

August 20, 2010

**ONTARIO POWER GENERATION REPORTS 2010 SECOND QUARTER FINANCIAL RESULTS**

[Toronto]: Ontario Power Generation Inc. ("OPG" or the "Company") today reported its financial and operating results for the three and six months ended June 30, 2010. Net loss for the second quarter of 2010 was \$29 million compared to net income of \$306 million for the same period in 2009. Net income for the six months ended June 30, 2010 was \$114 million compared to net income of \$297 million for the same period in 2009.

Tom Mitchell, President and CEO said, "Although OPG experienced a reduction in net income in the first half of 2010 compared to last year, our operational performance was strong. Our generating stations reliably provided much needed power during Ontario's first heat wave of the summer. Production from our nuclear and thermal stations increased. Our hydroelectric production was lower because of extremely low water levels caused by below normal precipitation across Ontario."

Mr. Mitchell said, "OPG's financial results reflect, in part, the impact of the decision we made last year to delay seeking an increase in the rates we receive for the 70 percent of our electricity output that is regulated in a public process."

He explained, "As a result, the rates that we receive for electricity from our nuclear and large hydroelectric stations have been unchanged since April 1, 2008, a period of 28 months."

Mr. Mitchell said, "In May, OPG filed an application with the Ontario Energy Board for new rates. If the application is approved, the new rates would take effect on March 1, 2011, and remain in place for 22 months until the end of 2012. This would be only the second increase in OPG's regulated rates since 2005."

Mr. Mitchell noted that OPG is the only electricity generating company in Ontario whose rates are set through an open process with public participation that requires the Company to explain and defend its investment and spending decisions.

Mr. Mitchell added, "We continued to advance with a number of strategically important initiatives critical to our long-term success. These included the successful completion of the Pickering Vacuum Building Outage, and continued progress with our hydroelectric development projects. In addition, OPG received the ZeroQuest Platinum Award from the Infrastructure Health and Safety Association in recognition of our excellent workplace safety performance. We are the first employer in Ontario to receive this award."

## Highlights

The decrease in income for the second quarter of 2010 compared to the same period in 2009 was primarily a result of lower earnings from the Used Fuel and Decommissioning Segregated Funds (together “Nuclear Funds”), and a reduction in 2010 revenue associated with a regulatory asset related to tax losses (“Tax Loss Variance Account”) established as a result of a 2009 Ontario Energy Board (“OEB”) decision. The decrease in income was partially offset by a reduction in income tax liabilities as a result of the resolution of a number of tax uncertainties related to the audit of OPG's 2000 and 2001 taxation years, an increase in non-generation electricity revenue and higher average sales prices for production from OPG's unregulated generation segments.

Total electricity generated during the three month period ended June 30, 2010 was 19.7 terawatt hours (“TWh”) compared to 20.9 TWh for the same period in 2009. The 5.7 percent decrease in production was primarily a result of lower electricity generation from OPG's unregulated hydroelectric generating stations due to the impact of low water flows. The decrease in unregulated hydroelectric production was partially offset by an increase in generation from OPG's thermal stations primarily due to the impact of low water flows at the hydroelectric generating stations and higher primary demand in Ontario. The increase in generation at OPG's nuclear generating stations during the second quarter of 2010 compared to the same quarter in 2009 reflects the higher capability factor at the Darlington generating station, largely offset by the impact of the lower capability factors at the Pickering generating stations.

For the six months ended June 30, 2010, total production from OPG's generating stations was 44.2 TWh compared to 46.5 TWh for the same period in 2009. This decrease primarily reflects lower unregulated hydroelectric production of 3.1 TWh, partially offset by higher thermal production as a result of the impact of lower water flows at the hydroelectric generating stations and higher primary demand in Ontario during the second quarter of 2010.

The capability factor at the Darlington nuclear station improved during the second quarter of 2010 and on a year-to-date basis, as all four units at the Darlington station were shutdown due to a planned VBO during the second quarter of 2009. Capability factors at the Pickering A and B nuclear stations decreased during the second quarter of 2010 compared to the second quarter of 2009 primarily due to a planned VBO which required the shutdown of all six units at the Pickering A and B nuclear generating stations. The availability of OPG's regulated and unregulated hydroelectric generating stations for the three months ended June 30, 2010 decreased primarily as a result of an increase in unplanned outage days and the advancement of planned outages at certain stations due to the lower water flows. The reliability of the thermal generating stations improved during the second quarter and on a year-to-date basis compared with 2009 primarily as a result of improved performance from OPG's thermal generating stations.

In May 2010, OPG filed an application with the OEB for new regulated prices for production from OPG's regulated hydroelectric and nuclear facilities for the period March 1, 2011 to December 31, 2012. The application reflected the costs associated with operating the prescribed assets in a safe, reliable and environmentally responsible manner, as well as the financial resources required for nuclear life extension and refurbishment projects. As part of the application, OPG requested

approval to recover the balances in the deferral and variance accounts. The OEB's decision on OPG's application will be made following a public hearing process, which is expected to take place during the second half of 2010.

### **Segmented Financial Results**

OPG's loss before interest and income taxes was \$103 million for the three months ended June 30, 2010 compared to income before interest and taxes of \$354 million for the three months ended June 30, 2009.

Income before interest and income taxes from the electricity generation business segments was \$12 million for the three months ended June 30, 2010 compared to \$191 million for the same quarter in 2009. Earnings from the electricity generation business segments were lower due to a decrease in gross margin of \$179 million compared to the same period in 2009. This decrease was primarily due to a reduction in revenue related to the Tax Loss Variance Account, and lower production from OPG's unregulated hydroelectric generating stations. During the second quarter of 2009, revenue related to the Tax Loss Variance Account included revenue related to the period April 1, 2008 to March 31, 2009 in accordance with an OEB decision and order issued in May 2009. The impact of these unfavourable variances was partially offset by an increase in revenue from nuclear technical services provided to third parties, and higher average sales prices for production from OPG's unregulated generation stations.

The Regulated – Nuclear Waste Management business segment incurred a loss before interest and income taxes of \$125 million in the second quarter of 2010 compared to income before interest and income taxes of \$143 million during the same period in 2009. The loss in the second quarter of 2010 resulted from unfavourable returns from the Nuclear Funds as a result of a decline in the valuation levels of global financial markets compared to an increase in valuation levels during the same period in 2009. The unfavourable impact of these factors was partially offset by the impact of a variance account approved by the OEB related to the earnings associated with the stations leased to Bruce Power, since a portion of the earnings from the Nuclear Funds are related to these stations.

OPG's income before interest and income taxes was \$133 million for the six months ended June 30, 2010 compared to \$463 million for the six months ended June 30, 2009.

Income before interest and income taxes from OPG's electricity generation business segments was \$244 million for the six months ended June 30, 2010 compared to \$434 million for the same period in 2009. Earnings from the electricity generation business segments were unfavourably affected by a decrease in gross margin of \$205 million compared to the same period in 2009. This decrease was primarily due to lower production from OPG's unregulated hydroelectric generating stations, a reduction in revenue related to the Tax Loss Variance Account, and a decrease in non-electricity generation revenue. Earnings from the electricity generation business segments were also unfavourably affected by an increase in pension and other post employment benefit costs, partially offset by lower expenditures related to a decrease in outage and maintenance activities at OPG's thermal generating stations.

The Regulated – Nuclear Waste Management business segment incurred a loss before interest and income taxes of \$149 million for the six months ended June 30, 2010, compared to a loss before interest and income taxes of \$21 million for the same period in 2009. This decline was primarily due to unfavourable returns from the Nuclear Funds as a result of a decline in the valuation levels of global financial markets during the first half of 2010.

## **Generation Development**

OPG is undertaking a number of generation development projects aimed at significantly contributing to Ontario's long-term electricity supply requirements. The status of these capacity expansion or life extension projects is as follows:

### **Nuclear**

- The Government of Ontario continues to be supportive of two new nuclear units at Darlington, and discussions between Atomic Energy of Canada Limited, Infrastructure Ontario, OPG and representatives from the Government of Ontario are currently underway. OPG continues with two initiatives that were underway prior to the Government of Ontario's suspension of the competitive Request for Proposal process to procure the two new nuclear units – the environmental assessment process and obtaining a site preparation licence. In November 2009, the Joint Review Panel (“JRP”) announced the start of the six-month public review period for the Environmental Impact Statement and the “Licence to Prepare Site”. OPG is in the process of responding to requests for additional information from the JRP with respect to these two initiatives.
- In February 2010, OPG announced its decision to commence the detailed planning phase for the refurbishment of the Darlington nuclear generating station. The refurbishment is expected to extend the operating life of the Darlington station by approximately 30 years. In the detailed planning phase, all regulatory work will be completed including the Environmental Assessment (“EA”), the Integrated Safety Review (“ISR”), and the Integrated Improvement Plan. In support of the EA, OPG continued with field programs during the second quarter of 2010. With respect to the ISR, OPG completed the Operating Experience Safety Factor Report during the second quarter of 2010. Additionally, a Scope Review Board has been established to review and finalize the technical scope of the project. Scope reports have been prepared for major systems and condition assessment summary reports are being prepared for the balance of the station.

### **Hydroelectric**

- OPG is replacing three existing hydroelectric generating stations on the Upper Mattagami River and the Hound Chute generating station on the Montreal River. Upon project completion, the total installed capacity of the four stations will increase from 23 MW to 44 MW. During the second quarter of 2010, major equipment assembly continued and commissioning activities commenced. The stations are expected to be completed on schedule, and are forecast to be in-service by April 2011. The project costs are expected to be within the approved budget of \$300 million.

- The development of the Niagara Tunnel has progressed in a number of key areas. As of June 30, 2010, the Niagara tunnel boring machine has progressed 7,050 metres, representing 69 percent of the tunnel length. Installation of the lower one-third of the permanent concrete lining has progressed 5,075 metres. Restoration of the circular cross-section of the tunnel, before installation of the upper two-thirds of the concrete lining, has progressed 1,870 metres. Installation of the upper two-thirds of the concrete lining started in late May and has progressed 75 metres. The Niagara Tunnel is expected to be in-service by the approved date of December 2013. The project costs are expected to be within the revised approved budget of \$1.6 billion.
- Construction activities to add one generating unit to three existing hydroelectric generating stations and redevelop a fourth generating station on the Lower Mattagami River commenced in June 2010. Upon project completion in June 2015, the capacity of the four stations will be increased by 438 MW. During the second quarter of 2010, OPG and the Ontario Power Authority (“OPA”) finalized a Hydroelectric Energy Supply Agreement. In addition, a comprehensive agreement that resolves grievances attributed to the construction, and subsequent operation and maintenance of OPG facilities in the area has been executed with a local First Nation. The agreement provides the First Nation with a right to purchase up to a 25 percent equity interest in the project. The project budget of \$2.6 billion includes the design build contract as well as contingencies, interest and other OPG costs, including project management, contract management, impact agreements with First Nations, and transmission connection costs. In August 2010, a \$700 million bank credit facility was established to support the initial construction phase for the Lower Mattagami project. Additional financing arrangements are being established to support the total requirements of the project.

#### Thermal

- OPG’s coal-unit conversion strategy is continuing to advance with the analysis of submissions received following OPG’s request for indicative pricing issued in March 2010 to potential suppliers of wood-based biomass fuel for the Atikokan generating station. In addition to fuel pricing levels, the feasibility of the Atikokan conversion is contingent on the cost of conversion and operation. OPG requires a cost recovery agreement with the OPA for conversion of the unit and the electricity generated post-conversion before seeking Board of Directors approval to proceed with unit conversion.

## FINANCIAL AND OPERATIONAL HIGHLIGHTS

<i>(millions of dollars – except where noted)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
<i>Earnings</i>				
Revenue after revenue limit rebate	1,211	1,397	2,655	2,878
Fuel expense	211	220	459	481
Gross margin	1,000	1,177	2,196	2,397
Operations, maintenance and administration expense	778	762	1,504	1,504
Depreciation and amortization	177	185	344	363
Accretion on fixed asset removal and nuclear waste management liabilities	165	159	330	318
Earnings on nuclear fixed asset removal and nuclear waste management funds	(40)	(301)	(181)	(295)
Restructuring	-	-	25	-
Other net expenses	24	24	43	50
Other (gains) losses	(1)	(6)	(2)	(6)
(Loss) income before interest and income taxes	(103)	354	133	463
Net interest expense	44	43	89	82
Income tax (recovery) expense	(118)	5	(70)	84
Net (loss) income	(29)	306	114	297
<i>Cash flow</i>				
Cash flow provided by (used in) operating activities	110	(183)	328	(142)
<i>(Loss) income before interest and income taxes</i>				
Generating segments	12	191	244	434
Nuclear Waste Management segment	(125)	143	(149)	(21)
Other segment	10	20	38	50
Total (loss) income before interest and income taxes	(103)	354	133	463
<i>Electricity generation (TWh)</i>				
Regulated – Nuclear	9.6	9.2	21.6	21.5
Regulated – Hydroelectric	4.6	4.9	9.4	9.6
Unregulated – Hydroelectric	2.3	5.0	6.2	9.3
Unregulated – Thermal	3.2	1.8	7.0	6.1
Total electricity generation	19.7	20.9	44.2	46.5
<i>Average electricity sales price (¢/kWh)</i>				
Regulated – Nuclear	5.5	5.5	5.5	5.5
Regulated – Hydroelectric	3.7	3.9	3.7	3.7
Unregulated – Hydroelectric	4.0	2.6	3.7	3.4
Unregulated – Thermal	4.1	3.2	3.9	4.3
OPG average sales price paid through regulated and spot market prices	4.6	4.2	4.6	4.6
<i>Nuclear unit capability factor (percent)</i>				
Darlington	93.6	52.5	88.0	76.1
Pickering A	30.3	72.2	48.7	57.4
Pickering B	41.6	81.4	69.4	83.2
<i>Availability (percent)</i>				
Regulated – Hydroelectric	91.8	93.7	92.7	94.0
Unregulated – Hydroelectric	93.4	97.5	93.7	96.5
<i>Equivalent forced outage rate (percent)</i>				
Unregulated Thermal	7.3	8.4	4.8	10.4

Ontario Power Generation Inc. is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. Our focus is on the efficient production and sale of electricity from our generation assets, while operating in a safe, open and environmentally responsible manner.

Ontario Power Generation Inc.'s unaudited consolidated financial statements and Management's Discussion and Analysis as at and for the three and six months ended June 30, 2010, can be accessed on OPG's Web site ([www.opg.com](http://www.opg.com)), the Canadian Securities Administrators' Web site ([www.sedar.com](http://www.sedar.com)), or can be requested from the Company.

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## 2010 SECOND QUARTER REPORT

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## **ONTARIO POWER GENERATION INC. MANAGEMENT'S DISCUSSION AND ANALYSIS**

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes of Ontario Power Generation Inc. ("OPG" or the "Company") as at and for the three months and six months ended June 30, 2010. For a complete description of OPG's corporate strategies, risk management, corporate governance, related parties transactions and the effect of critical accounting policies and estimates on OPG's results of operations and financial condition, this MD&A should also be read in conjunction with OPG's audited consolidated financial statements, accompanying notes, and MD&A as at and for the year ended December 31, 2009. Certain of the 2009 comparative amounts have been reclassified to conform to the 2010 presentation. OPG's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. This MD&A is dated August 18, 2010.

### **FORWARD-LOOKING STATEMENTS**

The MD&A contains forward-looking statements that reflect OPG's current views regarding certain future events and circumstances. Any statement contained in this document that is not current or historical is a forward-looking statement. OPG generally uses words such as "anticipate", "believe", "foresee", "forecast", "estimate", "expect", "schedule", "intend", "plan", "project", "seek", "target", "goal", "strategy", "may", "will", "should", "could" and other similar words and expressions to indicate forward-looking statements. The absence of any such word or expression does not indicate that a statement is not forward-looking.

All forward-looking statements involve inherent assumptions, risks and uncertainties, including those set out under the heading *Risk Management*, and therefore, could be inaccurate to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's fuel costs and availability, asset performance, nuclear decommissioning and waste management, closure or conversion of coal-fired generating stations, refurbishment of existing facilities, development and construction of new facilities, pension and other post employment benefit ("OPEB") obligations, income taxes, spot electricity market prices, the ongoing evolution of the Ontario electricity industry, proposed new legislation, conversion to International Financial Reporting Standards ("IFRS"), environmental and other regulatory requirements, health, safety and environmental developments, business continuity events, the weather, the developments with respect to third-party Asset-Backed Commercial Paper ("ABCP"), and the impact of regulatory decisions by the Ontario Energy Board ("OEB"). Accordingly, undue reliance should not be placed on any forward-looking statement. The forward-looking statements included in this MD&A are made only as of the date of this MD&A. Except as required by applicable securities laws, OPG does not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise.

