

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Ontario Power Generation Inc. ("OPG" or "Company") are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. Where alternative accounting methods exist, management has selected those it considers most appropriate in the circumstances. The preparation of the consolidated financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The consolidated financial statements have been properly prepared within reasonable limits of materiality.

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

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

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

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

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

January 24, 2003 except as to notes 6(b), 13(b) and 23(b)
which are as at March 25, 2003

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, 2002 and 2001 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, 2002 and 2001 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 24, 2003 except as to notes 6(b), 13(b) and 23(b)

which are as at March 25, 2003

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31 <i>(millions of dollars except where noted)</i>	2002	2001
Revenues	5,746	6,239
Fuel	1,610	1,453
Power purchased	290	879
Gross Margin	3,846	3,907
Operating expenses		
Operations, maintenance and administration	2,524	2,559
Depreciation and amortization <i>(note 4)</i>	752	810
Property and capital taxes	115	114
Loss on transition rate option contracts <i>(note 15)</i>	210	-
	3,601	3,483
Operating income before restructuring	245	424
Restructuring <i>(note 14)</i>	222	67
Operating income	23	357
Other income <i>(note 21)</i>	171	-
Net interest expense	150	139
	(21)	139
Income before income taxes	44	218
Income taxes (recoveries) <i>(note 10)</i>		
Current	29	(65)
Future	(32)	131
	(3)	66
Net income	47	152
Basic and diluted earnings per common share <i>(dollars)</i>	0.18	0.59
Common shares outstanding <i>(millions)</i> <i>(note 11)</i>	256.3	256.3

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years Ended December 31 <i>(millions of dollars)</i>	2002	2001
Retained earnings, beginning of year	344	567
Net income	47	152
Dividends	(134)	(375)
Retained earnings, end of year	257	344

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 <i>(millions of dollars)</i>	2002	2001
Operating activities		
Net income	47	152
Adjust for non-cash items:		
Depreciation and amortization	752	810
Deferred pension asset	16	21
Other post employment benefits	55	(13)
Future income taxes <i>(note 10)</i>	(32)	131
Provision for restructuring	222	67
Transition rate option contracts <i>(note 15)</i>	144	-
Gain on sale of investments	(72)	-
Gain on sale of decontrol fixed assets	(99)	-
Mark to market on energy contracts <i>(note 9)</i>	2	-
Earnings on nuclear waste management funds	78	57
Other	91	(4)
	<u>1,204</u>	<u>1,221</u>
Contributions to fixed asset removal and nuclear waste management fund	(391)	(427)
Expenditures on nuclear waste management	(92)	(56)
Market power mitigation agreement rebate payment <i>(note 16)</i>	(335)	-
Expenditures on restructuring <i>(note 14)</i>	(134)	-
Net changes to other long-term assets and liabilities	117	(67)
Changes in non-cash working capital balances <i>(note 22)</i>	475	(447)
	<u>844</u>	<u>224</u>
Cash flow provided by operating activities		
Investing activities		
Proceeds from Bruce decontrol <i>(note 13)</i>	-	370
Net proceeds from short-term investments	39	296
Proceeds on sale of decontrol fixed assets <i>(note 13)</i>	342	12
Cash proceeds from sale of investments <i>(note 21)</i>	83	-
Purchases of fixed assets	(869)	(739)
	<u>(405)</u>	<u>(61)</u>
Cash flow used in investing activities		
Financing activities		
Issuance of long-term debt <i>(note 6)</i>	138	-
Repayment of long-term debt	(1)	(203)
Dividends paid	(134)	(375)
Short-term notes issued	446	-
Short-term notes repaid	(264)	(150)
	<u>185</u>	<u>(728)</u>
Cash flow provided by (used in) financing activities		
Net increase (decrease) in cash and cash Equivalents	624	(565)
Cash and cash equivalents, beginning of year	-	565
	<u>624</u>	<u>-</u>
Cash and cash equivalents, end of year		

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31
(millions of dollars)

	2002	2001
Assets		
Current assets		
Cash and cash equivalents	624	-
Short-term investments	-	39
Accounts receivable	736	1,010
Note receivable (note 13)	225	-
Income taxes recoverable	80	77
Fuel inventory	514	537
Materials and supplies	80	35
	2,259	1,698
Fixed assets (note 4)		
Property, plant and equipment	15,014	14,460
Less: accumulated depreciation	2,068	1,479
	12,946	12,981
Other long-term assets		
Deferred pension asset (note 8)	305	330
Nuclear fixed asset removal and nuclear waste management funds (note 7)	1,599	1,208
Long-term note receivable (note 13)	-	225
Materials and supplies	193	179
Long-term accounts receivable and other assets	59	65
	2,156	2,007
	17,361	16,686

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31
(millions of dollars)

Liabilities

Current liabilities

	2002	2001
Accounts payable and accrued charges (notes 14, 15)	1,235	1,505
Market power mitigation agreement rebate payable (note 16)	572	-
Short-term notes payable	182	-
Deferred revenue due within one year	12	13
Long-term debt due within one year (note 6)	5	205
	<u>2,006</u>	<u>1,723</u>
Long-term debt (note 6)	<u>3,352</u>	<u>3,015</u>
Other long-term liabilities		
Fixed asset removal and nuclear waste management (note 7)	4,915	4,724
Other post employment benefits (note 8)	958	924
Long-term accounts payable and accrued charges (note 15)	321	336
Deferred revenue (note 13)	179	215
Future income taxes (note 10)	247	279
	<u>6,620</u>	<u>6,478</u>
Shareholder's equity		
Common shares (note 11)	5,126	5,126
Retained earnings	257	344
	<u>5,383</u>	<u>5,470</u>
	<u>17,361</u>	<u>16,686</u>

Commitments and Contingencies (note 12)

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

William A. Farlinger (signed)
Chairman

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

1. DESCRIPTION OF BUSINESS

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

2. BASIS OF PRESENTATION

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

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

Certain of the 2001 comparative amounts have been reclassified from statements previously presented to conform to the 2002 financial statement presentation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents and Short-term Investments

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

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

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 critical replacement parts which are unique to nuclear and fossil generating stations. The cost of the critical replacement parts inventory is charged to operations on a straight-line basis over the remaining life of the related facilities and is classified in long-term assets.

Fixed Assets and Depreciation

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

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

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

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

¹ The nuclear stations are depreciated for accounting purposes over 25 years with the exception of Pickering A. The Pickering A station is depreciated over 40 years as a result of the completion, during the 1980's, of the retubing of the Pickering A station.

Impairment of Fixed Assets

OPG evaluates its property, plant and equipment for impairment whenever conditions indicate that estimated future net cash flows may be less than the net carrying amount of assets. The difference, if any, is recognized as an impairment loss.

