ONTARIO POWER GENERATION

News
from Ontario Power Generation

700 University Avenue Toronto, Ontario M5G 1X6
Tel: 416-592-4008 or 1-877-592-4008 Fax: 416-592-2178
www.opg.com

January 30, 2002

ONTARIO POWER GENERATION REPORTS 2001 YEAR END EARNINGS

(Toronto) – Ontario Power Generation Inc. (OPG) today reported its financial and operating results for the year ended December 31, 2001. Earnings for the year were $152 million or $0.59 per share compared with restated earnings in 2000 of $490 million or $1.91 per share.

"2001 has been a year of accomplishment and challenge for Ontario Power Generation. Our financial results reflect expenditures related to the return to service of the Pickering A nuclear generating station and reduced earnings resulting from the decontrol of the Bruce nuclear generating stations. Our assets performed extremely well to meet an all-time record peak summer demand," said OPG President and CEO, Ron Osborne.

OPG achieved a number of important milestones in 2001:

- Completing the lease of the Bruce nuclear generation stations to Bruce Power;
- Initiating the process to decontrol the Lakeview, Lennox, Thunder Bay, Atikokan and the Mississagi River generating stations;
- Approval from the Canadian Nuclear Safety Commission, subject to the completion of certain upgrades, to permit the Pickering A nuclear generating station to return to service;
- Formation of a new venture capital subsidiary, OPG Ventures Inc., with the purpose of investing in emerging and energy related technology companies

"2002 will undoubtedly be an eventful year for OPG with the planned opening of the Ontario electricity market. OPG's readiness to compete in Ontario's competitive electricity marketplace will be enhanced by the expected completion of our decontrol initiatives and the return to service of the first unit of the Pickering A nuclear station," said Osborne.

Ontario Power Generation is an Ontario based company, whose principal business is the generation and sale of electricity to customers in Ontario and to interconnected markets. OPG's goal is to be a premier North American energy company, while operating in a safe, open and environmentally responsible manner. Our focus is on producing reliable electricity from our competitive generation assets; power trading; and commercial energy sales activities.

Analysis of 2001 Results

Highlights

Years ended December 31

(millions of dollars unless otherwise stated)	2001	Restated 2000
Revenues	**6,239**	5,978
Operating expenses	**5,882**	4,959
Operating income	**357**	1,019
Interest expense	**139**	140
Income taxes	**66**	389
Net income	**152**	490
Earnings per common share ($ per common share)	**0.59**	1.91
Total electricity sales volume (TWh)		
Ontario electricity sales	**136.6**	135.8
Interconnected electricity sales	**3.6**	4.0
Total	**140.2**	139.8
Total energy available (TWh)		
Total production	**121.6**	136.2
Purchased power	**19.1**	3.3
Other*	**(0.5)**	0.3
Total	**140.2**	139.8

*Represents deposits and withdrawals of electricity with utilities in neighbouring jurisdictions under energy banking arrangements

Net Income

Net income for the year ended December 31, 2001 was $152 million compared with restated net income of $490 million in 2000. Significant factors impacting earnings in 2001 compared to 2000 included the following:

- OPG continued to focus on the refurbishment and upgrade of the 2,060 MW Pickering A nuclear station. Activity levels and expenditures increased in 2001 compared to last year, with a significant portion of the costs expensed in the current year.

- OPG completed the close of the operating lease agreement for its Bruce A and Bruce B nuclear generating stations resulting in a decrease in contribution to earnings from these facilities.

- The volume and price of power purchased increased significantly in 2001. The increase was primarily due to the availability of coal supply, lower generation from other Ontario generators and the requirement to meet record peak summer demand.

- OPG approved a restructuring plan designed to improve OPG's future cost competitiveness. A restructuring charge was recorded in 2001, which included severance, pension and other benefits related to a reduction in OPG's workforce in 2002.

Decontrol of Bruce Nuclear Generating Stations

In May 2001, OPG completed the closing of the operating lease agreement for its Bruce A and Bruce B nuclear generating stations with Bruce Power L.P. ("Bruce Power"). As part of the initial payment, OPG received $370 million in cash proceeds and a $225 million interest bearing note receivable. The note is due in two installments of $112.5 million no later than four and six years respectively from the date the transaction was completed. Under the terms of the lease, OPG transferred to Bruce Power, materials, certain fixed assets, pension assets and liabilities and other post employment benefit obligations. Also, in conjunction with the terms of the lease transaction, OPG agreed to purchase all of Bruce Power's electricity generation up to the date of market opening.

The contribution to earnings from the Bruce nuclear generating stations decreased by $214 million before tax in 2001 compared to 2000. This amount included the impact of the power purchased from Bruce Power, partially offset by lease and service revenue related to the lease agreement, and a decrease in operating expenses. The lease payments include monthly fixed payments and periodic variable payments. The variable lease payments include a net revenue-sharing arrangement which will commence in January 2002.

Revenues

Total revenues for 2001 were $6,239 million compared with $5,978 million in 2000, an increase of $261 million. Total revenues consist of Ontario energy revenues, interconnected sales and other non-energy based revenues.

Ontario energy revenues in 2001 were $5,723 million compared with $5,576 million in 2000, an increase of $147 million. The higher revenues were primarily due to a slightly higher average revenue rate related to changes between actual and forecast demand and customer mix, and a 0.8 TWh increase in the volume of electricity sales from 135.8 TWh in 2000 to 136.6 TWh in 2001. The increase in volume was primarily due to lower electricity generation from other Ontario generators and higher demand from municipal utility customers compared to last year.

Revenues from interconnected markets were $222 million in 2001 compared with $279 million in 2000, a decrease of $57 million. The decrease in interconnected revenue was primarily due to lower structured product revenues and lower interconnected sales volumes in 2001 compared to 2000. The interconnected sales volumes in 2001 were 3.6 TWh, a decrease of 0.4 TWh from the 2000 sales volume of 4.0 TWh.

Non-energy revenues included revenues from engineering analysis and design, technical and ancillary services, isotope sales, lease revenue and interest income related to the Bruce Power lease and related agreements. Non-energy revenues for 2001 were $294 million compared with $123 million in 2000, an increase of $171 million. The increase was primarily due to the lease and service revenue earned under the agreements with Bruce Power.

