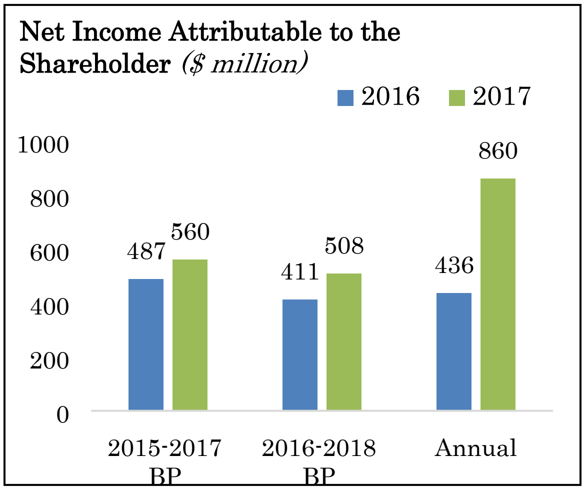
OPG Annual 2017 Results

Financials

Net income attributable to the Shareholder was $860 million for 2017, representing an increase of $424 million compared to 2016. Income before interest and income taxes was $1,185 million for 2017, representing an increase of $444 million compared to 2016.



Financial Indicators	2016	2017
Cash flow from Operations	$1,817M	$944M
FFO	5.1x	3.3x
ROE*	4.2%	7.5%

*ROE attributable to shareholder, before extraordinary gain

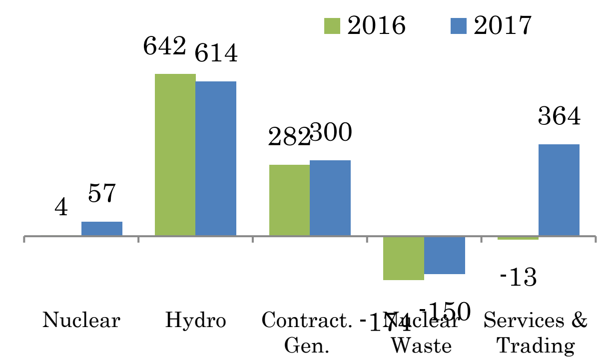
All Figures in US GAAP

Significant Factors Impacting Net Income

- ↑ Revenue from the regulated nuclear and hydroelectric increased to reflect the OEB decision on regulated rates.
- ↑ Higher earnings of $377 million from the Services, Trading, and Other Non-Generation segment, resulting from OPG's head office and parking facility. A gain on sale of $283 million was recognized upon completion of the transaction in the second quarter of 2017.
- ↑ Higher earnings of $24 million from the Regulated – Nuclear Waste Management segment
- ↓ Lower revenue of approximately $285 million, partially offset by a decrease in fuel expense of $31 million, due to lower electricity generation of 4.9 terawatt hours (TWh) from the Regulated – Nuclear Generation segment.
- ↓ Higher OM&A expenses of $77 million

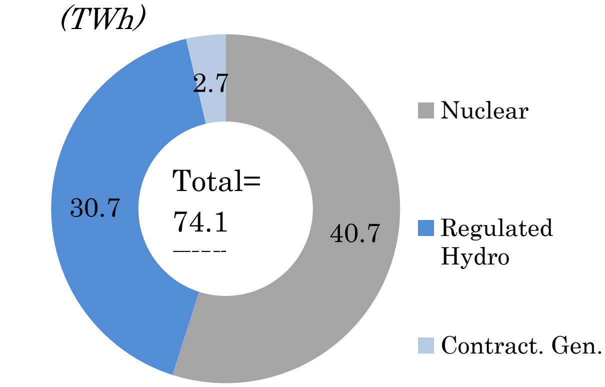
Segmented Results/Operations

Income before interest and Taxes by segment *($ million)*



The chart below summarizes OPG's segmented contribution to the province's generation for 2017:

Segmented Generation 2017 *(TWh)*



The table highlights changes in generation from the previous year.

Segment	Reason for change
Nuclear	Decreased generation due to the removal from service of Unit 2 at the Darlington GS for the duration of the unit's refurbishment.
Regulated Hydro	Increased generation due to higher water flows primarily on the eastern Ontario river systems.
Contracted Generation	Lower generation due to higher SBG conditions.

Improving Efficiency and Reducing Costs

OPG is proceeding with its "OPG25" initiative that will identify further efficiency strategies to be implemented between now and the closure of the Pickering Nuclear Generating Station.

In 2017, OPG began to accelerate a strategy to modernize its information technology infrastructure. This is expected to enhance productivity and equipment reliability.

