

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	Restated (note 2) 2003	2004	Restated (note 2) 2003
<i>(millions of dollars except where noted)</i>				
Revenues				
Revenue before Market Power Mitigation Agreement rebate	1,349	1,467	3,140	3,800
Market Power Mitigation Agreement rebate	(208)	(221)	(649)	(1,074)
	1,141	1,246	2,491	2,726
Fuel expense	242	397	580	880
Gross Margin	899	849	1,911	1,846
Expenses				
Operations, maintenance and administration	633	625	1,257	1,249
Depreciation and amortization (note 4)	194	147	386	288
Accretion on fixed asset removal and nuclear waste management liabilities	114	108	227	216
Earnings on nuclear fixed asset removal and nuclear waste management funds	(80)	(61)	(178)	(115)
Property and capital taxes	30	27	58	55
	891	846	1,750	1,693
Income before the following	8	3	161	153
Restructuring (note 11)	16	-	16	-
Other income (note 14)	-	41	-	41
Net interest expense	45	27	90	58
(Loss) income before income taxes	(53)	17	55	136
Income tax expenses (recoveries)				
Current	(2)	(17)	6	60
Future	(10)	26	26	(5)
	(12)	9	32	55
Net (loss) income	(41)	8	23	81
Basic and diluted (loss) earnings per common share (dollars)	(0.16)	0.03	0.09	0.32
Common shares outstanding (millions)	256.3	256.3	256.3	256.3

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (UNAUDITED)

Six Months Ended June 30

(millions of dollars)

	2004	Restated (note 2) 2003
(Deficit) retained earnings, beginning of period as previously reported	(147)	257
Adjustment <i>(note 2)</i>	-	104
(Deficit) retained earnings, beginning of period as restated	(147)	361
Net income	23	81
Dividends	-	(17)
(Deficit) retained earnings, end of period	(124)	425

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	Restated (note 2) 2003	2004	Restated (note 2) 2003
<i>(millions of dollars)</i>				
Operating activities				
Net (loss) income	(41)	8	23	81
Adjust for non-cash items:				
Depreciation and amortization	194	147	386	288
Accretion on fixed asset removal and nuclear waste management liabilities	114	108	227	216
Earnings on nuclear fixed asset removal and nuclear waste management funds	(80)	(61)	(178)	(115)
Pension cost	23	(4)	46	(3)
Other post employment benefits and supplemental pension	41	35	81	68
Future income taxes	(10)	26	26	(5)
Provision for restructuring	16	-	16	-
Transition rate option contracts	(9)	(18)	(26)	(42)
Gain on sale of investments	-	(41)	-	(41)
Mark to market on energy contracts (note 9)	4	(8)	5	(6)
Provision for used nuclear fuel	6	5	15	9
Other	10	(6)	14	-
	268	191	635	450
Contributions to nuclear fixed asset removal and nuclear waste management funds	(113)	(259)	(227)	(259)
Expenditures on fixed asset removal and nuclear waste management	(18)	(16)	(31)	(31)
Contributions to pension fund	(38)	(27)	(76)	(80)
Expenditures on other post employment benefits and supplemental pension	(16)	(13)	(30)	(23)
Expenditures on restructuring (note 11)	(1)	(15)	(43)	(44)
Net changes to other long-term assets and liabilities	(19)	(31)	(19)	(41)
Changes in non-cash working capital balances (note 15)	(209)	(338)	(132)	596
Cash flow (used in) provided by operating activities	(146)	(508)	77	568
Investing activities				
Proceeds on sale of decontrol and other fixed assets	-	-	-	1
Proceeds from sale of investments	-	41	-	41
Purchases of fixed assets	(127)	(162)	(223)	(320)
Cash flow (used in) investing activities	(127)	(121)	(223)	(278)
Financing activities				
Issuance of long-term debt (note 6)	5	24	13	52
Repayment of long-term debt (note 6)	(2)	-	(4)	-
Dividends paid	-	-	-	(17)
Issuance of short-term notes (note 5)	43	185	185	390
Repayment of short-term notes (note 5)	(43)	(270)	(185)	(467)
Cash flow provided by (used in) financing activities	3	(61)	9	(42)
Net (decrease) increase in cash and cash equivalents	(270)	(690)	(137)	248
Cash and cash equivalents, beginning of period	419	1,562	286	624
Cash and cash equivalents, end of period	149	872	149	872

