	52
	832	1,177
Contributions to nuclear fixed asset removal and nuclear waste management funds	**(453)**	(312)
Expenditures on fixed asset removal and nuclear waste management	**(72)**	(92)
Contributions to pension fund	**(153)**	-
Expenditures on other post employment benefits and supplemental pension	**(56)**	(52)
Expenditures on restructuring *(note 15)*	**(68)**	(134)
Net changes to other long-term assets and liabilities	**(82)**	117
Changes in non-cash working capital balances *(note 23)*	**149**	140
Cash flow provided by operating activities	**97**	844
Investing activities		
Sale of accounts receivable *(note 4)*	**300**	-
Net proceeds from short-term investments	**-**	39
Proceeds on sale of decontrol and other fixed assets *(note 14)*	**1**	342
Cash proceeds from sale of investments *(note 22)*	**59**	83
Purchases of fixed assets	**(643)**	(869)
Cash flow used in investing activities	**(283)**	(405)
Financing activities		
Issuance of long-term debt *(note 7)*	**51**	138
Repayment of long-term debt	**(4)**	(1)
Dividends paid	**(17)**	(134)
Net (decrease) increase in short-term notes	**(182)**	182
Cash flow (used in) provided by financing activities	**(152)**	185
Net (decrease) increase in cash and cash equivalents	**(338)**	624
Cash and cash equivalents, beginning of year	**624**	**-**
Cash and cash equivalents, end of year	**286**	624

See accompanying notes to the consolidated financial statements

CONSOLIDATED BAL ANCE SHEETS

As at December 31 *(millions of dollars)*	**2003**	**Restated *(notes 3 and 8)* 2002**
Assets		
Current assets		
Cash and cash equivalents *(note 3)*	**286**	624
Accounts receivable *(note 4)*	**331**	736
Note receivable *(note 14)*	**-**	225
Income taxes recoverable	**16**	80
Fuel inventory	**524**	514
Materials and supplies	**73**	73
	1,230	2,252
Fixed assets (*note 5)*		
Property, plant and equipment	**14,775**	14,747
Less: accumulated depreciation	**2,541**	1,956
	12,234	12,791
Other long-term assets		
Deferred pension asset *(note 9)*	**464**	305
Nuclear fixed asset removal and nuclear waste management funds *(note 8)*	**5,228**	4,537
Long-term materials and supplies	**231**	193
Long-term accounts receivable and other assets	**64**	59
	5,987	5,094
	19,451	20,137

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31 *(millions of dollars)*	**2003**	**Restated *(notes 3 and 8)* 2002**
Liabilities		
Current liabilities		
Accounts payable and accrued charges *(notes 15 and 16)*	**1,064**	1,235
Market Power Mitigation Agreement rebate payable *(note 17)*	**409**	572
Short-term notes payable *(note 6)*	**-**	182
Deferred revenue due within one year	**12**	12
Long-term debt due within one year *(note 7)*	**4**	5
	1,489	2,006
Long-term debt *(note 7)*	**3,393**	3,352
Other long-term liabilities		
Fixed asset removal and nuclear waste management *(note 8)*	**7,921**	7,539
Other post employment benefits and supplemental pension *(note 9)*	**1,013**	958
Long-term accounts payable and accrued charges *(note 16)*	**276**	321
Deferred revenue *(note 14)*	**168**	179
Future income taxes *(note 11)*	**212**	295
	9,590	9,292
Shareholder's equity		
Common shares *(note 12)*	**5,126**	5,126
(Deficit of assets over liabilities) retained earnings	**(147)**	361
	4,979	5,487
	19,451	20,137

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

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

Honourable Jake Epp
Chairman

C. Ian Ross
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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 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 2002 comparative amounts have been reclassified from statements previously presented to conform to the 2003 financial statement presentation. Note 3 provides disclosure of a retroactive change in accounting for asset retirement obligations adopted during 2003.

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 lower of cost or market.

Interest earned on cash and cash equivalents and short-term investments of $21 million (2002 - $10 million) at an average effective rate of 3.0 per cent (2002 - 3.0 per cent) is offset against interest expense in the consolidated statements of income.

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 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 40 years as a result of the completion, during the 1980's, 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.

Fixed Asset Removal and Nuclear Waste Management Liability

OPG recognizes asset retirement obligations for fixed asset removal and nuclear waste management, taking into account 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 for the nuclear waste generated each year, with the corresponding amounts charged to operating expenses. Expenses relating to low and intermediate level waste are charged to depreciation and amortization expense. Expenses relating to the disposal of nuclear used fuel are charged to fuel expense. The liability is also adjusted for any changes in the estimated amount or timing of the underlying future cash flows. Upon settlement of the liability, a gain or loss is recorded.

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

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

Reclassification of Accretion Expense and Earnings on Segregated Funds

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

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

The Ontario Nuclear Funds Agreement ("ONFA") between OPG and the Province of Ontario (the "Province") requires segregated funds to be established in custodial accounts for funding the nuclear fixed asset removal and nuclear waste management liabilities. The segregated funds are invested in debt and equity securities which are treated as long-term investments and are accounted for at amortized cost. The segregated funds are reported as nuclear fixed asset removal and nuclear waste management funds in the consolidated balance sheets. Realized gains and losses on the segregated funds are recorded in earnings in the consolidated statements of income.

Following the establishment of the segregated funds in July 2003, the amount receivable from the OEFC was transferred into the custodial account in the form of an interest-bearing note and is included in the investments reported in the nuclear fixed asset removal and nuclear waste management funds. Previously, the receivable from the OEFC had been offset against fixed asset removal and nuclear waste management liabilities. Amounts as at December 31, 2002 have been reclassified to reflect this change.

Revenue Recognition

Commencing May 1, 2002, with the opening of the Ontario electricity market to competition ("market opening"), all of OPG's electricity generation is sold into the real-time energy spot market administered by 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¢/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. 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. Accordingly, power purchases of $189 million in 2003 and $91 million in 2002 were netted against revenue.

