# ONTARIO POWER GENERATION INC.

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

## SEPTEMBER 30, 2017

# INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

| *(millions of dollars except where noted)* | Three Months Ended September 30 2017 | 2016 | Nine Months Ended September 30 2017 | 2016 |
|---|---|---|---|---|
| **Revenue** *(Note 12)* | **1,217** | 1,400 | **3,539** | 4,265 |
| Fuel expense *(Note 12)* | **185** | 187 | **518** | 541 |
| **Gross margin** | **1,032** | 1,213 | **3,021** | 3,724 |
| **Expenses** *(Note 12)* | | | | |
| Operations, maintenance and administration | **635** | 666 | **2,054** | 2,061 |
| Depreciation and amortization | **178** | 313 | **517** | 941 |
| Accretion on fixed asset removal and nuclear waste management liabilities | **235** | 232 | **709** | 696 |
| Earnings on nuclear fixed asset removal and nuclear waste management funds | **(196)** | (248) | **(579)** | (620) |
| Property taxes | **8** | 12 | **30** | 35 |
| Income from investments subject to significant influence | **(11)** | (11) | **(29)** | (28) |
| | **849** | 964 | **2,702** | 3,085 |
| **Income before other losses (gains), interest and income taxes** | **183** | 249 | **319** | 639 |
| Other losses (gains) *(Note 12)* | **3** | 1 | **(380)** | (23) |
| **Income before interest and income taxes** | **180** | 248 | **699** | 662 |
| Net interest expense *(Note 5)* | **21** | 28 | **56** | 92 |
| **Income before income taxes** | **159** | 220 | **643** | 570 |
| Income tax expense | **19** | 22 | **128** | 109 |
| **Net income** | **140** | 198 | **515** | 461 |
| **Net income attributable to the Shareholder** | **131** | 194 | **498** | 449 |
| Net income attributable to non-controlling interest | **9** | 4 | **17** | 12 |
| **Basic and diluted net income per common share** *(dollars)* | **0.51** | 0.76 | **1.94** | 1.75 |
| **Common shares outstanding** *(millions)* | **256.3** | 256.3 | **256.3** | 256.3 |

*See accompanying notes to the interim consolidated financial statements*

# INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

| *(millions of dollars)* | Three Months Ended September 30 2017 | Three Months Ended September 30 2016 | Nine Months Ended September 30 2017 | Nine Months Ended September 30 2016 |
|---|---|---|---|---|
| **Net income** | **140** | 198 | **515** | 461 |
| **Other comprehensive income, net of income taxes** *(Note 7)* | | | | |
| Reclassification to income of amounts related to pension and other post-employment benefits [1] | **3** | 3 | **8** | 9 |
| Reclassification to income of losses on derivatives designated as cash flow hedges [2] | **4** | 4 | **13** | 14 |
| Unrealized (loss) gain on available-for-sale securities [3] | **(4)** | - | **(6)** | 15 |
| Other comprehensive income for the period | **3** | 7 | **15** | 38 |
| **Comprehensive income** | **143** | 205 | **530** | 499 |
| **Comprehensive income attributable to the Shareholder** | **134** | 201 | **513** | 487 |
| Comprehensive income attributable to non-controlling interest | **9** | 4 | **17** | 12 |

[1] Net of income tax expenses of nil and $1 million for the three months ended September 30, 2017 and 2016, respectively. Net of income tax expenses of $2 million and $3 million for the nine months ended September 30, 2017 and 2016, respectively.

[2] Net of income tax expenses of $1 million for the three months ended September 30, 2017 and 2016. Net of income tax expense of $2 million for the nine months ended September 30, 2017 and 2016.

[3] Net of income tax expense of nil for the three months ended September 30, 2017 and 2016. Net of income tax recovery of $1 million and income tax expenses of $5 million for the nine months ended September 30, 2017 and 2016, respectively.

*See accompanying notes to the interim consolidated financial statements*

# INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| **Nine Months Ended September 30**<br>*(millions of dollars)* | **2017** | **2016** |
|---|---|---|
| **Operating activities** | | |
| Net income | **515** | 461 |
| Adjust for non-cash items: | | |
| Depreciation and amortization | **517** | 941 |
| Accretion on fixed asset removal and nuclear waste management liabilities | **709** | 696 |
| Earnings on nuclear fixed asset removal and nuclear waste management funds | **(579)** | (620) |
| Pension and other post-employment benefit costs *(Note 8)* | **339** | 351 |
| Deferred income taxes | **50** | (41) |
| Mark-to-market on derivative instruments | **(4)** | 1 |
| Provision for used nuclear fuel and low and intermediate level nuclear waste | **84** | 91 |
| Regulatory assets and liabilities | **(97)** | (82) |
| Provision for materials and supplies | **13** | 38 |
| Other gains | **(374)** | (23) |
| Other | **(35)** | (14) |
| | **1,138** | 1,799 |
| Contributions to nuclear fixed asset removal and nuclear waste management funds | **-** | (112) |
| Expenditures on fixed asset removal and nuclear waste management | **(231)** | (189) |
| Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management | **59** | 49 |
| Contributions to pension funds and expenditures on other post-employment benefits and supplementary pension plans | **(270)** | (331) |
| Expenditures on restructuring | **(3)** | (3) |
| Distributions received from investments subject to significant influence | **37** | 40 |
| Net changes to other long-term assets and liabilities | **23** | 17 |
| Net changes in non-cash working capital balances *(Note 13)* | **(55)** | (59) |
| **Cash flow provided by operating activities** | **698** | 1,211 |
| **Investing activities** | | |
| Proceeds from sale of property, plant and equipment | **484** | - |
| Purchase of available-for-sale securities | **-** | (213) |
| Proceeds from deposit note *(Note 4)* | **70** | 65 |
| Investment in property, plant and equipment and intangible assets | **(1,274)** | (1,105) |
| **Cash flow used in investing activities** | **(720)** | (1,253) |
| **Financing activities** | | |
| Issuance of long-term debt *(Note 4)* | **800** | - |
| Repayment of long-term debt | **(852)** | (2) |
| Contribution from non-controlling interest | **19** | - |
| Distribution to non-controlling interest | **(11)** | (11) |
| Issuance of short-term notes | **1,458** | 2,916 |
| Repayment of short-term notes | **(1,298)** | (2,899) |
| **Cash flow provided by financing activities** | **116** | 4 |
| Net increase (decrease) in cash and cash equivalents | **94** | (38) |
| **Cash and cash equivalents, beginning of period** | **186** | 464 |
| **Cash and cash equivalents, end of period** | **280** | 426 |

*See accompanying notes to the interim consolidated financial statements*

# INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| **As at**<br>*(millions of dollars)* | **September 30 2017** | **December 31 2016** |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | **280** | 186 |
| Available-for-sale securities | **190** | 212 |
| Receivables from related parties | **357** | 429 |
| Nuclear fixed asset removal and nuclear waste management funds | **19** | 24 |
| Fuel inventory | **290** | 310 |
| Materials and supplies | **96** | 100 |
| Income taxes recoverable | **11** | - |
| Prepaid expenses | **212** | 198 |
| Other current assets | **108** | 298 |
| | **1,563** | 1,757 |
| **Property, plant and equipment** | **30,491** | 29,315 |
| Less: accumulated depreciation | **9,690** | 9,317 |
| | **20,801** | 19,998 |
| **Intangible assets** | **546** | 503 |
| Less: accumulated amortization | **425** | 404 |
| | **121** | 99 |
| **Other non-current assets** | | |
| Nuclear fixed asset removal and nuclear waste management funds | **16,515** | 15,960 |
| Long-term materials and supplies | **364** | 345 |
| Regulatory assets *(Note 3)* | **6,002** | 5,855 |
| Investments subject to significant influence *(Note 14)* | **313** | 321 |
| Other long-term assets | **27** | 37 |
| | **23,221** | 22,518 |
| | **45,706** | 44,372 |