Long-term Portfolio Investments

Long-term portfolio investments are stated at cost and include the nuclear fixed asset removal and nuclear waste management funds. Gains and losses on long-term investments are recognized in other income when investments are sold.

Market Power Mitigation Agreement Rebate

OPG is required under its generating licence to comply with prescribed market power mitigation measures to address the potential for OPG to exercise market power in Ontario. The market power mitigation measures include a rebate mechanism and the requirement to decontrol generating capacity. Under the rebate mechanism, for the first four years after the electricity market opened to competition on May 1, 2002 ("market opening"), a significant majority of OPG's expected energy sales in Ontario are subject to an average annual revenue cap of 3.8¢/kilowatt hour ("kWh"). OPG is required to pay a rebate to the Independent Electricity Market Operator ("IMO") equal to the excess, if any, of the average hourly spot energy price over 3.8¢/kWh for a twelve month settlement period, multiplied by the amount of energy subject to the rebate mechanism. The first settlement period ends April 30, 2003. The quantities of energy subject to the rebate, as well as the hourly weights used to compute the annual average spot price for rebate purposes, have been fixed in advance but may be reduced by the Ontario Energy Board for decontrol transactions completed by OPG. At each balance sheet date, OPG computes the average spot energy price that prevailed since the beginning of the current settlement period and recognizes a liability if the average price exceeds 3.8¢/kWh, based on the amount of energy subject to the rebate.

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. OPG is able to estimate both the amount and timing of future cash expenditures based on current plans for fixed asset removal and nuclear waste management. 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 is increased for waste generated each year with the corresponding amounts charged to operating expenses. Expenses relating to low and intermediate level waste are charged to depreciation and amortization expense. Expenses relating to the disposal of used fuel are charged to fuel expense. Changes in estimates of the liability are amortized over the average remaining service life of the nuclear generating stations.

OPG funds the nuclear fixed asset removal and nuclear waste management liability based on funding requirements prescribed under the Ontario Nuclear Funds Agreement ("ONFA"). This funding is segregated and used only for nuclear fixed asset removal or nuclear waste management.

Revalorization arises because liabilities for fixed asset removal and nuclear waste management are reported 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 reported net of the earnings on the nuclear fixed asset removal and nuclear waste management funds and the interest improvement on the receivable from the OEFC. Revalorization is recorded in the consolidated financial statements as part of depreciation and amortization.

Revenue Recognition

Commencing May 1, 2002, with the opening of the Ontario electricity market to competition, all of OPG's electricity generation is sold into the real-time energy spot market administered by the IMO. Revenue is recorded as electricity is generated and metered based on the spot market sales price, net of the market power mitigation agreement rebate and hedging activities. OPG also sells into, and purchases from, interconnected markets of other Provinces and the U.S. northeast and midwest. All contracts that are not designated as hedges are valued at market value. Gains and losses on energy trading contracts (including those to be physically settled) are disclosed on a net basis in the consolidated statements of income. Accordingly, power purchases of \$91 million in 2002 and nil in 2001 were netted against revenue.

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

OPG derives non-energy revenue under the terms of a lease arrangement with Bruce Power L.P. ("Bruce Power") related to the Bruce nuclear generating stations. This includes lease revenues, interest income and revenues for engineering analysis and design, technical and ancillary services. Non-energy revenue also includes isotope sales. Revenues from these activities are recognized as services are provided or products are delivered.

Foreign Currency Translation

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

Derivatives

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

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

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

Emission Reduction Credits

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

Research and Development

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

Pension and Other Post Employment Benefits

OPG's post employment benefit programs include a contributory defined benefit pension plan, group life insurance, health care and long-term disability benefits. OPG accrues its obligations under pension and other post employment benefit ("OPEB") plans. 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, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's liability. 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. Due to the long-term nature of post-employment liabilities, the excess of the net cumulative unamortized gain or loss, over 10 per cent of the greater of the benefit obligation and the market-related value of the plan assets, is also amortized over the expected average remaining service life.

Taxes

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

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

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

Business Segments

Commencing May 1, 2002, upon the opening of the Ontario electricity market to competition, OPG began operating in two reportable business segments: Generation and Energy Marketing. Previously, OPG's energy marketing activity was not a reportable business segment. Accordingly, there are no comparative amounts for 2001. A separate category, Non-Energy and Other, includes revenue and costs which are not allocated to the two business segments.

New Accounting Recommendations

Hedging Relationships

In December 2001, the Accounting Standards Board of the Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline 13, "Hedging Relationships". This Guideline, which is required to be adopted for annual periods beginning after July 1, 2003, establishes standards for documenting and assessing the effectiveness of hedging activities. OPG expects to meet the hedging criteria in the new standard, and accordingly, to continue existing accounting for hedging relationships.

Impairment of Long – Lived Assets

The CICA approved a new standard "Impairment of Long-Lived Assets". The new standard provides guidance on the recognition, measurement and disclosure of the impairment of long-lived assets and is effective for years beginning on or after April 1, 2003. Impairments are to be recognized when the carrying amount exceeds the sum of undiscounted cash flows. The impairment recognized is the amount by which the carrying amount exceeds its fair value. Introduction of the new standard is not expected to have a material impact on OPG's consolidated financial position.

Asset Retirement Obligations

The CICA approved a new standard "Asset Retirement Obligations". The new standard provides guidance on the recognition and measurement of liabilities for legal obligations associated with the retirement of property, plant and equipment. The new standard is effective for fiscal years beginning on or after January 1, 2004. OPG is assessing the impact of adopting this standard.

4. FIXED ASSETS

Depreciation and amortization expense consists of the following:

<i>(millions of dollars)</i>	2002	2001
Depreciation and amortization	585	578
Revalorization	184	198
Nuclear waste management costs	(17)	34
	752	810

Fixed assets consist of the following:

<i>(millions of dollars)</i>	2002	2001
Property, plant and equipment		
Nuclear generating stations	3,447	3,313
Fossil generating stations	1,791	1,671
Hydroelectric generating stations	7,601	7,754
Other fixed assets	925	770
Construction in progress	1,250	952
	15,014	14,460
Less: accumulated depreciation		
Generating stations	1,726	1,227
Other fixed assets	342	252
	2,068	1,479
	12,946	12,981

Interest capitalized at 6 per cent (2001 – 6 per cent) during the year ended December 31, 2002 was \$44 million (2001 - \$29 million).