Prior to May 1, 2002, revenues were earned primarily through the sale of electricity to wholesale and large industrial customers in Ontario and to interconnected markets. The wholesale electricity prices charged to Ontario customers were billed on a bundled basis including transmission and other related charges. OPG received the bundled payments and distributed funds to the successor entities of Ontario Hydro under the terms of revenue allocation arrangements. The revenue allocation arrangements were designed so the undistributed balance of funds would provide OPG with planned revenue of 4.0¢/kWh based on forecasted energy demand and customer mix, together with a fixed amount for ancillary services.

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. Non-energy revenue also includes isotope sales. 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

OPG utilizes emission reduction credits ("ERCs") to manage emissions within the prescribed regulatory and voluntary limits. ERCs are purchased from trading partners in Canada and the United States. The cost of ERCs are held in inventory and charged to OPG's operations as part of fuel 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 6 per cent real return over a 5 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 changes in assumptions and experience gains and losses, which result in actuarial gains or losses. Past service costs arising from pension and OPEB plan amendments are amortized on a straight-line basis over the expected average remaining service life of the employees covered by the plan, 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 regulations made under the *Electricity Act*, *1998*. This effectively results in OPG paying taxes similar to what would be imposed under the Federal and Ontario Tax Acts.

OPG makes payments in lieu of property tax on its nuclear and fossil 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

Commencing May 1, 2002, upon the opening of the Ontario electricity market to competition, OPG began operating in two reportable business segments: Generation and Energy Marketing. Prior to market opening, OPG's energy marketing activity was not a reportable business segment. As a result, the 2002 comparative values for the Energy Marketing segment are for the period May 1, 2002 to December 31, 2002. A separate category, Non-Energy and Other, includes revenue and costs which are not allocated to the two business segments.

Changes in Accounting Policies

Impairment of Long-lived Assets

In December 2002, the Canadian Institute of Chartered Accountants ("CICA") approved a new accounting standard for *Impairment of Long-Lived Assets*. The new standard provides guidance on the recognition, measurement and disclosure of the impairment of long-lived assets and is effective for years beginning on or after April 1, 2003. Impairments losses are to be recognized when the carrying amount exceeds the sum of undiscounted cash flows. The impairment loss recognized is the amount by which the carrying amount exceeds its fair value or discounted cash flows. Previously, the impairment loss recognized was the amount by which the carrying value exceeded the undiscounted cash flows.

OPG has chosen to early adopt the new accounting standard effective January 1, 2003 on a prospective basis without any retroactive restatement of prior periods. The impairment loss recognized in 2003, based on the application of the new accounting standard, was $576 million compared to $533 million that would have been recognized under the previous accounting standard.

Asset Retirement Obligations

In March 2003, the CICA issued a new standard for the recognition, measurement and disclosure of liabilities associated with the retirement of tangible long-lived assets and the related asset retirement costs. The new standard is effective for fiscal years beginning on or after January 1, 2004. OPG has chosen to early adopt the CICA standard in 2003. In accordance with the CICA requirements, OPG has retroactively applied the new standard.

The new standard is generally consistent with OPG's previous accounting policy with respect to asset retirement obligations. However, adoption of the new standard will result in a change in the timing of recognizing any changes in the estimate of the liability. Previously, any changes in the estimated amount of the liability were amortized over the average remaining service life of the generating stations. Under the new accounting standard, the liability will be adjusted immediately for any changes in the estimated amount or timing of the underlying cash flows, with a corresponding adjustment to the carrying value of the assets.

Prior to the adoption of the new standard, cost estimate reductions totalling $427 million had been identified and were being amortized over the average remaining service life of the generating stations to reflect a change in the liability, with a corresponding change in the associated fuel and depreciation and amortization expenses. These previously identified cost estimate changes included the impact of a delay in the in-service date for used nuclear fuel disposal facilities from 2025 to 2035, the recognition of certain costs associated with dry storage of used nuclear fuel during station operating life, and recognition of additional costs related to nuclear waste management programs.

In 2003, OPG completed a further review of the significant assumptions that underlie the calculation of the fixed asset removal and nuclear waste management liabilities. As a result of this review, a number of assumptions were revised to reflect changes in the timing of certain programs and in the evolving technology used to handle the nuclear waste. These changes resulted in incremental cost estimates of $162 million related to decommissioning fossil generating stations and low and intermediate level nuclear waste management programs. All of the cost estimate changes have been recognized retroactively to the date of acquisition as required by the new standard.

As a result of the adoption of the new accounting standard, the asset retirement obligation and the related property, plant and equipment amounts have decreased to reflect the net reduction in the cost estimates for the decommissioning and nuclear waste management. The restatement for the new standard resulted in a cumulative increase in OPG's net income for the period April 1, 1999 to December 31, 2002 of $104 million. The net income impact was a reduction of $17 million in 2003 compared with an increase of $20 million in 2002.

The changes resulting from adoption of the new accounting standard are summarized below:

Balance Sheets As at December 31 *(millions of dollars)*	**2003**	**2002**
Increase (decrease)		
Materials and supplies	**-**	(7)
Property, plant and equipment	**(233)**	(267)
Accumulated depreciation	**(142)**	(112)
Fixed asset removal and nuclear waste management	**(221)**	(314)
Future income taxes	**43**	48
Opening retained earnings	**104**	84

Statements of Income for Years ended December 31 *(millions of dollars)*	**2003**	**2002**
Increase (decrease)		
Fuel expense	**(3)**	(6)
Depreciation and amortization	**18**	(7)
Accretion on fixed asset removal and nuclear waste management liabilities	**7**	(16)
Future income tax expense	**(5)**	9
Net (loss) income	**(17)**	20

New Accounting Recommendations

Hedging Relationships

In December 2001, the Accounting Standards Board ("AcSB") of the CICA issued Accounting Guideline 13, *Hedging Relationships*. This Guideline, which is required to be adopted for annual periods beginning after July 1, 2003, establishes standards for documenting and assessing the effectiveness of hedging activities. With adoption of the new accounting standard effective January 1, 2004, OPG will continue with the existing accounting for its hedging relationships.

