

August 15, 2013

## ONTARIO POWER GENERATION REPORTS 2013 SECOND QUARTER FINANCIAL RESULTS

**[Toronto]:** – Ontario Power Generation Inc. (OPG or Company) today reported its financial and operating results for the three and six months ended June 30, 2013. Net income for the second quarter of 2013 was \$73 million compared to \$43 million for the same quarter in 2012. Net income for the six months ended June 30, 2013 was \$101 million compared to \$197 million for the same period in 2012.

“OPG continues its commitment to deliver value to the people of Ontario. In the first half of 2013, we provided about 60 per cent of the electricity used in this province through nuclear, hydro and thermal generation,” said President and Chief Executive Officer Tom Mitchell. “And the price we received is approximately 45 per cent below the average price received by all other Ontario electricity generators.”

Mr. Mitchell noted, “The Government of Ontario recently directed the Ontario Power Authority to allow OPG to compete for other forms of renewable generation in addition to hydroelectric. This is a new direction for us as a company and one where we believe we can add value.

“We will apply the same principles for these potential projects as those applied in our current projects and operations. We will work with communities to ensure they understand and support our efforts before, during and after construction and operation.”

He added, “We will continue to seek out partnerships with Aboriginal communities such as our current hydroelectric projects with the Moose Cree First Nation on the Lower Mattagami River and the Taykwa Tagamou Nation at New Post Creek along the Abitibi River.

“And, as we do today, we will work in partnership with private sector contractors and suppliers best suited to help us build the infrastructure that will keep Ontario's electricity generating system strong for today and for future generations.”

In August 2013, OPG received a five-year operating licence which combines the Pickering A and B generating stations' licences into a single-site licence. The licence is subject to a number of conditions outlined by the CNSC.

### Highlights

Net income for the second quarter of 2013 increased by \$30 million compared to the same quarter in 2012. This increase was primarily due to higher earnings from the nuclear fixed asset removal and nuclear waste management funds (Nuclear Funds),

and higher revenue from the unregulated hydroelectric stations. These increases were partially offset by lower nuclear generation in 2013 and the recognition of a Nuclear Liability Deferral Account regulatory asset that reduced expenses during the second quarter of 2012.

Net income for the six months ended June 30, 2013 decreased by \$96 million, compared to the same period in 2012. This decrease was primarily due to lower nuclear generation, partially offset by higher revenue from the unregulated hydroelectric stations.

OPG's income before interest and income taxes from the electricity generation business segments was \$110 million in the second quarter of 2013, compared to \$128 million in the same period of 2012. Income before interest and income taxes from the electricity generation business segments was \$212 million in the first half of 2013, compared to \$285 million in the same period of 2012. These decreases were primarily due to lower nuclear generation, partially offset by higher revenue from the Unregulated – Hydroelectric segment due to higher electricity spot market prices and generation volumes.

The Regulated – Nuclear Waste Management business segment recorded a second quarter loss before interest and income taxes of \$15 million in 2013, compared to a loss of \$64 million in 2012. This improvement was primarily a result of a decrease in the valuation level of global equity markets which reduced earnings from the Nuclear Funds during the second quarter of 2012.

For the six months ended June 30, 2013, the Regulated – Nuclear Waste Management business segment recorded a loss before interest and income taxes of \$78 million, compared to a loss before interest and income taxes of \$40 million for the same period in 2012. This decrease in income was primarily as a result of the Decommissioning Segregated Fund's overfunded position. When this fund is overfunded, OPG limits the earnings it recognizes by recording a payable to the Province. The overfunded status is a reflection of the strong fund position.

Total electricity generated during the three months ended June 30, 2013 was 19.9 terawatt hours (TWh), compared to 20.5 TWh for the same quarter in 2012. This decrease was mainly due to lower generation at the Pickering station. Total electricity generated during the six months ended June 30, 2013 was 41.0 TWh, compared to 42.5 TWh for the same period in 2012. This decrease was primarily due to lower generation from OPG's regulated nuclear and hydroelectric segments, partially offset by higher generation from the Unregulated – Hydroelectric segment.

For the three and six month periods in 2013, the capability factor for the Pickering station decreased, compared to the same periods in 2012. The decrease in the capability factor for the three months ended June 30, 2013 to 65.9 per cent from 79.3 per cent for the same period in 2012, was primarily due to an increase in outage days. For the six months ended June 30, 2013, the capability factor decreased to 72.4 per cent from 78.1 per cent for the same period in 2012, primarily due to an extension to an outage in the first quarter. For the three months ended June 30, 2013, Darlington's capability factor of 85.9 per cent was a slight increase from 85.6 per cent in 2012. For the six months ended June 30, 2013, the capability factor for the Darlington station was 85.0 per cent compared to 90.6 per cent for the same period in 2012, reflecting an increase in outage days.

The availability of OPG's hydroelectric generating stations remained at high levels during the first half of 2013. The thermal generating stations continued to maintain high Start Guarantee rates reflecting their ability to respond to market requirements.

### **Generation Development**

OPG is undertaking several generation development projects to support Ontario's long-term electricity supply requirements. Significant achievements during the second quarter of 2013 are as follows:

#### **Darlington Refurbishment**

- In July 2013, OPG received the Canadian Nuclear Safety Commission's final assessment of the Integrated Safety Review (ISR) which confirmed that the ISR meets applicable regulatory requirements.

#### **Lower Mattagami**

- The Lower Mattagami River project is expected to be completed on plan by June 2015 within the approved budget of \$2.6 billion. OPG has finalized and executed a remediation plan regarding a cofferdam breach at the Kipling site, and construction activity resumed at the Kipling site in May 2013. Construction activity at the Little Long site is currently ahead of schedule, with the station expected to be in-service in the fourth quarter of 2013.

#### **New Post Creek**

- In June 2013, the Minister of Energy directed the Ontario Power Authority to negotiate a power purchase agreement for the proposed 25 megawatt New Post Creek hydroelectric generating station. The station is expected to be constructed through a partnership between OPG and Coral Rapids Power L.P., a wholly owned subsidiary of Taykwa Tagamou Nation. The Environmental Assessment for the project is expected to be completed by the end of 2013.

## FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three Months Ended June 30		Six Months Ended June 30	
<i>(millions of dollars – except where noted)</i>	2013	2012	2013	2012
<b>Earnings</b>				
Revenue	1,190	1,125	2,445	2,324
Fuel expense	172	165	355	357
Gross margin	1,018	960	2,090	1,967
Operations, maintenance and administration	643	669	1,343	1,304
Depreciation and amortization	242	142	484	331
Accretion on fixed asset removal and nuclear waste management liabilities	190	176	379	363
Earnings on Nuclear Funds	(173)	(110)	(297)	(320)
Other net expenses	1	17	9	24
Income before interest and income taxes	115	66	172	265
Net interest expense	20	31	45	63
Income tax expense (recovery)	22	(8)	26	5
Net income	73	43	101	197
<b>Income (loss) before interest and income taxes</b>				
Generating segments	110	128	212	285
Nuclear Waste Management segment	(15)	(64)	(78)	(40)
Other segment	20	2	38	20
Total income before interest and income taxes	115	66	172	265
<b>Cash flow</b>				
Cash flow provided by operating activities	347	101	592	212
<b>Electricity generation (TWh)</b>				
Regulated – Nuclear Generation	10.9	11.7	22.5	24.2
Regulated – Hydroelectric	4.5	4.8	9.2	9.7
Unregulated – Hydroelectric	4.1	3.3	7.7	6.9
Unregulated – Thermal	0.4	0.7	1.6	1.7
Total electricity generation	19.9	20.5	41.0	42.5
<b>Average sales prices and average revenue (\$/kWh)</b>				
Regulated – Nuclear Generation <sup>1</sup>	5.7	5.5	5.7	5.5
Regulated – Hydroelectric <sup>1</sup>	4.0	3.5	3.9	3.5
Unregulated – Hydroelectric <sup>1</sup>	2.6	2.0	2.8	2.1
Unregulated – Thermal <sup>1</sup>	1.7	2.0	2.6	2.0
Average revenue for OPG <sup>2</sup>	5.6	5.1	5.6	5.1
Average revenue for all electricity generators, excluding OPG <sup>3</sup>	11.1	9.2	10.1	9.0
<b>Nuclear unit capability factor (per cent)</b>				
Darlington GS	85.9	85.6	85.0	90.6
Pickering GS	65.9	79.3	72.4	78.1
<b>Availability (per cent)</b>				
Regulated – Hydroelectric	91.1	90.0	90.5	91.1
Unregulated – Hydroelectric	92.7	94.0	93.6	93.0
<b>Start Guarantee rate (per cent)</b>				
Unregulated – Thermal	96.8	97.6	97.5	97.8
<b>Return on equity for the twelve months ended June 30, 2013 and December 31, 2012 (per cent) <sup>4</sup></b>			3.0	4.2
<b>Funds from operations interest coverage for the twelve months ended June 30, 2013 and December 31, 2012 (times) <sup>4</sup></b>			2.9	2.2

<sup>1</sup> Average sales prices are computed as net market generation revenue divided by net generation volume.

<sup>2</sup> Average revenue for OPG is comprised of regulated revenues, market based revenues, and other energy revenues primarily from cost recovery agreements, and revenue from hydroelectric Energy Supply Agreements.

<sup>3</sup> Revenues for other electricity generators are calculated as the sum of hourly Ontario demand multiplied by the hourly Ontario electricity price (HOEP) plus total global adjustment payments, plus the sum of hourly net exports multiplied by the HOEP, less OPG's generation revenue.

<sup>4</sup> "Funds from operations interest coverage" and "Return on equity" are non-GAAP financial measures and do not have any standardized meaning prescribed by US GAAP. Additional information about these measures is provided in OPG's Management's Discussion and Analysis for the period ended June 30, 2013, under the heading, *Supplementary Non-GAAP Financial Measures*.

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, 2013, 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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**ONTARIO POWER GENERATION INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**2013 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 Company) as at and for the three and six month periods ended June 30, 2013. For a complete description of OPG's corporate strategies, risk management, corporate governance, related party 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, 2012.

As required by Ontario Regulation 395/11, as amended, a regulation under the *Financial Administration Act* (Ontario) (FAA), OPG adopted United States generally accepted accounting principles (US GAAP) for the presentation of its consolidated financial statements, effective January 1, 2012. The Ontario Securities Commission also approved OPG's adoption of US GAAP for financial years that begin on or after January 1, 2012, but before January 1, 2015. OPG's unaudited interim consolidated financial statements are prepared in accordance with US GAAP and are presented in Canadian dollars. This MD&A is dated August 14, 2013.

### 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, generating station performance, cost of fixed asset removal and nuclear waste management, performance of investment funds, 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, electricity spot market prices, proposed new legislation, the ongoing evolution of the Ontario electricity industry, environmental and other regulatory requirements, health, safety and environmental developments, business continuity events, the weather, 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 was established under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (Province).

OPG operates two nuclear generating stations, five thermal generating stations, 65 hydroelectric generating stations, and two wind power turbines. OPG and TransCanada Energy Ltd. co-own the Portlands Energy Centre (PEC) gas-fired combined cycle generating station (GS). OPG and ATCO Power Canada Ltd. co-own the Brighton Beach gas-fired combined cycle GS. The income of the co-owned facilities is reflected in other income. OPG also owns two other nuclear generating stations, which are leased on a long-term basis to Bruce Power L.P. (Bruce Power). Income from these leased stations is included in revenue under the Regulated – Nuclear Generation segment. These co-owned facilities and leased stations are not included in the generation portfolio statistics set out in this report. A description of OPG's segments is provided in OPG's 2012 annual MD&A under the heading, *Business Segments*.

In August 2013, OPG received a five-year operating licence which combines the Pickering A and B generating stations' licences into a single-site licence. Since 2012, the Pickering station has operated as a single six-unit site.

The in-service generating capacity by business segment as of June 30, 2013 and December 31, 2012 was as follows:

(MW)	As at	
	June 30 2013	December 31 2012
Regulated – Nuclear Generation	6,606	6,606
Regulated – Hydroelectric	3,312	3,312
Unregulated – Hydroelectric	3,683	3,684
Unregulated – Thermal <sup>1</sup>	5,447	5,447
Other	2	2
<b>Total</b>	<b>19,050</b>	<b>19,051</b>

<sup>1</sup> Includes the capacity of the Atikokan GS, which is being converted to use biomass commencing in 2014.

As a result of a Shareholder declaration issued in March 2013 mandating that OPG cease the use of coal at the Nanticoke and Lambton generating stations by the end of 2013, the in-service generating capacity of the Unregulated – Thermal segment is expected to decrease by 2,830 MW by December 31, 2013.