5. SHORT-TERM CREDIT FACILITIES

OPG maintains a \$1,000 million revolving short-term committed credit facility with certain financial institutions ("Bank Credit Agreement") that makes funds available to OPG for working capital requirements, for general corporate purposes and as a back-stop facility for OPG's Commercial Paper ("CP") program. The facility may be drawn upon in either Canadian or U.S. dollars in various forms including Prime loans, LIBOR loans, Banker's Acceptances and Letters of Credit and has a term of 364 days which may be extended for an additional two year term. This facility is subject to renewal in March 2003. OPG's CP program is supported by the Bank Credit Agreement. Under the CP program, OPG has authority to issue short-term promissory notes up to a maximum outstanding principal amount of \$1,000 million in Canadian currency or the equivalent thereof in U.S. currency. At December 31, 2002, OPG has \$182 million outstanding under the CP program compared to nil outstanding as at December 31, 2001.

OPG also maintains a \$175 million short-term uncommitted credit facilities that make funds available for collateral requirements under the retail electricity market rules, and other commitments in the form of Letters of Credit. Of this amount, \$45 million was used for Letters of Credit posted with local distribution companies in support of OPG's obligations under the retailer consolidated billings of the retail settlement code, and \$97 million was used for Letters of Credit in support of certain other long-term obligations.

6. LONG-TERM DEBT

(a) Debt Outstanding

Long-term debt consists of the following:

<i>(millions of dollars)</i>	2002	2001
Notes payable to the OEFC	3,200	3,200
Capital lease obligations	19	20
Share of limited partnership debt	138	-
	3,357	3,220
Less: payable within one year		
Senior notes payable to the OEFC	-	200
Capital lease obligations	5	5
	5	205
Long-term debt	3,352	3,015

Details of OPG's long-term notes outstanding to the OEFC as at December 31, 2002 are as follows:

Year of Maturity	Interest Rate (%)	Principal Outstanding (\$ Canadian)		
		Senior Notes	Subordinated Notes	Total
2003 ¹	5.49	200	-	200
2004 ¹	5.44	100	-	100
2004 ¹	5.62	300	-	300
2004 ¹	5.94	100	-	100
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

¹ OPG reached an agreement with the OEFC in February 2003 to defer payment on \$700 million principal amount of senior notes as outlined in note 6(b).

In March 2002, the Company reached an agreement with the OEFC to defer the payment of the \$200 million principal amount of senior notes maturing in 2002 to December 2004. In connection with this deferral, the coupon rate on \$100 million principal amount of these notes was increased, based on commercial terms, by 0.50 per cent; the interest rate for the remaining \$100 million principal amount of these notes was unchanged.

Holders of the senior debt are entitled to receive, in full, amounts owing in respect of the senior debt before holders of the subordinated debt are entitled to receive any payments. The OEFC currently holds all of OPG's outstanding senior and subordinated notes.

In September 2002, Brighton Beach Power L.P. ("Brighton Beach"), a limited partnership formed by OPG, ATCO Power Canada Ltd., ATCO Resources Ltd. and Brighton Beach Power Ltd., completed a \$403 million private bond and term debt financing for its 580 megawatt power project under construction in Windsor, Ontario. Brighton Beach also signed an energy conversion agreement with Coral Energy Canada Inc. to deliver natural gas to the plant and own, market and trade all the electricity produced. OPG proportionately consolidates its 50 per cent interest in the Brighton Beach partnership. As at December 31, 2002, \$276 million was outstanding under the loan and accordingly \$138 million is reported by OPG.

Interest paid during the year ended December 31, 2002 was \$204 million (2001 - \$202 million), of which \$198 million relates to interest paid on long-term debt (2001 - \$199 million).

(b) Financing Agreement

In February 2003, the Company reached an agreement with the OEFC to defer payment on \$700 million principal amount of senior notes. The interest rates remain unchanged. As a result of the deferral, \$200 million of long-term debt due within one year was reclassified to long-term at December 31, 2002. The notes deferred and the new maturities are as follows:

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

7. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT

OPG's nuclear generating stations produce nuclear waste in the form of radioactive nuclear fuel bundles as well as low and intermediate level radioactive waste. At the end of the operating life, each of the nuclear generating stations needs to be safely decommissioned, which includes a storage period followed by dismantling. 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:

<i>(millions of dollars)</i>	2002	2001
Liability for nuclear waste management	5,020	4,814
Liability for nuclear fixed asset removal	2,702	2,556
	7,722	7,370
Liability for non-nuclear fixed asset removal	131	127
	7,853	7,497
Less: Receivable from the OEFC	2,938	2,773
Fixed asset removal and nuclear waste management	4,915	4,724

The change in the fixed asset removal and nuclear waste management liability is as follows:

<i>(millions of dollars)</i>	2002	2001
Liability, beginning of year	4,724	4,482
Increase in the liability due to revalorization	262	254
Provision	37	44
Waste management expenditures	(92)	(56)
Amortization of net cost estimate changes	(16)	-
Liability, end of year	4,915	4,724

The accrual of fixed asset removal and nuclear waste management costs requires significant assumptions in their calculations, since these programs run for several decades. Current plans include cash flow estimates to 2057 for decommissioning nuclear stations and to approximately 2100 for used fuel management. The discount rate used to calculate the present value of the liabilities at December 31, 2002 was 5.75 per cent (2001 - 5.75 per cent) and the cost escalation rates ranged from 1 per cent to 4 per cent (2001 - 2 per cent to 3 per cent). Under the terms of the lease agreement with Bruce Power, OPG continues to be responsible for the nuclear fixed asset removal and nuclear waste management liabilities associated with the Bruce nuclear generating stations.

Significant assumptions underlying operational and technical factors are used in the calculation of the accrued liabilities and are subject to periodic review. Changes to these assumptions, including changes 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 2035 for used nuclear fuel disposal facilities; and an average transportation distance of 1,000 kilometers between nuclear generating facilities and the disposal facilities. Alternatives to deep geological disposal are being studied by Canadian nuclear utilities as part of the options study required by the federal *Nuclear Fuel Waste Act*. The options study is to be completed by 2005, with a federal government decision expected no earlier than 2006.

The life cycle costs of low and intermediate level waste management include the costs of processing and storage of such radioactive wastes during and following the operation of the nuclear stations, as well as the costs of ultimate long-term disposal of these wastes. The current assumptions used to establish the accrued low and intermediate level waste management costs include: an in-service date of 2015 for disposal facilities for low level waste; co-locating short-lived intermediate level waste with low level waste starting in 2015; and co-locating long lived intermediate level waste with used fuel starting in 2035.

Liability for Nuclear Fixed Asset Removal Costs

Accrued nuclear fixed asset removal costs represent the estimated 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 on a deferred dismantlement basis where the reactors will remain shut down for a 30 year period prior to a 10 year dismantlement period. Low and intermediate level waste arising during decommissioning will be disposed of at the facilities developed for disposal of operational low and intermediate level waste.