Operating Expenses

Operation, maintenance and administrative (OM&A) expenses consist of labour, materials and administrative support. OM&A expenses in 2001 were $2,559 million compared with $2,365 in 2000, an increase of $194 million. The increase in OM&A expenses was primarily due to increased activity and expenditures related to the return to service of the Pickering A nuclear generation station ($236 million), higher pension and other post employment benefit (“OPEB”) expenses ($42 million) and inflation and other increases ($72 million), partially offset by a reduction in operating costs due to the decontrol of the Bruce nuclear generating stations in the second quarter of 2001 ($156 million).

Power purchase costs represent electricity purchases from interconnected markets and purchases from Bruce Power. Power purchased during 2001 was $879 million compared with $180 million in 2000, an increase of $699 million. The major factors that contributed to the increase in power purchased included purchases of electricity from Bruce Power, the availability of coal supply in the first quarter of 2001, lower generation from independent Ontario generators, and higher demand during the summer season. The power purchased in 2001 was 19.1 TWh compared to 3.3 TWh in 2000.

Property and capital taxes in 2001 were $308 million compared with $379 million in 2000, a decrease of $71 million. The decrease was mainly due to the impact of the tax reform for property tax on hydroelectric facilities as introduced by the Province of Ontario. The property tax reform involves the implementation of a charge based on gross revenue. The gross revenue charge is derived from the annual generation of electricity from the hydroelectric generating stations and is dependent on both energy prices and hydroelectric production.

Restructuring Costs

In 2001, OPG approved a restructuring plan designed to improve OPG's future cost competitiveness. Completion of significant decontrol activities and a number of major initiatives over the next two years requires the restructuring of areas within OPG that support these activities. Restructuring charges are related to a reduction in the workforce of approximately 2,000 employees and include severance costs and pension and other post employment benefit expenses. OPG expects the workforce reductions to be achieved equally over each of the next two years.

The restructuring plan is expected to cost approximately $400 million, of which $67 million has been recorded in 2001 in accordance with Canadian generally accepted accounting principles.

Income Tax

The effective income tax rate decreased to 30.3% in 2001 from 44.3% in 2000. The decrease in the effective income tax rate was primarily due to a reduction in future income taxes resulting from a decrease in the future income tax rate as announced under the Federal and Provincial Budgets and favourable income tax treatment for certain other revenues.

Restatement of 2000 Results for Pension and OPEB

In 2001, OPG changed its policy of accounting for changes in the net actuarial gain or loss for pension and OPEB, effective April 1, 1999. This change in accounting policy results in amortization of the net cumulative unamortized gain or loss in excess of 10% of the greater of the benefit obligation and the market-related value of plan assets. Previously, the entire change in the net actuarial gain or loss was amortized and plan assets were valued at market for purposes of determining actuarial gains and losses, which created earnings volatility related to capital markets.

As a result of this change, the operating results for 2000 have been restated to reflect an increase in employee benefit expenses of $147 million, a decrease in net income of $95 million, and a decrease in retained earnings of $104 million.

In addition, an assessment of OPG's claims history for OPEB in 2000 resulted in a revision to OPEB expense of $32 million and a $20 million decrease in net income and retained earnings for the year ended December 31, 2000. The revision was accounted for retroactive to January 1, 2000.

Liquidity and Capital Resources

Cash flow from operating activities during 2001 amounted to $224 million compared to cash flow provided from operating activities of $1,281 million in 2000. The decrease was primarily due to lower earnings, an increase in coal inventory levels and other changes in working capital requirements.

OPG continues to invest in plant and technologies to improve operating efficiencies, increase generating capacity of its existing plant and maintain and improve service, reliability, safety and environmental performance. Capital expenditures during 2001 were $739 million compared with $585 million in 2000. The increase in capital expenditures was primarily due to higher activity related to the return to service of the Pickering A nuclear generating station and the purchase of emission control equipment for OPG's fossil generating stations. Commissioning of the first Pickering A unit is estimated to start during the third quarter of 2002.

The fixed asset removal and nuclear waste management fund increased by a total of $427 million in 2001 compared with $414 million in 2000 as a result of contributions and income. The balance in the fund at December 31, 2001 was $1,208 million compared to $781 million at December 31, 2000.

During 2001, OPG repaid $150 million of short-term notes issued from its commercial paper program. The outstanding short-term notes at December 31, 2001 were nil. Also in 2001, OPG repaid $200 million of its long-term debt. OPG's long-term debt was $3,220 million at December 31, 2001, of which $205 million is due in 2002.

Outlook

OPG expects that net income in 2002 will be lower than 2001 and will be affected by factors including; the lease of the Bruce generating stations, further decontrol of certain other fossil and hydroelectric stations during the year; higher coal prices; continuing expenditures related to the return to service of the Pickering A units; higher financing costs associated with expected borrowings; and restructuring costs resulting from further employee reduction. The impact of these factors will be partially offset by the impact of expected increases in generation, reduced energy purchases, and lower operating, maintenance and administration expenses.

Forward-looking Statements

Certain statements contained in this press release are forward-looking and reflect the Company's views with respect to future events. Since forward-looking statements address future events and conditions, by their very nature, they involve inherent risks and uncertainties. Forward-looking statements are not guarantees of the Company's future performance or results and are subject to various factors, including, but not limited to, assumptions regarding the nuclear recovery plan, nuclear waste management and decommissioning, fuel procurement, fuel costs, Ontario electricity industry restructuring, market power mitigation, environmental regulations, spot market electricity prices, and effects of weather. Although the Company believes that assumptions inherent in forward-looking statements are reasonable, undue reliance should not be placed on these statements, which apply only as of their dates. The Company is not obligated to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

Consolidated Statements of Income

Years ended December 31 *(millions of dollars except where noted)*	**2001**	**Restated 2000**
Revenues	**6,239**	5,978
Operating Expenses		
Operation, maintenance and administration	**2,559**	2,365
Fuel expense	**1,259**	1,271
Power purchased	**879**	180
Depreciation and amortization	**810**	764
Property and capital taxes	**308**	379
Restructuring costs	**67**	-
	5,882	4,959
Operating Income	**357**	1,019
Net interest expense	**139**	140
Income before income taxes	**218**	879
Income taxes	**66**	389
Net Income	**152**	490
Basic and fully diluted earnings per share	**0.59**	1.91