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>(millions of dollars)</i>	June 30 2004	December 31 2003
Assets		
Current assets		
Cash and cash equivalents	149	286
Accounts receivable <i>(note 3)</i>	295	331
Income taxes recoverable	-	16
Fuel inventory	535	524
Materials and supplies	90	73
	1,069	1,230
Fixed assets		
Property, plant and equipment	14,845	14,701
Less: accumulated depreciation	2,826	2,514
	12,019	12,187
Other long-term assets		
Deferred pension asset <i>(note 8)</i>	492	464
Nuclear fixed asset removal and nuclear waste management funds <i>(note 7)</i>	5,625	5,228
Long-term materials and supplies	271	278
Long-term accounts receivable and other assets	63	64
	6,451	6,034
	19,539	19,451

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>(millions of dollars)</i>	June 30 2004	December 31 2003
Liabilities		
Current liabilities		
Accounts payable and accrued charges <i>(note 11)</i>	868	1,064
Market Power Mitigation Agreement rebate payable <i>(note 12)</i>	406	409
Long-term debt due within one year <i>(note 6)</i>	254	4
Deferred revenue due within one year	12	12
Income and capital taxes payable	7	-
	1,547	1,489
Long-term debt <i>(note 6)</i>	3,152	3,393
Other long-term liabilities		
Fixed asset removal and nuclear waste management <i>(note 7)</i>	8,135	7,921
Other post employment benefits and supplemental pension <i>(note 8)</i>	1,063	1,013
Long-term accounts payable and accrued charges	240	276
Deferred revenue	162	168
Future income taxes	238	212
	9,838	9,590
Shareholder's equity		
Common shares	5,126	5,126
Deficit	(124)	(147)
	5,002	4,979
	19,539	19,451

Commitments and Contingencies *(notes 5, 9 and 10)*

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2004 AND 2003

1. BASIS OF PRESENTATION

These interim consolidated financial statements were prepared following the same accounting policies and methods as in the most recent annual consolidated financial statements. However, these interim financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles for annual financial statements. Accordingly, the interim consolidated financial statements should be read in conjunction with the most recently prepared annual consolidated financial statements for the year ended December 31, 2003.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Certain of the 2003 comparative amounts have been reclassified from statements previously presented to conform to the 2004 financial statement presentation. In addition, certain of the 2003 comparative amounts have been restated from financial statements previously presented to recognize OPG's retroactive application of the Canadian Institute of Chartered Accountants ("CICA") new standard on accounting for liabilities associated with tangible long-lived assets and related asset retirement costs, which was adopted during 2003.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fixed Asset Removal and Nuclear Waste Management Liability

OPG recognizes asset retirement obligations for fixed asset removal and nuclear waste management, discounted for the time value of money. OPG has estimated both the amount and timing of future cash expenditures based on current plans for fixed asset removal and nuclear waste management. The liabilities are initially recorded at their estimated fair value, which is based on a discounted value of the expected costs to be paid.

On an ongoing basis, the liability is increased by the present value of the variable cost portion of the nuclear waste generated each year, with the corresponding amounts charged to operating expenses. Expenses relating to low and intermediate level waste are charged to depreciation and amortization expense. Expenses relating to the disposal of nuclear used fuel are charged to fuel expense. The liability is also adjusted for any changes in the estimated amount or timing of the underlying future cash flows. Upon settlement of the liability, a gain or loss is recorded.

Accretion arises because liabilities for fixed asset removal and nuclear waste management are reported on a net present value basis. Accretion expense is the increase in the carrying amount of the liabilities due to the passage of time. The resulting expense is included in operating expenses.

The asset retirement cost is capitalized by increasing the carrying value of the assets. The capitalized cost is depreciated over the remaining useful life of the assets and is included in depreciation expense.

Reclassification of Accretion Expense and Earnings on Segregated Funds

Prior to the third quarter of 2003, OPG reported a revalorization charge that was comprised of accretion expense on the fixed asset removal and nuclear waste management liabilities, net of the earnings on the nuclear fixed asset removal and nuclear waste management funds and interest earned on the receivable from the Ontario Electricity Financial Corporation ("OEFEC"). Beginning in the third quarter of 2003, the accretion expense and earnings on the nuclear fixed asset removal and nuclear waste management funds, including interest earned on the receivable from the OEFEC, are disclosed separately in the consolidated statements of income. Prior periods were reclassified to reflect this change.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

In July 2003, OPG and the Province of Ontario (the "Province") completed arrangements pursuant to the Ontario Nuclear Funds Agreement ("ONFA"), which required the establishment of segregated custodial funds to hold the nuclear fixed asset removal and nuclear waste management funds. To comply with ONFA, OPG transferred the assets in the nuclear fixed asset removal and nuclear waste management funds to the segregated custodial funds called the Decommissioning Fund and the Used Fuel Fund. The segregated funds are invested in debt and equity securities which are treated as long-term investments and are accounted for at amortized cost. The segregated funds are reported as nuclear fixed asset removal and nuclear waste management funds in the consolidated balance sheets. Realized gains and losses on the segregated funds are recorded in earnings in the consolidated statements of income.