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 at the end of their service lives. The estimated retirement date of these stations is between 2005 to 2025.

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

Ontario Nuclear Funds Agreement

In March 2002, the Ontario Nuclear Funds Agreement ("ONFA") was finalized with the Province of Ontario (the "Province"). Under ONFA, OPG will establish two custodial funds, a Used Fuel Fund and a Decommissioning Fund, that will be held by an independent custodian. The Agreement will become effective when external investment managers are appointed and the two custodial funds are established, which is expected during 2003.

The Used Fuel Fund will be used to fund future costs of long-term nuclear used fuel waste management. OPG is responsible for the risk and liability for cost increases for used fuel waste management, subject to graduated liability thresholds specified in ONFA, which limit OPG's total financial exposure at approximately \$6.0 billion, a present value amount at January 1, 1999 (approximately \$7.5 billion in 2002 dollars). OPG will continue to make annual payments over the life of its nuclear generating stations, as specified in ONFA. The Province guarantees the fund a return of 3.25 per cent over Ontario Consumer Price Index ("CPI"). If the earnings on assets in the Used Fuel Fund exceed Ontario CPI plus 3.25 per cent, the Province is entitled to the excess.

The Decommissioning Fund will be used to fund the future cost of nuclear fixed asset removal and long-term low and intermediate level waste management and a portion of used fuel storage costs after station life. The initial funding, including the commitment from the OEFC, is intended to be sufficient to fully discharge the 1999 estimate of the liability. OPG may direct up to 50 per cent of fund surpluses to the Used Fuel Fund. The OEFC is entitled to the remaining 50 per cent of fund surpluses. While OPG does not expect to be required to make additional contributions, it bears the risk and liability for cost estimate increases and fund earnings.

On April 1, 1999, the Province agreed that the Province or its agent, now designated as the OEFC, would fund certain fixed asset removal and nuclear waste management liabilities that were incurred prior to April 1, 1999. The balance of \$2,938 million as at December 31, 2002 represents the OEFC's liability of \$2,773 million as at January 1, 2002, as well as interest in the amount of \$165 million accrued during 2002 based on the estimated Annual Ontario CPI plus 3.25 per cent.

Since April 1, 1999, OPG has contributed \$1,599 million, including income earned of \$174 million, to its existing nuclear fixed asset removal and nuclear waste management segregated funds. The Decommissioning Fund will be partially funded through the commitment from the OEFC, with the balance funded through OPG's existing segregated funds. The remaining balance in OPG's segregated funds will be applied to the Used Fuel Fund. OPG will make future annual contributions to the Used Fuel Fund of approximately \$454 million to 2008, and a reduced amount over the remaining life of the nuclear generating stations.

As required by the *Nuclear Safety and Control Act* (Canada), and under the terms of ONFA, the Province will provide to the Canadian Nuclear Safety Commission ("CNSC") a guarantee that there will be funds available to discharge the nuclear decommissioning and waste liabilities. The provincial guarantee will supplement the Used Fuel Fund and the Decommissioning Fund until they have accumulated sufficient funds to cover the accumulated liability for nuclear waste management and decommissioning. Legal agreements detailing the provision of required CNSC financial guarantees are under development with the CNSC and the Province.

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

initial deposit was funded by a transfer from OPG's nuclear fixed asset removal and nuclear waste management fund. The trust is consolidated by OPG and forms part of the Used Fuel Fund.

The fixed asset removal and nuclear waste management funds consist of the following:

<i>(millions of dollars)</i>	2002	2001
Nuclear fixed asset removal and nuclear waste management funds	1,098	1,208
Nuclear used fuel trust fund	501	-
	1,599	1,208

Interest earned of \$78 million during 2002 (2001 - \$57 million) is included in the segregated funds and is recorded as a component of revalorization, which is included in depreciation and amortization expense.

Cost Estimate Changes Made in 2002

OPG reviewed the significant assumptions that underlie the calculation of the accrued liabilities for fixed asset removal and nuclear waste management liabilities. As a result of this review, a number of assumptions were revised to reflect changes in the timing of certain programs and in the evolving technology used to handle the nuclear waste. These changes included a delay in the in-service date for used nuclear fuel disposal facilities from 2025 to 2035, the recognition of certain costs associated with dry storage of used nuclear fuel during station operating life, and recognition of additional costs related to nuclear waste management programs. In aggregate, these cost estimate changes would result in a net reduction to the nuclear waste management and decommissioning liability of \$215 million. In accordance with Canadian generally accepted accounting principles, the change in liability is being amortized over the average remaining service life of the nuclear generating stations. As a result of this change, \$16 million was recorded as a decrease to the liability and a reduction to expenses for the year ended December 31, 2002.

8. BENEFIT PLANS

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

Pension Plan

The pension plan is a contributory, defined benefit plan covering all regular employees and retirees. 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). In June 2001, the pension plan assets were transferred to OPG's pension plan.

Pension fund assets include equity securities and corporate and government debt securities, real estate and other investments which are managed by professional investment managers. The fund does not invest in equity or debt securities issued by OPG.

Information about OPG's pension plan is as follows:

	2002	2001
Pension Plan Assumptions		
Expected return on plan assets	7.25%	7.75%
Rate used to discount future pension benefits	6.75%	6.75%
Salary schedule escalation rate	3.00%	3.25%
Rate of cost of living increase to pensions	2.00%	2.50%
Average remaining service life for employees (years)	11	11

<i>(millions of dollars)</i>	2002	2001
Change in Pension Plan Assets		
Fair value of plan assets at beginning of year	6,342	7,642
Contributions by employees	78	20
Actual return on plan assets	(243)	(11)
Settlements	(142)	(1,080)
Benefit payments	(294)	(219)
Administrative expense	(14)	(10)
Fair value of plan assets at end of year	5,727	6,342
Change in Projected Pension Benefit Obligation		
Projected benefit obligation at beginning of year	5,995	6,216
Current service costs	185	192
Past service costs	-	87
Interest on projected benefit obligation	381	393
Curtailment (gain) loss	(28)	80
Settlement gain	(124)	(896)
Benefit payments	(294)	(219)
Net actuarial (gain) loss	(150)	142
Projected benefit obligation at end of year	5,965	5,995
Pension Plan (Deficit) Surplus	(238)	347
Reconciliation of Pension Plan (Deficit) Surplus		
Pension plan (deficit) surplus	(238)	347
Unamortized net actuarial loss (gain)	388	(199)
Unamortized past service costs	155	182
Deferred pension asset	305	330
Components of Pension Expense		
Current service costs	107	172
Interest on projected benefit obligation	381	393
Expected return on plan assets	(471)	(523)
Curtailment loss	10	25
Settlement loss	5	8
Amortization of past service costs	18	19
Amortization of net actuarial gain	(34)	(27)
Pension expense	16	67

Using a going-concern funding basis, with assets at market value, OPG estimates that there was a pension fund deficit of \$1.6 billion at December 31, 2002.