## 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*.

(millions of dollars – except where noted)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Revenue	<b>1,190</b>	1,125	<b>2,445</b>	2,324
Fuel expense	<b>172</b>	165	<b>355</b>	357
Gross margin	<b>1,018</b>	960	<b>2,090</b>	1,967
<i>Expenses</i>				
Operations, maintenance and administration	<b>643</b>	669	<b>1,343</b>	1,304
Depreciation and amortization	<b>242</b>	142	<b>484</b>	331
Accretion on fixed asset removal and nuclear waste management liabilities	<b>190</b>	176	<b>379</b>	363
Earnings on nuclear fixed asset removal and nuclear waste management funds	<b>(173)</b>	(110)	<b>(297)</b>	(320)
Restructuring	-	1	<b>2</b>	2
Property and capital taxes	<b>14</b>	13	<b>29</b>	27
	<b>916</b>	891	<b>1,940</b>	1,707
Income before other (income) loss, interest and income taxes	<b>102</b>	69	<b>150</b>	260
Other (income) loss	<b>(13)</b>	3	<b>(22)</b>	(5)
Net interest expense	<b>20</b>	31	<b>45</b>	63
Income tax expense (recovery)	<b>22</b>	(8)	<b>26</b>	5
Net income	<b>73</b>	43	<b>101</b>	197
<i>Electricity production (TWh)</i>	<b>19.9</b>	20.5	<b>41.0</b>	42.5
<i>Cash flow</i>				
Cash flow provided by operating activities	<b>347</b>	101	<b>592</b>	212

### Second Quarter

Net income increased by \$30 million during the second quarter of 2013, compared to the same quarter in 2012. The following summarizes the significant items which caused the variance in net income:

#### *Significant factors that increased net income*

- Earnings on the nuclear fixed asset removal and nuclear waste management funds (Nuclear Funds) increased by \$63 million. Higher earnings in the second quarter of 2013, compared to the same period in 2012, were primarily a result of a decrease in the valuation levels of global equity markets during the second quarter of 2012 that reduced earnings from the Decommissioning Segregated Fund (Decommissioning Fund).
- Higher revenue of \$41 million from the Unregulated – Hydroelectric segment primarily due to higher electricity spot market prices and higher generation volume.
- Lower operations, maintenance and administration (OM&A) expenses of \$26 million primarily due to headcount reductions and the implementation of other operating efficiencies.

*Significant factors that reduced net income:*

- Decrease in revenue of \$46 million as a result of lower nuclear generation.
- Higher expense of \$37 million during the second quarter of 2013, compared to the same quarter in 2012, due to the recognition of the Nuclear Liability Deferral Account (NLDA) regulatory asset in the second quarter of 2012. The recognition of a regulatory asset in June 2012, as a result of the approval of the 2012 Ontario Nuclear Funds Agreement (ONFA) Reference Plan, reduced expenses related to the six month period from January to June 2012.

Year-To-Date

Net income decreased by \$96 million during the first six months of 2013, compared to the same period in 2012. The following summarizes the significant items which caused the variance in net income:

*Significant factors that reduced net income*

- Decrease in revenue of \$96 million due to lower nuclear generation.
- Higher OM&A expenses of \$39 million in the first half of 2013, compared to the same period in 2012, primarily due to lower OPEB expenses in 2012 resulting from the recognition of a regulatory asset for the Impact for USGAAP Deferral Account (US GAAP Deferral Account) established by the OEB in 2012.
- Decrease in earnings of \$23 million from the Nuclear Funds primarily due to lower earnings from the Decommissioning Fund as a result of it being in an overfunded position. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes by recording a payable to the Province.

*Significant factors that increased net income*

- Increase in revenue of \$75 million from the Unregulated – Hydroelectric segment primarily due to higher electricity spot market prices.
- Higher earnings from the thermal segment primarily as a result of higher contract revenues for the Nanticoke, Lambton, and Lennox generating stations.

**Segment Results**

The following table summarizes OPG's income before interest and income taxes by segment for the three and six month periods ended June 30, 2013 and 2012.

<i>(millions of dollars)</i>	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<i>Income (loss) before interest and income taxes</i>				
Regulated – Nuclear Generation	<b>15</b>	77	<b>2</b>	166
Regulated – Hydroelectric	<b>91</b>	87	<b>181</b>	183
Unregulated – Hydroelectric	<b>34</b>	(9)	<b>69</b>	(5)
Unregulated – Thermal	<b>(30)</b>	(27)	<b>(40)</b>	(59)
Total electricity generation business segments	<b>110</b>	128	<b>212</b>	285
Regulated – Nuclear Waste Management	<b>(15)</b>	(64)	<b>(78)</b>	(40)
Other	<b>20</b>	2	<b>38</b>	20
Total income before interest and income taxes	<b>115</b>	66	<b>172</b>	265

OPG's income before interest and income taxes from the electricity generation business segments decreased by \$18 million for the three months ended June 30, 2013 and \$73 million for the six months ended June 30, 2013, compared to the same periods in 2012. The decrease was primarily due to lower nuclear generation and the recognition of a regulatory asset during the second quarter of 2012 related to the approval of the 2012 ONFA

Reference Plan. This decrease was partially offset by higher earnings from the Unregulated – Hydroelectric segment.

The decrease in the loss before interest and income taxes for the Regulated – Nuclear Waste Management business segment for the three months ended June 30, 2013, compared to the same period in 2012, was primarily a result of higher earnings from the Decommissioning Fund. For the six months ended June 30, 2013, the loss before interest and income taxes increased, compared to the same period in 2012, primarily as a result of lower earnings from the Decommissioning Fund.

### Electricity Generation

Electricity generation for the three and six month periods ended June 30, 2013 and 2012 was as follows:

(TWh)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Regulated – Nuclear Generation	10.9	11.7	22.5	24.2
Regulated – Hydroelectric	4.5	4.8	9.2	9.7
Unregulated – Hydroelectric	4.1	3.3	7.7	6.9
Unregulated – Thermal	0.4	0.7	1.6	1.7
Total OPG electricity generation	19.9	20.5	41.0	42.5
Total electricity generation by all other generators in Ontario	16.8	15.7	35.8	32.2

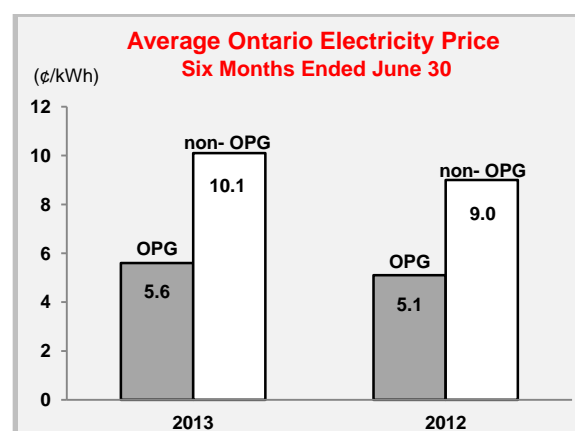
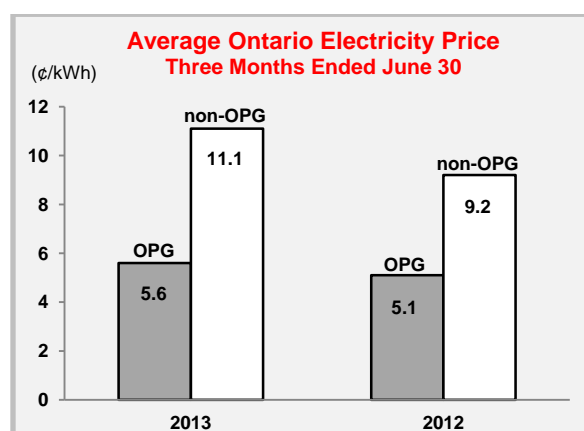
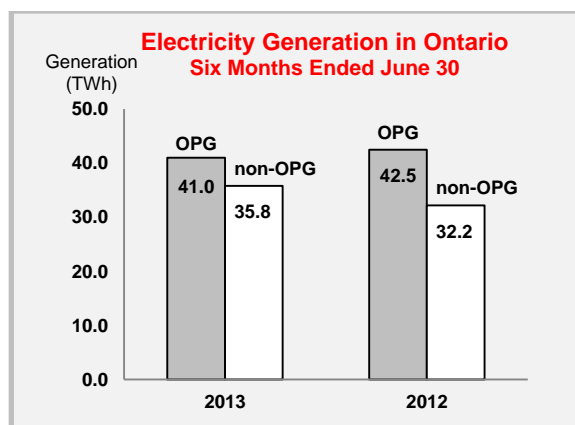
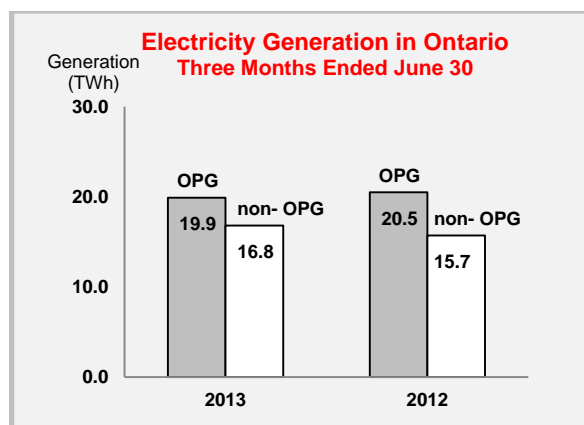
The 0.6 terawatt hours (TWh) decrease in total OPG electricity generation during the second quarter of 2013 was due to lower electricity generation from the Regulated – Nuclear Generation, the Regulated – Hydroelectric, and Unregulated – Thermal segments, partially offset by higher electricity generation from the Unregulated – Hydroelectric segment.

Electricity generation from the Regulated – Nuclear Generation segment decreased by 0.8 TWh during the second quarter of 2013, compared to the same quarter in 2012. The decrease in generation was primarily due to an increase in planned and unplanned outage days at the Pickering GS. The generation from the Darlington GS increased slightly during the second quarter in 2013, compared to the same quarter in 2012, primarily due to a decrease in planned outage days, largely offset by an extension to a planned outage and higher unplanned outage days.

The lower generation from the Regulated – Hydroelectric segment during the second quarter of 2013, compared to the same quarter in 2012, was primarily due to lower water levels on the Great Lakes. Higher generation from the Unregulated – Hydroelectric segment during the second quarter of 2013, compared to the same quarter in 2012, was primarily due to higher water levels on many river systems in Ontario.

The decrease in total electricity generated during the six months ended June 30, 2013 from OPG's generating stations was primarily due to lower generation from OPG's regulated segments, partially offset by higher generation from the Unregulated – Hydroelectric segment.

The decrease in nuclear generation during the six months ended June 30, 2013, compared to the same period in 2012, was primarily a result of extensions to planned outages at Pickering GS and Darlington GS. The decrease in regulated hydroelectric generation resulted from lower water levels on the Great Lakes.



### Average Sales Prices and Average Revenue

The average sales prices and average revenue were as follows:

(¢/kWh)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Weighted average hourly Ontario electricity price (HOEP)	2.6	2.0	2.8	2.0
Regulated – Nuclear Generation <sup>1</sup>	5.7	5.5	5.7	5.5
Regulated – Hydroelectric <sup>1</sup>	4.0	3.5	3.9	3.5
Unregulated – Hydroelectric <sup>1</sup>	2.6	2.0	2.8	2.1
Unregulated – Thermal <sup>1</sup>	1.7	2.0	2.6	2.0
Average revenue for OPG <sup>2</sup>	5.6	5.1	5.6	5.1
Average revenue for all electricity generators, excluding OPG <sup>3</sup>	11.1	9.2	10.1	9.0

<sup>1</sup> Average sales prices are computed as net market generation revenue divided by net generation volume.

<sup>2</sup> Average revenue for OPG is comprised of regulated revenues, market based revenues, and other energy revenues primarily from agreements for the Nanticoke, Lambton and Lennox generating stations, and revenue from hydroelectric Energy Supply Agreements.

<sup>3</sup> Revenues for other electricity generators are calculated as the sum of hourly Ontario demand multiplied by the HOEP, plus total global adjustment payments, plus the sum of hourly net exports multiplied by the HOEP, less OPG's generation revenue.

The increase in the average sales prices for OPG's regulated segments for the three and six month periods ended June 30, 2013, compared to the same periods in 2012, was a result of the OEB's approval of new rate riders, effective January 1, 2013. These rate riders were established to collect amounts that were previously recorded in variance and deferral accounts and, therefore, do not materially affect income.

Average sales prices for OPG's unregulated hydroelectric segment increased for the three and six month periods ended June 30, 2013, compared to the same periods in 2012, primarily due to the impact of higher Ontario electricity spot market prices. The increase in the HOEP for the three and six month periods ended June 30, 2013, compared to the same periods in 2012, was primarily due to higher natural gas prices, partially offset by the impact of higher hydroelectric and non-OPG nuclear generation.

### **Cash Flow from Operations**

Cash flow provided by operating activities for the three months ended June 30, 2013 was \$347 million, compared to \$101 million for the same quarter in 2012. The increase was primarily due to the impact of higher cash receipts from generation revenues.

Cash flow provided by operating activities for the six months ended June 30, 2013 was \$592 million, compared to \$212 million for the same period in 2012. The increase was primarily due to the impact of higher cash receipts from generation revenue, and an additional voluntary contribution to the pension fund in the first quarter of 2012.

### **Funds from Operations Interest Coverage**

Funds from Operations (FFO) Interest Coverage is an indicator of OPG's ability to meet interest obligations from operating cash flows. FFO Interest Coverage is measured over a 12-month period. FFO Interest Coverage was 2.9 times and 2.2 times for the twelve months ended June 30, 2013 and December 31, 2012, respectively. The FFO Interest Coverage increased primarily due to higher cash flows provided by operating activities.

### **Return on Equity**

Return on Equity (ROE) is an indicator of OPG's performance consistent with its objectives to operate on a financially sustainable basis and to maintain value for the Shareholder. ROE is measured over a 12-month period.

ROE for the twelve months ended June 30, 2013 was 3.0 percent and 4.2 percent for December 31, 2012. ROE decreased for the period primarily due to lower net income and higher average shareholder's equity, excluding accumulated other comprehensive income (AOCI). The lower net income was primarily due to lower earnings from the Regulated – Nuclear Generation segment.

OPG's ROE in 2013 reflects low levels of income primarily due to low electricity spot market prices, low income from the Regulated – Nuclear Generation segment, and a relatively high equity component in OPG's capital structure.

FFO Interest Coverage and ROE are not measurements in accordance with US GAAP and should not be considered as an alternative measure to net income, cash flows from operating activities, or any other measure of performance under US GAAP. OPG believes that these non-GAAP financial measures are effective indicators of performance and are consistent with the corporate strategy to operate on a financially sustainable basis. The definitions and calculation of FFO Interest Coverage and ROE can be found under the heading, *Supplementary Non-GAAP Financial Measures*.