Following the establishment of the segregated funds in July 2003, the amount receivable from the OEFC was transferred into the Decommissioning Fund in the form of an interest-bearing note and is included in the investments reported in the Decommissioning Fund. Previously, the receivable from the OEFC had been offset against fixed asset removal and nuclear waste management liabilities.

Changes in Accounting Policies

Asset Retirement Obligations

In March 2003, the CICA issued a new standard for the recognition, measurement and disclosure of liabilities associated with the retirement of tangible long-lived assets and the related asset retirement costs. The new standard is effective for fiscal years beginning on or after January 1, 2004. OPG chose to early adopt the CICA standard in 2003. In accordance with the CICA requirements, OPG retroactively applied the new standard. The increases (decreases) in the comparative amounts for the three and six months ended June 30, 2003, resulting from adoption of the new accounting standard, are summarized below:

For the three and six months ended June 30, 2003 <i>(millions of dollars)</i>	Three Months Ended June 30	Six Months Ended June 30
Opening retained earnings	101	104
Fuel expense	(1)	(2)
Depreciation and amortization	5	9
Accretion on fixed asset removal and nuclear waste management liabilities	2	4
Future income tax expense	(2)	(4)
Net income	(4)	(7)
Net income per share	\$(0.02)	\$(0.03)

New Accounting Recommendations

Hedging Relationships

In December 2001, the Accounting Standards Board ("AcSB") of the CICA issued Accounting Guideline 13, *Hedging Relationships*. This Guideline establishes standards for documenting and assessing the effectiveness of hedging activities. OPG adopted the new accounting standard effective January 1, 2004, with no impact on the Company's existing accounting for its hedging relationships.

Employee Future Benefits — Additional Disclosures

In December 2003, the AcSB approved revisions to Section 3461, *Employee Future Benefits*. The revisions require additional annual disclosures effective for years ending on or after June 30, 2004, and additional interim disclosure effective for periods ending on or after June 30, 2004. OPG early adopted the interim requirement, which mandates disclosure of the amount of total benefit cost.

3. SALE OF ACCOUNTS RECEIVABLE

On October 1, 2003, the Company signed an agreement to sell an undivided co-ownership interest in its current and future accounts receivable (the “receivables”) to an independent trust. The Company retains an undivided co-ownership interest in the receivables sold to the trust. The Company has reflected the initial transfer to the trust of the co-ownership interest, and subsequent transfers required by the revolving nature of the securitization, as sales in accordance with CICA Accounting Guideline 12 *Transfer of Receivables*. For the three months ended June 30, 2004, the Company has recognized before tax charges of \$2 million (three months ended June 30, 2003 - \$nil) on such sales at an average cost of funds of 2.3 per cent (three months ended June 30, 2003 – nil per cent). For the six months ended June 30, 2004, the Company has recognized before tax charges of \$4 million (six months ended June 30, 2003 - \$nil) on such sales at an average cost of funds of 2.5 per cent (six months ended June 30, 2003 – nil per cent). As at June 30, 2004, the Company had sold receivables of \$300 million from its total portfolio of \$431 million.

4. DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense for the three months ended June 30, 2004 and 2003 consists of the following:

For the three months ended June 30 (millions of dollars)	2004	Restated 2003
Depreciation	193	146
Nuclear waste management costs	1	1
	194	147

Depreciation and amortization expense for the six months ended June 30, 2004 and 2003 consists of the following:

For the six months ended June 30 (millions of dollars)	2004	Restated 2003
Depreciation	383	286
Nuclear waste management costs	3	2
	386	288

Impairment of Long-Lived Assets

The Government of Ontario appointed a panel of advisors, the OPG Review Committee, to examine the role of OPG in the Ontario electricity market, the future structure of OPG, as well as the potential refurbishing of the three units at the Pickering A nuclear station that remain out of service. On March 15, 2004, the OPG Review Committee finalized its report on the future of OPG. Recommendations included

that OPG proceed with the project to return Pickering A Unit 1 to service, and that the Board of OPG wait until there is clear evidence of success on the Unit 1 project before proceeding with any further developments on Units 2 and 3. In June 2004, following the examination of the Company's project plans for the return to service of Unit 1, the Board of Directors recommended to the Province that OPG continue with the project to return Unit 1 to service. In July 2004, the Government endorsed the Company's recommendation. The carrying amount of fixed assets in service and construction in progress for Units 2 and 3 was \$63 million at June 30, 2004 (\$64 million at December 31, 2003). If OPG discontinues the refurbishment work required to place Units 2 and 3 in service, an impairment loss equal to the carrying amount of these units would be recognized. In such an event, OPG would also have to assess the prospect of additional charges.

