Q3 2003

Restated for the 9 months ended December 31, 2003 and 2002

Key Highlights

Restatement of revenues for the three and nine months ended December 31, 2003

- Subsequent to the release of the third quarter report for fiscal 2004, it was determined that revenues were overstated by $15 million. The error occurred due to misinterpretation of weather data used in the residential revenue calculation for the month of October and resulted in an overstatement of revenues. The third quarter financial statements have been restated to reduce revenues by $15 million. The reduction in revenues has a flow through impact of reducing net income by the same amount for the three months and nine months ended December 31, 2003.

- Consolidated net income of $135 million for the nine months ended December 31, 2003, was $171 million lower than for the same period in the previous year. The primary reason for the decline in net income is a decrease in margins (revenue less energy costs)of $134 million. This was caused by increasing cost of supply due to an increase in market prices for energy and higher purchase volumes. Higher energy purchases were needed because system storage energy in BC Hydro’s major reservoirs at the end of the third quarter was about 800 gigawatt hours below the historical average for this time of year.

- Also contributing to the lower net income was an increase of $51 million in maintenance expenses due primarily to increases in maintenance performed as result of forest fire damage, system restoration due to storms and to routine maintenance being advanced earlier this year. Additionally, operations and administration expenses increased $13 million, largely due to increases in pension costs, one-time expenditures related to the new transmission company, British Columbia Transmission Corporation (BCTC) and implementation costs related to IT projects. A decrease in finance charges of $30 million due to the decline in interest rates partly offset the increased costs.

- Net income from domestic sources for the nine months ended December 31, 2003 was $22 million, while electricity trade sources provided net income of $113 million. This compares with net income from domestic sources of $221 million and net income from electricity trade sources of $85 million for the same period in the prior year.

- BC Hydro’s forecast net income before Rate Stabilization Account (RSA) transfers for fiscal 2004 is approximately $190 million. Based on this forecast, the balance of $21 million remaining in the RSA at the end of fiscal 2003 will be depleted. The forecast of $190 million is an increase of $260 million from the forecast in BC Hydro’s 2003 Service Plan and an increase of $45 million from the forecast disclosed in BC Hydro’s September 2003 Quarterly Report. The increase from the Service Plan forecast to the second quarter forecast was largely due to the impact of improved water inflows during the spring and to a decrease in the prices of electricity and natural gas purchases. Lower than expected interest rates also contributed to the increase in the forecast. The improvement in the forecast from the second quarter is primarily due to an increase in domestic revenues largely in the residential sector due to weather impacts.

BC Hydro is subject to various risks and uncertainties that can cause significant volatility in the earnings. Factors such as the level of water inflows into its reservoirs, market prices for electricity and natural gas, interest rates, foreign exchange rates, weather and regulatory and government policies influence both the operation of the BC Hydro system and its earnings. A reduction in water inflows into reservoirs results in a greater reliance on energy purchases or increased use of the Burrard Generating Station which can both result in higher costs of energy. As a result of these risks and uncertainties, BC Hydro's net income for fiscal 2004 could range from $130 million to $220 million under various plausible scenarios.

Consolidated Statement of Operations

	For the Three Months Ended December 31 (Unaudited)		*For the Nine Months Ended December 31 (Unaudited)*	
	As Restated. See Note 10.		As Restated. See Note 10.	
in millions	**2003**	2002	**2003**	2002
Revenues				
Residential	**$ 277**	$ 267	**$ 667**	$ 648
Light industrial and commercial	**235**	230	**674**	660
Large industrial	**135**	133	**391**	384
Other energy sales	**23**	25	**59**	60
Other sundry	**16**	14	**43**	42
	686	669	**1,834**	1,794
Electricity trade	**454**	477	**1,531**	1,431
	1,140	1,146	**3,365**	3,225
Expenses				
Energy costs	**634**	585	**2,026**	1,752
Maintenance	**81**	65	**225**	174
Operations and administration	**63**	70	**226**	213
Taxes	**37**	37	**108**	111
Depreciation and amortization	**105**	101	**308**	302
	920	858	**2,893**	2,552
Income Before Finance Charges	**220**	288	**472**	673
Finance charges	**118**	123	**337**	367
Net Income	**$ 102**	$ 165	**$ 135**	$ 306

