

building on our foundation

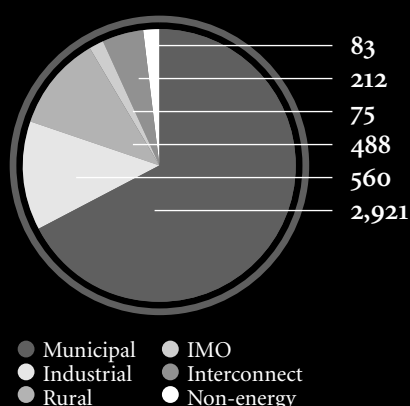


ONTARIO POWER GENERATION INC. 1999 ANNUAL REPORT

ONTARIO**POWER**
GENERATION

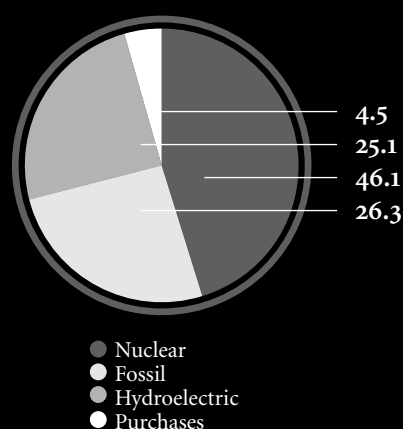
revenues by customer type (\$M)

(Total revenue \$4,339 million for 9 months)



energy sources (TWh)

(Total energy 102.0 TWh for 9 months)



positioning for growth and success

In 1999, Ontario Power Generation:

- successfully transitioned its business from Ontario Hydro
- improved environmental performance – including ISO 14001 registration of environmental management systems at all major generating stations
- capitalized on buoyant energy demand to produce profits well above plan
- successfully met seven new all-time summer demand peaks with no service disruptions
- commenced a major decontrol program
- exceeded nuclear generation target by 8 per cent
- established a \$600 million cash and liquidity line with banks
- completed all key Y2K deliverables
- launched a major initiative to find partners for the company's information technology function
- launched a corporation-wide supply-chain management program to identify significant cost-savings

Financial achievements for nine months ended December 31, 1999

Sales of 102 terawatt-hours (TWh) of electricity

Revenues of \$4,339 million

Net income of \$326 million

Earnings per share of \$1.27

Cash from operating activities of \$549 million

Return on equity of 8.5%*

*Annualized basis

corporate profile

Ontario Power Generation (OPG) is one of the largest electricity generators in North America. As of December 31, 1999, the company owned five nuclear generating stations, six fossil-fueled generating stations and 69 hydroelectric stations. The installed generating capacity was approximately 30,900 megawatts (MW), consisting of 13,900 MW of nuclear generating capacity (of which 5,100 MW has been temporarily laid up); 9,700 MW of fossil-fueled generating capacity; and 7,300 MW of hydroelectric generating capacity.

OPG's principal business is the generation and sale of electricity in the Ontario wholesale market, with surplus electricity being sold into the interconnected markets of Quebec, Manitoba and the United States northeast and midwest regions. Customers in Ontario at the end of 1999 included 237 municipal utilities, 101 large direct industrial customers and Hydro One (formerly Ontario Hydro Services Company). The municipal utilities in turn supplied more than three million customers, while Hydro One supplied about 930,000 customers.

financial highlights – nine months

RESULTS OF OPERATIONS

(\$ millions unless otherwise stated)	APRIL 1 TO DECEMBER 31
	1999
Electricity sold (TWh*)	102.0
Revenues	4,339
Operating income	750
Net income	326
Earnings per share (\$/share)	1.27
Capital expenditures	450
Cash flow from operating activities	549
At year-end:	
Total assets	15,610
Long term debt	3,422
Shareholder's equity	5,417

quarterly financial highlights

NINE MONTHS ENDED DECEMBER 31, 1999

(\$ millions unless stated otherwise)	Q2	Q3	Q4	TOTAL
Electricity sold (TWh)	32.6	35.5	33.9	102.0
Revenues	1,375	1,582	1,382	4,339
Operating income	240	384	126	750
Net income	105	186	35	326
Earnings per share (\$/share)	0.41	0.72	0.14	1.27

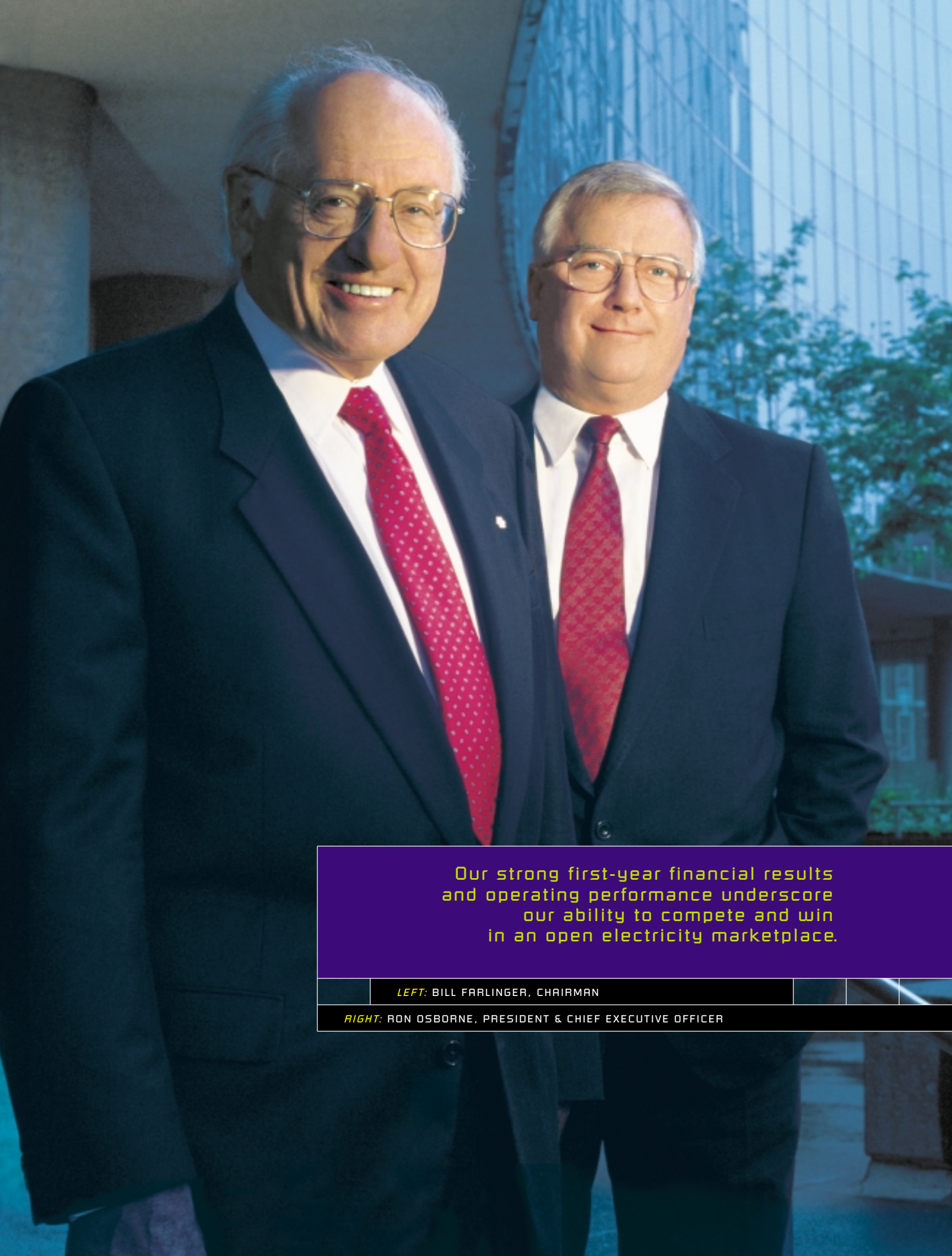
* 1 kilowatt-hour (kWh) is the energy expended by ten 100 watt lights burning for one hour.
A megawatt-hour (MWh) is 1,000 kWh, and a terawatt-hour (TWh) is 1 billion kWh.

Building on our foundation: We're building our future on a foundation of strength: skilled employees, a competitive mix of generating assets and an uncompromising commitment to commercial and operational excellence. We will enhance these strengths to deliver exceptional shareholder value as a premier North American energy company.

ONTARIO POWER GENERATION INC. 1999 ANNUAL REPORT

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Our strong first-year financial results
and operating performance underscore
our ability to compete and win
in an open electricity marketplace.

LEFT: BILL FARLINGER, CHAIRMAN

RIGHT: RON OSBORNE, PRESIDENT & CHIEF EXECUTIVE OFFICER

Laying the groundwork for growth

Innovative management of our generation mix, a strong sales and marketing capability, and exceptional environmental performance will make us a competitive leader in the marketplace.

The year 1999 was significant for Ontario Power Generation Inc. (OPG). We commenced operations as a commercial electricity generation company in April 1999, having emerged as one of the successor businesses from the restructuring of the former Ontario Hydro.

In the near future, Ontario's electricity market is scheduled to open to wholesale and retail competition. OPG enters this world with a strong foundation of core strengths, enhanced by new initiatives and approaches to ensure our long-term success and growth.

We have a fleet of low-cost, high-quality and competitive generation assets. Our environmental record is good, and our goal is to be a leading North American performer in this area. We are concentrating on core business improvements. We are building a new performance-based culture with a strong customer orientation to address the challenges and opportunities of operating in a competitive electricity market.

To promote competition, the provincial government has mandated that OPG reduce its control of generation capacity in Ontario over a 10-year timeframe. In response, we have started a process to "decontrol" or transfer the control of a portion of our assets to others, beginning with the Bruce nuclear station; and we have announced our intention to decontrol the Lennox and Lakeview fossil-fueled generating stations.

We are developing relationships with the investment community to expand our access to capital markets. Our executive team has considerable experience in managing through periods of intense change.

In short, we are acquiring the necessary tools and competencies to ensure our long-term success.

Earnings Exceed Target

Our financial results for the nine months ended December 31, 1999, were strong and considerably ahead of plan:

- total revenues exceeded \$4.3 billion;
- operating income and net income were \$750 million and \$326 million respectively;
- capital expenditures to ensure generating reliability and environmental responsibility totaled \$450 million;
- cash flow from operating activities was \$549 million;
- total volume of electricity sales was 102 terawatt-hours (TWh); and
- return on equity was 8.5 per cent on an annualized basis – a strong start toward reaching our goal of 14 per cent ROE.

OPG's Key Strategic Initiatives – Building Blocks for Long-Term Success

GENERATION PERFORMANCE: Historically, peak customer demand for electricity in Ontario occurred in winter. In 1999, for the second year in a row, the summer demand peak exceeded that of winter. OPG now meets peak demands in both the summer and winter. To meet this challenge, we operated our plants at the highest levels of performance while maintaining an uncompromising commitment to safety and environmental stewardship.

Last year, our nuclear stations generated 4.7 terawatt-hours more electricity than planned – enough power to meet Ontario's electricity needs for more than a week.

Our goal is to transform our nuclear plants into top global performers within three years. As part of this effort, extensive training and refurbishing programs are under way, and we are working closely with the regulator to meet or exceed industry-leading safety objectives.

We are also continuing the process of returning our Pickering A nuclear units to service. This initiative will add 2,000 megawatts (MW) of low-cost, low-emission energy to our portfolio and will contribute significantly to our profitability.

Performance improvements at our fossil-fueled stations have resulted in increased reliability and efficiency. Over the past two decades, we have also reduced emissions of gases that contribute to acid rain and smog. More will be done in this area. We are committed to make further emission reductions at our fossil-fueled stations.

We continue to implement a major long-term program for upgrading our hydroelectric facilities.

BECOMING A MARKET- AND PERFORMANCE-DRIVEN ENTERPRISE: We are controlling costs, improving safety margins at our generating stations, capitalizing on new growth opportunities and serving customers more effectively with innovative products and services. We are also enhancing our strengths in trading, marketing and sales.

OPG is instituting incentive programs to reward workplace performance and excellence. New relationships have been forged with the unions based on mutual respect and trust. We also launched a major partnership initiative for our information technology business and found alliance partners for our research and development operations.

In June 2000, OPG received investment-grade credit ratings from Canada's two major rating agencies.

HEALTH AND SAFETY: OPG is committed to the safe operation of all its facilities and to workplace health and safety excellence. Unfortunately, in 1999 we failed to meet a number of our workplace health and safety targets. In partnership with the unions, we are systematically addressing these issues, and workplace safety has shown a significant improvement in the first five months of 2000.

ENVIRONMENTAL PERFORMANCE: Our goal is continuous environmental leadership.

Nearly 75 per cent of our generation is derived from nuclear and hydroelectric sources, which generate virtually no acid gas or greenhouse gas emissions. We are also one of the first North American electricity producers to have all major operating facilities certified under ISO 14001, the international benchmark in environmental management systems. Environmental strategies are central to all of our major business plans and initiatives. We have developed programs for early identification and management of all environmental risks.

DECONTROLLING ASSETS: Our generating licence, granted by the Ontario Energy Board, requires us to reduce our control of generation capacity to no more than 35 per cent of generation available to Ontario by 2010.

We have already announced a process designed to decontrol one major nuclear facility, and also our intention to decontrol a further 4,000 MW, including two major price-setting fossil-fueled stations. The transfer of these stations to third parties will facilitate customer choice and competition as well as meet our requirement to reduce our control over generation in Ontario.

GOING FORWARD: Our goal is to build a company that will be competitive and deliver maximum value to our shareholder, the Province of Ontario. The provincial government has initiated a process to explore options with respect to its ownership of OPG. Our objective is to ensure that the shareholder has a wide range of options to choose from.

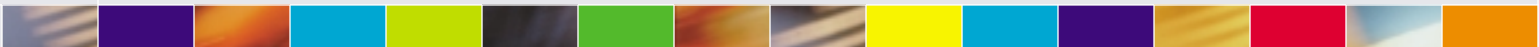
OPG is moving from a traditional utility operating in a closed marketplace to a premier North American energy company operating in a competitive arena. We will utilize our strengths to provide low-cost power solutions to customers. We will do so in a manner that is safe and environmentally responsive, that delivers superior shareholder value and meets the needs of people, communities and a growing province.

Bill Farlinger, Chairman

Ron Osborne, President and Chief Executive Officer

building on our foundation

We've put in place the business fundamentals
to make us a more customer-focused company
with a strong commercial orientation.
We will build on this base to capitalize
on significant growth opportunities emerging
in the North American energy market.



A VISUAL PORTFOLIO



Performance excellence is critical
to building credibility with
customers, regulators,
investors and capital markets.

LEFT: DPG EMPLOYEE TONY JOHNSTON, AUTHORIZED NUCLEAR
OPERATOR-IN-TRAINING, AT OUR NUCLEAR GENERATING STATION
SIMULATOR, PICKERING, ONTARIO

RIGHT: SCOTT COUNSELL, ELECTRICAL MAINTAINER,
SIR ADAM BECK GENERATING STATION, NO. 2







Environmental stewardship is
a cornerstone of our business, and
we are committed to being a
leading performer in this area.