5. SHORT-TERM CREDIT FACILITIES

In May 2004, OPG renewed its \$1,000 million revolving short-term committed bank credit facility with its bank lending group for a further 364-day term. As at June 30, 2004, OPG had no outstanding borrowing under this facility.

Notes issued under the Company's commercial paper program are supported by the bank credit facility. During the six months ended June 30, 2004, \$185 million of commercial paper was issued to cover intra-month short-term funding requirements (six months ended June 30, 2003 - \$390 million). At June 30, 2004, OPG had no commercial paper outstanding under its program (December 31, 2003 - nil).

OPG also maintains \$27 million (December 31, 2003 - \$28 million) in short-term uncommitted overdraft facilities as well as \$173 million (December 31, 2003 - \$173 million) of short-term uncommitted credit facilities, in the form of Letters of Credit. OPG is required to post the Letters of Credit as collateral with Local Distribution Companies ("LDCs") as prescribed by the Ontario Energy Board's ("OEB") Retail Settlement Code, and to support the supplementary pension plan. At June 30, 2004, there were approximately \$127 million (December 31, 2003 - \$125 million) of Letters of Credit issued for collateral requirements to support the supplementary pension plan, and with the LDCs.

6. LONG-TERM DEBT

Long-term debt consists of the following:

	June 30 2004	December 31 2003
<i>(millions of dollars)</i>		
Notes payable to the OEFC	3,200	3,200
Capital lease obligations	4	8
Share of limited partnership debt	202	189
	3,406	3,397
Less: due within one year		
Notes payable to the OEFC	250	-
Capital lease obligations	4	4
	254	4
Long-term debt	3,152	3,393

In February 2003, the Company reached an agreement with the OEFC to defer payment on \$700 million principal amount of senior notes maturing in 2003 and 2004 by extending the maturity dates by two years. The interest rates remain unchanged.

Interest paid during the three months ended June 30, 2004 was \$7 million (three months ended June 30, 2003 - \$1 million), of which \$4 million relates to interest paid on long-term debt (three months ended June 30, 2003 - nil). Interest paid during the six months ended June 30, 2004 was \$111 million (six months ended June 30, 2003 - \$98 million), of which \$105 million relates to interest paid on long-term debt (six months ended June 30, 2003 - \$96 million). Interest on the notes payable to the OEFC is paid in the first and third quarters of the year. Interest of \$9 million was capitalized during the three months ended June 30, 2004 (three months ended June 30, 2003 - \$17 million). Interest of \$17 million was capitalized during the six months ended June 30, 2004 (six months ended June 30, 2003 - \$34 million).

7. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT

The liability for fixed asset removal and nuclear waste management on a present value basis consists of the following:

	June 30 2004	December 31 2003
<i>(millions of dollars)</i>		
Liability for nuclear used fuel management	4,576	4,451
Liability for nuclear decommissioning and low and intermediate level waste management	3,374	3,289
Liability for non-nuclear fixed asset removal	185	181
Fixed asset removal and nuclear waste management liability	8,135	7,921

The change in the fixed asset removal and nuclear waste management liability for the six months ended June 30, 2004 and year ended December 31, 2003 is as follows:

	June 30 2004	December 31 2003
<i>(millions of dollars)</i>		
Liability, beginning of period	7,921	7,539
Increase in liability due to accretion	227	430
Increase in liability due to nuclear used fuel and nuclear waste management variable expenses	18	24
Liabilities settled by expenditures on waste management	(31)	(72)
Liability, end of period	8,135	7,921

Ontario Nuclear Funds Agreement

OPG sets aside funds to be used specifically for discharging the Company's nuclear fixed asset removal and nuclear waste management liabilities. In July 2003, OPG and the Province completed arrangements pursuant to the ONFA, which required the establishment of segregated custodial funds to hold the nuclear fixed asset removal and nuclear waste management funds. To comply with ONFA, OPG transferred the assets in its existing nuclear fixed asset removal and nuclear waste management funds to a Decommissioning Fund and a Used Fuel Fund, held in segregated custodial accounts. In addition, a receivable due from the OEFC of \$3.1 billion was transferred into the Decommissioning Fund in the form of a \$1.2 billion cash payment and a \$1.9 billion interest bearing note receivable.