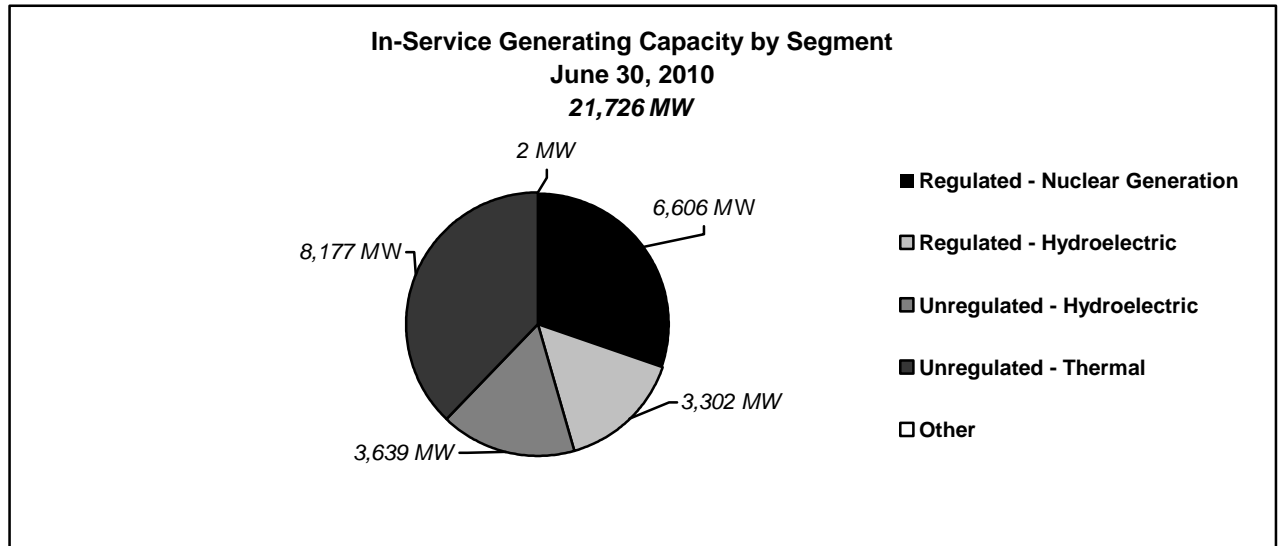
### **THE COMPANY**

OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. OPG's focus is on the efficient production and sale of electricity from its generating assets, while operating in a safe, open and environmentally responsible manner. OPG was established under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the "Province").

As at June 30, 2010, OPG's electricity generating portfolio had an in-service capacity of 21,726 megawatts ("MW"). OPG's electricity generating portfolio consists of three nuclear generating stations, five thermal generating stations, 65 hydroelectric generating stations, of which four are being redeveloped, and two wind power turbines. In addition, OPG and TransCanada Energy Ltd. co-own the Portlands Energy Centre ("PEC") gas-fired combined cycle generating station. OPG, ATCO Power Canada Ltd., and ATCO Resources Ltd. co-own the Brighton Beach gas-fired combined cycle generating station. OPG also owns two other nuclear generating stations, which are leased on a long-term basis to

Bruce Power L.P. ("Bruce Power"). These co-owned or leased facilities are incorporated into OPG's financial results, but are not included in the generation portfolio statistics set out in this report.

During the second quarter of 2010, the in-service capacity of the Unregulated – Hydroelectric segment increased by 6 MW compared to the in-service capacity as at March 31, 2010. The increase was due to the addition of a fourth unit at the Healey Falls hydroelectric generating station.



### OPG's Reporting Structure

OPG receives a regulated price for electricity generated from most of its baseload hydroelectric facilities and all of the nuclear facilities that it operates. This comprises electricity generated from the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, and Pickering A and B and Darlington nuclear facilities. The operating results from these regulated facilities are described under the Regulated – Nuclear Generation, Regulated – Nuclear Waste Management, and Regulated – Hydroelectric segments. For the remainder of OPG's hydroelectric facilities, the operating results are described under the Unregulated – Hydroelectric segment. The results from the thermal facilities are discussed in the Unregulated – Thermal segment.

A description of all of OPG's segments is provided in OPG's MD&A as at and for the year ended December 31, 2009 under the heading *Business Segments*.

## HIGHLIGHTS

### Overview of Results

This section provides an overview of OPG's unaudited interim consolidated operating results. A detailed discussion of OPG's performance by reportable segment is included under the heading, *Discussion of Operating Results by Business Segment*.

<i>(millions of dollars – except where noted)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
<i>Revenue</i>				
Revenue before revenue limit rebate	1,211	1,396	2,655	2,905
Revenue limit rebate	-	1	-	(27)
	1,211	1,397	2,655	2,878
Fuel expense	211	220	459	481
Gross margin	1,000	1,177	2,196	2,397
<i>Expenses</i>				
Operations, maintenance and administration	778	762	1,504	1,504
Depreciation and amortization	177	185	344	363
Accretion on fixed asset removal and nuclear waste management liabilities	165	159	330	318
Earnings on nuclear fixed asset removal and nuclear waste management funds	(40)	(301)	(181)	(295)
Restructuring	-	-	25	-
Other net expenses	24	24	43	50
Other (gains) losses	(1)	(6)	(2)	(6)
	1,103	823	2,063	1,934
(Loss) income before interest and income taxes	(103)	354	133	463
Net interest expense	44	43	89	82
Income tax (recovery) expense	(118)	5	(70)	84
Net (loss) income	(29)	306	114	297
<i>Electricity production (TWh)</i>	19.7	20.9	44.2	46.5
<i>Cash flow</i>				
Cash flow provided by (used in) operating activities	110	(183)	328	(142)

Net loss for the three months ended June 30, 2010 was \$29 million compared to a net income of \$306 million for the same period in 2009, a decrease of \$335 million. Loss before income taxes for the three months ended June 30, 2010 was \$147 million compared to income before income taxes for the same period in 2009 of \$311 million, a decrease of \$458 million.

Net income for the six months ended June 30, 2010 was \$114 million compared to \$297 million for the same period in 2009, a decrease of \$183 million. Income before income taxes for the six months ended June 30, 2010 was \$44 million compared to \$381 million for the same period in 2009, a decrease of \$337 million.

### Earnings for the Three Months Ended June 30, 2010

The following is a summary of the factors impacting OPG's results for the three months ended June 30, 2010 compared to results for the same period ended in 2009, on a before-tax basis:

<i>(millions of dollars – before tax)</i>	<b>Electricity Generation Segments<sup>1</sup></b>	<b>Regulated Nuclear Waste Management Segment</b>	<b>Other<sup>2</sup></b>	<b>Total</b>
<b>Income (loss) before income taxes for the three months ended June 30, 2009</b>	<b>191</b>	<b>143</b>	<b>(23)</b>	<b>311</b>
Changes in gross margin:				
Change in electricity sales price after revenue limit rebate				
Regulated generation segments	(9)	-	-	(9)
Unregulated generation segments	60	-	-	60
Change in electricity generation by segment:				
Regulated – Nuclear Generation	21	-	-	21
Regulated – Hydroelectric	(6)	-	-	(6)
Unregulated – Hydroelectric	(57)	-	-	(57)
Unregulated – Thermal	7	-	-	7
Decrease in revenue related to contingency support agreement for the Nanticoke and Lambton generating stations	(75)	-	-	(75)
Impact of regulatory variance accounts	(190)	-	-	(190)
Decrease in fuel price and other fuel related costs	27	-	-	27
Increase (decrease) in non-electricity generation revenue	67	(1)	(2)	64
Other changes in gross margin	(24)	-	5	(19)
	<b>(179)</b>	<b>(1)</b>	<b>3</b>	<b>(177)</b>
Changes in operations, maintenance and administration (“OM&A”) expenses:				
Higher expenditures related to increase in outage and project costs, partially offset by a decrease in maintenance activities at OPG’s nuclear generating stations	(22)	-	-	(22)
Lower expenditures related to decrease in project work, outage and maintenance activities at OPG’s thermal generating stations	18	-	-	18
Increase in pension and OPEB costs	(23)	(1)	1	(23)
Other changes in OM&A	15	1	(5)	11
	<b>(12)</b>	<b>-</b>	<b>(4)</b>	<b>(16)</b>
Decrease in earnings from the Nuclear Funds	-	(480)	-	(480)
Impact of the regulatory asset related to earnings from the Nuclear Funds associated with stations on lease to Bruce Power	-	219	-	219
Decrease (increase) in depreciation and amortization expenses	10	-	(2)	8
Other changes	2	(6)	(8)	(12)
<b>Income (loss) before income taxes for the three months ended June 30, 2010</b>	<b>12</b>	<b>(125)</b>	<b>(34)</b>	<b>(147)</b>

<sup>1</sup> Electricity generation segments include results of the Regulated – Nuclear Generation, Regulated – Hydroelectric, Unregulated – Hydroelectric, and Unregulated – Thermal segments.

<sup>2</sup> Other includes results of the Other category in OPG’s segmented statement of income, inter-segment eliminations, and net interest expense.

Income before interest and income taxes from OPG's electricity generation business segments was \$12 million for the three months ended June 30, 2010 compared to \$191 million for the same quarter in 2009. The Regulated – Nuclear Waste Management business segment incurred a loss before interest and income taxes of \$125 million in the second quarter of 2010 compared to income of \$143 million during the same period in 2009.

Earnings from the electricity generation business segments for the second quarter of 2010 were unfavourably impacted by a decrease in gross margin of \$179 million compared to the same period in 2009. This decrease in gross margin was primarily due to a reduction in revenue associated with a regulatory asset related to tax losses (“Tax Loss Variance Account”). The revenue recognized for the regulatory asset related to the Tax Loss Variance Account was \$49 million for the second quarter of 2010 compared to \$199 million for the second quarter of 2009. The revenue recorded during the second quarter of 2009 included revenue related to the period April 1, 2008 to March 31, 2009. The OEB’s decision and order was issued in May 2009 on OPG’s motion to review, and vary, a portion of the OEB’s

2008 decision establishing current regulated prices as it pertains to the treatment of tax losses and their use for mitigation. In accordance with the OEB's decision on the motion, the balance in this variance account was determined based on the difference between regulatory tax losses for the period from April 1, 2005 to March 31, 2008 calculated in accordance with the methodology in the OEB's 2008 decision and the revenue requirement reduction reflected in current regulated prices. The balance in the variance account will be reviewed by the OEB as part of OPG's upcoming hearing for new regulated prices.

The decrease in gross margin in the electricity generation business segments was also due to lower generation at OPG's hydroelectric generating stations, partially offset by an increase in the average sales price for generation from the Unregulated – Hydroelectric and Unregulated – Thermal segments. The favourable impact of higher electricity generation and average sales prices, and the impact of lower fuel and fuel related costs in the Unregulated – Thermal segment was offset by lower revenue related to a contingency support agreement established with the Ontario Electricity Financial Corporation ("OEF") to provide for the continued reliability and availability of OPG's Lambton and Nanticoke generating stations. The agreement was put in place to enable OPG to recover the costs of its coal-fired generating stations following implementation of OPG's carbon dioxide ("CO<sub>2</sub>") emissions reduction strategy.

Under the Bruce Power lease agreement ("Bruce Lease"), lease revenue is reduced in each calendar year where the annual arithmetic average of the Hourly Ontario Electricity Price ("Average HOEP") falls below \$30/MWh, and certain other conditions are met. The conditional reduction to revenue in the future, embedded in the terms of the Bruce Lease, is treated as a derivative according to Canadian Institute of Chartered Accountants ("CICA") Section 3855, *Financial Instruments – Recognition and Measurement*. Derivatives are measured at fair value and changes in fair value are recognized in the statement of income. As a result of an increase in expected future Average HOEP prices during the second quarter of 2010, the fair value of the derivative liability decreased by \$57 million for the three months ended June 30, 2010. The decrease in the fair value of this derivative liability is recognized as an increase to non-electricity generation revenue, offset by a decrease in the variance account authorized by the OEB to capture the differences between actual and forecast revenues and costs related to the nuclear generating stations under the Bruce Lease ("Bruce Lease Net Revenues Variance Account").

For the three months ended June 30, 2010, operations, maintenance and administration ("OM&A") expenses were \$778 million compared to \$762 million for the same period in 2009. The increase of \$16 million during the second quarter of 2010 compared to the same quarter in 2009 was primarily due to higher expenditures related to outage and project costs for OPG's nuclear generating stations, and an increase in pension and OPEB costs largely as a result of lower discount rates. These higher OM&A expenses were partially offset by a decrease in expenditures at OPG's thermal generating stations related to project work, outage, and maintenance activities, and a decrease in maintenance activities at OPG's nuclear generating stations.

Earnings from the Used Fuel Segregated Fund ("Used Fuel Fund") and the Decommissioning Segregated Fund ("Decommissioning Fund") (together "Nuclear Funds") for the three months ended June 30, 2010 were \$40 million compared to \$301 million during the same period in 2009. Losses from the Nuclear Funds, before the impact of the Bruce Lease Net Revenues Variance Account, were \$29 million for the three months ended June 30, 2010 compared to earnings of \$451 million for the same period in 2009, a decrease of \$480 million. The decrease in the earnings from the Nuclear Funds was primarily due to a decline in valuation levels of global financial markets during the second quarter of 2010, which decreased the current market value of the Decommissioning Fund, compared to a significant increase in the valuation levels during the same quarter of 2009. The decrease in the earnings from the Decommissioning Fund was partially offset by higher earnings from the Used Fuel Fund primarily due to a higher Ontario Consumer Price Index ("CPI"), which impacted the guaranteed return on the Used Fuel Fund. During the second quarter of 2010, OPG recorded an increase to the Bruce Lease Net Revenues Variance Account regulatory asset of \$69 million, which increased the reported earnings from the Nuclear Funds. For the same period in 2009, OPG recorded a reduction to the Bruce Lease Net Revenues Variance Account regulatory asset of \$150 million, which reduced the reported earnings from the Nuclear Funds.

Depreciation and amortization expenses for the three months ended June 30, 2010 were \$177 million compared to \$185 million during the same period in 2009, a decrease of \$8 million. The decrease in depreciation was primarily due to the impact of the Darlington nuclear generating station life extension to 2051, related to OPG's announcement to commence the definition phase for refurbishment of the station, partially offset by an increase in depreciation due to in-service additions and the change in the end of life, for accounting purposes, of four coal-fired units, which are scheduled for closure in October 2010. In September 2009, together with the Ministry of Energy and Infrastructure, OPG announced its decision to close two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations.

For the three months ended June 30, 2010, income tax recovery was \$118 million compared to an income tax expense of \$5 million for the same period in 2009. The decrease in income tax expense was primarily due to a reduction in income tax liabilities as a result of the resolution of a number of tax uncertainties related to the audit of OPG's 2000 and 2001 taxation years.

### *Earnings for the Six Months Ended June 30, 2010*

The following is a summary of the factors impacting OPG's results for the six months ended June 30, 2010 compared to results for the same period ended in 2009, on a before-tax basis:

<i>(millions of dollars – before tax)</i>	<b>Electricity Generation Segments<sup>1</sup></b>	<b>Regulated Nuclear Waste Management Segment</b>	<b>Other<sup>2</sup></b>	<b>Total</b>
<b>Income (loss) before income taxes for the six months ended June 30, 2009</b>	<b>434</b>	<b>(21)</b>	<b>(32)</b>	<b>381</b>
Changes in gross margin:				
Change in electricity sales price after revenue limit rebate				
Regulated generation segments	(13)	-	-	(13)
Unregulated generation segments	(13)	-	-	(13)
Change in electricity generation by segment:				
Regulated – Nuclear Generation	8	-	-	8
Regulated – Hydroelectric	(4)	-	-	(4)
Unregulated – Hydroelectric	(74)	-	-	(74)
Unregulated – Thermal	7	-	-	7
Decrease in revenue related to contingency support agreement for the Nanticoke and Lambton generating stations	(31)	-	-	(31)
Impact of regulatory variance accounts	(37)	-	-	(37)
Decrease in fuel price and other fuel related costs	7	-	-	7
(Decrease) increase in non-electricity generation revenue	(32)	-	2	(30)
Other changes in gross margin	(23)	-	2	(21)
	<b>(205)</b>	<b>-</b>	<b>4</b>	<b>(201)</b>
Changes in operations, maintenance and administration (“OM&A”) expenses:				
Lower expenditures related to decrease in outage and maintenance activities at OPG's thermal generating stations	38	-	-	38
Increase in pension and OPEB costs	(41)	(2)	-	(43)
Other changes in OM&A	8	1	(4)	5
	<b>5</b>	<b>(1)</b>	<b>(4)</b>	<b>-</b>
Decrease in earnings from the Nuclear Funds	-	(187)	-	(187)
Impact of the regulatory asset related to earnings from the Nuclear Funds associated with stations on lease to Bruce Power	-	73	-	73
Decrease (increase) in depreciation and amortization expenses	26	-	(7)	19
Increase in expense due to restructuring charges	(25)	-	-	(25)
Other changes	9	(13)	(12)	(16)
<b>Income (loss) before income taxes for the six months ended June 30, 2010</b>	<b>244</b>	<b>(149)</b>	<b>(51)</b>	<b>44</b>

<sup>1</sup> Electricity generation segments include results of the Regulated – Nuclear Generation, Regulated – Hydroelectric, Unregulated – Hydroelectric, and Unregulated – Thermal segments.

<sup>2</sup> Other includes results of the Other category in OPG's segmented statement of income, inter-segment eliminations, and net interest expense.

Income before interest and income taxes from OPG's electricity generation business segments was \$244 million for the six months ended June 30, 2010 compared to \$434 million for the same period in

2009. The Regulated – Nuclear Waste Management business segment incurred a loss before interest and income taxes of \$149 million for the six months ended June 30, 2010 compared to a loss of \$21 million during the same period in 2009.