Consolidated Statement of Retained Earnings

for the Nine Months Ended December 31

in millions	**2003** *(Unaudited)*	2002 *(Unaudited)*
Retained earnings, beginning of period	**$ 1,609**	$ 1,529
Net income	**135**	306
Payment to the Province	**(115)**	(246)
Retained earnings, end of period	**$ 1,629**	$ 1,589

See accompanying notes to the interim consolidated financial statements.

Consolidated Balance Sheet

in millions	As at December 31 (Unaudited) As Restated. See Note 10. 2003	As at March 31 2003
ASSETS		
Capital Assets		
Capital assets in service	**$ 15,033**	$ 14,940
Less accumulated depreciation	**5,969**	5,816
	9,064	9,124
Unfinished construction	**848**	669
	9,912	9,793
Current Assets		
Temporary investments	**59**	4
Accounts receivable and accrued revenue	**345**	362
Materials and supplies	**95**	88
Prepaid expenses	**32**	86
Unrealized gains on mark-to-market transactions	**3**	10
	534	550
Other Assets and Deferred Charges		
Loan receivable	**23**	23
Sinking funds	**1,020**	1,037
Demand-side management programs	**145**	123
Deferred debt costs	**154**	385
Foreign currency contracts	**-**	13
	1,342	1,581
	$ 11,788	$ 11,924
LIABILITIES AND EQUITY		
Long-Term Debt		
Long-term debt net of sinking funds	**$ 6,970**	$ 6,853
Sinking funds presented as assets	**1,020**	1,037
	7,990	7,890
Foreign Currency Contracts	**77**	15
Current Liabilities		
Accounts payable and accrued liabilities	**547**	689
Accrued interest	**134**	108
Accrued payment to the Province	**115**	338
Unrealized losses on mark-to-market transactions	**3**	10
	799	1,145
Deferred Credits and Other Liabilities		
Provision for future removal and site restoration costs	**189**	174
Deferred revenue	**282**	258
Rate stabilization account	**21**	21
Contributions arising from the Columbia River Treaty	**196**	203
Contributions in aid of construction	**605**	609
	1,293	1,265
Retained Earnings	**1,629**	1,609
	$ 11,788	$ 11,924

See accompanying notes to the interim consolidated financial statements.

L.I. (Larry) Bell
Chair

Alice Laberge
Chair, Audit and Risk Management Committee

Consolidated Statement of Cash Flows

	For the Three Months Ended December 31 (Unaudited)		*For the Nine Months Ended December 31 (Unaudited)*	
	As Restated. See Note 10.		As Restated. See Note 10.	
in millions	**2003**	2002	**2003**	2002
Operating Activities				
Net income	**$ 102**	$ 165	**$ 135**	$ 306
Adjustments for:				
– Depreciation and amortization	**105**	101	**308**	302
– Other non-cash items	**34**	39	**26**	51
	241	305	**469**	659
Working capital changes	**10**	61	**(46)**	(45)
Cash provided by operating activities	**251**	366	**423**	614
Investing Activities				
Loan receivable	**(1)**	-	**(2)**	(8)
Capital asset expenditures	**(152)**	(170)	**(471)**	(528)
Contributions in aid of construction	**14**	17	**35**	52
Demand-side management programs	**(21)**	(9)	**(40)**	(28)
Future removal and site restoration costs	**(4)**	(3)	**(7)**	(9)
Proceeds from property sales	**-**	-	**-**	1
Cash used for investing activities	**(164)**	(165)	**(485)**	(520)
Financing Activities				
Bonds, notes and debentures:				
– Issued	**-**	-	**640**	1,007
– Retired	-	-	**(300)**	(579)
Revolving borrowings	**(49)**	(166)	**102**	(94)
Sinking fund changes	**(8)**	(8)	**(5)**	13
Premium, discount and issue costs	-	-	**7**	3
Proceeds from early settlement of interest rate swaps	**11**	-	**11**	22
Cash provided by financing activities	**(46)**	(174)	**455**	372
Payment to the Province	–	–	**(338)**	(333)
Increase in cash	**41**	27	**55**	133
Cash, beginning of period[1]	**18**	123	**4**	17
Cash, end of period[1]	**$ 59**	$ 150	**$ 59**	$ 150
Supplemental disclosure of cash flow information				
– Interest paid	**$ 108**	$ 113	**$ 369**	$ 376

