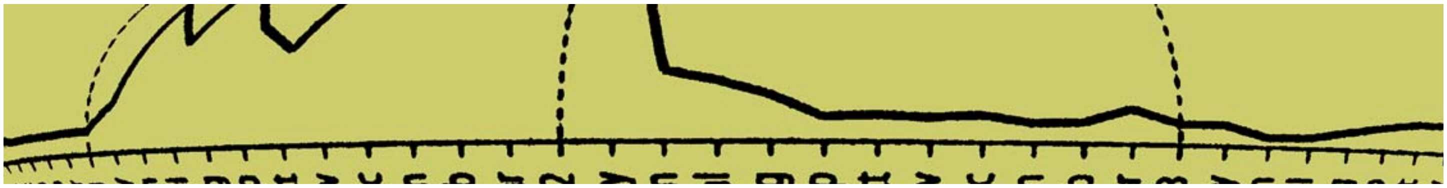


BC Hydro 2005 Financial Results

Management Report

The consolidated financial statements of British Columbia Hydro and Power Authority (BC Hydro) are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates which have been made using careful judgment. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available at May 9, 2005 (except for Note 18 which is as of June 17, 2005). The consolidated financial statements have also been reviewed by the Audit & Risk Management Committee and approved by the Board of Directors. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit & Risk Management Committee.

The financial statements have been examined by independent external auditors. The external auditors' responsibility is to express their opinion on whether the financial statements, in all material respects, fairly present BC Hydro's financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. The Auditors' Report, which follows, outlines the scope of their examination and their opinion.

The Board of Directors, through the Audit & Risk Management Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit & Risk Management Committee, comprised of directors who are not employees, meets regularly with the external auditors, the internal auditors and management to satisfy itself that each group has properly discharged its responsibility to review the financial statements before recommending approval by the Board of Directors and appointment of external auditors. The internal and external auditors have full and open access to the Audit & Risk Management Committee, with and without the presence of management.

R.G. (Bob) Elton
President and Chief Executive Officer

A. (Alister) Cowan
Executive Vice-President Finance and Chief Financial Officer

Vancouver, Canada
June 17, 2005

Auditor's Report

The Lieutenant Governor in Council,
Province of British Columbia:

We have audited the consolidated balance sheet of British Columbia Hydro and Power Authority as at March 31, 2005 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of British Columbia Hydro and Power Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of British Columbia Hydro and Power Authority as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Vancouver, Canada

May 9, 2005 (except for Note 18 which is as of June 17, 2005)

Consolidated Statement of Operations

for the years ended March 31 (in millions)	**2005**	2004 *(restated, Note 2)*
Revenues		
Domestic	**2,704**	2,553
Trade	**1,021**	871
	3,725	3,424
Expenses		
Energy costs (Note 4)	**1,959**	1,580
Maintenance	**246**	263
Operations and administration	**385**	358
Amortization (Notes 5 and 18)	**446**	526
Taxes (Note 6)	**143**	147
	3,179	2,874
Operating Income	**546**	550
Finance charges (Note 7)	**443**	452
Payment from Alcan Inc. (Note 14)	**(137)**	–
Restructuring costs (Note 19)	**–**	8
Income Before Regulatory Account Transfers	**240**	90
Heritage Deferral Account (Note 3)	**131**	–
Non-Heritage Deferral Account (Note 3)	**128**	–
Trade Income Deferral Account (Note 3)	**(110)**	–
Regulatory provision for future removal and site restoration costs (Note 3)	**13**	–
Rate Stabilization Account (Note 3)	–	21
Net Income	**$ 402**	$ 111

Consolidated Statement of Retained Earnings

for the years ended March 31 (in millions)	**2005**	2004
Retained earnings, beginning of year as previously reported	**$1,634**	$1,609
Adoption of new accounting standard for asset retirement obligations (Note 2)	**242**	229
Retained earnings, beginning of year as restated	**$1,876**	$1,838
Regulatory provision for future removal and site restoration costs (Note 3)	**(251)**	–
Net income	**402**	111
Payment to the Province (Note 3)	**(339)**	(73)
Retained Earnings, end of year	**$1,688**	$1,876

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

as at March 31 (in millions)	**2005**	2004 *(restated, Note 2)*
ASSETS		
Capital Assets (Note 8)		
Capital assets in service	**$ 15,792**	$ 15,371
Less accumulated amortization	**6,293**	5,941
	9,499	9,430
Unfinished construction	**483**	470
	9,982	9,900
Current Assets		
Cash and cash equivalents	**37**	47
Accounts receivable and accrued revenue	**398**	325
Materials and supplies	**91**	86
Prepaid expenses	**149**	108
Mark-to-market gains	**185**	80
	860	646
Other Assets and Deferred Charges		
Sinking funds (Note 9)	**948**	981
Demand-side management programs	**207**	161
Regulatory accounts (Note 3)	**155**	–
Deferred debt costs (Note 10)	**10**	150
Foreign currency contracts (Notes 11 and 12)	**1**	–
	1,321	1,292
	$ 12,163	$ 11,838

See accompanying notes to consolidated financial statements.

as at March 31 (in millions)	**2005**	2004 *(restated, Note 2)*
LIABILITIES AND EQUITY		
Long-term debt net of sinking funds	**$ 5,821**	$ 6,039
Sinking funds presented as assets	**948**	981
Long-Term Debt (Note 11)	**6,769**	7,020
Foreign Currency Contracts (Notes 11 and 12)	**87**	63
Current Liabilities		
Current portion of long-term debt (Note 11)	**843**	861
Accounts payable and accrued liabilities	**753**	672
Accrued interest	**116**	115
Accrued Payment to the Province (Note 3)	**339**	73
Mark-to-market losses	**183**	54
	2,234	1,775
Deferred Credits and Other Liabilities		
Asset retirement obligations (Notes 2 and 13)	**15**	16
Regulatory provision for future removal and site restoration costs (Note 3)	**238**	–
Deferred revenue	**297**	276
Contributions in aid of construction	**651**	619
Contributions arising from the Columbia River Treaty	**184**	193
	1,385	1,104
Retained Earnings	**1,688**	1,876
	$ 12,163	$11,838

Commitments and Contingencies (Notes 9, 11, 12, 16 and 18)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

L.I. (Larry) Bell
Chair

W.C. (Wanda) Costuros
Chair, Audit & Risk Management Committee

Consolidated Statement of Cash Flows

for the years ended March 31 (in millions)	**2005**	2004 *(restated, Note 2)*
Operating Activities		
Net income	**$ 402**	$ 111
Adjustments for non-cash items:		
Regulatory account transfers	**(149)**	(21)
Transfer to regulatory provision for future removal and site restoration	**(13)**	–
Amortization of capital assets	**446**	526
Amortization of deferred debt costs	**16**	26
Deferred revenue	**22**	18
Unrealized (gains) losses on mark-to-market	**24**	(39)
Sinking fund income	**(47)**	(58)
Employee benefit plan expenses	**38**	42
Provision for loan receivable	**–**	22
Other non-cash items	**(4)**	(15)
	735	612
Working capital changes	**(60)**	–
Cash provided by operating activities	**675**	612
Investing Activities		
Capital asset expenditures	**(544)**	(606)
Contributions in aid of construction	**66**	56
Demand-side management programs	**(71)**	(63)
Dismantling costs	**(13)**	(15)
Proceeds from property sales	**5**	10
Cash used for investing activities	**(557)**	(618)
Financing Activities		
Bonds		
– issued	**540**	790
– retired	**(598)**	(450)
Revolving borrowings	**(42)**	(47)
Sinking funds	**39**	53
Deferred debt costs	**(5)**	7
Settlement of derivative contracts	**11**	34
Cash (used for) provided by financing activities	**(55)**	387
Payment to the Province (Note 3)	**(73)**	(338)
Increase (decrease) in cash and cash equivalents	**(10)**	43
Cash and cash equivalents, beginning of year	**47**	4
Cash and cash equivalents, end of year	**$ 37**	$ 47
Supplemental disclosure of cash flow information		
Interest paid	**$ 505**	$ 512

See accompanying notes to consolidated financial statements.

Note 1: Significant Accounting Policies

Purpose

British Columbia Hydro and Power Authority (BC Hydro) was established in 1962 as a Crown corporation of the Province of British Columbia (the Province) by enactment of the Hydro and Power Authority Act. As directed by the Hydro and Power Authority Act, BC Hydro's mandate is to generate, manufacture, distribute and sell power, upgrade its power sites, and to purchase power from or sell power to a firm or person. BC Hydro's new corporate purpose is to provide "Reliable power, at low cost, for generations." BC Hydro is subject to regulation (see Note 3) by the British Columbia Utilities Commission (the Commission) which, among other things, approves the rates BC Hydro charges for its services.

BC Hydro owns and operates electric generation and distribution facilities in the province of British Columbia. BC Hydro also owns transmission facilities in the province of British Columbia that are operated by British Columbia Transmission Corporation.

Consolidation

The consolidated financial statements include the accounts of BC Hydro and its principal wholly owned operating subsidiaries Powerex Corp. (Powerex), Powertech Labs Inc., BCH Services Asset Corp., and Columbia Hydro Constructors Ltd.

The consolidated financial statements also include the accounts of British Columbia Transmission Corporation (BCTC), a Crown corporation of the Province. The accounts of BCTC have been consolidated for the year ended March 31, 2005. BC Hydro will remove BCTC from its consolidated accounts effective April 1, 2005, when BCTC is considered operationally and financially independent of BC Hydro (see Note 19).