### **Recent Developments**

#### Court of Appeal Decision on OEB Ruling

In June 2013, the Court of Appeal for Ontario granted OPG's appeal of the Divisional Court of Ontario's decision regarding the March 2011 OEB ruling, which disallowed recovery in regulated prices of a portion of OPG's nuclear compensation costs. As a result, the OEB's decision in this area is set aside, and the matter will be sent back to the

OEB for a re-hearing. The OEB may seek leave to appeal the decision to the Supreme Court of Canada. The OEB has until early September 2013 to decide whether it will seek such an appeal.

#### New Post Creek

In June 2013, the Minister of Energy directed the Ontario Power Authority (OPA) to negotiate a power purchase agreement for the proposed 25 MW New Post Creek hydroelectric generating station. The station is expected to be constructed through a partnership between OPG and Coral Rapids Power L.P., a wholly owned subsidiary of Taykwa Tagamou Nation. The Environmental Assessment for the project is expected to be completed by the end of 2013.

#### Renewable Energy

In June 2013, the Minister of Energy issued a Feed-in-Tariff Program Directive to the OPA regarding the Province's renewable energy program. Under this directive, OPG is permitted to compete in the procurement process for large renewable energy initiatives.

### **CORE BUSINESS AND STRATEGY**

OPG's mandate is to reliably and cost-effectively produce electricity from its diversified portfolio of generating assets, while operating in a safe, open, and environmentally responsible manner. OPG's goal is to be Ontario's low cost electricity generator of choice with a focus on three corporate strategies:

- Performance Excellence.
- Project Excellence.
- Financial Sustainability.

The following sections provide an update to OPG's disclosures related to performance excellence, project excellence, and financial sustainability. A detailed discussion of OPG's three corporate strategies is included in the 2012 annual MD&A, under the headings *Performance Excellence*, *Project Excellence*, and *Financial Sustainability*.

#### **Performance Excellence**

OPG is committed to performance excellence in the areas of generation, the environment, and safety.

#### Nuclear Generating Assets

Nuclear practices and processes are continually benchmarked against top performing nuclear facilities around the world. This facilitates the identification, development and implementation of initiatives to further improve performance. In July 2013, the Pickering GS received its best ever safety and performance industry peer review evaluation. This achievement demonstrates OPG's strong focus on safety and our commitment to performance excellence and reliability.

During 2013, OPG continues to execute planned outage programs at Pickering which are focused on improving the reliability of the station and extending the operating lives of Units 5 to 8 for approximately an additional four to six years.

In 2012, OPG applied to the Canadian Nuclear Safety Commission (CNSC) for a five-year operating licence, which combines the Pickering A and B generating stations' licences into a single-site licence. Following the CNSC public hearings on OPG's application, the CNSC approved the five-year single-site licence in August 2013. A regulatory hold point has been added to the licence. To satisfy removal of the hold point, OPG must provide additional safety assessments in a future proceeding with public participation, as required by the CNSC. The CNSC, in its record of decision, also directs OPG to produce an emergency management public information document for area residents by June 2014.

During the second quarter of 2013, the CNSC renewed the licence of OPG's Darlington Waste Management Facility, which is located at the Darlington site, to April 30, 2023. The facility operates under a separate licence and provides dry fuel storage for the Darlington nuclear reactors. The renewal includes potential expansion of the facility to accommodate the retube waste from the refurbishment of the reactors at Darlington and used fuel from continued operation post refurbishment.

During the second quarter of 2013, production and reliability at the Pickering GS was unfavourably affected by an increase in outage days, which is discussed under the headings *Electricity Generation* and *Regulated – Nuclear Generation Segment*.

#### Hydroelectric Generating Assets

With the consideration of current and future electricity market conditions, OPG continues to evaluate and implement plans to increase capacity and maintain the hydroelectric generating assets. In March 2013, the Niagara Tunnel was completed and declared in-service. It provides an additional water diversion capacity of approximately 500 cubic metres per second, and will increase annual generation from the Sir Adam Beck GS by an average of approximately 1.5 TWh, depending on water flow.

#### Thermal Generating Assets

During the first quarter of 2013, OPG and the Independent Electricity System Operator (IESO) signed a Reliability Must Run contract for one unit at the Thunder Bay GS, for January 1, 2013 to December 31, 2013. The contract was approved by the OEB in July 2013, and is expected to provide additional revenue of approximately \$40 million during 2013.

OPG is continuing its work regarding the feasibility of burning advanced biomass at the Thunder Bay GS.

#### Environmental Performance

During the second quarter of 2013, there were no significant changes to environmental legislation and environmental risks affecting the Company. For the six months ended June 30, 2013, CO<sub>2</sub> and acid gas (SO<sub>2</sub> and NO<sub>x</sub>) emissions from OPG's coal-fired stations were as follows:

	Six Months Ended June 30	
	2013	2012
CO <sub>2</sub> (million tonnes)	1.9	2.0
SO <sub>2</sub> and NO <sub>x</sub> (gigagrams)	6.9	7.7

CO<sub>2</sub> and acid gas emissions decreased during the first six months of 2013, compared to the same period in 2012, as a result of lower generation from OPG's coal-fired stations. Disclosures relating to environmental policies and procedures, and environmental risks are provided in the 2012 annual MD&A.

## Project Excellence

OPG is pursuing a number of projects, including a number of significant generation development projects. The status updates for OPG's major projects as of June 30, 2013 are outlined below.

Project <i>(millions of dollars)</i>	Capital expenditures		Approved budget	Planned in-service date	Status
	Year-to-date	Life-to-date			
Darlington Refurbishment	198	560			This project is part of Ontario's Long-Term Energy Plan. A detailed cost and schedule estimate for the refurbishment of the four units is expected to be completed in 2015. See update below.
Niagara Tunnel	80	1,455	1,600	December 2013	Completed and declared in-service in March 2013 below the approved budget and ahead of the approved project completion date.
Lower Mattagami	333	1,686	2,600	June 2015	Construction continues. Project is on budget and on schedule. See update below.
Deep Geologic Repository for Low and Intermediate Level Waste <sup>1</sup>	9 <sup>1</sup>	155 <sup>1</sup>			The public review period for the Environmental Assessment approval and a site preparation and construction licence ended in May 2013. The public hearing for the Environmental Assessment and the licence will be held in the fall of 2013. Design activities are suspended pending a licence from the Joint Review Panel.
Atikokan Biomass Conversion	42	101	170	August 2014	Construction continues. Project is on budget and on schedule.

<sup>1</sup> Expenditures are funded by the nuclear fixed asset removal and nuclear waste management liabilities.

### Darlington Refurbishment

The Darlington Refurbishment project is currently in the definition phase. In July 2013, OPG received the CNSC's final assessment of the Integrated Safety Review (ISR), which confirmed that the ISR meets applicable regulatory requirements.

The Darlington Energy Complex (Complex) was placed in-service in June 2013. The Complex will house a training and reactor mock-up facility, warehouse, and office space to support the Darlington Refurbishment project. In May 2013, OPG commenced the construction of the Darlington reactor full-scale mock-up facility. This includes structural steel construction of a section of the reactor vault and the completion of preliminary designs for all specialized tooling. Tooling fabrication of carefully designed specialized equipment will begin once the detailed designs are complete. The reactor mock-up facility and specialized tooling are expected to be completed by the second quarter of 2014 to allow for tooling testing and training to commence.



### Lower Mattagami

The Lower Mattagami River project is expected to be completed on plan by June 2015 within the approved budget of \$2.6 billion. OPG has finalized and executed a remediation plan regarding a cofferdam breach at the Kipling site, and construction activity resumed at the Kipling site in May 2013. Construction activity at the Little Long site is currently ahead of schedule, with the station expected to be in-service in the fourth quarter of 2013.

### New Nuclear

In June 2013, submissions were received from Westinghouse Electric Canada Inc. and SNC-Lavalin Nuclear Inc./Candu Energy Inc., in accordance with their respective service agreements. The submissions included detailed construction plans, schedule and cost estimates for two potential nuclear reactors at Darlington. The submissions will be analyzed by representatives from OPG, the Ministry of Energy, the Ministry of Finance, and Infrastructure Ontario. A report will be submitted to the Province, who will decide on whether to move forward with new nuclear reactors.

In 2012, the Power Reactor Site Preparation Licence and Darlington New Nuclear Project Environmental Assessment were challenged by way of judicial review. The hearing for the judicial review of the licence and the environmental assessment is set for November 2013.

### **Financial Sustainability**

OPG's financial priority, as a commercial enterprise, is to consistently achieve a level of financial performance that will ensure its long-term financial sustainability, and increase the value of its assets for its Shareholder – the Province of Ontario. Inherent in this priority are three objectives:

- Enhance profitability by increasing revenue.
- Improve efficiency and reduce costs.
- Ensure a strong financial position that improves OPG's ability to cost effectively finance its operations and projects.

### Revenue Growth

OPG's revenue strategy focuses on revenue growth, while taking into account the impact on Ontario electricity ratepayers. Currently, OPG has multiple sources of revenue, including:

- Regulated revenue from nuclear and most baseload hydroelectric generating facilities (Prescribed Facilities);
- Unregulated revenue based on electricity spot market prices for production from certain unregulated hydroelectric facilities;
- Contract revenue from energy supply and cost recovery agreements for the remaining unregulated facilities; and
- Non-generation revenues.

Current regulated prices do not fully recover the costs of regulated operations, and therefore do not provide an appropriate return, thereby negatively affecting OPG's financial performance. OPG has made substantial investments in new generating capacity over the last decade, and significantly transformed its operations in the last few years to achieve higher efficiency. In order to generate an acceptable return on its assets and future investments, maintain its credit rating, and continue to contribute positively to the Province's financial position, it is anticipated that an increase in regulated prices will be required. OPG's average revenue per unit of generation is expected to remain significantly below the average revenue received by its competitors.

In the first quarter of 2013, following OPG's 2012 application, the OEB approved a settlement agreement that allows OPG to recover \$633 million over the 2013/2014 period related to balances in variance and deferral accounts as at December 31, 2012.

The OEB issued an order establishing the following new rate riders over the period from March 1, 2013 to December 31, 2014.

(\$/MWh)	Nuclear	Hydroelectric
2013 rate riders	6.27	3.04
2013 interim period rate riders <sup>1</sup>	0.41	0.58
Rate riders for the period March 1, 2013 to December 31, 2013	6.68	3.62
Rate riders for 2014	4.18	2.02

<sup>1</sup> The interim period rate riders were authorized by the OEB to allow for the recovery of the retroactive increase in the riders to January 1, 2013, resulting in a revenue accrual during the first quarter for the period from January 1, 2013 to February 28, 2013.

The remaining balances in the variance and deferral accounts as at December 31, 2012 are expected to be recovered over a number of years. The additional revenue from the settlement agreement reflects the collection of balances related to prior periods. OPG plans to file an application with the OEB later in 2013 for new regulated prices, to be effective in 2014.

A portion of OPG's electricity production is unregulated and sold at the Ontario electricity spot market price. Despite an increase in the average spot market price during the first half of 2013, compared to the same period in 2012, OPG's unregulated revenues remain insufficient to fully recover costs and provide an appropriate return. OPG is exploring options to recover costs and earn an appropriate return from these assets.

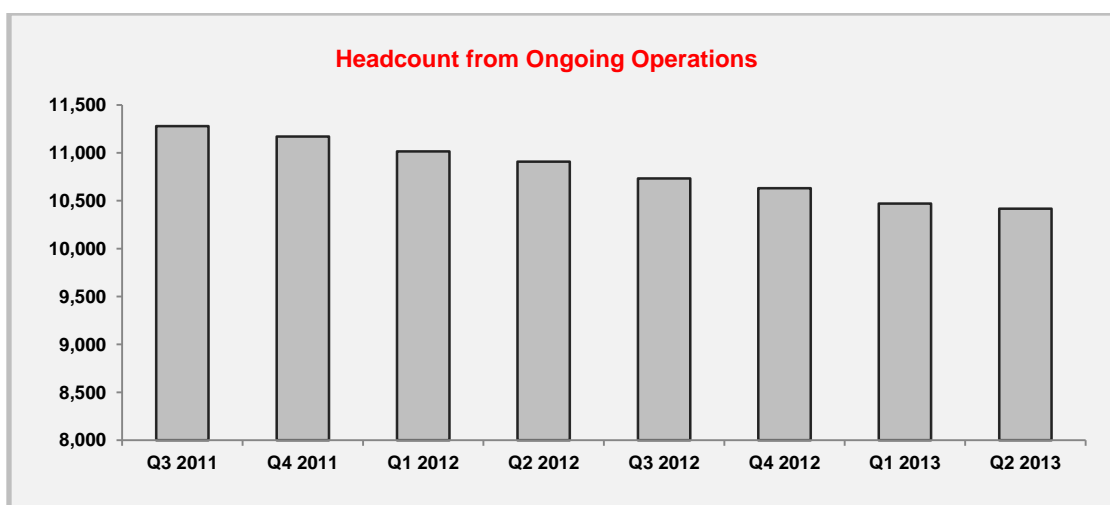
OPG has negotiated energy supply and cost recovery agreements for certain of its unregulated hydroelectric and thermal assets.

A description of OPG's revenue sources is provided in OPG's 2012 annual MD&A under the heading, *Financial Sustainability*.

#### Improving Efficiency and Reducing Costs

OPG is aggressively pursuing opportunities to implement efficiency and productivity improvements, while reducing costs. To accomplish this objective, OPG launched a multi-year business transformation initiative to streamline the company and implement a sustainable cost structure. This will enable OPG to continue moderating consumer electricity prices and attract new generation development opportunities in support of Ontario's Long-Term Energy Plan.