*See accompanying notes to the interim consolidated financial statements*

# INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| **As at**<br>*(millions of dollars)* | **September 30 2017** | **December 31 2016** |
|---|---|---|
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued charges | **1,144** | 1,164 |
| Deferred revenue | **12** | 12 |
| Short-term debt | **160** | 2 |
| Long-term debt due within one year *(Note 4)* | **628** | 1,103 |
| Income taxes payable | **-** | 123 |
| | **1,944** | 2,404 |
| **Long-term debt** *(Note 4)* | **4,840** | 4,417 |
| **Other non-current liabilities** | | |
| Fixed asset removal and nuclear waste management liabilities *(Note 6)* | **20,075** | 19,484 |
| Pension liabilities | **2,867** | 3,012 |
| Other post-employment benefit liabilities | **2,959** | 2,897 |
| Long-term accounts payable and accrued charges | **235** | 213 |
| Deferred revenue | **338** | 298 |
| Deferred income taxes | **890** | 829 |
| Regulatory liabilities *(Note 3)* | **510** | 310 |
| | **27,874** | 27,043 |
| **Equity** | | |
| Common shares [1] | **5,126** | 5,126 |
| Retained earnings | **6,034** | 5,534 |
| Accumulated other comprehensive loss *(Note 7)* | **(277)** | (295) |
| **Equity attributable to the Shareholder** | **10,883** | 10,365 |
| Equity attributable to non-controlling interest | **165** | 143 |
| **Total equity** | **11,048** | 10,508 |
| | **45,706** | 44,372 |

[1] 256,300,010 common shares outstanding at a stated value of $5,126 million as at September 30, 2017 and December 31, 2016.

Commitments and Contingencies *(Notes 4, 10 and 11)*

*See accompanying notes to the interim consolidated financial statements*

# INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

| **Nine Months Ended September 30**<br>*(millions of dollars)* | **2017** | **2016** |
|---|---|---|
| **Common shares** | **5,126** | 5,126 |
| **Retained earnings** | | |
| Balance at beginning of period | **5,534** | 5,098 |
| Net income attributable to the Shareholder | **498** | 449 |
| Reclassification of non-controlling interest on change in ownership interest *(Note 15)* | **2** | - |
| Balance at end of period | **6,034** | 5,547 |
| **Accumulated other comprehensive loss, net of income taxes** | | |
| Balance at beginning of period | **(295)** | (319) |
| Other comprehensive income | **15** | 38 |
| Reclassification of non-controlling interest on change in ownership interest *(Note 15)* | **3** | - |
| Balance at end of period | **(277)** | (281) |
| **Equity attributable to the Shareholder** | **10,883** | 10,392 |
| **Equity attributable to non-controlling interest** | | |
| Balance at beginning of period | **143** | 140 |
| Equity contribution from non-controlling interest *(Note 15)* | **21** | - |
| Reclassification of non-controlling interest on change in ownership interest *(Note 15)* | **(5)** | - |
| Distribution to non-controlling interest | **(11)** | (11) |
| Income attributable to non-controlling interest | **17** | 12 |
| Balance at end of period | **165** | 141 |
| **Total equity** | **11,048** | 10,533 |

*See accompanying notes to the interim consolidated financial statements*

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2017 and 2016

## 1. BASIS OF PRESENTATION

These interim consolidated financial statements for the three and nine months ended September 30, 2017 and 2016 include the accounts of Ontario Power Generation Inc. (OPG or the Company) and its subsidiaries. The Company consolidates its interest in entities over which it is able to exercise control and attributes the results to its sole shareholder, the Province of Ontario (Province). Interests owned by other parties are reflected as non-controlling interest. These interim consolidated financial statements have been prepared and presented in accordance with United States generally accepted accounting principles (US GAAP). These interim consolidated financial statements do not contain all of the disclosures required by US GAAP for annual financial statements. Accordingly, they should be read in conjunction with the annual consolidated financial statements of the Company as at and for the year ended December 31, 2016. All dollar amounts are presented in Canadian dollars.

Certain of the 2016 comparative amounts have been reclassified from financial statements previously presented to conform to the 2017 interim consolidated financial statement presentation.

### Use of Management Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the interim consolidated financial statements, and the reported amounts of revenues and expenses for the reporting periods. Management evaluates these estimates on an ongoing basis based upon historical experience, current conditions, and assumptions believed to be reasonable at the time the assumption is made, with any adjustments recognized in the period incurred. Significant estimates are included in the determination of pension and other post-employment benefit (OPEB) balances, asset retirement obligations and associated asset retirement costs capitalized as part of property, plant and equipment, income taxes (including deferred income taxes), contingencies, regulatory assets and liabilities, valuation of derivative instruments and investments in segregated funds, depreciation and amortization expenses, and inventories. Actual results may differ significantly from these estimates.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

### Change in Accounting Estimate

Pension and Other Post-Employment Benefits

Effective January 1, 2017, OPG changed the method used to estimate the service and interest cost components of pension and OPEB costs. OPG adopted a full yield curve approach to the estimation of these cost components, by applying the specific spot rates along the yield curve used in the determination of the projected benefit obligations to the relevant projected cash flows. Under the previous method, these components of pension and OPEB costs were calculated using the same single weighted-average discount rates as reflected in the calculation of the benefit obligations. This change in the method was accounted for prospectively, as a change in estimate. The resulting reduction in pension and OPEB costs is estimated at approximately $35 million and $105 million for the three and nine months ended September 30, 2017, respectively. Approximately 90 percent of this reduction in pension and OPEB costs was attributed to the Company's regulated business segments and therefore was offset by the impact of regulatory variance and deferral accounts authorized by the Ontario Energy Board (OEB).

## Recent Accounting Pronouncements Not Yet Adopted

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes nearly all existing revenue recognition guidance, including industry-specific guidance, under US GAAP. The core principle of Topic 606 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018, including interim periods within that year. Early adoption is permitted.

As part of the project to implement the new revenue standard, OPG is continuing to assess the impact of the standard on accounting for the Company's revenue streams and consolidated financial statements. OPG's major revenue streams include regulated generation revenue from base regulated prices and rate riders established by the OEB, as well as revenue from generation assets under long-term contractual arrangements with the Independent Electricity System Operator (IESO). In March 2017, the American Institute of Certified Public Accountants (AICPA) issued Revenue Recognition Implementation Issue #13-1*, Scope Clarification Regarding Tariff Sales to Regulated Customers*. The draft implementation guidance was developed by the AICPA Power & Utilities task force. This draft guidance concludes that tariff-based revenue from the provision of regulated utility service to a utility's customers is within the scope of Topic 606. OPG has completed its analysis of the impact of Topic 606 on its accounting for generation revenue from base regulated prices and long-term contractual arrangements with the IESO, and has not identified any material differences in the timing or amount of revenue recognition for these streams. The Company continues to assess the impact of Topic 606 on its other revenue streams.