Regulatory Accounting

BC Hydro applies various accounting policies that differ from Canadian generally accepted accounting principles for enterprises that do not operate in a rate-regulated environment. Generally, these policies result in deferral and amortization of costs to allow for their recovery in future rates. These costs would otherwise be included in the determination of net income in the year the cost is incurred. These accounting policies support BC Hydro's regulation and have been established through ongoing application or by approval of the Commission.

(a) Capital Assets

BC Hydro defers costs related to feasibility studies, the costs of dam safety studies and investigations, as well as the costs of aboriginal negotiations, litigation and settlements. These amounts are classified as capital assets in the balance sheet. The deferred amounts are amortized on a straight-line basis over the expected period of recovery through rates, generally from five to 10 years.

(b) Deferred Debt Costs

Certain costs related to the refinancing of debt are deferred and amortized on a straight-line basis over the term to maturity of the related debt. Foreign currency translation adjustments related to long-term debt and sinking funds are deferred and amortized over the weighted average term to maturity of the debt or sinking fund portfolio.

(c) Sinking Funds

Realized and unrealized gains and losses related to sinking fund investments in unitized funds are recognized in earnings on a straight-line basis over the weighted average term to maturity of the related debt. The investments in unitized funds are recorded at cost, adjusted by amortization of any realized and unrealized gains and losses.

(d) Demand-side Management Programs
Demand-side management programs are carried at cost net of amortization, and comprise programs designed to reduce the energy requirements on BC Hydro's system.

Costs of demand-side management programs including materials, direct labour and applicable portions of administration charges, equipment costs, program costs and incentives, are deferred and amortized on a straight-line basis over the anticipated period of benefit of the program, generally not in excess of ten years. Costs incurred prior to establishing feasibility of the program are expensed as incurred.

(e) Regulatory Provision for Future Removal and Site Restoration Costs
As a result of a regulatory decision issued by the Commission in October 2004, BC Hydro established a one-time regulatory provision for future removal and site restoration costs effective April 1, 2004. The costs of dismantling and disposal of capital assets will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation.

Revenues and Energy Costs
Domestic revenues comprise sales to customers within the province of British Columbia, and sales of firm energy outside the province under long-term contracts that are reflected in BC Hydro's domestic load requirements. Other sales outside the province are classified as trade. Trade revenues and energy costs include the effects of using commodity derivatives with the impacts of realized and unrealized gains and losses resulting from changes in fair value reflected on a net basis.

Revenue is recognized on the basis of billing cycles and also includes accruals for electricity deliveries not yet billed.

Foreign Currency Translation
Foreign currency denominated revenues and expenses are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date.

Foreign currency translation adjustments related to long-term debt and sinking funds are deferred and amortized on a straight-line basis. Deferred foreign currency translation adjustments related to long-term debt are amortized over the weighted average remaining term to maturity of the foreign currency denominated debt portfolio. Deferred foreign currency translation adjustments related to sinking funds are amortized over the weighted average term to maturity of the sinking fund portfolio. Unamortized foreign currency translation adjustments related to debt issues that are refinanced in the same currency continue to be deferred and amortized. Where debt is refinanced in a different currency, a pro rata portion of the unamortized foreign currency translation gains or losses is written off to finance charges.

Amortization

Capital assets in service are amortized on an individual or a pooled basis over the expected useful lives of the assets, generally using the straight-line method.

The expected useful lives, in years, of BC Hydro's main classes of capital assets are:

Generation	
Hydraulic	50 – 100
Thermal	10 – 50
Distribution	30 – 50
Transmission lines	35 – 100
Substations	20 – 50
Buildings	45 – 50
Equipment	7 – 20
Computer hardware & software	2 – 10
Service vehicles	7 – 20
Regulatory capital assets[1]	5 – 10
Sundry	20 – 45

[1] Comprised of studies, investigation costs, and costs of aboriginal negotiations, litigation and settlements.

Capital Assets

Capital assets in service are recorded at cost which includes materials, direct and indirect labour, an appropriate allocation of administration overhead and finance charges capitalized during construction. Costs of construction in progress are transferred to capital assets in service when the asset is substantially complete and capable of operation at a significant level of capacity. Capital assets in service include the cost of plant financed by contributions in aid of construction and contributions arising from the Columbia River Treaty. Upon retirement or disposal, any gain or loss is charged to amortization for assets amortized on an individual basis, or to accumulated amortization for assets amortized on a pooled basis.

Unfinished construction consists of construction in progress and the unamortized balance of studies and abandoned or indefinitely deferred projects. Costs of studies and abandoned or indefinitely deferred projects are deferred and amortized on a straight-line basis over five years where it is expected that the costs will be recovered through future rates. If the costs of an abandoned or indefinitely deferred project will not be recovered through continuing operations or future rates, the costs related to the project, including overhead and interest during construction, are expensed.

Cash and Cash Equivalents

Cash and cash equivalents include cash and units of a money market fund that are valued at the lower of cost or market.

Materials and Supplies

Materials and supplies are valued at the lower of average cost and net realizable value.

Mark-to-Market

BC Hydro applies mark-to-market accounting to its energy trading activities and to certain liability management derivatives that are not accounted for as hedges.

For energy trading, open trade positions, that are derivative commodity instruments, are recorded at fair value and recorded as assets or liabilities in the balance sheet. The changes in fair value of open positions, primarily resulting from changes in market prices subsequent to the transaction date, are recognized as gains or losses in the period of change and are included in trade revenues.

BC Hydro uses derivatives such as interest rate or foreign currency swaps, options or forward agreements for liability management purposes, or to hedge its energy purchase commitments. Derivatives that are designated as hedges are accounted for on a basis consistent with the underlying financial exposure. If a derivative is not designated as a hedge, or if a derivative is no longer designated as a hedge or the hedging relationship is terminated, then the derivative is recorded at fair value from the date the hedging relationship ceases. The change in fair value is recorded as an adjustment of finance charges.

Fair Value

The fair value of financial instruments and energy trading positions reflect changes in the level of commodity market prices, interest and foreign exchange rates. Fair value is determined based on exchange or over-the-counter quotations. Where no such information is available, fair value is established through pricing models and reflects the amount that BC Hydro expects it would receive or pay to terminate the position at the date that the value is established.

Fair value amounts reflect management's best estimates considering various factors including closing exchange or over-the-counter quotations, estimates of future prices and foreign exchange rates, time value and volatility. It is possible that the assumptions used in establishing fair value amounts will differ from actual prices and the impact of such variations could be material.

Derivative Financial Instruments

BC Hydro uses derivative financial instruments, principally swaps, options and forward agreements, to manage interest rate and foreign exchange risks related to debt and exposure to electricity and gas market prices.

Payments and receipts under interest rate and cross-currency swap contracts are recognized as adjustments to finance charges. Gains and losses on terminated derivative interest rate and cross-currency swaps, options and forward rate agreements that are accounted for as hedges are deferred and amortized on a straight-line basis over the original remaining term of the related contract.

Sinking Funds

Sinking funds are held as individual portfolios or units in a pooled bond fund. Securities included in an individual portfolio are recorded at cost, adjusted by amortization of any discounts or premiums arising on purchase on a yield basis over the estimated term to settlement of the security. Realized gains and losses are included in sinking fund income. Unrealized gains and losses are not recognized.

Units in pooled bond funds are carried at cost adjusted for amortization of realized and unrealized gains and losses. Realized and unrealized gains and losses related to securities held in the funds are recognized on a straight-line basis over the weighted average term to maturity of the debt issues for which the sinking funds are held.

Deferred Revenue

Deferred revenue consists principally of amounts received under the Skagit River Agreements. Under these agreements, BC Hydro is required to deliver a predetermined amount of electricity each year for an 80-year period ending in fiscal 2066. In return BC Hydro receives approximately US$22 million each year for a 35-year period ending in fiscal 2021 and US$100,000 (adjusted for inflation) each year for an 80-year period ending in fiscal 2066.

The amounts received under the Skagit River Agreements are deferred and included in income on an annuity basis over the electricity delivery period ending in fiscal 2066.

Contributions

Contributions in aid of construction are amounts paid by certain customers toward the cost of capital assets required for the extension of services. These amounts are amortized over the expected useful life of the related assets.

Contributions arising from the Columbia River Treaty relate to three dams built by BC Hydro in the mid-1960s to regulate the flow of the Columbia River. The proceeds received were contributed to BC Hydro to assist in financing the dams' construction. These proceeds were deferred and are amortized to income over the period ending in fiscal 2025, the minimum term of the treaty.

Employee Defined Benefit Plans

The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the return on plan assets, those assets are valued at fair value. The obligations are discounted using a market interest rate at the end of the year on high-quality corporate debt instruments that match the timing and amount of expected benefit payments.

Transitional obligations and assets and past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of active members at the date of amendment.

The excess of the net cumulative unamortized actuarial gain or loss over 10 per cent of the greater of the benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the employee benefit plans is 11 years (2004 – 11 years). When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

Environmental Expenditures and Liabilities

BC Hydro conducts its operations in a manner that enables it to meet existing statutory requirements of environmental legislation or standards. The objective is to minimize the impact on the quality of the natural and social environment, providing enhancements wherever practical.

Environmental expenditures are expensed as part of operating activities, unless they constitute an asset improvement or act to mitigate or prevent possible future contamination, in which case the expenditures are capitalized and amortized to income. Environmental liabilities are accrued when environmental expenditures related to activities of BC Hydro are considered likely and the costs can be reasonably estimated. Estimated liabilities are reviewed periodically and these reviews can result in adjustments to previously recorded items.