Summary of Cash Flows

Years ended December 31 *(millions of dollars)*	**2001**	**Restated 2000**
Cash flow provided by operating activities	**224**	1,281
Investing activities	**(61)**	(904)
Cash flow used in financing activities	**(728)**	(55)
(Decrease)increase in cash and cash equivalents	**(565)**	322
Cash and cash equivalents, beginning of year	**565**	243
Cash and cash equivalents, ending of year	**-**	565

Consolidated Balance Sheets

As at December 31 *(millions of dollars)*	**2001**	**Restated 2000**
Assets:		
Current assets	**1,698**	2,193
Fixed assets	**12,981**	12,932
Deferred pension asset	**330**	482
Fixed asset removal and nuclear waste management fund	**1,208**	781
Other	**469**	244
	16,686	16,632
Liabilities		
Current liabilities	**1,723**	1,760
Long-term debt	**3,015**	3,219
Fixed asset removal and nuclear waste management	**4,724**	4,482
Other post employment benefits	**924**	1,032
Other	**830**	446
	11,216	10,939
Shareholder's Equity	**5,470**	5,693
	16,686	16,632

For further information, please contact:

Investor Relations
(416) 592-6700
1-866-592-6700
investor.relations@opg.com

Media Relations
(416) 592-4008
1-877-592-4008

www.opg.com
www.sedar.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial condition and results of operations of Ontario Power Generation Inc. ("OPG") should be read in conjunction with the consolidated financial statements and accompanying notes. OPG's financial statements are prepared in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars.

THE CORPORATION

OPG is an Ontario based company, whose principal business is the generation and sale of electricity in the Ontario wholesale market and in the interconnected markets of Quebec, Manitoba and the northeast and midwest regions of the United States. As of December 31, 2001 OPG owned 69 hydroelectric stations, six fossil-fueled generating stations and five nuclear generating stations, two of which are leased on a long-term basis. Total available capacity was 22,598 megawatts (MW), consisting of 7,310 MW of hydroelectric capacity; 9,700 MW of fossil-fueled capacity; and 5,588 MW of operating nuclear capacity, excluding the leased stations. In addition, there was 2,060 MW of nuclear capacity temporarily laid up.

INCORPORATION, COMMENCEMENT OF OPERATIONS AND ACQUISITION OF BUSINESS

OPG was incorporated on December 1, 1998 pursuant to the *Business Corporations Act 1998* (Ontario). As part of the reorganization of Ontario Hydro and the related restructuring of the electricity industry in Ontario, OPG and its subsidiaries purchased and assumed certain assets, liabilities, employees, rights and obligations of the electricity generation business of Ontario Hydro (the "Acquired Business") on April 1, 1999 and commenced operations on that date. OPG recorded the purchase of the Acquired Business at its fair value as of April 1, 1999.

OVERVIEW

(millions of dollars unless otherwise stated)	**2001**	**Restated 2000**
Revenues	**6,239**	5,978
Operating income	**357**	1,019
Net income	**152**	490
Electricity sales volume (TWh)	**140.2**	139.8

Net income for the year ended December 31, 2001 was $152 million based on revenues of $6,239 million. For the year ended December 31, 2000, net income was $490 million from revenues of $5,978 million. Total volume of electricity sales in the Ontario and interconnected markets during the years ended December 31, 2001 and 2000 were 140.2 TWh and 139.8 TWh respectively.

Significant factors impacting earnings in 2001 compared to 2000 included the following:

- OPG continued to focus on the refurbishment and upgrade of the 2,060 MW Pickering A nuclear station in preparation for the return to service. Activity levels and expenditures increased in 2001 compared to last year, with a significant portion of the costs expensed in the current year. OPG expects to begin commissioning the first of four units during the third quarter of 2002.

- OPG completed the close of the operating lease agreement for its Bruce A and Bruce B nuclear generating stations resulting in a decrease in contribution to earnings from these facilities.

- The volume and price of power purchased increased significantly in 2001. The increase was primarily due to the availability of coal supply, lower generation from other Ontario generators and the requirement to meet record peak summer demand.

- OPG approved a restructuring plan designed to improve OPG's future cost competitiveness. The restructuring charges are related to a reduction in OPG's workforce in 2002.

ONTARIO'S NEW ELECTRICITY MARKET

The Ontario electricity market is scheduled to open to competition in May 2002. After market opening, generators, wholesalers, suppliers and marketers, both from within and outside Ontario, will compete to sell electricity into the real-time energy market or spot market administered by the Independent Electricity Market Operator ("IMO"). Both wholesale market participants and retail customers will have access to the electricity supplier of their choice.

Following market opening, OPG and other generators in Ontario must 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 will also be earned through offering to supply operating reserve and contracting to supply other ancillary services (voltage control/reactive support, black start capability and automatic generation control) to the IMO. Generators and other suppliers can also earn revenue through the offering of financial risk management products to both end users and other wholesale parties.

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 most significant market power mitigation measures are the rebate mechanism and the requirement to decontrol generating capacity. Under the rebate mechanism, for the first four years after market opening, a significant majority of OPG's expected energy sales in Ontario will be subject to an average annual revenue cap of 3.8¢/kWh. The amount of energy sales subject to the revenue cap has been predetermined for the entire four-year period on an annual basis and will be reduced with the approval of the Ontario Energy Board ("OEB") as OPG decontrols generation capacity in Ontario. OPG will be required annually to pay a rebate to the IMO equal to the excess, if any, of the average spot market price over 3.8¢/kWh for the amount of energy sales subject to the rebate mechanism. The IMO will pass this rebate on to consumers based on their energy consumption in Ontario.

The decontrol provisions require that OPG relinquish effective control of specified percentages of its generating capacity. This can be accomplished in a variety of ways, including the outright sale or lease of generating stations or by entering into other arrangements, provided the result is to transfer effective control of the timing, quantity and bidding of energy produced by OPG's generating stations. OPG is required to relinquish effective control of at least 4,000 MW of fossil generating capacity within 42 months after market opening, with the option of substituting up to 1,000 MW of hydroelectric generating capacity for an equal amount of fossil operating capacity. Further, within 10 years of market opening, OPG must reduce its effective control over electricity supply options to no more than 35% of the total electricity supply options in Ontario.