Disposal of Long-lived Assets and Discontinued Operations

Effective May 1, 2003, the Company adopted the new accounting recommendations in section 3475 of the CICA Handbook, *Disposal of Long-Lived Assets and Discontinued Operations*. This section provides guidance on recognizing, measuring, presenting and disclosing the disposal of long-lived assets. It replaces the disposal provisions in section 3061, *Property, Plant and Equipment,* and section 3475, *Discontinued Operations.* The new section provides criteria for classifying assets as held for sale. It requires an asset classified as held for sale to be measured at fair value less disposal costs. It also provides criteria for classifying a disposal as a discontinued operation and specifies the presentation of and disclosures for discontinued operations and other disposals of long-lived assets. The adoption of this standard did not have an impact on OPG's consolidated financial statements.

Consolidation of Variable Interest Entities

In June 2003, the CICA issued Accounting Guideline 15, *Consolidation of Variable Interest Entities*, which 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. This guideline has been suspended by the CICA pending the finalization of revisions to the guideline.

The Company is involved with various joint venture arrangements and has sold trade receivables under an asset securitization arrangement. The Company will assess these arrangements under the revised guideline when it is issued.

Employee Future Benefits — Additional Disclosures

In December 2003, the AcSB approved revisions to Section 3461, *Employee Future Benefits*. The additional annual disclosures would be effective for years ending on or after June 30, 2004, and the additional interim disclosures would be effective for periods ending on or after June 30, 2004. The AcSB has encouraged early adoption.

OPG has early adopted some of the additional disclosure requirements. Specifically OPG has included the methods and basis for accounting in the accounting policy on pension and OPEB. Employer minimum required contributions for the current and next year, and additional amounts contributed in the current year are also included in note 9 to the consolidated financial statements, in addition to the significant assumptions used.

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 principal 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, 2003, the Company has recognized pre-tax charges of $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, 2003**	**Average balance of receivables for year ended December 31, 2003**
Total receivables portfolio[1]	464	443
Receivables sold	300	300
Receivables retained	164	143
Average cost of funds		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, 2003.

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

(millions of dollars)	**2003**
Proceeds from new sales	300
Collections reinvested in revolving sales [1]	900
Cash flows from retained interest	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.

5. FIXED ASSETS

Depreciation and amortization expense consists of the following:

(millions of dollars)	**2003**	**Restated 2002**
Depreciation and amortization	**600**	556
Nuclear waste management costs	**3**	5
	603	561

Fixed assets consist of the following:

(millions of dollars)	**2003**	**Restated 2002**
Property, plant and equipment		
Nuclear generating stations	**4,152**	3,494
Fossil generating stations	**1,583**	1,842
Hydroelectric generating stations	**7,663**	7,620
Other fixed assets	**636**	566
Construction in progress	**741**	1,225
	14,775	14,747
Less: Accumulated depreciation		
Generating stations	**2,308**	1,780
Other fixed assets	**233**	176
	2,541	1,956
	12,234	12,791

Assets under capital leases of $203 million (2002 - $200 million) are included in other fixed assets. Accumulated depreciation on these leased assets at December 31, 2003 was $45 million (2002 - $36 million). Interest capitalized to construction in progress at 6.0 per cent (2002 - 6.0 per cent) during the year ended December 31, 2003 was $54 million (2002 - $44 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.

In 2003, the Government expressed a commitment to phase out coal-fired generating stations by 2007 and has subsequently confirmed this commitment. Accordingly, there is an expectation that the Nanticoke, Lambton, Thunder Bay and Atikokan generating stations will be removed from service significantly before the end of their previously estimated useful lives. This change in circumstance resulted in a requirement for OPG to test the recoverability of the carrying amount of these generating stations. OPG has recognized an impairment loss of $576 million as a result of the termination of cash flows from these stations after 2007. Consequently, the carrying amount of the fossil generating stations was reduced 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.

The Government of Ontario appointed a panel of advisors to examine the role of OPG in the Ontario electricity market, the future structure of OPG as well as the potential refurbishing of the three units at the Pickering A nuclear station that remain out of service. The carrying amount of construction in progress for these three units was $161 million at December 31, 2003. If OPG discontinues the refurbishing work required to place these units in service, an impairment loss equal to the carrying amount of these units would be recognized. In such an event, OPG would also have to assess the prospect of additional charges.

6. SHORT-TERM CREDIT FACILITIES

In March 2003, OPG renewed its $1,000 million revolving short-term committed bank credit facility. The credit facility had a revolving 364-day term, whereby if drawn, it could be extended for a two-year term. In December 2003, OPG extended the renewal date of the facility from March 2004 to May 2004. OPG has since extended the facility for a 364-day term without the two-year term extension option, commencing May 2004. Notes issued under the Company's Commercial Paper program are supported by this bank credit facility. At December 31, 2003, OPG had no short-term notes outstanding under the Commercial Paper program (2002 - $182 million).

OPG also maintains $28 million in short-term uncommitted overdraft facilities as well as $173 million of short-term uncommitted credit facilities that support collateral requirements under the retail electricity market rules and other commitments in the form of Letters of Credit. Of this amount, $125 million was used for Letters of Credit posted with local distribution companies in support of OPG's obligations under the retailer consolidated billings of the retail settlement code and in support of the supplementary pension plan.