Other Post Employment Benefits

The long-term annual increase in the per capita cost of the major benefits ranges between 2.0 per cent and 4.5 per cent (2001 - between 2.5 per cent and 4.5 per cent), depending on the nature of the benefit. The discount rate used in determining the actuarial present value of the OPEB obligation ranges between 6.00 per cent and 6.75 per cent at December 31, 2002 (2001 - between 6.25 per cent and 6.75 per cent).

Information about OPG's OPEB is as follows:

<i>(millions of dollars)</i>	2002	2001
Change in Projected OPEB Obligation		
Projected OPEB obligation at beginning of year	1,247	1,207
Current service costs	45	51
Interest on projected benefit obligation	76	82
Benefit payments	(52)	(56)
Curtailment loss (gain)	2	(1)
Settlement gain	(134)	(138)
Net actuarial loss	7	91
Past service costs	-	11
Special termination benefits	13	-
Projected OPEB obligation at end of year	1,204	1,247
Reconciliation of OPEB Obligation		
Accrued OPEB obligation at end of year		
Long-term obligation	958	924
Short-term obligation	54	126
Unamortized net actuarial loss	161	160
Unamortized past service costs	31	37
Projected OPEB obligation at end of year	1,204	1,247
Components of OPEB Expense		
Current service costs	45	51
Interest on projected benefit obligation	76	82
Curtailment loss	4	6
Settlement gain	(66)	-
Amortization of net actuarial loss	4	1
Amortization of past service costs	4	5
Special termination benefits	13	-
OPEB expense	80	145

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

Fair Value of Derivative Instruments

Fair values of derivative instruments have been estimated by reference to quoted market prices for actual or similar instruments where available. Where quoted market prices are not available, OPG considers various factors to estimate forward prices, including market prices and price volatility in neighbouring electricity markets, market prices for fuel, and other factors.

Since November 2002, trading activities and liquidity in the Ontario electricity market have been limited as companies are generally entering only into short-term contracts. Forward pricing information for contracts trading beyond March 2003 may not accurately represent the cost to enter into these contracts. For Ontario based contracts that are not treated as hedges, OPG established liquidity reserves against the fair market value of the assets and liabilities equal to the gain or loss on these contracts. The charge to establish these reserves reduced Energy Marketing revenue by approximately \$7 million. Contracts outside of Ontario continue to be carried on the balance sheet as assets or liabilities at fair value with changes in fair value recorded in Energy Marketing revenue as gains or losses.

Derivative instruments used for hedging purposes

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

<i>(millions of dollars)</i> gain/(loss)	2002			2001		
	Notional quantity	Terms	Fair Value	Notional quantity	Terms	Fair Value
Electricity derivative instruments	37.9 TWh	1-4 yrs	(144)	14 TWh	1-5 yrs	-
Foreign exchange derivative instruments	\$179 US	Apr/03	4	\$147 US	Mar/02	3
Option to purchase emission reduction credits	6,000,000 tonnes	2003-2004	1	-	-	-

Foreign exchange derivative instruments are used to hedge exposure to anticipated U.S. dollar denominated purchases. The weighted average fixed exchange rate for the outstanding contracts at December 31, 2002 was U.S. \$0.64 for every Canadian dollar.

Derivative instruments not used for hedging purposes

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

<i>(millions of dollars)</i>	2002		2001
	Notional Quantity	Fair Value	Fair Value
Commodity derivative instruments			
Assets	15.8 TWh	10	-
Liabilities	.5 TWh	(14)	-
		(4)	-
Ontario market liquidity reserve		(7)	-
Total		(11)	-

At December 31, 2002, the fair value of commodity derivative instruments not used for hedging purposes includes a \$9 million liability primarily related to legacy contracts from the previous market structure. The income statement impact of these transactions was reduced by the reversal, upon market opening, of a contract loss provision recorded as at December 31, 2001.

Fair Value of Other Financial Instruments

The carrying value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued charges, short-term notes payable, and long-term debt due within one year 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:

<i>(millions of dollars)</i>	2002		2001	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Fixed asset removal and nuclear waste management fund	1,599	1,622	1,208	1,263
Long-term note receivable	-	-	225	268
Long-term accounts receivable and other assets	59	59	65	65
Financial Liabilities				
Long-term debt and long-term portion of capital leases	3,352	3,381	3,015	2,982
Long-term accounts payable and accrued charges	321	326	336	346

Credit Risk

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

10. INCOME TAXES

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

<i>(millions of dollars)</i>	2002	2001
Income before income taxes	44	218
Combined Canadian federal and provincial statutory income tax rates, including surtax	38.6%	41.3%
Statutory income tax rates applied to accounting income	17	90
Increase (decrease) in income taxes resulting from:		
Large corporations tax in excess of surtax	29	33
Lower future tax rate on temporary differences	4	(23)
Non-taxable income items	(27)	(12)
Adjustment to prior year's future income tax	(18)	(23)
Other	(8)	1
	(20)	(24)
Provision for (recovery of) income taxes	(3)	66
Effective rate of income taxes	(6.8%)	30.3%

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

<i>(millions of dollars)</i>	2002	2001
Current income tax expense (recovery)	29	(65)
Future income tax expense (benefits):		
Change in temporary differences	(32)	177
Substantively enacted changes in income tax rates	-	(46)
Provision for (recovery of) income taxes	(3)	66

The amount of income taxes paid in the year ended December 31, 2002 was \$56 million (2001 - \$207 million).

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

<i>(millions of dollars)</i>	2002	2001
Future income tax assets:		
Fixed asset removal and nuclear waste management liabilities	1,446	1,388
Other liabilities	381	297
	1,827	1,685
Future income tax liabilities:		
Fixed assets	1,389	1,393
Fixed asset removal and nuclear waste management fund	481	364
Other assets	204	207
	2,074	1,964
Net future income tax liabilities	247	279

11. COMMON SHARES

As at December 31, 2002 and 2001, OPG had 256,300,010 common shares issued and outstanding at a stated value of \$5,126 million. OPG is authorized to issue an unlimited number of common shares without nominal or par value.

