

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
<i>(millions of dollars except where noted)</i>				
Revenue				
Revenue before revenue limit and Market Power Mitigation Agreement rebates	1,374	1,514	2,942	3,284
Revenue limit rebate <i>(Note 14)</i>	(29)	(141)	(89)	(141)
Market Power Mitigation Agreement rebate	-	-	-	(412)
	1,345	1,373	2,853	2,731
Fuel expense	243	289	521	599
Gross margin	1,102	1,084	2,332	2,132
Expenses				
Operations, maintenance and administration	683	616	1,333	1,203
Depreciation and amortization <i>(Note 4)</i>	180	192	356	385
Accretion on fixed asset removal and nuclear waste management liabilities <i>(Note 8)</i>	125	120	250	239
Earnings on nuclear fixed asset removal and nuclear waste management funds	(103)	(112)	(192)	(183)
Property and capital taxes	22	17	47	38
	907	833	1,794	1,682
Income before impairment of long-lived assets	195	251	538	450
Impairment of long-lived assets <i>(Note 4)</i>	-	63	-	265
Income before interest, income taxes and extraordinary item	195	188	538	185
Net interest expense	49	47	98	94
Income before income taxes and extraordinary item	146	141	440	91
Income tax expenses (recoveries)				
Current	26	7	46	14
Future <i>(Note 9)</i>	(23)	(3)	52	(22)
	3	4	98	(8)
Income before extraordinary item	143	137	342	99
Extraordinary item <i>(Note 9)</i>	-	74	-	74
Net income	143	63	342	25
Basic and diluted income per common share before extraordinary item (dollars)	0.56	0.53	1.33	0.39
Basic and diluted income per common share (dollars)	0.56	0.25	1.33	0.10
Common shares outstanding (millions)	256.3	256.3	256.3	256.3

See accompanying notes to the interim consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT) (UNAUDITED)

Six Months Ended June 30
(millions of dollars)

	<u>2006</u>	<u>2005</u>
Retained earnings (deficit), beginning of period	261	(105)
Net income	342	25
Retained earnings (deficit), end of period	603	(80)

See accompanying notes to the interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Operating activities				
Net income	143	63	342	25
Adjust for non-cash items:				
Depreciation and amortization <i>(Note 4)</i>	180	192	356	385
Accretion on fixed asset removal and nuclear waste management liabilities	125	120	250	239
Earnings on nuclear fixed asset removal and nuclear waste management funds	(103)	(112)	(192)	(183)
Pension cost	55	28	109	56
Other post employment benefits and supplementary pension plans	63	46	127	91
Future income taxes	(23)	(3)	52	(22)
Transition rate option contracts	(4)	(9)	(13)	(18)
Mark-to-market on energy contracts	(8)	2	(17)	4
Provision for used nuclear fuel	8	6	16	13
Impairment of long-lived assets	-	63	-	265
Regulatory assets and liabilities	12	-	19	-
Extraordinary item	-	74	-	74
Other	2	1	2	-
	450	471	1,051	929
Contributions to nuclear fixed asset removal and nuclear waste management funds	(113)	(113)	(227)	(227)
Expenditures on fixed asset removal and nuclear waste management	(42)	(25)	(70)	(39)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management	4	4	11	10
Contributions to pension fund	(65)	(39)	(130)	(78)
Expenditures on other post employment benefits and supplementary pension plans	(16)	(17)	(31)	(33)
Revenue limit rebate	(739)	-	(739)	-
Market Power Mitigation Agreement rebate	-	(386)	-	(606)
Expenditures on restructuring <i>(Note 13)</i>	(1)	(4)	(6)	(9)
Net changes to other long-term assets and liabilities	(26)	(20)	(57)	(29)
Changes in non-cash working capital balances <i>(Note 16)</i>	113	202	197	455
Cash flow (used in) provided by operating activities	(435)	73	(1)	373
Investing activities				
Investment in regulatory assets <i>(Note 5)</i>	(2)	(90)	(12)	(191)
Investment in fixed assets <i>(Note 4)</i>	(120)	(106)	(234)	(239)
Net proceeds from sale (purchase) of long-term investments	-	-	2	(1)
Cash flow (used in) investing activities	(122)	(196)	(244)	(431)
Financing activities				
Issuance of long-term debt <i>(Note 7)</i>	-	400	-	495
Repayment of long-term debt <i>(Note 7)</i>	(2)	(1)	(303)	(2)
Net decrease in short-term notes <i>(Note 6)</i>	-	-	-	(26)
Cash flow (used in) provided by financing activities	(2)	399	(303)	467
Net (decrease) increase in cash and cash equivalents	(559)	276	(548)	409
Cash and cash equivalents, beginning of period	919	135	908	2
Cash and cash equivalents, end of period	360	411	360	411

See accompanying notes to the interim consolidated financial statements

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at <i>(millions of dollars)</i>	June 30 2006	December 31 2005
Assets		
Current assets		
Cash and cash equivalents	360	908
Accounts receivable <i>(Note 3)</i>	285	538
Future income taxes <i>(Note 9)</i>	12	18
Fuel inventory	629	581
Materials and supplies	110	115
	1,396	2,160
Fixed assets <i>(Note 4)</i>		
Property, plant and equipment	15,377	15,172
Less: accumulated depreciation	4,087	3,760
	11,290	11,412
Other long-term assets		
Deferred pension asset	684	663
Nuclear fixed asset removal and nuclear waste management funds <i>(Note 8)</i>	7,196	6,788
Long-term materials and supplies	312	273
Regulatory assets <i>(Note 5)</i>	260	266
Long-term accounts receivable and other assets	58	61
	8,510	8,051
	21,196	21,623