Use of Estimates

Management of BC Hydro has made a number of estimates and assumptions relating to the reporting of assets and liabilities and to the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with Canadian generally accepted accounting principles. Actual results could differ from these estimates.

Note 2: Changes in Accounting Policies

The following accounting policy changes were implemented during fiscal 2005:

Asset Retirement Obligations

Prior to March 31, 2004, BC Hydro recorded a provision for the estimated future costs associated with the retirement and decommissioning of its distribution, transmission and generation facilities in accordance with the previous requirements of CICA Handbook Section 3061. Effective April 1, 2004, BC Hydro adopted new CICA recommendations (Section 3110 "Asset Retirement Obligations") that address accounting and reporting for obligations associated with the retirement of long-lived assets.

This new section applies only to legal obligations associated with the retirement of long-lived assets. BC Hydro is required to record the net present value of a liability at the time it is incurred if an estimate can be determined. When a liability is initially recorded, BC Hydro will capitalize the costs by increasing the carrying value of the long-lived asset. The liability is adjusted for the passage of time through accretion (interest) expense and the capitalized cost is amortized over its useful life. The change in accounting policy has been applied retroactively including restatement of prior periods to eliminate the provision for future removal and site restoration costs that was previously reported.

As at March 31 the net impact of this change is as follows:

(in millions)	**2005**	2004
Opening Balances:		
Increase in retained earnings	**$ 242**	$ 229
Increase in capital assets, net	**8**	7
Decrease in deferred credits and other liabilities	**(234)**	(222)
Increase in net income	**–**	13

Hedging Relationships

During the year, BC Hydro implemented the requirements of CICA Accounting Guideline 13, "Hedging Relationships." This Guideline addresses the types of items that qualify for hedge accounting, including the formal documentation required to enable the use of hedge accounting and the requirement to evaluate hedges for effectiveness.

BC Hydro also implemented Emerging Issues Committee (EIC) Abstract 128, "Accounting for Trading, Speculative or Non-hedging Derivative Financial Instruments." The EIC requires derivatives that are not designated as hedges to be recorded at fair value on the balance sheet, with changes in fair value recorded in earnings.

The requirements of the Accounting Guideline and EIC were adopted prospectively for derivatives used for liability-management purposes effective April 1, 2004. The impact of this change in accounting policy is a $3 million decrease in net income for the year ended March 31, 2005.

Note 3: Regulation

BC Hydro is regulated by the Commission, and they are both subject to general or special directives and directions issued by order of the Province. Orders in council from the Province establish the basis for determining BC Hydro's equity for regulatory purposes, as well as its allowed return on equity, calculation of its revenue requirements, rates charged to customers and the annual Payment to the Province. BC Hydro's regulatory accounting practices are consistent with these regulatory requirements.

Rate Decision

On October 29, 2004, the Commission issued its decision related to BC Hydro's Revenue Requirements Application dated December 15, 2003 that covered BC Hydro's 2005 and 2006 fiscal years. As a result of this decision, BC Hydro was entitled to a rate increase of 4.85 per cent effective April 1, 2004. BC Hydro charged its customers during the period April 1, 2004 to November 30, 2004 based on an approved interim rate increase of 7.23 per cent. Therefore, BC Hydro refunded its customers $38 million, including interest, based upon customers' electricity consumption during that period. The refund was charged to domestic revenue resulting in annual revenue consistent with the approved rate increase.

Regulatory Accounts

During fiscal 2004, the Province issued a Special Directive that directs the Commission to authorize BC Hydro to establish the Heritage Deferral Account and the Trade Income Deferral Account effective April 1, 2004. As part of the Revenue Requirements Application related to fiscal 2005 and 2006, BC Hydro also applied to the Commission for the establishment of a Non-Heritage Deferral Account. The accounting requirements related to these accounts were approved by the Commission in its decision of October 2004. These accounts are intended to result in assigning domestic ratepayers the benefit of BC Hydro's low-cost generation assets (the Heritage Resources) and other related activities, as well as an appropriate share of risks associated with the ownership and operation of these assets.

Heritage Deferral Account

The Heritage Deferral Account is intended to mitigate the impact of certain variances between the forecast and actual costs of service associated with the Heritage Resources. The impact of this account is to defer the impact of these cost variances through transfers to or from the account by adjustment of net income.

Non-Heritage Asset Deferral Account

The Non-Heritage Asset Deferral Account is intended to manage the impact of certain cost variances related to energy acquisition and maintenance of BC Hydro's distribution assets. The impact of this account would be to defer specific types of cost variance through transfers to or from the account by adjustment of net income.

Trade Income Deferral Account

The Trade Income Deferral Account is intended to mitigate the uncertainty associated with forecasting the net income of BC Hydro's trade activities. The impact is to defer the difference between the Trade Income forecast in the revenue requirements application and actual Trade Income. For the purposes of this calculation, Trade Income is defined as the Net Income of Powerex based on Canadian generally accepted accounting principles. The Special Directive provides that in each fiscal year the portion of the variance between forecast and actual Trade Income in excess of $200 million per year or a loss in Trade Income will not be included in the Trade Income Deferral Account.

As at March 31, 2005, the balances included in the regulatory accounts are as follows:

(in millions)	**2005**
Heritage Deferral Account	**$ 138**
Non-Heritage Asset Deferral Account	**131**
Trade Income Deferral Account	**(114)**
	$ 155

The deferral accounts include interest of $6 million, calculated on the month-end balance of the account at BC Hydro's average cost of borrowing.

Regulatory Provision for Future Removal and Site Restoration Costs

As part of its decision of October 2004, the Commission ordered the establishment of a regulatory provision for future removal and site restoration costs. This account was established by a one-time transfer of $251 million from retained earnings. The account will be applied to mitigate the impact of asset dismantling and disposal costs that are not otherwise related to an asset retirement obligation. At March 31, 2005, the balance of the regulatory provision for future removal and site restoration costs was $238 million (2004 – nil).

Rate Stabilization Account

The Rate Stabilization Account was established by Special Directive to BC Hydro, and was intended to mitigate the impact of volatile earnings on ratepayers.

During fiscal 2004, the remaining balance of the Rate Stabilization Account totalling $21 million was transferred to net income and the related Special Directive to BC Hydro was revoked.

Payment to the Province

BC Hydro is required to make an annual Payment to the Province (the Payment) on or before June 30 of each year. The Payment is equal to 85 per cent of BC Hydro's distributable surplus for the most recently completed fiscal year assuming that the debt to equity ratio of BC Hydro, after deducting the Payment, is not greater than 80:20. If the Payment would result in a debt to equity ratio exceeding 80:20, then the Payment will be based on the greatest amount that can be paid without causing the debt to equity ratio to exceed 80:20.

For the purposes of calculating the Payment, the following parameters are applied:

- Distributable surplus is consolidated net income adjusted by deducting finance charges capitalized during the year, net of amortization charged on capitalized finance charges.
- Debt is the sum of all outstanding borrowings after deducting sinking funds and cash and cash equivalents at the end of the year.
- Equity is the sum of retained earnings, deferred revenue, contributions arising from the Columbia River Treaty and contributions in aid of construction, all at the end of the year.

Note 4: Energy Costs

(in millions)	**2005**	2004
Water rentals	**$ 234**	$ 246
Electricity purchases	**1,338**	988
Fuel	**238**	220
Third-party transmission charges	**142**	119
Compensation and mitigation costs	**7**	7
	$ 1,959	$ 1,580

Water rental fees are remitted to the Province by BC Hydro in accordance with the Water Act. Electricity purchases include $248 million (2004 – $223 million) of energy purchased from the Province related to its ownership of downstream benefits under the Columbia River Treaty. These energy transactions are in the normal course of operations and are based on market prices.

Note 5: Amortization

(in millions)	**2005**	2004 *(restated, Note 2)*
Amortization of capital assets in service	**$ 428**	$ 401
Amortization of contributions arising from the Columbia River Treaty and contributions in aid of construction	**(43)**	(45)
Amortization of regulatory capital assets	**11**	8
Amortization of demand-side management programs	**26**	25
Dismantling costs	**13**	15
Valuation provision (Note 18)	–	98
Capital asset write-offs	**11**	24
	$ 446	$ 526

Note 6: Taxes

(in millions)	**2005**	2004
School taxes	**$ 100**	$ 100
Grants	**43**	42
Other	–	5
	$ 143	$ 147

All taxes paid by BC Hydro are paid to the Province, with the exception of $40 million (2004 – $39 million) of grants and local government taxes paid to municipalities and regional districts. As a Crown corporation, BC Hydro is exempt from Canadian federal and provincial income tax.

Note 7: Finance Charges

(in millions)	**2005**	2004
Interest on long-term debt	**$ 500**	$ 516
Sinking fund income	**(47)**	(58)
Other financial income	**(11)**	(15)
Amortization of deferred debt costs	**16**	26
	$ 458	$ 469
Less: Assigned to unfinished construction	**(9)**	(17)
Interest on deferral accounts	**(6)**	–
	$ 443	$ 452

Virtually all interest on long-term debt is paid to the Province.