Headcount from ongoing operations continues to decline. The decline in headcount was achieved primarily through attrition and vacancy management. Business transformation initiatives continued to progress during the second quarter of 2013. In May 2013, OPG initiated non-surplus staff redeployment processes with both the Power Workers' Union and the Society of Energy Professionals, to move to the centre-led business model implemented under business transformation.



#### Strengthening Financial Position

OPG's initiatives to increase revenue, achieve efficiencies, and reduce costs will serve to strengthen its financial position. To operate on a financially sustainable basis and maintain the value of its assets for its Shareholder, OPG strives to strengthen its financial position by: maintaining an investment grade credit rating; ensuring economic and prudent allocation of capital; ensuring sufficient liquidity; ensuring all major generation development projects are economic; and providing for recovery of costs and an appropriate return on investment.

## **DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT**

### **Regulated – Nuclear Generation Segment**

<i>(millions of dollars)</i>	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Regulated generation sales	<b>618</b>	648	<b>1,282</b>	1,340
Variance accounts	<b>82</b>	4	<b>8</b>	50
Other	<b>(3)</b>	68	<b>146</b>	103
Total revenue	<b>697</b>	720	<b>1,436</b>	1,493
Fuel expense	<b>71</b>	77	<b>145</b>	152
Variance and deferral accounts	<b>(14)</b>	(20)	<b>(26)</b>	(24)
Total fuel expense	<b>57</b>	57	<b>119</b>	128
Gross margin	<b>640</b>	663	<b>1,317</b>	1,365
Operations, maintenance and administration	<b>463</b>	486	<b>990</b>	948
Depreciation and amortization	<b>155</b>	94	<b>311</b>	238
Property and capital taxes	<b>8</b>	6	<b>15</b>	13
Other income	<b>(1)</b>	-	<b>(1)</b>	-
Income before interest and income taxes	<b>15</b>	77	<b>2</b>	166

Income before interest and income taxes was \$15 million during the three months ended June 30, 2013, compared to \$77 million for the same quarter in 2012. This decrease was primarily due to lower generation, partially offset by lower OM&A expenses.

Gross margin for the second quarter of 2013, compared to the same quarter in 2012, decreased primarily due to lower generation of 0.8 TWh, which resulted in a \$46 million reduction in revenue. This decrease in gross margin

was partially offset by an increase in revenue of \$21 million resulting from the new rate riders for nuclear generation, effective January 1, 2013. The rate riders were established to collect amounts previously recorded in variance and deferral accounts. The collection of these amounts does not materially affect income, as it is largely offset by higher amortization expense related to the regulatory variance and deferral accounts. The rate riders also include a refund to ratepayers for the impact of the lower depreciation expense related to the changes in the station lives of the Pickering GS.

The \$23 million decrease in OM&A expenses during the second quarter of 2013, compared to the same quarter in 2012, was primarily due to headcount reductions and the implementation of other operating efficiencies. Pension and OPEB costs increased in the second quarter of 2013 due to lower discount rates. However, this increase was largely offset by amounts recorded in the Pension and OPEB Cost Variance Account.

Depreciation and amortization expenses increased by \$61 million during the second quarter of 2013, compared to the same quarter in 2012, primarily due to the increase from the amortization of regulatory variance and deferral accounts related to the establishment of the new rate riders, effective January 1, 2013. The amortization impact of the regulatory balances was largely offset by a corresponding increase in the revenue related to the new rate riders, as discussed above. The increase in depreciation and amortization expenses during the second quarter of 2013, compared to the same quarter in 2012, was also a result of the recognition of the NLDA regulatory asset in the second quarter of 2012 and the related reduction in expenses.

The increase in depreciation and amortization expenses was partially offset by lower depreciation expense as a result of the change in station lives at the Pickering GS, net of the impact of the NLDA. The benefit of this decrease in depreciation expense is being refunded to ratepayers through the new nuclear rate rider.

The decrease in other revenue was primarily due to the increase in the fair value of the derivative liability, during the second quarter of 2013, embedded in the terms of the Bruce Power lease agreement (Bruce Lease). The change in the fair value of this derivative is recorded in other revenue, with a corresponding change in the regulatory asset related to the Bruce Lease Net Revenues Variance Account. As such, there was no income impact related to the change in the fair value of the derivative liability.

Income before interest and income taxes during the six months ended June 30, 2013 decreased by \$164 million primarily due to lower generation and an increase in OM&A expenses. This impact of higher generation revenue due to new rate riders during the six months ended June 30, 2013, compared to the same period in 2012, was offset by a corresponding increase in amortization expenses related to regulatory variance and deferral accounts.

The increase in OM&A expenses during the six months ended June 30, 2013, compared to same period in 2012, was primarily due to lower OPEB expenses during the first quarter of 2012 resulting from the recognition of a regulatory asset for the US GAAP Deferral Account, and higher nuclear outage costs.

The unit capability factors for the Darlington GS and Pickering GS, and the Production Unit Energy Cost (PUEC) for the three and six month periods ended June 30, 2013 and 2012 are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Unit Capability Factor (%)				
Darlington GS	85.9	85.6	85.0	90.6
Pickering GS	65.9	79.3	72.4	78.1
Nuclear PUEC (\$/MWh)	46.94	45.74	48.54	43.34

The unit capability factor at the Darlington GS for the three months ended June 30, 2013 increased slightly compared to the same period in 2012. The slight increase was primarily due to a decrease in planned outage days, largely offset by an extension to a planned outage and higher unplanned outage days. The unit capability factor at the

Pickering GS for the three months ended June 30, 2013 decreased compared to the same period in 2012. The decrease was as a result of an increase in planned and unplanned outage days at the station.

The decrease in the unit capability factors at the Pickering GS and Darlington GS for the six months ended June 30, 2013, compared to the same period in 2012, was primarily a result of extensions to planned outages.

Nuclear PUEC increased during the three and six month periods ended June 30, 2013, compared to the same period in 2012, primarily due to lower generation.

### Regulated – Nuclear Waste Management Segment

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Revenue	<b>28</b>	26	<b>53</b>	50
Operations, maintenance and administration	<b>30</b>	28	<b>57</b>	54
Accretion on nuclear fixed asset removal and nuclear waste management liabilities	<b>186</b>	172	<b>371</b>	356
Earnings on nuclear fixed asset removal and nuclear waste management funds	<b>(173)</b>	(110)	<b>(297)</b>	(320)
Loss before interest and income taxes	<b>(15)</b>	(64)	<b>(78)</b>	(40)

The segment earnings for the second quarter of 2013 improved by \$49 million compared to the same period in 2012. The improvement was primarily due to lower second quarter earnings from the Nuclear Funds in 2012, due to a decrease in the valuation level of global equity markets, which resulted in a loss from the Decommissioning Fund.

The loss before interest and income taxes increased for the six months ended June 30, 2013, compared to the same period in 2012, as a result of lower earnings primarily from the Decommissioning Fund and higher accretion expense. The reduced earnings for the Decommissioning Fund resulted from it being in an overfunded position. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes by recording a payable to the Province.

## Regulated – Hydroelectric Segment

(millions of dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Regulated generation sales <sup>1</sup>	<b>180</b>	167	<b>363</b>	336
Variance accounts	<b>21</b>	15	<b>32</b>	18
Other	<b>15</b>	6	<b>22</b>	12
Total revenue	<b>216</b>	188	<b>417</b>	366
Fuel expense	<b>61</b>	65	<b>111</b>	119
Variance accounts	<b>8</b>	4	<b>10</b>	3
Total fuel expense	<b>69</b>	69	<b>121</b>	122
Gross margin	<b>147</b>	119	<b>296</b>	244
Operations, maintenance and administration	<b>24</b>	24	<b>50</b>	45
Depreciation and amortization	<b>32</b>	9	<b>64</b>	17
Property and capital taxes	-	(1)	<b>1</b>	(1)
Income before interest and income taxes	<b>91</b>	87	<b>181</b>	183

<sup>1</sup> During the three months ended June 30, 2013 and 2012, the Regulated – Hydroelectric segment generation sales included revenue of \$5 million related to the hydroelectric incentive mechanism. During the six months ended June 30, 2013 and 2012, the Regulated – Hydroelectric segment generation sales included revenue of \$7 million related to the hydroelectric incentive mechanism.

The income before interest and income taxes for the three and six month periods ended June 30, 2013, was comparable with the income for the same periods in 2012.

The increase in gross margin for the three and six month periods ended June 30, 2013, compared to the same periods in 2012, was primarily due to an increase in revenue of \$21 million as a result of the new rate riders, effective January 1, 2013. The revenue impact of the new rate riders was largely offset by a corresponding increase in amortization expense related to the regulatory variance and deferral accounts. The higher depreciation expense associated with the Niagara Tunnel being declared in-service in March 2013 was offset by a regulatory asset related to the Capacity Refurbishment Variance Account.

The increase in OM&A expenses during the first half of 2013, compared to the same period in 2012, was mainly a result of an increase in maintenance activities. The increase in OM&A expenses was also due to a decrease in OPEB expenses during the first quarter of 2012, due to the recognition of a regulatory asset for the US GAAP Deferral Account.

The Regulated – Hydroelectric availability, Equivalent Forced Outage Rate (EFOR) and OM&A expense per megawatt hour (MWh) for the three and six month periods ended June 30, 2013 and 2012 are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Availability (%)	<b>91.1</b>	90.0	<b>90.5</b>	91.1
EFOR (%)	<b>0.5</b>	0.8	<b>0.3</b>	1.4
Regulated – Hydroelectric OM&A expense per MWh (\$/MWh)	<b>5.33</b>	5.00	<b>5.43</b>	4.64

The increase in availability during the second quarter of 2013, compared to the same quarter in 2012, was primarily due to lower planned and unplanned outage days at the Sir Adam Beck 1 GS. The decrease in availability during the first half of 2013, compared to the same period in 2012, was primarily due to an increase in planned outage days at the Sir Adam Beck 1 GS during the first quarter of 2013.

The high availability and low EFOR for the three and six month periods ended June 30, 2013 reflected the continued good performance of these regulated generating stations.

The increase in OM&A expense per MWh for the second quarter of 2013, compared to the same quarter in 2012, was due to lower generation. The increase in OM&A expense per MWh during the six months ended June 30, 2013, compared to the same quarter in 2012, was as a result of higher OM&A expenses and lower generation.

### Unregulated – Hydroelectric Segment

(millions of dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Spot market sales	105	65	216	145
Other	25	24	46	42
Total revenue	130	89	262	187
Fuel expense	23	16	41	36
Gross margin	107	73	221	151
Operations, maintenance and administration	54	62	113	118
Depreciation and amortization	19	20	37	38
Income before other loss, interest and income taxes	34	(9)	71	(5)
Other loss	-	-	2	-
Income (loss) before interest and income taxes	34	(9)	69	(5)

Income before interest and income taxes increased for the three and six month periods ended June 30, 2013, compared to the same periods in 2012. The increase was primarily due to a higher weighted average HOEP during the first half of 2013, compared to the same period in 2012. Gross margin also increased as a result of higher generation during the three and six month periods ended June 30, 2013, compared to the same periods in 2013. The increase in generation was primarily due to higher water levels.

The increase in income before interest and income taxes for the three and six month periods ended compared to the same periods in 2012, was also due to lower OM&A expenses primarily resulting from lower maintenance costs.

The Unregulated – Hydroelectric availability, EFOR and OM&A expense per MWh for the three and six month periods ended June 30, 2013 and 2012 are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Availability (%)	92.7	94.0	93.6	93.0
EFOR (%)	2.4	1.6	1.6	2.2
Unregulated – Hydroelectric OM&A expense per MWh (\$/MWh)	13.17	17.88	14.68	16.67

The decrease in availability for the second quarter of 2013, compared to the same quarter in 2012, was primarily a result of an increase in unplanned and planned outage days. The increase in EFOR during the second quarter of 2013, compared to the same quarter in 2012, was primarily due to additional unplanned outage days at the Aguasabon GS to repair the turbine runner.

The increase in availability and decrease in EFOR during the first half of 2013, compared to the same period in 2012, was primarily due to fewer unplanned outage days, particularly related to White Dog GS performance in 2012.

The high availability for the three and six month periods ended June 30, 2013 reflected the continued strong performance of the unregulated hydroelectric stations.

The decrease in OM&A expense per MWh during the three and six month periods ended June 30, 2013, compared to the same periods in 2012, was due to the impact of higher generation and lower OM&A expenses.

## Unregulated – Thermal Segment

(millions of dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Spot market sales	7	15	42	34
Contingency support agreement	92	68	189	151
Other	28	31	62	61
Total revenue	127	114	293	246
Fuel expense	23	23	74	71
Gross margin	104	91	219	175
Operations, maintenance and administration	96	93	181	187
Depreciation and amortization	32	14	63	28
Accretion on fixed asset removal liabilities	4	4	8	7
Property and capital taxes	3	6	7	10
Restructuring	-	1	2	2
Loss before other income, interest and income taxes	(31)	(27)	(42)	(59)
Other income	(1)	-	(2)	-
Loss before interest and income taxes	(30)	(27)	(40)	(59)

The increase in the loss before interest and income taxes for the second quarter of 2013, compared to the same quarter in 2012, was primarily due to lower ancillary and other station revenues. The increase in loss was partially offset by higher contract revenue from the Lennox, Nanticoke and Lambton generating stations.

The improvement in income before interest and income taxes for the first half of 2013, compared to the same period in 2012, was primarily due to higher contract revenue from the Nanticoke, Lambton and Lennox generating stations. The improvement was partially offset by higher depreciation and amortization expenses.

The increase in depreciation and amortization expenses of \$18 million and \$35 million for the three and six month periods ended June 30, 2013, compared to the same periods in 2012, was primarily due to the recognition of accelerated depreciation during 2013, as a result of the expected shutdown of all remaining units at the Lambton and Nanticoke generating stations by the end of 2013.