See accompanying notes to the interim consolidated financial statements

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at <i>(millions of dollars)</i>	June 30 2006	December 31 2005
Liabilities		
Current liabilities		
Accounts payable and accrued charges <i>(Note 13)</i>	782	958
Revenue limit rebate payable <i>(Note 14)</i>	89	739
Long-term debt due within one year <i>(Note 7)</i>	706	806
Deferred revenue due within one year	12	12
Income and capital taxes payable	117	81
	1,706	2,596
Long-term debt <i>(Note 7)</i>	2,886	3,089
Other long-term liabilities		
Fixed asset removal and nuclear waste management <i>(Note 8)</i>	8,957	8,759
Other post employment benefits and supplementary pension plans	1,308	1,212
Long-term accounts payable and accrued charges	172	183
Deferred revenue	138	144
Future income taxes <i>(Note 9)</i>	287	241
Regulatory liabilities <i>(Note 5)</i>	13	12
	10,875	10,551
Shareholder's equity		
Common shares	5,126	5,126
Retained earnings	603	261
	5,729	5,387
	21,196	21,623

Commitments and Contingencies (Notes 1, 4, 6, 7, 11, and 12)

See accompanying notes to the interim consolidated financial statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)

1. BASIS OF PRESENTATION

These interim consolidated financial statements were prepared following the same accounting policies and methods as in the most recent annual consolidated financial statements, except as discussed in Note 2 to these interim consolidated financial statements. These interim financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles for annual financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the most recently prepared annual consolidated financial statements for the year ended December 31, 2005.

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

Certain of the 2005 comparative amounts have been reclassified from financial statements previously presented to conform to the 2006 financial statement presentation.

The consolidated financial statements include the accounts of Ontario Power Generation Inc. ("OPG" or the "Company") and its subsidiaries. OPG accounts for its interests in jointly controlled entities using the proportionate consolidation method. All significant intercompany transactions have been eliminated on consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rate Regulated Accounting

In December 2004, the *Electricity Restructuring Act, 2004* received royal assent. A regulation made pursuant to that statute provides that OPG receives regulated prices beginning April 1, 2005, for most of OPG's baseload hydroelectric facilities and all of its nuclear facilities. This includes electricity generated by Sir Adam Beck 1, 2 and Pump generating stations, DeCew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, the Pickering A and B, and Darlington nuclear generating stations.

OPG's regulated prices were determined by the Province of Ontario (the "Province") based on total projected production and costs of operation, plus the cost of capital including an average five per cent return on equity. The initial prices took effect April 1, 2005, and are expected to remain in effect until at least March 31, 2008, at which time it is anticipated that the Ontario Energy Board ("OEB") will establish new regulated prices. If there are changes to the fundamental assumptions on which these regulated prices were developed, the Province may amend these initial prices.

The OEB is a self-funding Crown corporation. Its mandate and authority come from the *Ontario Energy Board Act, 1998*, the *Electricity Act, 1998*, and a number of other provincial statutes. The OEB is an independent, quasi-judicial tribunal that reports to the Legislature of the Province through the Minister of Energy. It regulates the Province's natural gas and electricity industries and carries out its regulatory functions through public hearings and other more informal processes such as consultations.

Accounting standards recognize that rate regulation can create economic benefits and obligations, which are reported in the consolidated financial statements as regulatory assets and liabilities. When the regulation provides assurance that incurred costs will be recovered in the future, then OPG may defer those costs and report them as a regulatory asset. If current recovery is provided for costs expected to be incurred in the future, then OPG reports a regulatory liability. Also, if the regulation provides for lesser or greater than planned revenue to be received or returned by OPG through future rates, then OPG recognizes and reports a regulatory asset or liability, respectively. The measurement of such regulatory assets and liabilities are subject to certain estimates and assumptions, including assumptions made in the interpretation of the regulation. See Note 5 and Note 9 to the interim consolidated financial statements for additional disclosures required under rate regulated accounting.

Long-Term Portfolio Investments

Long-term portfolio investments, other than investments owned by the Company's wholly owned subsidiary OPG Ventures Inc. ("OPGV"), are stated at amortized cost and include the nuclear fixed asset removal and nuclear waste management funds. Gains and losses on long-term investments are recognized when investments are sold. When a decline in the value of investments occurs, which is considered to be other than temporary, a provision for loss is established.

Investments owned by OPGV are recorded at fair value, and changes to the fair value of the investments are included in revenue in the period in which the change occurs. The fair values of these investments are estimated based on readily available market information or using estimation techniques based on historical performance.

Income Taxes

OPG follows the liability method of accounting for income taxes of its unregulated operations. Under the liability method, future tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period the change is substantively enacted. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is established. Commencing April 1, 2005, with the introduction of rate regulation, OPG accounts for income taxes relating to the rate regulated segments of its business using the taxes payable method. Under the taxes payable method, OPG does not recognize future income taxes relating to the rate regulated segments of its business to the extent those future income taxes are expected to be recovered in the regulated rates charged to future customers.