Note 8: Capital Assets

(dollar amounts in millions)	**2005**				2004 *(restated, Note 2)*			
	Capital Assets in Service	**Accumulated Amortization**	**Unfinished Construction**	**Composite Amortization Rate**	Capital Assets in Service	Accumulated Amortization	Unfinished Construction	Composite Amortization Rate
Generation								
Hydraulic	**$ 5,359**	**$ 1,723**	**$ 142**	**1.6%**	$ 5,269	$ 1,707	$ 191	1.5%
Thermal	**456**	**219**	**–**	**4.0**	453	202	98	3.8
Valuation provision – (Note 18)	**–**	**–**	**–**		–	–	(98)	
	5,815	**1,942**	**142**		5,722	1,909	191	
Distribution	**3,693**	**1,263**	**197**	**2.5**	3,534	1,185	112	2.5
Transmission lines	**2,711**	**1,256**	**53**	**1.9**	2,792	1,257	47	2.1
Substations	**2,218**	**1,107**	**24**	**3.3**	1,980	952	54	3.1
Other								
Land and buildings	**408**	**137**	**4**	**2.5**	424	129	16	2.9
Equipment	**282**	**210**	**1**	**6.9**	290	191	8	6.8
Computer hardware & software	**426**	**267**	**45**	**15.8**	422	226	20	13.7
Service vehicles	**113**	**67**	**3**	**8.8**	111	62	3	8.9
Regulatory capital assets	**98**	**30**	**11**	**11.6**	63	18	11	11.1
Sundry	**28**	**14**	**3**	**3.0**	33	12	8	3.1
	1,355	**725**	**67**		1,343	638	66	
Total	**$ 15,792**	**$ 6,293**	**$ 483**		$ 15,371	$ 5,941	$ 470	

Note 9: Sinking Funds

Sinking funds are held by the Trustee (the Minister of Finance for the Province) for the redemption of long-term debt. The sinking fund balances at the balance sheet date include the following investments:

(dollar amounts in millions)	**2005**		2004	
	Carrying Value	**Weighted Average Effective Rate**[1]	Carrying Value	Weighted Average Effective Rate[1]
Money market unitized funds[2]	**$ 34**	**1.0 %**	$ 10	1.5 %
Province of B.C. and B.C. Crown corporation bonds	**330**	**4.4**	333	4.2
Federal and other provincial government securities	**584**	**4.2**	638	3.6
	$ 948		$ 981	

1 *Rate calculated on market yield to maturity.*

2 *Money market unitized funds consist of federal and provincial government paper and high-grade commercial paper with a maturity of one year or less.*

Sinking Fund Requirements

Substantially all of BC Hydro's debt issues have annual sinking fund cash requirements. The annual sinking fund cash requirements for the next five years are:

(in millions)	**2006**	**2007**	**2008**	**2009**	**2010**
Canadian	$49	$45	$43	$42	$36
US	(US$6) $7	(US$6) $7	(US$6) $7	(US$6) $7	(US$6) $7
	$56	$52	$50	$49	$43

Note 10: Deferred Debt Costs

(in millions)	**2005**	2004
Deferred foreign currency translation adjustments	**$ 1**	$ 123
Deferred debt issue and refinancing costs	**9**	27
	$ 10	$ 150

Note 11: Long-Term Debt and Debt Management

BC Hydro's long-term debt comprises bonds and debentures, substantially all of which have annual sinking fund requirements (see Note 9), and revolving borrowings obtained under an agreement with the Province. BC Hydro's debt is either held or guaranteed by the Province.

Under the Hydro and Power Authority Act, BC Hydro is subject to a borrowing limit of $8,800 million after deduction of sinking funds. As at March 31, 2005, BC Hydro's total debt under the borrowing limit was $6,634 million (2004 – $6,890 million). BC Hydro's consolidated total debt net of sinking funds of $948 million and including BCTC was $6,664 million (2004 – $6,900 million). The authorized commercial paper borrowing program, which includes revolving borrowings, is limited to $1,400 million under the Fiscal Agency Agreement. As at March 31, 2005, the outstanding amount under the borrowing limit was $896 million (2004 - $992).

During fiscal 2005, BC Hydro issued bonds totalling $510 million (2004 – $790 million) with a weighted average effective interest rate of 5.4 per cent (2004 – 4.9 per cent) and a weighted average term to maturity of 11.9 years (2004 – 10.9 years). BCTC issued bonds totalling $30 million (2004 – nil) with an effective interest rate of 4.1 per cent and a term to maturity of 4.5 years.

Long-term debt, expressed in Canadian dollars, is summarized in the following table by year of maturity:

(dollar amounts in millions)	**2005**				2004			
	Canadian	**Foreign**	**Total**	**Weighted Average Interest Rate[1]**	Canadian	Foreign	Total	Weighted Average Interest Rate[1]
Maturing in fiscal:								
2005	**$ –**	**$ –**	**$ –**	**– %**	$ 388	$ 189	577	7.9 %
2006	**413**	**188**	**601**	**5.7**	413	203	616	5.0
2007	**314**	**217**	**531**	**4.5**	314	236	550	3.7
2008	**9**	**605**	**614**	**4.2**	9	655	664	2.9
2009	**124**	**–**	**124**	**8.6**	94	–	94	10.1
2010	**574**	**60**	**634**	**6.5**	–	–	–	
Total								
1 – 5 years	**1,434**	**1,070**	**2,504**	**5.4**	1,218	1,283	2,501	5.0
6 – 10 years	**1,425**	**242**	**1,667**	**6.2**	1,674	328	2,002	6.4
11 – 15 years	**525**	**–**	**525**	**5.4**	350	–	350	5.5
16 – 20 years	**1,306**	**–**	**1,306**	**10.1**	1,296	–	1,296	10.1
21 – 25 years	**–**	**605**	**605**	**6.6**	–	655	655	6.6
26 – 30 years	**400**	**–**	**400**	**6.3**	400	–	400	6.3
Over 30 years	**–**	**363**	**363**	**7.4**	–	393	393	7.4
Bonds and debentures	**5,090**	**2,280**	**7,370**	**6.7**	4,938	2,659	7,597	6.6
Revolving borrowings	**220**	**22**	**242**	**2.7**	265	19	284	2.2
	$ 5,310	**$ 2,302**	**7,612**		$5,203	$ 2,678	7,881	
Less: Current portion			**843**				861	
Long-term debt			**$ 6,769**				$ 7,020	

1 *The weighted average interest rate represents the effective rate of interest on fixed-rate bonds and the current interest rate in effect at March 31 for floating-rate bonds, all before considering the effect of derivative financial instruments used to manage interest rate risk.*

Under an agreement with the Province, BC Hydro indemnifies the Province for any credit losses incurred by the Province related to interest rate and foreign currency contracts entered into by the Province on BC Hydro's behalf. As at March 31, 2005, the aggregate exposure under this indemnity totalled approximately $32 million (2004 – $47 million). BC Hydro has not experienced any losses due to this indemnity.

The following interest rate contracts were in place at March 31, 2005 and 2004, with a carrying value of $2 million at March 31, 2005 (2004 – nil). Floating rates are based on the effective rates at the balance sheet date and vary over time.

(dollar amounts in millions)	**2005**	2004
Receive fixed, pay floating rate swaps		
Notional amount[1]	**$ 1,152**	$ 1,505
Weighted average receive rate	**4.91 %**	4.58 %
Weighted average pay rate	**2.71 %**	1.76 %
Weighted terms	**6 years**	6 years
Receive floating, pay fixed rate swaps		
Notional amount[1]	**$ 808**	$ 1,894
Weighted average receive rate	**1.71 %**	1.94 %
Weighted average pay rate	**4.35 %**	3.57 %
Weighted terms	**3 years**	2 years
Receive floating, pay floating rate swaps		
Notional amount[1]	**$ 181**	$ 197
Average receive rate	**2.95 %**	1.20 %
Average pay rate	**3.05 %**	1.10 %
Remaining term	**2 years**	3 years

[1] *Notional amount for a derivative instrument is defined as the contractual amount on which payments are calculated.*

The net carrying value of foreign exchange forward contracts in place at March 31, 2005 was $(4) million (2004– nil).

The following foreign currency contracts with a net carrying value of $(86) million (2004 – $(63) million) were in place at March 31, 2005 and 2004. Such contracts are used to hedge foreign dollar principal and interest payments.

(currency dollar amounts in millions)	**2005**	2004
Cross-Currency Swaps[1]		
BC Hydro receives foreign currency:		
United States dollar – notional amount[2]	**US $445**	US $543
United States dollar – weighted average exchange rate	**1.41**	1.42
Remaining term	**5 years**	5 years

[1] *Under these arrangements, BC Hydro receives or pays the foreign currency in exchange for Canadian currency.*

[2] *Notional amount for a derivative instrument is defined as the contractual amount on which payments are calculated.*

Total long-term debt, sinking funds and foreign currency contracts are stated in the following table showing the Canadian dollar equivalent of the currency in which they are payable.

(in millions)	**2005**						2004
		In Canadian Dollars					
					Net Principal Outstanding		
	In Currency Units	**At the closing exchange rates at the balance sheet date (C$)**	**Foreign Currency Contracts**	**Sinking Funds**	**Before Hedging**	**After Hedging**	Net Principal Outstanding After Hedging
Canadian	**$ 5,310**	**$ 5,310**	**$ –**	**$ (445)**	**$ 4,865**	**$ 5,375**	$ 5,456
US	**$ 1,903**	**2,302**	**86**	**(503)**	**1,885**	**1,375**	1,507
		$ 7,612	**$ 86**	**$ (948)**	**$ 6,750**	**$ 6,750**	$ 6,963

Note 12: Financial Instruments

Fair Value

At March 31, 2005 and 2004, BC Hydro's financial instruments included cash and cash equivalents, accounts receivable, sinking funds, loans receivable, accounts payable, long-term debt and interest rate, foreign exchange and commodity derivative financial instruments. Some of these derivative financial instruments are held with the Province, which enters into such agreements with third parties on BC Hydro's behalf.