The Decommissioning Fund will be used to fund the future costs of nuclear fixed asset removal and long-term low and intermediate level waste management and a portion of used fuel storage costs after station life. The initial funding of the Decommissioning Fund, including the note receivable from the OEFC, is

intended to be sufficient to fully discharge the 1999 estimate of the liability. Any shortfall of this fund must be made up by OPG.

The Used Fuel Fund will be used to fund future costs of long-term nuclear used fuel waste management. OPG is responsible for the risk and liability for cost increases for used fuel waste management, subject to graduated liability thresholds specified in ONFA, which limit OPG's total financial exposure at approximately \$6.0 billion, a present value amount at April 1, 1999 (approximately \$8.2 billion in 2004 dollars). OPG will continue to make quarterly payments over the life of its nuclear generating stations, as specified in ONFA. Funding for 2004 will be \$454 million, which will be made into the Used Fuel Fund, a portion of which will be deposited into The Ontario NFWA Trust (the "Trust").

The *Nuclear Fuel Waste Act* (Canada) ("NFWA") was proclaimed into force in November 2002. In accordance with the NFWA, the Nuclear Waste Management Organization was formed during 2002 to prepare and review alternatives, and to provide recommendations to the Federal Government for long-term management of nuclear fuel waste. This submission is to occur within three years of NFWA coming into force. The Federal Government will determine the strategy for dealing with the long-term management of nuclear fuel waste based on submitted plans. As required under the NFWA, OPG made an initial deposit of \$500 million into the Trust in November 2002 and contributed \$100 million in 2003. Under the NFWA, OPG must deposit \$100 million annually into the Trust until the Federal Government has approved a long-term plan, which is not expected before 2006. During the six months ended June 30, 2004, OPG contributed \$100 million to the Trust, satisfying its funding requirement for the year, as stipulated by the NFWA. In addition, OPG contributed \$127 million to satisfy remaining ONFA funding requirements. Future contributions to the Trust beyond 2005 will be dependent on the direction chosen by the Federal Government. Given the Trust forms part of the Used Fuel Fund, contributions to the Trust, as required by the NFWA, are applied towards the ONFA payment obligations.

The nuclear fixed asset removal and nuclear waste management funds as at June 30, 2004 and December 31, 2003 consist of the following:

	June 30, 2004		December 31, 2003	
	Amortized Cost Basis	Fair Value	Amortized Cost Basis	Fair Value
<i>(millions of dollars)</i>				
Decommissioning Fund	3,772	4,012	3,641	3,801
Used Fuel Fund ¹	1,853	1,853	1,587	1,587
	5,625	5,865	5,228	5,388

¹ The Ontario NFWA Trust represents \$769 million as at June 30, 2004 (December 31, 2003 - \$648 million) of the Used Fuel Fund on an amortized cost basis.

As required by the *Nuclear Safety and Control Act* (Canada), and under the terms of ONFA, effective as at July 31, 2003, the Province issued a guarantee to the Canadian Nuclear Safety Commission ("CNSC"), on behalf of OPG, for up to \$1.51 billion. This is a guarantee that there will be sufficient funds available to discharge the current nuclear decommissioning and waste management liabilities. The Provincial guarantee will supplement the Used Fuel Fund and the Decommissioning Fund until they have accumulated sufficient funds to cover the accumulated liabilities for nuclear decommissioning and waste management. The guarantee, taken together with the Used Fuel Fund and Decommissioning Fund, was in satisfaction of OPG's nuclear licencing requirements with the CNSC. OPG pays the Province an annual guarantee fee of 0.5 per cent of the amount guaranteed by the Province. OPG paid the annual guarantee fee of \$8 million in the first quarter of 2004.

Under ONFA, the Province guarantees OPG's return in the Used Fuel Fund at 3.25 per cent per annum plus the change in the Ontario Consumer Price Index ("committed return"). The difference between the committed return on the Used Fuel Fund and the actual market return, based on the fair value of fund assets, which includes realized and unrealized returns, is due to or due from the Province. Since OPG

accounts for the investments in the segregated funds on an amortized cost basis, the amount due to or due from the Province recorded in the consolidated financial statements is the difference between the committed return and the actual return based on realized returns only. At June 30, 2004, the Used Fuel Fund accounts include an amount due to the Province of \$10 million (December 31, 2003 – amount due from Province of \$10 million). If the investments in the Used Fuel Fund were accounted for at fair market value in the consolidated financial statements, at June 30, 2004, there would be an amount due to the Province of \$104 million (December 31, 2003 - \$71 million).