See accompanying notes to interim consolidated financial statements.

1. Cash at the beginning and end of the period consists of temporary investments.

Operating Highlights *(Unaudited)*

	For the Three Months Ended December 31		*For the Nine Months Ended December 31*	
in GW·h	**2003**	2002	**2003**	2002
Electricity Sold				
Residential	**4,797**	4,390	**11,041**	10,483
Light industrial and commercial	**4,435**	4,337	**12,693**	12,424
Large industrial	**3,972**	3,893	**11,505**	11,255
Other energy sales	**565**	527	**1,205**	1,118
	13,769	13,147	**36,444**	35,280
Electricity trade	**7,103**	7,118	**23,255**	24,438
	20,872	20,265	**59,699**	59,718
Number of domestic customers			**1,646,075**	1,624,555
Number of employees			**4,161**[1]	5,943

[1] Includes full-time and part-time employees. At April 1, 2003, approximately 1,600 employees were transferred to Accenture Business Services of British Columbia. On August 1, 2003, BC Hydro transferred approximately 260 employees to British Columbia Transmission Corporation.

Notes to the Interim Consolidated Financial Statements (unaudited)
December 31, 2003

Business of BC Hydro

British Columbia Hydro and Power Authority (BC Hydro) is a provincial Crown corporation. BC Hydro's mission is to provide integrated energy solutions to customers in an environmentally and socially responsible manner.

BC Hydro serves more than 1.6 million customers in an area containing over 94 per cent of British Columbia's population. Between 43 000 and 54 000 gigawatt-hours of electricity are generated annually, depending upon prevailing water levels. Electricity is delivered to customers mainly through an interconnected system of more than 74 500 kilometres of transmission and distribution lines.

BC Hydro's Board of Directors is appointed by the Lieutenant Governor in Council and is responsible for the overall direction of the company.

Note 1: Accounting Policies

These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for preparation of interim financial statements and do not conform in all respects to the disclosure requirements for annual financial statements. These interim consolidated financial statements take into account certain accounting practices by regulatory bodies that differ from the accounting practices applied in unregulated enterprises. The differences specifically relate to certain deferred charges.

These interim consolidated financial statements and the notes should be read in conjunction with the Audited Consolidated Financial Statements and accompanying notes in BC Hydro's 2003 Annual Report.

The accounting policies used to prepare these interim consolidated financial statements conform to those described in the notes to BC Hydro's 2003 Audited Consolidated Financial Statements. On April 1, 2003, BC Hydro adopted the new recommendations in AcG-14 of the CICA Handbook "Disclosure of Guarantees" (see note 3). In addition, BC Hydro changed the basis under which it has disclosed certain segmented information, which is described in note 8 to the financial statements.

The CICA has issued Accounting Guideline 13 "Hedging Relationships" ("AcG-13") which will be effective for years beginning on or after July 1, 2003. AcG-13 addresses identification, designation, documentation and effectiveness of hedging transactions for purposes of applying hedge accounting. It also establishes conditions for applying or discontinuing hedge accounting. Under the new guidelines, BC Hydro will be required to document its hedging relationships and explicitly demonstrate that the hedges are highly effective in order to continue accrual accounting for derivatives that are part of a hedging relationship. BC Hydro is evaluating the impact of adopting this guideline on its financial statements.