The Company currently expects to apply the new revenue standard in its 2018 first quarter interim financial statements and is in the process of concluding on the method of adoption.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Under the new guidance, employers that sponsor defined benefit plans for pensions and/or other postretirement benefits are required to present the service cost component of net periodic benefit cost in the same statement of income line item as other employee compensation costs arising from services rendered during the period. The other components of the net periodic benefit cost are to be presented separately from the line item that includes the service cost and outside of any subtotal of income from operations, if such a subtotal is presented. In addition, the new guidance requires that only the service cost component of net benefit cost be eligible for capitalization.

This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods of those years. The guidance is not expected to have a material impact on OPG's consolidated financial statements, as OPG currently capitalizes only the service cost component of post-retirement benefits costs. Additionally, OPG already includes the service cost component of post-retirement benefit costs with other compensation costs, within the operations, maintenance and administration expenses line item in the consolidated statements of income, and does not show a subtotal of income from operations. As such, the new guidance is not expected to affect the presentation of OPG's consolidated financial statements.

## 3. REGULATORY ASSETS AND LIABILITIES

The regulatory assets and liabilities recorded as at September 30, 2017 and December 31, 2016 are as follows:

| *(millions of dollars)* | **September 30 2017** | **December 31 2016** |
|---|---|---|
| Regulatory assets | | |
| *Variance and deferral accounts authorized by the OEB* | | |
| Pension and OPEB Cost Variance Account | **716** | 716 |
| Pension & OPEB Cash Versus Accrual Differential Deferral Account *(Note 8)* | **552** | 497 |
| Hydroelectric Surplus Baseload Generation Variance Account | **327** | 210 |
| Bruce Lease Net Revenues Variance Account | **131** | 95 |
| Other variance and deferral accounts | **137** | 107 |
| | **1,863** | 1,625 |
| Pension and OPEB Regulatory Asset *(Note 8)* | **3,260** | 3,392 |
| Deferred Income Taxes | **879** | 838 |
| Total regulatory assets | **6,002** | 5,855 |
| Regulatory liabilities | | |
| *Variance and deferral accounts authorized by the OEB* | | |
| Hydroelectric Water Conditions Variance Account | **143** | 51 |
| Impact Resulting from Changes in Station End-of-Life Dates Deferral Account | **124** | 71 |
| Other variance and deferral accounts | **243** | 188 |
| Total regulatory liabilities | **510** | 310 |

OPG's May 2016 application with the OEB for new regulated prices included a request for new rate riders to recover or repay the December 31, 2015 balances in all of the Company's OEB-authorized variance and deferral accounts, with the exception of the Pension & OPEB Cash Versus Accrual Differential Deferral Account and the portion of these balances previously approved for recovery or repayment through rate riders in effect during 2016. The application also requested the continuation of all applicable existing variance and deferral accounts. In March 2017, the OEB approved a settlement agreement reached by OPG and intervenors on a limited set of issues in the application (Settlement Agreement). Among the settled issues, the agreement provided for the continuation of all applicable existing variance and deferral accounts and accepted a number of variance and deferral account balances for recovery, as requested in OPG's application. The periods of recovery or repayment for the accepted variance and deferral account balances are excluded from the scope of the Settlement Agreement. The Settlement Agreement did not impact OPG's financial results for the three and nine months ended September 30, 2017. The OEB's decision on OPG's application is pending.

As at September 30, 2017 and December 31, 2016, regulatory assets for other variance and deferral accounts included amounts for the Nuclear Deferral and Variance Over/Under Recovery Variance Account, the Nuclear Liability Deferral Account, the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account, the Niagara Tunnel Project Pre-December 2008 Disallowance Variance Account, and the Nuclear Development Variance Account. As at September 30, 2017 and December 31, 2016, regulatory liabilities for other variance and deferral accounts included the amounts for the Pension & OPEB Cash Payment Variance Account, the Capacity Refurbishment Variance Account, the Ancillary Services Net Revenue Variance Account, the Income and Other Taxes Variance Account, and the Hydroelectric Incentive Mechanism Variance Account.

## 4. LONG-TERM DEBT

Long-term debt consists of the following:

| *(millions of dollars)* | **September 30 2017** | **December 31 2016** |
|---|---|---|
| Notes payable to the Ontario Electricity Financial Corporation | **3,245** | 3,295 |
| UMH Energy Partnership | **182** | 184 |
| PSS Generating Station Limited Partnership | **245** | 245 |
| Lower Mattagami Energy Limited Partnership | **1,795** | 1,795 |
| Other | **15** | 15 |
| | **5,482** | 5,534 |
| Less: bond issuance fees | **(14)** | (14) |
| Less: due within one year | **(628)** | (1,103) |
| Long-term debt | **4,840** | 4,417 |

In the fourth quarter of 2015, PSS Generating Station Limited Partnership (PSS), a subsidiary of OPG, issued long-term debt totalling $245 million in support of the Peter Sutherland Sr. Generating Station (GS) project. The majority of the debt proceeds, totalling $180 million, were invested in a structured deposit note with staggered maturity dates ranging from January 2016 to April 2017. As at September 30, 2017, the deposit note had matured.

In June 2016, OPG entered into a $700 million general corporate credit facility agreement with the Ontario Electricity Financial Corporation (OEFC), which expires on December 31, 2017. In the third quarter of 2017, the agreement was amended, with the credit facility increased to $2,350 million and the expiry date extended to December 31, 2018.

In February 2017, OPG issued senior notes payable to the OEFC totalling $200 million and maturing in February 2047. The effective interest rate and coupon interest rate of these notes was 4.12 percent. In June 2017, OPG issued senior notes payable to the OEFC totalling $100 million and maturing in June 2047. The effective interest rate and coupon interest rate of these notes was 3.65 percent. In August 2017, OPG issued senior notes payable to the OEFC totaling $100 million and maturing in August 2047. The effective interest rate and coupon interest rate of these notes was 3.86 percent. In September 2017, OPG issued senior notes payable to the OEFC totalling $400 million and maturing in September 2047. The effective interest rate and coupon interest rate of these notes was 4.07 percent.

In October 2017, OPG issued $500 million of senior notes payable under a Medium Term Note Program. 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. The offering was made under OPG's $2 billion short form base shelf prospectus dated September 12, 2017.

## 5. SHORT-TERM DEBT AND NET INTEREST EXPENSE

OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two $500 million multi-year term tranches. In the second quarter of 2017, OPG renewed and extended the expiry date of both tranches from May 2021 to May 2022. As at September 30, 2017, there were no amounts outstanding under the bank credit facility. There was $160 million commercial paper outstanding under OPG's commercial paper program as at September 30, 2017.

As at September 30, 2017, the Lower Mattagami Energy Limited Partnership (LME) maintained a $400 million bank credit facility to support the funding requirements for the Lower Mattagami River project including support for LME's commercial paper program, and the issuance of the Letters of Credit. The facility consists of a $300 million tranche maturing in August 2022 and a $100 million tranche maturing in August 2018. As at September 30, 2017, there was no external commercial paper outstanding under LME's commercial paper program. A letter of credit of $55 million was issued in July 2017 and remains outstanding as at September 30, 2017 under the first tranche of LME's credit facility.