During the first quarter of 2013, the Ministry of Energy issued a declaration mandating that OPG cease the use of coal at the Nanticoke and Lambton generating stations by the end of 2013. OPG continues to estimate the restructuring costs within the terms of the respective collective bargaining agreements, related to these generating units. OPG expects to accrue the related severance costs in late 2013. In addition, since the capacity from a second unit at Thunder Bay GS was not required by the IESO to maintain reliability, Unit 2 was removed from the IESO market in March 2013. The severance costs of \$4 million associated with this unit were recorded in July 2013.

The Unregulated – Thermal Start Guarantee rate, EFOR, and OM&A expense per MW for the three and six month periods ended June 30, 2013 and 2012 are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Start Guarantee rate (%)	96.8	97.6	97.5	97.8
EFOR (%)	5.7	5.7	10.1	6.4
Unregulated – Thermal OM&A expense per MW (\$000/MW)	70.50	68.30	66.50	68.70

The increase in EFOR for the six months ended June 30, 2013, compared to the same period in 2012, was primarily due to a higher number of unplanned outage days at the Nanticoke GS. The high Start Guarantee rate for the three



and six month periods ended June 30, 2013 and 2012 reflected the ability of the thermal generating stations to respond to market requirements when needed.

## Other

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Revenue	19	13	35	31
Operations, maintenance and administration	3	1	3	1
Depreciation and amortization	4	5	9	10
Property and capital taxes	3	2	6	5
Income before other (income) loss, interest and income taxes	9	5	17	15
Other (income) loss	(11)	3	(21)	(5)
Income before interest and income taxes	20	2	38	20

Income before interest and income taxes in the Other category increased for the three and six month periods ended June 30, 2013, compared to the same periods in 2012. The increase was primarily due to higher earnings from OPG's investments in joint ventures, and higher net trading revenue.

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. For the three months ended June 30, 2013, if disclosed on a gross basis, revenue and power purchases would have increased by \$18 million (three months ended June 30, 2012 – \$13 million). For the six months ended June 30, 2013, if disclosed on a gross basis, revenue and power purchases would have increased by \$27 million (six months ended June 30, 2012 – \$26 million).

## Income Taxes

Income tax expense for the three months ended June 30, 2013 was \$22 million, compared to income tax recovery of \$8 million, for the same period in 2012. Income tax expense for the six months ended June 30, 2013 was \$26 million compared to \$5 million for the same period in 2012. The increase in income tax expense for the three and six month periods ended June 30, 2013 was primarily due to a reduction in income tax liabilities in 2012 related to the resolution of tax uncertainties for prior years.

## LIQUIDITY AND CAPITAL RESOURCES

OPG's primary sources of liquidity and capital are funds generated from operations, bank financing, credit facilities provided by the Ontario Electricity Financial Corporation (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 fund and the Nuclear 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, 2013 and 2012 are as follows:

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Cash and cash equivalents, beginning of period	560	516	413	630
Cash flow provided by operating activities	347	101	592	212
Cash flow used in investing activities	(396)	(323)	(789)	(635)
Cash flow provided by financing activities	188	59	483	146
Net increase (decrease)	139	(163)	286	(277)
Cash and cash equivalents, end of period	699	353	699	353

For a discussion regarding cash flow provided by operating activities and FFO Interest Coverage, refer to the *Overview of Results* section.

### Investing Activities

Cash flow used in investing activities during the three months ended June 30, 2013 increased by \$73 million, compared to the same quarter in 2012. Cash flow used in investing activities during the six months ended June 30, 2013 increased by \$154 million, compared to the same period in 2012. The increase for the three and six month periods ended June 30, 2013 was primarily due to higher expenditures for the Darlington Refurbishment project.

OPG's forecast capital expenditures for 2013 are approximately \$1.6 billion, which includes amounts for hydroelectric development and nuclear refurbishment.

### Financing Activities

OPG maintains a \$1 billion revolving committed bank credit facility, which is divided into two \$500 million multi-year term tranches. During the second quarter of 2013, OPG renewed and extended both tranches by one year to May 2018. As at June 30, 2013, there were no outstanding borrowings under the bank credit facility.

As at June 30, 2013, OPG maintained \$25 million of short-term, uncommitted overdraft facilities, and \$395 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 general corporate purposes. As at June 30, 2013, a total of \$350 million of Letters of Credit had been issued, including \$329 million for the supplementary pension plans, \$20 million for general corporate purposes, and \$1 million related to the operation of the PEC.

The Company has an agreement, which expires November 30, 2014, to sell an undivided co-ownership interest of up to \$250 million in its current and future accounts receivable to an independent trust. As at June 30, 2013, of the \$329 million of Letters of Credit issued for the supplementary pension plans, \$55 million were issued under this agreement.

OPG also maintains a Niagara Tunnel project credit facility with the OEFC for an amount up to \$1.6 billion. As at June 30, 2013, advances under this facility were \$1,065 million, including new borrowings of \$20 million during the three months ended June 30, 2013 and \$40 million during the six months ended June 30, 2013.

The Lower Mattagami Energy Limited Partnership (LME) maintains a \$700 million bank credit facility to support the funding requirements for the Lower Mattagami River project. In August 2012, the facility was divided into two tranches. The first tranche of \$400 million will be reduced to \$300 million during the third quarter of 2013, and the maturity date will be extended by one year to August 17, 2018. The second tranche of \$300 million has a maturity date of August 17, 2015. As at June 30, 2013, \$170 million of commercial paper was outstanding under this

program. In 2011, OPG executed a \$700 million credit facility with the OEFC in support of the Lower Mattagami River project. As at June 30, 2013, there were no outstanding borrowings under this credit facility. In February 2013, the LME issued senior notes totalling \$275 million with a maturity date of 2046. The effective interest rate for these notes was 4.3 percent and the coupon interest rate was 4.2 percent.

As at June 30, 2013, OPG's long-term debt outstanding was \$5,427 million, including \$5 million due within one year.

In February 2013, Standard & Poor's re-affirmed OPG's commercial paper rating at A-1 (low), and long-term credit rating at A- with a negative outlook. In March 2013, DBRS re-affirmed the long-term credit rating on OPG's debt at A (low), and the commercial paper rating at R-1 (low). All ratings from DBRS have a stable outlook.

## BALANCE SHEET HIGHLIGHTS

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

<i>(millions of dollars)</i>	As At	
	June 30 2013	December 31 2012
Property, plant and equipment - net	16,318	15,860
The increase was primarily due to fixed asset additions for the Lower Mattagami River project, the refurbishment of the Darlington GS, and the Niagara Tunnel. The increase was partially offset by depreciation expense.		
Nuclear fixed asset removal and nuclear waste management funds <i>(current and non-current portions)</i>	13,059	12,717
The increase was primarily due to earnings on the Nuclear Funds, and contributions to the Used Fuel Segregated Fund, partially offset by reimbursements of expenditures on nuclear fixed asset removal and nuclear waste management.		
Fixed asset removal and nuclear waste management liabilities	15,884	15,522
The increase was primarily a result of accretion expense due to the passage of time, partially offset by expenditures on nuclear fixed asset removal and waste management activities.		

## Off-Balance Sheet Arrangements

In the normal course of operations, OPG engages in a variety of transactions that, under US GAAP, are either not recorded in the Company's interim consolidated financial statements or are recorded in the Company's interim consolidated financial statements using amounts that differ from the full contract amounts. Principal off-balance sheet activities that OPG undertakes include 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 are outlined in Note 3 to the audited 2012 annual consolidated financial statements as at and for the year ended December 31, 2012. A discussion of critical accounting policies is included in OPG's 2012 annual MD&A.

## International Financial Reporting Standards (IFRS)

As a result of OPG's 2011 decision to adopt US GAAP, as required by the FAA regulation, OPG's plan to convert to IFRS, effective January 1, 2012, was discontinued. Prior to the adoption of US GAAP as the basis for OPG's financial reporting, the Company had planned to adopt IFRS effective January 1, 2012. OPG had substantively completed its IFRS conversion project, which included separate diagnostic, development, and implementation phases, when it suspended the project and began the evaluation of converting to US GAAP in the fourth quarter of 2011. OPG's IFRS conversion project involved, among other initiatives, a detailed assessment of the effects of IFRS on OPG's financial statements, an update of information systems to meet IFRS requirements as of January 1, 2011, an assessment of internal controls over financial reporting and disclosure controls and processes, as well as training of key finance and operational staff. If a future transition to IFRS is required, conversion work can effectively be restarted with sufficient lead time to evaluate and conclude on changes that occurred subsequent to the decision to suspend the project.

## RISK MANAGEMENT

This risk management disclosure should be read in conjunction with the *Risk Management* section included in OPG's 2012 annual MD&A which provides a detailed discussion of OPG's governance structure, inherent risks, and activities associated with identifying and managing risks. The following discussion provides an update of OPG's risk management activities.

### Operational Risks

#### Risks Associated with Major Development Projects

*The risks associated with the cost, schedule, and technical aspects of the major development projects could adversely impact OPG's financial performance and its corporate reputation.*

#### *Darlington Refurbishment*

As part of the project planning process, regulatory approvals, cost estimates and contracts continue to be developed to reduce risks associated with the refurbishment cost and schedule. OPG continues to work with its Shareholder to determine an appropriate cost recovery mechanism in connection with the project, while considering the impact to electricity consumers.

### Financial Risks

#### Commodity Markets

*Changes in the market price of electricity or of the fuels used to produce electricity can adversely impact OPG's earnings and cash flow from operations.*

To manage the risk of unpredictable increases in the price of fuels, the Company has fuel hedging programs, which include using fixed price and indexed contracts.

OPG's revenue from its unregulated assets is also affected by changes in the market or spot price of electricity.

The percentages of OPG's expected generation, fuel requirements and emission requirements hedged are shown in the following table. These amounts are based on yearly forecasts of generation and supply mix, and as such, are subject to change as these forecasts are updated.

	2013 <sup>4</sup>	2014	2015
Estimated generation output hedged <sup>1</sup>	83%	82%	81%
Estimated fuel requirements hedged <sup>2</sup>	77%	69%	57%
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 MWh of expected future generation production which is subject to regulated prices established by the OEB, agreements with the IESO, OEFC and OPA, or other electricity contracts which are used as hedges.

<sup>2</sup> Represents the approximate portion of MWh of expected generation production for which OPG has entered into contractual arrangements or obligations in order to secure the price of fuel. Excess fuel in inventories in a given year is attributed to the next year, if applicable, for the purpose of measuring hedge ratios.

<sup>3</sup> Represents the approximate portion of MWh 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*.

<sup>4</sup> Includes forecast for the remainder of the year.

### Foreign Exchange and Interest Rate Markets

*OPG's earnings and cash flows can be affected by movements in the United States (US) dollar relative to the Canadian dollar, and by prevailing interest rates on its borrowings and investment programs.*

OPG's financial results are exposed to volatility in the Canadian/US foreign exchange rate as certain procurement transactions are in US dollars. The market price of electricity in Ontario is influenced by the exchange rate due to the interaction between the Ontario and neighbouring US interconnected electricity markets. The Ontario electricity spot market is also influenced by US dollar denominated commodity prices such as for natural gas and coal which are used in electricity generation. To manage this risk, OPG employs various financial instruments such as forwards and other derivative contracts, in accordance with approved risk management policies. As at June 30, 2013, OPG had total foreign exchange contracts outstanding with a notional value of US \$83 million.

The majority of OPG's existing debt is at fixed interest rates. Interest rate risk arises with the need to refinance existing debt and/or undertake new financing. 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, 2013, OPG had total interest rate swap contracts outstanding with a notional principal of \$100 million.

### Trading

*OPG's financial performance can be affected by its trading activities.*

OPG's trading operations are closely monitored and total exposures are measured and reported to senior management on a daily basis. One of the metrics used to measure the financial risk of this trading activity is Value at Risk (VaR). For the second quarter of 2013, the utilization of VaR averaged \$0.2 million, which was unchanged from the average for the second quarter of 2012.

### Credit

*Deterioration in counterparty credit and non-performance by suppliers can adversely impact OPG's earnings and cash flow from operations.*

OPG manages its exposure to various suppliers or counterparties by evaluating their financial condition and ensuring that appropriate collateral, or other forms of security, are held by OPG. OPG's credit exposure relating to energy markets transactions as at June 30, 2013 was \$379 million, including \$355 million to the IESO. Over 95 percent of the remaining \$24 million exposure is related to investment grade counterparties.

## 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 controls 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

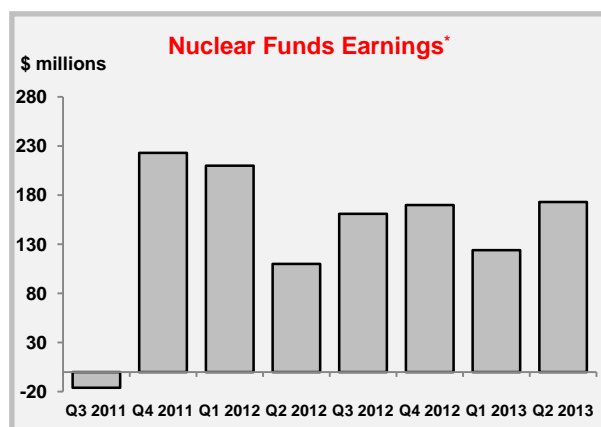
The following tables set out selected financial information from OPG's unaudited interim consolidated financial statements for each of the eight most recently completed quarters. This financial information has been prepared in accordance with US GAAP.