LEFT: SURROUNDING WETLANDS AT OPG'S
NANTICOKE GENERATING STATION

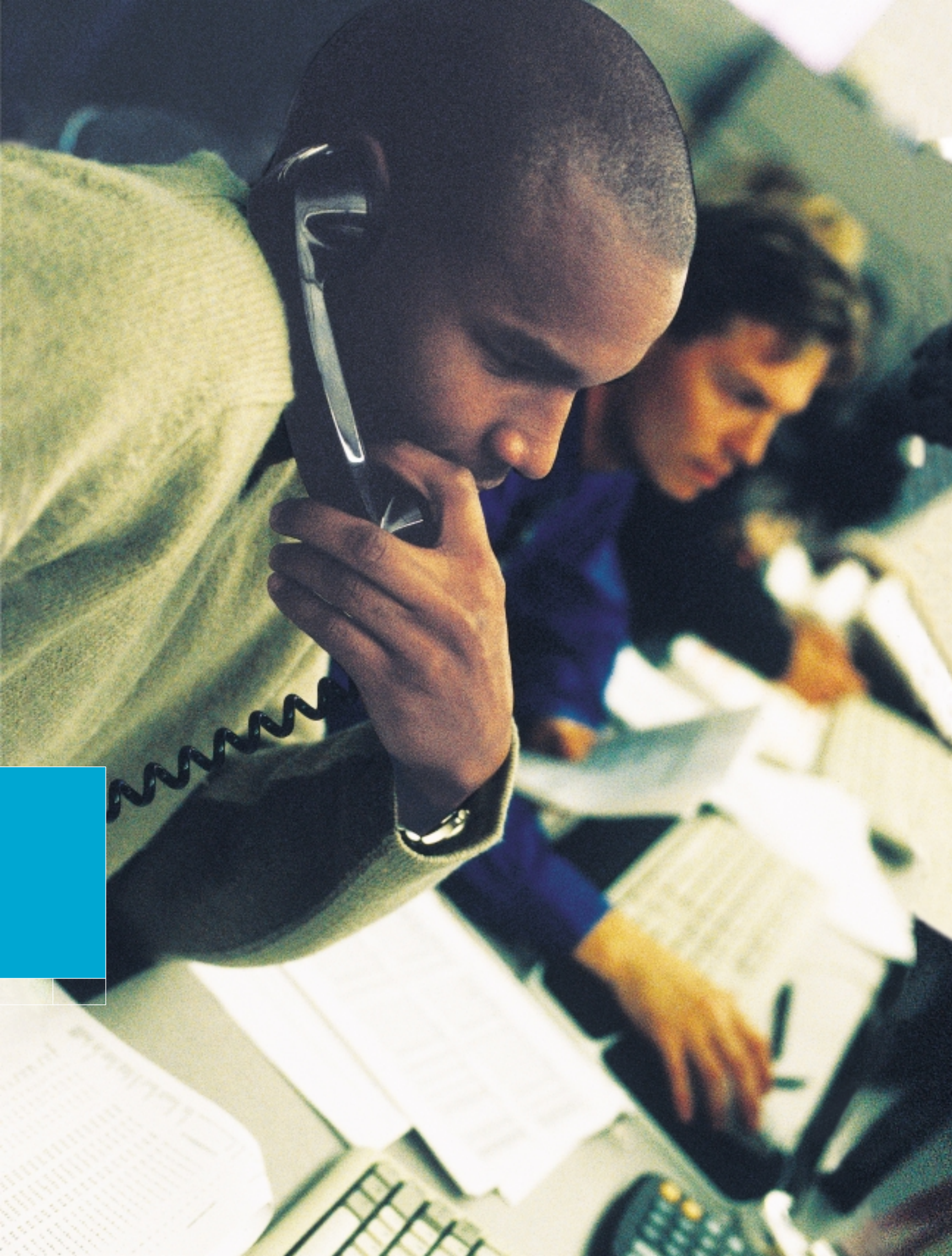
RIGHT (FROM LEFT TO RIGHT): HIGH SCHOOL STUDENT KARRY COLE; ROGER DALY,
OPG SENIOR ENVIRONMENTAL SPECIALIST; BRIAN JARVIS OF OPG'S DARLINGTON
PUBLIC AFFAIRS; AND HIGH SCHOOL STUDENT KRISTEN LOCKWOOD, AT BIRD
NESTING STATION NEAR THE DARLINGTON NUCLEAR GENERATING STATION



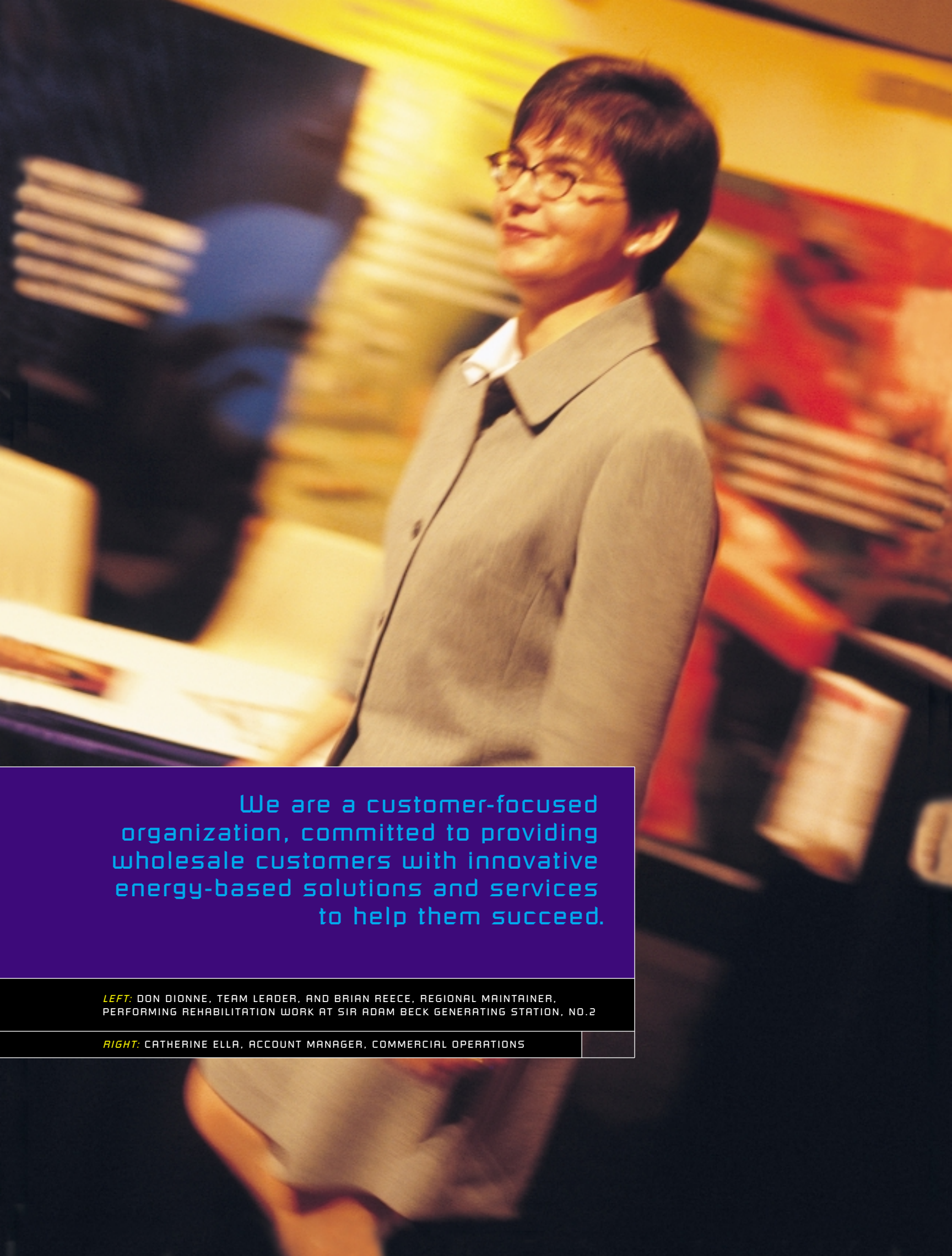
We are creating a commercially based sales and marketing infrastructure that is flexible, responsive and adaptive to rapid change.

LEFT: REAL-TIME ELECTRICITY MARKET TRADING BOARD AT OPG'S TRADING FLOOR

RIGHT: MICHAEL MOORE AND ROBERT WANLESS, OF OPG'S COMMERCIAL OPERATIONS TRADING DEPARTMENT







We are a customer-focused organization, committed to providing wholesale customers with innovative energy-based solutions and services to help them succeed.

LEFT: DON DIONNE, TEAM LEADER, AND BRIAN REECE, REGIONAL MAINTAINER, PERFORMING REHABILITATION WORK AT SIR ADAM BECK GENERATING STATION, NO.2

RIGHT: CATHERINE ELLA, ACCOUNT MANAGER, COMMERCIAL OPERATIONS

A solid platform for long-term growth

Strong financial results, continually improving generating performance, a commitment to environmental excellence and a focused strategy for future growth are building a framework for future success.

Electricity industry restructuring in Ontario began in 1996 with the release of the Macdonald Committee's report on competition in Ontario's electricity system. In 1997, the provincial government's White Paper described its plan to reform Ontario's electricity industry and led to the passage of restructuring legislation: the *Energy Competition Act, 1998*, and the *Electricity Act, 1998*. The legislation laid out a broad framework for a restructured industry that included:

- competition in energy sales at both the wholesale and retail levels; and
- the breakup of Ontario Hydro, the vertically integrated electric utility monopoly in Ontario, into an unregulated generation business, a regulated wires business, an Independent Electricity Market Operator (IMO) and two smaller specialized entities.

Accordingly, in April 1999, Ontario Hydro's assets were split into five successor entities.

Ontario Power Generation Inc. (OPG) assumed the generation business formerly operated by Ontario

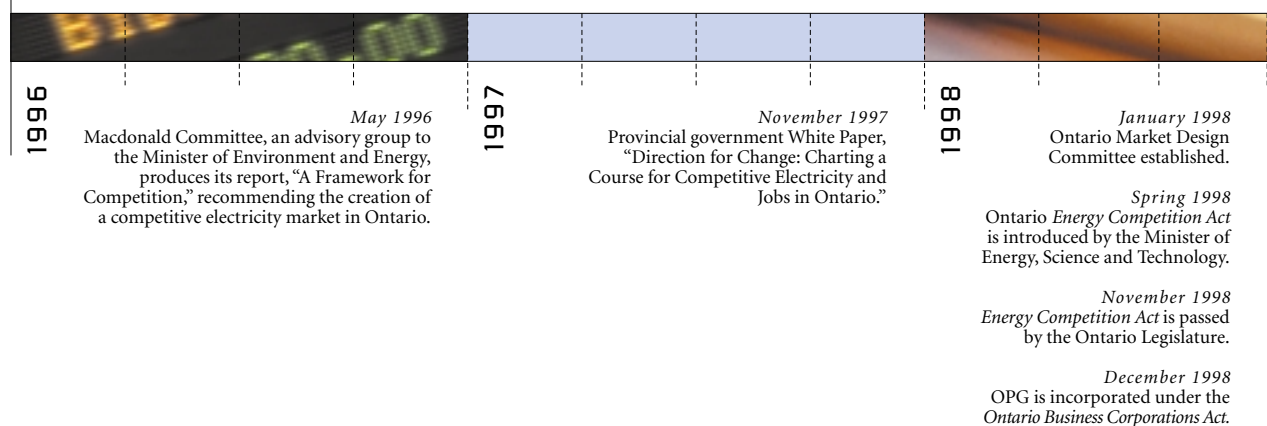
Hydro. Hydro One Inc. (formerly Ontario Hydro Services Company) operated the transmission, distribution and energy services businesses. The remaining three, operating on a not-for-profit basis, are the Electrical Safety Authority, the industry's safety inspection agency; the IMO, responsible for operating and administering the new market and ensuring reliability and access to transmission and distribution systems; and the Ontario Electricity Financial Corporation, which is responsible for managing and retiring Ontario Hydro's outstanding debt and other obligations.

A New Mandate and Vision

At OPG, we are building a new company, with a new mandate and vision. Whereas Ontario Hydro had an obligation to provide electricity regardless of the economics, OPG's mandate is now identical to that of any private-sector company: to compete effectively on a commercial basis, making sound business decisions to create and enhance shareholder value.

Our vision is to be a premier North American energy

The Road from Monopoly to Competition



company, focused on low-cost power generation and wholesale energy sales. The company's initial focus will be primarily on Ontario's electricity marketplace and other opportunities in interconnected markets. OPG also plans to selectively expand into regional markets, primarily in the U.S. Northeast and Midwest, as well as to consider other growth opportunities.

**Building Blocks for Future Growth:
Our Four Foundation Strategies**

OPG has four foundation strategies for achieving its vision:

- *Optimizing Our Portfolio Configuration* by meeting our mandated decontrol requirements to reduce our market presence in Ontario through the configuration of a portfolio of diversified, strategic generation assets.
- *Building Competitive Generation and Operations Management* by enhancing our position as a low-cost producer and actively managing and optimizing the performance, safety and competitiveness of our generation assets.
- *Expanding and Differentiating Our Marketing, Sales and Trading Capabilities* by developing specialized marketing and sales capabilities to maximize customer relationships and exploit market opportunities for a range of innovative energy-related products and services.
- *Enhancing Our Environmental Performance* by balancing financial responsibility with environmental leadership while meeting the expectations of the communities in which we operate.

1. Optimal Portfolio Configuration

In April 1999, OPG began a process to optimize its generation portfolio. This process, part of our first strategic

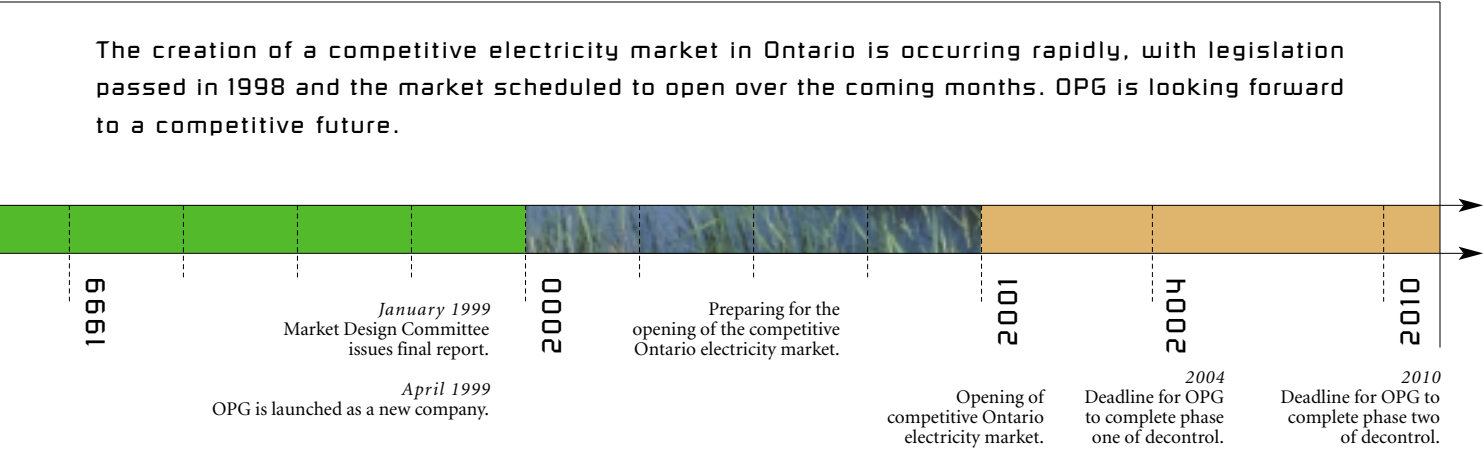
initiative, emerged from the Ontario government's commitment to foster greater electricity competition. To fulfill that commitment, the Province directed OPG to reduce its control of generation to no more than 35 per cent of available capacity in Ontario, within 10 years of the market opening. This involves two phases: first, decontrolling 4,000 megawatts (MW) of price-setting fossil-fueled generation within 42 months of open access, with the option of substituting up to 1,000 MW of hydroelectric power; and second, decontrolling the remaining amount by the end of 2010.

In response to this decontrol mandate, we undertook a process in 1999 to seek prospective partners for our Bruce nuclear facility. While not required to divest nuclear plants under phase one of decontrol, OPG started with this station because eventually we must decontrol a portion of our nuclear capacity to maintain a flexible mix of nuclear, hydroelectric and fossil-fueled stations and also because of the length of time required to decontrol a large nuclear station. Early in 2000, we also announced our intention to decontrol two fossil-fueled plants, Lakeview and Lennox.

Our target is to complete the first phase of the decontrol process well in advance of the required date.

2. Competitive Generation and Operations Management

As a new company preparing for a competitive market, OPG must strive to deliver excellent performance on a day-to-day basis. Strengthening this capability is our second core strategy and is an essential element in building credibility with customers, regulators, investors and capital markets.



OPG will enhance its competitive advantages in low-cost generation by exercising disciplined cost control; maintaining sufficient scale that minimizes unit costs while ensuring safe and reliable plant operations; and achieving operating flexibility through the provision of base, intermediate and peaking generating capacity.

Generation

Markets reward companies which maintain their facilities at high levels of availability, efficiency and safety.

Our diversified generation portfolio has one of the lowest overall marginal cost structures in our market area, which includes Ontario and the U.S. Northeast and Midwest. It's also one of the cleanest and most flexible systems in North America. Nonetheless, we continually strive for improvements in our performance, our cost structure and our impact on stakeholders.

Nuclear

OPG's nuclear operations are the backbone of our generating capability, representing about 45 per cent of the company's installed generation capacity. For the 12 months of 1999, nuclear operations generated 61.4 terawatt-hours (TWh) of electricity – more than 4 TWh above plan. Production costs are low, with our Darlington station recording the lowest production unit energy costs of any nuclear plant in North America, based on 1998 data.

OPG owns and operates 20 nuclear generation units, eight of which are temporarily laid up – four units each at Bruce A and Pickering A. Currently, we are in the midst of improving the safety, productivity and cost

performance of our entire nuclear fleet through a \$1.7 billion nuclear improvement program – the largest program of its kind in the world. Under this program, our goal is to be a top worldwide performer by 2003.

Our progress has been steady, but we still have a way to go. By the end of 1999, our nuclear performance index as measured by indicators developed by the World Association of Nuclear Operators had risen to 81.0. This was 4.1 index points better than plan, a 19 per cent improvement for the year and a 40 per cent improvement since we launched the program in 1997. However, given the impressive performance of U.S. nuclear plants, a significant gap still remains between our performance scores and the industry rolling average. We are committed to closing this gap and to achieving our performance goals.

We are equally committed to continually improving the safety performance of our nuclear plants and are working closely with the regulator, the Atomic Energy Control Board, to address this.

Our nuclear capability will be substantially enhanced through the planned return to service of our Pickering A nuclear plant, which will supply 2,000 MW of clean, low-cost power. Subject to obtaining all regulatory and environmental approvals and the achievement of specific performance targets, we expect to return Pickering A units to service over the next three years – generating significant revenues for OPG.

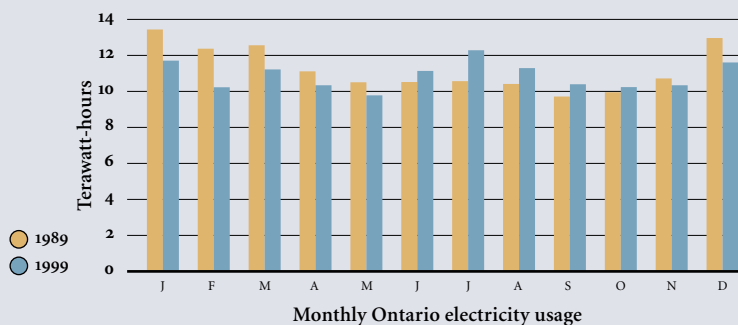
Fossil

Our six fossil-fueled stations performed above expectations in 1999. Five of these stations are coal-burning facilities and one will soon have the capability of fully

BACKGROUND

Ontario Electricity Demand

Over the past 10 years, electricity demand has shifted in Ontario from winter peaking to both summer and winter peaks.



generating electricity using either natural gas or oil. These units generated 36.1 TWh of electricity in 1999 and account for about 31 per cent of OPG's installed generating capacity.