BC Hydro's financial instruments not shown in the following table have fair values that approximate carrying amounts:

(in millions)	**2005**		2004	
	Carrying Value[1]	**Fair Value[2]**	Carrying Value[1]	Fair Value[2]
Bonds and debentures	**$ (7,370)**	**$ (8,804)**	$ (7,597)	$ (9,007)
Revolving borrowings[3]	**(242)**	**(242)**	(284)	(284)
Long-term debt before current portion	**$ (7,612)**	**$ (9,046)**	$ (7,881)	$ (9,291)
Sinking funds	**$ 948**	**$ 1,006**	$ 981	$ 1,013
Derivative financial instruments				
Net foreign currency contracts	**$ (86)**	**$ (88)**	$ (63)	$ (44)
Interest rate swaps	**2**	**22**	–	43
Foreign exchange forward contracts	**(4)**	**(4)**	–	–
Commodity derivatives	**4**	**(12)**	25	25

1 *Carrying value represents the amount which is recorded in BC Hydro's financial statements. Bracketed amounts represent liabilities.*

2 *Market rates and prices used in determining fair value are as of the balance sheet date.*

3 *As the interest rates on revolving borrowings are reset on a regular basis, fair value approximates carrying value.*

Credit Risk Management

BC Hydro is directly exposed to counterparty credit risk as a result of the sale of electricity and related services to its domestic customers and purchase of electricity from independent power producers. BC Hydro is also exposed to credit risk as a result of the trade activities of Powerex. Powerex's principal counterparties are power exchanges, power pools, and utilities and their affiliates in the western United States and western Canada. Powerex has concentrations of credit exposure to a variety of other parties transacting throughout these regions. With respect to Powerex's sales and purchases, credit risk is managed by authorizing transactions with only credit-worthy counterparties as determined by BC Hydro Board-approved policies, and by monitoring the credit risk and credit standing of counterparties on a regular basis.

Note 13: Asset Retirement Obligations

(in millions)	**2005**	2004
Asset retirement obligations, beginning of year	**$ 16**	$ 14
Liabilities incurred in the period	**–**	1
Extension of anticipated retirement date	**(2)**	–
Accretion expense	**1**	1
Asset retirement obligations, end of year	**$ 15**	$ 16

BC Hydro estimates the undiscounted amount of cash flows required to settle the asset retirement obligation is approximately $25 million, which will be incurred between 2008 and 2018. A discount rate of 5.9 per cent was used to calculate the carrying value of the asset retirement obligations.

Note 14: Payment from Alcan Inc.

During fiscal 2002, Enron Corp. and certain of its subsidiaries, including Enron Power Marketing, Inc. (EPMI), filed for bankruptcy protection. As a result, Powerex's Power Purchase and Sale Agreement with EPMI terminated, giving rise to a termination payment becoming due from EPMI. Under a 1997 agreement among Alcan Inc. (Alcan) (formerly Alcan Aluminum Limited), EPMI, Powerex and BC Hydro, Alcan agreed to remain liable to Powerex for the payment obligations of EPMI up to US$100 million.

After arbitration and numerous court appeals, on October 7, 2004, Alcan withdrew from all legal challenges to the arbitration award and signed, along with Powerex, an agreement concerning the final resolution of this matter.

On December 23, 2004, Alcan paid Powerex US$110.4 million representing the arbitration award of US$100 million plus interest.

Note 15: Employee Defined Benefit Plans

BC Hydro provides a defined benefit statutory pension plan as well as supplemental arrangements, which provide pension benefits in excess of statutory limits, to virtually all employees. Pension benefits are based on years of membership service and highest five-year average pensionable earnings. Annual cost-of-living increases are provided to pensioners to the extent that funds are available in the indexing fund. Employees make basic and indexing contributions to the plan funds based on a percentage of current pensionable earnings. BC Hydro contributes amounts as prescribed by an independent actuary. BC Hydro is responsible for ensuring that the statutory pension plan has sufficient assets to pay the pension benefits upon retirement of employees. The supplemental arrangement is unfunded. The most recent actuarial funding valuation for the statutory pension plan was performed at December 31, 2001. The next valuation for funding purposes must be as of December 31, 2003.

BC Hydro also provides post-retirement benefits other than pensions including medical, extended health and life insurance coverage for retirees who have at least 10 years of service and qualify to receive pension benefits. Certain benefits, including the short-term continuation of health care and life insurance, are provided to terminated employees or to survivors on the death of an employee. These other post-retirement benefits and post-employment benefits are not funded. Post-employment benefits include the pay-out of benefits that vest or accumulate, such as banked vacation.

Information about the benefit plans, post-retirement benefits and post-employment benefits other than pensions is as follows:

(a) The net expense for BC Hydro's benefit plans is as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	**2005**	2004	**2005**	2004
Benefit plans	**$ 40**	$ 52	**$ 35**	$ 28

In fiscal 2004, the transfer of approximately 260 employees to the British Columbia Transmission Corporation (see Note 19) resulted in the curtailment of an insignificant portion of the BC Hydro defined benefit pension plan and other post-retirement benefit plans. The curtailment and related settlement of a portion of the plans was accounted for in fiscal 2005.

(b) Information about BC Hydro's benefit plans as at March 31, in aggregate, is as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	**2005**	2004	**2005**	2004
Accrued benefit obligation	**$ 2,290**	$ 2,103	**$ 282**	$ 227
Fair value of plan assets	**2,048**	1,922	**–**	–
Plan surplus (deficit)	**$ (242)**	$ (181)	**$ (282)**	$ (227)
Unamortized net actuarial losses	**376**	337	**133**	97
Unamortized past service costs	**9**	10	**–**	–
Unamortized transition (asset) liability	**(104)**	(118)	**46**	53
Accrued benefit asset (liability)	**$ 39**	$ 48	**$ (103)**	$ (77)

The pension plan assets and obligations are measured as at December 31, 2004. The other benefit plan obligations are measured as at March 31, 2005. No valuation allowance was required in 2005 and 2004. None of the above plans were fully funded.

(c) The significant assumptions adopted in measuring BC Hydro's accrued benefit obligations are as follows:

	Pension Benefit Plans		Other Benefit Plans	
	2005	2004	**2005**	2004
Discount rate				
– benefit cost	**7 %**	7 %	**7 %**	7 %
– accrued benefit obligation	**6 %**	7 %	**6 %**	7 %
Expected long-term rate of return on plan assets	**7 %**	7 %	**n/a**	n/a
Rate of compensation increase				
– benefit cost	**5 %**	5 %	**n/a**	n/a
– accrued benefit obligation	**3.5 %**	5 %	**n/a**	n/a

Health care cost trend rate:

	2005	2004
Weighted average health care cost trend rate	**7.2 %**	6.9 %
Weighted average ultimate health care cost trend rate	**4.1 %**	4.1 %
Year in which ultimate health care cost trend rate will be achieved	**2011**	2010

(d) Other information about BC Hydro's benefit plans is as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	**2005**	2004	**2005**	2004
Employer contributions	**$ 31**	$ 31	**$ –**	$ –
Employee contributions	**$ 15**	$ 16	**$ –**	$ –
Benefits paid	**$ 104**	$ 95	**$ 9**	$ 9
Settlement payments	**$ 13**	$ 52	**$ –**	$ 24

(e) Asset allocation of the defined benefit statutory pension plan as at the measurement date:

	Target Allocation	**2005**	2004
Equities	60 %	**60 %**	62 %
Fixed income investments	30 %	**30 %**	29 %
Real estate	10 %	**10 %**	9 %

Plan assets are re-balanced within ranges around target applications. The expected return on plan assets is determined by considering long-term historical returns, future estimates of long-term investment returns and asset allocations.

Note 16: Commitments and Contingencies

Energy Commitments

BC Hydro has long-term energy purchase contracts to meet a portion of its expected future domestic electricity requirements. The minimum obligations to purchase energy under these contracts have a total value of approximately $13,422 million of which approximately $5,850 million relates to the purchase of natural gas and natural gas transportation contracts, at market prices over 30 years. The remaining commitments are at predetermined prices. Powerex also has energy purchase commitments with a minimum payment obligation of $4,905 million and purchase commitments for energy and capacity services with a value of $719 million.

The total payments for the next five years are approximately (in millions): 2006 – $1,385; 2007 – $1,011; 2008 – $1,064; 2009 – $1,043; 2010 – $1,020.

Powerex has energy sales commitments over the next four years with a total value of $702 million.

Lease and Service Agreements

BC Hydro has entered into various agreements to lease facilities or assets, or to purchase business support services. The agreements cover periods of up to 10 years, and the aggregate minimum payments are approximately $1,023 million. Payments for the next five years are approximately (in millions): 2006 – $137; 2007 – $131; 2008 – $129; 2009 – $128; 2010 – $128.

Demand-side Management Programs

BC Hydro has entered into Power Smart incentive and energy study agreements with customers. BC Hydro has committed to payments under these agreements totalling approximately $71 million over the next two years as follows (in millions): 2006 – $65; 2007 – $6.