In June 2003, the CICA issued Accounting Guideline 15 "Consolidation of Variable Interest Entities" ("AcG-15"). AcG-15 clarifies the application of consolidation principles to certain entities in which equity interests do not have the characteristics of a "controlling financial

Notes to the Interim Consolidated Financial Statements (unaudited)
December 31, 2003

interest" or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The purpose of AcG-15 is to provide guidance for determining when a company includes the assets, liabilities and results of activities of such an entity (a "variable interest entity") in its consolidated financial statements. AcG-15 applies to annual and interim periods beginning on or after November 1, 2004 although earlier application is encouraged. BC Hydro is evaluating the impact of adopting this guideline on its financial statements.

In March 2003, the CICA issued the new Handbook Section 3110 "Asset Retirement Obligations" ("Section 3110"), which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. Section 3110 amends Section 3061 "Property, Plant, and Equipment", and requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, an entity capitalizes the cost by increasing the carrying amount of the related long-lived assets. Over time, the liability is accreted to its present value each period, and the capitalized cost is amortized over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

An asset retirement obligation may result from the acquisition, construction, development and (or) the normal operation of a long-lived asset that has an indeterminate useful life and thereby an indeterminate settlement date for the asset retirement obligation. Uncertainty about the timing of settlement of the asset retirement obligation does not remove that obligation from the scope of Section 3110 but will affect the measurement of a liability for that obligation and possibly the timing of recognition of the liability. In such cases, the liability is initially recognized in the period in which sufficient information exists to estimate a range of potential settlement dates that is needed to employ a present value technique to the estimate fair value of the obligation.

Section 3110 is effective for fiscal years beginning on or after January 1, 2004. BC Hydro is currently evaluating the impact of adopting Section 3110 on its financial statements. Section 3110 replaces the Guideline on Future Restoration and Site Removal previously found in Section 3061. Section 3110 is applied retroactively with restatement of prior years.

Certain figures for the previous period have been reclassified to conform to presentation in the current period.

Notes to the Interim Consolidated Financial Statements (unaudited)
December 31, 2003

Note 2: Seasonality of Operating Results

Due to the seasonal nature of the BC Hydro's operations, interim operations statements are not indicative of operations on an annual basis. Seasonal impacts of weather, including its impact on water inflow levels, energy consumption demand levels within the region, and market prices of energy, can have a significant impact on BC Hydro's operating results.

Note 3: Guarantees and Indemnities

In addition to the guarantees and indemnities disclosed in BC Hydro's Notes to its 2003 Audited Consolidated Financial Statements, BC Hydro has indemnified Williams Gas Pipeline Company, LLC ("Williams") for their 50 per cent share of the aggregate project development costs of the Georgia Strait Crossing Pipeline Project ("GSX") if there is a failure to obtain regulatory approval from any Canadian federal, provincial or local Regulatory Authority by March 15, 2004. In July 2003, the Joint Review Panel ("JRP") of Canada's National Energy Board ("NEB") and the Canadian Environmental Assessment Agency ("CEAA") issued its report relating to the environmental assessment of GSX. The JRP recommended that GSX proceed to the next level of decision making. In December 2003, GSX received its Certificate of Public Convenience and Necessity from the National Energy Board. As of December 31, 2003, the total of the shared project costs spent by Williams and BC Hydro was $44 million. In September 2003 the British Columbia Utilities Commission ("BCUC") decision to deny a Certificate of Public Convenience ("CPCN") for the Vancouver Island Generation Project ("VIGP") (see note 5) may impact the future of GSX (see note 6). In the event of termination an additional fee of $5 million is payable by BC Hydro. Negotiations with Williams to amend the existing agreements are ongoing and BC Hydro's potential liability is uncertain at this time. Accordingly, no provisions have been made in these interim consolidated financial statements.