Changes in Accounting Policies and Estimates

Depreciation of Long-Lived Assets

The accounting estimates related to the depreciation of long-lived assets require significant management judgment to assess the appropriate useful lives of OPG's long-lived assets, including consideration of various technological and other factors.

Effective January 1, 2006, following the completion of a review of the life limiting components of the Pickering B nuclear generating station, OPG revised and extended, for the purpose of calculating depreciation, the estimated remaining service life of the Pickering B nuclear generating station to 2014 from 2009.

The Province has accepted the advice of the Independent Electricity System Operator ("IESO") in their June 2006 report that indicates a need for 2,500 to 3,000 MW of additional capacity to maintain system reliability. Therefore, further delays will be necessary in the Province's plan to replace coal-fired generation by 2009. As a result of these delays, effective July 1, 2006, OPG extended the life for all of the coal-fired generating stations, for purposes of calculating depreciation, to December 31, 2012. The extension will reduce depreciation expense by \$66 million over the remainder of 2006, \$133 million in 2007, and \$49 million in 2008. From 2009 to 2012, the depreciation expense will increase depreciation by \$62 million in each year. OPG will reassess the service life of the coal-fired stations upon release of

the Integrated Power System Plan, and subsequent approval by the OEB. Any change to the estimated service life the coal-fired generating stations, for purposes of calculating depreciation, could have a material impact on OPG's consolidated financial statements.

Reportable Segments

Effective April 1, 2005, the output from most of OPG's baseload hydroelectric facilities and all of its nuclear facilities became rate regulated. OPG continues to receive the spot market price for the output from its remaining hydroelectric, fossil-fuelled and wind generating stations, subject to a revenue limit on the majority of this output. With the introduction of rate regulation, OPG revised its reportable business segments to separately reflect the regulated and unregulated aspects of its business. Since the second quarter of 2005, OPG reported its business segments as Regulated – Nuclear, Regulated – Hydroelectric, and Unregulated Generation. Commencing in the first quarter of 2006, OPG separated the Unregulated Generation business segment into two reportable segments, identified as Unregulated – Fossil-Fuelled and Unregulated – Hydroelectric, as a result of changes in the management structure of these segments. Results for the comparative periods have been reclassified to reflect the revised disclosure.

Future Accounting Changes

In 2005, the Canadian Institute of Chartered Accountants ("CICA") issued three new accounting standards: Handbook Section 1530, Comprehensive Income; Handbook Section 3855, Financial Instruments – Recognition and Measurement; and Handbook Section 3865, Hedges. These standards apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

These standards will be effective for OPG beginning in 2007. OPG is in the process of assessing the impact of these standards on its consolidated financial statements. The impact of implementing these new standards on OPG's consolidated financial statements is not yet determinable as it will be dependent on outstanding positions and their fair values at the time of transition. The following provides further information on each of the three new accounting standards as they relate to OPG.

Comprehensive Income

As a result of adopting these standards, a new category, accumulated other comprehensive income, will be added to shareholders' equity in the consolidated balance sheets. Major components for this category will include unrealized gains and losses on financial assets classified as available-for-sale, changes in the fair value of the effective portion of cash flow hedging instruments, and unrealized foreign currency translation amounts, net of hedging, arising from self-sustaining foreign operations. These amounts will be recorded in the statement of other comprehensive income until the criteria for recognition in the consolidated statement of income are met.

Financial Instruments – Recognition and Measurement

Under the new standard, for accounting purposes, financial assets will be classified as one of the following: held-to-maturity, loans and receivables, held-for-trading or available-for-sale, and financial liabilities will be classified as held-for-trading or other than held-for-trading. Financial assets and liabilities held-for-trading will be measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, will be measured at amortized cost. Available-for-sale instruments will be measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standard also permits designation of any financial instrument as held-for-trading upon initial recognition. All derivatives, including embedded derivatives that must be separately accounted for, generally must be classified as held-for-trading and recorded at fair value in the consolidated balance sheets.

Hedges

This new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting is to be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains or losses attributable to the hedged risk and recognized in net income. This change in fair value of the hedged item, to the extent that the hedging relationship is effective, is offset by changes in the fair value of the derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in other comprehensive income. The ineffective portion will be recognized in net income. The amounts recognized in accumulated other comprehensive income will be reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, foreign exchange gains and losses on the hedging instruments will be recognized in other comprehensive income.

3. SALE OF ACCOUNTS RECEIVABLE

On October 1, 2003, the Company signed an agreement to sell an undivided co-ownership interest in its current and future accounts receivable (the "receivables") to an independent trust. The Company also retains an undivided co-ownership interest in the receivables sold to the trust. Under the agreement, OPG continues to service the receivables. The transfer provides the trust with ownership of a share of the payments generated by the receivables, computed on a monthly basis. The trust's recourse to the Company is generally limited to its income earned on the receivables. In December 2005, the Company extended this agreement to August 2009.

OPG reflected the initial transfer to the trust of the co-ownership interest, and subsequent transfers required by the revolving nature of the securitization, as sales in accordance with CICA Accounting Guideline 12, *Transfer of Receivables*. In accordance with this Guideline, the proceeds of each sale to the trust were deemed to be the cash received from the trust net of the undivided co-ownership interest retained by the Company. For the three months ended June 30, 2006, the Company has recognized pre-tax charges of \$3 million (three months ended June 30, 2005 – \$2 million) on such sales at an average cost of funds of 4.3 per cent (three months ended June 30, 2005 – 2.9 per cent). For the six months ended June 30, 2006, the Company has recognized pre-tax charges of \$6 million (six months ended June 30, 2005 – \$4 million) on such sales at an average cost of funds of 4.3 per cent (six months ended June 30, 2005 – 2.9 per cent). As at June 30, 2006, OPG had sold receivables of \$300 million (December 31, 2005 – \$300 million) from its total portfolio of \$444 million (December 31, 2005 – \$668 million).