Legal Contingencies

(a) California Power Markets:

At March 31, 2005, Powerex was owed US$268 million (CDN$324 million) by the markets operated by the California Power Exchange (Cal Px) and the California Independent System Operator (Cal ISO) related to Powerex's electricity trade activities in California during fiscal 2001. As a result of payment defaults by a number of California utilities in 2001, the Cal Px and Cal ISO were unable to pay these amounts to Powerex. In addition, certain California parties requested the Federal Energy Regulatory Commission (FERC) consider whether refunds should be made to the Cal Px, the Cal ISO and the California Department of Water Resources by various suppliers, including Powerex. The FERC is calculating the extent to which sellers' receivables may be offset by refunds to the Cal Px and Cal ISO markets, while FERC's refund orders themselves are before US appellate courts.

Since 2000, Powerex has been named, in some cases along with other energy providers, as a defendant in a number of lawsuits and U.S. federal regulatory proceedings which seek damages and/or contract rescission based on allegations that, during part of 2000 and 2001, the California wholesale electricity markets were unlawfully manipulated and that the energy prices were not just and reasonable. In addition, certain California parties have requested the U.S. Department of Energy (DOE) to put conditions on Powerex's authorization to export electricity from the United States. Collectively, these proceedings are in various stages of defense; a number of issues and findings are presently on appeal and none has been the subject of final judicial action, and certain issues have been ordered to be remanded to the FERC for further proceedings, but such remands have not yet occurred. On March 26, 2004, the FERC approved a settlement agreement between the FERC Trial Staff and Powerex that acknowledged that there was no evidence that Powerex engaged in any gaming practices or concerted partnership practices with any other market participants, and further noted that Powerex was a valuable and reliable supplier of energy and ancillary services to the California market throughout the energy crisis. However, at the request of certain parties, this settlement is still subject to rehearing at FERC and subsequent appeals to the courts.

BC Hydro was also directly joined as a defendant in the California Consumer Class Action lawsuit. In response to an application by BC Hydro to be dismissed from the lawsuit, a U.S. Federal Court judge ruled that BC Hydro is immune from these claims in the United States by virtue of the Foreign Sovereign Immunities Act. The US Court of Appeals for the Ninth Circuit upheld this finding. The court also upheld the finding that Powerex does not enjoy foreign sovereign entity status and therefore remains a party to the lawsuit, which was ordered to be remanded back to California State Court. Powerex is seeking appeal of the latter decision.

Due to the ongoing nature and uncertain status of the regulatory and legal proceedings related to the California power markets, management cannot predict at this time the outcome of the claims against Powerex and BC Hydro. BC Hydro has recorded provisions for uncollectible amounts and legal costs associated with the ongoing legal and regulatory impacts of the California energy crisis during fiscal 2001. These provisions are based on management's best estimates, and are intended to adequately provide for any exposure. However, the amounts that may ultimately be collected may differ materially from management's current estimates. Management has not disclosed the provision amounts or ranges of expected outcomes due to the potentially adverse effect on the collection process.

(b) Due to the size, complexity and nature of BC Hydro's operations, various other legal matters are pending. It is not possible at this time to predict with any certainty the outcome of such litigation. Management believes that any settlements related to these matters will not have a material effect on BC Hydro's consolidated financial position or results of operations.

Note 17: Segmented Information

BC Hydro is organized as four operating segments, two service organizations and corporate management and support activities. The following operating segments operate as profit centres, and are subject to requirements established by the Province and to regulation by the Commission:

Generation: The Generation line of business (Generation LoB) is responsible for ownership functions, including operation and maintenance, associated with BC Hydro's generation assets, as well as for efficient commercial dispatch of the generation assets to support BC Hydro's domestic and electricity trade activity. Generation LoB's activities are subject to the Provincial Energy Policy and the Heritage Contract.

Transmission: The Transmission line of business (Transmission LoB) is responsible for ownership of BC Hydro's transmission, and subject to service agreements with British Columbia Transmission Corporation (BCTC). BCTC is a Crown corporation of the Province, and will be included in BC Hydro's consolidated accounts in the Transmission segment until the separation of BCTC from BC Hydro is complete (see Note 19).

Distribution: The Distribution line of business (Distribution LoB) is responsible for BC Hydro's customer management activities for customers in the province of British Columbia. These activities include forecasting and managing energy requirements, ownership and management of BC Hydro's distribution assets and customer care activities. Distribution LoB manages certain of BC Hydro's customer care activities subject to outsourcing agreements with Accenture Business Services of British Columbia Limited Partnership.

Trade: BC Hydro's trade activities are managed through its wholly owned subsidiary, Powerex. Powerex's trade activities generally occur within Alberta, Canada and the western United States. Powerex also works with Generation LoB to determine how BC Hydro's generation assets should be dispatched to support electricity trade.

Service organizations include Engineering Services and Field Services. Engineering Services' activities include project and construction management services to Generation LoB, Distribution LoB and selected external clients. Field Services provides restoration, maintenance, and construction services to Generation LoB, Transmission LoB and Distribution LoB as well as to external clients. Field Services' activities also include materials management and fleet management. Service organizations are responsible for providing services to BC Hydro's operating segments and to Corporate on a cost recovery basis subject to internal service agreements. The service organizations also provide services to external parties under arm's length business arrangements.

Corporate includes certain centralized business sustaining activities including Corporate executive office, Treasury, Legal, Internal Audit, Controller, Chief Information Officer, Strategic Planning, Human Resources, Stakeholder Engagement and Sustainability. It also includes ownership of corporate assets such as office buildings, furniture and equipment, and certain information technology assets.

BC Hydro uses various transfer pricing mechanisms that support revenue and cost accountability for management and regulatory purposes. The key transfer pricing mechanisms include:

Energy: Generation LoB transfers energy to Distribution LoB on a cost-of-service basis. Generation LoB also purchases energy from, and sells energy to, Powerex at market related prices.

Transmission Services: Transmission services are charged to Generation LoB and Distribution LoB, and to Powerex based on the tariffs that would apply to third-party users. These tariffs are approved by the Commission.

Service Organization Charges and Corporate Costs: Service organizations charge the operating segments and corporate for services provided using cost-based charges that are calculated based on the level and quantity of service consumed by the receiving organization. Corporate costs are allocated to the operating segments and service organizations.

Except for any adjustments required to present the segmented information in conformity with the transfer pricing mechanisms noted above, the accounting principles used are consistent with those used in preparing the consolidated financial statements.

Segmented Financial Information:

Year ended March 31, 2005 (in millions)

	Generation $	Transmission $	Distribution $	Trade $	Services and Corporate $	Consolidation Adjustments/ Eliminations $	Total $
External revenues	18	16	2,639	1,021	53	(22)	3,725
Inter-segment revenues	1,405	619	264	617	456	(3,361)	–
Amortization	116	150	89	4	87	–	446
Finance charges	184	118	80	9	52	–	443
Restructuring costs	–	–	–	–	–	–	–
Net income (loss)	**182**	**105**	**162**	**256**	**(46)**	**(257)**	**402**
Total assets	4,532	2,914	3,896	939	755	(873)	12,163
Capital expenditures & Demand-side management programs	123	145	311	4	32	–	615

Year ended March 31, 2004 (in millions)
(restated, Note 2)

	Generation $	Transmission $	Distribution $	Trade $	Services and Corporate $	Consolidation Adjustments/ Eliminations $	Total $
External revenues	23	13	2,481	873	50	(16)	3,424
Inter-segment revenues	1,502	656	–	475	352	(2,985)	–
Amortization	220	145	90	3	68	–	526
Finance charges	182	114	129	18	9	–	452
Restructuring costs	–	8	–	–	–	–	8
Net income (loss)	**300**	**139**	**(327)**	**158**	**20**	**(179)**	**111**
Total assets	4,662	3,108	3,429	533	575	(469)	11,838
Capital expenditures & Demand-side management programs	132	186	292	3	56	–	669

Geographic Information:

Revenues, based on point of delivery, are as follows:

(in millions)	**2005**	2004
British Columbia	**$ 2,704**	$ 2,553
Rest of Canada	**204**	200
United States	**817**	671
	$ 3,725	$ 3,424

Virtually all of BC Hydro's assets are located in the province of British Columbia.

Note 18: Vancouver Island Generation and Georgia Strait Crossing Projects

In fiscal 2005, BC Hydro completed an evaluation process for providing additional supply to its customers located on Vancouver Island. The evaluation process included the assessment of competing tenders submitted under the Vancouver Island Call for Tenders for Capacity and Associated Energy (Call for Tenders). This included assessment of various tenders that would require the purchase and use of the Vancouver Island Generation Project (VIGP) project assets that are owned by BC Hydro.

In November 2004, BC Hydro awarded and executed an Electricity Purchase Agreement (EPA) and associated VIGP Transfer Agreement (VTA) to Duke Point Power Limited Partnership (DPP) pursuant to the Call for Tenders. The EPA was filed with the British Columbia Utilities Commission (the Commission) for approval as an "energy supply contract" under section 71 of the Utilities Commission Act. The VTA required that BC Hydro sell, and DPP purchase, the VIGP assets for $50 million. These assets would then be used in the development of a gas-fired plant at Duke Point, near Nanaimo, British Columbia from which BC Hydro would purchase electrical capacity and associated energy over a 25-year term. The Commission convened a public interest review hearing relative to the EPA and issued an order on February 17, 2005 accepting the EPA for filing subject to certain conditions including a requirement that BC Hydro and Terasen Gas (Vancouver Island) Inc. enter into a long-term gas transportation agreement to service the project at Duke Point as well as the Island Cogeneration Project, also located on Vancouver Island. Two intervenors subsequently filed applications in the British Columbia Court of Appeal for leave to appeal the Commission's order to that court. Those applications were dismissed in April 2005. Further applications were filed seeking reconsideration of that dismissal and the Court of Appeal granted leave to appeal on June 14, 2005.