Under ONFA, a rate of return target of 5.75 per cent per annum was established for the Decommissioning Fund. If the rate of return deviates from 5.75 per cent, or if the value of the liabilities changes under the OPG Reference Plan, the Decommissioning Fund may become over or under funded. Under ONFA, if there is a surplus in the Decommissioning Fund such that the liabilities, as defined by the OPG Reference Plan, are at least 120 per cent funded, OPG may direct up to 50 per cent of the surpluses to be treated as a contribution to the Used Fuel Fund, and the OEFC is entitled to a distribution of an equal amount. In addition, upon termination of ONFA, the Province has a right to any excess funds, which is the extent to which the fair market value of the Decommissioning Fund exceeds the estimated completion costs approved under the current OPG Reference Plan. At June 30, 2004, estimated completion costs under the Current Approved ONFA Reference Plan are fully funded. The Decommissioning Fund does not include any amounts due to the Province on an amortized cost basis (December 31, 2003 – nil amount due). If the investments in the Decommissioning Fund were accounted for at fair market value in the consolidated financial statements, at June 30, 2004, there would be an amount due to the Province of \$236 million (December 31, 2003 - \$128 million).

8. BENEFIT PLANS

The post employment benefit programs include pension, group life insurance, health care and long-term disability benefits. Pension and other post employment benefits obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions and experience gains or losses. The 2004 costs are based on a measurement of the pension and other post employment benefits obligations, and the pension fund assets, at December 31, 2003.

Total benefit costs are as follows:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2004	2003	2004	2003
<i>(millions of dollars)</i>				
Registered pension plan	23	(4)	46	(3)
Supplementary pension plan	4	5	8	10
Other post employment benefits	37	30	73	58

9. FINANCIAL INSTRUMENTS

Fair values of derivative instruments have been estimated by reference to quoted market prices for actual or similar instruments where available. Where quoted market prices are not available, OPG considers various factors to estimate forward prices, including market prices and price volatility in neighbouring electricity markets, market prices for fuel, and other factors.

Trading activities and liquidity in the Ontario electricity market have been limited as companies are generally entering only into short-term contracts. As a result, forward pricing information for contracts may not accurately represent the cost to enter into these contracts. For Ontario based contracts that are not entered into for hedging purposes, OPG established liquidity reserves against the fair market value of the assets and liabilities equal to the gain or loss on these contracts. These reserves reduced Energy Marketing revenue by \$3 million during the six months ended June 30, 2004 (six months ended June 30, 2003 - \$5 million). Contracts for transactions outside of Ontario continue to be carried on the

consolidated balance sheets as assets or liabilities at fair value with changes in fair value recorded in Energy Marketing revenue as gains or losses.

Derivative instruments used for hedging purposes

The following table provides the estimated fair value of derivative instruments designated as hedges. The majority of OPG's derivative instruments are treated as hedges, with gains or losses recognized upon settlement when the underlying transactions occur. The Company holds financial commodity derivatives primarily to hedge the commodity price exposure associated with changes in the price of electricity.

	June 30, 2004			December 31, 2003		
	Notional quantity	Terms	Fair Value	Notional quantity	Terms	Fair Value
<i>(millions of dollars except where noted)</i>						
(Loss)/Gain						
Electricity derivative instruments	16.3 TWh	1-3 yrs	(182)	23.9 TWh	1-3 yrs	(13)
Foreign exchange derivative instruments	-	-	-	\$40 U.S.	Jan/04	(3)
Option to purchase emission reduction credits	3,000,000 tonnes	2004	-	3,000,000 tonnes	2004	-

Foreign exchange derivative instruments are used to hedge the exposure to anticipated U.S. dollar denominated purchases. There are no fixed exchange rate contracts outstanding at June 30, 2004. The weighted average fixed exchange rate for contracts outstanding at December 31, 2003 was U.S. \$0.72 for every Canadian dollar.

Derivative instruments not used for hedging purposes

The carrying amount (fair value) of derivative instruments not designated for hedging purposes is as follows:

	June 30, 2004		December 31, 2003	
	Notional Quantity	Fair Value	Notional Quantity	Fair Value
<i>(millions of dollars except where noted)</i>				
Commodity derivative instruments				
Assets	7.1 TWh	7	7.9 TWh	8
Liabilities	1.6 TWh	(13)	1.6 TWh	(8)
		(6)		-
Ontario market liquidity reserve		(3)		(5)
Total		(9)		(5)

10. COMMITMENTS AND CONTINGENCIES

Litigation

Various claims, lawsuits and administrative proceedings are pending or threatened against the Company or its subsidiaries, covering a wide range of matters that arise in the ordinary course of its business activities. Each of these matters is subject to various uncertainties. In July 2004, the Company was charged with criminal negligence causing death and criminal negligence causing bodily harm in relation to

the 2002 accident at Barrett Chute. Some of these matters may be resolved unfavourably with respect to the Company. These contingencies are provided for when they are likely to occur and are reasonably estimable. Management believes that the ultimate resolution of these matters will not have a material effect on the Company's financial position.