7. LONG-TERM DEBT

Debt Outstanding

Long-term debt consists of the following:

(millions of dollars)	**2003**	**2002**
Notes payable to the OEFC	**3,200**	3,200
Capital lease obligations	**8**	19
Share of limited partnership debt	**189**	138
	3,397	3,357
Less: capital lease obligations payable within one year	**4**	5
Long-term debt	**3,393**	3,352

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

The maturity dates for notes payable to the OEFC are as follows:

		Principal Outstanding *(millions of dollars)*		
Year of Maturity	**Interest Rate (%)**	**Senior Notes**	**Subordinated Notes**	**Total**
2005	5.49	200	-	200
2005	5.71	300	-	300
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	6.60	-	375	375
2011	6.65	-	375	375
		2,450	750	3,200

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.

In September 2002, Brighton Beach Power L.P. ("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 Energy Canada Inc. ("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, 2003, $378 million (2002 - $276 million) was outstanding under the loan and accordingly $189 million (2002 - $138 million) was reported by OPG. If the project is completed and certain performance tests are met prior to September 30, 2006, the financing associated with the Brighton Beach project will have recourse only to the project and not to the Company. The project and performance tests are expected to be completed mid-year 2004.

Interest paid during the year ended December 31, 2003 was $219 million (2002 - $204 million), of which $210 million relates to interest paid on long-term debt (2002 - $198 million). Interest of $54 million was capitalized in 2003 (2002 - $44 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)	**2003**	**Restated 2002**
Liability for nuclear used fuel management	**4,451**	4,230
Liability for nuclear decommissioning and low and intermediate level waste management	**3,289**	3,131
Liability for non-nuclear fixed asset removal	**181**	178
Fixed asset removal and nuclear waste management liability	**7,921**	7,539

The change in the fixed asset removal and nuclear waste management liability for the years ended December 31, 2003 and 2002 is as follows:

(millions of dollars)	**2003**	**Restated 2002**
Liability, beginning of year (restated)	**7,539**	7,183
Increase in liability due to accretion	**430**	411
Increase in liability due to nuclear used fuel and nuclear waste management variable expenses	**24**	37
Liabilities settled by expenditures on waste management	**(72)**	(92)
Liability, end of year	**7,921**	7,539

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 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 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; and
- 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 expected to occur between 5 to 22 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, 2003 was 5.75 per cent (2002 - 5.75 per cent) and the cost escalation rates ranged from negative 1 per cent to 4 per cent in 2003 and 2002. 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 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 risk 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 costs 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 kilometers 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*. 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 costs 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 cost 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 costs 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 generating stations at the end of their service lives. The estimated retirement date of these stations is between 2005 to 2025.

In addition to the $146 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

On July 24, 2003, OPG and the Province completed arrangements pursuant to the ONFA, which required the establishment of segregated funds to hold the nuclear fixed asset removal and nuclear waste management funds. To comply with 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 custodial accounts. In addition, a receivable due from the OEFC of $3.1 billion was transferred into the Decommissioning Fund in the form of a $1.2 billion cash payment and a $1.9 billion interest bearing note receivable.

The 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 ONFA, which limit OPG's total financial exposure at approximately $6.0 billion, a present value amount at April 1, 1999 (approximately $7.8 billion in 2003 dollars). OPG will continue to make annual payments over the life of its nuclear generating stations, as specified in ONFA.

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, 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 *Nuclear Fuel Waste Act* (Canada) ("NFWA") was proclaimed into force in November 2002. In accordance with NFWA, the Nuclear Waste Management Organization was formed during 2002 to prepare and review alternatives, and provide recommendations for long-term management of nuclear fuel waste. This submission is to occur within three years of NFWA coming into force. The Federal Government will determine the strategy for dealing with the long-term management of nuclear fuel waste based on submitted plans. OPG made an initial deposit of $500 million into a trust fund in November 2002 as required under NFWA and an additional $100 million in 2003. OPG will deposit an additional $100 million annually for the next two years until the Federal Government has approved a long-term plan. Future contributions beyond this time will be dependent on the plan chosen. The trust is consolidated by OPG and forms part of the Used Fuel Fund.

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

(millions of dollars)	**Amortized Cost Basis**	**Fair Value**
Decommissioning Fund [1]	**3,641**	**3,801**
Used Fuel Fund	**1,587**	**1,587**
	5,228	**5,388**

1 Includes a $1,892 receivable from the OEFC.

The nuclear fixed asset removal and nuclear waste management funds as at December 31, 2002 consisted of the following:

(millions of dollars)	**Amortized Cost Basis**	**Fair Value**
Fixed asset removal and nuclear waste management funds	**1,599**	**1,622**
Receivable from the OEFC	**2,938**	**2,938**
	4,537	**4,560**

As required by the *Nuclear Safety and Control Act* (Canada), and under the terms of ONFA, effective as at July 31, 2003, the Province issued a guarantee to the Canadian Nuclear Safety Commission ("CNSC"), on behalf of OPG, for up to $1.51 billion. 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 establishment of the new segregated custodial funds, was in satisfaction of OPG's nuclear licencing requirements with the CNSC. OPG pays the Province an annual guarantee fee of 0.5 per cent of the amount guaranteed by the Province.

Under ONFA, the Province guarantees OPG's return in the Used Fuel Fund at Ontario Consumer Price Index ("CPI") plus 3.25 per cent ("committed return"). The difference between the committed return on the Used Fuel Fund and the actual net 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 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, 2003, the Used Fuel Fund assets included a receivable from the Province of $10 million. If the investments in the Used Fuel Fund were accounted for at fair market value in the consolidated financial statements, at December 31, 2003, there would be an amount due to the Province of $71 million.

Under ONFA, a rate of return target of 5.75 per cent per annum was established for the Decommissioning Fund. If the rate of return deviates from 5.75 per cent, or if the value of the liabilities changes under the OPG Reference Plan (1999), the Decommissioning Fund may become over or under funded. Under ONFA, if there is a surplus in the Decommissioning Fund such that the liabilities, as defined by the OPG Reference Plan (1999), are at least 120 per cent funded, OPG may direct 50 per cent of the excess over the liability amount to be transferred to the Used Fuel Fund as a contribution and the OEFC is entitled to the remaining 50 per cent of such surplus. At December 31, 2003, the Decommissioning Fund was fully funded and there were no amounts owing.