Note 4: Commitments and Contingencies

In November 2003 BC Hydro signed energy purchase agreements with the private sector to purchase energy to meet a portion of its expected annual electricity requirements. Sixteen new power projects under BC Hydro's 2002/2003 Green Power Generation procurement process were awarded to Independent Power Producers to provide BC Hydro with an additional 1,800 gigawatt hours per year. The minimum obligation to purchase energy under these contracts have an estimated net present value of $745 million. Payments for the next five years are approximately (in millions):

2005	$1
2006	$8
2007	$59
2008	$100
2009	$101

Notes to the Interim Consolidated Financial Statements (unaudited)
December 31, 2003

As disclosed in the notes to BC Hydro's 2003 Audited Consolidated Financial Statements, on December 2, 2001 Enron Corp. ("Enron") and certain of its subsidiaries filed for bankruptcy protection. As a result, the long-term Power Purchase Agreement between Powerex and Enron terminated. Under a 1997 agreement between Alcan, Enron Power Marketing Inc. ("EPMI"), Powerex and BC Hydro, Alcan agreed to remain liable to Powerex for the payment obligations of EPMI, for which Alcan was originally responsible. Alcan has not paid this obligation so Powerex took the matter to arbitration. An arbitration award was issued on January 17, 2003 which required Alcan to pay Powerex US$100 million within 30 days, with interest accruing thereafter. This payment currently remains outstanding and Powerex has commenced enforcement proceedings in British Columbia.

Alcan successfully applied to have the BC enforcement proceeding adjourned pending the outcome of an application it made in the US courts to have the arbitration award set aside. That application was heard in August 2003 before a US magistrate who recommended that the application be denied in a "Findings and Recommendation" issued on September 18, 2003. On December 11, 2003 a Judge of the US District Court accepted this recommendation and issued a decision of the Court to that effect. On January 9, 2004 Alcan appealed this decision to the 9th Circuit Court of Appeal. While this may result in further delay, Powerex has been advised that this risk is low and that the BC enforcement action should proceed without awaiting the outcome of the appeal. Accordingly, Powerex has now renewed its enforcement proceedings in British Columbia, which is expected to be heard sometime in the spring of 2004. At this time, the outcome of this claim is still not determinable. Accordingly, no recovery in respect of the arbitration award will be recorded in the interim consolidated financial statements until collection is assured.

There are no other material changes to the contingencies disclosed in the notes to BC Hydro's 2003 Audited Consolidated Financial Statements.

Note 5: Vancouver Island Generation Project

On September 8, 2003, the BCUC issued a decision that denied BC Hydro's application for a CPCN for the proposed VIGP. VIGP is the proposed power plant on Vancouver Island. The BCUC agrees with BC Hydro that new electricity supply will be required on Vancouver Island for the 2007/2008 heating season and therefore they have recommended that BC Hydro proceed with a Call for Tender (CFT) process to meet the expected Vancouver Island demand. BC Hydro released the CFT on October 31, 2003 and by the closing date on November 14, 2003, 23 bidders had registered. BC Hydro's target for the CFT is to acquire 150 to 300 megawatts, aggregate, of low-cost, new dependable capacity on Vancouver Island. Individual projects must employ proven technology, be at least 25 megawatts in size and reach commercial operation by May 2007. The outcomes of the CFT will be announced by August 31, 2004.

On January 23, 2004 BC Hydro received a response from the BCUC regarding the CFT process. BC Hydro is presently evaluating the issues addressed in the BCUC response including issues related to evaluation criteria for the CFT.