BC Hydro announced on June 17, 2005 that it will exercise its contractual right to terminate the EPA and VTA, without liability to DPP, apart from the obligation to return performance security and a deposit. As at the date of termination, the total amount spent by BC Hydro on VIGP totalled approximately $70 million and the carrying value of these assets after provisions is nil.

During the planning for VIGP, BC Hydro also anticipated the need for gas supply utilizing the Georgia Strait Crossing Pipeline (GSX) which would transport natural gas from Huntingdon/Sumas on the Washington state/British Columbia border to Vancouver Island via Washington state. The GSX project was owned jointly by BC Hydro and Williams Gas Pipeline Company, LLC (Williams). During fiscal 2004, as a result of the regulatory uncertainty whether the VIGP and GSX projects would proceed, BC Hydro and Williams agreed to curtail spending on GSX. In December 2004 BC Hydro and Williams cancelled GSX and this project is currently subject to windup of its activities. As at March 31, 2005, BC Hydro had spent approximately $50 million by way of loans to the GSX project entities owned by Williams and project expenditures by BC Hydro. Under the project agreements, Williams is excused of any obligation to contribute funds toward repayment of these loans, which remain outstanding. The carrying value of these project assets after provisions is nil.

During fiscal 2004 BC Hydro recorded a $120 million provision for the VIGP and GSX projects to reflect the uncertainty as to the projects proceeding or the costs being recovered. Of this amount, $98 million was charged to amortization with the balance included in operations and administration. BC Hydro believes the provision is adequate with respect to any potential losses related to these projects including any related contingencies. During fiscal 2004 BC Hydro also obtained approval from the Commission for the establishment of a designated regulatory account with respect to the costs of VIGP and GSX. BC Hydro management has determined that it will not pursue regulatory relief with respect to any unrecovered costs related to the VIGP or GSX projects.

Note 19: Transaction with British Columbia Transmission Corporation

Under the provincial Energy Plan, the responsibility for the management of BC Hydro's transmission system assets was transferred to the British Columbia Transmission Corporation (BCTC), a Crown corporation of the Province. BCTC will manage the transmission assets in order to provide transparent open-access transmission services. BCTC's role in managing the transmission assets is governed by the Transmission Corporation Act, enacted on May 29, 2003. BC Hydro and BCTC's relationship is also subject to the terms of various Key Agreements and Service Agreements. BCTC received an equity contribution from the Province of $20 million during fiscal 2004.

BC Hydro will retain legal ownership of substantially all of the transmission system assets. BC Hydro is also responsible for funding the purchase costs of additions to and replacements of the transmission assets that it owns. BCTC will be responsible for all planning and construction, operation, and maintenance functions related to the transmission system assets. BCTC will also be responsible for establishing and obtaining approval from the Commission of a transmission tariff rate for use of these assets. The transmission tariff will recover the full cost of providing service including an asset owner component that is collected on behalf of, and remitted to, BC Hydro.

During fiscal 2004, BC Hydro permanently transferred 260 employees to BCTC. These employees are responsible for planning, managing and operating the transmission system. The reorganization of BC Hydro to create BCTC resulted in restructuring costs of $8 million in fiscal 2004.

The consolidated financial statements of BC Hydro include the accounts of BCTC for the years ended March 31, 2005 and 2004. BC Hydro will remove BCTC from its consolidated accounts effective April 1, 2005 when BCTC is considered operationally and financially independent of BC Hydro. The consolidated financial statements of BC Hydro include the following impacts related to consolidation of BCTC:

(in millions)	**2005**	2004
Increase in assets	**$ 84**	$ 58
Increase in liabilities	**60**	37
Increase in retained earnings	**24**	21
Increase in revenue	**1**	–
Decrease in expenses	**(2)**	(1)
Increase in net income	**3**	1

Note 20: Comparative Information

Certain amounts in the 2004 financial statements have been reclassified to conform to the presentation used in 2005.

Key Financial and Operating Comparatives

Financial Comparatives

millions of dollars unless otherwise stated	**2005**	2004	2003	2002	2001
Revenues[1]	**$ 3,725**	$ 3,424	$ 3,107	$ 6,311	$ 7,889
Net income	**$ 402**	$ 111	$ 418	$ 403	$ 446
Capital assets	**$ 9,982**	$ 9,900	$ 9,793	$ 9,510	$ 9,361
Net long-term debt[2]	**$ 6,627**	$ 6,853	$ 6,849	$ 6,889	$ 6,214
Rate Stabilization Account	**$ –**	$ –	$ 21	$ 87	$ 232
Retained earnings	**$ 1,688**	$ 1,876	$ 1,609	$ 1,529	$ 1,459
Capital and deferred expenditures	**$ 612**	$ 637	$ 741	$ 545	$ 413
Debt to equity	**68:32**	70:30	72:28	72:28	70:30
Return on equity (%)	**14.24**	3.74	15.47	15.24	16.59
Interest coverage	**1.23**	1.22	1.75	1.43	2.48

Operating Comparatives

	2005	2004	2003	2002	2001
Number of customers	**1 675 258**	1 650 655	1 629 186	1 609 871	1 595 287
Generating capacity (MW):					
Hydroelectric	**10 218**	10 207	10 009	10 009	10 009
Thermal	**1 093**	1 093	1 099	1 093	1 093
Peak one-hour demand (MW)	**9 437**	9 619	8 481	8 692	8 995
Average annual KWh use per residential customer	**10 722**	10 761	10 476	10 695	10 344
Average number of customers per employee	**378**	372	266	265	275
Domestic sales (GWh)	**51 205**	50 151	48 677	47 801	48 131
Trade sales (GWh)	**29 706**	28 373	31 182	20 666	23 900
Total electricity sold per employee (GWh)	**18.41**	17.82	13.14	11.32	12.48

1 *During fiscal 2004, in response to changes in United States accounting standards, BC Hydro amended its accounting policy related to revenue recognition for trade activities that are supported by derivatives such as swaps, forward sales and options. Revenues associated with these derivatives are presented on a net basis in fiscal years 2003 to 2005. Revenues for fiscal years prior to 2003 have not been restated.*

2 *Consists of long-term debt, including the current portion, net of sinking funds and cash and cash equivalents.*

Financial Statistics

for the years ended or as at March 31 (millions of dollars)	**2005**	2004	2003	2002	2001
Revenues[1]	**$ 3,725**	$ 3,424	$ 3,107	$ 6,311	$ 7,889
Expenses					
Energy costs[1]	**1,959**	1,580	1,126	4,407	5,162
Operating costs[2]	**631**	621	573	550	755
Amortization	**446**	526	417	386	380
Taxes	**143**	147	145	166	174
Finance charges	**443**	452	457	544	559
Payment from Alcan Inc.	**(137)**	–	–	–	–
Customer Profit Sharing	**–**	–	–	–	310
Restructuring costs	**–**	8	37	–	–
	3,485	3,334	2,755	6,053	7,340
Income Before Regulatory Account Transfers	**240**	90	352	258	549
Heritage Deferral Account	**131**	–	–	–	–
Non-Heritage Deferral Account	**128**	–	–	–	–
Trade Income Deferral Account	**(110)**	–	–	–	–
Regulatory provision for future removal and site restoration costs	**13**	–	–	–	–
Rate Stabilization Account	**–**	21	66	145	(103)
Net Income	**$ 402**	$ 111	$ 418	$ 403	$ 446
Capital Assets					
At cost	**$ 16,275**	$ 15,841	$ 15,609	$ 15,067	$ 14,617
Less: Accumulated depreciation	**6,293**	5,941	5,816	5,557	5,256
Net Book Value	**$ 9,982**	$ 9,900	$ 9,793	$ 9,510	$ 9,361
Capital Asset Expenditures					
Sustaining	**$ 344**	$ 375	$ 367	$ 333	$ 270
Expansion	**197**	199	329	198	142
Total capital asset expenditures[3]	**$ 541**	$ 574	$ 696	$ 531	$ 412
Demand-side management (DSM) programs	**71**	63	45	14	1
Total capital asset and DSM program expenditures	**$ 612**	$ 637	$ 741	$ 545	$ 413
Less: Contributions in aid of construction	**66**	56	62	54	44
Net Capital Asset Expenditures	**$ 546**	$ 581	$ 679	$ 491	$ 369
Net Long-Term Debt[4]	**$ 6,627**	$ 6,853	$ 6,849	$ 6,889	$ 6,214

1 *During fiscal 2004, in response to changes in United States accounting standards, BC Hydro amended its accounting policy related to revenue recognition for trade activities that are supported by derivatives such as swaps, forward sales and options. Revenues and energy costs associated with these derivatives are presented on a net basis for fiscal years 2003 to 2005. Revenues and energy costs for fiscal years prior to 2003 have not been restated.*

2 *Maintenance, operations and administration costs.*

3 *Total capital asset expenditures include non-cash items.*

4 *Consists of long-term debt, including the current portion, net of sinking funds and cash and cash equivalents.*