ANALYSIS OF OPERATING RESULTS

(millions of dollars)	**2001**	**Restated 2000**
Revenues	**6,239**	5,978
Operating Expenses		
Operation, maintenance and administration	**2,559**	2,365
Fuel	**1,259**	1,271
Power purchased	**879**	180
Depreciation and amortization	**810**	764
Property and capital taxes	**308**	379
Restructuring costs	**67**	-
	5,882	4,959
Operating Income	**357**	1,019
Net interest expense	**139**	140
Income before income taxes	**218**	879
Income taxes	**66**	389
Net Income	**152**	490

Decontrol of Bruce Nuclear Generating Stations

In May 2001, OPG completed the closing of the operating lease agreement for its Bruce A and Bruce B nuclear generating stations with Bruce Power L.P. ("Bruce Power"). As part of the initial payment, OPG received $370 million in cash proceeds and a $225 million note receivable. The note is due 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 transferred to Bruce Power, materials, certain fixed assets, pension assets and liabilities and other post employment benefit ("OPEB") obligations. Also, in conjunction with the terms of the lease transaction, OPG agreed to purchase all of Bruce Power's electricity generation up to the date of market opening. OPG continues to be responsible for the nuclear fixed asset removal and waste management liabilities associated with the Bruce nuclear generating stations. The up-front cash proceeds will be distributed to the Province of Ontario (the “Province”). As at December 31, 2001, $246 million had been paid through dividends.

As part of the lease agreement, OPG will receive annual lease payments. The lease payments include monthly fixed payments and periodic variable payments. The variable lease payments include a net revenue-sharing arrangement which will commence in January 2002, and supplementary payments for the management of used fuel. In total, fixed and variable payments were $72 million in 2001 and are estimated to be approximately $200 million in 2002. In addition to the lease payments, OPG also receives other revenue for various services provided to Bruce Power, including the management of low and intermediate level waste.

The contribution to earnings from the Bruce nuclear generating stations decreased by $214 million before tax in 2001 compared to 2000. This amount includes the impact of the power purchased from Bruce Power, partially offset by lease and service revenue related to the lease agreement, and a decrease in operating expenses.

Revenues

Total revenues for 2001 were $6,239 million compared with $5,978 million in 2000, an increase of $261 million. Total revenues consist of Ontario energy revenues, interconnected sales and other non-energy based revenues.

Electricity Sales Volume (TWh)	**2001**	**2000**
Ontario electricity sales	**136.6**	135.8
Interconnected electricity sales	**3.6**	4.0
Total	**140.2**	139.8

Ontario energy revenues in 2001 were $5,723 million compared with $5,576 million in 2000, an increase of $147 million. The higher revenues were primarily due to a slightly higher average revenue rate related to changes between actual and forecast demand and customer mix, and a 0.8 TWh increase in the volume of electricity sales from 135.8 TWh in 2000 to 136.6 TWh in 2001. The increase in volume was primarily due to lower electricity generation from other Ontario generators and higher demand from municipal utility customers compared to last year.

Revenues from interconnected markets were $222 million in 2001 compared with $279 million in 2000, a decrease of $57 million. The decrease in interconnected revenue was primarily due to lower structured product revenues and lower interconnected sales volumes in 2001 compared to 2000. The interconnected sales volumes in 2001 were 3.6 TWh, a decrease of 0.4 TWh from the 2000 sales volume of 4.0 TWh.

Non-energy revenues include revenues from engineering analysis and design, technical and ancillary services, isotope sales, lease revenue and interest income related to the Bruce Power lease agreement. Non-energy revenues for 2001 were $294 million compared with $123 million in 2000, an increase of $171 million. The increase was primarily due to the lease and service revenue earned under the agreements with Bruce Power.

Operating Expenses

Operation, maintenance and administrative (OM&A) expenses consist of labour, materials and administrative support. OM&A expenses in 2001 were $2,559 million compared with $2,365 in 2000, an increase of $194 million. The increase in OM&A expenses was primarily due to increased activity and expenditures related to the return to service of the Pickering A nuclear generation station ($236 million), higher pension and OPEB expenses ($42 million) and inflation and other increases ($72 million), partially offset by a reduction in operating costs due to the decontrol of the Bruce nuclear generating stations in the second quarter of 2001 ($156 million).

Fuel is comprised of costs for coal, uranium, oil, natural gas, water rental payments and a provision for used nuclear fuel disposal based on actual fuel consumed. Fuel expenses during 2001 were $1,259 million compared with $1,271 million in 2000, a decrease of $12 million. The decrease in fuel expenses was mainly a result of lower fossil production and lower nuclear fuel expenses due to the decontrol of the Bruce nuclear generating stations, partially offset by higher gas-fired production and an increase in average coal prices.

Total Energy Available (TWh)	2001	2000
Production		
Nuclear - Darlington & Pickering	**39.1**	36.5
- Bruce *	**8.6**	23.3
Total Nuclear	**47.7**	59.8
Fossil	**40.2**	42.4
Hydroelectric	**33.7**	34.0
Total production	**121.6**	136.2
Purchased power	**19.1**	3.3
Other **	**(0.5)**	0.3
Total energy available	**140.2**	139.8

* Represents generation from Bruce nuclear generating stations from Jan 1, 2001 to May 11, 2001.

** Represents deposits and withdrawals of electricity with utilities in neighbouring jurisdictions under energy banking arrangements.

Power purchase costs represent electricity purchases from interconnected markets and purchases from Bruce Power. Power purchased during 2001 was $879 million compared with $180 million in 2000, an increase of $699 million. The major factors that contributed to the increase in power purchased included purchases of electricity from Bruce Power, the availability of coal supply in the first quarter of 2001, lower generation from independent Ontario generators, and higher demand during the summer season. The power purchased in 2001 was 19.1 TWh compared to 3.3 TWh in 2000. Power purchased in 2001 included purchases of 15.1 TWh from Bruce Power.

Depreciation and amortization charged to operations in 2001 was $810 million compared with $764 million in 2000, an increase of $46 million. The depreciation and amortization expense includes depreciation of fixed assets in service based on their estimated service lives, and a charge related to the increase in the accrued costs for low and intermediate level nuclear waste from waste produced during the year. The depreciation and amortization related to nuclear waste items was $34 million in 2001 compared to $21 million in 2000.