OPG Q4-2017 Results

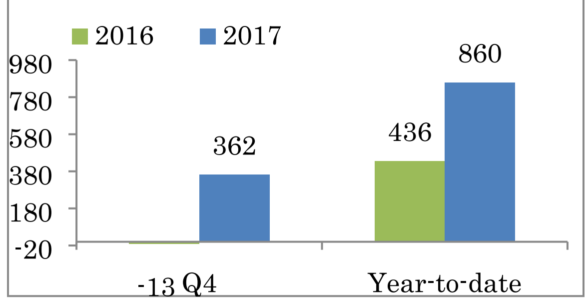
Financials

Net income attributable to the Province was $362M, compared to a net loss of $13 million for the same quarter in 2016.

Factors Impacting Net Income

- ↑ Higher revenue from the regulated nuclear and hydroelectric segments totaling approximately $480 million, reflecting the OEB's decision on new regulated rates issued in December 2017 with a retrospective effective date of June 1, 2017.
- ↑ Higher earnings of $77 million from the Regulated – Nuclear Waste Management segment, primarily due to higher earnings from the Nuclear Segregated Funds reflecting the growth rate in the present value of the funding liabilities, partially offset by an increase in accretion expense on the Nuclear Liabilities.
- ↓ Lower revenue from the nuclear base regulated price of approximately $55 million, partially offset by a decrease in fuel expense of $9 million, reflecting lower electricity generation of 0.9 terawatt hours (TWh) from the Regulated – Nuclear Generation segment. The lower nuclear generation was primarily due to the ongoing refurbishment of Unit 2 at the Darlington GS since October 2016, partially offset by an increase in generation from the Pickering GS. The increase in generation from the Pickering GS was primarily due to outage cycle optimization, favourable unit conditions and execution of planned outage work resulting in fewer unplanned and planned outage days at the station.
- ↓ Higher OM&A expenses of $55 million, mainly in the Regulated – Nuclear Generation segment, reflected planned expenditures related to the major maintenance expenditures occurring at the nuclear stations.

Net Income attributable to province *($ million)*



Income Taxes:

- Income tax expense for Q4 was $81 million, compared to $59 million for the same period in 2016, an increase primarily due to higher income before income taxes, partially offset by a higher amount of tax expense deferred in regulatory assets in 2017.

Financing & Investing Activities:

Financial Indicators	Q4 2017	Q4 2016
Cash flow from Operations	$246M	$606M
Cash flow from Investing	$1,758M	$666M
FFO*	3.3x	5.1x
ROE*	7.5%	4.2%

*FFO Adjusted Interest Coverage and ROE Excluding AOCI, calculated over the last 12-month period ending December 31, 2017 and compared to 12 months ending last calendar year (December 31, 2016).

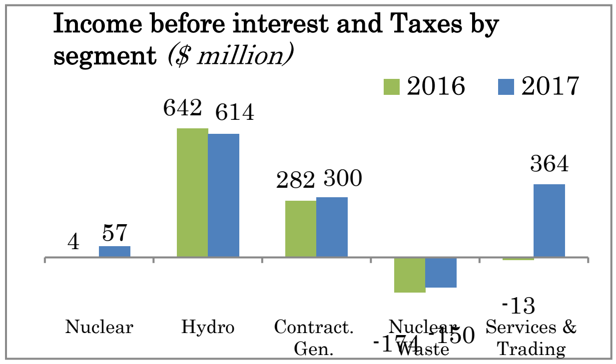
- Decrease in cash flow provided by operating activities was primarily due to lower generation revenue receipts and higher OM&A expenditures during the fourth quarter of 2017.
- Increase in cash flow used in investing activities was primarily due to the acquisition of the Fair Hydro Trust financing receivables and higher expenditures on the Darlington Refurbishment project in 2017.
- FFO Interest Coverage decreased due to lower cash flow provided by operating activities, partially offset by the impact of a lower adjusted interest expense due to a decrease in the excess of interest on pension and OPEB projected benefit obligations over expected return on assets.
- ROE increased primarily due to higher net income attributable to the Shareholder, which reflected the gain on sale of OPG's head office and associated parking facility, and an increase in revenue for the period June 1, 2017 to December 31, 2017 recorded in the fourth quarter of 2017 to reflect the OEB's December 2017 decision on OPG's application for new regulated prices, with an effective date of June 1, 2017. This was partly offset by the impact of lower nuclear electricity generation reflecting the Unit 2 refurbishment outage at the Darlington GS.

Long Term Debt:

- OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two $500 million multi-year term tranches expiring in May 2022.
- At the end of Q4 there was $100 million of commercial paper outstanding under OPG's commercial paper program.
- In June 2016, OPG entered into a $700 million general corporate credit facility agreement with the OEFC, expiring December 2017. In 2017, the credit facility was increased to $2,350 million, expiring in December 2018.