Earnings from the electricity generation business segment for the six months ended June 30, 2010 were unfavourably impacted by a decrease in gross margin of \$205 million compared to the same period in 2009. There was a decrease in gross margin in the electricity generation business segments due to a reduction in revenue related to the Tax Loss Variance Account. The revenue recognized for the regulatory asset related to the Tax Loss Variance Account was \$97 million for the six months ended June 30, 2010 compared to \$199 million for the same period in 2009. The decrease was also due to lower generation at OPG's hydroelectric generating stations and lower electricity sales prices for generation from OPG's unregulated business segments, partially offset by a decrease in revenue related to the contingency support agreement with the OEFC.

As a result of a reduction in expected future Average HOEP prices since the beginning of 2010, the fair value of the derivative liability related to the Bruce Lease increased by \$38 million during the six months ended June 30, 2010. The increase in the fair value of this derivative is recognized as a reduction to non-electricity generation revenue, offset by an increase in the Bruce Lease Net Revenues Variance Account.

For the six months ended June 30, 2010 and 2009, OM&A expenses were \$1,504 million. An increase in OM&A expenses during the six months ended June 30, 2010 compared to the same period in 2009 due to higher pension and OPEB costs, largely as a result of lower discount rates, was offset by a reduction in expenditures related to a decrease in outage and maintenance activities at OPG's thermal generating stations.

Earnings from the Nuclear Funds for the six months ended June 30, 2010 were \$181 million compared to \$295 million during the same period in 2009. The earnings from the Nuclear Funds, before the impact of the Bruce Lease Net Revenues Variance Account, were \$128 million for the six months ended June 30, 2010 compared to \$315 million for the same period in 2009, a decrease of \$187 million. The decrease in the earnings from the Nuclear Funds was primarily due to a decline in valuation levels of global financial markets in the first half of 2010, which reduced the current market value of the Decommissioning Fund, compared to an increase in valuation levels during the same period in 2009. The decrease in the earnings from the Decommissioning Fund was partially offset by higher earnings from the Used Fuel Fund primarily due to a higher Ontario CPI, which impacted the guaranteed return on the Used Fuel Fund. During the six months ended June 30, 2010, OPG recorded an increase to the Bruce Lease Net Revenues Variance Account regulatory asset of \$53 million, which increased the reported earnings from the Nuclear Funds. For the same period in 2009, OPG recorded a reduction to the Bruce Lease Net Revenues Variance Account regulatory asset of \$20 million, which reduced the reported earnings from the Nuclear Funds.

Depreciation and amortization expenses for the six months ended June 30, 2010 were \$344 million compared to \$363 million during the same period in 2009, a decrease of \$19 million. The decrease in depreciation was primarily due to the impact of the Darlington nuclear generating station life extension to 2051, related to OPG's announcement to commence the definition phase for refurbishment of the station, partially offset by an increase in depreciation due to in-service additions and the change in the unit end of life, for accounting purposes, of four coal-fired units scheduled for closure in October 2010.

Restructuring charges of \$25 million were recorded during the six months ended June 30, 2010 due to the recognition of severance costs related to the closure of the coal-fired units at Lambton and Nanticoke in 2010.

For the six months ended June 30, 2010, income tax recovery was \$70 million compared to income tax expense of \$84 million for the same period in 2009. The decrease in income tax expense was primarily due to a reduction in income tax liabilities as a result of the resolution of a number of tax uncertainties related to the audit of OPG's 2000 and 2001 taxation years, and lower income before earnings from the Nuclear Funds. Earnings in the Nuclear Funds are not taxable.

### Average Sales Prices

The weighted average Ontario spot electricity market price and OPG's average sales prices from generation paid through the regulated prices and the hourly Ontario spot market prices, by reportable electricity segment for the three and six month periods ended June 30, 2010 and 2009, were as follows:

<i>(¢/kWh)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Weighted average hourly Ontario spot electricity market price	3.8	2.5	3.6	3.6
Regulated – Nuclear Generation	5.5	5.5	5.5	5.5
Regulated – Hydroelectric	3.7	3.9	3.7	3.7
Unregulated – Hydroelectric	4.0	2.6	3.7	3.4
Unregulated – Thermal	4.1	3.2	3.9	4.3
OPG's average sales price paid through regulated and spot market prices	4.6	4.2	4.6	4.6

The weighted average hourly Ontario spot electricity market price was 3.8¢/kWh for the three months ended June 30, 2010 compared to 2.5¢/kWh for the same period in 2009. The increase in the average Ontario spot electricity market price for the three months ended June 30, 2010 compared to the same period in 2009 was primarily due to lower hydroelectric generation, higher natural gas prices, and higher primary demand in Ontario, partially offset by a stronger Canadian dollar, higher nuclear generation, and lower net exports.

The average sales prices for the Regulated – Hydroelectric segment were 3.7¢/kWh during the second quarter of 2010 compared to 3.9¢/kWh during the same quarter in 2009. The decrease in electricity sales prices for the Regulated – Hydroelectric segment was primarily due to lower revenues from the regulated hydroelectric incentive mechanism. The increase in electricity prices during the second quarter of 2010 compared to the same period in 2009 for the unregulated segments was primarily due to a higher average hourly Ontario spot electricity price.

The weighted average hourly Ontario spot electricity market price was 3.6¢/kWh for the six months ended June 30, 2010 and 2009. The weighted average hourly Ontario spot electricity market price for the periods reflected higher prices during the second quarter of 2010 compared to the second quarter of 2009, largely offset by lower prices during the first quarter of 2010 compared to the first quarter of 2009.

The average sales price for the unregulated hydroelectric stations was 3.7¢/kWh for the six months ended June 30, 2010 compared to 3.4¢/kWh for the same period of 2009. The increase in average sales price for the six months ended June 30, 2010 compared to the same period in 2009 was primarily due to higher unregulated hydroelectric generation during the second quarter of 2009 as a result of higher water levels, which contributed to a lower weighted average hourly Ontario spot electricity price during the second quarter of 2009.

The average sales price for OPG's thermal generating station was 3.9¢/kWh for the six months ended June 30, 2010 compared to 4.3¢/kWh for the same period in 2009. The decrease in average sales price for the six months ended June 30, 2010 compared to the same period in 2009 was primarily due to a higher proportion of thermal generation during the first quarter of 2009 when the weighted average hourly Ontario spot electricity market price was significantly higher at 4.5¢/kWh.

### Electricity Generation

OPG's electricity generation for the three and six month periods ended June 30, 2010 and 2009, was as follows:

<i>(TWh)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Regulated – Nuclear Generation	9.6	9.2	21.6	21.5
Regulated – Hydroelectric	4.6	4.9	9.4	9.6
Unregulated – Hydroelectric	2.3	5.0	6.2	9.3
Unregulated – Thermal	3.2	1.8	7.0	6.1
<b>Total electricity generation</b>	<b>19.7</b>	<b>20.9</b>	<b>44.2</b>	<b>46.5</b>

Total electricity generated during the three months ended June 30, 2010 from OPG's generating stations was 19.7 TWh compared to 20.9 TWh for the same period in 2009. Total electricity generated during the six months ended June 30, 2010 was 44.2 TWh compared to 46.5 TWh for the same period in 2009. The decrease in generation was primarily due to lower electricity generation from OPG's unregulated hydroelectric generating stations, partially offset by an increase in electricity generation from OPG's thermal generating stations.

The increase in electricity generation from the nuclear generating stations during the three and six month periods ended June 30, 2010 was primarily due to a decrease in planned outage days at the Darlington nuclear generating station compared to the same period in 2009 as a result of the planned Darlington Vacuum Building Outage ("VBO") during the second quarter of 2009, which required a shutdown of all four units at the Darlington nuclear generating station. This increase in generation was largely offset by an increase in planned outage days at the Pickering A and B nuclear generating stations due to the Pickering VBO which required a shutdown of all six units at OPG's Pickering A and B nuclear generating stations during the second quarter of 2010.

The decrease in generation from the regulated and the unregulated hydroelectric generating stations during the three and six month periods ended June 30, 2010 compared to the same periods in 2009 was primarily due to the impact of lower water flows caused by below normal precipitation across Ontario.

The higher generation from OPG's thermal generating stations during the three and six month periods ended June 30, 2010 was primarily due to the impact of unfavourable water flows at the hydroelectric generating stations, and higher primary demand in Ontario during the second quarter of 2010 compared to the same period in 2009.

OPG's operating results are impacted by changes in demand resulting from variations in seasonal weather conditions. The following table provides a comparison of Heating and Cooling Degree Days for the three and six month periods ended June 30:

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Heating Degree Days <sup>1</sup>				
Period	346	511	2,077	2,465
Ten-year average	490	507	2,356	2,375
Cooling Degree Days <sup>2</sup>				
Period	106	42	106	42
Ten-year average	88	84	88	84

<sup>1</sup> Heating Degree Days are recorded on days with an average temperature below 18°C, and represent the aggregate of the differences between the average temperature and 18°C for each day during the period, as measured at Pearson International Airport in Toronto, Ontario.

<sup>2</sup> Cooling Degree Days are recorded on days with an average temperature above 18°C, and represent the aggregate of the differences between the average temperature and 18°C for each day during the period, as measured at Pearson International Airport in Toronto, Ontario.

Warmer than average temperatures resulted in lower Heating Degree Days and higher Cooling Degree Days during the three and six month periods ended June 30, 2010 compared to the same periods in 2009.

Ontario primary demand was 33.4 TWh and 32.2 TWh for the three months ended June 30, 2010 and 2009, respectively. The increase in demand was primarily due to warmer weather conditions during the second quarter of 2010 compared to the same period in 2009.

Ontario primary demand was 70.0 TWh and 69.8 TWh for the six month periods ended June 30, 2010 and 2009, respectively.

### Cash Flow from Operations

Cash flow provided by operating activities for the three months ended June 30, 2010 was \$110 million compared to cash flow used in operating activities of \$183 million for the three months ended June 30, 2009. The increase in cash flow of \$293 million was primarily due to lower fuel purchases, an increase in cash receipts from the OEFC related to the contingency support agreement, a decrease in revenue limit rebate payments with the discontinuance of the revenue limit in the second quarter of 2009, lower contributions to the Nuclear Funds and lower tax installments.

Cash flow provided by operating activities for the six months ended June 30, 2010 was \$328 million compared to cash flow used in operating activities of \$142 million for the same period in 2009. The increase in cash flow of \$470 million was primarily due to lower fuel purchases, lower tax installments, a decrease in revenue limit rebate payments with the discontinuance of the revenue limit in the second quarter of 2009, and lower contributions to the Nuclear Funds. The increase was partially offset by lower cash receipts as a result of lower generation revenue.

### Recent Developments

#### *OEB Application*

In May 2010, OPG filed an application with the OEB for new regulated prices with a revised effective date of March 1, 2011. The regulated prices are applicable to production from OPG's regulated hydroelectric and nuclear facilities. As part of the application, OPG requested approval to recover the balances in the deferral and variance accounts. New regulated prices resulting from the application are expected to

remain in effect until the end of 2012. The decision on OPG's application will be made by the OEB following a public hearing process, which is expected to take place during the second half of 2010.

## **VISION, CORE BUSINESS AND STRATEGY**

OPG's mandate is to cost-effectively produce electricity from its diversified generating assets, while operating in a safe, open, and environmentally responsible manner. OPG's goal is to be a leader in clean energy generation and to have a major role in leading Ontario's transition to a more sustainable energy future. OPG is focused on three corporate strategies: performance excellence; generation development; and developing and acquiring talent.

### **Performance Excellence**

Each of OPG's business segments and corporate groups exhibit the Company's commitment to performance excellence in the areas of generation, safety, the environment, and fiscal performance. It is through this focus on performance excellence that OPG is able to efficiently and reliably provide electricity to the Province and deliver value to its Shareholder.

#### *Nuclear Generating Assets*

Performance excellence at OPG's nuclear generating facilities is defined as generating safe, efficient, reliable and cost effective electricity through dependable performance. This is achieved through the effective execution of work programs and initiatives in the four cornerstones of safety, reliability, human performance and value for money.

In late May 2010, OPG completed the planned VBO at the Pickering nuclear generating stations. The VBO, which required the shutdown of all six units at the Pickering A and B nuclear generating stations, is a large planned outage program that occurs once every 10 years. It was a significant undertaking involving about 2,000 workers augmenting station resources during an approximate six week window to complete over 40,000 tasks. During the outage, OPG inspected and tested key components of the negative pressure containment system. The outage also included inspections of pressure tube and steam generators, as well as turbine, generator and valve maintenance. The outage exceeded all safety milestones.

The Pickering A generating station received a new 3-year Operating Licence from the Canadian Nuclear Safety Commission ("CNSC") which took effect on July 1, 2010.

#### *Hydroelectric Generating Assets*

The hydroelectric business segments are focused on producing electricity in a safe, reliable and cost-effective and efficient manner. OPG plans to continue to increase the capacity of many of the existing stations over the upcoming years by replacing aging equipment such as turbines, generators, transformers, and other control components with more efficient equipment.

OPG completed major equipment overhauls and rehabilitation work at several stations during the second quarter of 2010, including major overhauls at Unit 10 of the Saunders generating station and Unit 1 of the Mountain Chute generating station, and a transformer replacement at Unit 2 of the Kakabeka Falls generating station. A major outage to rebuild and upgrade Unit 9 of the Sir Adam Beck generating station is continuing and the Unit is scheduled to return to service at the end of 2010.

In 2010, OPG continued to progress on a number of strategies related to its Aboriginal Relations Policy. The strategies include negotiating past grievance settlements, working with Aboriginal Communities to explore hydroelectric business development opportunities, and developing employment and contracting opportunities, capacity building, and community relations programs. Refer to the *Generation Development – Lower Mattagami* project for work performed with the Aboriginal community.

#### *Thermal Generating Assets*

OPG continues its strategy for its thermal generating stations to ensure that units are available when they are required and to optimize how coal-fired units are offered into the electricity system to reduce equipment damage from frequent starts and stops. OPG is closely managing outage scope and schedule in an effort to reduce maintenance related expenditures, consistent with the demand for thermal generation.

OPG continues to evaluate all maintenance expenditures for the two units at each of Nanticoke and Lambton that are scheduled for closure in October 2010. The Lambton units can be operated safely and reliably at 425 MW Net Maximum Continuous Rating (“MCR”) until their scheduled closure. This reduction in MCR from the current 485 MW MCR will enable the station to operate without refurbishing the Flue Gas Conditioning System, consistent with good utility practices. These units have been operated at minimal loads, and this reduction does not impact on system security or reliability.

#### *Environmental Performance*

In June 2010, the Federal government announced its intention to regulate greenhouse gas emissions from coal-fired electricity generating units by restricting the operating life of these units. This represents a change from its original consideration of a cap-and-trade regime aligned with the U.S. OPG is monitoring the development of the regulation and assessing any potential impact on the Company’s operations. For the six months ended June 30, 2010, CO<sub>2</sub> emissions were 7.1 million tonnes compared to 6.2 million tonnes for the same period in 2009. Acid gas (SO<sub>2</sub> and NO<sub>x</sub>) emissions were 30 gigagrams and 28 gigagrams for the six months ended June 30, 2010 and 2009, respectively. Emissions were higher as a result of higher generation during the second quarter from OPG’s coal-fired stations. OPG’s disclosures relating to environmental policies and procedures are provided in the annual MD&A as at and for the year ended December 31, 2009.

#### *Safety*

OPG is committed to achieve its goal of zero injuries through further development of a strong safety culture and continuous improvement in safety management systems and risk control programs. In June 2010, OPG received the ZeroQuest Platinum (Sustainability) Award from the Infrastructure Health and Safety Association (“IHSA”). OPG is the first employer in Ontario to receive this safety award. This award recognizes OPG’s efforts to sustain and continuously improve safety performance, health and safety management systems and safety culture over a five-year period.

Maintenance of formal safety management systems based on the British Standard Institution’s Occupational Health and Safety Assessment Series 18001 (“OHSAS 18001”) at both the corporate and site levels continues in 2010. Injury reduction priorities in 2010 include enhanced musculoskeletal disorder prevention programming. Improvements in OPG’s rigorous incident management system are also underway to specifically improve the investigation process and methodologies to enhance lessons learned from safety incidents and prevent reoccurrences. Together with OPG’s unions, the Company has also completed improvements to the Work Protection Code to increase energy control protections for workers.

In June 2010, OPG implemented new requirements set out in the Occupational Health and Safety Act to protect workers from workplace violence and harassment. This included enhancements to existing policies and procedures, the completion of workplace violence risk assessments, and communications and training for workers, supervisors and Joint Health and Safety Committees.

OPG continues to demonstrate leadership in safety through a commitment to young worker safety in the communities where OPG operates. In April 2010, OPG participated with other business leaders and Our Youth at Work Associates in the sixth annual *Young Worker Safety Simulcast* aimed at making high school students aware of the importance of safety on the job.

#### *Financial Sustainability*

OPG's financial priority is to sustain an appropriate level of financial performance. This includes earning an appropriate return on OPG's assets; optimizing dispatch for production from unregulated assets; identifying and exploring efficiency improvement opportunities; and ensuring that sufficient funds are available to achieve its strategic objectives of performance excellence and generation development. The strategies employed to achieve and sustain an appropriate level of financial performance are detailed in the 2009 annual report.