4. FIXED ASSETS

Depreciation and amortization expense for the three and six months ended June 30, 2006 and 2005 consists of the following:

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Depreciation and amortization	179	190	354	382
Nuclear waste management costs	1	2	2	3
	180	192	356	385

Interest capitalized to construction in progress at 6.0 per cent during the three and six months ended June 30, 2006 (three and six months ended June 30, 2005 – 6.0 per cent) was \$4 million and \$8 million respectively (three and six months ended June 30, 2005 – \$9 million and \$17 million).

Impairment of Long-Lived Assets

The accounting estimates related to asset impairment require significant management judgment to identify factors such as short and long-term forecasts for future sales prices, the supply of electricity in Ontario, inflation, fuel prices, and station lives. The amount of the future cash flow that OPG will ultimately realize with respect to these assets could differ materially from the carrying values recorded in the consolidated financial statements.

Pickering A Nuclear Generating Station Units 2 and 3

OPG completed, in the second quarter of 2005, an assessment of the cost, schedule and risks related to the return to service of Units 2 and 3 at the Pickering A nuclear generating station. The assessment considered results from inspection programs with respect to feeder pipe and steam generator degradation mechanisms, and potential degradation of the calandria vault components, all of which could impact the future capability factor, operating costs and the life of the units. Upon consideration of the scope of the refurbishment work, the costs and the risks related to the return to service of these two units, OPG determined that the return to service of these two units was not justified on a commercial basis even though technically feasible. OPG recorded an impairment loss of \$63 million in the second quarter of 2005 related to the carrying amount of these two units including construction in progress.

Lennox Generating Station

As a result of the Government's "Request for Information/Request for Proposal for 2,500 MW of New Clean Generation and Demand Side Management Projects" released in September 2004 and the related contractual arrangements, future wholesale electricity market revenue is expected to be lower than previously anticipated. As a relatively high variable cost generating station, the Lennox generating station will not be able to recover its fixed operating costs and its carrying value from the wholesale electricity market in the future. Given these factors, OPG initiated discussions with the Province, with the expectation of entering into a contractual arrangement for the recovery of the annual fixed operating costs and the carrying value of the Lennox generating station. In March 2005, the Province advised OPG that it would not support an arrangement that would allow for the recovery of the carrying value of the Lennox generating station. As a result, OPG recorded an impairment loss of \$202 million in the first quarter of 2005.

In March 2006, the OEB issued a decision approving a reliability must-run ("RMR") contract between OPG and the Independent Electricity System Operator ("IESO") for the Lennox generating station, for the period October 1, 2005 to September 30, 2006. Reliability must-run contracts are designed to ensure that generating stations remain available to maintain the reliability of the electricity system. In its decision, the OEB found it appropriate for OPG to recover the fixed and variable operating costs of the Lennox generating station that are not recovered through market revenues. As a result of the decision, OPG recorded \$15 million in revenue in the second quarter of 2006 (six months ended June 30, 2006 - \$44 million). The RMR contract is a cost-based contract that provides for regular payments, which are subject to adjustments for actual costs. OPG negotiated a similar contract with the IESO for the period October 1, 2006 to September 30, 2007. The contract requires approval of the OEB prior to becoming effective.

5. REGULATORY ASSETS AND LIABILITIES

The changes in the regulatory assets and liabilities for the six months ended June 30, 2006 are as follows:

<i>(millions of dollars)</i>	Pickering A Return to Service Costs	Ancillary Service Revenue Variance	Hydro- electric Production Variance	Other
Regulatory assets (liabilities), beginning of the period	261	5	(4)	(8)
Increase (decrease) during the period	12	(10)	6	-
Amortization during the period	(15)	-	-	-
Regulatory assets (liabilities), end of the period	258	(5)	2	(8)

The regulatory assets and liabilities as at June 30, 2006 and December 31, 2005 are as follows:

<i>(millions of dollars)</i>	June 30 2006	December 31 2005
Regulatory assets		
Pickering A generating station return to service costs	258	261
Ancillary service revenue variance	-	5
Hydroelectric production variance	2	-
Total regulatory assets	260	266
Regulatory liabilities		
Ancillary service revenue variance	5	-
Hydroelectric production variance	-	4
Other	8	8
Total regulatory liabilities	13	12

Pickering A Return to Service Costs

Effective January 1, 2005, in accordance with a regulation made under the *Electricity Restructuring Act, 2004*, OPG was required to establish a deferral account in connection with non-capital costs that are associated with the return to service of units at the Pickering A nuclear generating station. As a result, the change in accounting was prospectively adopted on January 1, 2005, with no retroactive adoption. As at June 30, 2006, the deferral account was \$258 million, consisting of non-capital costs of \$232 million relating to Unit 1, \$19 million relating to Units 2 and 3, \$19 million of general return to service costs, and interest of \$7 million. The accumulated amortization as of June 30, 2006 was \$19 million.