<i>(millions of dollars – except where noted) (unaudited)</i>	<b>June 30 2013</b>	<b>March 31 2013</b>	<b>December 31 2012</b>	<b>September 30 2012</b>
Revenue	<b>1,190</b>	1,255	1,195	1,213
Net income	<b>73</b>	28	31	139
Net income per share <i>(dollars)</i>	<b>\$0.28</b>	\$0.11	\$0.12	\$0.54

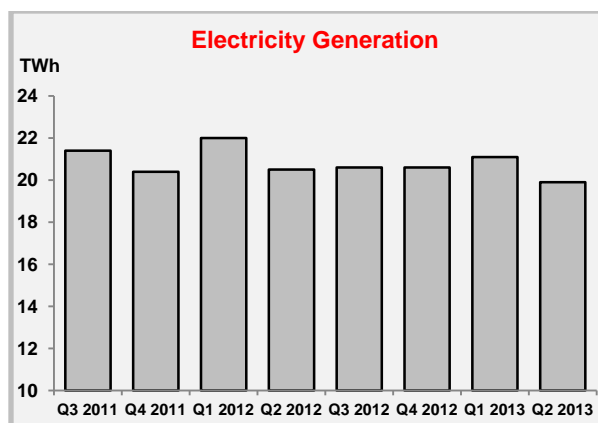
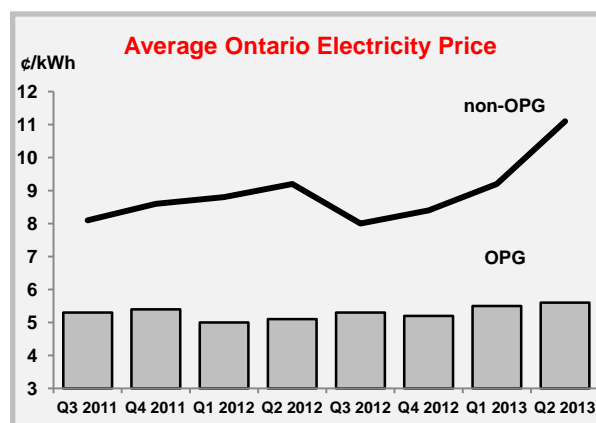
<i>(millions of dollars – except where noted) (unaudited)</i>	<b>June 30 2012</b>	<b>March 31 2012</b>	<b>December 31 2011</b>	<b>September 30 2011</b>
Revenue	1,125	1,199	1,228	1,250
Net income (loss)	43	154	230	(154)
Net income (loss) per share <i>(dollars)</i>	\$0.17	\$0.60	\$0.90	\$(0.61)

## Trends

OPG's quarterly results are affected by changes in demand primarily resulting from variations in seasonal weather conditions. Historically, OPG's revenues are higher in the first quarter of a fiscal year as a result of winter heating demands, and in the third quarter due to air conditioning and cooling demands. In addition to average revenue and generation volume, OPG's income is affected by earnings from the Nuclear Funds.



\*net of regulatory variance account



Additional items which affected net income (loss) in certain quarters above are described below and in OPG's 2012 annual MD&A under the heading, *Quarterly Financial Highlights*.

- At December 31, 2012, the Decommissioning Fund became overfunded. When the Decommissioning Fund becomes overfunded, OPG limits the earnings it recognizes by recording a payable to the Province.

## SUPPLEMENTARY NON-GAAP FINANCIAL MEASURES

In addition to providing net income in accordance with US GAAP, certain non-GAAP financial measures are also presented in OPG's MD&A and unaudited interim consolidated financial statements. These non-GAAP measures do not have any standardized meaning prescribed by US GAAP and, therefore, may not be comparable to similar measures presented by other issuers. OPG utilizes these measures to make operating decisions and assess performance. Readers of the MD&A, interim consolidated financial statements and the notes thereto utilize these measures in assessing the Company's financial performance from ongoing operations. The Company believes that these indicators are important since they provide additional information about OPG's performance, facilitate

comparison of results over different periods, and present a measure consistent with the corporate strategy to operate on a financially sustainable basis. These non-GAAP financial measures have not been presented as an alternative to net income in accordance with US GAAP, but as an indicator of operating performance. The definitions of the non-GAAP financial measures are as follows:

(1) **ROE** is defined as net income divided by average shareholder's equity excluding AOCI, for the period. ROE is measured over a 12-month period.

(2) **FFO Interest Coverage** is defined as FFO before interest divided by Adjusted Interest Expense. FFO before interest is defined as cash flow provided by operating activities adjusted for interest paid, interest capitalized to fixed and intangible assets, and changes to non-cash working capital balances for the period. Adjusted Interest Expense includes net interest expense plus interest income, interest capitalized to fixed and intangible assets, interest related to regulatory assets and liabilities, and interest on pension and OPEB projected benefit obligations less expected return on plan assets for the period.

**FFO Interest Coverage** is measured over a period of twelve months and is calculated as follows:

	For the twelve months ended	
	June 30 2013	December 31 2012
<i>(millions of dollars – except where noted)</i>		
FFO before interest		
Cash flow provided by operating activities	1,256	876
Add: Interest paid	244	246
Less: Interest capitalized to fixed and intangible assets	(136)	(126)
Add: Changes to non-cash working capital balances	(291)	(172)
FFO before interest	1,073	824
Adjusted Interest Expense		
Net interest expense	99	117
Add: Interest income	7	7
Add: Interest capitalized to fixed and intangible assets	136	126
Add: Interest related to regulatory assets and liabilities <sup>1</sup>	35	17
Add: Interest on pension and OPEB projected benefit obligation less expected return on plan assets	96	103
Adjusted Interest Expense	373	370
<b>FFO Interest Coverage (times)</b>	<b>2.9</b>	<b>2.2</b>

<sup>1</sup> The twelve months ended December 31, 2012 number has been adjusted to include all adjustments to interest expense related to regulatory assets and liabilities.

(3) **Gross margin** is defined as revenue less fuel expense.

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

Additional information about OPG, including its Annual Information Form, annual MD&A, and audited annual consolidated financial statements as at and for the year ended December 31, 2012 and notes thereto can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

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**ONTARIO POWER GENERATION INC.**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**  
**JUNE 30, 2013**

# INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended June 30		Six Months Ended June 30	
<i>(millions of dollars except where noted)</i>	2013	2012	2013	2012
<b>Revenue</b> (Note 14)	<b>1,190</b>	1,125	<b>2,445</b>	2,324
Fuel expense (Note 14)	<b>172</b>	165	<b>355</b>	357
<b>Gross margin</b> (Note 14)	<b>1,018</b>	960	<b>2,090</b>	1,967
<b>Expenses</b> (Note 14)				
Operations, maintenance and administration	<b>643</b>	669	<b>1,343</b>	1,304
Depreciation and amortization (Note 3)	<b>242</b>	142	<b>484</b>	331
Accretion on fixed asset removal and nuclear waste management liabilities (Note 7)	<b>190</b>	176	<b>379</b>	363
Earnings on nuclear fixed asset removal and nuclear waste management funds (Note 7)	<b>(173)</b>	(110)	<b>(297)</b>	(320)
Property and capital taxes	<b>14</b>	13	<b>29</b>	27
Restructuring (Note 19)	<b>-</b>	1	<b>2</b>	2
	<b>916</b>	891	<b>1,940</b>	1,707
<b>Income before other (income) loss, interest and income taxes</b>	<b>102</b>	69	<b>150</b>	260
Other (income) loss (Note 17)	<b>(13)</b>	3	<b>(22)</b>	(5)
<b>Income before interest and income taxes</b>	<b>115</b>	66	<b>172</b>	265
Net interest expense (Note 6)	<b>20</b>	31	<b>45</b>	63
<b>Income before income taxes</b>	<b>95</b>	35	<b>127</b>	202
Income tax expense (recovery) (Note 8)	<b>22</b>	(8)	<b>26</b>	5
<b>Net income</b>	<b>73</b>	43	<b>101</b>	197
<b>Basic and diluted income per common share</b> (dollars)	<b>0.28</b>	0.17	<b>0.39</b>	0.77
<b>Common shares outstanding</b> (millions)	<b>256.3</b>	256.3	<b>256.3</b>	256.3

See accompanying notes to the interim consolidated financial statements

## INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
<b>Net income</b>	<b>73</b>	43	<b>101</b>	197
<b>Other comprehensive income (loss), net of income taxes (Note 9)</b>				
Net gain (loss) on derivatives designated as cash flow hedges <sup>1</sup>	<b>9</b>	(19)	<b>11</b>	(4)
Reclassification to income of losses from cash flow hedges <sup>2</sup>	-	7	<b>7</b>	9
Reclassification to income of amounts related to pension and other post-employment benefits <sup>3</sup>	<b>12</b>	7	<b>22</b>	14
Other comprehensive income (loss) for the period	<b>21</b>	(5)	<b>40</b>	19
<b>Comprehensive income</b>	<b>94</b>	38	<b>141</b>	216

<sup>1</sup> Net of income tax expenses of \$2 million and recoveries of \$4 million for the three months ended June 30, 2013 and 2012, respectively. For the six months ended June 30, 2013 and 2012, net of income tax expenses of \$3 million and recoveries of \$1 million, respectively.

<sup>2</sup> Net of income tax expenses of \$1 million and nil for the three months ended June 30, 2013 and 2012, respectively. For the six months ended June 30, 2013 and 2012, net of income tax expenses of \$1 million and nil, respectively.

<sup>3</sup> Net of income tax expenses of \$3 million for the three months ended June 30, 2013 and 2012. For the six months ended June 30, 2013 and 2012, net of income tax expenses of \$7 million and \$5 million, respectively.

*See accompanying notes to the interim consolidated financial statements*

# INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Six Months Ended June 30 (millions of dollars)	2013	2012
<b>Operating activities</b>		
Net income	101	197
Adjust for non-cash items:		
Depreciation and amortization (Note 3)	484	331
Accretion on fixed asset removal and nuclear waste management liabilities (Note 7)	379	363
Earnings on nuclear fixed asset removal and nuclear waste management funds (Note 7)	(297)	(320)
Pension and other post-employment benefit costs (Note 10)	235	184
Deferred income taxes and other accrued charges	6	4
Mark-to-market on derivative instruments	10	43
Provision for used nuclear fuel and low and intermediate level waste	50	50
Regulatory assets and liabilities	(109)	(77)
Provision for materials and inventory	26	-
Other	(17)	18
	868	793
Contributions to nuclear fixed asset removal and nuclear waste management funds	(88)	(122)
Expenditures on fixed asset removal and nuclear waste management (Note 7)	(101)	(96)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management	46	17
Contributions to pension funds and expenditures on other post-employment benefits and supplementary pension plans	(205)	(270)
Expenditures on restructuring (Note 19)	(1)	(14)
Net changes to other long-term assets and liabilities	54	4
Net changes to non-cash working capital balances (Note 15)	19	(100)
<b>Cash flow provided by operating activities</b>	<b>592</b>	<b>212</b>
<b>Investing activities</b>		
Proceeds from sale of long-term investments	-	24
Investment in property, plant and equipment and intangible assets	(789)	(659)
<b>Cash flow used in investing activities</b>	<b>(789)</b>	<b>(635)</b>
<b>Financing activities</b>		
Issuance of long-term debt (Note 5)	315	500
Repayment of long-term debt	(2)	(402)
Net increase in short-term debt (Note 6)	170	48
<b>Cash flow provided by financing activities</b>	<b>483</b>	<b>146</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>286</b>	<b>(277)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>413</b>	<b>630</b>
<b>Cash and cash equivalents, end of period</b>	<b>699</b>	<b>353</b>

See accompanying notes to the interim consolidated financial statements

## INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at (millions of dollars)	June 30 2013	December 31 2012
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	699	413
Receivables from related parties (Note 16)	395	442
Other accounts receivable and prepaid expenses	166	125
Nuclear fixed asset removal and nuclear waste management funds (Note 7)	14	27
Fuel inventory	463	505
Materials and supplies	97	90
Regulatory assets (Note 4)	383	-
Income taxes recoverable	39	63
Deferred income taxes (Note 8)	-	68
	2,256	1,733
<b>Property, plant and equipment</b>	23,703	22,923
Less: accumulated depreciation	7,385	7,063
	16,318	15,860
<b>Intangible assets</b>	387	380
Less: accumulated amortization	336	328
	51	52
<b>Other assets</b>		
Nuclear fixed asset removal and nuclear waste management funds (Note 7)	13,045	12,690
Long-term materials and supplies	341	355
Regulatory assets (Note 4)	6,109	6,478
Investments subject to significant influence (Note 18)	362	373
Other long-term assets	43	60
	19,900	19,956
	38,525	37,601

See accompanying notes to the interim consolidated financial statements

## INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at (millions of dollars)	June 30 2013	December 31 2012
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued charges (Note 16)	846	891
Deferred revenue due within one year	12	12
Long-term debt due within one year (Note 5)	5	5
Regulatory liabilities (Note 4)	20	-
Deferred income taxes (Note 8)	19	-
Short-term notes payable	170	-
	<b>1,072</b>	908
<b>Long-term debt (Note 5)</b>	<b>5,422</b>	5,109
<b>Other liabilities</b>		
Fixed asset removal and nuclear waste management liabilities (Note 7)	15,884	15,522
Pension liabilities	3,586	3,621
Other post-employment benefit liabilities	3,155	3,076
Long-term accounts payable and accrued charges	705	707
Deferred revenue	165	150
Deferred income taxes (Note 8)	482	563
Regulatory liabilities (Note 4)	9	41
	<b>23,986</b>	23,680
<b>Shareholder's equity</b>		
Common shares <sup>1</sup>	5,126	5,126
Retained earnings	3,858	3,757
Accumulated other comprehensive loss (Note 9)	(939)	(979)
	<b>8,045</b>	7,904
	<b>38,525</b>	37,601

<sup>1</sup> 256,300,010 common shares outstanding at a stated value of \$5,126 million as at June 30, 2013 and December 31, 2012; unlimited authorized shares without nominal or par value.