In order to earn an appropriate return on its assets, OPG has undertaken a number of initiatives during the second quarter of 2010. With respect to its regulated assets, OPG filed its application with the OEB in May 2010 for new regulated prices effective March 1, 2011. The application reflected the costs associated with operating the prescribed assets in a safe, reliable and environmentally responsible manner, as well as the financial resources required for the nuclear life extension and refurbishment projects. With respect to its unregulated generation assets, OPG finalized an Energy Supply Agreement ("ESA") with the OPA for the Lennox generating station in the first quarter of 2010 to ensure recovery of operating costs. OPG has also negotiated a long-term Hydroelectric Energy Supply Agreement ("HESA") contract with the OPA for the Lower Mattagami hydroelectric generation development project.

OPG is continuing to pursue efficiency improvements through a review of corporate and business unit support function work programs. This review has identified work program activities that can be improved as well as activities that can be streamlined or eliminated in order to achieve business plan targets.

To ensure that sufficient funds are available to achieve its strategic objectives of performance excellence and generation development, OPG continued with a number of initiatives in the second quarter of 2010. OPG has executed an amendment to the Niagara Tunnel project credit facility with the OEFC, consistent with the revised cost estimate of \$1.6 billion. In August 2010, a \$700 million bank credit facility was established to support the initial construction phase for the Lower Mattagami project. Additional financing arrangements are being established to support the total requirements of the project. In addition, OPG reached an agreement with the OEFC in the first quarter of 2010 for a \$970 million credit facility to refinance OEFC notes maturing in 2010.

#### **Generation Development**

OPG is pursuing a number of generation development opportunities including capacity expansion and life extension opportunities where possible. Increasing the production potential of existing infrastructure reduces the environmental impact of meeting Ontario's electricity demands. Pursuing opportunities to leverage existing sites and assets will enable OPG to realize additional benefits from these assets. OPG's major projects include nuclear station refurbishment, new hydroelectric generation and plant upgrades, and the conversion of some of the coal-fired generating units to alternate fuels.

### *New Nuclear Units*

In June 2009, the Government of Ontario suspended the competitive Request for Proposal (“RFP”) process to procure two new nuclear reactors planned for the Darlington site. In the announcement, the Government of Ontario indicated that the competitive RFP process did not provide Ontario with a suitable option at that time. The bids that were received during this process have subsequently expired. The Government of Ontario continues to be supportive of two new nuclear units at Darlington and discussions between Atomic Energy of Canada Limited, Infrastructure Ontario, OPG and representatives from the Government of Ontario are currently underway.

OPG continues with two initiatives that were underway – the environmental assessment process and obtaining a site preparation licence. In November 2009, the Joint Review Panel (“JRP”) announced the start of a six-month public review period for the Environmental Impact Statement (“EIS”) and the “Licence to Prepare Site”. During the first half of 2010, the JRP requested additional information in support of the EIS and application for the “Licence to Prepare Site”. OPG is in the process of responding to requests for additional information from the JRP with respect to these two initiatives.

### *Darlington Refurbishment Project*

In February 2010, OPG announced its decision to commence the detailed planning phase for the refurbishment of the Darlington nuclear generating station. The generating units at the Darlington nuclear station are currently forecast to reach their nominal end of life between 2019 and 2020. The objective of the refurbishment is to extend the operating life of the station by approximately 30 years. In the detailed planning phase, all regulatory work will be completed including the Environmental Assessment (“EA”), the Integrated Safety Review (“ISR”), and the Integrated Improvement Plan.

A contractor has been selected to prepare the EA and field programs to support the EA are continuing. The ISR is underway with the completion of the Operating Experience Safety Factor report in June 2010. A Scope Review Board has been established to review and finalize the technical scope of the project. Scope reports have been prepared for major systems and condition assessment summary reports are being prepared for the balance of the station. Responses to the “Request for Expression of Interest” regarding the retube and feeder replacement work for the Darlington refurbishment project issued in March 2010 were received on April 30, 2010 and are currently being evaluated.

In April 2010, OPG announced that it was proceeding, in conjunction with the Municipality of Clarington and Durham Region, with site preparation and servicing for a proposed 250,000 square foot Darlington Refurbishment Complex on OPG-owned land in the Clarington Energy Business Park adjacent to the Darlington nuclear generating station. A draft Subdivision and Servicing Agreement was issued to the Municipality of Clarington on June 30, 2010.

### *Pickering B Continued Operations*

In September 2009, OPG submitted its final Integrated Safety Review report for the Pickering B nuclear generating station to the CNSC. The report concluded that the station demonstrates a high level of compliance with modern codes and standards, and can be operated safely today and in the future.

Pickering B nuclear generating units are currently estimated to reach their nominal end of life between 2014 and 2016. In February 2010, OPG announced its decision to continue the safe and reliable operation of OPG’s Pickering B nuclear generating station for an additional four to six years. OPG is undertaking a coordinated set of initiatives to evaluate the opportunity to continue safe and reliable operations of Pickering B for this extended period of time and work is progressing to resource the organization, finalize the detailed scope of the program, and to implement plant improvements.

As part of a regulatory commitment to the CNSC, OPG submitted the Pickering B Operations Plan in March 2010, describing strategies for the continued safe and reliable operation of Pickering B until its end of life. During the second quarter of 2010, OPG continued with technical and regulatory work related to continued operations.

### *Pickering A Units 2 and 3 Safe Storage*

The Pickering A safe storage project includes de-fuelling, de-watering, and isolating Units 2 and 3 from the rest of the generating station, along with redesigning the control room for the remaining two operating units and placing the various systems in a safe state. De-fuelling of the units was completed in 2008 and de-watering was completed in January 2010.

During the second quarter of 2010, the CNSC approved the pressure relief duct repair strategy, which consequently allows the Unit 2 and Unit 3 containment boundary to be moved to the Pressure Relief Duct bulkhead. The Unit 2 and Unit 3 reactor buildings are no longer part of containment. All safe storage end states are field complete and Unit 2 and 3 are in the defueled state. The project remains on schedule for completion in the fall of 2010 with a projected completion cost of \$349 million. The year-to-date and life-to-date expenditures on the project were \$48 million and \$324 million, respectively.

### *Upper Mattagami and Hound Chute*

Construction activities to replace three existing hydroelectric generating stations on the Upper Mattagami River and the Hound Chute generating station on the Montreal River continued during the second quarter of 2010. Upon completion of the project, the total installed capacity of the four stations will increase from 23 MW to 44 MW, and the expected annual energy will increase from 134 gigawatt hours ("GWh") to 223 GWh. During the second quarter of 2010, major equipment assembly was in progress and commissioning activities commenced. The stations are expected to be completed on schedule, and in-service by April 2011.

Project financing was completed in May 2009, and Senior notes totalling \$200 million were issued. The capital project expenditures for the three and six months ended June 30, 2010 were \$23 million and \$41 million, respectively. As at June 30, 2010, the life-to-date capital expenditures were \$237 million. Project costs are expected to be within the approved budget of \$300 million.

### *Niagara Tunnel*

The development of the Niagara Tunnel has progressed in a number of key areas. As of June 30, 2010, the tunnel boring machine has progressed 7,050 metres, which is 69 percent of the tunnel length. Installation of the lower one-third of the permanent concrete lining has progressed 5,075 metres. Restoration of the circular cross-section of the tunnel, before installation of the upper two-thirds of the concrete lining, has progressed 1,870 metres. Installation of the upper two-thirds of the concrete lining started in late May and has progressed 75 metres.

The capital project expenditures for the three and six month periods ended June 30, 2010 were \$61 million and \$108 million, respectively. As at June 30, 2010, the life-to-date capital expenditures were \$757 million. The project is debt financed through the OEFC. OPG has executed an amendment to the Niagara Tunnel project credit facility with the OEFC to finance the project for up to \$1.6 billion over the duration of the project. The Niagara Tunnel is expected to be completed within the revised approved budget of \$1.6 billion, and in-service by the approved date of December 2013.

### *Lower Mattagami*

Construction activities on the Lower Mattagami River commenced in June 2010 to add one additional generating unit at the existing Little Long, Harmon and Kipling stations. In addition, OPG will replace the existing Smoky Falls generating station with a new three-unit station. Upon completion in June 2015, the project will increase the capacity of the four stations on the Lower Mattagami River by 438 MW.

During the second quarter of 2010, OPG and the OPA finalized and executed a HESA. In addition, a comprehensive agreement has been executed with a local First Nation that resolves grievances attributed to the construction and subsequent operation and maintenance of OPG facilities in the area. The agreement provides the First Nation with a right to purchase up to a 25 percent equity interest in the project. Pursuant to the Province of Ontario's EA, the Ministry of Environment formed the Mattagami Extensions Coordinating Committee ("MECC") in May 2010.

The capital project expenditures for the three and six month periods ended June 30, 2010 were \$35 million and \$71 million, respectively. As at June 30, 2010 the life-to-date capital expenditures were \$90 million. The project budget of \$2.6 billion includes the design build contract as well as contingencies, interest and other OPG costs, including project management, contract management, impact agreements with First Nations, and transmission connection costs. In August 2010, a \$700 million bank credit facility was established to support the initial construction phase for the Lower Mattagami project. Additional financing arrangements are being established to support the total requirements of the project.

#### *Healey Falls*

In April 2010, the Healey Falls generating station was returned to service, following the addition of a fourth generating unit. The fourth unit added 6 MW to the total original station capacity of 12 MW, resulting in new total station capacity of 18 MW. The total project cost was \$25 million. OPG has a HESA with the OPA for Healey Falls.

#### *Unit Conversion Opportunities*

The coal-unit conversion strategy is continuing to advance. OPG is analyzing submissions received under the request for indicative pricing issued in March 2010 to potential suppliers of wood-based biomass fuel for the Atikokan generating station. In addition to fuel pricing levels, the feasibility of the Atikokan conversion is dependent upon the cost of conversion and operation. OPG requires cost recovery agreements with the OPA for conversion of the units and the electricity generated post-conversion before seeking Board of Directors approval to proceed with unit conversions.

In addition, OPG is developing engineering concepts for the conversion of some units at the Thunder Bay, Lambton and Nanticoke generating stations to fuels such as biomass, natural gas and gas-biomass dual-fuel. Before significant financial commitments are made for these conversions, OPG will require cost recovery agreements with the OPA.

### **Developing and Acquiring Talent**

#### *Skilled Workforce*

As of June 30, 2010, OPG had approximately 90 percent of its regular labour force represented by a union. The Company's collective agreement with the Power Workers' Union runs through March 31, 2012 and the labour agreement with The Society of Energy Professionals runs through December 31, 2010. Collective Agreements between the Company and its construction unions, negotiated either directly or through the Electrical Power Systems Construction Association ("EPSCA"), expired April 30, 2010. Negotiations are currently underway in conjunction with EPSCA.

Electricity generation involves complex technologies, which demand highly skilled and trained workers. Many positions at OPG have significant educational prerequisites as well as rigorous requirements for continuing training and periodic requalification. In addition to maintaining its extensive internal training infrastructure, OPG relies on partnerships with government agencies, other electrical industry partners, and educational institutions to meet the required level of qualification.

### **ONTARIO ELECTRICITY MARKET TRENDS**

In its 18-Month Outlook published on May 20, 2010, the IESO indicated that as of May 5, 2010, Ontario's installed electricity generating capacity was 35,785 MW. As of June 30, 2010, OPG's in-service electricity generating capacity was 21,726 MW or 61 percent of Ontario's capacity. The IESO reported that the outlook for the reliability of Ontario's electricity system remains positive over the next 18 months. The outlook published by the IESO in May 2010 is largely consistent with the outlook published on February 23, 2010. Additional details on the outlook are provided in OPG's MD&A as at and for the year ended December 31, 2009 under the heading, *Ontario Electricity Market Trends*.

Fuel prices can have a significant impact on OPG's revenue and gross margin. The industry average uranium spot market price was U.S. \$44.50 per pound at the beginning of 2010. By the end of the second quarter of 2010, the industry average spot price had declined to U.S. \$41.75 per pound. The industry average long-term uranium price began the year at U.S. \$61.00 per pound and has since declined to U.S. \$59.00 per pound at the end of the second quarter of 2010.

Natural gas prices at Henry Hub averaged U.S. \$4.32/MMBtu in the second quarter of 2010, a decrease of 16 percent from the first quarter of 2010, but an increase of 17 percent from the second quarter of 2009. On a monthly basis, the low price for 2010 was realized in April (U.S. \$4.03/MMBtu), but has since trended up to reach U.S. \$4.80/MMBtu in June 2010. Warmer weather and an improving industrial sector has been responsible for this upward price movement as compared to the second quarter in 2009. According to the National Oceanic and Atmospheric Association, summer cooling degree days for June 2010 were up 28 percent from June 2009. The U.S. Federal Reserve recently reported that year-to-date industrial production from January 2010 to May 2010 was 7.6 percent above last year's levels. These improving power sector fundamentals have also factored into rising coal prices. Eastern coal prices have averaged around \$61.00/tonne this quarter, an increase of 9 percent from the first quarter of 2010, and 19 percent from the second quarter of 2009. Powder River Basin coal prices have averaged over \$12.00/tonne during the second quarter of 2010, which represents an 11 percent increase compared to the first quarter of 2010 and a 34 percent increase compared to the same quarter of 2009.

## **BUSINESS SEGMENTS**

OPG has five reportable business segments. The business segments are Regulated – Nuclear Generation, Regulated – Nuclear Waste Management, Regulated – Hydroelectric, Unregulated – Hydroelectric, and Unregulated – Thermal.

Descriptions of OPG's reportable business segments are included in the 2009 annual MD&A under the heading, *Business Segments*.

## **KEY GENERATION AND FINANCIAL PERFORMANCE INDICATORS**

Key performance indicators that directly pertain to OPG's mandate and corporate strategies are measures of production efficiency, cost effectiveness, and environmental performance. OPG evaluates the performance of its generating stations using a number of key performance indicators, which vary depending on the generating technology. These indicators are defined in the 2009 annual MD&A and are discussed in the *Discussion of Operating Results by Business Segment* section.

## DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

This section summarizes OPG's key results by segment for the three and six month periods ended June 30, 2010 and 2009. The following table provides a summary of revenue, earnings and key generation and financial performance indicators by business segment:

<i>(millions of dollars – except where noted)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
<i>Revenue, net of revenue limit rebate</i>				
Regulated – Nuclear Generation	<b>657</b>	754	<b>1,450</b>	1,527
Regulated – Nuclear Waste Management	<b>10</b>	11	<b>21</b>	21
Regulated – Hydroelectric	<b>185</b>	219	<b>370</b>	398
Unregulated – Hydroelectric	<b>103</b>	152	<b>252</b>	358
Unregulated – Thermal	<b>233</b>	241	<b>501</b>	517
Other	<b>33</b>	31	<b>81</b>	78
Elimination	<b>(10)</b>	(11)	<b>(20)</b>	(21)
	<b>1,211</b>	1,397	<b>2,655</b>	2,878
<i>(Loss) income before interest and income taxes</i>				
Regulated – Nuclear Generation	<b>(66)</b>	40	<b>23</b>	87
Regulated – Nuclear Waste Management	<b>(125)</b>	143	<b>(149)</b>	(21)
Regulated – Hydroelectric	<b>78</b>	107	<b>171</b>	190
Unregulated – Hydroelectric	<b>18</b>	58	<b>85</b>	180
Unregulated – Thermal	<b>(18)</b>	(14)	<b>(35)</b>	(23)
Other	<b>10</b>	20	<b>38</b>	50
	<b>(103)</b>	354	<b>133</b>	463
<i>Electricity generation (TWh)</i>				
Regulated – Nuclear Generation	<b>9.6</b>	9.2	<b>21.6</b>	21.5
Regulated – Hydroelectric	<b>4.6</b>	4.9	<b>9.4</b>	9.6
Unregulated – Hydroelectric	<b>2.3</b>	5.0	<b>6.2</b>	9.3
Unregulated – Thermal	<b>3.2</b>	1.8	<b>7.0</b>	6.1
Total electricity generation	<b>19.7</b>	20.9	<b>44.2</b>	46.5
<i>Nuclear unit capability factor (percent)</i>				
Darlington	<b>93.6</b>	52.5	<b>88.0</b>	76.1
Pickering A	<b>30.3</b>	72.2	<b>48.7</b>	57.4
Pickering B	<b>41.6</b>	81.4	<b>69.4</b>	83.2
<i>Equivalent forced outage rate (percent)</i>				
Regulated – Hydroelectric	<b>0.2</b>	1.0	<b>0.3</b>	1.0
Unregulated – Hydroelectric	<b>2.8</b>	0.8	<b>1.7</b>	0.8
Unregulated – Thermal	<b>7.3</b>	8.4	<b>4.8</b>	10.4
<i>Availability (percent)</i>				
Regulated – Hydroelectric	<b>91.8</b>	93.7	<b>92.7</b>	94.0
Unregulated – Hydroelectric	<b>93.4</b>	97.5	<b>93.7</b>	96.5
<i>Nuclear Production Unit Energy Cost ("PUEC") (\$/MWh)</i>				
Regulated – Hydroelectric OM&A expense per MWh (\$/MWh)	<b>5.22</b>	5.31	<b>5.00</b>	5.10
Unregulated – Hydroelectric OM&A expense per MWh (\$/MWh)	<b>23.04</b>	9.60	<b>15.97</b>	9.68
Unregulated – Thermal OM&A expense per MW (\$000/MW)	<b>62.10</b>	70.40	<b>56.00</b>	64.80

## Regulated – Nuclear Generation Segment

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Regulated generation sales	522	500	1,177	1,174
Variance accounts	(8)	178	142	191
Other	143	76	131	162
Total revenue	657	754	1,450	1,527
Fuel expense	47	40	100	85
Variance accounts	(5)	1	(8)	5
Total fuel expense	42	41	92	90
Gross margin	615	713	1,358	1,437
Operations, maintenance and administration	568	542	1,118	1,094
Depreciation and amortization	102	120	195	234
Property and capital taxes	11	11	22	22
(Loss) income before interest and income taxes	(66)	40	23	87

### Revenue

Regulated – Nuclear Generation revenue was \$657 million for the three months ended June 30, 2010 compared to \$754 million for the same period in 2009. The decrease in revenue of \$97 million was primarily due to a decrease in revenue related to the Tax Loss Variance Account. During the second quarter of 2010, OPG recognized revenue of \$38 million related to the Tax Loss Variance Account compared to revenue of \$167 million for the same period in 2009. The revenue related to the Tax Loss Variance Account recognized in the second quarter of 2009 included \$133 million of retrospective revenue related to the period April 1, 2008 to March 31, 2009. The Tax Loss Variance account was authorized by the OEB in May 2009, but effective April 1, 2008. The decrease in revenue was partially offset by the impact of higher generation volume and an increase in revenue from nuclear technical services provided to third parties during the three months ended June 30, 2010 compared to the same period in 2009.