As at December 31, 2005, the deferral account was \$261 million, consisting of non-capital costs of \$228 million relating to Unit 1, \$19 million relating to Units 2 and 3, \$11 million of general return to service costs, and interest of \$7 million. The accumulated amortization as of December 31, 2005 was \$4 million.

Under the regulation, the OEB is directed to ensure that OPG recovers any balance in the deferral account on a straight-line basis over a period not to exceed 15 years.

Variance Accounts

Effective April 1, 2005, in accordance with a regulation made under the *Electricity Restructuring Act, 2004*, OPG was directed to establish variance accounts for costs incurred on or after April 1, 2005 that are associated with differences in hydroelectric production due to differences between forecast and actual water conditions, changes in nuclear electricity production due to unforeseen changes to the law or to unforeseen technological changes, changes to revenues assumed for ancillary revenues from the regulated facilities, acts of God (including severe weather events), and transmission outages and transmission restrictions. OPG recorded a reduction in revenue during the six months ended June 30, 2006 of \$10 million, reflecting ancillary services revenue that was favourable compared to that forecasted for 2006. OPG recorded revenue during the six months ended June 30, 2006 of \$6 million reflecting water conditions that were unfavourable compared to those forecasted for 2006. The OEB is directed by the regulation to ensure recovery to the extent that the OEB is satisfied that the costs recorded in the account were prudently incurred and accurately recorded. Any balances approved by the OEB will be amortized over a period not to exceed three years. The amortization will commence after OPG receives a rate order from the OEB.

The other regulatory liability consists of a portion of non-regulated revenue earned by OPG's regulated assets, which will result in a reduction of future regulated rates to be established by the OEB.

Had OPG not accounted for the variances as a regulatory asset and liability, revenue for the six months ended June 30, 2006 would have been higher by \$4 million.

6. SHORT-TERM CREDIT FACILITIES

OPG's \$1 billion revolving committed bank credit facility is divided into two tranches – a \$500 million 364-day term tranche maturing May 22, 2007, and a \$500 million three-year term tranche maturing May 22, 2009. The total credit facility will be used primarily as support for notes issued under OPG's commercial paper program. As of June 30, 2006 and December 31, 2005, OPG had no commercial paper or other outstanding borrowing under this facility.

OPG also maintains \$26 million (December 31, 2005 – \$26 million) in short-term uncommitted overdraft facilities as well as \$240 million (December 31, 2005 – \$215 million) of short-term uncommitted credit facilities, which support the issuance of Letters of Credit. OPG uses Letters of Credit to support the supplementary pension plans and is required to post Letters of Credit as collateral with Local Distribution Companies ("LDCs") as prescribed by the OEB's Retail Settlement Code. At June 30, 2006, there was a total of \$141 million (December 31, 2005 – \$157 million) of Letters of Credit issued, which included \$138 million relating to the supplementary pension plans (December 31, 2005 – \$138 million) and \$3 million (December 31, 2005 – \$19 million) relating to collateral requirements to the LDCs.

7. LONG-TERM DEBT

Long-term debt consists of the following:

<i>(millions of dollars)</i>	June 30 2006	December 31 2005
Notes payable to the Ontario Electricity Financial Corporation	3,395	3,695
Share of non-recourse limited partnership debt	197	200
	3,592	3,895
Less: due within one year		
Notes payable to the Ontario Electricity Financial Corporation	700	800
Share of limited partnership debt	6	6
	706	806
Long-term debt	2,886	3,089

Holders of the senior debt are entitled to receive, in full, amounts owing in respect of the senior debt before holders of the subordinated debt are entitled to receive any payments. The Ontario Electricity Financial Corporation ("OEFC") currently holds all of OPG's outstanding senior and subordinated notes.

Interest paid during the three months ended June 30, 2006 was \$8 million (three months ended June 30, 2005 – \$16 million), of which \$4 million relates to interest paid on long-term debt (three months ended June 30, 2005 – \$10 million). Interest paid during the six months ended June 30, 2006 was \$126 million (six months ended June 30, 2005 – \$119 million), of which \$118 million relates to interest paid on long-term debt (six months ended June 30, 2005 – \$110 million). Interest on the notes payable to OEFC is paid in the first and third quarter of the year.

8. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT

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

<i>(millions of dollars)</i>	June 30 2006	December 31 2005
Liability for nuclear used fuel management	5,069	4,940
Liability for nuclear decommissioning and low and intermediate level waste management	3,699	3,627
Liability for non-nuclear fixed asset removal	189	192
Fixed asset removal and nuclear waste management liabilities	8,957	8,759

The change in the fixed asset removal and nuclear waste management liability for the six months ended June 30, 2006 and the year ended December 31, 2005 are as follows:

<i>(millions of dollars)</i>	June 30 2006	December 31 2005
Liabilities, beginning of period	8,759	8,339
Increase in liabilities due to accretion	250	476
Increase in liabilities due to nuclear used fuel and nuclear waste management variable expenses	18	34
Liabilities settled by expenditures on waste management	(70)	(90)
Liabilities, end of period	8,957	8,759

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

Ontario Nuclear Funds Agreement

OPG sets aside and invests funds in segregated custodian accounts specifically for discharging its nuclear fixed asset removal and nuclear waste management liabilities. The nuclear fixed asset removal and nuclear waste management funds as at June 30, 2006 and December 31, 2005, consist of the following:

<i>(millions of dollars)</i>	Amortized Cost Basis		Fair Value	
	June 30 2006	December 31 2005	June 30 2006	December 31 2005
Decommissioning Fund	4,236	4,106	4,635	4,583
Due to Province – Decommissioning Fund	(25)	(7)	(424)	(484)
	4,211	4,099	4,211	4,099
Used Fuel Fund ¹	2,998	2,693	3,257	2,995
Due (to) from Province – Used Fuel Fund	(13)	(4)	(272)	(306)
	2,985	2,689	2,985	2,689
	7,196	6,788	7,196	6,788

¹ The Ontario NFWA Trust represents \$1,075 million as at June 30, 2006 (December 31, 2005 – \$1,003 million) of the Used Fuel Fund on an amortized cost basis.