The depreciation and amortization expense also includes revalorization. Revalorization arises because liabilities for used nuclear waste disposal and future fixed asset removal costs are stated in the balance sheet on a net present value basis. The revalorization charge is the adjustment that results from restating the liabilities to reflect the effect of inflation on the cost estimates and the time value of money effect on the future liabilities. The revalorization charge is sensitive to movements in both interest and inflation rates. The revalorization charge was $198 million in 2001 compared with $202 million during 2000. The revalorization charge includes a credit that reflects the growth of segregated funds directly set aside to discharge these obligations, including the receivable due from the Province. This credit amount was $208 million in 2001 compared with $181 million in 2000.

Property taxes include taxes paid to municipalities, payments to the OEFC in lieu of property taxes on OPG’s nuclear and fossil stations, and Gross Revenue Charges ("GRC") on its hydroelectric generation stations paid to the OEFC and the Province. The GRC was introduced by the Province effective January 1, 2001 to restructure the payment of municipal property taxes, water rentals and payments in lieu of property taxes from OPG’s hydroelectric generating facilities. The GRC payments are set based on the gross revenue derived from the annual generation of electricity from these hydroelectric generating stations and are dependent on both energy prices and hydroelectric production. Property taxes, payments in lieu of property taxes and the GRC are intended to approximate the total property tax paid by privately-owned companies.

Property and capital taxes in 2001 were $308 million compared with $379 million in 2000, a decrease of $71 million. The decrease was mainly due to the impact of the GRC tax reform for property tax on hydroelectric facilities as introduced by the Province.

Net Interest Expense

Interest expense represents interest and other financing costs associated with OPG's debt. Net interest charged to operations represents the gross interest costs reduced by capitalized interest and interest earned on surplus cash and short-term investments. Net interest expense in 2001 was $139 million compared with $140 million in 2000.

Restructuring Costs

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

Based on current estimates, the restructuring plan is expected to cost approximately $400 million under the terms of the existing collective agreements. The provision for restructuring costs recorded for the year ended December 31, 2001 was $67 million. This amount includes severance costs of $40 million, calculated based on the termination of approximately 600 employees, and costs of $27 million associated with the curtailment of pension and OPEB.

Income Tax Expense

OPG is currently exempt from taxation under the *Income Tax Act* (Canada) and *Corporations Tax Act* (Ontario) as a result of being a 100% provincially-owned corporation. However, OPG is required to make payments to the OEFC in lieu of federal and provincial income taxes. These payments are calculated in accordance with federal and provincial income tax legislation and the regulations made under the *Electricity Act*, 1998.

The effective income tax rate decreased to 30.3% in 2001 from 44.3% in 2000. The decrease in the effective income tax rate was primarily due to a reduction in future income taxes resulting from a decrease in the future income tax rate as announced under the Federal and Provincial Budgets and favourable income tax treatment for certain other revenues.

Restatement of 2000 Results for Pension and OPEB

In 2001, OPG changed its policy of accounting for changes in the net actuarial gain or loss for pension and OPEB, effective April 1, 1999. This change in accounting policy results in amortization of the net cumulative unamortized gain or loss in excess of 10% of the greater of the benefit obligation and the market-related value of plan assets. Previously, the entire change in the net actuarial gain or loss was amortized and plan assets were valued at market for purposes of determining actuarial gains and losses.

As a result of this change, the operating results for 2000 have been restated to reflect an increase in employee benefit expenses of $147 million, a decrease in net income of $95 million, and a decrease in retained earnings of $104 million. Employee benefit expenses increased by $30 million in 2001 as a result of this change in accounting policy.

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

The impact of the change in the accounting policy for pension and OPEB and the revision for the change in OPEB claims for 2000 is summarized below:

	Accounting Policy Change	OPEB Revision	Total
Decrease in retained earnings - January 1, 2000	(9)	-	(9)
Decrease in net income due to:			
Change in accounting policy for pension and OPEB	(147)		(147)
Revision for OPEB claims history		(32)	(32)
Income tax recovery	52	12	64
	(95)	(20)	(115)
Decrease in retained earnings - December 31, 2000	(104)	(20)	(124)

ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT

Liability for Asset Removal and Nuclear Waste Management

Effective April 1, 1999, as a result of the purchase of the generating assets of Ontario Hydro, OPG recognized a liability equal to the committed value of nuclear and fossil liabilities, representing the total present value of the costs of dismantling the nuclear and fossil production facilities at the end of their useful lives, the total fixed cost of nuclear waste management programs, and the variable cost portion of nuclear waste management programs associated with actual waste volumes incurred up to April 1, 1999. At December 31, 2001 the liability for nuclear waste management and asset removal was $7,497 million (2000 - $7,104), of which $7,370 million (2000 - $6,978 million) related to nuclear decommissioning and waste liabilities and $127 million (2000 - $126 million) related to non-nuclear decommissioning liabilities.

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

Segregated Funds and the Role of External Parties

OPG is contributing to segregated funds to provide for the remaining unfunded nuclear liabilities related to nuclear fixed asset removal and nuclear waste management. It is OPG's intent that these funds be held ultimately by a custodian outside of OPG and be used solely for discharging these liabilities. The nuclear fixed asset removal and nuclear waste management fund was $1,208 million at December 31, 2001 (2000 - $781 million).

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

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

Nuclear Funds Agreement

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

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

NUCLEAR RECOVERY PROGRAM

Increasing production of low-cost nuclear energy is an important element underlying OPG's expectation for improving financial performance. This includes improvements in the performance of OPG's nuclear generating stations achieved through the nuclear recovery plan and the return to service of the four units at the Pickering A generating station.

A comprehensive nuclear recovery plan designed to improve the operating performance of the nuclear generating stations was developed in the fall of 1997 by Ontario Hydro. Expenditures related to the nuclear recovery plan during the period from 1997 to 2004 are expected to total $1,400 million. This estimate excludes any future costs related to the Bruce nuclear generating facilities which are now operated by Bruce Power. Spending on the nuclear recovery program was approximately $130 million during 2001 (2000 - $240 million). Total expenditures since the start of the program in 1997 were $1,040 million. The planned expenditures on these projects are expected to total approximately $90 million in 2002.