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

(millions of dollars)	**Amortized Cost Basis**	**Fair Value**
Cash and cash equivalents and short-term investments	**139**	**139**
Marketable equity securities	**2,556**	**2,795**
Bonds and debentures	**635**	**637**
Receivable from the OEFC	**1,892**	**1,892**
Administrative expense payable	**(4)**	**(4)**
	5,218	**5,459**
Due from (to) Province – Used Fuel Fund	**10**	**(71)**
Total	**5,228**	**5,388**

The bonds and debentures held in the funds as at December 31, 2003 mature according to the following schedule:

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

The receivable of $1,892 million from the OEFC does not have a specified maturity date. The effective rate of interest on the OEFC receivable was 5.0 per cent (2002 - 6.0 per cent).

9. BENEFIT PLANS

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

Registered Pension Plan

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.

Information about OPG's registered pension plan is as follows:

	2003	**2002**
Pension Plan Assumptions – Benefit Obligation at Year End		
Rate used to discount future pension benefits	**6.25%**	6.75%
Salary schedule escalation rate	**3.25%**	3.00%
Rate of cost of living increase to pensions	**2.25%**	2.00%

	2003	**2002**
Pension Plan Assumptions – Cost for the Year		
Expected return on plan assets net of expenses	**7.00%**	7.00%
Rate used to discount future pension benefits	**6.75%**	6.75%
Salary schedule escalation rate	**3.00%**	3.00%
Rate of cost of living increase to pensions	**2.00%**	2.00%
Average remaining service life for employees (years)	**12**	11

(millions of dollars)	**2003**	**2002**
Changes in Registered Pension Plan Assets		
Fair value of plan assets at beginning of year	**5,727**	6,342
Contributions by employer	**153**	-
Contributions by employees	**52**	78
Actual return on plan assets net of expenses	**783**	(257)
Settlements	**-**	(142)
Benefit payments	**(266)**	(294)
Fair value of plan assets at end of year	**6,449**	5,727
Changes in Projected Registered Pension Benefit Obligation		
Projected benefit obligation at beginning of year	**5,965**	5,995
Employer current service costs	**107**	107
Contributions by employees	**52**	78
Interest on projected benefit obligation	**402**	381
Curtailment gain	**-**	(28)
Settlement gain	**-**	(124)
Benefit payments	**(266)**	(294)
Net actuarial loss (gain)	**786**	(150)
Projected benefit obligation at end of year	**7,046**	5,965
Registered Pension Plan Deficit	**(597)**	(238)

(millions of dollars)	**2003**	**2002**
Reconciliation of Registered Pension Plan Deficit		
Pension plan deficit	**(597)**	(238)
Unamortized net actuarial loss	**924**	388
Unamortized past service costs	**137**	155
Deferred pension asset	**464**	305

(millions of dollars)	**2003**	**2002**
Components of Registered Pension Cost Recognized		
Current service costs	**107**	107
Interest on projected benefit obligation	**402**	381
Expected return on plan assets net of expenses	**(502)**	(471)
Curtailment loss	**-**	10
Settlement loss	**-**	5
Amortization of past service costs	**18**	18
Amortization of net actuarial gain	**(31)**	(34)
Pension cost (income) recognized	**(6)**	16

In accordance with the April 1, 2002 funding valuation, the most recently filed valuation, OPG was required to make contributions of $12 million to the pension plan in 2003. However, OPG chose to contribute an additional $141 million for total contributions of $153 million in 2003. For 2004, the required contributions are estimated to be $15 million after taking into account the additional contributions made in 2003. OPG expects to contribute an additional $141 million for total contributions of $156 million in 2004. Using a going-concern funding basis, with assets at market value, OPG estimates that there was a pension fund deficit of $1.3 billion at December 31, 2003 (2002 - $1.6 billion deficit).

Supplementary Pension Plan

The supplementary pension plan is a defined benefit plan covering certain employees and retirees. The assumptions for the supplementary pension plan are the same as the assumptions for the registered plan. Information about OPG's supplementary pension plan is as follows:

(millions of dollars)	**2003**	**2002**
Changes in Projected Supplementary Pension Plan Benefit Obligation		
Projected benefit obligation at beginning of year	**125**	76
Current service costs	**8**	8
Interest on projected benefit obligation	**9**	7
Curtailment loss	**-**	1
Settlement gain	**-**	(3)
Benefit payments	**(5)**	(3)
Special termination benefits	**-**	13
Net actuarial (gain) loss	**(20)**	26
Projected benefit obligation at end of year	**117**	125

(millions of dollars)	**2003**	**2002**
Reconciliation of Supplementary Pension Plan Benefit Obligation		
Accrued benefit obligation at end of year		
Long-term obligation	**98**	86
Short-term obligation	**3**	-
Unamortized net actuarial loss	**10**	33
Unamortized past service costs	**6**	6
Projected benefit obligation at end of year	**117**	125

(millions of dollars)	**2003**	**2002**
Components of Supplementary Pension Plan Cost Recognized		
Current service costs	**8**	8
Interest on projected benefit obligation	**9**	7
Curtailment loss	**-**	2
Settlement gain	**-**	(3)
Special termination benefits	**-**	13
Amortization of past service costs	**1**	1
Amortization of net actuarial loss	**2**	1
Pension cost recognized	**20**	29

In 2003, OPG made payments of $5 million, all of which were required in accordance with the terms of the supplementary pension plan. The required payments in 2004 are expected to be $3 million. The supplementary pension plan is secured by letters of credit totaling $96 million.