9. INCOME TAXES

The following table summarizes the difference in the balance sheet amounts under the method used by the Company to account for income taxes compared to what would have been reported had OPG applied the liability method for the regulated business as at June 30, 2006 and December 31, 2005:

<i>(millions of dollars)</i>	June 30, 2006		December 31, 2005	
	As Stated	Liability Method	As Stated	Liability Method
Future income tax assets – current	12	32	18	38
Long-term future income tax liabilities	(287)	(408)	(241)	(344)

The following table summarizes the difference in the income statement amounts under the method used by the Company to account for income taxes compared to what would have been reported had OPG applied the liability method for the regulated business for the three and six months ended June 30, 2006 and 2005:

<i>(millions of dollars)</i>	Three Months Ended		Six Months Ended	
	June 30 2006	June 30 2005	June 30 2006	June 30 2005
As Stated:				
Extraordinary item	-	74	-	74
Future income tax (recovery) expense	(23)	(3)	52	(22)
Liability Method:				
Future income tax expense	(15)	50	70	31

The amount of cash income taxes paid during the three months ended June 30, 2006 was \$6 million (three months ended June 30, 2005 – \$5 million). For the six months ended June 30, 2006, cash income taxes paid were \$14 million (six months ended June 30, 2005 - \$9 million).

During the three months ended June 30, 2005, OPG recorded a one-time extraordinary loss of \$74 million as a result of the adoption of rate regulated accounting for income taxes related to the rate regulated business segments.

The Company has revised its future income tax assets and liabilities to reflect the lower federal income tax rates recently enacted.

OPG has taken certain filing positions for corporate income and capital taxes that may be challenged on audit and possibly disallowed and result in a significant increase in the tax obligation upon reassessment. There is still uncertainty around the amount of the tax provision, and Management is not able to determine the impact of that uncertainty on the consolidated financial statements.

10. BENEFIT PLANS

The post employment benefit programs include pension, group life insurance, health care and long-term disability benefits. Pension and other post employment benefit (“OPEB”) obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions and experience gains or losses. The 2006 costs are based on a measurement of the pension and OPEB obligations and the pension fund assets, as at December 31, 2005.

Total benefit costs for the three and six months ended June 30, 2006 and 2005 are as follows:

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Registered pension plan	55	28	109	56
Supplementary pension plans	3	5	7	9
OPEB	60	41	120	82

11. FINANCIAL INSTRUMENTS

Contracts for all trading transactions are carried on the consolidated balance sheet as assets or liabilities at fair value, with changes in fair value recorded in trading revenue as gains or losses.

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

Forward pricing information is inherently uncertain so that fair values of the derivative instruments may not accurately represent the cost to enter into these positions. To address the impact of some of this uncertainty on trading positions, OPG established liquidity reserves against the mark-to-market gains or losses of these positions. During the three months ended June 30, 2006, the liquidity reserve increased trading revenue by \$4 million (three months ended June 30, 2005 – increased trading revenue by \$2 million). During the six months ended June 30, 2006, the liquidity reserves reduced trading revenue by \$5 million (six months ended June 30, 2005 – increased trading revenue by \$7 million).

Derivative Instruments Used for Hedging Purposes

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

<i>(millions of dollars except where noted)</i>	Notional Quantity	Terms	Fair Value	Notional Quantity	Terms	Fair Value
	June 30, 2006			December 31, 2005		
Gain (loss)						
Electricity derivative instruments	5.5 TWh	1-4 yrs	(11)	4.1 TWh	1-2 yrs	(125)
Foreign exchange derivative instruments	U.S. \$5	July/06	-	U.S. \$15	Jan/06	-
Interest rate hedges	400	1-15 yrs	14	400	1-15 yrs	(7)

Foreign exchange derivative instruments are used to hedge the exposure to anticipated U.S. dollar denominated purchases. The weighted average fixed exchange rate for contracts outstanding at June 30, 2006 was U.S. \$0.90 (December 31, 2005 – U.S. \$0.87) for every Canadian dollar.

OPG entered into a number of forward start interest rate swap agreements to hedge against the effect of future interest rate movement based on the anticipated future borrowing requirement for the Niagara Tunnel project. These transactions are accounted for as hedges.

Derivative Instruments Not Used for Hedging Purposes

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

<i>(millions of dollars except where noted)</i>	Notional Quantity	Fair Value	Notional Quantity	Fair Value
	June 30, 2006		December 31, 2005	
Foreign exchange derivative	-	-	U.S. \$3	-
Commodity derivative instruments				
Assets	7.4 TWh	28	3.3 TWh	13
Liabilities	2.2 TWh	(26)	1.1 TWh	(37)
		2		(24)
Liquidity reserve		(8)		(3)
Total		(6)		(27)

Foreign exchange derivative instruments that were not designated as hedges had a weighted average exchange rate of U.S. \$0.85 as at December 31, 2005.