The return to service of the four Pickering A units will add 2,060 MW of reliable, low cost electricity and will make a significant contribution towards improving environmental performance within the Ontario electricity sector. The estimated cost of the project, the majority of which is being expensed, is approximately $1.5 billion, of which $600 million has been spent to date.

In 2001, the CNSC accepted the results of the Pickering A nuclear generating station's environmental assessment and subsequently announced its decision to permit the Pickering A generating station to return to service. Prior to the start up of each unit, OPG is required to complete the safety and environmental upgrades and other refurbishment work as specified in the decision. OPG expects to begin commissioning the first unit of the Pickering A generating station during the third quarter of 2002. The other three units are expected to return to service at approximately six to nine-month intervals.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities during 2001 amounted to $224 million (2000 - $1,281 million). The decrease was primarily due to lower earnings, an increase in coal inventory levels and other changes in working capital requirements. Cash and cash equivalents were nil at December 31, 2001 compared to $565 million at December 31, 2000. Short-term investments decreased from $335 million at December 31, 2000 to $39 million at December 31, 2001.

OPG continues to invest in plant and technologies to improve operating efficiencies, increase generating capacity of its existing plant and maintain and improve service, reliability, safety and environmental performance. Capital expenditures during 2001 were $739 million compared with $585 million in 2000. The increase in capital expenditures was primarily due to higher activity related to the return to service of the Pickering A nuclear generating station and the purchase of emission control equipment for OPG's fossil generating stations.

OPG's planned capital expenditures for 2002 are approximately $1,000 million. This amount includes sustaining capital expenditures to support the continued operations of current generating capacity, such as expenditures to meet expected emission reduction regulations, and capital expenditures to expand generating capacity such as the Pickering A return to service project and the nuclear recovery program. Of the total capital plan for 2002, OPG estimates that $380 million represents expenditures for sustaining operations. For 2003, OPG's planned capital expenditures are approximately $830 million, of which $340 million represents sustaining expenditures.

The fixed asset removal and nuclear waste management fund increased in 2001 by a total of $427 million (2000 - $414 million) through contributions and interest earned on investments. The balance in the fund at December 31, 2001 was $1,208 million (2000 - $781 million).

In the future, OPG expects to seek external sources of capital such as debt in the Canadian capital market to obtain funds required to carry out its capital program, refinance existing debt and provide other flexibility in the funding of future operations. In October 2001, OPG obtained an investment grade credit rating of "BBB^{+}" on its long-term debt from Standard and Poor's and its "A" rating from Dominion Bond Rating Agency was confirmed.

OPG has access to funds through a $600 million credit facility with certain Canadian chartered banks as a back-up line for OPG's commercial paper Program (CP) to fund working capital requirements and for general corporate purposes. This facility may be drawn upon in either Canadian or U.S. dollars at varying rates based on certain benchmark rates, including a prime rate, a banker's acceptance rate, and a LIBOR rate.

Under the CP program, OPG has the authority to issue short-term promissory notes up to a maximum outstanding principal amount of $600 million in Canadian currency, or the equivalent thereof in United States currency. Notes issued under the CP program are backed by the above noted credit facility. As at December 31, 2001, OPG had no promissory notes issued and outstanding under the CP program, a decrease of $150 million from December 31, 2000.

In 2001, OPG repaid $200 million of its long-term debt. OPG's long-term debt of $3,220 million, as at December 31, 2001 consisted of $200 million of senior notes due within one year, $2,250 million of senior notes due in the years 2003 to 2009, $750 million of subordinated notes due in the years 2010 and 2011 and $20 million in capital lease obligations. Certain covenants applicable to any public debt issued by OPG in the future will automatically become applicable to the notes.

RISK MANAGEMENT

Overview

OPG's approach for managing risk is based on an enterprise-wide risk management system. Risk management activities involve identifying, monitoring, measuring and reporting on risks in an effort to optimize asset returns. OPG undertakes an assessment of its exposures in order to characterize the risk of such exposures and the effectiveness of risk management activities, including avoidance, reduction, transfer and substitution. Senior Officers of OPG and the Board of Directors review OPG's residual exposure on a quarterly basis to ensure it is consistent with overall strategy and corporate risk tolerance levels.

Upon market opening, OPG will be subject to increased risk, including market and credit risk inherent in a deregulated market. The Board of Directors has approved governance policies and structures to facilitate the management of the increased risk. A Risk Oversight Committee, which consists of Senior Officers of OPG, has been established to approve products, monitor policies and compliance issues, and ensure the continuing effectiveness of overall corporate governance under the direction of the Board of Directors.

In anticipation of increased levels of risk and complexity of market activities, OPG implemented 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. Open positions will be subject to measurement against value at risk (VaR) limits, which measure the potential loss in a portfolio's market value due to market volatility over a one day holding period, with a 95% confidence interval.

Nuclear Recovery Program

The successful implementation of the nuclear recovery program will depend on many factors including: the discovery of unanticipated deficiencies in its nuclear operations or greater-than-anticipated deterioration to its nuclear generating assets, material changes to the current regulatory structure governing nuclear generation, the ability of OPG to hire, train and retrain qualified personnel, and the ability to implement operational changes. The nuclear recovery program includes a rigorous framework for managing risks associated with nuclear operations and processes. This framework addresses the major risk areas, related exposures and impacts, and mitigation strategies in the nuclear business.

Environmental Compliance

OPG is committed to meeting all applicable environmental legislative requirements and voluntary environmental commitments. OPG's environmental policy includes ecosystem protection, pollution prevention, energy and resource use efficiency and community relations. OPG routinely undertakes environmental compliance audits.

All of OPG's nuclear, fossil and hydroelectric stations are certified under the international ISO 14001 standard for environmental management systems. Certification means that the stations have put in place a comprehensive program to ensure that they are operated in an environmentally responsible way and that environmental performance is continually improved.

OPG manages its emissions of sulphur dioxide (SO_2), nitrogen oxides (NO_x) and carbon dioxide (CO_2). Emissions are reduced through continued 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 coal. OPG also utilizes emission reduction credits (ERCs) to manage emission levels of nitric oxide (NO) and CO_2 within the prescribed regulatory limits and voluntary caps. ERCs are purchased and sold with trading partners in Canada and the United States. ERCs are created when a source reduces emissions below the lower of previous actual emissions or the level required by government regulation.