The competitive hallmark of fossil generation is its ability to respond quickly to rapid market developments and to customer needs, including seasonal power demand spikes. On seven separate occasions during the summer of 1999, electricity demand in Ontario rose to record summer highs. Our fossil-fueled operations met that peaking demand with no service disruptions and, as well, enabled OPG to take advantage of significant market opportunities for sales in the interconnected markets that were also experiencing record electricity demand coupled with power interruptions.

In 1999, we continued to strengthen our fossil-fueled generating capability through initiatives to improve reliability, environmental performance and outage management. We undertook a major maintenance optimization project, which emphasizes a strategically planned approach to maintenance.

Hydroelectric

OPG's 69 hydroelectric plants generated 33.6 TWh of electricity in 1999. They account for 24 per cent of installed generating capacity and are our lowest-cost producers. They are also our oldest facilities, with an average age of 63 years. However, it is not uncommon that the age of these facilities could extend beyond 100 years.

Over the past eight years, we have considerably extended station life expectancy and have improved reliability under a major rehabilitation plan. We are also in the midst of a major upgrading program that increased the capacity of OPG's hydroelectric fleet by 175 MW between 1995 and 1999.

In 1999, our hydroelectric business had a very strong year. Production unit energy costs were on target, and all major plant groups were approved for ISO 14001 certification. Hydroelectric generation was 97 per cent of plan, in a year when water levels were near historic minimum levels. Going forward, we are committed to achieving these kinds of results while continuing to respect the needs of others who use Ontario's waterways.

Embedding a Performance Ethic Throughout OPG

In addition to making our stations more productive, we

are implementing several key initiatives designed to enhance performance and efficiency throughout the company.

In July, we launched a supply-chain excellence program to reduce purchasing costs. By the end of 1999, the program had put mechanisms in place that will identify savings of \$40 million on an annualized basis, and it is committed to deliver \$100 million in annual savings over coming years.

We are forming alliances with world-class partners to better manage non-core operations. Under our new information technology initiative, we are creating a separate, commercially viable information technology services company with the potential to add external partners. This initiative has the full support of the unions. It will also allow us to better manage costs while enabling us to focus on our core businesses as we enter into a new competitive arena.

We are also pursuing a strategic partnership to improve our research and development capabilities. As a result, Ontario Power Technologies (OPT) is planning to form a joint venture with AEA Technologies, CANATOM NPM and SCIENTECH. Together, this group will hold a 10 per cent equity position in OPT initially with the potential to increase ownership to 50 per cent in two years.

Another initiative, announced in April 2000, involves a collaboration with Siemens Westinghouse Power Corporation (SWPC) to build, commission and operate a 250 kilowatt combined heat and power system based on SWPC's Solid Oxide Fuel Cell (SOFC) technology. This will be the world's largest pre-commercial demonstration of the atmospheric SOFC to date.

Changing Our Culture

At the employee level, we are building a culture that fosters health and safety, promotes commercial excellence and enables individuals to share in our financial success.

To accomplish these objectives, we have developed with the Power Workers' Union and The Society of Energy Professionals a landmark agreement to help create a strategically aligned culture based on mutual understanding and shared goals.

Together with the unions, we are also giving priority to improving our employee health and safety record. Our most common types of employee accidents result

from overexertion, slipping and tripping, falls and impacts. We also have a high incidence of workdays lost due to sick leave. To address this challenge, OPG has established a joint Health and Safety Advisory Committee to provide a forum for solutions and employee discussion. The company is also adopting an internationally recognized Health and Safety Management System for its business processes, and will incorporate Health Canada's world-class workplace health management model in health programming.

Successful companies have demonstrated that excellence in health and safety can positively influence their value. OPG is committed to being a leader in building a safe and healthy workplace for its employees.

Finally, we launched a major partnership and goal-sharing program to enable employees to both contribute to and benefit from our financial achievements. Our employees recognize that in a competitive environment we need to develop an earnings- and performance-based culture founded on teamwork and mutual respect. Goal-sharing helps achieve these objectives by giving all employees a personal and direct stake in our success. This is one of our most critical performance initiatives – because it's our people, not programs, who are going to determine our future competitive and market success.

3. Expanded and Differentiated Marketing, Sales and Trading Capabilities

OPG will be ready for the new electricity market when it opens. We have placed a significant emphasis on commercial readiness and customer focus. Expanding this capability is our third core strategy and a key building block for success.

We are creating strong sales and marketing capabilities to capitalize on the significant opportunities the new market will provide for power exporters, power traders and providers of energy products and services. Accordingly, we have developed a marketing and sales approach that is flexible, responsive and adaptive to market changes.

Under this approach we are strengthening our capability in four key growth areas of the new marketplace: spot market sales, bilateral sales, structured energy products, and hedging and risk management products. We believe there will be significant opportunities in these areas, and we are expanding our human and technology resources to capitalize on them.

Our products will include variations of forwards, swaps and options, and environmental efficiency products and services. During 1999, one of our products – a new energy-based option – was so popular with qualifying customers that we had to allocate it by lottery.

In addition, with the completion of our state-of-the-art trading floor we have the capability to trade our power quickly and reliably on the open market. We are implementing the systems and processes that will allow us to function smoothly with other market entities such as the IMO. We will also continue to develop relationships with potential customers in the U.S. to respond to increased sales opportunities there in the future.

Customer Focus

As we prepare for an open energy market, we are also helping our customers prepare.

At the end of 1999, OPG served 101 large industrial customers; 237 municipal electrical utilities, which in turn served more than three million electricity customers across the province; and Hydro One, which served 930,000 electricity customers, primarily in the less urban areas of the province.

In 1999, we conducted more than 20 information sessions across the province, in which our customers met with senior management to discuss their concerns and questions about the new competitive environment. Response to these sessions was extremely positive, and they are now an integral part of our customer relationship activities. Similar meetings were held with potential customers in the U.S. In addition to these sessions, OPG continued holding its regular series of customer education seminars to help customers understand and prepare for the new marketplace. In 1999, we held over 45 such seminars, attracting more than 1,200 clients province-wide.

Customers rewarded our efforts to help them better understand the challenges and opportunities of open competition by giving us above-target scores on our annual customer satisfaction index.

We are also committed to changing our incentive systems to reflect our enhanced customer focus. For example, all our account managers are now expected to meet customer satisfaction targets as part of their compensation – the first program of its kind for OPG. Over time, we plan to broaden this initiative to include other staff functions as well.

We are building a new company with a new vision – to be a premier energy company, based in Ontario, providing low-cost power and wholesale energy sales to customers across North America.

4. Environmental Performance and Social Responsibility

Our fourth foundation strategy is our firm commitment to environmental performance.

OPG’s goal is to be a leading environmental performer among North American energy companies.

Approximately 75 per cent of our generation currently comes from nuclear and hydroelectric sources, which are virtually free of emissions that produce acid gas, smog or climate change.

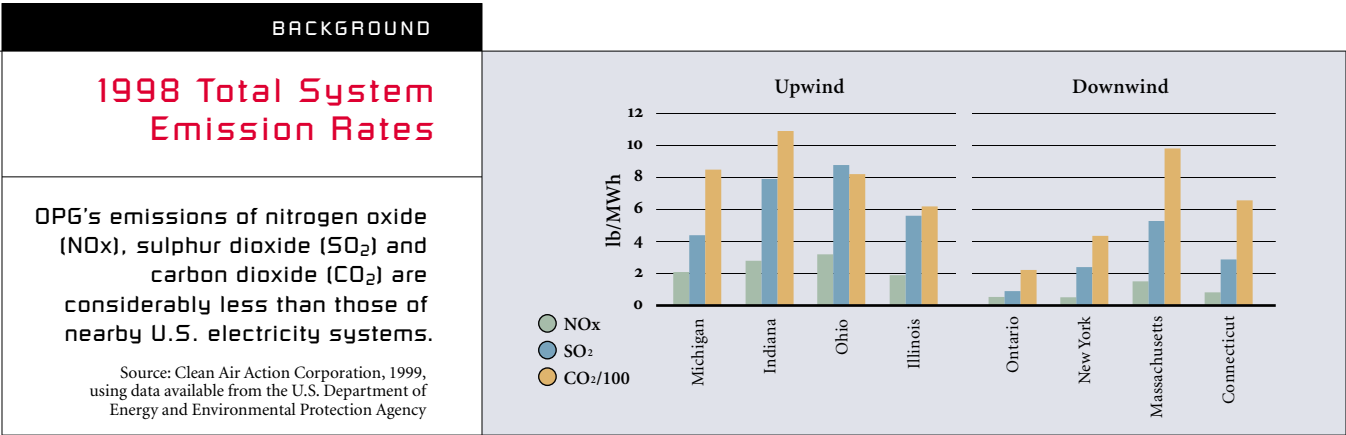
Our nuclear stations are among the cleanest power sources available. Between 1971 and 1999, OPG’s nuclear operations displaced coal generation, eliminating in the process emissions of 2.5 million tonnes of nitrogen oxide, 11 million tonnes of sulphur dioxide and 1.2 billion tonnes of carbon dioxide, which contributes to global warming.

OPG’s Darlington Nuclear Generating Station was the first nuclear generating facility in North America to be certified under the internationally recognized ISO 14001 standard for environmental management. By year-end 1999, all of OPG’s major generating stations had achieved certification, making us one of the first electricity companies in North America to achieve this milestone. Recently, the international consulting firm Arthur D. Little reviewed OPG’s corporate environmental management practices and judged them “generally consistent with the leaders – and some are best in class.”

We are proactively managing our fossil-fueled stations to reduce air emissions. Over the past 16 years, more than \$1 billion has been invested by OPG and its predecessor in pollution-control technologies and cleaner fuels for these plants. Today, these stations produce the same amount of energy as they did in the early 1980s, but with 60 per cent lower acid gas emissions. Our fossil-fueled stations’ emission rates for carbon dioxide, sulphur and nitrogen compare well with the rates of other Canadian coal-fired stations as well as with those of most generating stations in our market to the south.

OPG is also a Canadian leader in emission reduction credit (ERC) trading, a market-driven approach that enables us to cost-effectively manage our own emissions and helps neighbouring companies decrease theirs. This contributes to improving Ontario’s overall air quality and also helps our customers, who benefit from the savings in operating costs obtained from such trading. Several of our major customers have already partnered with us on ERC trading projects.

Our internal energy savings program received Canada’s first National Energy Efficiency Award from the federal government for its significant contribution to reducing energy use. Under the program, OPG reduced its internal energy use by almost 1,900 gigawatt-hours over the period 1994 to 1999, equivalent to the annual electricity use of a city of 140,000 people. The program



also reduced the company's greenhouse gas emissions by 6.8 million tonnes.

OPG is committed to meeting all environmental regulations and agreements, and to going beyond them when practical and possible. By the end of 2000, we will have voluntarily reduced net carbon dioxide emissions to 1990 levels with the help of practices such as ERC trading, tree planting and internal energy efficiency programs. In addition, our initiative to return to service our Pickering A Nuclear Generating Station will add another source of generation with no sulphur, nitrogen or carbon emissions. Both initiatives will also help Canada meet its commitments under the Kyoto Protocol.

Social Responsibility

As a major business and employer in many Ontario communities, OPG is committed to being an active and involved contributor to the quality of life in those communities. Two important ways we do this are through our corporation-wide Charity Trust Campaign and our Corporate Citizenship Program. In 1999, the Charity Trust Campaign raised about \$2 million on behalf of such organizations as the United Way, the Canadian Cancer Society and others. Our Corporate Citizenship Program provided more than \$1.6 million to 180 registered charities and non-profit environmental, educational and community programs.

5. The Road Ahead

OPG's four foundation strategies build on a focused core strategy to achieve sustained growth, drive earnings upward and attract private capital.

Going forward, our short-term strategy is to continuously improve the management of our generating assets and our market knowledge to compete vigorously and successfully in Ontario.

Part of our growth is dependent upon managing our generation system to create a safe, responsive and attractively valued portfolio through steadily improving the performance and efficiency of our generating assets. In the longer term, we will leverage our portfolio and expertise to help us become a major energy player in the U.S. as well – especially in the Midwest and Northeast.

Growth depends on a strong customer base with many loyal relationships and developing new customers, through the interconnections with three U.S. states and two Canadian provinces. These offer access to

more than 100 million new and existing customers.

Our ability to succeed requires an innovative sales and marketing infrastructure which is responsive to customer needs. Accordingly, the experience, knowledge and skill of our employees is one of our most powerful competitive advantages. To sustain that advantage, we are creating a culture of excellence, where all employees strive to reach their personal best and will be rewarded according to performance.

Supporting our core building blocks for growth is a conservatively financed balance sheet with debt to total capital targeted at 40 per cent, combined with strong healthy cash flows from operations that will enable us to finance capital expenditures, debt retirements and dividend obligations.

Environmentally, we will continue to install new technologies and invest in cleaner fuels and excellent asset management. We will continue to demonstrate leadership in energy efficiency initiatives. We will vigorously pursue our goal of achieving excellence in workplace health and safety.

While our goal is to be a premier North American energy company, our home and headquarters will continue to be in Ontario.

Much of what we do in the future will be determined by evolving developments in the electricity market itself. But one thing is certain. We have laid a strong foundation for success. We are transforming our culture, embracing change and looking forward – as a new company – to the challenges and opportunities that a competitive future will bring.

financial section

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Ontario Power Generation Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the financial condition and results of operations of Ontario Power Generation Inc. (the "Corporation") should be read in conjunction with the Consolidated Financial Statements and accompanying notes. The results reported herein have been prepared in accordance with accounting principles generally accepted in Canada and are presented in Canadian dollars.

The Corporation

The Corporation is one of the largest electricity generators in North America with 69 hydroelectric, six fossil-fueled and five nuclear generating stations forming a complementary mix of generating assets. At December 31, 1999, total generating capacity of these stations was approximately 30,900 megawatts (MW), consisting of 7,300 MW of hydroelectric generation capacity, 9,700 MW of fossil-fueled generation capacity and 13,900 MW of nuclear generation capacity, of which 5,100 MW has been laid up.

The Corporation's principal business is the generation and sale of electricity in the Ontario wholesale market, with surplus electricity being sold in the interconnected markets of Quebec, Manitoba and the United States (U.S.) northeast and midwest. In 1999, the Corporation generated approximately 88 per cent of the electricity consumed in Ontario through its own generation and purchases from the interconnected market.

Ontario Hydro (the "Acquired Business") on April 1, 1999, and commenced operations on that date.

In consideration of the transfer of assets, liabilities, officers, employees, rights and obligations of the electricity generation business of Ontario Hydro, the Corporation issued to Ontario Electricity Financial Corporation (OEFC) notes payable in the aggregate principal amount of \$8,526 million, including a note in the principal amount of \$5,126 million (the "Equity Note") and assumed a capital lease obligation of Ontario Hydro in the amount of \$30 million on April 1, 1999. The Province has assumed all of the Corporation's obligations under the Equity Note and OEFC has released the Corporation from its obligations thereunder and in connection therewith the Corporation issued to the Province 256,300,000 common shares as fully paid and non-assessable shares. OEFC has agreed that without the consent of the Corporation, it will not sell its \$3,400 million of notes of the Corporation. The Corporation's long term debt on April 1, 1999 was \$3,430 million.

The Corporation has recorded the purchase of the Acquired Business at its fair value as of April 1, 1999, as follows:

Incorporation, Commencement of Operations and Acquisition of Business

The Corporation was incorporated on December 1, 1998, pursuant to the *Business Corporations Act* (Ontario). As part of the reorganization of Ontario Hydro and the related restructuring of the electricity industry in Ontario, the Corporation and its subsidiaries purchased and assumed certain assets, liabilities, employees, rights and obligations of the electricity generation business of

	FAIR VALUE AS AT APRIL 1, 1999
<i>(millions of dollars)</i>	
Assets	
Current assets	1,465
Fixed assets	12,872
Other assets	598
	<u>14,935</u>
Liabilities	
Current liabilities	1,073
Liabilities and capital leases	5,336
	<u>6,409</u>
Net assets acquired	<u>8,526</u>

The purchase price of \$8,526 million was determined based on the present value of estimated future operating results and cash flows of the Acquired Business in a deregulated market. The purchase of the Acquired Business from the related party, OEFC, was recorded at the exchange amount of \$8,526 million in view of the substantive change in ownership interests arising from the transaction. The aggregate value of the net assets acquired was allocated to assets and liabilities based on their estimated fair values.

As part of the restructuring of the Ontario electricity industry, four other successor entities were created in addition to the Corporation. The other successor companies were:

- Hydro One (formerly Ontario Hydro Services Company), the successor to Ontario Hydro's transmission, distribution and energy services businesses;
- the Independent Electricity Operator ("IMO"), the independent electricity system coordinator responsible for directing the operation of Ontario's electricity system;
- the Electrical Safety Authority ("ESA"), which carries out the electrical equipment and electrical wiring installation inspection functions; and
- OEFC, responsible for managing Ontario Hydro's outstanding debt and other obligations until they are retired.

Industry Restructuring

The restructuring of Ontario's electricity industry is being accomplished in two stages. The first stage, the Transition Period, began on April 1, 1999, with the successor entities to Ontario Hydro commencing operations and will end with the opening of access to the electricity transmission and distribution systems in Ontario. The second stage, Open Access, is scheduled to begin over the coming months. The Ontario electricity industry will

continue to operate during the Transition Period generally as it has in the past from the perspective of the customers. After Open Access, there will be significant changes in the way the industry operates. All consumers will have access to the electricity supplier of their choice. Ontario's electricity generators will compete with generators and suppliers from both within and outside Ontario to sell electricity in the Ontario wholesale market.