Other Post Employment Benefits

Information about OPG's OPEB is as follows:

	2003	**2002**
OPEB Assumptions – Obligation at Year End		
Long-term rate of increase of per capita cost of the major benefits	**2.25% - 4.5%**	2.0% - 4.5%
Rate used to discount future benefits	**5.75% - 6.25%**	6.0% - 6.75%

	2003	**2002**
OPEB Assumptions – Cost for the Year		
Long-term rate of increase of per capita cost of the major benefits	**2.0% - 4.5%**	2.0% - 4.5%
Rate used to discount future benefits	**6.0% - 6.75%**	6.25% - 6.75%

(millions of dollars)	**2003**	**2002**
Changes in Projected OPEB Benefit Obligation		
Projected benefit obligation at beginning of year	**1,079**	1,171
Current service costs	**29**	37
Interest on projected benefit obligation	**64**	69
Benefit payments	**(51)**	(49)
Curtailment loss	**-**	1
Settlement gain	**-**	(131)
Net actuarial loss (gain)	**186**	(19)
Projected benefit obligation at end of year	**1,307**	1,079

(millions of dollars)	**2003**	**2002**
Reconciliation of OPEB Benefit Obligation		
Accrued benefit obligation at end of year		
Long-term obligation	**915**	872
Short-term obligation	**58**	54
Unamortized net actuarial loss	**313**	128
Unamortized past service costs	**21**	25
Projected benefit obligation at end of year	**1,307**	1,079

(millions of dollars)	**2003**	**2002**
Components of OPEB Cost Recognized		
Current service costs	**29**	37
Interest on projected benefit obligation	**64**	69
Curtailment loss	**-**	2
Settlement gain	**-**	(63)
Amortization of net actuarial loss	**2**	3
Amortization of past service costs	**3**	3
Cost recognized	**98**	51

A 1.0 per cent increase or decrease in the health care trend rate would result in an increase in the 2003 cost recognized of $24 million or a decrease in the 2003 cost recognized of $14 million, respectively. A 1.0 per cent increase or decrease in the health care trend rate would result in an increase in the projected obligation at December 31, 2003 of $169 million or a decrease in the projected obligation at December 31, 2003 of $152 million.

In 2003, OPG made payments of $51 million, all of which were required in accordance with the terms of the OPEB plans. The required payments in 2004 are expected to be $58 million.

10. FINANCIAL INSTRUMENTS

Fair Value of Derivative 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 reduced Energy Marketing revenue for 2003 by $5 million (2002 - $7 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. The Company uses financial commodity derivatives primarily to hedge the commodity price exposure associated with changes in the price of electricity.

(millions of dollars)	2003			2002		
	Notional quantity	**Terms**	**Fair Value**	**Notional quantity**	**Terms**	**Fair Value**
Gain/(loss)						
Electricity derivative instruments	**23.9 TWh**	**1-3 yrs**	**(13)**	37.9 TWh	1-4 yrs	(144)
Foreign exchange derivative instruments	**$40 U.S.**	**Jan/04**	**(3)**	$179 U.S.	Apr/03	4
Option to purchase emission reduction credits	**3,000,000 tonnes**	**2004**	**-**	6,000,000 tonnes	2003-2004	1

Foreign exchange derivative instruments are used to hedge the exposure to anticipated U.S. dollar denominated purchases. The weighted-average fixed exchange rate for the outstanding contracts at December 31, 2003 was U.S. $0.72 (2002 - $0.64) 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)	2003		2002	
	Notional Quantity	**Fair Value**	**Notional Quantity**	**Fair Value**
Commodity derivative instruments				
Assets	**7.9 TWh**	**8**	15.8 TWh	10
Liabilities	**1.6 TWh**	**(8)**	0.5 TWh	(14)
		-		(4)
Ontario market liquidity reserve		**(5)**		(7)
Total		**(5)**		(11)

Fair Value of Other Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, note 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)	2003		Restated 2002	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial Assets				
Nuclear fixed asset removal and nuclear waste management funds	**5,228**	**5,388**	4,537	4,560
Long-term accounts receivable and other assets	**64**	**64**	59	59
Financial Liabilities				
Long-term debt and long-term portion of capital leases	**3,393**	**3,516**	3,352	3,381
Long-term accounts payable and accrued charges	**276**	**276**	321	326

Credit Risk

The majority of OPG's revenues are derived from electricity sales through the IMO 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)	**2003**	**Restated 2002**
Income before income taxes	**(494)**	73
Combined Canadian federal and provincial statutory income tax rates, including surtax	**36.6%**	38.6%
Statutory income tax rates applied to accounting income	**(181)**	28
Increase (decrease) in income taxes resulting from:		
Large corporations tax in excess of surtax	**37**	29
Lower future tax rate on temporary differences	**4**	4
Non-taxable income items	**(3)**	(27)
Adjustment for changes in future income tax rates	**30**	-
Valuation allowance	**93**	-
Other	**17**	(28)
	178	(22)
Provision for income taxes	**(3)**	6
Effective rate of income taxes	**0.6%**	8.2%

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

(millions of dollars)	**2003**	**Restated 2002**
Current income tax expense	**80**	29
Future income tax expense (benefits):		
Change in temporary differences	**(64)**	(23)
Non-capital loss carry-forward	**(101)**	-
Future recoverable Ontario minimum tax	**(41)**	-
Valuation allowance	**93**	
Adjustment for changes in future income tax rates	**30**	-
Provision for income taxes	**(3)**	6

The amount of income taxes paid in the year ended December 31, 2003 was $28 million (2002 - $56 million).

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

(millions of dollars)	**2003**	**Restated 2002**
Future income tax assets:		
Fixed asset removal and nuclear waste management liabilities	**2,664**	1,351
Other liabilities	**443**	381
Non-capital loss carry-forward	**101**	-
Future recoverable Ontario minimum tax	**41**	-
	3,249	1,732
Future income tax liabilities:		
Fixed assets	**1,422**	1,342
Fixed asset removal and nuclear waste management fund	**1,784**	481
Other assets	**255**	204
	3,461	2,027
Net future income tax liabilities	**212**	295

At December 31, 2003, OPG had approximately $296 million of non-capital loss carry-forwards for which the Company recognized a future tax asset of $101 million for financial reporting purposes. These losses were generated in 2003 and will expire in 2010.