Commitments and Contingencies (Notes 5, 6, 10, 12 and 13)

See accompanying notes to the interim consolidated financial statements

## INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED)

Six Months Ended June 30 <i>(millions of dollars)</i>	2013	2012
<b>Common shares</b>	<b>5,126</b>	5,126
<b>Retained earnings</b>		
Balance at beginning of period	3,757	3,390
Net income	101	197
Balance at end of period	<b>3,858</b>	3,587
<b>Accumulated other comprehensive loss, net of income taxes (Note 9)</b>		
Balance at beginning of period	(979)	(890)
Other comprehensive income for the period	40	19
Balance at end of period	<b>(939)</b>	(871)
<b>Total shareholder's equity at end of period</b>	<b>8,045</b>	7,842

*See accompanying notes to the interim consolidated financial statements*

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended June 30, 2013 and 2012

## 1. BASIS OF PRESENTATION

These interim consolidated financial statements for the three and six months ended June 30, 2013 have been prepared and presented in accordance with United States generally accepted accounting principles (US GAAP) and the rules and regulations of the United States Securities and Exchange Commission for interim financial statements. These interim consolidated financial statements do not contain all of the disclosures required by US GAAP for annual financial statements. Accordingly, they should be read in conjunction with the annual consolidated financial statements of Ontario Power Generation Inc. (OPG or Company) as at and for the year ended December 31, 2012. All dollar amounts are presented in Canadian dollars.

Certain of the 2012 comparative amounts have been reclassified from financial statements previously presented to conform to the 2013 consolidated financial statement presentation.

### Use of Management Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the interim consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Management evaluates the Company's estimates on an ongoing basis based on historical experience, current conditions and assumptions believed to be reasonable at the time the assumption is made, with any adjustments recognized in income in the period incurred. Significant estimates are included in the determination of pension and other post-employment benefits (OPEB), asset retirement obligations, income taxes (including deferred income taxes), contingencies, regulatory assets and liabilities, valuation of derivative instruments, depreciation and amortization, and inventories. Actual results may differ significantly from these estimates.

### Variable Interest Entities

In 2002, OPG and other Canadian nuclear waste producers established the Nuclear Waste Management Organization (NWMO) in accordance with the *Nuclear Fuel Waste Act* (Canada) (NFWA). The primary long-term mandate of the NWMO is to implement an approach to address the long-term management of used nuclear fuel. In addition to the above mandate, the NWMO provides project management services for OPG's Deep Geologic Repository Project for Low and Intermediate Level Waste and other nuclear lifecycle liability management services. OPG has the majority of voting rights at the Board of Directors and members' level. In addition, the NFWA also requires the nuclear fuel waste owners to establish and make payments into trust funds for the purpose of funding the implementation of the long-term management plan. OPG currently provides funding for approximately 90 percent of the NWMO's management approach to the long-term management of nuclear used fuel. As a result, OPG will absorb a majority of the NWMO's expected losses in the event of any shortfall through future funding. Therefore, OPG holds a variable interest in the NWMO of which it is the primary beneficiary. Accordingly, the applicable amounts in the accounts of the NWMO, after elimination of all significant intercompany transactions, are consolidated.

### Seasonal Operations

OPG's quarterly results are affected by changes in demand primarily resulting from variations in seasonal weather conditions. Historically, OPG's revenues are higher in the first quarter of a fiscal year as a result of winter heating demands, and in the third quarter due to air conditioning and cooling demands. The impact of seasonal price fluctuations on the results of operations is significantly reduced by the effect of regulated prices for most of OPG's



baseload hydroelectric facilities and all of the nuclear facilities that OPG operates, cost recovery contracts and energy supply agreements, and OPG's hedging strategies.

## 2. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

### Recent Accounting Pronouncements

#### Comprehensive Income – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

Effective January 1, 2013, OPG adopted the updates to Accounting Standards Codification Topic 220, which add new disclosure requirements for items reclassified out of accumulated other comprehensive income (AOCI). The updates required OPG to present information about significant items reclassified out of AOCI by component in the financial statements. OPG has provided the required information in Note 9 of these interim consolidated financial statements and has applied the amendments for reporting periods beginning on January 1, 2013.

## 3. DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses consist of the following:

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Depreciation	129	96	258	239
Amortization of intangible assets	3	4	7	8
Amortization of regulatory assets and liabilities <i>(Note 4)</i>	110	42	219	84
	242	142	484	331

Interest capitalized to construction and development in progress at an average rate of five percent during the three and six month periods ended June 30, 2013 (three and six month periods ended June 30, 2012 – five percent) was \$26 million and \$66 million, respectively (three and six month periods ended June 30, 2012 – \$29 million and \$56 million, respectively).

## 4. REGULATORY ASSETS AND LIABILITIES

In 2012, OPG filed an application with the Ontario Energy Board (OEB) requesting approval to recover balances in the authorized regulatory variance and deferral accounts as at December 31, 2012, and for the adoption of US GAAP for regulatory purposes. In March 2013, OPG reached a settlement agreement with intervenors on all aspects of its application (Settlement Agreement). The Settlement Agreement was reviewed and approved by the OEB. Subsequently, in April 2013, the OEB issued an order establishing new rate riders effective January 1, 2013. This resulted in approval of \$1,234 million recorded in the authorized accounts as at December 31, 2012, deferral for future review of \$34 million recorded in certain accounts as at December 31, 2012, and a write-off of \$7 million of interest recorded in certain accounts as at December 31, 2012. The interest write-off was recorded in net interest expense during the first quarter of 2013.

Pursuant to the OEB's order, the disposition of the approved balances has been authorized over periods ranging from two to 12 years beginning on January 1, 2013. Specifically, the balance in the Pension and OPEB Cost Variance Account is to be recovered over a period of 12 years commencing January 1, 2013. The portion of the balance in the Bruce Lease Net Revenues Variance Account related to the impact of the derivative liability embedded in the Bruce

Power lease agreement (Bruce Lease) is to be recovered on the basis of OPG's expected rent rebate payments to Bruce Power, including associated income tax impacts. The remaining portion of the balance in the Bruce Lease Net Revenues Variance Account is to be recovered over a 48-month period commencing January 1, 2013. The disposition of all remaining approved balances was authorized over a 24-month period commencing January 1, 2013.

As a result of the OEB's approval of the Settlement Agreement, OPG has been authorized to recover \$633 million through rate riders over the period from March 1, 2013 to December 31, 2014. Any shortfall or over-recovery of the approved balances due to differences between actual and forecast production is recorded in the authorized Nuclear Deferral and Variance Over/Under Recovery Variance Account and Hydroelectric Deferral and Variance Over/Under Recovery Variance Account to be collected from, or refunded to, ratepayers in the future.

Effective January 1, 2013, as part of the approved Settlement Agreement, OPG ceased recording interest on the balance of the Nuclear Liability Deferral Account. For the period from January 1, 2013 to December 31, 2014, as part of the agreement, OPG will not record interest on the balances of the Bruce Lease Net Revenues Variance Account and the majority of the balance of the Pension and OPEB Cost Variance Account. OPG continues to record interest on all other variance and deferral accounts using the interest rate prescribed by the OEB. For the period from January 1, 2012 to June 30, 2013, the prescribed interest rate was 1.47 percent per annum.

The regulatory assets and liabilities recorded as at June 30, 2013 and December 31, 2012 are as follows:

<i>(millions of dollars)</i>	<b>June 30 2013</b>	<b>December 31 2012</b>
Regulatory assets		
<i>Variance and deferral accounts as authorized by the OEB</i>		
Pension and OPEB Cost Variance Account	<b>506</b>	324
Bruce Lease Net Revenues Variance Account	<b>332</b>	311
Nuclear Liability Deferral Account	<b>248</b>	208
Tax Loss Variance Account	<b>213</b>	302
Nuclear Development Variance Account	<b>49</b>	30
Impact for USGAAP Deferral Account	<b>45</b>	63
Other variance and deferral accounts	<b>123</b>	78
	<b>1,516</b>	1,316
Pension and OPEB Regulatory Asset (Note 10)	<b>4,373</b>	4,494
Deferred Income Taxes (Note 8)	<b>603</b>	668
Total regulatory assets	<b>6,492</b>	6,478
Less: current portion	<b>383</b>	-
Non-current regulatory assets	<b>6,109</b>	6,478
Regulatory liabilities		
<i>Variance and deferral accounts as authorized by the OEB</i>		
Other variance and deferral accounts	<b>29</b>	41
Total regulatory liabilities	<b>29</b>	41
Less: current portion	<b>20</b>	-
Non-current regulatory liabilities	<b>9</b>	41

As at June 30, 2013 and December 31, 2012, regulatory assets for other variance and deferral accounts included the Capacity Refurbishment Variance Account, Ancillary Services Net Revenue Variance Account, the Hydroelectric Water Conditions Variance Account, and other variance accounts authorized by the OEB. As at June 30, 2013 and December 31, 2012, regulatory liabilities for other variance and deferral accounts included the Income and Other Taxes Variance Account and other variance accounts authorized by the OEB.

Regulatory assets and liabilities representing variance and deferral account balances approved for disposition by the OEB are classified as current if they are expected to be recovered from, or refunded to, ratepayers within 12 months after each reporting period, based on recovery periods and amounts established by the OEB. All other regulatory asset and liability balances are classified as non-current on the interim consolidated balance sheets.

The changes in the regulatory assets and liabilities during the six months ended June 30, 2013 and the year ended December 31, 2012 are as follows:

<i>(millions of dollars)</i>	<b>Pension and OPEB Cost Variance</b>	<b>Bruce Lease Net Revenues Variance</b>	<b>Nuclear Liability Deferral</b>	<b>Tax Loss Variance</b>	<b>Nuclear Development Variance</b>	<b>Impact for USGAAP Deferral</b>	<b>Pension and OPEB Regulatory Asset</b>	<b>Deferred Income Taxes</b>	<b>Other Variance and Deferral (net)</b>
Regulatory assets (liabilities), January 1, 2012	96	196	22	425	(55)	-	3,553	699	(73)
Change during the year	225	248	206	-	25	62	941	(31)	55
Interest	3	3	1	5	-	1	-	-	(1)
Amortization during the year	-	(136)	(21)	(128)	60	-	-	-	56
Regulatory assets/liabilities, December 31, 2012	324	311	208	302	30	63	4,494	668	37
Change during the period	212	57	79	-	19	-	(121)	(65)	68
Interest	-	(5)	(2)	2	-	1	-	-	-
Amortization during the period	(30)	(31)	(37)	(91)	-	(19)	-	-	(11)
<b>Regulatory assets/ liabilities, June 30, 2013</b>	<b>506</b>	<b>332</b>	<b>248</b>	<b>213</b>	<b>49</b>	<b>45</b>	<b>4,373</b>	<b>603</b>	<b>94</b>

## 5. LONG-TERM DEBT

Long-term debt consists of the following:

<i>(millions of dollars)</i>	<b>June 30 2013</b>	<b>December 31 2012</b>
Notes payable to the Ontario Electricity Financial Corporation	<b>3,965</b>	3,925
UMH Energy Partnership debt	<b>194</b>	195
Lower Mattagami Energy Limited Partnership debt	<b>1,268</b>	994
	<b>5,427</b>	5,114
Less: due within one year	<b>5</b>	5
<b>Long-term debt</b>	<b>5,422</b>	5,109

OPG maintains a Niagara Tunnel project credit facility with the OEFC for an amount up to \$1.6 billion. As at June 30, 2013, advances under this facility were \$1,065 million, including new borrowings of \$20 million during the three months ended June 30, 2013 and \$40 million during the six months ended June 30, 2013.

In February 2013, the Lower Mattagami Energy Limited Partnership (LME) issued senior notes totalling \$275 million with a maturity date of 2046. The effective interest rate of these notes was 4.3 percent and the coupon interest rate was 4.2 percent.

## 6. SHORT-TERM DEBT AND NET INTEREST EXPENSE

OPG maintains a \$1 billion revolving committed bank credit facility, which is divided into two \$500 million multi-year term tranches. During the second quarter of 2013, OPG renewed and extended both tranches to May 2018. As at June 30, 2013, there were no outstanding borrowings under the bank credit facility (December 31, 2012 – nil).

The LME maintains a \$700 million bank credit facility to support the funding requirements for the Lower Mattagami River project. In August 2012, the facility was divided into two tranches. The first tranche of \$400 million will be reduced to \$300 million during the third quarter of 2013, and the maturity date will be extended by one year to August 17, 2018. The second tranche of \$300 million has a maturity date of August 17, 2015. As at June 30, 2013, \$170 million of commercial paper was outstanding under this program (December 31, 2012 – nil). In 2011, OPG executed a \$700 million credit facility with the Ontario Electricity Financial Corporation (OEFC) in support of the Lower Mattagami River project. As at June 30, 2013, there were no outstanding borrowings under this credit facility (December 31, 2012 – nil).

The Company has an agreement, which expires November 30, 2014, to sell an undivided co-ownership interest up to \$250 million in its current and future accounts receivable to an independent trust. As at June 30, 2013, there were Letters of Credit outstanding under this agreement of \$55 million (December 31, 2012 – \$55 million), which were issued in support of OPG's supplementary pension plans.

As at June 30, 2013, OPG maintained \$25 million of short-term, uncommitted overdraft facilities, and \$395 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 general corporate purposes.

As at June 30, 2013, there was a total of \$350 million of Letters of Credit issued. This included \$329 million for the supplementary pension plans, of which \$55 million related to accounts receivable sold to an independent trust, as discussed above; \$20 million for general corporate purposes; and \$1 million related to the operation of the Portlands Energy Centre (PEC).