During the Transition Period, the average electricity prices charged to customers remain fixed and customers are billed on a bundled basis. The Corporation receives the bundled payments and distributes the funds to the successor entities of Ontario Hydro under the terms of revenue allocation arrangements. The revenue allocation arrangements provide relatively fixed amounts to the other successor businesses. The revenue allocation arrangements were designed so the undistributed balance of funds would provide the Corporation with planned revenue of 4¢/kilowatt-hour (kWh) based on forecast energy demand and customer mix, together with a fixed amount for ancillary services provided during the year. Changes in forecast demand and customer mix will vary the Corporation's actual revenue per kWh.

In order to ensure an orderly and gradual transition to a competitive electricity industry after Open Access, the Province has adopted a framework for market power mitigation designed to address issues regarding the Corporation's market position in Ontario. Under this framework, the Corporation must reduce its control over specified sources of electricity generating capacity. The Corporation must relinquish effective control of at least 4,000 MW of fossil-fueled generating capacity within 42 months of Open Access, with the option of substituting up to 1,000 MW of hydroelectric generating capacity for an equal amount of fossil-fueled generating capacity.

Financial Highlights

	PRO FORMA YEAR ENDED		
	APRIL 1 TO DECEMBER 31 1999	1999	1998
<i>(millions of dollars except as noted)</i>			
Revenues	4,339	5,796	5,585
Operating income	750	1,011	1,211
Net income	326	446	813
Electricity sales volume (TWh)	102.0	136.9	131.7

Within 10 years of Open Access, the Corporation must reduce its effective control over the generation capacity available to the province to no more than 35 per cent. In addition, under an average annual price cap mechanism that is scheduled to be applicable for the first 48 months after Open Access, the Corporation will have to pay rebates to the IMO on approximately 105 TWh per year of its expected energy sales in Ontario if the average annual spot market price for wholesale electricity exceeds 3.8¢/kWh.

Financial Highlights

Since commencing operations on April 1, 1999, the Corporation earned a net income of \$326 million based on revenues of \$4,339 million. Total volume of electricity sales in the Ontario and interconnected markets during the nine months ended December 31, 1999, was 102.0 terawatt-hours (TWh).

On a pro forma basis, which reflects the results of operations as if the purchase of net assets had occurred on January 1, 1999, and January 1, 1998, respectively, the net income for 1999 was \$446 million compared with \$813 million in 1998. Although volumes and revenue increased in 1999 over 1998, net income decreased due to the one-time recognition in 1998 of income from a deferred pension asset and an increase in operation, maintenance and administration ("OM&A") expenses in 1999 related to the nuclear recovery program and other initiatives.

Analysis of Operating Results

The following section provides an analysis of the operating results for the Corporation since commencing business on April 1, 1999, and a discussion of operating results for 1999 compared with 1998 on a pro forma basis.

The financial position, results of operations and cash flows presented in the Corporation's Consolidated Financial Statements as at dates and for periods prior to April 1, 1999, represent all assets, liabilities, rights and obligations of Ontario Hydro pertaining to the Acquired Business now conducted by the Corporation. These financial statements have been prepared through specific identification of assets, liabilities (other than debt), revenues and expenses relating to the Acquired Business, and through an allocation of certain common financial statement accounts and items of Ontario Hydro. In particular, a portion of Ontario Hydro's revenues and debt, and a corresponding portion of related interest and other financial expenses, have been allocated to the Acquired Business.

Operating Results for Nine Months

Ended December 31, 1999

<i>(millions of dollars)</i>		NINE MONTHS ENDED DECEMBER 31, 1999
Revenues		4,339
Operating expenses		
Operation, maintenance and administration		1,791
Fuel		816
Power purchased		153
Depreciation and amortization		573
Property and capital taxes		256
		3,589
Operating income		750
Interest expense		135
Income taxes		289
Net income		326

Revenues

Revenues consist of energy sales in Ontario and interconnected markets and non-energy revenues. Total revenues for the nine-month period ended December 31, 1999, were \$4,339 million.

Ontario energy revenues are earned from the generation and sale of electricity to the wholesale market. Customers in Ontario include 237 municipal electric utilities ("MEUs") that in turn serve more than 3 million customers, 101 large direct industrial customers and Hydro One, which serves a further 930,000 customers. Ontario energy revenues amounted to \$4,044 million for the nine-month period based on electricity sales of 97.9 TWh. The Corporation earned 4.05¢/kWh, an increase over the planned revenue of 4¢/kWh for energy delivered to Ontario customers as a result of changes in forecast demand and customer mix.

Revenues to interconnected markets totaled \$212 million during the nine months ended December 31, 1999, based on sales of 4.1 TWh. The average sales price during the nine-month period was 5.17¢/kWh.

Non-energy revenues totaled \$83 million. This included

sales of engineering and technical expertise (\$41 million), heavy water and by-product sales such as flyash, cobalt and other nuclear isotopes (\$15 million), and the sale of services to the other successor entities to Ontario Hydro in respect of facility and space management, information technology and other support services (\$27 million).

Operating Expenses

OM&A expenses consist of labour, materials and administrative support. OM&A expenses were \$1,791 million for the nine months ended December 31, 1999. The expenses included base operating programs for the day-to-day operation of the generating facilities (\$1,056 million), programs to manage outages within nuclear generation (\$92 million) and improvement projects that represent incremental expenditures to repair or improve various operations within the generating stations (\$277 million). Corporate and administrative costs of \$367 million reflected a number of functional programs required for managing the Corporation's operations as well as a variety of business services on behalf of the generating plants that are managed centrally.

Fuel comprises the costs for coal, uranium, oil, water rental payments and a provision for used nuclear fuel disposal based on actual fuel consumed. Total fuel costs, for the nine months ended December 31, 1999, were \$816 million.

Power purchase costs represent electricity purchases from interconnected markets. During the nine months ended December 31, 1999, \$153 million of power was purchased from interconnected utilities. These purchases supported both Ontario sales and those to other interconnected markets.

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 waste from waste produced during the period. The depreciation and amortization expense related to these items was \$408 million for the nine months ended December 31, 1999. The depreciation and amortization expense also includes revalorization, a charge that reflects the effect of inflation on cost estimates and the time value of money effect on future obligations when provisions for future fixed asset removal and used nuclear waste disposal costs are updated each year in the balance sheet to reflect the

net present value of the liability. The revalorization charge is offset by a revalorization credit that reflects the growth of segregated funds set aside to discharge these obligations. The revalorization charge is sensitive to movements in both interest and escalation rates. The revalorization charge for the nine months ended December 31, 1999, was \$165 million.

The Corporation is required to make payments in lieu of property and school taxes on its generating assets representing the amount it would be required to pay if the assets were privately owned. These property taxes and the actual capital taxes amounted to \$256 million for the nine months ended December 31, 1999.

Interest Expense

Interest expense represents interest and other financing costs associated with the Corporation's debt. Interest charged to operations represents the gross interest costs reduced by capitalized interest and interest earned on short-term investments. Interest expense for the nine months ended December 31, 1999, was \$135 million. The interest expense was offset by interest earned of \$10 million and interest capitalized of \$11 million.

Income Taxes

The Corporation is currently exempt from taxation under the *Income Tax Act* (Canada) and *Corporations Tax Act* (Ontario). However, the Corporation is required to make payments to OEFC in lieu of federal and provincial income taxes. These payments are calculated in accordance with the rules and other related provisions contained in the federal and provincial tax legislation and the regulations made under the *Electricity Act, 1998*. The income tax expense amounted to \$289 million for the nine months ended December 31, 1999.

Pro Forma Operating Results for the Years Ended December 31, 1999 and 1998

A summary of the pro forma statements of income for the years ended December 31, 1999 and 1998, as disclosed in Note 17 of the Consolidated Financial Statements, is presented on the following page. The historical results prior to April 1, 1999, have been restated to reflect the acquisition-related adjustments including the allocation of the acquisition price to the assets and liabilities of the generation business of Ontario Hydro.

The Corporation believes that the historical results

of operations and financial position as at dates and for the periods prior to April 1, 1999, as reflected in the Consolidated Financial Statements, would have been different if the Corporation had operated as a stand-alone corporation with its own management and capital structure, rather than a business unit of Ontario Hydro. These financial results relate to operations in a different business environment from that which began on April 1, 1999, including a significantly modified regulatory system and a new capital structure.

To enhance comparability between reporting periods, the pro forma statements of income have been prepared for the years ended December 31, 1999, and December 31, 1998. These pro forma statements of income reflect the purchase of the Acquired Business as if the purchase of net assets had occurred on January 1, 1999, and January 1, 1998. The pro forma results are not necessarily indicative of the results that would have occurred had the transactions occurred on the relevant dates because of the significant changes in the regulatory

environment, financing and other factors. As well, the pro forma results may not be fully indicative of the Corporation's future financial performance.

Some of the more significant effects of the purchase that occurred on April 1, 1999, included the following:

- Revenues for electricity sales in Ontario were reduced to reflect the revenue allocation arrangements for the Transition Period.
- The method of accounting for the acquisition of the Acquired Business, which resulted in recording assets and liabilities at fair value, has resulted in a significant change in values of the assets and liabilities.
- There is a large reduction in operating expenses due to lower depreciation and amortization arising from a significantly reduced fixed asset valuation.
- Interest expense is considerably lower due to the significant reduction in debt financing.
- The Corporation will bear an income and capital tax burden that the previous business, operating in a rate-regulated environment, did not incur.

	PRO FORMA (unaudited)	
	1999	1998
(millions of dollars)		
Revenues	5,796	5,585
Operating expenses		
Operation, maintenance and administration	2,365	2,086
Fuel	1,116	1,031
Power purchased	198	175
Depreciation and amortization	765	734
Property and capital taxes	341	348
	4,785	4,374
Operating income	1,011	1,211
Interest expense	180	196
Income from deferred pension asset	—	(487)
Income taxes	385	689
Net income	446	813

Net Income

The pro forma net income for 1999 was \$446 million compared with \$813 million in 1998. The decrease in earnings from 1998 was primarily due to income from a deferred pension asset that was recognized in 1998 as a result of a change in legislation and an increase in OM&A expenses in 1999 related to the nuclear recovery program and other initiatives.

Revenues

Total revenues for 1999 were \$5,796 million compared with \$5,585 million in 1998, an increase of \$211 million. Of the total, Ontario revenues were \$5,446 million (1998: \$5,248 million), interconnected market revenues were \$233 million (1998: \$148 million) and non-energy revenues amounted to \$117 million (1998: \$189 million).

Ontario revenues in 1999 were \$5,446 million compared with \$5,248 million in 1998, an increase of \$198 million. The increase in revenues was due to a higher volume of electricity sales (\$150 million) and a slightly higher average revenue rate related to changes in forecast demand and customer mix in 1999 (\$48 million). Total sales of electricity in Ontario of 132.4 TWh increased by 3.7 TWh over 1998 due primarily to the warmer than normal weather in the summer of 1999, which resulted in a higher electricity demand for air conditioning, and generally a healthier economic climate. The average price was 4.04¢/kWh compared with the planned revenue of 4¢/kWh.

Revenues to interconnected markets were \$233 million in 1999 compared with \$148 million in 1998, an increase of \$85 million. The increase in interconnected revenue was due to higher interconnected sales volumes (\$76 million) and slightly higher prices (\$9 million). The interconnected sales volumes in 1999 were 4.5 TWh, an increase of 1.5 TWh over 1998. The increase in sales volumes was due primarily to warmer than normal weather and supply shortages in these markets. The average sales price in 1999 was 5.18¢/kWh compared with 4.93¢/kWh in 1998.

Non-energy revenues for 1999 were \$117 million compared with \$189 million in 1998, a decrease of \$72 million. The decrease was due primarily to a reduction in external engineering service revenues (\$60 million) since technical expertise was required in-house on a number of improvement initiatives and strategic projects such as the restart of the Pickering A Nuclear Generating Station. In addition, there were significant heavy water

sales in 1998 that were not repeated in 1999 given reduced market conditions (\$22 million).

Operating Expenses

OM&A costs in 1999 were \$2,365 million compared with \$2,086 million in 1998, an increase of \$279 million. The increase was due primarily to higher expenditures related to the nuclear outages and the nuclear recovery program (\$90 million), higher project-related costs (\$145 million) which include the Pickering A restart, an increase in employee costs related to bonus, gainsharing and salary increases (\$100 million), higher operating and maintenance costs related to a 6 per cent increase in generating activity for fossil-fueled operations (\$15 million) and the establishment of a commercial operations function in preparation for Open Access (\$12 million). Offsetting these increases was a reduction in OM&A expenses due to lower legal claims (\$110 million).

Fuel costs during 1999 were \$1,116 million compared with \$1,031 million in 1998, an increase of \$85 million. The increase in costs was due to higher power generation in nuclear (1.5 TWh), fossil-fueled (1.9 TWh) and hydroelectric (1.7 TWh) facilities.

Power purchase costs represent electricity purchases from interconnected markets. Purchased power costs in 1999 were \$198 million compared with \$175 million in 1998, an increase of \$23 million. The volume of power purchases was relatively constant for the two years. Escalating prices (\$17 million) were the primary cause of the increase in 1999.

Depreciation and amortization charged to operations in 1999 was \$765 million compared with \$734 million in 1998, an increase of \$31 million. The increase was due to a higher fixed asset base in 1999 resulting from asset additions. The revalorization charge was relatively constant at \$223 million in 1999 compared with \$222 million in 1998.

Property and capital taxes in 1999 remained relatively unchanged at \$341 million compared with \$348 million in 1998.

Interest Expense

Interest expense in 1999 was \$180 million compared with \$196 million in 1998, a decrease of \$16 million. Higher investment income on short term investments accounted for most of the decrease in interest expense.

Income from Deferred Pension Asset

The income from deferred pension asset for the year

ended December 31, 1998, was based on an actuarial determination of Ontario Hydro's deferred pension asset. As a result of changes in legislation that allowed the Corporation to recognize the surplus in the pension fund, the deferred pension asset was adjusted with a corresponding credit to operations. The total amount that was recognized in the operating statement for Ontario Hydro for the year ended December 31, 1998, was \$887 million. The amount of \$487 million represents the proportion applicable to the Acquired Business based on the actual number of employees and retirees out of the total number of employees and retirees of Ontario Hydro.

Income Taxes

Income tax expense was \$385 million in 1999 compared with \$689 million in 1998. The decrease in the income tax expense in 1999 was due primarily to lower pre-tax earnings in 1999, in part related to the deferred pension asset income effect.

Nuclear Waste Management and Asset Removal

Liability for Nuclear Waste Management and Asset Removal

The Corporation's nuclear facilities commenced production in the early 1970s. In the initial years, Ontario Hydro made no provisions in its accounts to reflect the estimated future costs of its nuclear waste management and asset removal costs. Commencing in 1982, Ontario Hydro began collecting provisions through its rates in amounts that, together with interest accumulated on provision balances, were calculated to cover all such future liabilities. The funds collected from customers with respect to these provisions totaled \$2,344 million as at December 31, 1998. These funds were not placed in a segregated fund, but were used for general corporate purposes and therefore reduced Ontario Hydro's borrowing requirements.

Effective April 1, 1999, as a result of the purchase, the Corporation recognized a liability equal to the total present value of the costs of dismantling the nuclear and fossil-fueled production facilities at the end of their useful lives, the fixed-cost portion of any nuclear waste management programs and the variable-cost portion of any nuclear waste management program to account for

actual waste volumes incurred up to April 1, 1999. At December 31, 1999, the liability for nuclear waste management and asset removal was \$6,715 million (nuclear \$6,591 million; non-nuclear \$124 million).

On April 1, 1999, the Province agreed that the Province or its agent would fund certain nuclear waste management and asset removal liabilities that were incurred prior to April 1, 1999. The particulars of which liabilities are to be funded are currently under discussion with the Province. The balance of the provincial contribution of \$2,480 million represents the Province's liability of \$2,378 million as at April 1, 1999, as well as interest in the amount of \$102 million accrued during the nine months ended December 31, 1999, based on a rate of 5.75%. The interest rate is still under negotiation with the Province and is subject to change. The impact of the finalization of the interest rate for 1999 is not expected to result in a material difference to the liability balance.

Segregated Funds

The Corporation is contributing to segregated funds to provide for or discharge the remaining unfunded nuclear liabilities. It is the Corporation's intent that these funds be held outside of the Corporation and be used solely for nuclear waste remediation and nuclear fixed asset removal. Until such time as the legal nature of the segregated funds can be established, the Corporation has set these funds aside internally and is managing their investment and growth distinct from its other cash holdings. These funds amount to \$367 million at December 31, 1999.

Nuclear Risk Sharing

The Corporation and senior staff at the Ontario Ministry of Finance have reached an understanding on key principles for the development of a nuclear risk-sharing agreement. In order to implement these principles, it will be necessary to successfully negotiate a definitive agreement and obtain the necessary authorizations from the Province, including any necessary Orders in Council. The Province or its agent would provide a risk-sharing cap on certain nuclear waste management costs in the event that the estimated present value of these costs were to exceed certain thresholds. Execution of this agreement would effectively limit the Corporation's exposure to significant increases in the estimated present value costs of nuclear waste management.

Waste Management Organization

As a future risk mitigation measure, the Corporation has held discussions with both the Province and the federal government regarding the establishment of a Waste Management Organization ("WMO") to manage all future operating expenditures for the life cycle management of nuclear waste. The WMO would have participation from nuclear waste producers across Canada and operate separately from the Corporation. The WMO would receive operating capital in part from the segregated funds set aside by the Corporation. Operation of the WMO outside of the Corporation would have the benefits of centralization of technical and management skills, would aid in the development of Canada-wide solutions to nuclear waste issues and would be in line with corporate structures adopted across the world for management of radioactive wastes.