OPG has taken certain filing positions for corporate income and capital taxes that may be disallowed and result in a significant increase in the tax obligation upon completion of assessments. 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, 2003 and 2002, 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.

13. COMMITMENTS AND CONTINGENCIES

Litigation

Various claims, lawsuits and administrative proceedings are pending or threatened against the Company 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 the Company. 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 the Company's financial position.

Slate Falls First Nation Claim

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.

Other Significant Claims

In 2003, OPG settled actions with The Canadian Agra Group and the Integrated Energy Development Corporation. The original claims were for $146.5 million and $60 million respectively.

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, 2003, expenditures of $4 million (2002 - $2 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.

OPG completed an initiative to install selective catalytic reduction ("SCR") technology on two units at each of the Nanticoke and Lambton fossil generating stations, at cost of $261 million. The SCRs went into service in 2003 and will reduce nitrogen oxide emissions rates from these four units by approximately 80 per cent.

Guarantees

As part of normal business, OPG and certain 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. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes.

OPG has provided limited guarantees in connection with the Brighton Beach financing. If the partnership fails to complete the project or meet certain performance tests by September 30, 2006, OPG may be required to repurchase its proportionate share of the outstanding debt, up to a total of $202 million. OPG is also responsible for contributing its share of equity related to cost overruns, up to $33 million, an increase of $20 million over 2002 due to an increase in project costs. OPG has also provided guarantees relating to gas transport and other energy-based charges if the commercial operations date is delayed in certain circumstances; and debt service if the energy conversion agreement is terminated, from the date of such termination to the earlier of the entry into a replacement agreement and September 30, 2006.

Contractual Commitments

The Company's contractual obligations and other commercial commitments as at December 31, 2003 are as follows:

(millions of dollars)	**2004**	**2005**	**2006**	**2007**	**2008**	**Thereafter**	**Total**
Fuel supply agreements	692	230	197	108	109	70	1,406
Contributions under ONFA	454	454	454	454	679	2,103	4,598
Long-term debt repayment	-	500	800	400	400	1,100	3,200
Unconditional purchase obligations	69	38	22	15	11	14	169
Long-term accounts payable	28	28	28	25	-	-	109
Operating lease obligations	10	10	9	9	9	10	57
Capital lease obligations	4	4	-	-	-	-	8
Other	60	7	7	7	7	23	111
Total	1,317	1,271	1,517	1,018	1,215	3,320	9,658

14. DECONTROL INITIATIVES

(a) 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. Under the terms of the original operating lease agreement, the receivable of $225 million was payable to OPG in two installments of $112.5 million no later than four and six years from the date the transaction was completed.

Under the terms of the lease, OPG agreed to transfer certain fuel and material inventory to Bruce Power, in addition to certain fixed assets. OPG also agreed to transfer pension assets and liabilities related to the approximately 3,000 employees who transferred from OPG 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 were formerly held by British Energy. 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 $189 million (2002 - $178 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, 2003, was $680 million (2002 restated - $780 million).

(b) Other Decontrol Activities

In January 2003, OPG sold surplus land for $1 million cash proceeds. In May 2002, OPG sold four hydroelectric generating stations located on the Mississagi River, to Mississagi Power Trust. OPG received cash proceeds of $342 million from the sale and recorded a pretax gain of $99 million.

15. RESTRUCTURING

In 2001, OPG approved a restructuring plan designed to improve OPG's future competitiveness. Restructuring charges are related to an anticipated reduction in the workforce over a three to four year period. As at December 31, 2003, OPG had approved severance packages for approximately 1,450 employees. Cumulative restructuring charges for the plan since 2001 amounted to $289 million. The charges were comprised of severance costs of $254 million, of which $214 million were charged in 2002 and related pension and other post employment benefit expenses of $35 million, of which $8 million were charged in 2002. Pension and other post employment benefit expenses, recorded as part of restructuring, are included in the deferred pension asset and other post employment benefits on the consolidated balance sheets.

The change in the restructuring liability for severance for the years ended December 31, 2003 and 2002 is as follows:

(millions of dollars)	**2003**	**Restated 2002**
Liability, beginning of year	**120**	40
Restructuring charges	**-**	214
Payments	**(68)**	(134)
Liability, end of year	**52**	120

16. 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 2003, $73 million was charged against the provision and included in generation revenue. In 2002, $66 million was charged against the provision and included in revenue from market opening in May 2002 to December 31, 2002.

17. MARKET POWER MITIGATION AGREEMENT REBATE

OPG is required under its generating licence to comply with prescribed market power mitigation measures to address the potential for OPG to exercise market power in Ontario. The market power mitigation measures include both a rebate mechanism and the requirement to decontrol generating capacity. Under the rebate mechanism, for the first four years after the electricity market opened to competition on May 1, 2002, a significant majority of OPG's expected energy sales in Ontario are subject to an average annual revenue cap of 3.8¢/kilowatt hour ("kWh"). OPG is required to pay a rebate to the IMO equal to the excess, if any, of the average hourly spot energy price over 3.8¢/kWh for a twelve month settlement period, multiplied by the amount of energy subject to the rebate mechanism. The first settlement period ended April 30, 2003.

In accordance with the Market Power Mitigation Agreement, the rebate is calculated after taking into account the amount of energy sales subject to the rebate mechanism for only those generating stations that OPG continues to control. Since the average hourly spot price during 2003 has exceeded the 3.8¢/kWh revenue cap, OPG provided $1,510 million (2002 - $907 million) as a Market Power Mitigation Agreement rebate.