As at September 30, 2017, OPG maintained $25 million of short-term, uncommitted overdraft facilities and $463 million of short-term, uncommitted credit facilities, which support the issuance of the Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other general corporate purposes. As at September 30, 2017, a total of $388 million of Letters of Credit had been issued under these facilities. This included $349 million for the supplementary pension plans, $38 million for general corporate purposes, and $1 million related to the operation of the Portlands Energy Centre (PEC), a jointly controlled entity in which OPG holds a 50 percent interest.

The Company has an agreement to sell an undivided co-ownership interest in its current and future accounts receivable to an independent trust. The maximum amount of co-ownership interest that can be sold under this agreement is $150 million, expiring on November 30, 2018. As at September 30, 2017, there were Letters of Credit outstanding under this agreement of $150 million, which were issued in support of OPG's supplementary pension plans.

UMH Energy Partnership has entered into an $8 million short-term, uncommitted overdraft facility and $16 million of irrevocable, standby Letters of Credit facilities in support of its operations. As at September 30, 2017, total Letters of Credit of $14 million had been issued under these facilities.

The following table summarizes the net interest expense:

| | **Three Months Ended September 30** | | **Nine Months Ended September 30** | |
|---|---|---|---|---|
| *(millions of dollars)* | **2017** | **2016** | **2017** | **2016** |
| Interest on long-term debt | **74** | 73 | **215** | 217 |
| Interest on short-term debt | **-** | - | **2** | 2 |
| Interest income | **(4)** | (1) | **(6)** | (5) |
| Interest capitalized to property, plant and equipment and intangible assets | **(39)** | (36) | **(121)** | (101) |
| Interest related to regulatory assets and liabilities [1] | **(10)** | (8) | **(34)** | (21) |
| Net interest expense | **21** | 28 | **56** | 92 |

[1] Includes interest to recognize the cost of financing related to regulatory variance and deferral accounts, as authorized by the OEB, and interest deferred in the Bruce Lease Net Revenues Variance Account, the Capacity Refurbishment Variance Account, and the Niagara Tunnel Project Pre-December 2008 Disallowance Variance Account.

## 6. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT LIABILITIES

The liabilities for fixed asset removal and nuclear waste management on a present value basis as at September 30, 2017 and December 31, 2016 consist of the following:

| *(millions of dollars)* | **September 30 2017** | **December 31 2016** |
|---|---|---|
| Liability for nuclear used fuel management | **11,690** | 11,292 |
| Liability for nuclear decommissioning and nuclear low and intermediate level waste management | **8,009** | 7,811 |
| Liability for non-nuclear fixed asset removal | **376** | 381 |
| Fixed asset removal and nuclear waste management liabilities | **20,075** | 19,484 |

## 7. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in the balance of each component of accumulated other comprehensive loss (AOCL), are as follows:

| | **Nine Months Ended September 30, 2017** | | | |
|---|---|---|---|---|
| *(millions of dollars)* | **Unrealized Losses on Cash Flow Hedges [1]** | **Pension and OPEB [1]** | **Available-for-sale Securities [1]** | **Total [1]** |
| AOCL, beginning of period | **(87)** | **(207)** | **(1)** | **(295)** |
| Unrealized loss on available-for-sale securities | **-** | **-** | **(6)** | **(6)** |
| Amounts reclassified from AOCL | **13** | **8** | **-** | **21** |
| Other comprehensive income (loss) for the period | **13** | **8** | **(6)** | **15** |
| Reclassification of non-controlling interest on change in ownership interest *(Note 15)* | **3** | **-** | **-** | **3** |
| AOCL, end of period | **(71)** | **(199)** | **(7)** | **(277)** |

[1] All amounts are net of income taxes.

| | **Nine Months Ended September 30, 2016** | | | |
|---|---|---|---|---|
| *(millions of dollars)* | **Unrealized Losses on Cash Flow Hedges [1]** | **Pension and OPEB [1]** | **Available-for-sale Securities [1]** | **Total [1]** |
| AOCL, beginning of period | (106) | (213) | - | (319) |
| Unrealized gain on available-for-sale securities | - | - | 15 | 15 |
| Amounts reclassified from AOCL | 14 | 9 | - | 23 |
| Other comprehensive income for the period | 14 | 9 | 15 | 38 |
| AOCL, end of period | (92) | (204) | 15 | (281) |

[1] All amounts are net of income taxes.

The significant amounts reclassified out of each component of AOCL, net of income taxes, during the three and nine months ended September 30, 2017 are as follows:

| *(millions of dollars)* | **Amount Reclassified from AOCL** **Three Months Ended September 30, 2017** | **Nine Months Ended September 30, 2017** | **Statement of Income Line Item** |
|---|---|---|---|
| Amortization of losses from cash flow hedges | | | |
| Losses | **5** | **15** | Net interest expense |
| Income tax recovery | **(1)** | **(2)** | Income tax expense |
| | **4** | **13** | |
| Amortization of amounts related to pension and OPEB | | | |
| Actuarial losses | **3** | **10** | See (1) below |
| Income tax recovery | **-** | **(2)** | Income tax expense |
| | **3** | **8** | |
| Total reclassifications for the period | **7** | **21** | |

[1] These AOCL components are included in the computation of pension and OPEB costs (see Note 8 for additional details).

The significant amounts reclassified out of each component of AOCL, net of income taxes, during the three and nine months ended September 30, 2016 are as follows:

| *(millions of dollars)* | **Amount Reclassified from AOCL** **Three Months Ended September 30, 2016** | **Nine Months Ended September 30, 2016** | **Statement of Income Line Item** |
|---|---|---|---|
| Amortization of losses from cash flow hedges | | | |
| Losses | 5 | 16 | Net interest expense |
| Income tax recovery | (1) | (2) | Income tax expense |
| | 4 | 14 | |
| Amortization of amounts related to pension and OPEB | | | |
| Actuarial losses | 4 | 12 | See (1) below |
| Income tax recovery | (1) | (3) | Income tax expense |
| | 3 | 9 | |
| Total reclassifications for the period | 7 | 23 | |

[1] These AOCL components are included in the computation of pension and OPEB costs (see Note 8 for additional details).

## 8. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

OPG's pension and OPEB costs for the three months ended September 30, 2017 and 2016 are as follows:

| | Registered Pension Plans | | Supplementary Pension Plans | | OPEB | |
|---|---|---|---|---|---|---|
| *(millions of dollars)* | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| *Components of Cost Recognized for the period* | | | | | | |
| Current service costs | **68** | 70 | **2** | 2 | **17** | 16 |
| Interest on projected benefit obligation | **138** | 158 | **2** | 3 | **27** | 34 |
| Expected return on plan assets, net of expenses | **(191)** | (185) | **-** | - | **-** | - |
| Amortization of net actuarial loss [1] | **45** | 49 | **2** | 1 | **-** | 5 |
| Cost recognized [2] | **60** | 92 | **6** | 6 | **44** | 55 |

[1] The amortization of net actuarial loss is recognized as an increase to other comprehensive income. This increase for the three months ended September 30, 2017 was partially offset by a decrease in the Pension and OPEB Regulatory Asset of $44 million (three months ended September 30, 2016 – $51 million).