Nuclear Recovery Program

A comprehensive nuclear recovery plan was developed in the fall of 1997 by Ontario Hydro. The nuclear recovery plan is designed to improve the operating performance of the nuclear generating stations. Planned expenditures are approximately \$1,700 million on the nuclear recovery plan over the period from 1997 to 2004. Spending on the nuclear recovery program was \$308 million during the 1999 year and \$238 million in 1998. The planned expenditures on these projects are projected to total \$334 million in 2000. The projects within the nuclear recovery program include standardizing operations and implementing initiatives to improve accountability, management and operational control systems, maintenance and inspection programs, regulatory compliance, performance standards and employee training.

Under the nuclear recovery plan, the Pickering A Nuclear Generating Station was placed in short term lay-up on December 31, 1997, and the Bruce A Nuclear Generating Station was placed in longer-term lay-up on March 31, 1998. This allowed the Corporation to focus its initial recovery efforts on the remaining 12 nuclear generating units of Darlington, Pickering B and Bruce B.

With the staffing, planning and execution of the recovery program well under way, attention is now focused on returning Pickering A to service. The current plans call for the return to service of the four Pickering A units at approximately six-month intervals commencing in the fourth quarter of 2001. The Corporation has been

advised by the staff of the Atomic Energy Control Board ("AECB") that an environmental assessment is required before the AECB will allow a restart at Pickering A. The Corporation anticipates the review procedure to be completed by the end of 2000.

Liquidity and Capital Resources

The Corporation's primary sources of liquidity are funds generated from operations and a short term credit facility with certain Canadian chartered banks. Sufficient cash was generated from operations in 1999 to finance working capital requirements and investment in fixed assets. In the future, the Corporation expects to seek external sources of capital such as debt capital market borrowings to obtain funds required to carry out its capital program and refinance its existing debt.

The Corporation has arranged 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 became effective on September 1, 1999. Prior to September 1, 1999, the Corporation had negotiated a temporary credit agreement with the OEFC whereby it could borrow from OEFC on substantially the same financial terms and conditions as those in the Bank Credit Agreement.

The Corporation's debt of \$3,430 million, issued as part of the April 1, 1999, transaction, consists of \$2,650 million of senior notes due in the years 2001 to 2009, \$750 million of subordinated notes due in the years 2010 and 2011 and a \$30 million capital lease obligation. Certain covenants applicable to public debt issued by the Corporation in the future will automatically become applicable to the notes.

Cash provided from operations during the nine months ended December 31, 1999, amounted to \$549 million. This cash, together with the opening cash position of \$146 million at April 1, 1999, financed investments in fixed assets of \$450 million and dividend payments of \$35 million.

The Corporation invests in fixed assets to improve operating efficiencies, increase generating capacity and maintain service, reliability, safety and environmental

performance. The investment in fixed assets of \$450 million for the nine months ended December 31, 1999, compared with \$38 million in the first quarter of 1999 and \$486 million during the year ended December 31, 1998.

The Corporation's planned capital expenditures for 2000 are \$650 million. This amount includes sustaining capital expenditures to support the continued operations of current generating capacity and capital expenditures to expand generating capacity. Sustaining capital for nuclear operations represents approximately two-thirds of the expected capital spending in 2000. Capital expenditures designed to increase generating capacity include amounts to prepare for the restart of Pickering A station.

Risk Management

Overview

The Corporation's risk management activities involve identifying, assessing and controlling the risk of loss. The Board of Directors approves all risk management policies prior to implementation. The Corporation annually undertakes an assessment of its risk exposures in order to characterize such exposures and the effects of risk management activities, including avoidance, reduction, transfer and substitution. Executive management and the Board of Directors review the Corporation's residual exposure to ensure it is consistent with overall strategy and corporate risk tolerance levels.

Industry Restructuring

Elements of the restructuring of Ontario's electricity industry are still in a state of transition. The Province is developing regulations and the IMO is developing Market Rules that will govern the competitive wholesale and retail electricity markets. In addition, the Minister of Energy, Science and Technology, the Minister of Finance and the Ontario Energy Board ("OEB") are continuing to assess and develop policy positions on various matters that could significantly affect the Corporation, including transmission tariff design, the competition transition charge, new inter-tie capacity and congestion pricing structures.

Nuclear Recovery Program

An important element underlying the Corporation's commercial and financial success over the next five years is improved nuclear performance. The Corporation's expectation of improving financial performance is

dependent on increasing production of low-cost nuclear energy to compete in Ontario and the interconnected markets. This includes the return to service of the Pickering A Nuclear Generating Station. The successful implementation of the nuclear recovery program will depend on many factors, including the discovery of any unanticipated deficiencies or greater than anticipated deterioration to its nuclear generating assets, material changes to the current regulatory structure governing nuclear generation, the ability to hire and retain qualified personnel, the ability to increase productivity and the ability to implement management and 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

The Corporation is committed to meeting all applicable environmental legislative requirements and voluntary environmental commitments. The Corporation's environmental policy involves pollution prevention, continuous environmental improvement, reduction of resource use and efficiency improvements. The Corporation routinely undertakes environmental compliance audits.

The Corporation has set and achieved an international standard for environmental management systems. All of the Corporation's nuclear and fossil-fueled stations and its major hydroelectric station groups have been ISO 14001 registered. Registration 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. Regulatory requirements and terms and conditions issued through environmental legislation, regulations, orders, certificates of approval and permits are managed through the Corporation's environmental management systems.

Financial Market Risks

The Corporation's exposure to interest rates is limited by the fixed rates on its long-term debt. Interest rate risk will arise with the need to undertake new financing and with the addition of any variable rate debt. The management of these risks will be undertaken by selectively hedging in accordance with corporate risk management policies.

To the extent practical and economical, the interest rates for future financing requirements may be hedged using derivative instruments. The Corporation's foreign exchange risk exposure is attributable primarily to U.S. dollar denominated transactions such as the purchase of fossil fuel and the purchase and sale of electricity in the U.S. The Corporation manages this exposure by periodically hedging its U.S. dollar cash flows according to approved risk management policies. The Corporation manages counterparty credit risk by monitoring and limiting its exposure to counterparties with lower credit ratings, by 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.

Year 2000 Readiness

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The Corporation completed a significant program that upgraded or replaced affected systems on which it and its customers depend, prior to the year 2000. With the change in date, there have been no system failures affecting the Corporation's ability to conduct normal business operations and financial reporting. In addition, there have been no such system failures with the passing of the February 29, 2000, date. Although the changes in dates have occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Corporation, including those related to customers, suppliers or other third parties, have been fully resolved.

Market Outlook

The Corporation's vision is to be a premier North American energy company, building on its strengths in low-cost generation and wholesale energy sales. The Corporation's initial focus will be primarily in Ontario's electricity marketplace, supplying electricity to wholesale and other large customers. Over time, the Corporation plans to selectively expand into regional markets, particularly in the U.S. northeast and midwest,

and will consider other growth opportunities.

In the short term, the Corporation will concentrate on increasing productive capacity and improving the competitiveness of its generation assets, in particular through its nuclear recovery program. As well, the Corporation will focus on identifying and developing the market capabilities necessary to maximize customer relationships and enhance the products and services it provides, as well as expanding the markets for its energy and related products and services. Over the medium to longer term, the Corporation will explore opportunities to purchase generation assets or output or enter into other business ventures in the regional market or elsewhere. The Corporation will also explore regional marketing alliances, convergence opportunities and public-private partnerships.

The Corporation's ability to compete in the U.S. interconnected markets will depend upon numerous factors, including the pace of regulatory restructuring, the level of access to these markets (e.g., Federal Energy Regulatory Commission licences), limitations imposed by interconnection transmission capacity, the applicability of environmental and other regulations, electricity transmission costs and the price of electricity in these markets.

Open Access and the Wholesale Market

Open Access, scheduled to begin over the coming months, will result in significant changes in the way the industry operates that will have major impacts on the Corporation. All Ontario electricity consumers will have access to the electricity supplier of their choice. Ontario's electricity generators will compete with generators and suppliers from both within and outside Ontario to sell electricity in the Ontario wholesale market. Wholesale market participants will buy and sell electricity either through the IMO-administered spot market or through bilateral contracts, which represent agreements between two market participants to buy and sell electricity. The IMO will dispatch generators based on their bids for each hour and the amount of demand in the market. The selling price of electricity for a time period will be determined by the last bid accepted by the IMO to satisfy demand in that time period.

The Corporation is subject to an average annual price cap mechanism on approximately 105 TWh per year of its expected energy sales in Ontario for the first 48 months after Open Access. OPG will be required to pay rebates to the IMO, for rebate to its customers, if the

average annual spot market price for wholesale electricity exceeds 3.8¢/kWh. Hence, the Corporation will focus on competitively supplying electricity to wholesale and other large customers in Ontario and selectively expanding its activities in the U.S. and other interconnected markets.

The Corporation expects competitive pressures in the Ontario market to come from generation by independent power producers in Ontario, self-generation by wholesale customers, imports of electricity from the interconnected markets and aggregators, brokers and marketers that offer new products and services. An important aspect of the marketplace is the extent to which new generation is built in Ontario. At expected price levels and existing technological capabilities, it is unlikely that significant additional generating capacity will be constructed before 2002. The extent to which generating capacity is constructed thereafter 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 regulatory developments.

Market Power Mitigation

The Corporation expects to meet its decontrol commitments through asset sales, asset or energy swaps or other arrangements. While the market power mitigation framework effectively will reduce the company's share of generating capacity available to the Ontario market, it does allow for the Corporation to grow its business through export sales and energy trading arrangements.

The Corporation commenced its decontrol process in September 1999 by starting a process to seek private investors for its nuclear facilities, focusing specifically on the 6,200 MW Bruce Nuclear Power Development site in southwestern Ontario. In response to a request from the Province to accelerate the schedule for decontrol, the Corporation has announced it is developing plans for accelerated decontrol of a total of approximately 4,000 MW of predominantly fossil-fueled generating capacity, including its fossil-fueled 2,140 MW Lennox Generating Station and 1,140 MW Lakeview Generating Station. The Corporation's goal is to meet the objective of decontrolling 4,000 MW as close as possible to the market's scheduled opening in November 2000.

Information Technology Initiative

The Corporation is forming new partnerships in key

business areas with the support of its unions. In the information technology area, the Corporation is currently in discussions with major information technology companies to transfer employees, data centres and equipment to a third party company that will provide information technology services to the Corporation and to other energy companies.

Ontario Power Technologies

In the area of research and development, Ontario Power Technologies, the technical innovation and development division of the Corporation, is forming a joint venture with AEA Technology of the United Kingdom, Sciencetech of the U.S., and CANATOM NPM Inc. in Canada. Upon closing the transaction, the three new partners will have a 10 per cent cumulative stake in Ontario Power Technologies and options on a further 40 per cent. The partners bring considerable marketing and technology development capabilities to the venture.

Labour Relations

The Corporation strives to create and maintain strong relationships with its two large labour unions, and to that effect, the Corporation has struck a partnership agreement with both groups to foster a collaborative relationship. This partnership approach will be important to the decontrol process as the Corporation seeks to ensure it maximizes value to the shareholder and protects the interests of employees.

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 accounting principles generally accepted in Canada. Ontario Power Generation Inc. chooses accounting principles appropriate to the circumstances. The significant accounting policies followed by Ontario Power Generation Inc. are described in the summary of significant accounting policies contained in Note 3 to the consolidated financial statements. 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 March 21, 2000.

Management maintained a system of internal controls designed to provide reasonable assurance that the assets were safeguarded and that reliable financial information was available on a timely basis. The system included formal policies and procedures and an organizational structure that provided for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluated the effectiveness of these internal controls on an ongoing basis and reported its findings to management and the Audit Committee of the Ontario Power Generation Inc. Board of Directors.

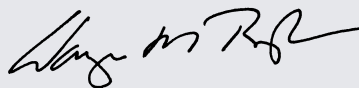
The consolidated financial statements have been examined by Ernst & Young LLP, independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with accounting principles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

For the nine months ended December 31, 1999, the Ontario Power Generation Inc. Board of Directors, through the Audit Committee, was responsible for ensuring that management fulfilled its responsibilities for financial reporting and internal controls. The Audit Committee met periodically with management, the internal auditors and the external auditors to satisfy itself that each group had 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.

March 21, 2000



RONALD W. OSBORNE
*President and
Chief Executive Officer*



WAYNE M. BINGHAM
*Executive Vice President and
Chief Financial Officer*

Auditors' Report

To the Shareholder of Ontario Power Generation Inc.:

We have audited the consolidated balance sheet of Ontario Power Generation Inc. (the "Corporation") as at December 31, 1999, the consolidated statements of income (loss), retained earnings (deficit of assets over liabilities) and cash flows of the Corporation for the nine months ended December 31, 1999, the consolidated balance sheet of the electricity generating business of Ontario Hydro (the "Acquired Business") as at December 31, 1998 and the consolidated statements of income (loss), retained earnings (deficit of assets over liabilities) and cash flows of the Acquired Business for the three months ended March 31, 1999 and the year ended December 31, 1998. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at December 31, 1999, the consolidated financial position of the Acquired Business as at December 31, 1998, the consolidated results of the operations and cash flows of the Corporation for the nine months ended December 31, 1999 and the consolidated results of operations and cash flows of the Acquired Business for the three months ended March 31, 1999 and the year ended December 31, 1998 in accordance with accounting principles generally accepted in Canada.



CHARTERED ACCOUNTANTS

Toronto, Canada

March 21, 2000

Consolidated Statements of Income (loss)

	ACQUIRED BUSINESS (Notes 1 and 3)		
	APRIL 1 TO DECEMBER 31 1999	JANUARY 1 TO MARCH 31 1999	YEAR ENDED DECEMBER 31 1998
<i>(millions of dollars except earnings per share)</i>			
Revenues	4,339	1,784	6,592
Operating expenses			
Operation, maintenance and administration	1,791	558	2,241
Fuel	816	335	1,148
Power purchased	153	45	175
Depreciation and amortization (notes 6 and 7)	573	385	1,441
Property and capital taxes	256	—	—
	3,589	1,323	5,005
Operating income	750	461	1,587
Interest expense	135	560	2,301
Income from deferred pension asset	—	—	(655)
Income (loss) before income taxes	615	(99)	(59)
Income taxes (note 4)	289	—	—
Net income (loss)	326	(99)	(59)
Earnings per common share	1.27		
Common shares outstanding (millions)	256.3		

See accompanying notes to financial statements

Consolidated Statements of Retained Earnings (deficit of assets over liabilities)

	ACQUIRED BUSINESS (Notes 1 and 3)		
	APRIL 1 TO DECEMBER 31 1999	JANUARY 1 TO MARCH 31 1999	YEAR ENDED DECEMBER 31 1998
<i>(millions of dollars)</i>			
Retained earnings (deficit of assets over liabilities),			
beginning of period (note 1)	—	(442)	(39)
Net income (loss)	326	(99)	(59)
Change in accounting for post employment benefits	—	—	(344)
Dividends	(35)	—	—
Retained earnings (deficit of assets over liabilities),	291	(541)	(442)
end of period			

See accompanying notes to financial statements

Consolidated Balance Sheets

(millions of dollars)	ACQUIRED BUSINESS (Notes 1 and 3)	
	DECEMBER 31 1999	DECEMBER 31 1998
Assets		
Current assets		
Cash and cash equivalents (note 5)	243	123
Accounts receivable	907	638
Income taxes recoverable (note 4)	23	—
Fuel	424	455
Materials and supplies	201	295
	1,798	1,511
Fixed assets (note 6)		
Property, plant and equipment	13,285	39,016
Less: accumulated depreciation	383	12,166
	12,902	26,850
Other assets		
Deferred pension asset (note 16)	516	723
Nuclear waste management and asset removal fund (note 7)	367	—
Long term accounts receivable and other assets	27	62
Deferred debt costs	—	978
	910	1,763
	15,610	30,124

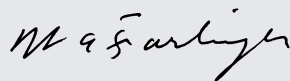
See accompanying notes to financial statements

(millions of dollars)	ACQUIRED BUSINESS (Notes 1 and 3)	
	DECEMBER 31 1999	DECEMBER 31 1998
Liabilities		
Current liabilities		
Accounts payable and accrued charges	1,086	936
Accrued interest	59	540
Long term debt due within one year (note 8)	4	1,940
Short term notes payable	—	2,231
	1,149	5,647
Long term debt (note 8)	3,422	20,311
Other liabilities		
Nuclear waste management and asset removal (note 7)	4,235	3,201
Other post employment benefits (note 16)	959	1,037
Long term accounts payable and accrued charges	245	370
Deferred income taxes payable (note 4)	75	—
Other	108	—
	5,622	4,608
Shareholder's equity (Deficiency)		
Common shares (note 10)	5,126	—
Retained earnings (deficit of assets over liabilities)	291	(442)
	5,417	(442)
	15,610	30,124

Contingencies and Commitments (notes 7 and 15)

See accompanying notes to financial statements

On behalf of the Board of Directors,
March 21, 2000:



W. A. FARLINGER
Chairman
Toronto, Canada



RONALD W. OSBORNE
President and Chief Executive Officer
Toronto, Canada

Consolidated Statements of Cash Flows

(millions of dollars)	ACQUIRED BUSINESS (Notes 1 and 3)		
	APRIL 1 TO DECEMBER 31 1999	JANUARY 1 TO MARCH 31 1999	YEAR ENDED DECEMBER 31 1998
Operating activities			
Net income (loss)	326	(99)	(59)
Adjust for non-cash items:			
Depreciation and amortization	573	385	1,441
Deferred pension asset	39	5	(655)
Deferred income taxes	75	—	—
Amortization of foreign exchange gains	—	20	90
Other	(7)	(24)	12
	1,006	287	829
Nuclear waste management and asset removal	(361)	23	52
Non-cash working capital changes (note 13)	(96)	188	134
Cash flow from operating activities	549	498	1,015
Investing activities			
Additions to fixed assets	(450)	(38)	(486)
Other assets	—	3	(60)
Proceeds from sale of fixed assets	33	—	7
	(417)	(35)	(539)
Cash flow before financing activities	132	463	476
Financing activities			
Cash from acquired business (note 1)	146	—	—
Dividends	(35)	—	—
Net other financing activities	—	(440)	(316)
	111	(440)	(316)
Increase in cash and cash equivalents during period	243	23	160
Cash and cash equivalents, beginning of period (note 1)	—	123	(37)
Cash and cash equivalents, end of period	243	146	123

See accompanying notes to financial statements

Notes to the Consolidated Financial Statements

1. Incorporation, Acquisition of Business and Commencement of Operations

Ontario Power Generation Inc. (the "Corporation") 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, the Corporation 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.