12. COMMITMENTS AND CONTINGENCIES

Litigation

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

On August 9, 2006, a Notice of Action and Statement of Claim in the amount of \$500 million was served on OPG and Bruce Power L.P. by British Energy Limited and British Energy International Holdings Limited ("British Energy"), claiming that OPG is liable to them for breach of contract and negligence. Particulars of the claim have not been provided at this time.

In July 2004, OPG and two individual OPG employees were each charged with criminal negligence causing death and criminal negligence causing bodily harm in relation to a 2002 drowning accident at Barrett Chute. The trial commenced on January 16, 2006, and is expected to last at least until the late fall of 2006. Also, certain First Nations have commenced actions for interference with reserve and traditional land rights. The claims by some of these First Nations total approximately \$50 million and claims by others are for unspecified amounts.

Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably with respect to OPG and could have a significant effect on OPG's financial position. Management has provided for contingencies that are determined to be likely and are reasonably measurable.

Environmental

OPG was required to assume certain environmental obligations from Ontario Hydro. A provision of \$76 million was established as at April 1, 1999 for such obligations. During the six months ended June 30, 2006, expenditures of \$1 million (six months ended June 30, 2005 - \$ 1 million) were recorded against the provision. As at June 30, 2006, the remaining provision was \$55 million (December 31, 2005 - \$56 million).

Current operations are subject to regulation with respect to air, soil and water quality and other environmental matters by federal, provincial and local authorities. The cost of obligations associated with current operations is provided for on an ongoing basis. Management believes it has made adequate provision in its consolidated financial statements to meet OPG's current environmental obligations.

Guarantees

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

13. RESTRUCTURING

The change in the restructuring liability for termination benefits for the six months ended June 30, 2006 and the year ended December 31, 2005 are as follows:

<i>(millions of dollars)</i>	June 30 2006	December 31 2005
Liability, beginning of period	12	20
Restructuring charges	-	10
Payments	(6)	(18)
Liability, end of period	6	12

During 2005, OPG recorded restructuring charges of \$10 million, which consisted of \$4 million related to the Lakeview generating station in the Unregulated – Fossil-Fuelled segment and \$6 million related to the Energy Markets business which was included in the Other category.

14. REVENUE LIMIT REBATE

Eighty-five per cent of the generation output from OPG's unregulated generation assets, excluding the Lennox generating station and forward sales as of January 1, 2005, is subject to a revenue limit. The incremental output from a generating station where there has been a refurbishment or expansion of these assets is also excluded from the output covered by the revenue limit. In addition, until the Transition – Generation Corporation Designated Rate Options ("TRO") expired on April 30, 2006, volumes sold under such options were also excluded from the revenue limit rebate. This revenue limit, which was originally established for a period of 13 months ending April 30, 2006, was subsequently extended for an additional three years. Starting May 1, 2006, the revenue limit decreased to 4.6¢/kWh from the previous limit of 4.7¢/kWh. On May 1, 2007, the revenue limit will return to 4.7¢/kWh and increase to 4.8¢/kWh effective May 1, 2008. In addition, volumes sold under a Pilot Auction administered by the OPA are subject to a revenue limit that is 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets. Revenues above these limits are returned to the IESO for the benefit of consumers.

The change in the revenue limit rebate liability for the six months ended June 30, 2006 and the year ended December 31, 2005 are as follows:

<i>(millions of dollars)</i>	June 30 2006	December 31 2005
Liability, beginning of the year	739	-
Increase to provision during the period	89	739
Payments made during the period	(739)	-
Liability, end of period	89	739

15. BUSINESS SEGMENTS

Effective April 1, 2005, the output from most of OPG's baseload hydroelectric facilities and all of its nuclear facilities became rate regulated. With the introduction of rate regulation, OPG revised its reportable business segments to separately reflect the regulated and unregulated aspects of its business. In the first quarter of 2006, OPG separated the Unregulated Generation business segment into two reportable segments identified as Unregulated – Fossil-Fuelled and Unregulated – Hydroelectric, as a result of changes in the management structure of these segments. Results for the comparative periods have been reclassified to reflect the revised disclosure.

Operations, maintenance and administration ("OM&A") expenses of the generation business segments include a service fee for the use of certain property, plant and equipment of the Other category. The total service fee allocation is recorded as a reduction to the Other category's OM&A expenses. For the three months ended June 30, 2006, the service fee allocation was \$10 million for Regulated – Nuclear, \$1 million for Regulated – Hydroelectric, \$2 million for Unregulated – Hydroelectric and \$3 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of \$16 million for the Other category. For the six months ended June 30, 2006, the service fee was \$14 million for Regulated – Nuclear, \$1 million for Regulated – Hydroelectric, \$2 million for Unregulated – Hydroelectric and \$5 million for Unregulated – Fossil-Fuelled, with a reduction in expenses of \$22 million for the Other category. Results of the comparative periods have been reclassified to reflect the service fee.