Debt	Total	Issued Q4
Notes payable to OEFC	$3,195 M	$500 M
UMH Energy Partnership Debt	$181M	-
Lower Mattagami Energy Partnership (LME)	$1,595 M	-
PSS Generating Station Limited Partnership	$245M	-

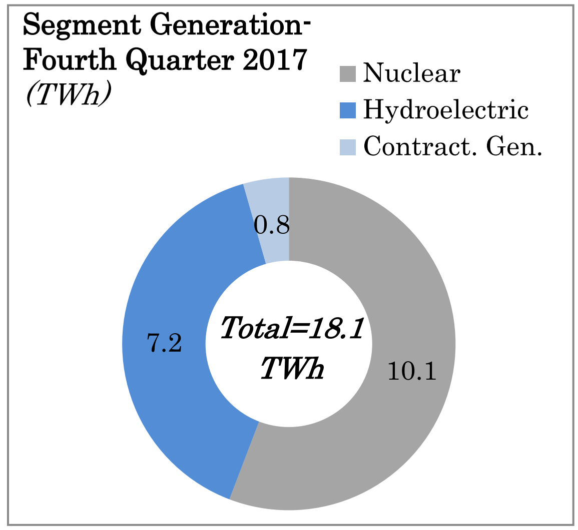
Segmented Results/Operations



The chart below summarizes changes in OPG's segmented performance in 2017:

Segment	Reason for change
Nuclear	Earnings favourably affected by the OEB's decision on OPG's application for new regulated prices issued in December 2017 with a retrospective effective date of June 1, 2017. Earnings unfavourably affected by a reduction in generation due to outage at Darlington, partially offset by a decrease in fuel expense.
Hydro	Decrease in income due to OEB Niagara Tunnel decision revision in 2016 and higher OM&A due to overhaul work and civil repairs. Partially offset by the recognition of a revenue increase in the fourth

	quarter of 2017 to reflect the OEB's decision on OPG's application for new regulated prices.
Contracted generation	Increase in earnings primarily resulted from revenues from the Peter Sutherland Sr. GS that was placed in-service at the end of the first quarter of 2017 and lower OM&A expenses, partially offset by lower revenues from the Lower Mattagami River hydroelectric generating stations and Atikokan GS.
Nuclear Waste	Increase in earnings was primarily due to higher earnings from the Nuclear Segregated Funds.
Services & Trading	Increase in earnings mainly reflected the gain on sale of OPG's head office and associated parking facility.



Capital Projects

Darlington Refurbishment:

- In October 2016, OPG commenced the refurbishment of the first unit, Unit 2, as planned. Once refurbished, Unit 2 is scheduled to be returned to service in the first quarter of 2020, at which time capital expenditures of approximately $4.8 billion are planned to be placed in service. This includes expenditures incurred during the definition and planning phase of the project.
- The setup of specialized tooling and equipment needed for the removal of reactor components was completed in Q3. Disassembly of reactor components commenced in August 2017, with the removal of all 960 feeder tubes completed safely in September 2017.

- The removal of fuel channel assemblies commenced in October 2017.
- A number of pre-requisite projects in support of the execution phase, including construction of facilities, infrastructure upgrades and installation of safety enhancements, have been completed. The Re-tube Waste Processing Building was completed in November 2017.
- Completion of the Heavy Water Storage and Drum Handling Facility (HWSF) has been delayed due to challenges with construction as OPG suspended the project in Q2 2017 to evaluate the best approach to optimize cost and schedule and complete the project. Construction to complete the facility recommenced in the fourth quarter of 2017. The project is expected to be completed by the second quarter of 2019 and is not on the critical path for the Darlington Refurbishment project, which continues to track on schedule. The increase in the cost estimate for the project will be accommodated within the overall Darlington Refurbishment budget of $12.8 billion.
- In addition to the execution of refurbishment activities on Unit 2, OPG is continuing planning activities for the refurbishment of the second unit, Unit 3, and is entering into associated commitments to procure major components that require long lead times. As of December 31, 2017, $93 million has been invested in planning activities related to the refurbishment of the second unit, Unit 3.

Deep Geologic Repository (DGR) for Low and Intermediate Level Waste (L&ILW)

- In December 2016, at the request of the federal Minister of Environment and Climate Change Canada (ECCC), OPG submitted additional information on certain aspects of the environmental assessment (EA) for OPG's proposed L&ILW DGR, including information related to alternate project locations. OPG has responded and on June 26, 2017, the Canadian Environmental Assessment Agency (CEAA) notified OPG that it had sufficient information for the next step of the EA process, advising that a draft report and updated terms and conditions will be prepared for public review.
- The Western Waste Management Facility (WWMF) located at the Bruce generating stations' site remains

Commented [BJ(1]: This needs to be fleshed out a bit – why not on critical path of refurb and how will it be accommodated within the overall budget?

OPG's preferred solution for the safe long-term management of the L&ILW.