12. COMMITMENTS AND CONTINGENCIES

Litigation

Various claims, lawsuits and administrative proceedings are pending or threatened against the Company or its subsidiaries, covering a wide range of matters that arise in the ordinary course of its business activities with respect to commercial and environmental matters. Each of these matters is subject to various uncertainties, and some of these matters may be resolved unfavourably with respect to the Company. These contingencies are provided for when they are likely to occur and are reasonably estimable. Management believes that the ultimate resolution of these matters will not have a material effect on the Company's financial position.

Canadian Agra Corporation Claim

The Canadian Agra Group has commenced an action based on alleged misrepresentations and breach of contract relating to the operation and development of the Bruce Energy Centre by Ontario Hydro and OPG. The Province is also a co-defendant. The claim is for \$146.5 million plus damages for loss of profits. OPG has submitted a demand for particulars and the parties have agreed to attend a mediation after full particulars of the claim and alleged damages have been provided. A preliminary assessment indicates that it is unlikely that OPG would be found liable by a court if this matter proceeded to trial.

Integrated Energy Development Corporation Claim

The Integrated Energy Development Corporation claim is for \$60 million and raises some similar allegations to the Canadian Agra claim, however, the Province has not been made a defendant. A mediation occurred in November, 2002 but the parties were unable to settle the claim. Examinations for discovery started in December 2002. A preliminary assessment indicates that it is unlikely that OPG would be found liable by a court if this matter proceeded to trial.

Slate Falls First Nation Claim

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

Environmental

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, 2002, expenditures of \$2 million (2001 - \$3 million) were recorded against the provision.

Current operations are subject to regulation with respect to air, soil and water quality and other environmental matters by federal, provincial and local authorities. The cost of obligations associated with current operations is provided for on an ongoing basis. Management believes it has made adequate provision in its 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 SCRs are scheduled to be in service by the end of 2003 and will reduce 80 per cent of all nitrogen oxide emissions from these four units.

Guarantees

As part of normal business, OPG and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees, stand-by letters of credit and surety bonds. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes.

OPG has provided limited guarantees in connection with the Brighton Beach financing. If the partnership fails to complete the project or meet certain performance tests by September 30, 2006, OPG may be required to repurchase its proportionate share of the outstanding debt, up to a total of \$202 million. OPG is also responsible for contributing its share of equity up to \$47 million and up to \$13 million of cost overruns as necessary. OPG has also provided guarantees relating to gas transport and other energy-based charges if the commercial operations date is delayed in certain circumstances; and debt service if the energy conversion agreement is terminated, from the date of such termination to the earlier of the entry into a replacement agreement and September 30, 2006.

Contractual Commitments

The Company's contractual obligations and other commercial commitments as at December 31, 2002 are as follows:

<i>(millions of dollars)</i>	2003	2004	2005	2006	2007	Thereafter	Total
Fuel supply agreements	850	488	243	209	147	201	2,138
Contributions under ONFA	679	454	454	454	454	2,557	5,052
Long-term debt	-	-	500	800	400	1,500	3,200
Unconditional purchase obligations	171	168	144	134	133	393	1,143
Long-term accounts payable	22	28	28	28	25	-	131
Operating lease obligations	21	19	18	10	10	67	145
Capital lease obligations	5	7	7	-	-	-	19
Total	1,748	1,164	1,394	1,635	1,169	4,718	11,828

13. DECONTROL INITIATIVES

(a) Bruce Nuclear Generating Stations

In May 2001, the Company leased its Bruce A and Bruce B nuclear generating stations to Bruce Power until 2018, with an option to renew for up to 25 years. As part of the initial payment, OPG received \$370 million in cash proceeds and a \$225 million note receivable. Under the terms of the original operating lease agreement, the receivable of \$225 million was payable to OPG in two installments of \$112.5 million no later than four and six years from the date the transaction was completed. Proceeds from the note will be applied against OPG's funding requirements with respect to the nuclear fixed asset removal and nuclear waste management liabilities.

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

As part of the closing, OPG recorded \$230 million of deferred revenue to reflect the initial payment less net assets transferred to Bruce Power under the lease agreement. In 2002, deferred revenue was reduced by \$29 million to reflect the settlement of certain remaining outstanding matters and post-closing adjustments. The deferred revenue is being amortized over the initial lease term of approximately 18 years and is recorded as non-energy revenue.

Under the lease agreement, OPG receives annual lease payments from Bruce Power. The lease payments consist of base rent payments set out in a specified schedule and supplemental rent of \$25.5 million per operating unit. The supplemental lease payment structure has been modified, with effect from May 2001, to replace the original net revenue-sharing arrangement. The lease revenue of \$178 million (2001 – \$77 million) was recorded in non-energy revenue.

The net book value of fixed assets on lease to Bruce Power was \$780 million and \$884 million at December 31, 2002 and 2001, respectively.

(b) Bruce Power – Change in Ownership

In December 2002, British Energy plc. entered into an agreement to dispose of its entire 82.4 per cent interest in Bruce Power. On February 14, 2003 the transaction was completed and a consortium of Canadian companies assumed the lease of the Bruce A and Bruce B nuclear generating stations that were formerly held by British Energy. The Bruce facilities will continue to be operated by Bruce Power. Upon closing, the \$225 million note receivable was repaid, and lease payments commenced to be paid monthly. In addition, for 2004 through 2008, minimum payments under the lease are, subject to limited exceptions, \$190 million. The remaining terms of the operating lease agreement remain substantially unchanged.

(c) Other Decontrol Activities

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

OPG continues to evaluate options for decontrol of stations and is committed to meet its obligations under the market power mitigation agreement. The process for meeting decontrol of price-setting generation has been impacted by current market conditions in the North American energy sector. The amounts that OPG will ultimately realize with respect to these potential transactions could differ materially from the carrying values recorded in the consolidated financial statements.

14. RESTRUCTURING

In 2001, OPG approved a restructuring plan designed to improve OPG's future competitiveness. The restructuring program relates to an anticipated reduction in the workforce of approximately 2,000 employees over a two to three year period. Restructuring charges included severance costs of \$254 million and related pension and other post employment benefit expenses of \$35 million. Pension and other post employment benefit expenses, recorded as part of restructuring, are included in the deferred pension asset and other post employment benefits on the balance sheet. The total cost of the restructuring plan is expected to be approximately \$400 million.

The change in the restructuring liability for the years ended December 31, 2002 and 2001 is as follows:

<i>(millions of dollars)</i>	2002	2001
Liability, beginning of year	67	-
Restructuring charges	222	67
Payments	(134)	-
Liability, end of year	155	67

15. TRANSITION RATE OPTION CONTRACTS

Under a regulation known as Transition – Generation Corporation Designated Rate Options (“TRO”), OPG is required to provide transitional price relief upon market opening to certain power customers based on the consumption and average price paid by each customer during a reference period from July 1, 1999 to June 30, 2000. The TRO is treated as a hedge of generation revenue. The maximum anticipated volume subject to the transitional price relief is approximately 5.4 TWh in the first year after market opening, 3.6 TWh in the second year and 1.8 TWh in each of the third and fourth years. The maximum length of the program is four years, with the possibility that it will expire after only two years if certain decontrol targets are met.