Electricity Price Risk

Electricity price risk is the risk that changes in the market price of electricity will adversely impact OPG's earnings and cash flow from operations. Once the market opens, OPG will face price risk directly related both to the demand and supply of generation in the open market and transmission constraints. OPG's production will be exposed to spot market prices. However, derivative instruments and related risk management products may be used to mitigate OPG's exposure to volatile electricity prices upon market opening.

Credit Risk

Credit risk is the risk of non-performance by contractual counterparties. Following market opening, substantially all of OPG's revenues will be derived from sales through the IMO-administered spot market. Participants in the IMO spot market must meet IMO-mandated standards for creditworthiness and subsequently mitigate the credit risk associated with spot market sales. Other revenues will be derived from several sources, including the sale of financial risk management products to third parties.

OPG actively manages credit risk through an established counterparty credit policy, and has implemented credit evaluation and collection procedures to monitor its credit exposures. 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.

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 manage the 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 licencing of its nuclear facilities, and manages environmental constraints utilizing programs such as emission reduction credits to manage the supply of generation.

Foreign Exchange and Interest Rate Risk

Upon market opening, the spot market price for electricity in Ontario may periodically reflect U.S. spot market prices for electricity within interconnected markets. In addition, OPG has significant specific U.S. dollar denominated transactions such as the purchase of fossil fuel and the purchase and sale of electricity in U.S. markets. OPG currently manages this exposure by periodically hedging its net U.S. dollar cash flows according to approved risk management policies.

Interest rate risk will arise with the need to undertake new financing and with the addition of variable rate debt. The interest rates for future financing requirements may be hedged using derivative instruments. The management of these risks will be undertaken by selectively hedging in accordance with corporate risk management policies.

MARKET OUTLOOK

Competitive Environment

After market opening, there will be significant changes in the way the industry operates. Ontario electricity consumers will have access to their electricity supplier of choice. Generators and other market participants will compete with each other on the basis of price, service quality and other differentiating factors. Opportunities for new products and services will be created, including those for managing the risk associated with market price fluctuations.

OPG expects competitive pressure in Ontario will come from a number of sources. Companies which control generation capacity decontrolled by OPG will compete with OPG. Depending on the station, these facilities may provide base load, intermediate or peaking capacity. Intermediaries that offer new products and services, including financial risk management products, will compete to sell energy products to end users in Ontario. Market participants will compete for opportunities to source and import energy from outside Ontario, subject to capacity limitations of transmission inter-ties. Competition may also come from generation by new independent power producers in Ontario. The extent to which additional generating capacity is constructed will depend on a number of factors including actual and anticipated price levels for electricity and natural gas, the ability of parties to structure economic transactions, technological advances and environmental and other regulatory developments.

Demand for electricity in the marketplace is expected to increase through continued economic and population growth, and through increasing demand for heating, air conditioning and electronic infrastructure.

Market Opportunity

OPG's portfolio of generation assets is well balanced and diversified in terms of technology, fuel type, market and dispatch flexibility. Production costs are low relative to other generators in Ontario and the U.S. northeast and midwest, although higher than generators in Manitoba and Quebec.

OPG's fundamental strategy in the near term is to increase the productivity, capacity and cost competitiveness of its nuclear generating stations. OPG continues to focus on the implementation of a $1.4 billion nuclear recovery plan designed to improve operating performance, reliability, safety and environmental performance. As well, the initiative to return the Pickering A generating station to service will restore 2,060 MW of low-cost and smog free nuclear capacity.

OPG is pursuing initiatives to improve the cost competitiveness and operational flexibility of its business. OPG initiatives include workforce skills development; improved control of material and service costs through the adoption of new processes and participation in business to business e-commence marketplaces; and strategic outsourcing of non-core businesses including the information technology services joint venture with Business Transformation Services Inc. and the joint venture of technology-oriented development activities in Kinectrics Inc. OPG is also restructuring areas within the company consistent with the reduction in generating capacity through decontrol and the completion of a number of other major initiatives.

The new competitive market will present opportunities for growth in trading and the sale of financial risk management products. OPG is finalizing its implementation of trading systems and other technologies to access market data and interact with other market participants following market opening. To take advantage of these opportunities, OPG has acquired product structuring and risk management skills that are required to price and manage complex structured products, and has developed other market capabilities necessary to maximize customer acquisition and retention and enhance product and service offerings.

The planned return to service of OPG's Pickering A units will increase Ontario's energy supply and offer additional opportunities for interconnected sales. The ability to fully capitalize on these opportunities is dependent on the existing limitations of inter-tie capacity and OPG's success in obtaining access to inter-ties for export through the new market's competitive process.

Over the medium to longer term, OPG intends to secure generating capacity in the U.S. interconnected market areas close to Ontario in order to complement its mix of assets, strengthen sales and trading, support energy and risk management contract obligations and pursue growth options. OPG will proceed on these new fronts in a balanced and staged manner. OPG will rely on its operating experience including performance improvements, and its expertise in the sale of power into interconnected markets to optimize the value of acquired assets.

OPG's ability to compete successfully in the U.S. interconnected markets will depend upon numerous factors, including the pace of regulatory restructuring, the level of access to these markets through regulatory licensing requirements, limitations imposed by transmission capacity to the U.S. and a variety of other factors including the price of electricity in these markets, transmission costs and environmental matters.

OPG expects that net income in 2002 will be lower than 2001 and will be affected by factors including; the lease of the Bruce generating stations and from the expected decontrol of certain other fossil and hydroelectric stations during the year; higher coal prices; continuing expenditures related to the return to service of the Pickering A units; higher financing costs associated with expected borrowings; and restructuring costs resulting from further employee reduction. The impact of these factors will be partially offset by the impact of expected increases in generation and reduced energy purchases.

OPG believes that its ability to improve net income over time depends largely on the success of the nuclear recovery strategy, in particular, the return to service of the Pickering A generating station, the realization of savings in operating expenses consistent with the completion of the nuclear recovery strategy and completion of the decontrol transactions, and successful implementation of OPG's growth strategies.

Market Power Mitigation

OPG expects to meet its decontrol commitments through asset sales, asset or energy swaps, or other arrangements. While the market power mitigation framework effectively limits the amount of generation capacity that OPG can control in the Ontario market, it does allow for OPG to grow its business through export sales and energy trading arrangements.