During the three months ended June 30, 2010, OPG recognized an increase in Bruce Lease revenue of \$57 million related to the decrease in the fair value of the derivative liability embedded in the Bruce Lease. This was a result of an increase in expected future Average HOEP prices, during second quarter of 2010. The increase in lease revenue was offset by a decrease in the regulatory asset related to the Bruce Lease Net Revenues Variance Account.

Regulated – Nuclear Generation revenue for the six months ended June 30, 2010 and 2009 was \$1,450 million and \$1,527 million, respectively. The decrease in revenue of \$77 million for the six months ended June 30, 2010 compared to the same period in 2009 was primarily due to the decrease in revenue related to the Tax Loss Variance Account. The decrease in revenue was partially offset by the impact of higher generation volume and an increase in revenue from nuclear technical services provided to third parties during the six months ended June 30, 2010 compared to the same period in 2009.

During the six months ended June 30, 2010, OPG recognized a reduction in Bruce Lease revenue of \$38 million related to the increase in the fair value of the derivative liability embedded in the Bruce Lease as a result of a reduction in expected future Average HOEP prices since the beginning of 2010. The decrease in lease revenue was offset by an increase in the regulatory asset related to the Bruce Lease Net Revenues Variance Account.

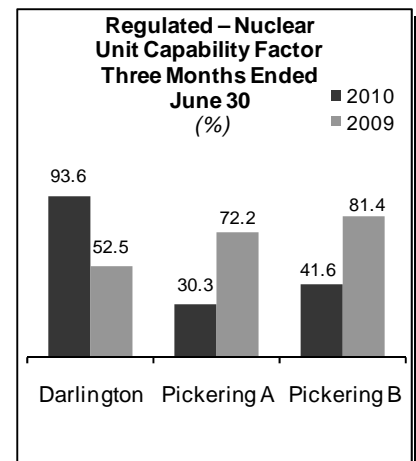
### Electricity Prices

The OEB established a fixed price of 5.50¢/kWh for electricity generation from stations in the Regulated – Nuclear Generation segment. During the three and six month periods ended June 30, 2010, the average price for electricity generated by OPG’s Pickering and Darlington nuclear generating stations was 5.5¢/kWh.

### Volume

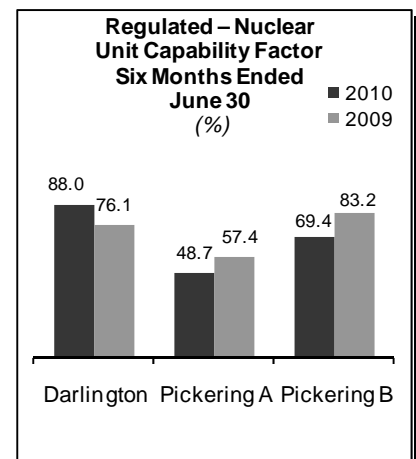
Electricity generation from OPG’s nuclear generating stations was 9.6 TWh for the three months ended June 30, 2010 compared to 9.2 TWh for the same period in 2009. Nuclear generation during the six month period ended June 30, 2010 was 21.6 TWh compared to 21.5 TWh for the same period in 2009. The increase for the three and six month periods ended June 30, 2010 was primarily due to a decrease in planned outage days at the Darlington nuclear generating station compared to the same period in 2009 as a result of the Darlington VBO during the second quarter of 2009. This increase was largely offset by an increase in planned outage days at the Pickering A and B nuclear generating stations due to the Pickering VBO during the second quarter of 2010.

The Darlington nuclear generating station’s unit capability factor for the three months ended June 30, 2010 was 93.6 percent compared to 52.5 percent for the same period in 2009. The higher capability factor reflects the lower planned outage days in the second quarter of 2010 compared to the same quarter of 2009 as a result of the planned Darlington VBO during the second quarter of 2009.



The unit capability factor for the Pickering A nuclear generating station for the three months ended June 30, 2010 was 30.3 percent compared to 72.2 percent for the same quarter of 2009. The unit capability factor for the Pickering B nuclear generating station was 41.6 percent for the three months ended June 30, 2010, compared to 81.4 percent for the same quarter in 2009. The lower capability factors at the Pickering nuclear generating stations reflect higher planned outages days as all six units were shutdown during the planned VBO in the second quarter of 2010.

The Darlington nuclear generating station’s unit capability factor for the six months ended June 30, 2010 was 88.0 percent compared to 76.1 percent for the same period in 2009. The higher capability factor reflects the lower planned outage days in 2010 compared to 2009 primarily as a result of the Darlington VBO during the second quarter of 2009.



For the six months ended June 30, 2010, the unit capability factor for the Pickering A nuclear generating station was 48.7 percent compared to 57.4 percent for the same period in 2009. For the six months ended June 30, 2010, the unit capability factor for the Pickering B nuclear generating station was 69.4 percent compared to 83.2 percent for the same period in 2009. The lower capability factors for the Pickering nuclear generating stations reflect the higher planned outage days as a result of unit outages in the second quarter of 2010 due to the Pickering VBO.

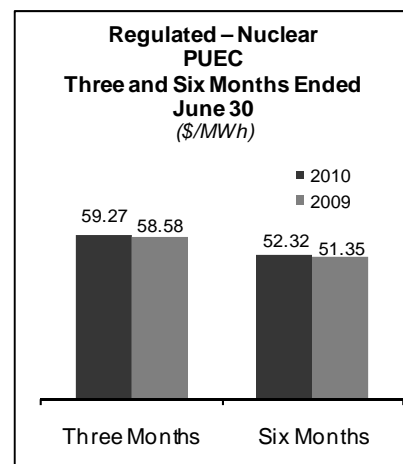
### Fuel Expense

Fuel expense for the three months ended June 30, 2010 was \$42 million compared to \$41 million during the same period in 2009. For the six months ended June 30, 2010, fuel expense was \$92 million compared to \$90 million during the same period in 2009. The increase in fuel expense for the three and six month periods ended June 30, 2010 compared to the same periods in 2009 was primarily due to an increase in uranium costs, largely offset by the impact of the Nuclear Fuel Cost Variance Account.

### Operations, Maintenance and Administration

OM&A expenses for the three months ended June 30, 2010 were \$568 million compared to \$542 million during the same period in 2009. The increase in OM&A expenses during the second quarter of 2010 compared to the same quarter in 2009 was primarily due to an increase in planned outage and project activities, and higher pension and OPEB costs. The increase was partially offset by lower maintenance activities during the second quarter of 2010.

OM&A expenses were \$1,118 million for the six months ended June 30, 2010 compared to \$1,094 million during the same period in 2009. The increase in OM&A expenses during the six months ended June 30, 2010 compared to the same period in 2009 was primarily due to higher pension and OPEB costs, partially offset by lower planned outage and maintenance activities.



Nuclear PUEC for the three months ended June 30, 2010 was \$59.27/MWh compared to \$58.58/MWh during the same period in 2009. Nuclear PUEC for the six months ended June 30, 2010 was \$52.32/MWh compared to \$51.35/MWh during the same period 2009. The increase during the three and six month periods ended June 30, 2010 compared to the same periods in 2009 was primarily due to higher OM&A expenses partially offset by higher generation.

### Depreciation and Amortization

Depreciation and amortization expenses for the three months ended June 30, 2010 were \$102 million compared to \$120 million for the same period in 2009. Depreciation and amortization expenses for the six months ended June 30, 2010 were \$195 million compared to \$234 million for the same period last year. The decrease in depreciation and amortization expenses was primarily due to the impact of the Darlington nuclear generating station life extension to 2051, related to OPG's commencement of the definition phase for refurbishment of the station, partially offset by an increase to the asset base due to in-service additions.

### Regulated – Nuclear Waste Management Segment

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Revenue	10	11	21	21
Operations, maintenance and administration	12	12	24	23
Accretion on fixed asset removal and nuclear waste management liabilities	163	157	327	314
Earnings on nuclear fixed asset removal and nuclear waste management funds	(40)	(301)	(181)	(295)
(Loss) income before interest and income taxes	(125)	143	(149)	(21)

### Accretion

Accretion expense for the three and six month periods ended June 30, 2010 was \$163 million and \$327 million, respectively compared to \$157 million and \$314 million, respectively for the same periods in 2009. The increase in accretion expense was primarily due to the increase in the present value of the liabilities for Nuclear Fixed Asset Removal and Nuclear Waste Management ("Nuclear Liabilities") due to the passage of time, and the increase in the Nuclear Liabilities as a result of OPG's commencement of

the definition phase for refurbishment of the Darlington nuclear generating station. This increase was partially offset by the impact of the Bruce Lease Net Revenues Variance Account.

*Earnings on the Nuclear Fixed Asset Removal and Nuclear Waste Management Funds*

Earnings from the Nuclear Funds for the three months ended June 30, 2010 were \$40 million compared to earnings of \$301 million during the second quarter of 2009. During the second quarter of 2010, before the impact of the Bruce Lease Net Revenues Variance Account, losses from the Nuclear Funds were \$29 million compared to earnings of \$451 million during the same period in 2009.

Earnings from the Nuclear Funds for the six months ended June 30, 2010 were \$181 million compared to earnings of \$295 million during the same period in 2009. During the six months ended June 30, 2010, before the impact of the Bruce Lease Net Revenues Variance Account, earnings from the Nuclear Funds were \$128 million compared to earnings of \$315 million during the same period in 2009.

The decrease in earnings from the Nuclear Funds for the three and six month periods ended June 30, 2010 was primarily due to a decline in valuation levels of global financial markets during the second quarter of 2010, which decreased the market value of the Decommissioning Fund. The decrease in the earnings from the Decommissioning Fund was partially offset by higher earnings from the Used Fuel Fund resulting from an increase in the Ontario CPI. During the three and six month periods ended June 30, 2010, OPG recorded an increase to the Bruce Lease Net Revenues Variance Account regulatory asset of \$69 million and \$53 million, respectively which increased the reported earnings from the Nuclear Funds.

**Regulated – Hydroelectric Segment**

<i>(millions of dollars)</i>	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Regulated generation sales	<b>172</b>	190	<b>346</b>	360
Variance accounts	<b>6</b>	16	<b>7</b>	8
Other	<b>7</b>	13	<b>17</b>	30
Revenue	<b>185</b>	219	<b>370</b>	398
Fuel expense	<b>65</b>	63	<b>115</b>	115
Gross margin	<b>120</b>	156	<b>255</b>	283
Operations, maintenance and administration	<b>24</b>	26	<b>47</b>	49
Depreciation and amortization	<b>16</b>	20	<b>32</b>	38
Property and capital taxes	<b>2</b>	3	<b>5</b>	6
<b>Income before interest and income taxes</b>	<b>78</b>	107	<b>171</b>	190

*Revenue*

Regulated – Hydroelectric revenue was \$185 million for the three months ended June 30, 2010 compared to \$219 million during the same period in 2009. During the six months ended June 30, 2010, Regulated – Hydroelectric revenue was \$370 million compared to \$398 million during the same period in 2009. The decrease in revenue for the three and six month periods ended June 30, 2010 of \$34 million and \$28 million, respectively, was primarily due to a decrease in average sales price and a decrease in hydroelectric generation.

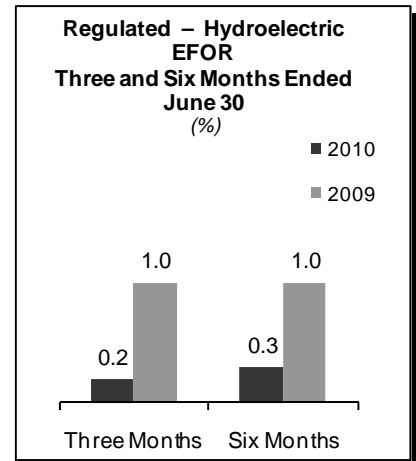
*Electricity Prices*

The average electricity sales price for the three and six month periods ended June 30, 2010 was 3.7¢/kWh. The average electricity sales prices for the comparative periods in 2009 were 3.9¢/kWh and 3.7¢/kWh, respectively. These prices reflected the fixed price of 3.67¢/kWh and an incentive mechanism as approved by the OEB in 2008.

*Volume*

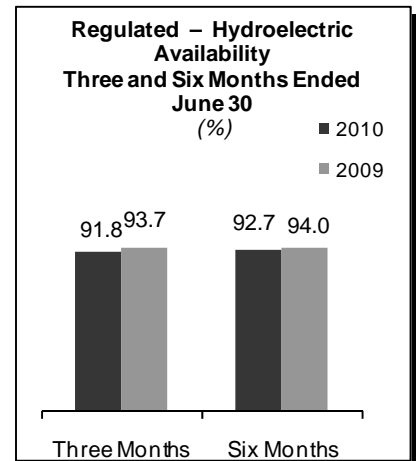
Electricity generation volume for the three months ended June 30, 2010 and 2009 was 4.6 TWh and 4.9 TWh, respectively. For the six months ended June 30, 2010, electricity generation volume was 9.4 TWh compared to 9.6 TWh for the same period in 2009. The decrease in volume during the three and six month periods in 2010 compared to the same periods in 2009 was primarily due to the impact of unfavourable water flows.

For the three months ended June 30, 2010 and 2009, the EFOR for the Regulated – Hydroelectric stations was 0.2 percent and 1.0 percent, respectively. During the six months ended June 30, 2010 and 2009, the EFOR for the Regulated – Hydroelectric stations was 0.3 percent and 1.0 percent, respectively. The availability for the Regulated – Hydroelectric stations was 91.8 percent for the three months ended June 30, 2010 compared to 93.7 percent for the same period in 2009. Availability for the six months ended June 30, 2010 was 92.7 percent compared to 94.0 percent for the same period in 2009. The decrease in availability for the three and six month periods ended June 30, 2010 was as a result of an increase in planned outages days compared to the same period in 2009. The high availability and low EFOR reflect the continued strong performance of the regulated hydroelectric stations.



*Fuel Expense*

Fuel expense was \$65 million for the three months ended June 30, 2010 compared to \$63 million in the same period during 2009. For the six months ended June 30, 2010 and 2009, fuel expense was \$115 million.

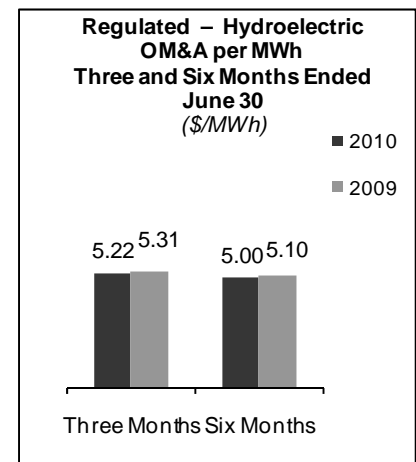


*Variance Accounts*

During the three and six month periods ended June 30, 2010, OPG recorded revenue of \$13 million and \$19 million, respectively, due to the recognition of regulatory assets related to the Tax Loss Variance Account and the regulatory variance account reflecting the differences between forecast and actual ancillary services revenue (“Ancillary Services Net Revenue Variance Account”). This increase was partially offset by the recognition of a regulatory liability related to the regulatory variance account that reflects the impact of differences between forecast and actual water conditions on hydroelectric production (“Hydroelectric Water Conditions Variance Account”). During the three and six month periods ended June 30, 2009, OPG recorded an increase to revenue of \$16 million and \$8 million, respectively, related to the variance accounts.

*Operations, Maintenance and Administration*

OM&A expenses for the three months ended June 30, 2010 were \$24 million compared to \$26 million for the same period in 2009. For the six months ended June 30, 2010, OM&A expenses were \$47 million compared to \$49 million during the same period in 2009.