A provision of \$210 million for the TRO contracts was recorded in the first quarter of 2002 related to the anticipated future losses on these contracts. The provision was determined during the first quarter of 2002 using

management's best estimates of the forward price curve for electricity, wholesale electricity market fees, impact of decontrol on the contracts, interruptions of volume, and the recovery of market power mitigation agreement rebates. It is reasonably possible that actual results experienced may differ materially from the estimated amounts. The provision will be reduced over the term of the contracts based on volume and will be recorded in revenue.

Since market opening on May 1, 2002, the provision has been reduced by \$66 million. At December 31, 2002, the current portion of the provision for loss on these contracts was \$82 million and was included in accounts payable and accrued charges. The long-term portion of the provision, which was included in long-term accounts payable and accrued charges, was \$62 million.

16. MARKET POWER MITIGATION AGREEMENT REBATE

Under OPG's generating licence, subject to regulatory approval, the Company has the ability to reduce the amount of energy subject to the market power mitigation agreement rebate by the transfer of effective control of certain of its generating facilities to other market participants. As OPG transfers effective control of facilities and meets certain milestones, it can apply to the Ontario Energy Board for an order determining that the transactions represent the transfer of effective control and thereby eliminate a portion of the market power mitigation agreement rebate obligation.

In May 2001, OPG completed the agreement to lease its Bruce nuclear generating stations to Bruce Power and in May 2002, completed the sale of four of its hydroelectric generating stations located on the Mississagi River to Mississagi Power Trust. OPG has filed applications with the OEB seeking reductions in the amount of energy sales subject to the rebate mechanism ("Q relief") as a result of the decontrol of the Bruce nuclear generating stations and the Mississagi River stations. While there is no assurance as to the outcome of the OEB decision, the Company believes that it has met all of the requirements for the transfer of effective control and therefore will receive a reduction in energy sales subject to the market power mitigation agreement rebate. OEB approval of the applications would result in a reduction in volumes subject to the market power mitigation agreement rebate for the twelve month settlement period ending April 30, 2003 from 101.8 TWh to 81.4 TWh.

Since the average hourly spot price since May 1, 2002 has exceeded the 3.8¢/kWh revenue cap, OPG provided a market power mitigation agreement rebate liability for the period through December 31, 2002 of \$907 million. The liability is calculated as the excess of the average hourly spot energy price over 3.8¢/kWh, multiplied by the amount of energy subject to the rebate mechanism. OPG made a rebate payment of \$335 million in December 2002 which reduced the balance of the rebate payable at December 31, 2002 to \$572 million. The rebate liability is calculated in accordance with the market power mitigation agreement, after taking into account the amount of energy sales subject to the rebate mechanism for only those generating stations that OPG continues to control.

OPG expects to receive a decision from the OEB regarding the Q relief during the second quarter of 2003. If OPG's applications are not approved, pre-tax income in the period in which the determination is made would be decreased by the amount of the Q relief, which totalled \$182 million at December 31, 2002. Also, the Company must obtain OEB approval of Q relief before the end of the first settlement period ending April 30, 2003, as a condition of OPG's generation licence, in order to qualify for Q relief during that period.

17. RESEARCH AND DEVELOPMENT

For the year ended December 31, 2002, \$39 million (2001 - \$39 million) of research and development expenses were charged to operations. No development costs were capitalized in 2002 (2001 - \$3 million).

18. BUSINESS SEGMENTS

Description of Reportable Segments

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

Generation Segment

OPG's principal business segment operates in Ontario, generating and selling electricity. Commencing May 1, 2002, all of OPG's electricity generation is sold into the IMO-administered real-time energy spot market. As such, the majority of OPG's revenue is derived from spot market sales. In addition to revenue earned from spot market sales, revenue is also earned through offering available capacity as operating reserve and through the supply of other ancillary services including voltage control/reactive support, black start capability and automatic generation control. Prior to market opening, OPG sold electricity directly to wholesale electricity customers in Ontario and to interconnected markets in Quebec, Manitoba and the U.S. northeast and midwest.

Energy Marketing Segment

The Energy Marketing segment derives revenues from various financial and physical energy market transactions with large volume end-use customers and intermediaries such as utilities, brokers, aggregators, traders and other power marketers and retailers. Energy marketing in deregulated markets includes trading, the sale of financial risk management products and sales of energy-related products and services to meet customers' needs for energy solutions. The results of transactions in derivatives not designated as hedges of energy prices are included in the Energy Marketing segment. OPG also markets and sells electricity purchased from the IMO into the interconnected markets of other provinces and the U.S. northeast and midwest. Prior to market opening on May 1, 2002, OPG's energy marketing activity was not a reportable business segment. Accordingly, there are no comparative values for 2001.

Non-Energy and Other

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

Segment Income for year ended December 31, 2002	Generation	Energy Marketing	Non-Energy and Other	Total
<i>(millions of dollars)</i>				
Revenues	5,364	59	323	5,746
Fuel	1,610	-	-	1,610
Power purchased	290	-	-	290
Gross margin	3,464	59	323	3,846
Operations, maintenance and administration	2,463	6	55	2,524
Depreciation and amortization	645	-	107	752
Property and capital taxes	101	-	14	115
Loss on transition rate option contracts	-	-	210	210
Operating income (loss) before restructuring	255	53	(63)	245
Restructuring	-	-	222	222
Operating income (loss)	255	53	(285)	23
Other income	-	-	171	171
Net interest expense	-	-	150	150
Income (loss) before income taxes	255	53	(264)	44

Segment Income for year ended December 31, 2001	Generation	Energy Marketing	Non-Energy and Other	Total
<i>(millions of dollars)</i>				
Revenues	5,945	-	294	6,239
Fuel	1,453	-	-	1,453
Power purchased	879	-	-	879
Gross margin	3,613	-	294	3,907
Operations, maintenance and administration	2,475	-	84	2,559
Depreciation and amortization	746	-	64	810
Property and capital taxes	97	-	17	114
Operating income before restructuring	295	-	129	424
Restructuring		-	67	67
Operating income	295	-	62	357
Other income	-	-	-	-
Net interest expense		-	139	139
Income (loss) before income taxes	295	-	(77)	218

Selected Balance Sheet Information	Generation	Energy Marketing	Non-Energy and Other	Total
<i>(millions of dollars)</i>				
December 31, 2002				
Segment property, plant and equipment, net	12,003	-	943	12,946
December 31, 2001				
Segment property, plant and equipment, net	12,026	-	955	12,981

Selected Cash Flow Information
(millions of dollars)

Year ended December 31, 2002				
Capital expenditures	869	-	-	869
Year ended December 31, 2001				
Capital expenditures	739	-	-	739

Substantially all sales were in Canada. Since the market opened in May 2002, all of OPG's electricity generation was sold into the real-time energy spot market administered by the IMO. As such, the majority of OPG's revenue was derived from spot market sales. Sales to the IMO represented 70 per cent of total revenues for the year ended December 31, 2002 (2001 - nil) and 75 per cent of accounts receivable as at December 31, 2002 (2001 - nil).

19. RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province, the other successor entities of Ontario Hydro, including Hydro One Inc. ("Hydro One"), the 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:

<i>(millions of dollars)</i>	2002		2001	
	Revenues	Expenses	Revenues	Expenses
Hydro One				
Electricity sales	742	-	1,146	-
Services	3	13	8	36
Province of Ontario				
Gross revenue charge/water rentals	-	116	-	109
OEFC				
Gross revenue charge/property tax	-	237	-	194
Interest on long-term notes	-	192	-	196
Capital tax	-	48	-	48
Income taxes	-	(3)	-	66
IMO				
Electricity sales	3,371	-	-	-
Ancillary services	82	67	102	2
Joint venture companies				
Services	8	1	9	42
Systems	-	-	-	12
OEPSC-services	1	2	6	-
	4,207	673	1,271	705

At December 31, 2002, accounts receivable included \$4 million (2001 - \$131 million) due from Hydro One, \$551 million (2001 - \$9 million) due from the IMO, nil (2001 - \$2 million) due from joint venture companies and nil (2001 - \$1 million) due from OEPSC. Accounts payable and accrued charges at December 31, 2002 included nil (2001 - \$3 million) due to Hydro One, nil (2001 - \$2 million) due to the IMO, nil (2001 - \$1 million) due to joint venture companies and nil (2001 - \$1 million) due to OEPSC.

20. OTHER ITEMS

WSIB Settlement

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

21. OTHER INCOME

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

<i>(millions of dollars)</i>	2002	2001
Mississagi River generating stations <i>(note 13)</i>	99	
Gain on sale of long-term investments	54	-
Nuclear Safety Analysis Division	11	-
Investment in New Horizon System Solutions Inc.	4	-
Investment in Kinectrics Inc.	3	-
	171	-

Sale of Nuclear Safety Analysis Division

In September 2002, the Company completed the sale of its Nuclear Safety Analysis Division to Nuclear Safety Solutions Limited, a wholly-owned Canadian subsidiary of NNC Holdings Limited. Total proceeds from the sale were approximately \$20 million consisting of cash proceeds of approximately \$15 million and assumption of other liabilities of approximately \$5 million. The Company recorded a gain of approximately \$11 million.

Sale of Investment in New Horizon System Solutions Inc.

In March 2002, OPG divested its 49 per cent joint venture interest in New Horizon System Solutions Inc. ("New Horizon") to Business Transformation Services Inc., a wholly owned subsidiary of Cap Gemini. OPG is continuing with its 10-year information technology outsourcing agreement with New Horizon that commenced in February 2001. The Company recorded a gain on sale of \$4 million.

Sale of Investment in Kinectrics Inc.

In January 2002, OPG sold its remaining ownership interest in Kinectrics Inc. to 3982912 Canada Inc., a subsidiary of AEA Technology plc., for approximately \$12 million in cash proceeds. The Company recorded a gain on sale of \$3 million.

22. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

<i>(millions of dollars)</i>	2002	2001
Accounts receivable	274	(50)
Note receivable	(225)	-
Income taxes recoverable	(3)	(77)
Fuel inventory	23	(293)
Materials and supplies	(45)	(60)
Market power mitigation agreement rebate payable	572	-
Accounts payable and accrued charges	(121)	33
	475	(447)

23. REGULATION AND STATUS OF DEREGULATION IN ONTARIO

(a) Bill 210 “Electricity Pricing, Conservation and Supply Act, 2002”

On May 1, 2002, Ontario opened its wholesale and retail electricity markets to competition. Subsequent to market opening, in November 2002, the Government of Ontario introduced Bill 210, “*Electricity Pricing, Conservation and Supply Act, 2002*”. The Bill became law on December 9, 2002. The new legislation and related regulations include the following key features:

- Effective December 1, 2002 and until April 30, 2006, electricity commodity prices are set at 4.3¢/kWh for low volume consumers (consumers using less than 150,000 kWh annually) and other designated consumers including those who have a demand of 50 kW or less.
- Refunds will be provided to these consumers for the difference between the 4.3¢/kWh and the amount actually paid by these customers since market opening.
- The rates for transmission and distribution, and the fees for the operation of the IMO are capped at current levels.
- IMO market uplift charges to distributors and low volume and designated consumers are capped at 0.62¢/kWh.
- The Minister of Energy has been given increased powers including the ability to review market rules made by the IMO to ensure that the new rules do not unduly and adversely affect the interests of consumers with respect to prices or the reliability or quality of electricity service. The Minister has also been given powers to control rates approved by the OEB and to require certain orders to be amended.
- Tax incentives are provided to promote conservation, use of alternate fuels and support for clean energy production through a variety of mechanisms.

The new legislation and related regulations introduced in November 2002 did not include any changes in the electricity prices or the market rules related to the IMO- administered real-time market or spot market, nor did they address the form of electricity pricing for customers other than low volume and designated customers. *The Electricity Pricing, Conservation and Supply Act, 2002*, as it relates to the low volume and other designated consumers, is not expected to have a significant impact on OPG.

(b) Business Protection Plan for Large Electricity Consumers in Ontario

On March 21, 2003, the Province announced a business protection plan for large electricity consumers in Ontario. Under this plan, consumers using up to 250,000 kWh per year will be included in the fixed price rate of 4.3¢/kWh retroactive to May 1, 2002. Except for certain designated customers, all consumers using above 250,000 kWh per year will remain in the competitive wholesale and retail markets and receive rebates under the terms of the existing market power mitigation agreement arrangements for the 12 months ending April 30, 2003. Effective May 1, 2003, rebates to these customers will be fixed at 50 per cent of the amount by which the average spot price in the IMO-administered market exceeds 3.8¢/kWh, with rebates paid on a quarterly basis. OPG will continue to be responsible for a rebate commitment based on the existing market power mitigation agreement arrangement under which the level of payment is impacted by the degree of decontrol implemented by OPG. This business protection plan is not expected to have a material impact on OPG’s operating results.