Guarantees

As part of normal business, OPG and certain of its subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees, stand-by Letters of Credit and surety bonds.

OPG has provided limited guarantees in connection with the Brighton Beach Power L. P. ("Brighton Beach") financing. If the partnership fails to complete the project or meet certain performance tests by September 30, 2006, OPG may be required to repurchase its proportionate share of the outstanding debt, up to a total of \$202 million. As at June 30, 2004, OPG remains responsible for contributing its share of equity related to cost overruns, up to \$13 million. OPG provided proportional guarantees relating to gas transport and other energy-based charges if the commercial operations date is delayed in certain circumstances; and debt service if the energy conversion agreement is terminated, from the date of such termination to the earlier of the entry into a replacement agreement and September 30, 2006. In July 2004, Brighton Beach was commercially operational.

11. RESTRUCTURING

The change in the restructuring liability for severance for the six months ended June 30, 2004 and year ended December 31, 2003 is as follows:

	June 30 2004	December 31 2003
<i>(millions of dollars)</i>		
Liability, beginning of period	52	120
Restructuring charges	16	-
Payments	43	(68)
Liability, end of period	25	52

During the three months ended June 30, 2004, OPG recorded restructuring charges of \$15 million for termination benefits and \$1 million of related pension and other post employment benefits expenses associated with its Lakeview generating station. OPG is required by regulation to cease burning coal at its Lakeview generating station by the end of April 2005. OPG has communicated its plan to shut-down the Lakeview generating station to all employees. As at June 30, 2004, 81 employees had accepted the termination package offered.

12. MARKET POWER MITIGATION AGREEMENT REBATE

OPG is required under its generating licence to comply with prescribed market power mitigation measures to address the potential for OPG to exercise market power in Ontario. The market power mitigation measures include both a rebate mechanism and the requirement to decontrol generating capacity. Under the rebate mechanism, for the first four years after the electricity market opened to competition on May 1, 2002, a significant majority of OPG's expected energy sales in Ontario are subject to an average annual revenue cap of 3.8¢/kilowatt hour ("kWh"). OPG is required to pay a rebate to the IMO equal to the excess, if any, of the average hourly spot energy price over 3.8¢/kWh for a twelve month settlement period, multiplied by the amount of energy subject to the rebate mechanism. The first settlement period ended April 30, 2003.

In accordance with the Market Power Mitigation Agreement, the rebate is calculated after taking into account the amount of energy sales subject to the rebate mechanism for only those generating stations that OPG continues to control. Since the average hourly spot price during the six months ended June 30, 2004 has exceeded the 3.8¢/kWh revenue cap, OPG provided \$649 million (six months ended June 30, 2003 - \$1,074 million) as a Market Power Mitigation Agreement rebate.

The change in the Market Power Mitigation Agreement rebate liability for the six months ended June 30, 2004 and year ended December 31, 2003 were as follows:

	June 30 2004	December 31 2003
<i>(millions of dollars)</i>		
Liability, beginning of period	409	572
Increase to provision during the period	649	1,510
Payments	652	1,673
Liability, end of period	406	409

13. BUSINESS SEGMENTS

Segment Income for the three months ended June 30, 2004	Generation	Energy Marketing	Non-Energy and Other	Total
<i>(millions of dollars)</i>				
Revenues				
Revenue before Market Power Mitigation Agreement rebate	1,255	9	85	1,349
Market Power Mitigation Agreement rebate	(208)	-	-	(208)
	1,047	9	85	1,141
Fuel expense	242	-	-	242
Gross margin	805	9	85	899
Operations, maintenance and administration excluding Pickering A return to service	559	1	8	568
Pickering A return to service	65	-	-	65
Depreciation and amortization	171	-	23	194
Accretion on fixed asset removal and nuclear waste management liabilities	114	-	-	114
Earnings on nuclear fixed asset removal and nuclear waste management funds	(80)	-	-	(80)
Property and capital taxes	23	-	7	30
(Loss) income before the following	(47)	8	47	8
Restructuring	16	-	-	16
Net interest expense	-	-	45	45
(Loss) income before income taxes	(63)	8	2	(53)