Financial Statistics

Operating Statistics

for the years ended or as at March 31	**2005**	2004	2003	2002	2001
Generating Capacity *(megawatts)*					
Hydroelectric[1]	**10 218**	10 207	10 009	10 009	10 009
Thermal	**1 093**	1 093	1 099	1 093	1 093
Total	**11 311**	11 300	11 108	11 102	11 102
Peak One-Hour Demand					
Integrated System *(megawatts)*	**9 437**	9 619	8 481	8 692	8 995
Customers					
Residential	**1 484 339**	1 462 079	1 442 597	1 424 505	1 411 333
Light industrial and commercial	**187 313**	185 065	183 188	182 025	180 607
Large industrial	**138**	136	133	132	131
Other	**3 265**	3 202	3 092	3 064	3 042
Trade	**203**	173	176	145	174
Total	**1 675 258**	1 650 655	1 629 186	1 609 871	1 595 287
Electricity Sold *(gigawatt hours)*					
Residential	**15 814**	15 646	15 024	15 170	14 537
Light industrial and commercial	**17 459**	17 175	16 757	16 446	16 292
Large industrial	**16 177**	15 505	15 179	14 513	15 573
Other	**1 755**	1 825	1 717	1 672	1 729
Domestic	**51 205**	50 151	48 677	47 801	48 131
Trade	**29 706**	28 373	31 182	20 666	23 900
Total	**80 911**	78 524	79 859	68 467	72 031
Domestic Change Over Previous Year (%)	**2.1**	3.0	1.8	(0.7)	3.6
Revenues *(millions)*					
Residential	**$ 1,016**	$ 960	$ 923	$ 930	$ 892
Light industrial and commercial	**967**	912	893	874	866
Large industrial	**573**	525	516	482	524
Other energy sales	**88**	89	88	89	90
Domestic electric	**2,644**	2,486	2,420	2,375	2,372
Miscellaneous	**60**	67	55	75	59
Domestic	**2,704**	2,553	2,475	2,450	2,431
Trade[2]	**1,021**	871	632	3,861	5,458
Total	**$ 3,725**	$ 3,424	$ 3,107	$ 6,311	$ 7,889

1 *Maximum sustained generating capacity.*

2 *During fiscal 2004, in response to changes in United States accounting standards, BC Hydro amended its accounting policy related to revenue recognition for trade activities that are supported by derivatives such as swaps, forward sales and options. The revenues and costs associated with these derivatives are presented on a net basis for fiscal 2003 to 2005. Revenues for fiscal years prior to 2003 have not been restated.*

Operating Statistics

for the years ended or as at March 31	**2005**	2004	2003	2002	2001
Average Revenue *(per kilowatt hour)*					
Residential	**6.4¢**	6.1¢	6.1¢	6.1¢	6.1¢
Light industrial and commercial	**5.5**	5.3	5.3	5.3	5.3
Large industrial	**3.5**	3.4	3.4	3.3	3.4
Other	**5.0**	4.9	5.1	5.3	5.2
Trade[1]	**7.1**	6.8	6.2	18.7	22.8
Average Annual Kilowatt Hour use per Residential Customer	**10 722**	10 761	10 476	10 695	10 344
Lines in Service					
Distribution (kilometres)[2]	**55 254**	54 617	55 734	53 748	52 865
Transmission (circuit kilometres)	**18 286**	18 300	18 284	18 025	18 025
Number of Employees[3]	**4 396**	4 406	6 013	6 144	5 952

1 *The method used to calculate the trade revenue per kilowatt hour is based on gross trade revenues for fiscal 2003 to 2005.*

2 *The method used to track the distance of the three-phase underground power lines was changed in fiscal 2004.*

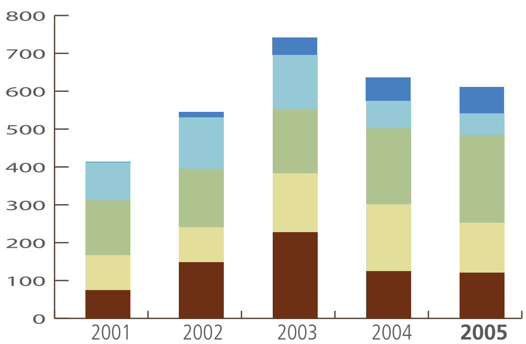
3 *Includes full-time and part-time employees of BC Hydro, its subsidiaries and British Columbia Transmission Corporation. At April 1, 2003, approximately 1,600 employees were transferred to Accenture Business Services for Utilities.*

Total Requirements for Electricity and Sources of Supply

for the years ended March 31	**2005**			2004		2003	
	Generating Capacity (Megawatts)	**Gigawatt Hours**	**%**	Gigawatt Hours	%	Gigawatt Hours	%
Requirements							
Domestic	**11 311**	**51 205**	**59.8**	50 151	60.1	48 677	57.6
Trade		**29 706**	**34.7**	28 373	34.0	31 182	36.9
		80 911	**94.5**	78 524	94.1	79 859	94.5
Line loss and system use		**4 660**	**5.5**	4 969	5.9	4 689	5.5
		85 571	**100.0**	83 493	100.0	84 548	100.0
Sources Of Supply							
Hydroelectric generation							
Gordon M. Shrum	**2 730**	**11 738**	**13.7**	14 567	17.4	16 061	19.0
Revelstoke	**1 980**	**7 283**	**8.5**	7 552	9.0	8 094	9.6
Mica	**1 805**	**5 993**	**7.0**	6 389	7.7	6 926	8.2
Kootenay Canal	**580**	**3 339**	**3.9**	2 507	3.0	2 868	3.4
Peace Canyon	**694**	**2 981**	**3.5**	3 604	4.3	3 991	4.7
Seven Mile	**790**	**3 039**	**3.6**	2 867	3.4	2 919	3.4
Bridge River	**475**	**2 597**	**3.0**	2 555	3.1	2 366	2.8
Other	**1 164**	**4 631**	**5.4**	4 499	5.4	4 440	5.3
	10 218	**41 601**	**48.6**	44 540	53.3	47 665	56.4
Thermal generation							
Burrard	**950**	**456**	**0.5**	136	0.2	110	0.1
Other	**143**	**325**	**0.4**	312	0.4	300	0.4
Purchases under long-term commitments		**10 992**	**12.9**	10 681	12.8	7 518	8.9
Purchases under short-term commitments		**32 637**	**38.1**	29 042	34.8	30 560	36.1
Exchange-net		**(440)**	**(0.5)**	(1 218)	(1.5)	(1 605)	(1.9)
	11 311	**85 571**	**100.0**	83 493	100.0	84 548	100.0

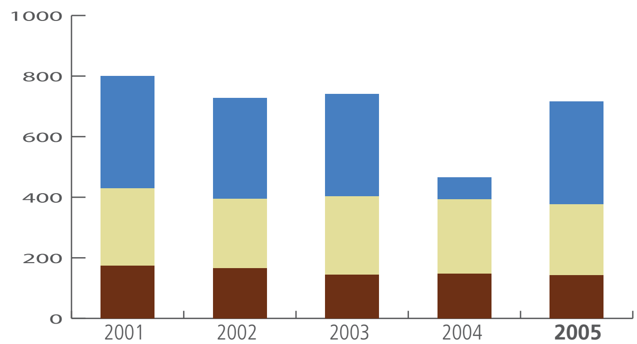
Financial Highlights

Capital Expenditures
$ in millions



- Generation replacements and expansion
- Transmission lines and substation replacements and expansion
- Distribution improvements and expansion
- General – computers, vehicles, other
- Power Smart (Demand-side management)

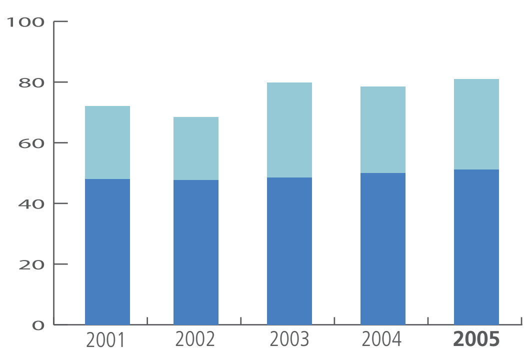
Payments to the Province
$ in millions



- Taxes
- Water Rental
- Dividend

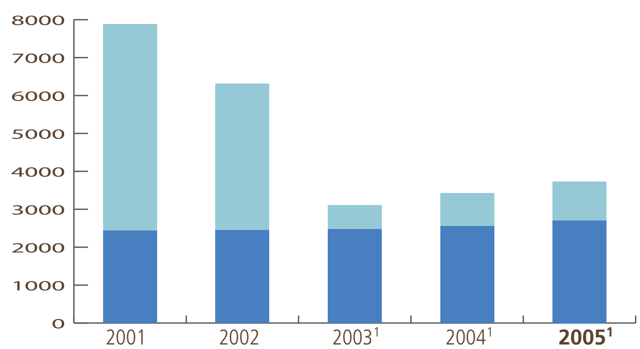
Domestic and Trade Sales

Volumes in GWh



- Domestic Volumes
- Trade Volumes

Revenues in $ millions



- Domestic Revenues
- Trade Revenues

[1] During fiscal 2004, in response to changes in United States accounting standards, BC Hydro amended its accounting policy related to revenue recognition for trade activities that are supported by derivatives such as swaps, forward sales and options. The fiscal 2003 to 2005 trade revenues and costs associated with these derivatives are presented on a net basis in the Financial Statistics. For fiscal years prior to 2003, the trade revenues and costs have not been restated.