Notes to the Interim Consolidated Financial Statements (unaudited)
December 31, 2003

Note 6: Georgia Strait Crossing

The GSX is a joint project sponsored by BC Hydro and Williams to construct a natural gas pipeline from the Huntingdon/Sumas supply hub to Vancouver Island. GSX was designed as a large-capacity pipeline with capability to provide gas transportation service to the Island Cogeneration Plant (ICP), the planned VIGP, a third gas-fired generation plant on Vancouver Island and other large industrial gas consumers along its route through the United States.

GSX received its CPCN from the NEB in December 2003 and U.S. Federal Energy Regulatory Commission approval was received in September 2002. Additional Provincial, Federal and U.S. approvals are required, but these are expected to have a lower risk profile.

The project however is also contingent upon development of VIGP or a similar large gas-fired generation plant on Vancouver Island with a demand of approximately 45Tj/day. GSX is not required if VIGP or a similar large gas-fired generation project is not successful in the Vancouver Island Call for Tender (VI CFT), as Terasen Gas can provide all necessary firm gas transportation service to ICP and other small gas-fired generation with upgrades to its existing gas pipeline system.

An alternative to GSX for gas transportation service has been proposed by a third party if VIGP is successful in the VI CFT. This alternative would also meet the gas transportation requirements for ICP. BC Hydro is comparing the costs of the GSX and this alternative and assessing the legal, regulatory and development risks associated with both alternatives. BC Hydro has also requested that the third party provide the basis for its cost estimates to supply gas transportation from the terminus of GSX to VIGP and ICP. Similar discussions in this regard have also taken place between BC Hydro and the BCUC.

At this time it remains prudent for BC Hydro to continue to support the GSX opportunity.

BC Hydro’s carrying costs of VIGP and GSX, which include legal, regulatory, administrative and engineering costs, are $67 million and $28 million, respectively. The recovery of these costs is uncertain and dependent on the future decision of the BCUC who will determine the treatment to be given these costs.

Note 7: Transaction with British Columbia Transmission Corporation

Pursuant to *Energy For Our Future: A Plan for BC*, the Province, the sole shareholder of BC Hydro, approved the transfer of the transmission operations of BC Hydro to British Columbia Transmission Corporation (BCTC), a company wholly-owned by the Province. The ultimate objective of the transaction is to transfer the management, maintenance and operation of the high-voltage electric system in British Columbia to BCTC and provide transparent open-access transmission services. The Transmission Corporation Act, enacted on May 29, 2003 will govern BCTC’s role of managing, maintaining and operating BC Hydro’s transmission system.

Notes to the Interim Consolidated Financial Statements (unaudited)
December 31, 2003

BC Hydro will consolidate BCTC until BCTC is operationally and financially independent of BC Hydro. It is expected BCTC will remain operationally dependent on BC Hydro until the BCUC approves rates for the activities for which BCTC is directly responsible and BCTC is sufficiently capitalized by the Province to finance its operations.

In mid-2004, BCTC and BC Hydro will make a joint filing to the British Columbia Utilities Commission (BCUC) to set the rates charged for the use of the transmission system. The filing will set BCTC's rates for the management, maintenance and operation of the transmission assets and grid operations and set a separate rate for BC Hydro for asset ownership costs and a return on equity for the transmission assets. Until these rates are set by the BCUC, BC Hydro will pay BCTC for the management, maintenance, and operation of the transmission assets.

On July 16, 2003, BC Hydro signed an Interim Transition Agreement with BCTC to begin the transfer of the transmission operations of BC Hydro to BCTC. On August 1, 2003, BC Hydro permanently transferred to BCTC 260 employees who are responsible for managing and operating the transmission grid and planning the capital expenditures for the related assets. In November, 2003 the final service agreements (the Key Agreements) were approved by the Province. The approval of the Key Agreements effectively terminated the Interim Transition Agreement.

Under the Interim Transition Agreement, for the period August 1, 2003 to November 30, 2003 BCTC operated the transmission business on behalf of BC Hydro for a service fee on a cost recovery basis. Under the Key Agreements, for the period from December 1, 2003 to the commencement date of BCTC's own transmission tariff, BCTC will operate the transmission business on behalf of BC Hydro for a service fee to cover BCTC's cost of operations and a return on equity.

