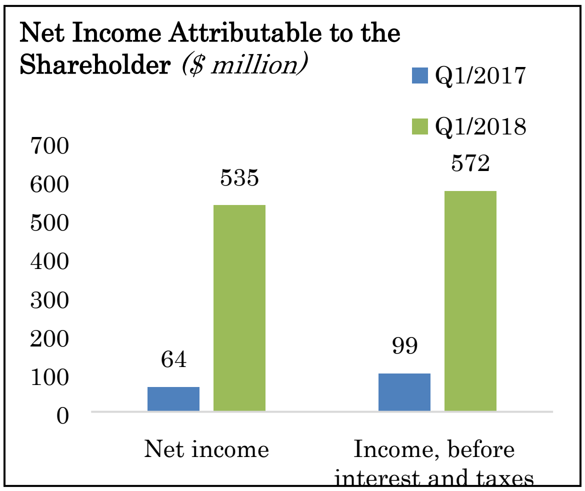
OPG Q1/2018 Results

Financials

Net income attributable to the Shareholder was $535 million for Q1/2018, representing an increase of $471 million compared to Q1/2017. Income before interest and income taxes was $571 million for Q1/2018, representing an increase of $472 million compared to Q1/2017.



Income Taxes and interest:

Income tax expense for Q1 was $13 million compared to $12 million for the same period in 2017, an increase primarily due to higher income before income taxes, largely offset by a higher amount of tax expense deferred in regulatory assets in 2018.

Interest expense for Q1/2018 was $19 million, which is the same as the Q1/2017 interest expense.

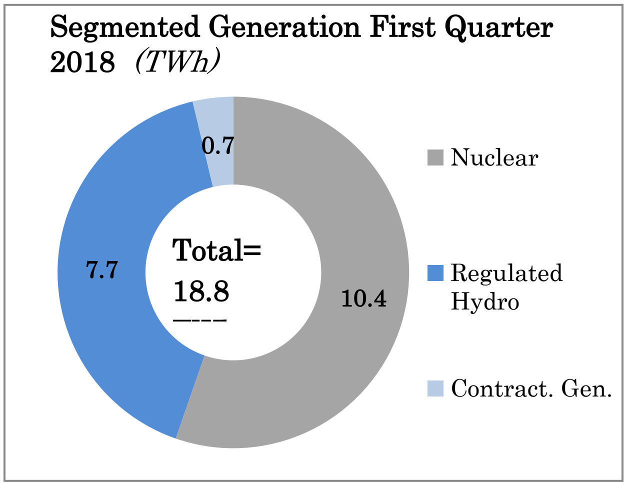
All Figures in US GAAP

Significant Factors Impacting Net Income

- ↑ Higher revenue from regulated nuclear and hydroelectric segments of ~$210 million reflecting the new regulated prices approved by OEB in its December 2017 Decision and March 2018 payments order.
- ↑ A pre-tax gain on the sale of Lakeview of $273 million recognized as net income in the first quarter.
- ↑ Higher revenue of $25 million from the nuclear segment due to higher production, offset by $5 million in additional fuel.
- ↑ Earnings of $14 million on the Regulated – Nuclear Waste Management segment compared to the same quarter in 2017.
- ↓ Higher OM&A expenses by $15 million compared to the same quarter in 2017, primarily due to higher services and materials costs associated with major planned outages.

Segmented Results/Operations

The chart below summarizes OPG's segmented contribution to the province's generation for Q1/2018:



The table below highlights changes in generation from the previous year.

Segment	Reason for change
Nuclear	Increased generation due to fewer planned outage days at Darlington GS.
Regulated Hydro	Decreased generation due to lower water flows primarily on the northwestern and eastern Ontario river systems.

Financing & Investing Activities:

Financial Indicators	Q1 2018	Q1 2017
Cash flow from Operations	$226M	$168M
Cash flow used in Investing	$604M	$413M
ROE*	11.5%	7.6%

* ROE Excluding AOCI, calculated over the last 12-month period ending March 31, 2018 and compared to 12 months ending last calendar year (March 31, 2017).

- Increase in cash flow provided by operating activities was primarily due to higher generation revenue receipts as a result of higher electricity generation from the Regulated – Nuclear Generation segment, higher cash receipts from non-generation revenues, and lower payments of income tax installments compared to the same period in 2017.
- Increase in cash flow used in investing activities was primarily due to the Trust's acquisition of Investment Interest from the IESO of $460 million in March 2018, partially offset by the receipt of proceeds from the sale of the former Lakeview GS site in March 2018.
- ROE increased primarily due to higher net income attributable to the Shareholder, which reflected the gain on sale of the former Lakeview GS, 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.

Short-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 Q1 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.