OM&A expense per MWh for the regulated hydroelectric generating stations was \$5.22/MWh during the three months ended June 30, 2010 compared to \$5.31/MWh for the same period in 2009. For the six month periods ended June 30, 2010 and 2009, OM&A expense per MWh for the regulated hydroelectric stations was \$5.00/MWh and

\$5.10/MWh, respectively. The decrease in OM&A expense per MWh was due to a decrease in OM&A expense, partially offset by a decrease in hydroelectric generation.

### Unregulated – Hydroelectric Segment

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Spot market sales, net of hedging instruments	94	135	234	339
Revenue limit rebate	-	1	-	(10)
Other	9	16	18	29
Revenue, net of revenue limit rebate	103	152	252	358
Fuel expense	13	28	32	50
Gross margin	90	124	220	308
Operations, maintenance and administration	53	48	99	90
Depreciation and amortization	17	16	33	34
Property and capital taxes	2	2	3	4
Income before interest and income taxes	18	58	85	180

#### Revenue

Unregulated – Hydroelectric revenue was \$103 million for the three months ended June 30, 2010 compared to \$152 million during the same period in 2009. For the six months ended June 30, 2010, Unregulated – Hydroelectric revenue was \$252 million compared to \$358 million during the same period in 2009. The decrease in revenue for the three and six month periods ended June 30, 2010 compared to the same periods in 2009 was primarily due to lower generation volume, partially offset by the impact of higher average sales prices.

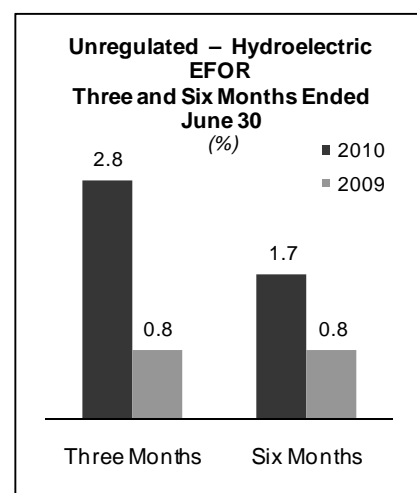
#### Electricity Prices

OPG's average sales price from generation paid through the Ontario market prices for its unregulated hydroelectric generation was 4.0¢/kWh and 2.6¢/kWh for the three months ended June 30, 2010 and 2009, respectively. The average sales price for the unregulated hydroelectric stations was 3.7¢/kWh for the six months ended June 30, 2010 compared to 3.4¢/kWh for the same period of 2009. The increase in electricity prices for the three and six month periods ended June 30, 2010 compared to the same periods in 2009 was primarily due to higher average hourly Ontario spot electricity prices.

#### Volume

For the three months ended June 30, 2010 and 2009, electricity generation was 2.3 TWh and 5.0 TWh, respectively. Electricity generation volume for the six months ended June 30, 2010 was 6.2 TWh compared to 9.3 TWh during the same period in 2009. The decrease in volume during the three and six month periods ended June 30, 2010 compared to the same periods in 2009 was primarily due to the impact of lower water flows caused by below normal precipitation across Ontario.

The EFOR for the Unregulated – Hydroelectric generating stations was 2.8 percent for the second quarter of 2010 compared to 0.8 percent in the second quarter of 2009. For the six months ended June 30, 2010, EFOR was 1.7 percent compared to 0.8 percent for the six months ended June 30, 2009. The increase in EFOR was a result of an increase in unplanned outages.



The availability for the Unregulated – Hydroelectric stations was 93.4 percent for the three months ended June 30, 2010 compared to 97.5 percent in the same period in 2009. The availability for the Unregulated – Hydroelectric stations was 93.7 percent for the six months ended June 30, 2010 compared to 96.5 percent during the same period in 2009. The decrease in availability is as a result of an increase in unplanned outages and the advancement of planned outages due to the impact of low water flows. The high availability and low EFOR reflect the continued strong performance of the unregulated hydroelectric stations.

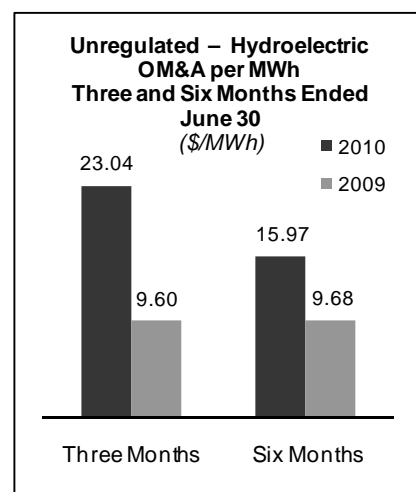
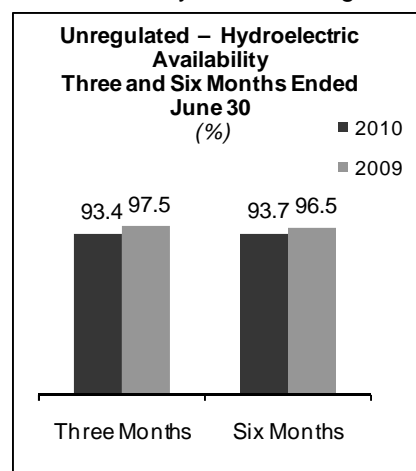
#### Fuel Expense

Fuel expense was \$13 million for the three months ended June 30, 2010 compared to \$28 million for the same period in 2009. For the six months ended June 30, 2010, fuel expense was \$32 million compared to \$50 million during the same period in 2009. The decrease in fuel expense for the three and six month periods ended June 30, 2010 was as a result of lower generation during the 2010 periods.

#### Operations, Maintenance and Administration

For the three months ended June 30, 2010, OM&A expenses were \$53 million compared to \$48 million for the same period in 2009. During the six months ended June 30, 2010, OM&A expenses were \$99 million compared to \$90 million for the same period in 2009. The increase in OM&A expense during the three and six month periods ended June 30, 2010 compared to the same periods last year was primarily due to higher project costs.

OM&A expense per MWh for the unregulated hydroelectric stations for the quarters ended June 30, 2010 and 2009 was \$23.04/MWh and \$9.60/MWh, respectively. During the six months ended June 30, 2010, OM&A expense per MWh for the unregulated hydroelectric stations was \$15.97/MWh compared to \$9.68/MWh for the same period in 2009. The increase in OM&A expense per MWh for the three and six month periods ended June 30, 2010 compared to the same periods in 2009 was primarily due to the impact of lower generation.



### Unregulated – Thermal Segment

(millions of dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Spot market sales, net of hedging instruments	136	59	274	279
Revenue limit rebate	-	-	-	(17)
Other	97	182	227	255
Revenue, net of revenue limit rebate	233	241	501	517
Fuel expense	91	88	220	226
Gross margin	142	153	281	291
Operations, maintenance and administration	127	144	229	265
Depreciation and amortization	27	16	54	34
Accretion on fixed asset removal liabilities	2	2	3	4
Property and capital taxes	4	5	5	11
Restructuring	-	-	25	-
Loss before interest and income taxes	(18)	(14)	(35)	(23)

## Revenue

Unregulated – Thermal revenue was \$233 million for the three months ended June 30, 2010 compared to \$241 million in 2009, a decrease of \$8 million. The decrease in revenue was due to lower revenue from the contingency support agreement with the OEF, which offset the favourable impact of higher electricity generation and higher average sales prices. Lower OM&A expenses at the Lambton and Nanticoke coal-fired stations during the three months ended June 30, 2010 compared to the same period in 2009 resulted in a corresponding decrease in revenue from the contingency support agreement. The revenue related to the contingency support agreement was \$66 million for the three months ended June 30, 2010 compared to \$141 million for the same period in 2009.

For the six months ended June 30, 2010, unregulated – Thermal revenue was \$501 million compared to \$517 million in 2009, a decrease of \$16 million. The decrease in revenue was primarily due to lower revenue from the contingency support agreement, related to a corresponding decrease in OM&A expenses at the Lambton and Nanticoke generating stations during the six months ended June 30, 2010 compared to the same period in 2009. The revenue related to the contingency support agreement was \$149 million for the six months ended June 30, 2010 compared to \$180 million for the same period in 2009.

In March 2010, the OPA approved an ESA for the Lennox generating station covering the period from October 1, 2009 to December 31, 2010. The new contract has terms similar to the previous reliability must run (“RMR”) contract with the IESO, which expired on September 30, 2009. OPG recognized revenue of \$48 million from the new contract with the OPA for the period October 1, 2009 to June 30, 2010, compared to revenue of \$34 million for the six months ended June 30, 2009 from the RMR contract with the IESO.

## Electricity Prices

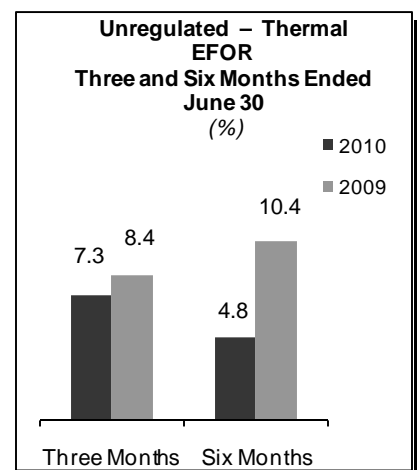
OPG’s average sales price from generation paid through the Ontario market prices for its unregulated thermal generation was 4.1¢/kWh for the three months ended June 30, 2010 and 3.2¢/kWh for the three months ended June 30, 2009. The increase in average electricity sales price for the unregulated thermal generation was as a result of higher Ontario spot electricity market prices.

The average sales price for OPG’s thermal generation was 3.9¢/kWh for the six months ended June 30, 2010 compared to 4.3¢/kWh for the same period in 2009. The decrease in average sales price for the six months ended June 30, 2010 compared to the same period in 2009 was primarily due to higher generation during the first quarter of 2009, when the weighted average hourly Ontario spot electricity market price was 4.5 ¢/kWh.

## Volume

Electricity generation volume for the three months ended June 30, 2010 was 3.2 TWh compared to 1.8 TWh during the same period in 2009. For the six months ended June 30, 2010, electricity generation volume was 7.0 TWh compared to 6.1 TWh during the same period in 2009. The increase in generation from the thermal generating stations during the three and six month periods ended June 30, 2010 compared to the same periods in 2009 was primarily due to lower hydroelectric generation resulting from unfavourable water flows, and higher primary demand in Ontario.

The EFOR for the Unregulated – Thermal stations during the three months ended June 30, 2010 was 7.3 percent compared to 8.4 percent during the same period in 2009. During the six months ended June 30, 2010 and 2009, the EFOR for the Unregulated –



Thermal stations was 4.8 percent and 10.4 percent, respectively. The improvement in EFOR for the three and six month periods ended June 30, 2010 compared to the same periods in 2009 was primarily due to fewer unplanned outage days at the Nanticoke and Lambton coal-fired generating stations.

#### Fuel Expense

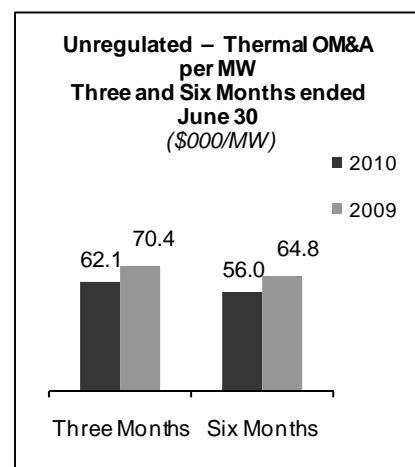
During the three months ended June 30, 2010, fuel expense was \$91 million compared to \$88 million for the same period in 2009. The increase of \$3 million in 2010 compared to 2009 was primarily due to an increase in generation volume, partially offset by the impact of lower fuel and fuel related costs.

Fuel expense for the six months ended June 30, 2010 was \$220 million compared to \$226 million during the same period in 2009. The decrease of \$6 million in 2010 compared to 2009 was primarily due to lower fuel related costs, partially offset by an increase in generation volume.

#### Operations, Maintenance and Administration

For the three months ended June 30, 2010, OM&A expenses were \$127 million compared to \$144 million for the same period in 2009. OM&A expenses for the six months ended June 30, 2010 were \$229 million compared to \$265 million for the same period in 2009. The decrease in OM&A expenses for the three and six month periods ended June 30, 2010 was primarily due to lower project and outage work at the Lambton and Nanticoke coal-fired generating stations as a result of the pending closure of four coal-fired units in October 2010.

Annualized OM&A expense per MW for the unregulated thermal stations was \$62,100/MW for the three months ended June 30, 2010 compared to \$70,400/MW in 2009. For the six months ended June 30, 2010, annualized OM&A expense per MW was \$56,000/MW compared to \$64,800/MW. The decrease in OM&A expense per MW during the three and six month periods ended June 30, 2010 compared to the same periods in 2009 was primarily due to a decrease in OM&A expenses.



#### Depreciation and Amortization

Depreciation and amortization expenses for the three month period ended June 30, 2010 were \$27 million, compared to \$16 million for the same period in 2009. Depreciation and amortization expenses for the six months ended June 30, 2010 were \$54 million compared to \$34 million for the same period in 2009. The increase in depreciation and amortization expenses was primarily due to the change in the unit end of life, for accounting purposes, for the four units at the Lambton and Nanticoke coal-fired generating stations, which are scheduled for closure in October 2010.

#### Other

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Revenue	33	31	81	78
Operations, maintenance and administration	4	1	7	4
Depreciation and amortization	15	13	30	23
Property and capital taxes	5	3	8	7
Income before other gains and losses, interest and income taxes	9	14	36	44
Other (gains) and losses	(1)	(6)	(2)	(6)
Income before interest and income taxes	10	20	38	50

Other revenue was \$33 million for the three months ended June 30, 2010 compared to \$31 million for the same quarter in 2009. For the six months ended June 30, 2010, other revenue was \$81 million compared to \$78 million in 2009. The increase in other revenue for the three and six month periods ended June 30, 2010 compared to the same periods in 2009 was primarily due to an increase in revenue from the PEC and higher net trading revenue resulting from favourable mark to market adjustments, largely offset by a decrease in investment income from OPG's equity investments.

OM&A expenses of the generation business segments include an inter-segment service fee for the use of certain property, plant and equipment, and intangibles held within the Other category. The total service fee is recorded as a reduction to the Other category's OM&A expense. The service fee included in OM&A expense by segment for the three and six month periods ended June 30, 2010 and 2009 is as follows:

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Regulated – Nuclear Generation	6	8	12	14
Regulated – Hydroelectric	1	1	1	1
Unregulated – Hydroelectric	2	1	2	2
Unregulated – Thermal	4	2	4	4
Other	(13)	(12)	(19)	(21)

Interconnected purchases and sales, including those to be physically settled, and unrealized mark-to-market gains and losses on energy trading contracts, are disclosed on a net basis in the consolidated statements of income. If disclosed on a gross basis, revenue and power purchases for the three months ended June 30, 2010 would have increased by \$11 million (three months ended June 30, 2009 – \$17 million). For the six months ended June 30, 2010, if disclosed on a gross basis, revenue and power purchases would have increased by \$33 million (six months ended June 30, 2009 – \$40 million)

With the exception of the derivative embedded in the Bruce Lease, the changes in the fair value of derivative instruments not qualifying for hedge accounting are recorded in Other revenue, and the fair value of derivative instruments are carried on the consolidated balance sheets as assets or liabilities at fair value. The carrying amounts and notional quantities of the derivative instruments are disclosed in Note 12 in the unaudited interim consolidated financial statements as at and for the three and six month periods ended June 30, 2010.

### Net Interest Expense

Net interest expense for the three months ended June 30, 2010 was \$44 million compared to \$43 million for the same quarter in 2009. For the six months ended June 30, 2010 and 2009, net interest expense was \$89 million and \$82 million, respectively. The increase in net interest expense for the three and six month periods ended June 30, 2010 when compared to the same periods in 2009 was primarily due to interest expense related to the long-term debt of the PEC, which was capitalized during construction. PEC was declared in-service in April 2009.

### Income Taxes

OPG follows the liability method of tax accounting for all its business segments and records a corresponding regulatory asset or liability for the future taxes relating to its rate regulated segment. Previously OPG had followed the taxes payable method for rate regulated segments of its business.

For the three months ended June 30, 2010, income tax recovery was \$118 million compared to an income tax expense of \$5 million for the same period in 2009. The decrease in income tax expense was primarily due to a reduction in income tax liabilities as a result of the resolution of a number of tax uncertainties related to the audit of OPG's 2000 and 2001 taxation years.

For the six months ended June 30, 2010, income tax recovery was \$70 million compared to an income tax expense of \$84 million for the same period in 2009. The decrease in income tax expense was primarily due to a reduction in income tax liabilities as a result of the resolution of a number of tax uncertainties related to the audit of OPG's 2000 and 2001 taxation years, and to lower income before earnings from the Nuclear Funds. Earnings in the Nuclear Funds are not taxable.

The OEB's decision in 2008 on OPG's payment amounts established an Income and Other Taxes Variance Account retrospective to April 1, 2008. The account captures variances in the income and capital tax expenses for the regulated business caused by changes in tax rates or rules under the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), as modified by the *Electricity Act, 1998*, as well as variances caused by reassessments. Variances in income tax expense from reassessments of prior taxation years that have an impact on taxes payable for the years after April 1, 2008 are also recorded in the account. During the three and six month periods ended June 30, 2010, OPG recorded \$5 million and \$9 million, respectively in the account (three and six months ended June 30, 2009 – nil).