[2] These pension and OPEB costs for the three months ended September 30, 2017 exclude the net addition of costs of $3 million from the recognition of changes in the regulatory assets for the Pension & OPEB Cash Versus Accrual Differential Deferral Account and the Pension & OPEB Cash Payment Variance Account (three months ended September 30, 2016 – net reduction of costs of $35 million).

OPG's pension and OPEB costs for the nine months ended September 30, 2017 and 2016 are as follows:

| | Registered Pension Plans | | Supplementary Pension Plans | | OPEB | |
|---|---|---|---|---|---|---|
| *(millions of dollars)* | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| *Components of Cost Recognized for the period* | | | | | | |
| Current service costs | **205** | 208 | **5** | 5 | **51** | 50 |
| Interest on projected benefit obligation | **411** | 475 | **8** | 9 | **81** | 100 |
| Expected return on plan assets, net of expenses | **(574)** | (552) | **-** | - | **-** | - |
| Amortization of net actuarial loss [1] | **137** | 145 | **5** | 3 | **-** | 15 |
| Cost recognized [2] | **179** | 276 | **18** | 17 | **132** | 165 |

[1] The amortization of net actuarial loss is recognized as an increase to other comprehensive income. This increase for the nine months ended September 30, 2017 was partially offset by a decrease in the Pension and OPEB Regulatory Asset of $132 million (nine months ended September 30, 2016 – $151 million).

[2] These pension and OPEB costs for the nine months ended September 30, 2017 exclude the net addition of costs of $10 million from the recognition of changes in the regulatory assets for the Pension & OPEB Cash Versus Accrual Differential Deferral Account and the Pension & OPEB Cash Payment Variance Account (nine months ended September 30, 2016 − net reduction of costs of $107 million).

A new actuarial valuation of the OPG registered pension plan was filed with the Financial Services Commission of Ontario in September 2017 with an effective date of January 1, 2017. The annual funding requirements in accordance with the new actuarial valuation are $212 million for 2017, $215 million for 2018 and $219 million for 2019.

## 9. RISK MANAGEMENT AND DERIVATIVES

OPG is exposed to risks related to changes in market interest rates on debt expected to be issued in the future and movements in foreign currency that affect the Company's assets, liabilities, and forecasted transactions. Select derivative instruments are used to manage such risks. Derivatives are used as hedging instruments, as well as for trading purposes.

Interest rate risk is the risk that the value of assets and liabilities can change due to movements in related interest rates. Interest rate risk for OPG arises with the need to refinance existing debt and/or undertake new financing. The management of these risks includes using derivatives to hedge the exposure in accordance with corporate risk management policies. OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated financing.

OPG's financial results are exposed to volatility in the Canadian/United States (US) foreign exchange rate as fuels and certain supplies and services purchased for generating stations and major development projects are denominated in, or tied to, US dollars. OPG enters into foreign exchange derivatives and agreements with major financial institutions, when appropriate, in order to manage the Company's exposure to foreign currency movements.

The majority of OPG's revenues are derived from sales through the IESO administered spot market. Market participants in the IESO spot market provide collateral in accordance with the IESO prudential support requirements to cover funds that they might owe to the market. Although the credit exposure to the IESO represents a significant portion of OPG's accounts receivable, the Company's management accepts this risk due to the IESO's primary role in the Ontario electricity market. The remaining receivables exposure is to a diverse group of generally high quality counterparties. OPG's allowance for doubtful accounts as at September 30, 2017 was less than $1 million. OPG's fair value derivatives totalled a net liability of $16 million as at September 30, 2017 (December 31, 2016 – $24 million).

Existing pre-tax net losses of $20 million deferred in AOCL as at September 30, 2017 are expected to be reclassified to net income within the next 12 months.

## 10. FAIR VALUE MEASUREMENTS

The fair value of financial instruments traded in active markets is based on quoted market prices at the interim consolidated balance sheet dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by OPG is the current bid price. These instruments are included in Level 1 and are comprised primarily of equity investments and fund investments. The fair value hierarchy groups financial instruments into three levels, based on the significance of inputs used in measuring the fair value of the assets and liabilities.

For financial instruments for which quoted market prices are not directly available, fair values are estimated using forward price curves developed from observable market prices or rates. The estimation of fair value may include the use of valuation techniques or models, based wherever possible on assumptions supported by observable market prices or rates prevailing at the interim consolidated balance sheet dates. This is the case for over-the-counter derivatives and securities, which include energy commodity derivatives, foreign exchange derivatives, interest rate swap derivatives, and fund investments. Pooled fund investments are valued at the unit values supplied by the pooled fund administrators. The unit values represent the underlying net assets at fair values, determined using closing market prices. Valuation models use general assumptions and market data and therefore do not reflect the specific risks and other factors that would affect a particular instrument's fair value. The methodologies used for calculating the fair value adjustments are reviewed on an ongoing basis to ensure that they remain appropriate. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Specific valuation techniques are used to value these instruments. Significant Level 3 inputs include: recent comparable transactions, comparable benchmark information, bid/ask spread of similar transactions, and other relevant factors.

Certain alternative investments are measured at fair value by their investment managers using net asset value (NAV). Investments measured at NAV as a practical expedient for determining their fair value are excluded from the fair value hierarchy.

Transfers into, out of, or between levels are deemed to have occurred on the date of the event or change in circumstances that caused the transfer to occur.

The following is a summary of OPG's financial instruments and their fair value as at September 30, 2017 and December 31, 2016:

| | **Fair Value** | | **Carrying Value** [1] | | |
|---|---|---|---|---|---|
| *(millions of dollars)* | **2017** | **2016** | **2017** | **2016** | **Balance Sheet Line Item** |
| Nuclear Segregated Funds (includes current portion) [2] | **16,534** | 15,984 | **16,534** | 15,984 | Nuclear fixed asset removal and nuclear waste management funds |
| Investment in Hydro One shares | **190** | 212 | **190** | 212 | Available-for-sale securities |
| Payable related to cash flow hedges | **(42)** | (48) | **(42)** | (48) | Long-term accounts payable and accrued charges |
| Long-term debt (includes current portion) | **(5,859)** | (6,033) | **(5,482)** | (5,520) | Long-term debt |
| Other financial instruments | **(11)** | (18) | **(11)** | (18) | Various |

[1] The carrying values of other financial instruments included in cash and cash equivalents, receivables from related parties, other current assets, short-term debt, and accounts payable and accrued charges approximate their fair values due to the immediate or short-term maturity of these financial instruments.

[2] The Nuclear Segregated Funds are comprised of the Decommissioning Segregated Fund and the Used Fuel Segregated Fund.

The fair value of long-term debt instruments is determined based on a conventional pricing model, which is a function of future cash flows, the current market yield curve and term to maturity. These inputs are considered Level 2 inputs.