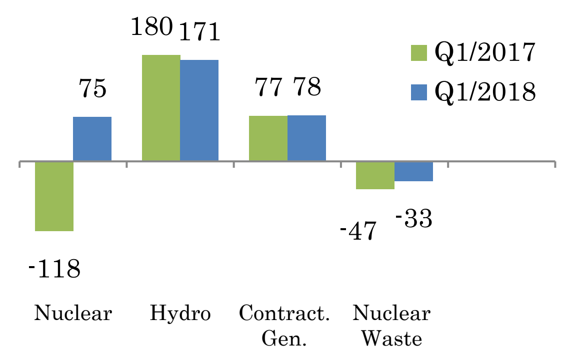
Long-Term Debt:

Key Items	Total	Issued Q1
Notes payable to OEFC	$3,520M	$600M
Lower Mattagami Energy Partnership (LME)	$1,595M	-
PSS Generating Station Limited Partnership	$245M	-

- Total Long term debt is $6,613 million in Q1/2018 compared to $ 5,921 million in Q4/2017. The increase was primarily due to the issuance of senior notes payable to the OEFC of $600 million and the net issuance of senior notes payable by the Fair Hydro Trust of $232 million.
- The increase was offset by debt repayments totalling $275 million.

Segmented Results/Operations

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



The table below summarizes changes in OPG's segmented performance in for Q1/2018:

Segment	Reason for change
Nuclear	↑ Earnings favourably affected by the OEB's decision on OPG's application for new regulated prices. ↑ Higher earnings were also affected by an increase in electricity production of 0.4 TWh during the first quarter of 2018, compared to the same quarter in 2017, which contributed approximately $25 million to the year-over-year increase in revenue.
Hydro	↓ Decrease in income due to lower hydroelectric incentive mechanism payments, higher OM&A expenses as a result of increased maintenance work programs, and retirement of replaced equiptment. The decrease was partially offset by the $5 million increase in revenue in the Q1/2018 reflecting the OEB's decision on new regulated prices.
Contracted generation	↑ Increase in earnings primarily resulted from $3 million in revenues from the Peter Sutherland Sr. GS that was placed in-service at the end of the first quarter of 2017 offset by OM&A expenses of $2 million due to higher station expenditures at Lennox 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.
- In early May 2018, OPG completed the removel of the reactor componenets, which included end fittings, pressure tubes, and calandria tubes, significying the completion of the second major segment of the project.
- The Unit 2 Refurbishment has transitioned into the third major segment, the installation and reassembly of reactor components, including new feeder tubes and fuel channel assemblies.
- Completion of the Heavy Water Storage and Drum Handling Facility (HWSF) was 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 activities on the Heavy Water Storage and Drum Handling Facility are now continuing.
- 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 March 31, 2018, $137 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 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.
- Construction continues in the expanded forebay, powerhouse and spillway area. Fabrication of the sectional gates and two head gates has been completed, with assembly and site delivery in progress. Turbine and generator unit fabrication is also 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 under an 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.
- Significant contracts for equipment and engineering construction services were executed and site preparation commenced in the first quarter of 2018. The facility is expected to be completed in Q1 2019, with a budget of $107 million.

Capital Project	Costs to date ($M)
Darlington Refurbishment	4,675
DGR	208
Ranney Falls GS	36
Nanticoke Solar	8

Recent Updates

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 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 3.44 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.
- In March 2018, the Trust purchased an Investment Interest from the IESO in the amount of $460 million. Fifty-one percent of the funding requirement, approximately $235 million was financed by the Trust through the 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 April 2018, the Trust issued $400 million of senior notes payable with a coupon interest rate of 3.52 percent and an effective interest rate of 3.60 percent, payable semi-annually until maturity in May 2038. The proceeds were used to repay the majority of the balance of the revolving warehouse facility outstanding after the April 2018 Investment Interest acquisition from the IESO of the $149 million, of which $76 million was funded through this facility

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

- In August 2017, OPG submitted a ten-year licence renewal application to the CNSC in order to extend commercial operation to December 31, 2024 and place the station in a safe storage state in 2028.
- The first public hearing for the Pickering GS licence renewal application took place on April 4, 2018 and provided an opportunity for OPG to present its submission to the CNSC that outlined how the Pickering GS meets technical requirements and is qualified to continue operations. The final set of public hearings will take

place between June 26 and June 28, 2018

- In 2016, OPG submitted applications with the CNSC seeking a ten-year licence renewal for the Pickering Waste Management Facility (PWMF) to August 31, 2028. On February 7, 2018, following public hearings in April 2017, the CNSC announced that the PWMF licence was renewed for a ten-year period and will be valid until August 31, 2028.

New Accounting Standards Effective in 2018

- The Financial Accounting Standards Board issued new accounting standards that came into effect as of January 1, 2018.
- The changes that have an impact on OPG are as follows:

  1) Recognition and Measurement of Financial Assets and Financial Liabilities: Entities are required to measure equity investments at fair value and recognize any changes in fair value in net income. The adoption of this change resulted in an adjustment to transfer cumulative losses of $9 million on OPG's equity securities from AOCI to opening retained earnings on January 1, 2018.

  2) Intra-Entity Transfers of Assets Other than Inventory: Entities are required to recognize the income tax effects of all intra-entity asset transfers, with the exception of inventory, as soon as the transfer occurs. On adoption of the update, the Company recorded an adjustment to opening retained earnings of $7 million to reflect the associated deferred income tax liability resulting from the cumulative effect of OPG's transfer of assets to UMH and LME in prior years.

- There are also new lease accounting standards that have not yet been adopted. OPG is currently evaluating the impact of these standards on its consolidated financial statements.