## LIQUIDITY AND CAPITAL RESOURCES

OPG's primary sources of liquidity and capital are funds generated from operations, bank financing, credit facilities provided by the OEFC and capital market financing. These sources are utilized for multiple purposes including: investments in plants and technologies; funding obligations such as contributions to the pension funds and the Used Fuel and Decommissioning Funds; and to service and repay long-term debt.

Changes in cash and cash equivalents for the three and six month periods ended June 30, 2010, and 2009 are as follows:

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Cash and cash equivalents, beginning of period	158	197	71	315
Cash flow provided by (used in) operating activities	110	(183)	328	(142)
Cash flow (used in) investing activities	(227)	(201)	(404)	(323)
Cash flow provided by financing activities	62	271	108	234
Net (decrease) increase	(55)	(113)	32	(231)
Cash and cash equivalents, end of period	103	84	103	84

### Operating Activities

Cash flow provided by operating activities for the three months ended June 30, 2010 was \$110 million compared to cash flow used in operating activities of \$183 million for the three months ended June 30, 2009. The increase in cash flow of \$293 million was primarily due to lower fuel purchases, an increase in cash receipts from the OEFC related to the contingency support agreement, a decrease in revenue limit rebate payments with the discontinuance of the revenue limit in the second quarter of 2009, lower tax installments, and lower contributions to the Nuclear Funds.

Cash flow provided by operating activities for the six months ended June 30, 2010 was \$328 million compared to cash flow used in operating activities of \$142 million for the same period in 2009. The increase in cash flow of \$470 million was primarily due to lower fuel purchases, lower tax installments, a decrease in revenue limit rebate payments with the discontinuance of the revenue limit in the second quarter of 2009, and lower contributions to the Nuclear Funds. The increase was partially offset by lower cash receipts as a result of lower generation revenue.

## Investing Activities

Investing activities primarily consist of investments in fixed and intangible assets. During the second quarter of 2010, investments in fixed and intangible assets were \$227 million compared to \$202 million for same quarter in 2009. The increase in capital expenditures during the three months ended June 30, 2010 compared to the same period in 2009 was primarily due to higher expenditures for the Lower Mattagami project, other hydroelectric capital initiatives, and the Darlington Refurbishment project, partially offset by lower capital expenditures for the Niagara Tunnel project.

For the six months ended June 30, 2010, investments in fixed and intangible assets were \$404 million compared to \$323 million for the same period in 2009. The increase in capital expenditures during the six month periods ended June 30, 2010 compared to the same period in 2009 was primarily due to higher expenditures for the Lower Mattagami project, other hydroelectric capital initiatives, and the Darlington Refurbishment project, partially offset by lower capital expenditures due to the in-service of the PEC in 2009 and lower capital expenditures for the Niagara Tunnel project.

OPG's forecasted capital expenditures for 2010 are approximately \$1.1 billion, which includes amounts for hydroelectric development and nuclear refurbishment projects.

## Financing Activities

OPG maintains a \$1 billion revolving committed bank credit facility, which is divided into two tranches – a \$500 million 364-day term tranche, and a \$500 million multi-year term tranche. In April 2010, OPG renewed and extended the maturity date of the 364-day term tranche to May 18, 2011. The multi-year term tranche has three years remaining, with a maturity date of May 20, 2013. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at June 30, 2010, no commercial paper was outstanding (December 31, 2009 – nil), and OPG had no other outstanding borrowings under the bank credit facility.

In the second quarter of 2008, OPG entered into a \$100 million five-year revolving committed bank credit facility in support of the Upper Mattagami and Hound Chute project. As at June 30, 2010, there was no borrowing under this credit facility.

In August 2010, a \$700 million bank credit facility was established to support the initial construction phase for the Lower Mattagami project. Additional financing arrangements are being established to support the total requirements of the project.

As at June 30, 2010, OPG maintained \$25 million (December 31, 2009 – \$25 million) of short-term, uncommitted overdraft facilities, and \$275 million (December 31, 2009 – \$275 million) of short-term, uncommitted credit facilities, which support the issuance of the Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans, and for other purposes. At June 30, 2010, there was a total of \$231 million of Letters of Credit issued (December 31, 2009 – \$231 million), which included \$210 million for the supplementary pension plans (December 31, 2009 – \$210 million), and \$7 million related to the construction and operation of the PEC (December 31, 2009 – \$7 million).

Effective January 1, 2009, in accordance with Accounting Guideline 15, *Consolidation of Variable Interest Entities*, the applicable amounts in the accounts of the Nuclear Waste Management Organization ("NWMO") are included in OPG's consolidated financial statements as OPG became the primary beneficiary of the NWMO. As at June 30, 2010, the NWMO has issued a \$1 million Letter of Credit for its supplementary pension plan (December 31, 2009 – \$1 million).

In October 2003, the Company signed an agreement to sell an undivided co-ownership interest in its current and future accounts receivable to an independent trust. In accordance with the receivable purchase agreement, OPG reduced the securitized receivable balance by \$50 million, from \$300 million to \$250 million in May and June of 2009 primarily due to lower cash flows from the IESO. During the third quarter of 2009, OPG renewed the agreement with a maturity date of August 31, 2010 and an amended commitment of \$250 million. OPG is in the process of finalizing a renewal of the agreement.

During the third quarter of 2010, OPG executed an amendment to the Niagara Tunnel project credit facility to increase the credit facility from \$1.0 billion to an amount up to \$1.6 billion. The funding under the credit facility is advanced in the form of 10-year notes, on commercial terms and conditions. Advances under this facility commenced in October 2006 and amounted to \$605 million as at June 30, 2010, which included \$65 million of new borrowing during the second quarter of 2010.

As at June 30, 2010, OPG's long-term debt outstanding with the OEFC was \$3.8 billion. Although the new borrowings added in 2008, 2009 and in 2010 have extended the maturity profile, approximately \$1.2 billion of long-term debt must be repaid or refinanced within the next three years. To ensure that adequate financing resources are available beyond the \$1 billion revolving committed bank credit facility, OPG reached an agreement with the OEFC in the first quarter of 2010 for a \$970 million credit facility to refinance notes as they mature over the period from January 2010 to December 2010. Refinancing under this agreement totalled \$530 million as at June 30, 2010.

### BALANCE SHEET HIGHLIGHTS

The following section provides highlights of OPG's unaudited interim consolidated financial position using selected balance sheet data:

Selected balance sheet data (millions of dollars)	As At	
	June 30 2010	December 31 2009
Assets		
Nuclear fixed asset removal and nuclear waste management funds	10,444	10,246
Regulatory assets	1,524	1,396
Liabilities		
Fixed asset removal and nuclear waste management	12,408	11,859
Long-term accounts payable and accrued charges	500	522

### Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

#### *Decommissioning Fund*

The Decommissioning Fund was established to fund the future costs of nuclear fixed asset removal and long-term low and intermediate level nuclear waste management, and a portion of used fuel storage costs after station life. For additional information regarding the Decommissioning Fund, refer to the 2009 annual MD&A under the heading, *Balance Sheet Highlights*.

The Decommissioning Fund's asset value on a fair value basis was \$4,784 million as at June 30, 2010 compared to \$4,876 million as at December 31, 2009. The decrease in asset value of \$92 million was primarily due to a decline in valuation levels of global financial markets and reimbursement of expenditures from the Decommissioning Fund during the six months ended June 30, 2010.

#### *Used Fuel Fund*

Under the Ontario Nuclear Funds Agreement, the Province guarantees OPG's annual return from the Used Fuel Fund at 3.25 percent plus the change in the Ontario Consumer Price Index for funding related to the first 2.23 million used fuel bundles ("committed return"). For additional information regarding the Used Fuel Fund, refer to the 2009 annual MD&A under the heading, *Balance Sheet Highlights*.

The Used Fuel Fund's asset value on a fair value basis was \$5,660 million as at June 30, 2010 compared to \$5,370 million as at December 31, 2009. The increase in asset value in the Used Fuel Fund of \$290 million was primarily related to the committed return and new contributions to the fund. The asset values at June 30, 2010 and December 31, 2009, included a receivable from the Province of \$146 million and a payable to the Province of \$33 million, respectively, related to the committed return adjustment.

## **Regulatory Assets**

As at June 30, 2010, regulatory assets were \$1,524 million compared to \$1,396 million as at December 31, 2009. The increase in regulatory assets was primarily due to additions to the Tax Loss Variance Account and the Bruce Lease Net Revenues Variance Account. The increase in regulatory assets was partly offset by amortization expense of \$48 million, resulting from the recovery of regulatory assets through current regulated prices.

## **Fixed Asset Removal and Nuclear Waste Management**

The liability for fixed asset removal of nuclear and thermal generating stations and nuclear waste management as at June 30, 2010 was \$12,408 million compared to \$11,859 million as at December 31, 2009. The increase was due in part to OPG's decision to commence the definition phase for the refurbishment of the Darlington nuclear generating station, which impacted the assumptions regarding OPG's liabilities for fixed asset removal and nuclear waste management. This resulted in a \$293 million increase in the Nuclear Liabilities on January 1, 2010. In addition, the liability increased during the first half of 2010 as a result of accretion expense of \$336 million due to the passage of time, partially offset by expenditures of \$100 million on nuclear waste management activities.

## **Long-Term Accounts Payable and Accrued Charges**

Long-term accounts payable and accrued charges as at June 30, 2010 were \$500 million compared to \$522 million as at December 31, 2009. The decrease was primarily due to a reduction in income tax liabilities as a result of the resolution of a number of tax uncertainties related to the audit of OPG's 2000 and 2001 taxation years, partially offset by an increase in the fair value of the derivative liability embedded in the Bruce Lease.

## **Off-Balance Sheet Arrangements**

In the normal course of operations, OPG engages in a variety of transactions that, under Canadian GAAP, are either not recorded in the Company's consolidated financial statements or are recorded in the Company's consolidated financial statements using amounts that differ from the full contract amounts. Principal off-balance sheet activities that OPG undertakes include securitization of certain accounts receivable agreements, guarantees, which provide financial or performance assurance to third parties on behalf of certain subsidiaries, and long-term fixed price contracts.

## **CHANGES IN ACCOUNTING POLICIES AND ESTIMATES**

OPG's significant accounting policies, including the impact of future accounting pronouncements, are outlined in Note 3 to the audited annual consolidated financial statements as at and for the year ended December 31, 2009. Certain of these policies are recognized as critical accounting policies by virtue of the subjective and complex judgments and estimates required around matters that are inherently uncertain, and could result in materially different amounts being reported under different conditions or assumptions.

### *Liabilities for Fixed Asset Removal and Nuclear Waste Management, and Depreciation Expense*

In February 2010, OPG announced its decision to commence the definition phase of the refurbishment of the Darlington nuclear generating station. Accordingly, the service life of the Darlington nuclear generating station, for the purposes of calculating depreciation, was extended to 2051. The approval and the extension of service life also impacted the assumptions for OPG's liabilities for fixed asset removal and nuclear waste management primarily due to cost increases related to additional used fuel bundles, partially offset by a decrease in the liability for decommissioning, resulting from the change in the service life assumptions. The net increase in the liabilities was \$293 million, using a discount rate of 4.8 percent. The increase in liabilities was reflected with a corresponding increase in the fixed asset balance in the

first quarter of 2010. As a result of these changes, OPG's depreciation expense will decrease by \$135 million on an annual basis beginning in 2010.

## **CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

### *Introduction to Conversion Project*

OPG's IFRS conversion project progressed during the second quarter of 2010, including regular communications to executive management, finance employees and other stakeholders, and the Audit and Finance Committee of the Board of Directors. This section provides an update with respect to the disclosure included in the 2009 MD&A, and the first quarter of 2010, under the heading, *Conversion to International Financial Reporting Standards*.

### *Accounting Policy Decisions and Anticipated Impacts*

OPG expects the following areas to be most impacted by its conversion to IFRS: Property, Plant and Equipment; Fixed Asset Removal and Nuclear Waste Management Liabilities; Accounts Receivable; Short-term Notes Payable; Employee Benefits; Impairment of Assets; Joint Ventures; and Regulatory Assets and Liabilities. OPG continued to evaluate its accounting policy options under IFRS, and progressed on identifying the accounting adjustments required to develop a January 1, 2010 IFRS opening balance sheet. OPG's auditors have commenced a preliminary audit of the January 1, 2010 IFRS opening balance sheet and the audit is expected to be complete in 2011. In addition, OPG continued collecting data, which will be used to report 2010 comparative information in its 2011 IFRS interim financial statements.

Since the International Accounting Standards Board ("IASB") continues to issue new accounting standards, the final accounting policy decisions of OPG will only be determined once all applicable standards are known. OPG is required to prepare its financial statements in compliance with each IFRS effective at the end of its first reporting period, which is March 31, 2011. Should there be IFRS changes between March 31, 2011 and December 31, 2011 OPG will be required to reflect such changes in its December 31, 2011 financial statements and all comparative information.

### *Ongoing Monitoring of IASB Projects*

The IASB continues to work towards global accounting standards. G-20 Toronto Summit participants re-emphasized the importance of achieving a single set of high quality global accounting standards; urged the IASB and Financial Accounting Standards Board ("FASB") to increase efforts to complete convergence projects by the end of 2011; and encouraged the IASB to further improve stakeholder involvement within the framework of the independent accounting standard setting process.

The IASB project timelines changed in early June as the IASB and FASB recently announced in a joint statement that not all projects would be completed by the target date of June 2011. Projects were prioritized and publications staggered to improve stakeholder participation in the review process. Delayed projects that could impact OPG are Consolidations, Joint Ventures, Termination Benefits, and Financial Statement Presentations projects.

The IASB continues to work on its rate-regulated activities accounting project. At its July 2010 meeting, the IASB decided to continue the current research, analysis and deliberations on this project as time and resources permit, acknowledging the existing guidance and current practice that has developed in the more than 110 countries that apply IFRS. Accordingly, the earliest the IASB is expected to complete this project is mid-2011. The IASB did not provide interim guidance for the recognition and measurement of regulatory assets and liabilities. The Canadian Accounting Standards Board ("AcSB") subsequently discussed the IASB's deliberations on rate-regulated activities and decided to propose that qualifying entities with rate-regulated activities be permitted, but not required, to continue applying the accounting standards in *Part V of the CICA Handbook – Accounting* for an additional two years. Entities choosing to defer their IFRS changeover date would be required to disclose that fact, and when they will first present

financial statements in accordance with IFRSs. In July 2010, the AcSB issued an exposure draft on its proposals. OPG is in the process of reviewing the exposure draft and is evaluating its options.

In addition, the IASB has a number of on-going projects on its agenda which may result in changes to existing IFRS prior to OPG's conversion in 2011. OPG continues to monitor these projects and the impact that any resulting IFRS changes may have on its anticipated accounting policies, financial position or results of operations.

The following table provides certain elements of the changeover plan and an assessment of the progress OPG has achieved as of June 30, 2010. This information reflects OPG's most recent assumptions and expectations. Circumstances may arise, such as changes in IFRS, regulations or economic conditions, which could change these assumptions or expectations.

Selected Key Activities	Milestones/Deadlines	Progress to Date
<b>Financial statement preparations</b>		
Identify relevant differences between IFRS and current accounting policies and practices and design and implement solutions	Assessment and quantification of the significant effects of the changeover completed by approximately the third quarter of 2010	Completed the identification of IFRS differences
Evaluate and select one-time and ongoing accounting policy alternatives	OPG expects the IASB to issue certain guidance related to accounting for Rate-regulated activities in late-2010, and to be able to adopt such guidance effective January 1, 2011, with comparative 2010 figures	Assessment and design of solutions to resolve differences continues
Benchmark findings with peer companies	Final selection of accounting policy alternatives by the changeover date	Evaluation and selection of accounting policy alternatives continues
Prepare illustrative financial statements and related note disclosures to comply with IFRS		Reviewed IFRS compliant financial statements and note disclosures of peer companies
Quantify the effects of changeover to IFRS		Began work on developing illustrative IFRS financial statements and note disclosures for first-time adoption and reporting by OPG
		Since the recognition of regulatory assets and liabilities is uncertain under current IFRS, OPG is unable to determine the impact on its accounting for rate-regulated operations and financial results
<b>Training and communications</b>		
Provide training to affected employees of operating units, management and the Board of Directors and relevant committees thereof, including the Audit/Risk Committee	Provide timely training in line with changeover milestones. Target to complete training by mid-2010	Completed detailed training for resources directly engaged in the changeover and general awareness training to broader group of finance employees
Engage subject matter experts to assist in the transition	Communicate effects of changeover by the fourth quarter of 2010	Completed specific and relevant training to 150 finance employees
Communicate progress of change over plan to internal and external stakeholders		Continued ongoing, periodic internal and external communications about OPG's progress
		Continued use of third-party subject matter experts to assist in the transition
<b>IT systems</b>		
Identify and address IFRS differences that require changes to financial systems	Changes to significant systems and dual record-keeping process completed for the first quarter of 2010	Systems changes complete to the extent possible. Further changes to information systems are largely dependent upon future changes to the IFRS standards such as the accounting for rate-regulated activities.
Evaluate and select methods to address need for dual record-keeping during 2010 (i.e., IFRS and Canadian GAAP) for comparatives and budget and planning purposes in 2011	Remaining changes to systems post-dual recordkeeping year by the fourth quarter of 2010	Continued accumulation of IFRS data to enable reporting of 2010 comparative information in 2011
<b>Contractual arrangements and compensation</b>		
Identify impact of changeover on contractual arrangements, including financial covenants and employee compensation plans	Changes completed by the third quarter of 2010	IFRS differences with potential impacts on financial covenants and compensation plans were identified and discussed with both internal and external parties as required
Make any required changes to arrangements and plans		
<b>Internal controls: Internal controls over financial reporting ("ICOFR"), disclosure controls and procedures ("DC&amp;P") and related communications</b>		
Revise existing internal control processes and procedures to address significant changes to existing accounting policies and practices, including the need for dual record-keeping during 2010, and changes to financial systems	Conduct management evaluation of new or revised controls throughout 2010	Accounting policies and procedures, as well as their impact on controls continue to be evaluated
Design and implement internal controls with respect to one-time changeover adjustments and related communications. For changes to accounting policies and practices identified, assess the DC&P and ICOFR design and effectiveness implications	Changes will be mapped and tested to ensure that no material deficiencies exist as a result of OPG's conversion to the IFRS accounting standards	January 1, 2010 IFRS opening balance sheet adjustment controls are being evaluated

## **RISK MANAGEMENT**

A detailed discussion of OPG's governance structure and inherent risks is included in the 2009 annual MD&A under the heading, *Risk Management*. The following discussion provides an update of OPG's risk management activities since the 2009 annual disclosure.