The following tables present financial assets and financial liabilities measured at fair value in accordance with the fair value hierarchy as at September 30, 2017 and December 31, 2016:

| | September 30, 2017 | | | |
|---|---|---|---|---|
| *(millions of dollars)* | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets** | | | | |
| *Used Fuel Segregated Fund* | | | | |
| Investments measured at fair value, excluding investments measured at NAV | **5,879** | **4,498** | **-** | **10,377** |
| Investments measured at NAV [1] | | | | **1,231** |
| | | | | **11,608** |
| Due to Province | | | | **(2,155)** |
| Used Fuel Segregated Fund, net | | | | **9,453** |
| *Decommissioning Segregated Fund* | | | | |
| Investments measured at fair value, excluding investments measured at NAV | **4,363** | **3,343** | **-** | **7,706** |
| Investments measured at NAV [1] | | | | **1,016** |
| | | | | **8,722** |
| Due to Province | | | | **(1,641)** |
| Decommissioning Segregated Fund, net | | | | **7,081** |
| Investment in available-for-sale securities [2] | **190** | **-** | **-** | **190** |
| Other financial assets | **4** | **3** | **7** | **14** |
| **Liabilities** | | | | |
| Other financial liabilities | **(22)** | **(3)** | **-** | **(25)** |

[1] Represents investments measured at fair value using NAV as a practical expedient, which have not been classified in the fair value hierarchy. The fair value amounts for these investments presented in this table are intended to permit the reconciliation of the fair value hierarchy to amounts presented on the interim consolidated balance sheets.

| | December 31, 2016 | | | |
|---|---|---|---|---|
| *(millions of dollars)* | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets** | | | | |
| *Used Fuel Segregated Fund* | | | | |
| Investments measured at fair value, excluding investments measured at NAV | 5,602 | 4,394 | - | 9,996 |
| Investments measured at NAV [1] | | | | 1,086 |
| | | | | 11,082 |
| Due to Province | | | | (1,938) |
| Used Fuel Segregated Fund, net | | | | 9,144 |
| *Decommissioning Segregated Fund* | | | | |
| Investments measured at fair value, excluding investments measured at NAV | 4,171 | 3,243 | - | 7,414 |
| Investments measured at NAV [1] | | | | 903 |
| | | | | 8,317 |
| Due to Province | | | | (1,477) |
| Decommissioning Segregated Fund, net | | | | 6,840 |
| Investment in available-for-sale securities | 212 | - | - | 212 |
| Other financial assets | 6 | 2 | 9 | 17 |
| **Liabilities** | | | | |
| Other financial liabilities | (29) | (6) | - | (35) |

[1] Represents investments measured at fair value using NAV as a practical expedient, which have not been classified in the fair value hierarchy. The fair value amounts for these investments presented in this table are intended to permit the reconciliation of the fair value hierarchy to amounts presented on the interim consolidated balance sheets.

During the nine months ended September 30, 2017, there were no transfers between Level 1 and Level 2. In addition, there were no transfers into or out of Level 3.

The following table presents the changes in OPG's net assets measured at fair value that are classified as Level 3 for the three months ended September 30, 2017:

| *(millions of dollars)* | **Other financial instruments** |
|---|---|
| Opening balance, July 1, 2017 | **9** |
| Realized losses included in revenue | **(4)** |
| Purchases | **2** |
| Closing balance, September 30, 2017 | **7** |

The following table presents the changes in OPG's net assets measured at fair value that are classified as Level 3 for the nine months ended September 30, 2017:

| *(millions of dollars)* | **Other financial instruments** |
|---|---|
| Opening balance, January 1, 2017 | **9** |
| Unrealized losses included in revenue | **(2)** |
| Realized losses included in revenue | **(7)** |
| Purchases | **7** |
| Closing balance, September 30, 2017 | **7** |

## Nuclear Segregated Funds

The fair value of the investments within the Nuclear Segregated Funds' alternative investment portfolio is determined using appropriate valuation techniques, such as recent arm's length market transactions, references to current fair values of other instruments that are substantially the same, discounted cash flow analyses, third-party independent appraisals, valuation multiples, or other valuation methods. Any control, size, liquidity or other discount premiums on the investments are considered in the determination of fair value. Alternative investments are measured at fair value using NAV as a practical expedient.

The process of valuing investments for which no published market price exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for these investments. The values may also differ from the prices at which the investments may be sold.

The following are the classes of investments within the Nuclear Segregated Funds that are reported on the basis of NAV as at September 30, 2017:

| *(millions of dollars except where noted)* | **Fair Value** | **Unfunded Commitments** | **Redemption Frequency** | **Redemption Notice** |
|---|---|---|---|---|
| Alternative Investments | | | | |
| Infrastructure | **1,276** | **835** | **n/a** | **n/a** |
| Real Estate | **892** | **465** | **n/a** | **n/a** |
| Agriculture | **78** | **106** | **n/a** | **n/a** |
| Pooled Funds | | | | |
| Short-term Investments | **12** | **n/a** | **Daily** | **1 - 5 Days** |
| Fixed Income | **643** | **n/a** | **Daily** | **1 - 5 Days** |
| Equity | **890** | **n/a** | **Daily** | **1 - 5 Days** |
| Total | **3,791** | **1,406** | | |

The fair value of the pooled funds is classified as Level 2. Infrastructure, real estate and agriculture investments are measured using NAV as a practical expedient for determining their fair value.

Infrastructure

This class includes investments in funds whose investment objective is to generate a combination of long-term capital appreciation and current income, generally through investments such as energy, transportation and utilities. The fair values of investments in this class have been estimated using NAV of the Nuclear Segregated Funds' ownership interest in partners' capital and/or underlying investments held by subsidiaries of an infrastructure fund. The investments in the respective infrastructure funds are not redeemable. However, the Nuclear Segregated Funds may transfer any of their partnership interests/shares to another party, as stipulated in the partnership agreements and/or shareholders' agreements. Distributions from each infrastructure fund will be received based on the operations of the underlying investments and/or as the underlying investments of the infrastructure funds are liquidated. It is not possible to estimate when the underlying assets of the infrastructure funds will be liquidated. However, the infrastructure funds have a maturity end period ranging from 2019 to 2025.

Real Estate

This class includes investments in institutional-grade real estate property. The investment objective is to provide a stable level of income with the opportunity for long-term capital appreciation. The fair values of the investments in this class have been estimated using NAV of the Nuclear Segregated Funds' ownership interest in these investments. The partnership investments are not redeemable. However, the Nuclear Segregated Funds may transfer any of their partnership interests to another party, as stipulated in the partnership agreement. For investments in private real estate corporations, shares may be redeemed through a pre-established redemption process. It is not possible to estimate when the underlying assets in this class will be liquidated.

Agriculture

This class includes a diversified portfolio of global farmland and timberland investments. The investment objective is to provide a differentiated return source, income yield, and inflation protection. The fair values of the investments in this class have been estimated using NAV of the Nuclear Segregated Funds' ownership interest in these investments. The investments are not redeemable. However, the Nuclear Segregated Funds may transfer any of their partnership interests/shares to another party, as stipulated in the partnership agreements and/or shareholders' agreements.

Pooled Funds

This class represents investments in pooled funds, which primarily include a diversified portfolio of fixed income securities, issued mainly by Canadian corporations, and diversified portfolios of Emerging Market listed equity. The investment objective of the pooled funds is to achieve capital appreciation and income through professionally managed portfolios. The fair value of the investments in this class has been estimated using NAV per share of the investments. There are no significant restrictions on the ability to sell the investments in this class.