In connection with the reorganization of Ontario Hydro, four other successor entities were created in addition to Ontario Power Generation Inc. Hydro One and its subsidiaries is the successor company to Ontario Hydro's electricity transmission, distribution and energy services businesses. Other successor corporations to Ontario Hydro include the Independent Electricity Market Operator ("IMO"), which is responsible for directing the operations and reviewing the reliability of the Ontario electricity market, and the Electrical Safety Authority ("ESA"), which has the responsibility for electrical equipment and wiring installation inspection functions. Ontario Hydro has continued as Ontario Electricity Financial Corporation ("OEFC"), responsible for managing and retiring Ontario Hydro's outstanding debt and other obligations.

In consideration of the transfer of assets, liabilities, officers, employees, rights and obligations of the electricity generation business of Ontario Hydro, the Corporation issued to OEFC notes payable in the aggregate principal amount of \$8,526 million, including a note in the principal amount of \$5,126 million (the "Equity Note") and assumed a capital lease obligation of Ontario Hydro in the amount of \$30 million on April 1, 1999. The Province has assumed all of the Corporation's obligations under the Equity Note and OEFC has released the Corporation from its obligations thereunder and in connection therewith the Corporation issued to the Province 256,300,000 common shares as fully paid and non-assessable shares. OEFC has agreed that without the consent of the Corporation, it will not sell its \$3,400 million of notes of the Corporation. The Corporation's long term debt on April 1, 1999 was \$3,430 million.

The Corporation has recorded the purchase of the Acquired Business at its fair value as of April 1, 1999 as follows:

<i>(millions of dollars)</i>		FAIR VALUE AS AT APRIL 1, 1999
Assets		
Current assets		1,465
Fixed assets		12,872
Other assets		598
		14,935
Liabilities		
Current liabilities		1,073
Liabilities and capital leases		5,336
		6,409
Net assets acquired		8,526

The purchase price of \$8,526 million was determined based on the present value of estimated future operating results and cash flows of the Acquired Business in a deregulated market. The purchase of the Acquired Business from the related party, OEFC, was recorded at the exchange amount of \$8,526 million in view of the substantive change in ownership interests arising from the transaction. The aggregate value of the net assets acquired was allocated to assets and liabilities based on their estimated fair values.

As part of the transfer agreement, the Province agreed to a transition period over which the final adjustments to the purchase price would be settled. The Corporation is in the process of finalizing this adjustment.

The financial position, results of operations and cash flows presented in these financial statements as at dates and for periods prior to April 1, 1999 represent all assets, liabilities, rights and obligations of Ontario Hydro pertaining to the Acquired Business now conducted by the Corporation. These financial statements have been prepared through specific identification of assets, liabilities (other than debt), revenues and expenses relating to such businesses, and through an allocation of certain common financial statement accounts and items of Ontario Hydro. In particular, a portion of Ontario Hydro's revenues and debt, and corresponding portion of related interest and other financial expenses, have been allocated to the Acquired Business. As explained in note 17, the financial position and operating results of the Corporation differ significantly from those of the Acquired Business prior to April 1, 1999 because of changes in the regulatory environment, financing and other factors.

2. Restructuring of the Ontario Electricity Industry

The restructuring of Ontario's electricity industry is being accomplished in two stages. The first stage, called the Transition Period, began on April 1, 1999 with the reorganization of Ontario Hydro and will end with the opening of access to the electricity transmission and distribution systems in Ontario. The second stage, Open Access, is expected to begin over the coming months. With Open Access, customers will have the right to choose their electricity supplier. The transmission and distribution system in Ontario will be open to all users in a competitive marketplace.

Following the reorganization of Ontario Hydro, an amount of debt remained that the successor entities were not expected to service as commercial entities in a competitive market. This debt, referred to as stranded debt, is the liability of OEFC. The Corporation has no obligation relating to, does not guarantee, and is not otherwise responsible for any of this stranded debt. The Province has stated that it intends to dedicate certain of its revenue streams from the restructured electricity industry (e.g. payments in lieu of taxes made by the Corporation, Hydro One and local distribution utilities) to service stranded debt. The Province anticipates that these dedicated revenue streams will service the majority of the stranded debt with the balance likely serviced through a competition transition charge to be reflected in customers' electricity bills.

The Province has adopted a framework for market power mitigation designed to address issues regarding the Corporation's market position in Ontario. Under this framework, the Corporation must reduce its control over specified sources of electricity generating capacity. The Corporation must relinquish effective control of at least 4,000 MW of fossil generating capacity within 42 months of Open Access, with the option of substituting up to 1,000 MW of hydroelectric generating capacity for an equal amount of fossil generating capacity. Within 10 years of Open Access, the Corporation must reduce its effective control over generation supply to a level that is no more than 35% of the Ontario market. In addition, an average annual price cap mechanism is to be applicable for the first 48 months after Open Access.

3. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Corporation are prepared in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities.

Prior to April 1, 1999, Ontario Hydro was governed by the *Power Corporation Act* (Ontario), which provided it with broad power to generate, supply and deliver electricity throughout Ontario. Ontario Hydro's Board of Directors had the authority, for rate setting purposes, to specify that an amount be included in its results of operations for a period that

differed from the period in which it would be recognized under generally accepted accounting principles for enterprises operating in a non-rate regulated environment. In such cases, the accounting treatment was the same as its treatment for rate setting purposes.

Consolidation

The consolidated financial statements include the accounts of Ontario Power Generation Inc. and its subsidiaries. The Corporation 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 one of the nuclear or fossil generating stations. The cost of this replacement parts inventory is charged to operations on a straight line basis over the remaining life of the related facilities.

Fixed Assets and Depreciation

Property, plant and equipment acquired by the Corporation on April 1, 1999 were recorded at fair values. Additions to property, plant and equipment subsequent to April 1, 1999, 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. Assets are depreciated on a straight line basis except for computers and transport and work equipment, which are depreciated on the declining balance basis. Generating stations are depreciated on a straight line basis over estimated service lives ranging from 25 to 100 years. Administration and service facilities are depreciated on a straight line basis over 5 to 50 years. Computers and transport and work equipment assets are depreciated at rates varying between 9% and 40%. Any asset removal costs that have not been specifically provided for in current, or previous periods, are also charged to depreciation expense.

Nuclear Waste Management and Asset Removal

The Corporation 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 the Acquired Business was transferred to the Corporation, 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.

Waste generated after April 1, 1999 will result in an increase to this liability. The Corporation funds this liability based on a pre-determined payment stream. This funding is segregated and used only for nuclear waste management or nuclear fixed asset removal. It is the Corporation's intent that these funds be held outside of the Corporation. Any 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. The revalorization charge is sensitive to movements in interest and escalation rates. Revalorization is disclosed in the financial statements as part of depreciation and amortization.

Prior to April 1, 1999, the Acquired Business recognized decommissioning and nuclear waste liabilities over the expected operating lives of the nuclear and fossil plants or as quantities of waste were produced. As a result, the liability as stated under the Acquired Business was substantially lower than the liability recognized by the Corporation.

Allocation of Debt and Financing Charges

The debt of Ontario Hydro, and related derivative financial instruments used to hedge interest rate and foreign exchange rate risks associated with such debt, was issued or incurred for general purposes and was not specifically identified with particular assets or businesses of Ontario Hydro. In addition, none of Ontario Hydro's debt and related derivatives have been assumed by or transferred to the Corporation as part of the reorganization of Ontario Hydro. As a result, the total debt and related derivatives and debt costs could not be specifically identified and therefore have been notionally allocated to the Acquired Business from Ontario Hydro solely for the purpose of preparing historical financial statements. Financing charges were allocated to the Acquired Business based on the Acquired Business's proportion of total Ontario Hydro debt.

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. During the Transition Period, the average electricity prices charged to customers remain fixed and customers are billed on a bundled basis. The Corporation distributes the funds to the successor entities of Ontario Hydro under the terms of revenue allocation arrangements. The revenue allocation arrangements provide relatively fixed amounts to the other businesses. The revenue allocation arrangements were designed so the undistributed balance of funds would provide the Corporation with planned revenue of 4¢/kWh based on forecasted energy, together with a fixed amount for ancillary services. Changes in forecast demand and customer mix will vary the Corporation's actual revenue per kWh.

Prior to April 1, 1999, the Acquired Business operated in a rate-regulated environment. The electricity rates to customers were established to provide power at cost. The revenues disclosed for periods prior to April 1, 1999 were determined by an internal revenue allocation mechanism used by Ontario Hydro. Wholesale revenues were specifically identified and were based on actual delivered energy to municipal electric utilities and direct industrial customers at contract prices less amounts allocated in respect of transmission and system operation fees. Delivered energy to Hydro One for retail customers was estimated at a negotiated inter business unit rate exclusive of transmission and system operation fees. Transmission and system operation fees payable to Hydro One and the IMO were based on approved budgets. Revenue from interconnected markets are based on actual delivered energy at contract negotiated prices.

Non-energy revenues include earnings from services provided by the Corporation such as project management, engineering analysis and design, construction and field maintenance of power generation facilities and through the sale of various nuclear isotopes and generation by-products. The Corporation uses the percentage of completion method to recognize revenue on fixed price contracts with a defined scope of work. For other contracts, revenue is recognized as services are provided or products are delivered. Price escalation adjustments are recognized when they are established by specific contract terms. Commissions are recognized as earned.

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 income. The Corporation enters into various hedging instruments in order to manage foreign exchange risk.

Income and Other Tax

The Corporation is responsible under the *Electricity Act, 1998* for making payments in lieu of taxes (proxy taxes) to OEFC. These payments are calculated in accordance with the *Income Tax Act* (Canada) and *Corporations Tax Act* (Ontario), and modified by regulations made under the *Electricity Act, 1998*. The Corporation uses the deferral method of recognizing income taxes. Prior to April 1, 1999 the Acquired Business was not required to pay income or capital taxes.

The Corporation is also required to make payments in lieu of property and school taxes on its generating assets. The amount is equal to the difference between the amount it would be required to pay if the assets were privately owned and the amount of such taxes that the Corporation actually pays on those assets.

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 liabilities, for which specific provision has 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

The Corporation's post employment benefit programs include pension, group life insurance, health care, long term disability and workers' compensation benefits.

The Corporation accrues its obligations under pension and other post employment benefit ("OPEB") plans and the related costs, net of plan assets. Pension fund assets are valued using current market values. Pension and OPEB expenses and obligations are determined annually by independent actuaries using management's best estimates.

Pension and OPEB expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions, and experience gains or losses, which are amortized on a straight line basis over the expected average remaining service life of the employees covered by the plan. Pension and OPEB expenses are recorded during the year in which employees render services.

Credit Risk Management

Credit risk is the risk of loss from non-performance by suppliers, customers or financial counter-parties to a contract. The Corporation maintains credit policies with respect to all its counter-parties, which management believes significantly minimizes overall credit risk. These policies include a review of a counter-party's financial condition.

Application Software and Year 2000 Expenditures

Major application software acquisition costs are capitalized when future benefits are reasonably assured. Expenditures incurred to identify and remedy information systems and applications that were not "Year 2000" compliant generally were charged to operations as incurred. When existing assets were replaced with new versions or new systems, the expenditures were capitalized.

4. Income Taxes

The Corporation became obligated to make payments in lieu of taxes on April 1, 1999. There were no income or capital taxes in the periods prior to April 1, 1999 related to the Acquired Business.

A reconciliation between the statutory and the effective rate of income taxes for the nine months ended December 31, 1999 is provided as follows:

<i>(millions of dollars)</i>	APRIL 1 TO DECEMBER 31 1999
Income before income taxes	615
Combined Canadian federal and provincial statutory income tax rates, including surtaxes	44.6%
Statutory income tax rates applied to accounting income	274
Increase (decrease) in income taxes resulting from:	
Large corporation tax in excess of surtax	19
Manufacturing and processing credit	(9)
Other	5
	15
Provision for income taxes	289
The provision for income taxes consists of:	
Current	214
Deferred	75
Provision for income taxes	289
Effective rate of income taxes	47.0%
The sources of timing differences and the computation of the effects on deferred income taxes were:	
Capital cost allowance in excess of depreciation and amortization claimed for book purposes	66
Other items deducted for tax purposes in advance of accounting purposes	9
Deferred income taxes	75

The amount of taxes paid for the nine months ended December 31, 1999 was \$237 million.

5. Cash and Cash Equivalents

Cash and cash equivalents include cash on account and short term investments of \$255 million with maturities of less than three months recorded at cost which approximates current market value.

6. Fixed Assets and Depreciation and Amortization

The depreciation and amortization expense consists of the following:

(millions of dollars)	ACQUIRED BUSINESS		
	APRIL 1 TO DECEMBER 31 1999	JANUARY 1 TO MARCH 31 1999	YEAR ENDED DECEMBER 31 1998
Depreciation and amortization	383	299	1,132
Revalorization	165	45	160
Liability for nuclear waste management and asset removal	20	37	131
Asset removal costs	5	4	18
	573	385	1,441

The fixed assets at period end consist of the following:

(millions of dollars)	ACQUIRED BUSINESS	
	DECEMBER 31 1999	DECEMBER 31 1998
Property, plant and equipment		
Generating stations	12,093	37,008
Other fixed assets	530	1,210
Construction in progress	662	798
	13,285	39,016
Less: accumulated depreciation		
Generating stations	339	11,488
Other fixed assets	44	678
	383	12,166
	12,902	26,850

Interest capitalized during the nine months ended December 31, 1999 was \$11 million, (three months ended March 31, 1999: \$8 million, 1998: \$29 million).

7. Nuclear Waste Management and Asset Removal

The Corporation'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 with radiation and therefore need to be safely decommissioned. The Corporation is also required to decommission its non-nuclear facilities.

The nuclear waste management and asset removal fund consists of:

(millions of dollars)	ACQUIRED BUSINESS	
	DECEMBER 31 1999	DECEMBER 31 1998
Nuclear asset removal fund	215	—
Nuclear waste management fund	152	—
	367	—

The net liability for nuclear waste management and asset removal is as follows:

<i>(millions of dollars)</i>	ACQUIRED BUSINESS	
	DECEMBER 31 1999	DECEMBER 31 1998
Liability for nuclear waste management	4,304	1,485
Liability for nuclear fixed asset removal	2,287	866
Liability for nuclear fuel channel removal	—	674
	6,591	3,025
Liability for non-nuclear fixed asset removal	124	176
	6,715	3,201
Less: provincial contribution	2,480	—
Nuclear waste management and asset removal	4,235	3,201

Liabilities for nuclear waste management and fixed asset removal costs for periods prior to April 1, 1999 were recognized over the expected operating lives of the nuclear and fossil plants or as liabilities of waste were produced. As of April 1, 1999, the present value of the currently committed liabilities, including the cost of dismantling facilities at the end of their useful lives and the fixed cost portion of nuclear waste management programs, were recognized in full. As a result, the liability recognized by the Corporation as at December 31, 1999 was substantially higher than the liability as at December 31, 1998.

The expenses related to nuclear waste management and asset removal are as follows:

<i>(millions of dollars)</i>	APRIL 1 TO DECEMBER 31, 1999				ACQUIRED BUSINESS	
	NON-NUCLEAR ASSETS	NUCLEAR ASSETS	NUCLEAR WASTE	TOTAL	JANUARY 1 TO MARCH 31 1999	YEAR ENDED DECEMBER 31 1998
Revalorization	3	93	69	165	45	160
Fuel	—	—	13	13	45	146
Depreciation and amortization	—	—	20	20	37	131
	3	93	102	198	127	437

The accrual of nuclear waste management and fixed asset removal 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 for discounting was 5.75% (1998: 6% to 8%) and cost escalation rates ranged from 2% to 4% (1998: 2% to 4%).

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.

Liability for Nuclear Waste Management Costs

These accrued costs represent 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. The increase in the accrued costs for used nuclear fuel from current period operations is charged to fuel costs for the period.

In December 1998, the federal government issued a response to a government panel report (known as the Seaborn Report) that in part required the producers of used nuclear fuel in Canada to conduct a study of long term disposal options for used nuclear fuel. Such a study will include deep geological disposal as an option, but may not necessarily conclude that option as the preferred one for Canada. The Corporation has taken the lead role in this study. The results of this study have the potential to significantly impact on the value of these accrued costs.

The costs of low and intermediate level waste management include both the costs of managing such wastes during 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: construction of disposal facility for low level waste to be in place by 2015; 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 period are charged to depreciation and amortization for the period.

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 fixed asset removal costs were: decommissioning of nuclear generating stations in the 2028 to 2058 period on a deferred dismantlement basis (dismantlement following storage with surveillance for a 30 year period after shutdown of the reactors), and an average transportation distance of 1,000 kilometers between nuclear generating facilities and disposal facilities.

Liability for Nuclear Fuel Channel Removal Costs

A provision was established by the Acquired Business to provide for the costs of removing fuel channels in nuclear generating stations for rate setting purposes. Fuel channels are required to be replaced in the future in order to extend the life of a nuclear generating station. This rate setting practice is not applicable for the Corporation.