For the three months ended December 31, 2003 BCTC charged BC Hydro service fees totaling $14 million. In addition, BC Hydro agreed to reimburse expected structuring, legal and other advisory costs incurred by BCTC. For the three months ended December 31, 2003 BCTC was reimbursed $1 million for these costs. The total amount of BCTC's cost of operations and the reimbursement of structuring and advisory costs is currently estimated at approximately $60 million for fiscal 2004. In August 2003 BC Hydro provided a loan in the amount of $5 million to fund capital acquisitions by BCTC. This loan was non-interest bearing and was repaid in December 2003.

Upon direction from the Province, BC Hydro declared and paid a special dividend in the amount of $20 million to the Province in November 2003. The funds were then contributed by the Province to BCTC as an equity contribution. The equity contribution, along with third party financing, will be used by BCTC to acquire approximately $50.7 million of assets and facilities related to operation and control of the transmission system from BC Hydro at carrying value. BC Hydro will continue to own the transmission system assets and will be responsible for funding all future additions and sustaining investments in these assets based on directions from BCTC in its capacity of asset manager.

Notes to the Interim Consolidated Financial Statements (unaudited)
December 31, 2003

Note 8: Segmented Information

The segmented information for the three and nine months ended December 31, 2003 reflects changes from the segmented information disclosed in BC Hydro's 2003 Audited Financial Statements. The segmented information in the prior year has been reclassified to reflect these changes. The changes were made to reflect the proposals contained within the Heritage Contract proposal filed with the British Columbia Utilities Commission in April 2003 and to reflect changes in the Accountability Framework used for internal management reporting, risk management and performance measurement purposes. The changes relate to the following:

- Powerex pays its net income, excluding unrealized gains/losses, to Generation as a dividend. In the prior year, Powerex paid only a portion of its net income to Generation based on factors such as the amount of income earned on its trade books. Powerex's dividend to Generation for the three months ended December 31, 2003 was $6 million, compared to $26 million for the same period in the prior year. For the nine months ended December 31, 2003, the Powerex dividend to Generation was $96 million, compared to $42 million in the prior year.

- Powerex's energy costs include an allocation of BC Hydro's cost of purchases of point-to-point transmission within BC for export and most import transactions. These costs, totalling $12 million for the three months ended December 31, 2003, and $39 million for the nine months ended December 31, 2003, were not deducted from Powerex's income in the prior year.

- Generation's revenue in the nine months ended December 31, 2002 included the recovery from Distribution of the costs relating to energy purchases from Independent Power Producers (IPP's) and other long-term purchase commitments. These energy purchases were managed by Generation and the costs were included in setting the transfer price for energy between Generation and Distribution. Effective April 1, 2003, energy purchases from IPP's and other long-term purchase commitments are managed by Distribution. These purchase costs, excluding gas costs, are now shown as direct costs to Distribution and no longer enter into the transfer price between Generation and Distribution. The costs of these purchases for the three months ended December 31, 2003 totalled $75 million, compared to $59 million for the same period in the prior year. The costs of these purchases for the nine months ended December 31, 2003 was $213 million, compared to $185 million in the prior year.