The changes in the Market Power Mitigation Agreement rebate liability for the years ended December 31, 2003 and 2002 were as follows:

(millions of dollars)	**2003**	**2002**
Liability, beginning of year	**572**	-
Increase to provision during the period	**1,510**	907
Payments	**1,673**	335
Liability, end of year	**409**	572

18. RESEARCH AND DEVELOPMENT

For the year ended December 31, 2003, $21 million (2002 restated - $24 million) of research and development expenses were charged to operations. Development costs of less than $1 million were capitalized in 2003 and 2002.

19. 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 IMO-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. Prior to market opening, OPG sold electricity directly to wholesale electricity customers in Ontario and to interconnected markets in Quebec, Manitoba and the U.S. northeast and midwest.

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 IMO market and the interconnected markets of other Provinces and the U.S. northeast and midwest. Prior to market opening on May 1, 2002, OPG's energy marketing activity was not a reportable business segment. Accordingly, the 2002 comparative values are for eight months.

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.

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	**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)**

Segment Income for year ended December 31, 2002 (restated)	**Generation**	**Energy Marketing**	**Non-Energy and Other**	**Total**
(millions of dollars)				
Revenues				
Revenue before Market Power Mitigation Agreement rebate	6,271	59	323	6,653
Market Power Mitigation Agreement rebate	(907)	-	-	(907)
	5,364	59	323	5,746
Fuel expense	1,604	-	-	1,604
Power purchased	290	-	-	290
Gross margin	3,470	59	323	3,852
Operations, maintenance and administration	2,052	6	55	2,113
Pickering A return to service	411	-	-	411
Depreciation and amortization	459	-	102	561
Accretion on fixed asset removal and nuclear waste management liabilities	411	-	-	411
Earnings on nuclear fixed asset removal and nuclear waste management funds	(243)	-	-	(243)
Property and capital taxes	101	-	14	115
Loss on transition rate option contracts	-	-	210	210
Income (loss) before the following:	279	53	(58)	274
Restructuring	-	-	222	222
Other income	-	-	171	171
Net interest expense	-	-	150	150
Income (loss) before income taxes	279	53	(259)	73

Selected Balance Sheet Information	**Generation**	**Energy Marketing**	**Non-Energy and Other**	**Total**
(millions of dollars)				
December 31, 2003				
Segment property, plant and equipment, net	**11,305**	-	**929**	**12,234**
December 31, 2002 (restated)				
Segment property, plant and equipment, net	11,855	-	936	12,791
Selected Cash Flow Information				
(millions of dollars)				
Year ended December 31, 2003				
Capital expenditures	**546**	**-**	**97**	**643**
Year ended December 31, 2002				
Capital expenditures	763	-	106	869

Substantially all sales were in Canada. Since the market opened in May 2002, all of OPG's electricity generation was sold into the real-time energy spot market administered by the IMO. As such, the majority of OPG's revenue was derived from spot market sales. Sales to the IMO represented 93 per cent of total revenues for the year ended December 31, 2003 (2002 - 70 per cent) and 40 per cent of accounts receivable as at December 31, 2003 (2002 - 75 per cent).

20. 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 IMO, 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)	**2003**		**Restated 2002**	
	Revenues	**Expenses**	**Revenues**	**Expenses**
Hydro One				
Electricity sales	**36**	**-**	742	-
Services	**14**	**16**	3	13
Province of Ontario				
GRC and water rentals	**-**	**132**	-	138
Used Fuel Fund rate of return guarantee	**-**	**(10)**	-	-
OEFC				
GRC and proxy property tax	**-**	**203**	-	215
Interest income on receivable	**-**	**(155)**	-	(165)
Interest expense on long-term notes	**-**	**191**	-	192
Capital tax	**-**	**51**	-	48
Income taxes	**-**	**(3)**	-	6
Indemnity and guarantee fees	**-**	**8**	-	5
IMO				
Electricity sales	**6,230**	**-**	4,195	-
Market Power Mitigation Agreement rebate	**(1,510)**	**-**	(907)	-
Ancillary services	**77**	**-**	82	-
Other	**1**	**1**	8	2
	4,848	**434**	4,123	454

At December 31, 2003, accounts receivable included $14 million (2002 - $4 million) due from Hydro One and $134 million (2002 - $551 million) due from the IMO. Accounts payable and accrued charges at December 31, 2003 included $5 million (2002 - nil) due to Hydro One.

21. OTHER ITEMS

WSIB Settlement

For purposes of the Workplace Safety and Insurance Board of Ontario ("WSIB"), OPG was reclassified from a schedule 2 self-insured employer to a schedule 1 premium-paying employer. During 2002, the WSIB assumed the liability with respect to OPG's existing and future workers' compensation claims in exchange for a cash payment of $54.5 million. Accordingly, a settlement of the entire obligation occurred and the Company recorded a one-time reduction in operations, maintenance and administration expenses of $24 million.

22. OTHER INCOME

Other income is comprised of the gain on sales from decontrol activities and other initiatives as follows:

(millions of dollars)	**2003**	**2002**
Mississagi River generating stations *(note 14)*	**-**	99
Gain on sale of long-term investments	**58**	54
Nuclear Safety Analysis Division	**-**	11
Investment in New Horizon System Solutions Inc.	**-**	4
Investment in Kinectrics Inc.	**-**	3
	58	171

During 2003, the Company sold long-term investments held in the nuclear fixed asset removal and nuclear waste management funds and transferred the proceeds to the Used Fuel and Decommissioning Funds in July 2003 in accordance with ONFA.

23. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

(millions of dollars)	**2003**	**Restated 2002**
Accounts receivable	**105**	274
Note receivable	**225**	(225)
Income taxes recoverable	**64**	(3)
Fuel inventory	**(10)**	23
Materials and supplies	**-**	(45)
Market power mitigation agreement rebate payable	**(163)**	572
Accounts payable and accrued charges	**(72)**	(456)
	149	140