Segment Income for the three months Ended June 30, 2003 (restated)	Generation	Energy Marketing	Non-Energy and Other	Total
<i>(millions of dollars)</i>				
Revenues				
Revenue before Market Power Mitigation Agreement rebate	1,365	21	81	1,467
Market Power Mitigation Agreement rebate	(221)	-	-	(221)
	1,144	21	81	1,246
Fuel expense	397	-	-	397
Gross margin	747	21	81	849
Operations, maintenance and administration excluding Pickering A return to service	530	2	14	546
Pickering A return to service	79	-	-	79
Depreciation and amortization	119	-	28	147
Accretion on fixed asset removal and nuclear waste management liabilities	108	-	-	108
Earnings on nuclear fixed asset removal and nuclear waste management funds	(61)	-	-	(61)
Property and capital taxes	24	-	3	27
(Loss) income before the following	(52)	19	36	3
Other income	-	-	41	41
Net interest expense	-	-	27	27
(Loss) income before income taxes	(52)	19	50	17

Segment Income for the six months ended June 30, 2004	Generation	Energy Marketing	Non-Energy and Other	Total
<i>(millions of dollars)</i>				
Revenues				
Revenue before Market Power Mitigation Agreement rebate	2,952	24	164	3,140
Market Power Mitigation Agreement rebate	(649)	-	-	(649)
	2,303	24	164	2,491
Fuel expense	580	-	-	580
Gross margin	1,723	24	164	1,911
Operations, maintenance and administration excluding Pickering A return to service	1,114	3	16	1,133
Pickering A return to service	124	-	-	124
Depreciation and amortization	340	-	46	386
Accretion on fixed asset removal and nuclear waste management liabilities	227	-	-	227
Earnings on nuclear fixed asset removal and nuclear waste management funds	(178)	-	-	(178)
Property and capital taxes	46	-	12	58
Income before the following	50	21	90	161
Restructuring	16	-	-	16
Net interest expense	-	-	90	90
Income before income taxes	34	21	-	55

Segment Income for the six months Ended June 30, 2003 (restated)	Generation	Energy Marketing	Non-Energy and Other	Total
<i>(millions of dollars)</i>				
Revenues				
Revenue before Market Power Mitigation Agreement rebate	3,600	42	158	3,800
Market Power Mitigation Agreement rebate	(1,074)	-	-	(1,074)
	2,526	42	158	2,726
Fuel expense	880	-	-	880
Gross margin	1,646	42	158	1,846
Operations, maintenance and administration excluding Pickering A return to service	1,051	4	24	1,079
Pickering A return to service	170	-	-	170
Depreciation and amortization	233	-	55	288
Accretion on fixed asset removal and nuclear waste management liabilities	216	-	-	216
Earnings on nuclear fixed asset removal and nuclear waste management funds	(115)	-	-	(115)
Property and capital taxes	49	-	6	55
Income before the following	42	38	73	153
Other income	-	-	41	41
Net interest expense	-	-	58	58
Income before income taxes	42	38	56	136

Selected Balance Sheet Information	Generation	Energy Marketing	Non-Energy and Other	Total
<i>(millions of dollars)</i>				
June 30, 2004				
Segment property, plant and equipment, net	11,096	-	923	12,019
December 31, 2003				
Segment property, plant and equipment, net	11,252	-	935	12,187

Selected Cash Flow Information				
<i>(millions of dollars)</i>				
Three months ended June 30, 2004				
Capital expenditures	108	-	19	127
Three months ended June 30, 2003				
Capital expenditures	140	-	22	162
Six months ended June 30, 2004				
Capital expenditures	189	-	34	223
Six months ended June 30, 2003				
Capital expenditures	281	-	39	320

14. OTHER INCOME

Other income in 2003 was comprised of the gain on sale of long-term investments of \$41 million.

15. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

	Three Months Ended June 30		Six Months Ended June 30	
	2004	Restated 2003	2004	Restated 2003
<i>(millions of dollars)</i>				
Accounts receivable	16	152	36	138
Note receivable	-	225	-	225
Income taxes recoverable	4	(16)	16	64
Fuel inventory	(127)	(68)	(11)	43
Materials and supplies	(1)	(1)	(17)	(1)
Market Power Mitigation Agreement rebate payable	(130)	(538)	(3)	315
Accounts payable and accrued charges	22	(89)	(160)	(188)
Income and capital taxes payable	7	(3)	7	-
	(209)	(338)	(132)	596
Supplementary Disclosure				
Income taxes paid	2	6	5	8

16. SEASONAL OPERATIONS

The Company's quarterly results are impacted by changes in demand resulting from variations in seasonal weather conditions. Historically, the Company's revenues are higher in the first and third quarters of a fiscal year as a result of winter heating demands in the first quarter and air conditioning/cooling demands in the third quarter. The Market Power Mitigation Agreement rebate and the Company's hedging strategies significantly reduce the impact of seasonal price fluctuations on the Company's operations.