- The Transmission segment at December 31, 2003 includes amounts that have been consolidated from British Columbia Transmission Corporation (BCTC) due to operational dependence on BC Hydro (see note 7). The BCTC amounts included in the Transmission segment at December 31, 2003 are as follows:

Assets	$81.2 million
Liabilities	$55.0 million
Equity	$26.2 million

Notes to the Interim Consolidated Financial Statements (unaudited)
December 31, 2003

Three months ended December 31, 2003
(in millions)

	Distribution $	Transmission $	Generation $	Powerex $	Other [4] $	Consolidation Adjustments/ Eliminations $	Total $
External revenues	672	4	4	437	10	13[3]	1,140
Inter-segment revenues	-	164	372	98	107	(741)	-
Net income (loss)	(75)	35	111	4	14	13[3]	102
Total assets	3,401	3,101	4,794	440[1]	454[2]	(402)	11,788

Nine months ended December 31, 2003
(in millions)

	Distribution $	Transmission $	Generation $	Powerex $	Other [4] $	Consolidation Adjustments/ Eliminations $	Total $
External revenues	1,792	9	12	1,515	31	6[3]	3,365
Inter-segment revenues	-	495	1,060	341	308	(2,204)	-
Net income (loss)	(283)	118	284	93	21	(98)[3]	135

Three months ended December 31, 2002
(in millions)

	Distribution $	Transmission $	Generation $	Powerex $	Other [4] $	Consolidation Adjustments/ Eliminations $	Total $
External revenues	639	2	19	518	6	(38)[3]	1,146
Inter-segment revenues	–	203	359	39	138	(739)	–
Net income (loss)	49	75	95	67	(65)	(56)[3]	165
Total assets	3,221	3,131	4,900	493[1]	724[2]	(345)	12,124

Nine months ended December 31, 2002
(in millions)

	Distribution $	Transmission $	Generation $	Powerex $	Other [4] $	Consolidation Adjustments/ Eliminations $	Total $
External revenues	1,720	7	42	1,486	31	(61)[3]	3,225
Inter-segment revenues	–	595	943	169	443	(2,150)	–
Net income (loss)	47	220	140	175	(149)	(127)[3]	306

Notes to the Interim Consolidated Financial Statements (unaudited)
December 31, 2003

1. Includes inter–segment receivables of $289 million ($202 million for nine months ended December 31, 2002).
2. Mainly consists of capital assets such as office buildings, vehicles and computer equipment.
3. These adjustments mainly relate to the difference between BC Hydro's management reporting, used for risk management and performance measurement purposes, and Generally Accepted Accounting Principles (GAAP). For management reporting purposes, energy purchases bought for future resale are expensed when the energy is sold. The energy purchased for future resale is also marked to market each month. For GAAP reporting purposes, energy purchases bought for future resale are expensed in the period of purchase. Under GAAP reporting, Powerex's net income was $21 million and income from domestic sources was $96 million for the three months ended December 31, 2003, compared to Powerex's net income of $25 million and income from domestic sources of $140 million for the same period in the previous year. For the nine months ended December 31, 2003, Powerex's net income under GAAP was $113 million and income from domestic sources was $37 million, compared to Powerex's net income of $120 million and income from domestic sources of $186 million in the prior year.
4. The prior year includes Engineering Services, Field Services and Shared Services Organizations, other Subsidiaries including Westech and Powertech, and Corporate costs. The functions within Shared Services and Westech were outsourced to Accenture Business Services of British Columbia (ABS) effective April 1, 2003.

Note 9: Subsequent Event

On December 15, 2003 BC Hydro filed a Revenue Requirement Application with the BCUC that included proposed rate increases of 7.23 per cent in fiscal 2005 and 2.0 per cent in fiscal 2006. On January 23, 2004 the BCUC approved BC Hydro's proposed interim rate increase of 7.23 per cent. The increase will be effective April 1, 2004. If the BCUC does not approve the full amount of the requested increase, the difference will be fully refunded to customers with interest.

Note 10: Restatement of revenues for the three and nine months ended December 31, 2003

Subsequent to the release of the third quarter report for fiscal 2004, it was determined that revenues were overstated by $15 million. The error occurred due to misinterpretation of weather data used in the residential revenue calculation for the month of October and resulted in an overstatement of revenues. The third quarter financial statements have been restated to reduce revenues by $15 million. The reduction in revenues has a flow through impact of reducing net income by the same amount for the three months and nine months ended December 31, 2003.