## 11. COMMITMENTS AND CONTINGENCIES

### Litigation

On August 9, 2006, a Notice of Action and Statement of Claim filed with the Ontario Superior Court of Justice in the amount of $500 million was served against OPG and Bruce Power L.P. (Bruce Power) by British Energy Limited and British Energy International Holdings Limited (together British Energy). The action is for contribution and indemnity of any amounts British Energy was liable for in an arbitration against it by some of the owners of Bruce Power regarding an alleged breach of British Energy's representations and warranties to the claimants when they purchased British Energy's interest in Bruce Power (the Arbitration). Both the action and the Arbitration relate to corrosion to a steam generator unit discovered after OPG leased the Bruce nuclear generating stations to Bruce Power.

In 2012, the arbitrator found that British Energy was liable to the claimants for some of the damages they claimed. The final settlement amount was valued by British Energy at $71 million. In September 2014, British Energy amended its Statement of Claim (Amended Claim) to reduce the claim amount to $100 million to reflect that the purchasers of British Energy's interest in Bruce Power did not receive the full damages they originally claimed in the Arbitration. British Energy also added an allegation to its Amended Claim that OPG breached a covenant to maintain the steam generator between the time of the initial agreement to lease and the effective date of the lease in accordance with "Good Utility Practices".

In November 2016, British Energy obtained consent to a timetable for the remaining steps in the litigation, pursuant to which the matter must be set down for trial by December 31, 2018. OPG has delivered a statement of defence in accordance with an extension of the original June 30, 2017 delivery deadline set out in the timetable.

Various other legal proceedings are pending against OPG or its subsidiaries covering a wide range of matters that arise in the ordinary course of business activities.

Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably. While it is not possible to determine the ultimate outcome of the various pending actions, it is the Company's belief that their resolution is not likely to have a material adverse impact on its financial position.

### Guarantees

The Company and its joint venture partners have jointly guaranteed the financial performance of jointly owned entities related primarily to the payment of liabilities. As at September 30, 2017, the total amount of guarantees OPG provided to these entities was $82 million (December 31, 2016 − $83 million). OPG may terminate some of these guarantees within a short time frame by providing written notice to the counterparties at any time. Other guarantees have terms ending between 2019 and 2029. As at September 30, 2017, the potential impact of the fair value of these guarantees to income has been estimated to be negligible and OPG does not expect to make any payments associated with these guarantees.

## Contractual and Commercial Commitments

OPG's contractual obligations and commercial commitments as at September 30, 2017 are as follows:

| *(millions of dollars)* | **2017** [1] | **2018** | **2019** | **2020** | **2021** | **Thereafter** | **Total** |
|---|---|---|---|---|---|---|---|
| Fuel supply agreements | 52 | 169 | 96 | 76 | 62 | 98 | 553 |
| Contributions to the OPG registered pension plan [2] | 23 | 215 | 219 | - | - | - | 457 |
| Long-term debt repayment | 251 | 398 | 368 | 663 | 413 | 3,389 | 5,482 |
| Interest on long-term debt | 54 | 244 | 225 | 203 | 175 | 3,167 | 4,068 |
| Commitments related to Darlington Refurbishment [3] | 530 | - | - | - | - | - | 530 |
| Commitments related to Peter Sutherland Sr. GS project | 7 | 1 | - | - | - | - | 8 |
| Commitments related to Ranney Falls GS project | 9 | 29 | 5 | - | - | - | 43 |
| Operating licences | 10 | 40 | 41 | 24 | 28 | 115 | 258 |
| Operating lease obligations | 8 | 27 | 25 | 25 | 23 | 93 | 201 |
| Unconditional purchase obligations | 15 | 59 | 58 | 56 | 5 | - | 193 |
| Accounts payable and accrued charges | 844 | 8 | - | - | - | 16 | 868 |
| Other | 35 | 43 | 30 | 2 | 1 | 65 | 176 |
| Total | 1,838 | 1,233 | 1,067 | 1,049 | 707 | 6,943 | 12,837 |

[1] Represents amounts for the remainder of the year.

[2] The pension contributions include ongoing funding requirements and additional funding requirements towards the deficit, in accordance with the actuarial valuation of the OPG registered pension plan as at January 1, 2017. The next actuarial valuation of the OPG registered pension plan must have an effective date no later than January 1, 2020. The pension contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, changes in the pension regulatory environment, and the timing of funding valuations. Funding requirements after 2019 are excluded due to significant variability in the assumptions required to project the timing of future cash flows. The amount of OPG's additional, voluntary contribution, if any, is revisited from time to time.

[3] Represents estimated currently committed costs to close the project, including accruals for completed work, demobilization of project staff and cancellation of existing contracts and material orders.

Contractual and commercial commitments as noted exclude certain purchase orders, as they represent purchase authorizations rather than legally binding contracts, and are subject to change without significant penalties.

**12. BUSINESS SEGMENTS**

| **Segment Income (Loss) for the Three Months Ended September 30, 2017** *(millions of dollars)* | | **Regulated** | | **Unregulated** | | | |
|---|---|---|---|---|---|---|---|
| | **Nuclear Generation** | **Nuclear Waste Manage-ment** | **Hydro-electric** | **Contracted Generation Portfolio** | **Services, Trading, and Other Non-Generation** | **Elimination** | **Total** |
| Revenue | **739** | **33** | **327** | **141** | **9** | **(32)** | **1,217** |
| Fuel expense | **81** | **-** | **88** | **15** | **1** | **-** | **185** |
| Gross margin | **658** | **33** | **239** | **126** | **8** | **(32)** | **1,032** |
| Operations, maintenance and administration | **511** | **35** | **81** | **39** | **1** | **(32)** | **635** |
| Depreciation and amortization | **116** | **-** | **34** | **20** | **8** | **-** | **178** |
| Accretion on fixed asset removal and nuclear waste management liabilities | **-** | **230** | **-** | **3** | **2** | **-** | **235** |
| Earnings on nuclear fixed asset removal and nuclear waste management funds | **-** | **(196)** | **-** | **-** | **-** | **-** | **(196)** |
| Property taxes | **7** | **-** | **1** | **-** | **-** | **-** | **8** |
| Income from investments subject to significant influence | **-** | **-** | **-** | **(11)** | **-** | **-** | **(11)** |
| Other losses (gains) | **4** | **-** | **1** | **-** | **(2)** | **-** | **3** |
| Income (Loss) before interest and income taxes | **20** | **(36)** | **122** | **75** | **(1)** | **-** | **180** |

| **Segment Income (Loss) for the Three Months Ended September 30, 2016** *(millions of dollars)* | **Nuclear Generation** | **Regulated Nuclear Waste Manage-ment** | **Hydro-electric** | **Unregulated Contracted Generation Portfolio** | **Services, Trading, and Other Non-Generation** | **Elimination** | **Total** |
|---|---|---|---|---|---|---|---|
| Revenue | 885 | 36 | 350 | 149 | 15 | (35) | 1,400 |
| Fuel expense | 79 | - | 88 | 19 | 1 | - | 187 |
| Gross margin | 806 | 36 | 262 | 130 | 14 | (35) | 1,213 |
| Operations, maintenance and administration | 521 | 38 | 87 | 44 | 11 | (35) | 666 |
| Depreciation and amortization | 230 | - | 56 | 19 | 8 | - | 313 |
| Accretion on fixed asset removal and nuclear waste management liabilities | - | 228 | - | 2 | 2 | - | 232 |
| Earnings on nuclear fixed asset removal and nuclear waste management funds | - | (248) | - | - | - | - | (248) |
| Property taxes | 6 | - | 1 | 1 | 4 | - | 12 |
| Income from investments subject to significant influence | - | - | - | (11) | - | - | (11) |
| Other losses (gains) | 2 | - | 1 | 1 | (3) | - | 1 |
| Income (Loss) before interest and income taxes | 47 | 18 | 117 | 74 | (8) | - | 248 |