Segment Income (Loss) for Three Months Ended June 30, 2006 <i>(millions of dollars)</i>	Regulated		Unregulated			Total
	Nuclear	Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	
Revenue before revenue limit rebate	636	164	230	307	37	1,374
Revenue limit rebate	-	-	(6)	(23)	-	(29)
	636	164	224	284	37	1,345
Fuel expense	28	60	25	130	-	243
Gross margin	608	104	199	154	37	1,102
Operations, maintenance and administration	478	23	45	143	(6)	683
Depreciation and amortization	84	17	16	47	16	180
Accretion on fixed asset removal and nuclear waste management liabilities	122	-	-	3	-	125
Earnings on nuclear fixed asset removal and nuclear waste management funds	(103)	-	-	-	-	(103)
Property and capital taxes	9	3	3	4	3	22
Income (loss) before interest, income taxes and extraordinary item	18	61	135	(43)	24	195

Segment (Loss) income for Three Months Ended June 30, 2005 <i>(millions of dollars)</i>	Regulated		Unregulated			Total
	Nuclear	Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	
Revenue before revenue limit rebate	540	202	279	465	28	1,514
Revenue limit rebate	-	-	(51)	(90)	-	(141)
	540	202	228	375	28	1,373
Fuel expense	25	69	23	172	-	289
Gross margin	515	133	205	203	28	1,084
Operations, maintenance and administration	446	18	34	110	8	616
Depreciation and amortization	90	16	18	54	14	192
Accretion on fixed asset removal and nuclear waste management liabilities	117	-	-	3	-	120
Earnings on nuclear fixed asset removal and nuclear waste management funds	(112)	-	-	-	-	(112)
Property and capital taxes	10	5	4	4	(6)	17
(Loss) income before impairment of long-lived assets	(36)	94	149	32	12	251
Impairment of long-lived asset	63	-	-	-	-	63
(Loss) income before interest, income taxes and extraordinary item	(99)	94	149	32	12	188

Segment Income (Loss) for Six Months Ended June 30, 2006 <i>(millions of dollars)</i>	Regulated		Unregulated			Total
	Nuclear	Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	
Revenue before revenue limit rebate	1,345	339	454	728	76	2,942
Revenue limit rebate	-	-	(26)	(63)	-	(89)
	1,345	339	428	665	76	2,853
Fuel expense	59	112	45	305	-	521
Gross margin	1,286	227	383	360	76	2,332
Operations, maintenance and administration	953	44	81	260	(5)	1,333
Depreciation and amortization	169	33	32	96	26	356
Accretion on fixed asset removal and nuclear waste management liabilities	245	-	-	5	-	250
Earnings on nuclear fixed asset removal and nuclear waste management funds	(192)	-	-	-	-	(192)
Property and capital taxes	19	8	7	8	5	47
Income (loss) before interest, income taxes and extraordinary item	92	142	263	(9)	50	538

Segment (Loss) Income for Six Months Ended June 30, 2005 <i>(millions of dollars)</i>	Regulated		Unregulated			Total
	Nuclear	Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	
Revenue before revenue limit and Market Power Mitigation Agreement rebates	1,280	472	510	975	47	3,284
Revenue limit rebate	-	-	(51)	(90)	-	(141)
Market Power Mitigation Agreement rebate	(160)	(65)	(58)	(129)	-	(412)
	1,120	407	401	756	47	2,731
Fuel expense	54	122	42	381	-	599
Gross margin	1,066	285	359	375	47	2,132
Operations, maintenance and administration	867	36	64	219	17	1,203
Depreciation and amortization	179	34	33	111	28	385
Accretion on fixed asset removal and nuclear waste management liabilities	234	-	-	5	-	239
Earnings on nuclear fixed asset removal and nuclear waste management funds	(183)	-	-	-	-	(183)
Property and capital taxes	21	9	7	9	(8)	38
(Loss) income before impairment of long-lived assets	(52)	206	255	31	10	450
Impairment of long-lived assets	63	-	-	202	-	265
(Loss) income before interest, income taxes and extraordinary item	(115)	206	255	(171)	10	185

<i>(millions of dollars)</i>	Regulated		Unregulated			Total
	Nuclear	Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	
Selected Balance Sheet Information						
As at June 30, 2006						
Segment property, plant and equipment, net	3,066	4,091	3,071	464	598	11,290
As at December 31, 2005						
Segment property, plant and equipment, net	3,156	4,054	3,076	531	595	11,412
Selected Cash Flow Information						
Three months ended June 30, 2006						
Investment in fixed assets	37	36	15	14	18	120
Three months ended June 30, 2005						
Investment in fixed assets	65	20	8	11	2	106
Six months ended June 30, 2006						
Investment in fixed assets	78	70	26	28	32	234
Six months ended June 30, 2005						
Investment in fixed assets	160	37	15	21	6	239

16. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Accounts receivable	74	38	271	(51)
Fuel inventory	(59)	(26)	(48)	73
Materials and supplies	-	(12)	5	(26)
Revenue limit rebate	29	141	89	141
Market Power Mitigation Agreement rebate	-	-	-	412
Accounts payable and accrued charges	48	58	(156)	(105)
Income and capital taxes payable	21	3	36	11
	113	202	197	455

17. SEASONAL OPERATIONS

OPG's quarterly results are impacted by changes in demand 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/cooling demands in the third quarter. Regulated prices for the baseload hydroelectric and nuclear facilities, the revenue limit related to the generation from OPG's other generating assets and OPG's hedging strategies significantly reduced the impact of seasonal price fluctuations on the results of operations.