Liability for Non-nuclear Asset Removal Costs

Accrued non-nuclear 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 period 2005 to 2025. The impact of restating the fossil decommissioning accrual is recognized over the remaining life of the related facilities.

The Corporation does not provide for the removal costs associated with its hydroelectric generating facilities as the costs are not reasonably estimable 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.

Provincial Contribution to Nuclear Waste Management

On April 1, 1999, the Province agreed to fund certain nuclear waste management and asset removal liabilities that were incurred prior to April 1, 1999. The particulars of which liabilities are to be funded are currently under discussion with the Province and are shown in this note as a reduction to the total liability. The balance of \$2,480 million represents the liability of \$2,378 million as at April 1, 1999, as well as interest in the amount of \$102 million accrued during the nine month period ending December 31, 1999 based on a rate of 5.75%. The interest rate is still under negotiation with the Province and is subject to change. The impact of the finalization of the interest rate for 1999 is not expected to result in a material difference to a liability balance.

Internally Segregated Funds

The Corporation is contributing to segregated funds to provide for or discharge the remaining unfunded nuclear liabilities. It is the Corporation's intent that these funds be held outside of the Corporation and be used solely for nuclear waste remediation and nuclear fixed asset removal. Until such time as the legal nature of the segregated funds can be established, the Corporation has set these funds aside internally and is managing their investment and growth distinct from its other cash holdings. These funds amount to \$367 million at December 31, 1999. Included in the \$367 million is \$6 million in interest earned on the balances in the fund during 1999.

Nuclear Risk Sharing

The Corporation and senior staff at the Ontario Ministry of Finance have reached an understanding on key principles for the development of a nuclear risk sharing agreement. In order to implement these principles however, it will be necessary to successfully negotiate a definitive agreement and obtain the necessary authorizations from the Province including any necessary Orders in Council. The Province would provide a risk sharing cap on certain nuclear waste management costs in the event that the estimated present value of these costs were to exceed certain thresholds. Execution of this agreement would effectively limit the Corporation's exposure to significant increases in the estimated present value costs of nuclear waste management.

Role of External Parties in the Management of Nuclear Wastes and Impact on Liabilities

The calculation of required provision, the access to segregated funds and the control over the work related to these expenditures is planned to be controlled outside of the Corporation in the future. The segregated funds will be held independent of the Corporation with access to those funds controlled and monitored by several parties, including the Atomic Energy Control Board. The Corporation has a requirement to contribute to those segregated funds in a pre-determined manner that will be established based on estimates and assumptions calculated by external bodies. An external Waste Management Organization will be established for the life cycle management of nuclear waste that will be financed through the external funds.

Financial Assurances for Nuclear Waste Management and Decommissioning

The Atomic Energy Control Board issued a proposed regulatory guide on financial assurances for the decommissioning of licensed activities on September 30, 1998. Under this guide, the Corporation could be required to provide financial assurances up to the full amount of the present value of its currently incurred liability. The guide permits this financial assurance to be provided by a government guarantee. Under the proposed risk sharing agreement, the Province or its agent would provide this guarantee for an annual fee of 0.5% of the amount of guarantee given.

8. Long Term Debt

The long term debt at period end consists of the following:

<i>(millions of dollars)</i>	ACQUIRED BUSINESS	
	DECEMBER 31 1999	DECEMBER 31 1998
Notes payable to OEFC	3,400	—
Capital lease obligations	26	33
Allocated Ontario Hydro notes payable	—	22,218
	3,426	22,251
Less: payable within one year		
Capital leases	4	6
Allocated Ontario Hydro notes payable	—	1,934
	4	1,940
Long term debt	3,422	20,311

Details of the Corporation's long term notes outstanding as at December 31, 1999 are as follows:

YEAR OF MATURITY	INTEREST RATE (%)	PRINCIPAL OUTSTANDING (\$ Canadian)		
		SENIOR NOTES	SUBORDINATE NOTES	TOTAL
2001	5.35	200	—	200
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
		2,650	750	3,400

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. At December 31, 1999, the fair value of the outstanding long term debt is approximately \$3,200 million. The Corporation's exposure to interest rate risk is limited by the fixed rates on the long term debt.

Prior to April 1, 1999 the debt of Ontario Hydro, and related derivative financial instruments used to hedge interest and foreign exchange rate risks associated with such debt, were issued or incurred for general purposes and were not specifically identified with particular assets or businesses of Ontario Hydro. None of Ontario Hydro's debt and related derivatives have been assumed by or transferred to the Corporation as part of the reorganization of Ontario Hydro. As a result, the total debt and related derivatives and debt costs of Ontario Hydro have been notionally allocated to the Acquired Business.

9. Short Term Credit Facilities

The Corporation has arranged a credit facility for \$600 million with certain Canadian chartered banks ("Bank Credit Agreement") to fund working capital requirements and general corporate purposes. This facility may be drawn upon in either Canadian or United States dollars at varying rates based on certain benchmark rates, including a prime rate, a bankers' acceptance rate, and a LIBOR rate. The Bank Credit Agreement became effective on September 1, 1999. Prior to September 1, 1999 the Corporation negotiated a temporary credit agreement with OEFC whereby it could have borrowed from OEFC on substantially the same financial terms and conditions as those in the Bank Credit Agreement.

10. Common Shares

The Corporation is authorized to issue an unlimited number of common shares without nominal or par value. Common shares issued and outstanding are:

	DECEMBER 31, 1999	
	SHARES	\$ (MILLIONS)
Issued to the Province upon incorporation on December 1, 1998	10	—
Issued to the Province in settlement of debt on April 1, 1999	256,300,000	5,126
	256,300,010	5,126

11. Related Party Transactions

The Corporation, the Province, and the other successor entities of Ontario Hydro, which include Hydro One, IMO, OEFC, and Ontario Electricity Pension Services Corporation ("OEPSC") which manages the pension fund on behalf of the Corporation, became related parties as at April 1, 1999. Prior to April 1, 1999, the Province was a related party to Ontario Hydro and it's fully integrated business units.

The following summarizes the transactions for the nine months ended December 31, 1999 between the Corporation and related parties. These transactions are in the normal course of business under normal trade terms:

(millions of dollars)	APRIL 1 TO DECEMBER 31, 1999	
	SALES	PURCHASES
Hydro One		
Electricity sales	640	—
Services	45	40
IMO		
Ancillary services	75	—
OEPSC		
Services	10	—
	770	40

For the nine months ended December 31, 1999, payments to the Province for water rentals were \$90 million (three months ended March 31, 1999: \$30 million, 1998: \$118 million). Payments to the Province for the debt guarantee fee were nil for the nine months ended December 31, 1999 (three months ended March 31, 1999: \$31 million, 1998: \$124 million).

12. Research and Development

For the nine months ended December 31, 1999, \$19 million (three months ended March 31, 1999: \$15 million, 1998: \$56 million) of research and development expenses were charged to operations, and \$10 million (three months ended March 31, 1999: \$2 million, 1998: \$7 million) were charged to accrued liabilities. Development costs of \$2 million (three months ended March 31, 1999: nil, 1998: \$3 million) were capitalized.

13. Non-cash Working Capital Changes

(millions of dollars)	ACQUIRED BUSINESS		
	APRIL 1 TO DECEMBER 31 1999	JANUARY 1 TO MARCH 31 1999	YEAR ENDED DECEMBER 31 1998
Increase (decrease) in cash flow due to:			
Accounts receivable	(152)	(134)	(20)
Fuel	(50)	81	(88)
Materials and supplies	(32)	20	(23)
Accounts payable and accrued charges	(4)	158	100
Accrued interest	59	48	(31)
Long term accounts payable	40	15	196
Other	43	—	—
	(96)	188	134

Interest paid during the nine months ended December 31, 1999 was \$95 million (three months ended March 31, 1999: \$588 million, 1998: \$2,196 million).

14. Segmented Information

The Corporation operates as a single segment business generating electricity in Ontario. Substantially all sales are in Canada. Electricity sales to the United States were \$200 million in the nine months ended December 31, 1999 (three months ended March 31, 1999: \$10 million, 1998: \$111 million). Sales to two customers represent 30% of total revenue for the nine months ended December 31, 1999, and 25% of accounts receivable as at December 31, 1999.

15. Contingencies and Commitments

Municipal Electric Utilities ("MEU")

On April 24, 1997, three MEUs (the "Applicants") issued a notice of application against Ontario Hydro in the Ontario Court (General Division) (the "MEU Litigation"). The MEU Litigation has been certified as a class proceeding on behalf of all MEUs in Ontario. The Applicants seek declarations that certain rates and pricing options offered by Ontario Hydro to corporations contravened the provisions of the *Power Corporation Act* (Ontario), and that these rates and pricing options improperly increased costs to the MEUs that purchase their power from the Corporation. They seek recovery of the increased costs in the amount of approximately \$145 million and a declaration that Ontario Hydro improperly diverted, from miscellaneous revenues, monies, in an indeterminate amount, which should have been used to reduce the cost of power supplied to these MEUs. The Applicants are also seeking declarations that Ontario Hydro breached legislative provisions prescribing the operation of the Reserve for Stabilization of Rates and Contingencies and an equity account of Ontario Hydro known as the accumulated debt retirement appropriation (the "ADR account"), and an order requiring repayment to the ADR account in the amount of \$5,050 million. The Province will indemnify the Corporation from and against all claims relating to the creation, treatment, payment to or from or other dealings with the ADR account, and the financial statements of Ontario Hydro in relation to the ADR account including any amount relating to any judgment, settlement or other payment in connection with the MEU Litigation, subject to a \$20 million deductible amount.

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 Atomic Energy Control Board with regard to the Bruce used fuel dry storage facility. The goal of the application is to void the Minister of the Environment's decision pursuant to the *Canadian Environmental Assessment Act* which would allow the project to proceed and to have the project referred to a review panel or mediator. The Corporation was not originally a party to the application but was successful on a motion to be added as a responding party early in the process.

The hearing of the judicial review application took place on January 10 and 11, 2000. Submissions were made by IDRA, the Corporation and by the Federal Government. The Court has reserved its decision. Until the Corporation is advised of the Court's decision, the Corporation is unable to ascertain the impact of this application on its business, results of operations, financial condition or prospects.

Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The Corporation has completed a significant program that upgraded or replaced affected systems on which it and its customers depend, prior to the year 2000. With the change in date there have been no system failures affecting the Corporation's ability to conduct normal business operations and financial reporting. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Corporation, including those related to customers, suppliers, or other third parties, have been fully resolved. A further milestone was reached when the Corporation experienced no system failures with the passing of the February 29, 2000 date.

Environment

The Corporation inherited legacy obligations from the Acquired Business arising from environmental matters. A provision of \$76 million was established as at April 1, 1999 for such obligations. Charges of \$6 million were made against this provision during the nine months ended December 31, 1999. Also, the Corporation's 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 the Corporation's current environmental obligations.

Fuel Supply Agreements

The Corporation has entered into firm fuel supply agreements, some of which extend beyond 2000. The future obligation under these agreements for 2000 is estimated to be \$727 million, and \$568 million beyond 2000.

16. Benefit Plans

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

The pension information presented in the financial statements is derived from the OEFC pension plan based on the Corporation's proportionate share of the OEFC pension plan assets and liabilities taking into account actual employees and pensioners. Other post employment benefit information presented in the financial statements as at December 31, 1999 and for the nine months ended December 31, 1999, is also based on the Corporation's actual employees and pensioners. Prior to April 1, 1999, such information was based on the Acquired Business's proportionate share of Ontario Hydro's payroll, resulting in allocation adjustments.

Pension Plan

The pension plan is a contributory, defined benefit plan covering all regular employees. The Corporation's pension plan was established effective December 31, 1999. Until that date, employees and pensioners continued as members of the OEFC pension plan, formerly the Ontario Hydro Pension and Insurance Plan.

The 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 the Province, Hydro One, IMO, ESA, OEFC, or the Corporation.

The pension plan has a substantial excess of assets over obligations ("Surplus"). The Corporation has suspended contributions to the plan as permitted under the *Pension Benefits Act* (Ontario) and the *Electricity Act, 1998*.

Information about the Corporation's allocated portion of the pension plan is as follows:

(millions of dollars)	ACQUIRED BUSINESS	
	DECEMBER 31 1999	DECEMBER 31 1998
Pension Plan Assumptions		
Expected return on plan assets	7.25%	9%
Rate used to discount future pension benefits	7.25%	6%
Salary schedule escalation rate	3.50%	3.50%
Rate of cost of living increase to pensions	2.50%	2.50%
Average remaining service life for employees (years)	12	12
Change in Pension Plan Assets		
Fair value of plan assets at beginning of year	7,908	7,426
Contributions by the Corporation	—	21
Contributions by the employees	49	51
Actual return on plan assets	1,018	665
Benefit payments	(245)	(254)
Administrative expense	(13)	(1)
Allocation adjustment	(1,443)	—
Fair value of plan assets at end of year	7,274	7,908

(millions of dollars)	ACQUIRED BUSINESS	
	DECEMBER 31 1999	DECEMBER 31 1998
Change in Projected Pension Benefit Obligation		
Projected benefit obligation at beginning of year	7,098	4,699
Current service cost	218	131
Past service costs	—	149
Interest on projected benefit obligation	359	397
Benefit payments	(192)	(242)
Net actuarial (gain) loss	(1,098)	1,964
Allocation adjustment	(1,211)	—
Projected benefit obligation at end of year	5,174	7,098
Pension Plan Surplus	2,100	810
Reconciliation of Pension Plan Surplus		
Pension plan surplus	2,100	810
Unamortized net actuarial (gain) loss	(1,584)	(87)
Deferred pension asset	516	723

(millions of dollars)	ACQUIRED BUSINESS		
	APRIL 1 TO DECEMBER 31 1999	JANUARY 1 TO MARCH 31 1999	YEAR ENDED DECEMBER 31 1998
Components of Pension Expense			
Current service cost	124	42	99
Interest on projected benefit obligation	269	106	401
Expected return on plan assets	(339)	(142)	(665)
Amortization of past service costs	—	—	64
Amortization of net actuarial (gain) loss	(15)	(1)	(133)
Amortization of transitional asset	—	—	(21)
Adjustment for surplus ownership	—	—	272
Pension expense	39	5	17

Other Post Employment Benefits

Payments for OPEB benefits during the nine months ended December 31, 1999 are \$35 million (three months ended March 31, 1999: \$15 million, 1998: \$51 million). The long term annual increase in the per capita cost of the major benefits ranges between 2.5% and 4.5% (1998: 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 7.0% and 7.5% at December 31, 1999 (1998 : between 5.5% and 6.0%).

Information about the Corporation's OPEB is as follows:

(millions of dollars)	ACQUIRED BUSINESS	
	DECEMBER 31 1999	DECEMBER 31 1998
Change in Projected OPEB Obligation		
Projected OPEB obligation at beginning of year	1,088	704
Current service cost	41	29
Interest on projected benefit obligation	56	64
Benefit payments	(40)	(50)
Net actuarial (gain) loss and past service costs	(180)	341
Allocation adjustment	(137)	—
Projected OPEB obligation at end of year	828	1,088
Reconciliation of OPEB Obligation		
Accrued OPEB obligation at end of year		
Long term obligation	959	1,037
Short term obligation	43	51
Unrecognized net actuarial (gain) loss and past service costs	(174)	—
Projected OPEB obligation at end of year	828	1,088

	ACQUIRED BUSINESS		
	APRIL 1 TO DECEMBER 31 1999	JANUARY 1 TO MARCH 31 1999	YEAR ENDED DECEMBER 31 1998
<i>(millions of dollars)</i>			
Components of OPEB Expense			
Current service cost	32	12	29
Interest on projected benefit obligation	42	16	64
Amortization of net actuarial (gain) loss and past service costs	(3)	—	30
OPEB expense	71	28	123

The new method of accounting for pensions and employee future benefits approved by the Canadian Institute of Chartered Accountants was adopted by the Acquired Business in the fourth quarter of 1998. The major effect of adopting this new method was to change the discount rate used to determine the projected pension benefit obligation and the OPEB obligation from a long term average rate to a current market settlement rate. This change resulted in a transition amount of \$344 million, which related to the OPEB obligation being charged to deficit of assets over liabilities for the year ended December 31, 1998.

17. Pro Forma Consolidated Statements of Income (Unaudited)

Pro forma consolidated statements of income have been prepared to reflect the purchase of the Acquired Business as if the purchase of net assets had occurred on January 1, 1999 and on January 1, 1998.

	1999			
	APRIL 1 TO DECEMBER 31 ACTUAL	ACQUIRED BUSINESS		JANUARY 1 TO DECEMBER 31 PRO FORMA
		JANUARY 1 TO MARCH 31 ACTUAL	ADJUSTMENTS	
<i>(millions of dollars)</i>				
Revenues	4,339	1,784	(327)	5,796
Operating expenses				
Operation, maintenance and administration	1,791	558	16	2,365
Fuel	816	335	(35)	1,116
Power purchased	153	45	—	198
Depreciation and amortization	573	385	(193)	765
Property and capital taxes	256	—	85	341
	3,589	1,323	(127)	4,785
Interest expense	135	560	(515)	180
Income taxes	289	—	96	385
Net income	326	(99)	219	446

(millions of dollars)	JANUARY 1 TO DECEMBER 31, 1998		
	ACQUIRED BUSINESS		PRO FORMA
	ACTUAL	ADJUSTMENTS	
Revenues	6,592	(1,007)	5,585
Operating expenses			
Operation, maintenance and administration	2,241	(155)	2,086
Fuel	1,148	(117)	1,031
Power purchased	175	—	175
Depreciation and amortization	1,441	(707)	734
Property and capital taxes	—	348	348
	5,005	(631)	4,374
Interest expense	2,301	(2,105)	196
(Income) expense from deferred pension asset	(655)	168	(487)
Income taxes	—	689	689
Net income	(59)	872	813

Basis of Presentation and Pro Forma Assumptions and Adjustments

The pro forma consolidated statement of income for the year ended December 31, 1999 is comprised of the consolidated statement of income for the nine months ended December 31, 1999 for the Corporation and the pro forma consolidated statement of income for the three months ended March 31, 1999. The pro forma consolidated statements of income for the three months ended March 31, 1999 and for the year ended December 31, 1998 have been prepared from the consolidated statements of income of the Acquired Business for the periods then ended. The pro forma consolidated statements of income are not necessarily indicative of the results of operations that would have resulted had the relevant transactions taken place at the respective dates referred to below.