### **Risk Management Governance**

OPG's Board of Directors has recently changed its committee structure. The changes include the establishment of a Risk Oversight Committee ("ROC") with the specific accountability for providing oversight of the identification and management of the Company's key business risks.

### **Operational Risks**

#### *Thermal Generating Stations*

The ESA between OPG and the OPA pertaining to the recovery of costs for the capacity of the Lennox generating station expires on December 31, 2010. While discussions in support of extending the term of the agreement are expected to begin later this year, there is no certainty that the current arrangement will be renewed.

#### *Major Development Projects*

OPG is undertaking numerous projects designed to enhance and expand its fleet of generating stations. These projects are capital intensive and require significant investments. There may be an adverse effect on the Company if OPG is unable to manage these projects to achieve the cost, schedule and quality required, if it is unable to borrow the necessary capital to undertake the projects, or if it does not fully recover its invested capital and operating costs. The major projects include possible new nuclear units at OPG's Darlington site, the continued operation of the Pickering B nuclear generating station, the refurbishment of the existing Darlington nuclear generating station, the Niagara Tunnel project, the Lower Mattagami project, and other hydroelectric projects and potential conversion of thermal generating stations. Significant risk factors associated with these projects were discussed in OPG's 2009 annual MD&A. The following discussion provides an update to the 2009 annual disclosure.

#### Niagara Tunnel Project

Uncertainty with respect to the cost and schedule of the Niagara Tunnel project continues. There are a number of factors which contribute to this uncertainty, including challenging rock conditions. To address this, the cost estimate and schedule include allowances for differing rock conditions. Major equipment breakdown is also a risk factor. To mitigate this risk and minimize potential delays, the contractor is monitoring the equipment, and ensuring maintenance programs are in place and critical spare parts are available. In addition, there is risk with respect to the rate of progress for the restoration of the circular cross-section of the tunnel. The contractor is supplying additional resources for this operation in order to prevent an impact on the critical path for tunnel completion. OPG continues to assess the impact, if any, on the target cost and schedule.

There are also uncertainties associated with future project activities, such as the installation of the upper two-thirds of the concrete lining and tunnel pre-stress grouting. Allowances are included in the cost estimate and schedule with respect to these uncertainties. Finally, events such as tunnel failure or flood are also potential risks. The contractor has implemented tunnel convergence and cofferdam monitoring programs, and has emergency response programs in place, including safety drills and storage of redundant equipment and materials on site, in order to minimize the impact should such an event occur.

## Lower Mattagami Project

Construction of the Lower Mattagami project commenced in June 2010 and the project is scheduled to be in-service by June 2015. The key risks that may delay the in-service date and cause cost increases include delays in receipt of permits and approvals, legal challenges or blockades by groups opposed to various aspects of completing the project, unknown geotechnical conditions, and strike or lockout by construction trade unions. Risk mitigation activities includes monitoring and tracking construction cost and schedule progress to baseline schedule and estimate; including allowances in the cost estimate and schedule; inviting Moose Cree First Nation to participate as a partner in the project; regular communication with aboriginal groups to address project concerns; working with regulators and aboriginal groups to streamline and expedite the permits approval process; and conducting an extensive geotechnical program.

### *Other*

The Green Energy Act is expected to provide a significant amount of additional electricity from renewable energy sources. Given the potential for other producers to add significant amounts of non-dispatchable renewable resources under the Green Energy Act, OPG's future operations and generation development activities may be significantly impacted. These impacts include displacement of OPG's production and the potential inability to continue to access transmission in areas that are targeted for significant amounts of new renewable energy generation. OPG will continue to work with the IESO, OPA, Hydro One, and government ministries to share and discuss generation and transmission plans and assumptions.

Collective Agreements between the Company and its construction unions, negotiated either directly or through EPSCA, expired April 30, 2010. OPG is actively participating in negotiations currently underway in conjunction with EPSCA.

## **Financial Risks**

OPG is exposed to a number of capital market-related risks that could adversely impact its financial and operating performance. Many of these risks are due to OPG's exposure to volatility in commodity, equity and foreign exchange markets, and interest rate movements. Pension and OPEB costs and OPG's Nuclear Fund values are potentially impacted by these various market and interest rate movements. OPG manages this complex array of risks to reduce the uncertainty or mitigate the potential unfavourable impact on the Company's financial results. Despite OPG's risk management measures, residual risk to financial results continues due to volatility in the markets.

### *Commodity Markets*

Changes in the market price of electricity, or in the price of the fuels used to produce electricity, can adversely impact OPG's earnings and cash flows from operations. To manage these risks, OPG seeks to maintain a balance between the commodity price risk inherent in its electricity production and fuel portfolios. OPG, at times, hedges its exposure to the wholesale Ontario electricity price through forward sales in the wholesale market (to the extent that opportunities exist). To manage fuel price risk, OPG has a fuel hedging program which incorporates fixed price and indexed contracts.

OPG maintains coal inventory for its coal-fired generating stations. Given the cessation of the use of coal as fuel for electricity generation, there is a risk of having excess coal inventory if market conditions result in lower than expected thermal generation. OPG regularly monitors and updates its forecast for thermal generation and coal inventory, and has devised an initiative to manage this risk.

The percentages of OPG's expected generation, emission requirements, and fuel requirements hedged are shown below:

	2010	2011	2012
Estimated generation output hedged <sup>1</sup>	86%	83%	83%
Estimated fuel requirements hedged <sup>2</sup>	100%	100%	97%
Estimated nitric oxide ("NO") emission requirement hedged <sup>3</sup>	100%	100%	100%
Estimated SO <sub>2</sub> emission requirement hedged <sup>3</sup>	100%	100%	100%

<sup>1</sup> Represents the portion of megawatt-hours of expected future generation production, including power purchases, for which the Company has sales commitments and contracts including the obligations under regulated pricing commitments, and agreements with the IESO, OEFC, and OPA auction sales.

<sup>2</sup> Represents the approximate portion of megawatt hours of expected generation production (and thermal year end inventory targets) from each type of facility (thermal and nuclear) for which OPG has entered into contractual arrangements or obligations in order to secure either the availability and/or price of fuel. Excess fuel in inventories in a given year is attributed to the next year for the purpose of measuring hedge ratios.

<sup>3</sup> Represents the approximate portion of megawatt hours of expected thermal production for which OPG has purchased, been allocated or granted emission allowances and Emission Reduction Credits to meet OPG's obligations under Ontario Environmental Regulations 397/01.

#### *Equity markets*

Unexpected volatility or loss due to the decline in the market value of individual equities and/or equity indices negatively impacts the value of OPG's Nuclear Funds and pension plan assets.

#### Pension and Other Post Employment Benefit Costs

OPG's post employment benefit programs include pension, group life insurance, health care and long-term disability benefits. The OPG pension plan is a contributory defined benefit plan that is indexed to inflation and covers most employees and retirees.

Contributions to the OPG pension plan are determined by actuarial valuations, which are filed with the appropriate regulatory authorities at least every three years. The most recently filed valuation of the OPG registered pension plan was prepared as at January 1, 2008. As a result of the valuation, OPG is making annual pension contributions in 2010 of approximately \$270 million. The next valuation for the OPG pension plan will be prepared with an effective date no later than January 1, 2011. The required level of contributions for 2011 and the following two years will be dependent on a number of factors including future investment returns and changes in actuarial assumptions.

Pension and OPEB costs and obligations are calculated based on assumptions including the long-term rate of return on pension assets, discount rates for pension and OPEB obligations, expected service period of employees, wage or salary increases, inflation and health care cost trend rates. These assumptions are subject to significant changes as they require judgment and involve inherent uncertainties. The most significant assumptions used to calculate the net periodic cost of pension and OPEB are the discount rates for pension and OPEB, the expected return on pension fund assets, and the expected inflation rate for pension benefits.

OPG's pension and OPEB accrued benefit obligations and expenses, and OPG's pension contributions, could be materially affected in the future by significant changes in assumptions driven by changes in financial markets, experience gains and losses, changes in the pension plan or regulatory environment including potential changes to the *Pension Benefits Act*, Ontario, divestitures, and the measurement uncertainty incorporated into the actuarial valuation process.

OPG keeps abreast of potential changes in the pension legislation and is assessing measures to manage potential increases in future pension contributions.

## *Foreign Exchange and Interest Rate Markets*

OPG's financial results are exposed to volatility in the Canadian/U.S. foreign exchange rate as fuels purchased for thermal and nuclear generation stations are paid in U.S. dollars. The magnitude of the impact of this volatility is largely a function of the quantity of the fuels purchased. In addition to this exposure, the market price of electricity in Ontario is influenced by the exchange rate due to the interaction between the Ontario and neighbouring U.S. interconnected electricity markets. In order to manage this risk OPG employs various financial instruments such as forwards and other derivative contracts in accordance with approved risk management policies.

OPG has interest rate exposure on its short-term borrowings and investment programs. The majority of OPG's existing debt is at fixed interest rates. Interest rate risk arises with the need to undertake new financing and with the potential addition of variable rate debt. The management of these risks is undertaken by using derivatives to hedge the exposure in accordance with corporate risk management policies. OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated new financing. As at June 30, 2010, OPG had total interest rate swap contracts outstanding with a notional principal of \$440 million.

## *Trading*

OPG's trading operations are closely monitored, and total exposures are measured and reported to senior management on a daily basis. The metric used to measure the risk of this trading activity is known as "Value at Risk" or "VaR", which is defined as the potential future loss, expressed in monetary terms, for a portfolio based on normal market conditions for a set period of time. The VaR limit for trading is \$5 million, and VaR utilization ranged between \$0.2 million to \$0.3 million during the three months ended June 30, 2010, compared to \$0.2 million to \$0.4 million during the three months ended March 31, 2010.

## *Credit*

OPG manages its exposure to various suppliers or "counterparties" by evaluating the financial condition of all counterparties and ensuring that appropriate collateral or other forms of security are held by OPG. OPG's credit exposure as at June 30, 2010, 2010 was \$427 million, including \$380 million to the IESO. Over 80 percent of the remaining \$47 million exposure related to investment grade counterparties.

## **Regulatory Risks**

The prices for electricity generated from most of OPG's baseload hydroelectric facilities and all of its nuclear facilities are determined by the OEB based on a forecast cost of service methodology. The regulated prices remain in effect until the effective date of the OEB's next payment amounts. As with any regulated price established using a forecast cost of service methodology, there is an inherent risk that the prices established by the regulator may not provide for recovery of all actual costs incurred by the regulated operations, or allow the regulated operations to earn the allowed rate of return.

The measurement of regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's decisions and the regulation pursuant to the *Ontario Energy Board Act, 1998*. These estimates and assumptions will be reviewed as part of the OEB's regulatory process. In the second quarter of 2010, OPG has filed an application with the OEB for new regulated prices effective March 1, 2011 and has also requested approval to recover the balances in the deferral and variance accounts.

## **Other Enterprise-Wide Risks**

### *Leases and Partnerships*

OPG has leased its Bruce nuclear generating stations to Bruce Power and is a party to a number of partnership arrangements related to the ownership and operation of generating stations. Each of these generating stations is subject to numerous operational, financial, regulatory, and environmental risk factors.

In addition, under the Bruce Lease, lease revenue is reduced in each calendar year where the annual arithmetic Average HOEP falls below \$30/MWh, and certain other conditions are met. The conditional reduction to revenue in the future, embedded in the terms of the Bruce Lease, is treated as a derivative according to CICA Section 3855, *Financial Instruments – Recognition and Measurement*. Derivatives are measured at fair value and changes in fair value are recognized in the statement of income. As a result of an increase in expected future Average HOEP prices during the second quarter of 2010, the fair value of the derivative liability has decreased by \$57 million for the three months ended June 30, 2010. As a result of a reduction in expected future Average HOEP prices since the beginning of 2010, the fair value of the derivative liability increased by \$38 million during the six months ended June 30, 2010. The exposure will continue until the Bruce units that are subject to this mechanism are either, no longer in operation, are refurbished, or when the lease agreement is terminated. This exposure is expected to be mitigated through the OEB regulatory process, since the revenue from the lease of the Bruce generating stations is included in the determination of regulated prices.

#### *Human Resources*

The risk associated with the alignment/availability of skilled and experienced resources continues to exist for OPG. In order to mitigate the impact of this risk, OPG has embarked upon an organization wide work force planning effort, and has established on-going monitoring processes to re-assess risks, issues and opportunities related to staffing on a regular basis. OPG also continues to focus on succession planning, leadership development and knowledge retention programs to improve the capability of its workforce.

#### **Environmental Risks**

Changes to environmental laws could create compliance risks and result in potential liabilities that may be addressed by the installation of control technologies, the purchase of emission reduction credits, allowances or offsets, by switching fuels, or by constraining electricity production. Further, some of OPG's activities have the potential to impair natural habitat, damage aquatic or terrestrial plant and wildlife, or cause contamination to land or water that may require remediation. In addition, a failure to comply with applicable environmental laws may result in enforcement actions, including the potential for orders or charges. OPG continues to assess its performance and monitor ongoing developments in these areas, including any new regulatory requirements.

#### **INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS**

During the most recent interim period, there have been no changes in the Company's policies and procedures and other processes that comprise its internal control over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## QUARTERLY FINANCIAL HIGHLIGHTS

The following tables set out selected financial information from OPG's unaudited interim consolidated financial statements for each of the eight most recently completed quarters. This financial information has been prepared in accordance with Canadian GAAP.

<i>(millions of dollars)</i>	<b>June 30 2010</b>	<b>March 31 2010</b>	<b>December 31 2009</b>	<b>September 30 2009</b>
Revenue after revenue limit rebate	<b>1,211</b>	1,444	1,390	1,345
Net (loss) income	<b>(29)</b>	143	67	259
Net (loss) income per share	<b>\$(0.11)</b>	\$0.56	\$0.26	\$1.01

<i>(millions of dollars)</i>	<b>June 30 2009</b>	<b>March 31 2009</b>	<b>December 31 2008</b>	<b>September 30 2008</b>
Revenue after revenue limit rebate	1,397	1,481	1,621	1,513
Net income (loss)	306	(9)	(31)	(142)
Net income (loss) per share	\$1.20	\$(0.04)	\$(0.12)	\$(0.55)

OPG's quarterly results are impacted by changes in demand primarily resulting from variations in seasonal weather conditions. Historically, OPG'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 and cooling demands in the third quarter.

Additional items which impacted net (loss) income in certain quarters above are described below and in OPG's 2009 annual MD&A under the heading, *Quarterly Financial Highlights*.

- A decrease in income of \$25 million during the first quarter of 2010 resulted from the recognition of severance costs related to the decision to close two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations.

Additional information about OPG, including its Annual Information Form, annual MD&A, and audited annual consolidated financial statements and notes thereto for the year ended December 31, 2009 can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## SUPPLEMENTAL EARNINGS MEASURES

In addition to providing net income in accordance with Canadian GAAP, OPG's MD&A, unaudited interim consolidated financial statements as at and for the three and six month periods ended June 30, 2010 and 2009 and the notes thereto, present certain non-GAAP financial measures. These financial measures do not have standard definitions prescribed by Canadian GAAP, and therefore, may not be comparable to similar measures disclosed by other companies. OPG utilizes these measures in making operating decisions and assessing its performance. Readers of the MD&A, consolidated financial statements, and notes thereto, utilize these measures in assessing the Company's financial performance from ongoing operations. These non-GAAP financial measures have not been presented as an alternative to net income in accordance with Canadian GAAP as an indicator of operating performance. The definitions of the non-GAAP financial measures are as follows:

(1) **Gross margin** is defined as revenue less revenue limit rebate and fuel expense.

(2) **Earnings** are defined as net income.

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