- On August 21, 2017, the Minister of ECCC requested OPG update its analysis on potential effects of the project on the Saugeen Ojibway Nations' (SON) physical and cultural heritage. OPG continues to engage with SON toward securing community support for the L&ILW DGR, and will notify CEAA when it has determined the timeline for developing a response. The project is expected to be in-service about six to seven years from the start of construction.

Ranney Falls Hydroelectric GS:

- In 2017, OPG began construction work of a 10 MW single-unit powerhouse on the existing Ranney Falls GS site, as part of the Regulated – Hydroelectric segment.
- The existing forebay structure has been demolished and the new concrete structure has been completed. Excavation has been completed and construction continues in the expanded forebay, powerhouse and spillway area. The new forebay concrete wall has been completed, and concrete placement of the new powerhouse and the spillway integrated structure is in progress.
- The project's expected in-service date is in the fourth quarter of 2019, with a budget of $77 million. The project is tracking on schedule and budget.

Nanticoke Solar Facility:

- The project to construct a 44 MW solar facility at OPG's Nanticoke GS site and adjacent lands under a IESO LRP contract, through Nanticoke Solar LP, a partnership between OPG and a subsidiary of the Six Nations of Grand River Development Corporation, is planned to begin Q1 2018.
- During 2017, the partnership continued work to obtain approvals and permits required to enable the commencement of construction, and progressed procurement activities for equipment and for engineering and construction services. The facility is expected to be completed in Q1 2019, with a budget of $107 million.

Capital Project	Costs to date ($M)
Darlington Refurbishment	4,434
DGR	204
Peter Sutherland Sr. GS	277
Ranney Falls GS	28
Nanticoke Solar	3
Total	4,946

Recent Updates

OEB Report on Regulatory Treatment of Pension and OPEB Costs:

- On September 14, 2017, the OEB issued its final report on the guiding principles and the policy for recovery mechanisms of pension and OPEB costs. This report established accrual basis as the default rate-setting method and the establishment of a variance account to record asymmetric carrying charges in favor of ratepayers on the differences between the accrual costs recovered and cash payments made by a utility for pension and OPEB plans. The report confirmed OPG would become subject to the carrying charges on the differences between accrual costs and cash payments going back to November 1, 2014. This outcome reduces OPG's risk related to the recovery of actual pension and OPEB accrual costs and the recovery of the balance in the Pension & OPEB Cash Versus Accrual Differential Deferral Account.
- The Company recognizes the amount set aside in the Pension & OPEB Cash Versus Accrual Differential Deferral Account as a regulatory asset. As at December 31, 2017, the regulatory asset had a balance of $614 million. Consistent with the expectations set out in the OEB's December 2017 decision, in 2018, OPG plans to file an application with the OEB requesting disposition of the Pension & OPEB Cash Versus Accrual Differential Deferral Account balance as well as balances accumulated since December 31, 2015 in other regulatory.

Ontario's Fair Hydro Plan:

- Concurrent with every issuance of the Fair Hydro Trust's (the Trust') senior notes, it is expected that OPG will purchase subordinated debt of the Trust in an aggregate amount not to exceed 49 percent of the Trust's total debt, with 44 percent of the funding to be provided by the Province through equity injections and five percent to be provided by OPG.
- In October 2017, OPG issued $500 million of senior notes payable under a short form base shelf prospectus, some of which will be used to fund OPG's subordinate debt investment in the Trust. The notes bear a coupon interest rate of 3.32 percent and an effective rate of 3.43 percent, payable semi-annually until maturity on October 4, 2027.
- On December 21, 2017, the Trust purchased its first Investment Asset (deferred Global Adjustment) from the

IESO with a value of approximately $1.18 billion. Fifty-one percent of the funding requirement or $601 million was financed by the Trust through a revolving warehouse facility ranked as senior notes, and the remaining 49 percent was funded through the issuance of short-term subordinated debt to OPG.

- In February 2018, the Trust issued $500 million of senior notes payable with a coupon interest rate of 3.36 percent and an effective interest rate of 3.42 percent, payable semi-annually until maturity on May 15, 2033. The proceeds were used to repay the majority of the outstanding balance of the revolving warehouse facility issued in December 2017. At the same time, a portion of OPG's short-term subordinated debt was replaced with long-term debt, including $382 million of subordinated debt and $98 million of junior subordinated debt with interest rates of 3.64 percent and 3.96 percent, respectively. By the end of the first quarter of 2018, the Trust is expected to acquire the next Investment Asset from the IESO, which it expects to fund using its revolving warehouse facility.

Canadian Nuclear safety Commission Safety Rating for the Darlington GS and the Pickering GS

- On September 8, 2017, the CNSC issued and executive summary of its 2016 annual report, which gave both the Darlington GS and the Pickering GS the highest possible safety rating of "Full Satisfactory."
- Darlington GS achieved this rating for the eighth consecutive year, and Pickering received this rating for the second consecutive year.