The Corporation is an unregulated commercial enterprise, whereas the Acquired Business was a rate regulated entity. Since accounting policies followed by rate regulated enterprises differ in some respects from those followed by non-rate regulated enterprises, certain of the liabilities and expenses recorded by the Acquired Business would have been recorded differently by the Corporation.

The pro forma consolidated statements of income for the years ended December 31, 1999 and 1998 include the following assumptions and adjustments:

Revenues

During the transition period of the Ontario electricity industry, all consumers will continue to pay their electricity bills on a bundled basis. The Corporation's share of revenue out of this bundled pool in 1999 was planned to be 4 cents/kWh for Ontario sales based on estimated demand for 1999, together with a fixed amount for ancillary services. The impact of this new revenue regime is a reduction of \$336 million and \$1,007 million for the three months ended March 31, 1999 and for the year ended December 31, 1998, respectively. For the three months ended March 31, 1999, an adjustment of \$12 million has been made to reclassify external revenues that were previously recognized as internal revenues and credited to operation, maintenance and administration expenses ("OM&A"). An adjustment has also been made to recognize a revenue pool loss of \$3 million for first quarter of 1999. The deregulation of the Ontario energy market, as well as the Province's market mitigation initiatives, are likely to have additional material effects on future revenue which cannot be estimated at this time.

OM&A

OM&A expenses for the three months ended March 31, 1999 have been adjusted by \$16 million which includes the reclassification of \$12 million of external revenues previously recognized as internal revenues and an adjustment for taxes which were overestimated by \$4 million. The 1999 revenue allocation agreement excludes rural rate assistance and transmission and facility charges, whereas the 1998 revenue allocation agreement included these costs in OM&A. Accordingly, \$155 million of such costs have been removed from the 1998 pro forma OM&A expenses.

Fuel

As part of the restructuring of Ontario Hydro, the obligation to fund the future costs of nuclear waste disposal and nuclear plant decommissioning was transferred to the Corporation. The Corporation was also required to recognize the full committed liability of \$6,317 million and \$6,226 million as at March 31, 1999 and December 31, 1998, respectively. As a result, the amount charged to operations for these periods with respect to the future obligation for these liabilities, is less than the amount formerly charged to operations. Accordingly, for the three months ended March 31, 1999 and the year ended December 31, 1998, fuel expense has been adjusted by \$35 million and \$117 million, respectively, with respect to nuclear waste disposal. Similarly, depreciation and amortization has been adjusted by \$30 million and \$84 million, respectively, for nuclear decommissioning.

Depreciation and Amortization

The net book value of the fixed assets of the Acquired Business, which amounted to \$26,850 million, was adjusted by an amount of \$13,978 million reducing the net book value of fixed assets to their fair value of \$12,872 million as at March 31, 1999. As a result of the new asset base, depreciation and amortization expense would have been lower by \$177 million and \$685 million for the three months ended March 31, 1999 and for the year ended December 31, 1998, respectively. Included in depreciation and amortization is an adjustment for the revalorization charge, calculated on the unfunded portion of the accrued fixed asset removal and nuclear waste management provisions, of \$14 million and \$62 million for the three months ended March 31, 1999 and for the year ended December 31, 1998, respectively. As noted above, \$30 million and \$84 million of lower charges to operations for nuclear decommissioning were also allocated to depreciation and amortization expense for the three months ended March 31, 1999 and for the year ended December 31, 1998, respectively.

Interest Expense

Interest expense includes interest on debt financing. As a result of the new capitalization of the Corporation and lower interest rates for the Corporation's long term debt, interest expense would have been lower by \$484 million and \$1,981 million for the three months ended March 31, 1999 and for the year ended December 31, 1998, respectively. The Province will no longer guarantee the Corporation's debt to third parties after April 1, 1999. Accordingly, the Corporation will not incur the provincial debt guarantee fee previously included in interest expense. The elimination of this guarantee fee, which had an impact of \$31 million and \$124 million for the three months ended March 31, 1999 and the year ended December 31, 1998, respectively, is reflected in the net reduction in interest expense.

Income from Deferred Pension Asset

The Acquired Business's income from deferred pension asset for the year ended December 31, 1998 was allocated on the basis of proportionate payroll. On April 1, 1999, the pension asset was calculated on the basis of the proportion that the actual number of employees and retirees transferred to the Corporation represented of the total number of employees and retirees of Ontario Hydro. Accordingly, for the year ended December 31, 1998, an income statement adjustment of \$168 million, reducing the income from deferred pension asset, was made to reflect the actuarial recalculation of the Corporation's deferred pension asset.

Income, Property and Capital Taxes

The Acquired Business was exempt from tax under the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario).

However, pursuant to the *Electricity Act, 1998*, the Corporation is required to pay to OEFC an amount referred to as a “proxy tax”. The proxy tax is generally equal to the amount of income and capital taxes the Corporation would be liable to pay under the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), if it were not exempt. *The Electricity Act, 1998* also provides that the Corporation is required to make additional payments in lieu of property tax each year to OEFC on its electricity generating assets. Accordingly, the pro forma adjustments reflect the recognition of property and capital taxes of \$85 million and \$348 million for the three months ended March 31, 1999 and for the year ended December 31, 1998, respectively. In addition, proxy taxes in lieu of federal and Ontario income taxes plus the federal large corporations tax, have been recognized in the amount of \$96 million and \$689 million for the three months ended March 31, 1999 and for the year ended December 31, 1998, respectively.

18. Decontrol, Joint Ventures and Partnerships

Bruce Nuclear Power Development

In September 1999, the Corporation began a process to determine levels of interest in various private equity investment or partnership options, for its nuclear program and announced its intention to invite proposals for its nuclear assets located at the Bruce Nuclear Power Development (“BNPD”) site in southwestern Ontario. Among the assets located at the site are the Bruce nuclear generating units 5 to 8 which are currently operational, as well as the Bruce nuclear generating units 1 to 4 which have been in a temporary lay up state since March 1998. Other assets such as training facilities, conventional waste treatment facilities and other infrastructure also are located at the site. In addition, radioactive waste handling and storage facilities for all of the Corporation’s nuclear operations are located within the physical boundaries of the BNPD. Discussions with potential partners/purchasers are ongoing. Any negotiations will have to consider the physical assets on the site, the radioactive waste management facilities and the treatment of any nuclear waste liabilities that are inherent with the transaction. These financial statements include all results from operations and balances for all assets and liabilities of the Corporation for the nine months ended and as at December 31, 1999.

Lakeview and Lennox Generating Stations

In response to the request of the Minister of Energy, Science and Technology that the Corporation accelerate the schedule for decontrol, the Corporation is developing plans for decontrol of approximately 4,000 MW of predominantly fossil generation, including the 2,140 MW Lennox station near Kingston and the 1,140 MW Lakeview station in Mississauga.

Joint Ventures and Other Transactions

The Corporation is currently in discussions with major information technology companies to transfer employees, data centre and equipment to a third party company that will provide information technology services to the Corporation and to other energy companies.

Ontario Power Technologies, the technical-innovation and development division of the Corporation, is forming a joint venture with AEA Technology of the United Kingdom, SCIENTECH of the United States, and CANATOM NPM in Canada. Upon closing the transaction, the three new partners would have a 10 percent cumulative stake in Ontario Power Technologies and options on a further 40 percent. The partners bring considerable marketing and technology development capabilities to the venture.

Ontario Power Generation Governance

The Board of Ontario Power Generation consists of 11 directors*. Ten directors are independent of management, including the Chairman, Bill Farlinger, who is a non-executive chair. Ron Osborne, President and CEO, is a member of the Board of Directors.

The Board of Directors is responsible for providing the strategic direction and leadership for the company and has established four permanent committees of the Board. The Board meets approximately six times a year. Additional meetings may be held if necessary.

Audit Committee

The Audit Committee is responsible for advising the Board and making recommendations regarding publicly reported financial information; the appropriateness of accounting policies and practices in accordance with Generally Accepted Accounting Principles; the adequacy of the processes for identifying and managing risks; the integrity of internal controls; policies and practices relating to business ethics; the appointment, terms of engagement and fees of the external auditor; and the mandate and program of the internal auditor. In addition, the Audit Committee may exercise, on behalf of the Board, powers delegated to it with respect to financing matters. The Committee meets four times a year. Additional meetings may be held if necessary.

Members: Richard Thomson (*Chair*), Jalynn Bennett, Daniel Branda, David Kerr, Brian Robbins.

Human Resources and Corporate Governance Committee

The Human Resources and Corporate Governance Committee is responsible for advising the Board and making recommendations regarding the appointment, annual review and remuneration of the President and Chief Executive Officer; succession planning; annual assessment of company performance and incentive payments under the Corporate Performance Achievement Plan; and the annual review and remuneration, conducted by the President and Chief Executive Officer, of senior executives. The Committee is also responsible for the Board's governance of the company, including recommending individuals for

appointment to the Board of Directors, the terms of reference and membership for Board committees, and other initiatives as required to ensure the Board delivers exemplary corporate governance. The Committee meets four times a year. Additional meetings may be held if necessary.

Members: Lynton Wilson (*Chair*), Paul Godfrey, Arthur Sawchuk, Bill Farlinger.

Environment, Health and Safety Committee

The Environment, Health and Safety Committee is responsible for advising the Board and making recommendations regarding the company's policies in the areas of the environment, health and safety; the adequacy of progress in achieving compliance; the adequacy of processes for identifying and managing environmental, health and safety risks and opportunities for continual improvement; activities, trends and developments pertaining to environmental, health, and safety matters that have a significant impact on OPG's operations, assets and reputation; and the adequacy of processes to ensure that the radiological risk to workers, the public and the environment is acceptably low. The Committee meets four times a year. Additional meetings may be held if necessary.

Members: David Kerr (*Chair*), Jalynn Bennett, Daniel Branda, Brian Robbins.

Nuclear Review Committee

The Nuclear Review Committee is responsible for monitoring the nuclear performance of the company, particularly with respect to safety issues, and advising the Board on policies and strategies that ensure the safe and efficient operation of the nuclear facilities; continual performance improvement as measured against best practices in the international nuclear community; compliance with existing laws and regulations that govern the nuclear facilities, including Atomic Energy Control Board commitments; and the scope of nuclear audit programs and the appointment of external advisors and assessors. The Committee meets four times a year. Additional meetings may be held if necessary. **Members:** Arthur Sawchuk (*Chair*), Mark De Michele, Paul Godfrey, Brian Robbins.

*as at May 31, 2000

Ontario Power Generation Board of Directors

AS AT MAY 31, 2000



JALYNN BENNETT
*President,
Jalynn H. Bennett
& Associates Ltd.*



DANIEL BRANDA
*President,
INTRIA-HP*



MARK DE MICHELE
*Chairman & CEO,
Urban Realty Partners*



BILL FARLINGER
*Chairman,
Board of Directors
Ontario Power Generation*



PAUL GODFREY
*President & CEO,
Sun Media Corporation*



DAVID KERR
*President & CEO,
Noranda Inc.*



RON OSBORNE
*President & CEO,
Ontario Power Generation*



BRIAN ROBBINS
*President & CEO,
EXCO Technologies Ltd.*



ARTHUR SAWCHUK
*Chairman,
The Manufacturers
Life Insurance Ltd.*



**RICHARD MURRAY
THOMSON**
*Retired Chairman & CEO,
Toronto Dominion Bank*



LYNTON WILSON
*Retired Chairman,
BCE Inc.*

Ontario Power Generation Corporate Senior Management

AS AT MAY 31, 2000

BILL FARLINGER
Chairman

JOHN MATHER
*Executive Vice President &
Chief Information Officer*

G. CARL ANDOGNINI
*Special Nuclear Advisor
to President & CEO*

RON OSBORNE
*President &
Chief Executive Officer*

JOHN MURPHY
*Executive Vice President,
Corporate Human Resources*

BRUCE BOLAND
*Senior Vice President,
Commercial Operations*

WAYNE BINGHAM
*Executive Vice President &
Chief Financial Officer*

GENE PRESTON
*Executive Vice President &
Chief Nuclear Officer*

JIM BURPEE
*Senior Vice President,
Electricity Production*

RICHARD DICERNI
*Executive Vice President &
Corporate Secretary*

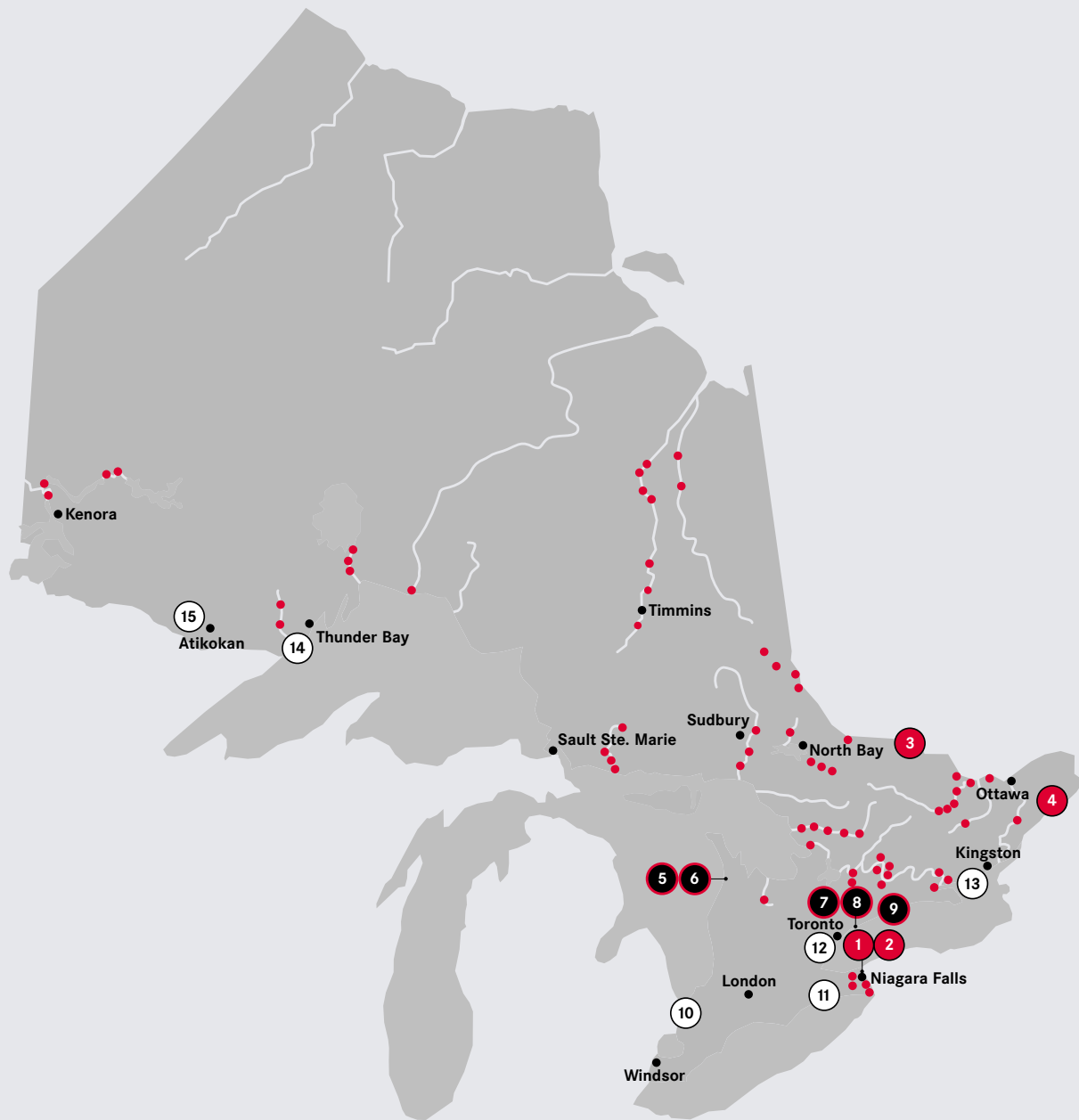
PIERRE CHARLEBOIS
*Senior Vice-President,
Technical Services &
Chief Nuclear Engineer*

BARRY NICOL
*Senior Vice President,
Special Projects*

DAVID DRINKWATER
*Executive Vice President,
Law & Corporate Development*

BRUCE BENNETT
General Auditor

Ontario Power Generation Generating Stations



Hydroelectric (7,255 MW)

- 1 Sir Adam Beck No.1
- 2 Sir Adam Beck No.2
- 3 Des Joachims
- 4 R.H. Saunders
- 65 Smaller hydroelectric stations

Nuclear (13,864 MW)

- 5 Bruce A
- 6 Bruce B
- 7 Pickering A
- 8 Pickering B
- 9 Darlington

Fossil (9,700 MW)

- 10 Lambton
- 11 Nanticoke
- 12 Lakeview
- 13 Lennox
- 14 Thunder Bay
- 15 Atikokan

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Visit Ontario Power Generation Inc.'s site on the World Wide Web at www.ontariopowergeneration.com.