OPG is committed to decontrolling selected generating assets in advance of the deadlines required under its market power mitigation commitments. In May 2001, OPG closed the operating lease agreement with Bruce Power, to lease its Bruce A and Bruce B generating stations. Through the lease agreement, OPG has transferred control of the generating capacity of the Bruce nuclear generating stations to Bruce Power. This transfer represents a portion of OPG's mandated decontrol requirements under its generation licence. Subject to OEB approval, OPG will be able to reduce the volume of production that is subject to the 3.8¢/KWh rebate mechanism.The transaction is a significant element of OPG's plans for meeting the requirement to reduce generating supply within 10 years of open market access to no more than 35% of the overall Ontario market supply.

In 2001, OPG initiated processes to decontrol four fossil generating stations including the 1,140 MW Lakeview station, the 2,140 MW Lennox station, the 310 MW Thunder Bay station and the 215 MW Atikokan station. OPG is also proceeding with the process to decontrol four hydroelectric stations, representing approximately 500 MW of capacity along the Mississagi River. Any transactions resulting from these processes are expected to be completed in 2002.

OTHER INITIATIVES

OPG Ventures Inc.

In March 2001, OPG formed a new subsidiary called OPG Ventures Inc. with the purpose of investing up to $100 million over the next three years in emerging and energy related technology companies. This initiative will provide OPG with both financial returns and an increase in its investments in, and understanding of, power technology opportunities. Total investments made in 2001 were $10 million.

Information Technology Initiative

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

Management's Responsibility For Financial Reporting

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

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

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

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

January 30, 2002

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

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

Auditors’ Report

To the Shareholder of Ontario Power Generation Inc.

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

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

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

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

ONTARIO POWER GENERATION INC.
Consolidated Statements of Income

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

See accompanying notes to consolidated financial statements

Consolidated Statements of Retained Earnings

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

See accompanying notes to consolidated financial statements

ONTARIO POWER GENERATION INC.
Consolidated Statements of Cash Flows

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

See accompanying notes to consolidated financial statements

ONTARIO POWER GENERATION INC.
Consolidated Balance Sheets

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

See accompanying notes to consolidated financial statements

ONTARIO POWER GENERATION INC.
Consolidated Balance Sheets

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

Contingencies and commitments *(note 14)*

See accompanying notes to consolidated financial statements

On behalf of the Board of Directors:

William A. Farlinger (signed)
Chairman

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

1. DESCRIPTION OF BUSINESS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Consolidation

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

Inventories

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

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

Fixed Assets and Depreciation

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

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

2. Summary of Significant Accounting Policies Continued…

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

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

Fixed Asset Removal and Nuclear Waste Management

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

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

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

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

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

Revenue

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

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

Foreign Currency Translation

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

Derivatives

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

Cash and Cash Equivalents and Short-term Investments

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

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

2. Summary of Significant Accounting Policies Continued…

Income and Other Tax

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

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

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

Research and Development

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

Pension and Other Post Employment Benefits

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED…

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

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

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

Earnings per share

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

Use of estimates

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

3. Income Taxes

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

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

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

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

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

3. INCOME TAXES CONTINUED…

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

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

4. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

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

5. FIXED ASSETS AND DEPRECIATION AND AMORTIZATION

The depreciation and amortization expense consists of the following:

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

The fixed assets consist of the following:

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

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

6. Fixed Asset Removal and Nuclear Waste Management

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

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

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

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

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

Liability for Nuclear Waste Management Costs

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

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

Liability for Nuclear Fixed Asset Removal Costs

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

Liability for Non-nuclear Fixed Asset Removal Costs

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

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

Receivable from Province of Ontario for Nuclear Waste Management

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

Segregated Funds and the Role of External Parties

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

6. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT CONTINUED…

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

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

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

(millions of dollars)	**2001**	**2000**
Nuclear fixed asset removal fund	**491**	462
Nuclear waste management fund	**717**	319
	1,208	781

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

Nuclear Funds Agreement

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

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

7. LONG-TERM DEBT

The long-term debt consists of the following:

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

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

		Principal Outstanding ($ Canadian)		
Year of Maturity	**Interest Rate (%)**	**Senior Notes**	**Subordinated Notes**	**Total**
2002	5.44	200	-	200
2003	5.49	200	-	200
2004	5.62	300	-	300
2005	5.71	300	-	300
2006	5.78	300	-	300
2007	5.85	400	-	400
2008	5.90	400	-	400
2009	6.01	350	-	350
2010	6.60	-	375	375
2011	6.65	-	375	375
		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.

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

8. SHORT-TERM CREDIT FACILITIES

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

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

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

Fair Value

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

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

Credit Risk

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

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

9. Fair Value of Financial Instruments, Credit Risk, and Risk Management Instruments Continued…

Risk Management Instruments

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

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

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

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

10. Common Shares

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

11. RELATED PARTY TRANSACTIONS

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

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

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

12. RESEARCH AND DEVELOPMENT

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

13. SEGMENTED INFORMATION

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

14. CONTINGENCIES AND COMMITMENTS

Request for Judicial Review

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

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

Environment

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

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

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

Energy Conversion Agreement

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

14. CONTINGENCIES AND COMMITMENTS CONTINUED…

Fuel Supply Agreements

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

(millions of dollars)

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

15. BENEFIT PLANS

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

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

Curtailment and Settlements in 2001

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

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

Pension Plan

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

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

15. Benefit Plans Continued…

Information about OPG's pension plan is as follows:

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

15. BENEFIT PLANS CONTINUED…

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

Other Post Employment Benefits

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

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

15. BENEFIT PLANS CONTINUED…

Information about OPG's OPEB is as follows:

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

16. DECONTROL, JOINT VENTURES AND PARTNERSHIPS

Decontrol of Bruce Nuclear Generating Stations

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

16. DECONTROL, JOINT VENTURES AND PARTNERSHIPS CONTINUED…

Inventory and fixed assets

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

Deferred pension asset and other post employment benefits

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

Deferred revenue

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

Long-term note receivable

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

Nuclear fixed asset removal and nuclear waste management liabilities

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

Decontrol of Fossil and Hydroelectric Generating Stations

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