| **Segment Income (Loss) for the Nine Months Ended September 30, 2017** *(millions of dollars)* | **Nuclear Generation** | **Regulated Nuclear Waste Manage-ment** | **Hydro-electric** | **Unregulated Contracted Generation Portfolio** | **Services, Trading, and Other Non-Generation** | **Elimination** | **Total** |
|---|---|---|---|---|---|---|---|
| Revenue | **2,000** | **90** | **1,069** | **431** | **36** | **(87)** | **3,539** |
| Fuel expense | **217** | **-** | **258** | **42** | **1** | **-** | **518** |
| Gross margin | **1,783** | **90** | **811** | **389** | **35** | **(87)** | **3,021** |
| Operations, maintenance and administration | **1,693** | **96** | **232** | **118** | **2** | **(87)** | **2,054** |
| Depreciation and amortization | **333** | **-** | **103** | **59** | **22** | **-** | **517** |
| Accretion on fixed asset removal and nuclear waste management liabilities | **-** | **696** | **-** | **7** | **6** | **-** | **709** |
| Earnings on nuclear fixed asset removal and nuclear waste management funds | **-** | **(579)** | **-** | **-** | **-** | **-** | **(579)** |
| Property taxes | **20** | **-** | **1** | **5** | **4** | **-** | **30** |
| Income from investments subject to significant influence | **-** | **-** | **-** | **(29)** | **-** | **-** | **(29)** |
| Other losses (gains) | **4** | **-** | **1** | **-** | **(385)** | **-** | **(380)** |
| (Loss) Income before interest and income taxes | **(267)** | **(123)** | **474** | **229** | **386** | **-** | **699** |

| **Segment Income (Loss) for the Nine Months Ended September 30, 2016** *(millions of dollars)* | **Nuclear Generation** | **Regulated Nuclear Waste Manage-ment** | **Hydro-electric** | **Unregulated Contracted Generation Portfolio** | **Services, Trading, and Other Non-Generation** | **Elimination** | **Total** |
|---|---|---|---|---|---|---|---|
| Revenue | 2,631 | 102 | 1,148 | 431 | 52 | (99) | 4,265 |
| Fuel expense | 239 | - | 259 | 42 | 1 | - | 541 |
| Gross margin | 2,392 | 102 | 889 | 389 | 51 | (99) | 3,724 |
| Operations, maintenance and administration | 1,665 | 108 | 238 | 129 | 20 | (99) | 2,061 |
| Depreciation and amortization | 691 | - | 169 | 56 | 25 | - | 941 |
| Accretion on fixed asset removal and nuclear waste management liabilities | - | 684 | - | 6 | 6 | - | 696 |
| Earnings on nuclear fixed asset removal and nuclear waste management funds | - | (620) | - | - | - | - | (620) |
| Property taxes | 19 | - | 1 | 6 | 9 | - | 35 |
| Income from investments subject to significant influence | - | - | - | (28) | - | - | (28) |
| Other (gains) losses | - | - | (19) | 1 | (5) | - | (23) |
| Income (Loss) before interest and income taxes | 17 | (70) | 500 | 219 | (4) | - | 662 |

Shareholder Declaration and Shareholder Resolution to Sell Certain Non-Core Real Estate Properties

In December 2015, OPG received a Shareholder Declaration and a Shareholder Resolution that required the Company to sell its head office premises and associated parking facility located at 700 University Avenue and 40 Murray Street in Toronto, Ontario. In December 2016, a purchase and sale agreement was executed, and the sale was completed in April 2017. A gain on sale of $283 million, which is net of tax effects of $95 million, was recognized in net income upon completion of the transaction for the nine months ended September 30, 2017. The pre-tax gain on sale was recorded as an item of Other gains in the interim consolidated statement of income in the Services, Trading and Other Non-Generation segment. Pursuant to the Shareholder Declaration and Shareholder Resolution, and as prescribed in the *Trillium Trust Act, 2014*, OPG is required to transfer the proceeds from this disposition, net of prescribed deductions under the Act, into the Province's Consolidated Revenue Fund. OPG is working to finalize the amount of designated proceeds to be transferred into the Province's Consolidated Revenue Fund.

## 13. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

| (millions of dollars) | Nine Months Ended September 30 2017 | 2016 |
|---|---|---|
| Receivables from related parties | **72** | 107 |
| Prepaid expenses | **(18)** | (52) |
| Other current assets | **10** | (7) |
| Fuel inventory | **20** | 41 |
| Income taxes (recoverable)/ payable | **(92)** | 49 |
| Materials and supplies | **4** | (2) |
| Accounts payable and accrued charges | **(51)** | (195) |
| | **(55)** | (59) |

## 14. INVESTMENTS SUBJECT TO SIGNIFICANT INFLUENCE

Investments subject to significant influence consist of OPG's 50 percent ownership interest in the jointly controlled entities of the PEC gas-fired combined cycle generating station and the Brighton Beach gas-fired combined cycle generating station (Brighton Beach), which are accounted for using the equity method. Details of the balances as at September 30, 2017 and December 31, 2016 are as follows:

| *(millions of dollars)* | September 30 2017 | December 31 2016 |
|---|---|---|
| **PEC** | | |
| Current assets | **19** | 18 |
| Long-term assets | **244** | 256 |
| Current liabilities | **(9)** | (8) |
| Long-term liabilities | **(5)** | (5) |
| **Brighton Beach** | | |
| Current assets | **5** | 5 |
| Long-term assets | **162** | 168 |
| Current liabilities | **(17)** | (16) |
| Long-term liabilities | **(8)** | (7) |
| Long-term debt | **(78)** | (90) |
| Investments subject to significant influence | **313** | 321 |

## 15. NON-CONTROLLING INTEREST

PSS Generating Station LP

PSS is a limited partnership between OPG, Coral Rapids Power Corporation (CRP) and PSS Generating Station Inc. (PSS GS Inc.). The principal business of the partnership is the development, construction, ownership, operation and maintenance of the 28 MW Peter Sutherland Sr. hydroelectric GS on the New Post Creek. OPG and PSS GS Inc. are general partners and CRP is a limited partner in the partnership. CRP is a wholly owned subsidiary of the Taykwa Tagamou Nation.

The Peter Sutherland Sr. GS was placed in-service in March 2017 and, in April 2017, CRP increased its interest in PSS to 33 percent under the partnership agreement, by making contributions of $21 million, reducing OPG's interest to 67 percent. As a result of the contributions made by OPG and CRP, PSS has met the criteria of having sufficient equity at risk to finance its activities, and ceased being classified as a variable interest entity during the second quarter of 2017. OPG continues to consolidate the results of PSS in its consolidated financial statements. CRP's 33 percent interest in PSS is reported as non-controlling interest. As a result of CRP increasing its interest in the partnership, PSS's AOCL and partner's deficit were proportionately allocated to CRP as a reduction to its non-controlling interest.