In addition, as at June 30, 2013, the NWMO has issued a Letter of Credit of \$3 million for its supplementary pension plan.

The following table summarizes the net interest expense for the three and six month periods ended June 30, 2013 and 2012:

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Interest on long-term debt	70	62	136	126
Interest on short-term debt	1	1	2	2
Interest income	(2)	(1)	(4)	(4)
Interest capitalized to property, plant and equipment and intangible assets	(26)	(29)	(66)	(56)
Interest related to regulatory assets and liabilities <sup>1</sup>	(23)	(2)	(23)	(5)
Net interest expense	20	31	45	63

<sup>1</sup> Includes interest to recognize the cost of financing related to regulatory assets and liabilities and interest deferred in the Capacity Refurbishment Variance Account and the Bruce Lease Net Revenues Variance Account.

## 7. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT LIABILITIES

The liabilities for fixed asset removal and nuclear waste management on a present value basis as at June 30, 2013 and December 31, 2012 consist of the following:

<i>(millions of dollars)</i>	<b>June 30 2013</b>	<b>December 31 2012</b>
Liability for nuclear used fuel management	<b>9,707</b>	9,469
Liability for nuclear decommissioning and low and intermediate level waste management	<b>5,825</b>	5,708
Liability for non-nuclear fixed asset removal	<b>352</b>	345
<b>Fixed asset removal and nuclear waste management liabilities</b>	<b>15,884</b>	15,522

The changes in the fixed asset removal and nuclear waste management liabilities for the six months ended June 30, 2013 and the year ended December 31, 2012 are as follows:

<i>(millions of dollars)</i>	<b>June 30 2013</b>	<b>December 31 2012</b>
Liabilities, beginning of period	<b>15,522</b>	14,392
Increase in liabilities due to accretion	<b>414</b>	774
Increase in liabilities reflecting a change to the useful lives of the Pickering and Bruce nuclear generating stations	<b>-</b>	451
Increase in liabilities due to nuclear used fuel, nuclear waste management variable expenses and other expenses	<b>50</b>	103
Liabilities settled by expenditures on fixed asset removal and nuclear waste management	<b>(101)</b>	(198)
Change in the liabilities for non-nuclear fixed asset removal	<b>(1)</b>	-
<b>Liabilities, end of period</b>	<b>15,884</b>	15,522

For the six months ended June 30, 2013, expenditures on fixed asset removal and nuclear waste management include \$24 million in funding to the NWMO related to OPG's nuclear fixed asset removal and nuclear waste management liabilities (December 31, 2012 – \$57 million). OPG's cash and cash equivalents balance as at June 30, 2013 includes \$4 million of cash and cash equivalents that are for the use of nuclear waste management activities (December 31, 2012 – \$5 million).

### Ontario Nuclear Funds Agreement

OPG sets aside and invests funds held in segregated custodian and trustee accounts specifically for discharging its nuclear fixed asset removal and nuclear waste management liabilities in accordance with the Ontario Nuclear Funds Agreement (ONFA) and the federal NFWA.

The nuclear fixed asset removal and nuclear waste management funds (Nuclear Funds) as at June 30, 2013 and December 31, 2012 consist of the following:

<i>(millions of dollars)</i>	Fair Value	
	June 30 2013	December 31 2012
Decommissioning Segregated Fund	6,001	5,771
Due to Province of Ontario (Province) – Decommissioning Segregated Fund	(171)	(64)
	5,830	5,707
Used Fuel Segregated Fund <sup>1</sup>	7,651	7,245
Due to Province – Used Fuel Segregated Fund	(422)	(235)
	7,229	7,010
Total Nuclear Funds	13,059	12,717
Less: current portion	14	27
Non-current Nuclear Funds	13,045	12,690

<sup>1</sup> The Ontario NFWA Trust represented \$2,659 million as at June 30, 2013 (December 31, 2012 – \$2,559 million) of the Used Fuel Segregated Fund on a fair value basis.

As required by the terms of the ONFA, the Province has provided a Provincial Guarantee to the Canadian Nuclear Safety Commission since 2003, on behalf of OPG. The *Nuclear Safety and Control Act* (Canada) requires OPG to have sufficient funds available to discharge the current nuclear decommissioning and waste management liabilities. The Provincial Guarantee provides for any shortfall between the nuclear decommissioning and waste management liabilities and the current market value of the Used Fuel Segregated Fund and the Decommissioning Segregated Fund, up to the value of the Provincial Guarantee. OPG pays the Province an annual guarantee fee of 0.5 percent of the amount of the Provincial Guarantee provided by the Province. The current value of the Provincial Guarantee of \$1,551 million is in effect through to the end of 2017. In January 2013, OPG paid a guarantee fee of \$8 million for 2013 based on a Provincial Guarantee amount of \$1,551 million.

OPG's investments in the Nuclear Funds are classified as held-for-trading and are measured at fair value with realized and unrealized gains and losses recognized in OPG's interim consolidated financial statements.

The earnings on the Nuclear Funds are as follows:

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Decommissioning Segregated Fund	72	(52)	144	163
Used Fuel Segregated Fund	130	139	156	182
Bruce Lease Net Revenues Variance Account (Note 4)	(29)	23	(3)	(25)
Total earnings	173	110	297	320

## 8. INCOME TAXES

OPG follows the liability method of tax accounting for all its business segments and records an offsetting regulatory asset or liability for the deferred income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

During the three months ended June 30, 2013, OPG recorded a decrease to the deferred income tax liability for the deferred income taxes that are expected to be recovered or refunded through regulated prices charged to customers

of \$4 million. Since these deferred income taxes are expected to be refunded through future regulated prices, OPG has recorded a corresponding decrease to the regulatory asset for deferred income taxes. As a result, the deferred income taxes for the three months ended June 30, 2013 were not impacted.

During the six months ended June 30, 2013, OPG recorded a decrease of \$65 million to the deferred income tax liability for the deferred income taxes that are expected to be recovered or refunded through regulated prices charged to customers. Since these deferred income taxes are expected to be refunded through future regulated prices, OPG has recorded a corresponding decrease to the regulatory asset for deferred income taxes. As a result, the deferred income taxes for the six months ended June 30, 2013 were not impacted.

The amount of cash income taxes paid during the three months ended June 30, 2013 was \$2 million (three months ended June 30, 2012 – nil). For the six months ended June 30, 2013, income taxes paid were \$5 million (six months ended June 30, 2012 – \$24 million).

## 9. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in the balance of each component of accumulated other comprehensive loss (AOCL), net of income taxes, during the six months ended June 30, 2013 and 2012 are as follows:

<i>(millions of dollars)</i>	For the six months ended June 30, 2013		
	Unrealized Gains and Losses on Cash Flow Hedges <sup>1</sup>	Pension and Other Post-Employment Benefits <sup>1</sup>	Total <sup>1</sup>
AOCL, beginning of period	(156)	(823)	(979)
Other comprehensive income before reclassifications	11	-	11
Amounts reclassified from AOCL	7	22	29
Other comprehensive income for the period	18	22	40
AOCL, end of period	(138)	(801)	(939)

<sup>1</sup> All amounts are net of income taxes.

<i>(millions of dollars)</i>	For the six months ended June 30, 2012		
	Unrealized Gains and Losses on Cash Flow Hedges <sup>1</sup>	Pension and Other Post-Employment Benefits <sup>1</sup>	Total <sup>1</sup>
AOCL, beginning of period	(163)	(727)	(890)
Other comprehensive income before reclassifications	(4)	-	(4)
Amounts reclassified from AOCL	9	14	23
Other comprehensive income for the period	5	14	19
AOCL, end of period	(158)	(713)	(871)

<sup>1</sup> All amounts are net of income taxes.

The significant amounts reclassified out of each component of AOCL, net of income taxes, during the three and six months ended June 30, 2013 and 2012 are as follows:

<i>(millions of dollars)</i>	Amount Reclassified from AOCL		Statement of Income Line Item
	Three months ended June 30, 2013	Six months ended	
Amortization of losses from cash flow hedges			
Losses	1	8	Net interest expense
Income tax expense	(1)	(1)	
	-	7	
Amortization of amounts related to pension and other post-employment benefits			
Actuarial losses	15	29	See (1) below
Income tax expense	(3)	(7)	
	12	22	
Total reclassifications for the period	12	29	

<sup>1</sup> These AOCL components are included in the computation of pension and OPEB costs (see Note 10 for additional details).

<i>(millions of dollars)</i>	Amount Reclassified from AOCL		Statement of Income Line Item
	Three months ended June 30, 2012	Six months ended	
Amortization of losses from cash flow hedges			
Losses	7	9	Net interest expense
Income tax expense	-	-	
	7	9	
Amortization of amounts related to pension and other post-employment benefits			
Actuarial losses	10	19	See (1) below
Income tax expense	(3)	(5)	
	7	14	
Total reclassifications for the period	14	23	

<sup>1</sup> These AOCL components are included in the computation of pension and OPEB costs (see Note 10 for additional details).



## 10. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

OPG's total benefit costs for the three and six month periods ended June 30, 2013 and 2012 are as follows:

	For the three months ended June 30					
	Registered Pension Plans		Supplementary Pension Plans		Other Post-Employment Benefits	
(millions of dollars)	2013	2012	2013	2012	2013	2012
<i>Components of Costs Recognized</i>						
Current service costs	72	67	3	2	26	21
Interest on projected benefit obligation	148	156	3	3	34	34
Expected return on plan assets, net of expenses	(162)	(167)	-	-	-	-
Amortization of past service costs <sup>1</sup>	-	-	-	-	-	1
Amortization of net actuarial loss <sup>1</sup>	61	39	1	1	13	8
<b>Costs recognized <sup>2</sup></b>	<b>119</b>	<b>95</b>	<b>7</b>	<b>6</b>	<b>73</b>	<b>64</b>

<sup>1</sup> The amortization of past service costs and net actuarial loss is recognized as an increase to other comprehensive income. The increase for the three months ended June 30, 2013 was partially offset by a decrease in the Pension and OPEB Regulatory Asset of \$60 million (three months ended June 30, 2012 – \$39 million).

<sup>2</sup> These pension and OPEB costs for the three months ended June 30, 2013 exclude the reduction of costs resulting from the recognition of additions to the regulatory assets for the Pension and OPEB Cost Variance Account and the Impact for USGAAP Deferral Account of \$82 million and nil, respectively (three months ended June 30, 2012 - \$53 million and nil, respectively).

	For the six months ended June 30					
	Registered Pension Plans		Supplementary Pension Plans		Other Post-Employment Benefits	
(millions of dollars)	2013	2012	2013	2012	2013	2012
<i>Components of Costs Recognized</i>						
Current service costs	145	133	5	4	52	42
Interest on projected benefit obligation	295	313	6	6	70	69
Expected return on plan assets, net of expenses	(324)	(334)	-	-	-	-
Amortization of past service costs <sup>1</sup>	-	-	-	-	-	1
Amortization of net actuarial loss <sup>1</sup>	122	78	3	2	25	16
<b>Costs recognized <sup>2</sup></b>	<b>238</b>	<b>190</b>	<b>14</b>	<b>12</b>	<b>147</b>	<b>128</b>

<sup>1</sup> The amortization of past service costs and net actuarial loss is recognized as an increase to other comprehensive income. This increase for the six months ended June 30, 2013 was partially offset by a decrease in the Pension and OPEB Regulatory Asset of \$121 million (six months ended June 30, 2012 – \$78 million).

<sup>2</sup> These pension and OPEB costs for the six months ended June 30, 2013 exclude the reduction of costs resulting from the recognition of additions to the regulatory assets for the Pension and OPEB Cost Variance Account and the Impact for USGAAP Deferral Account of \$164 million and nil, respectively (six months ended June 30, 2012 - \$106 million and \$40 million, respectively).

The most recent actuarial valuation of the OPG registered pension plan for funding purposes was completed as of January 1, 2011. The next actuarial valuation for funding purposes must have an effective date no later than January 1, 2014.

## 11. DERIVATIVES

OPG is exposed to risks related to changes in electricity prices associated with a wholesale spot market for electricity in Ontario, changes in market interest rates on debt expected to be issued in the future, and movements in foreign currency that affect its assets, liabilities, and forecasted transactions. Certain derivative instruments are used to manage such risks. Derivatives are used as hedging instruments, as well as for trading purposes.

Interest rate risk is the risk that the value of assets and liabilities can change due to movements in related interest rates. Interest rate risk at OPG arises with the need to refinance existing debt and/or undertake new financing. 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 financing.

The LME has entered into forward start interest rate swaps to hedge against the effect of future changes in interest rates for long-term debt for the Lower Mattagami River project.

OPG's foreign exchange exposure is attributable to two primary factors: United States dollar (U.S. dollar) denominated transactions such as the purchase of fuels; and the influence of U.S. dollar denominated commodity prices on Ontario electricity market prices. OPG enters into foreign exchange derivatives and agreements with major financial institutions, when necessary, in order to manage the Company's exposure to foreign currency movements.

Electricity price risk for the Company is the potential for adverse movements in the market price of electricity. Exposure to electricity price risk is reduced as a result of regulated prices and other contractual arrangements for a significant portion of OPG's business.

The conditional reduction to revenue in the future, embedded in the terms of the Bruce Lease, is treated as a derivative. Assumptions related to future electricity prices impact the valuation of the derivative liability embedded in the Bruce Lease.

The majority of OPG's revenues are derived from sales through the Independent Electricity System Operator (IESO) administered spot market. Although the credit exposure to the IESO represents a significant portion of OPG's accounts receivable, the Company's management accepts this risk due to the IESO's primary role in the Ontario electricity market. The remaining receivables exposure is to a diverse group of generally high quality counterparties. OPG's allowance for doubtful accounts as at June 30, 2013 was less than \$1 million.

The following is a summary of OPG's derivative instruments:

<i>(millions of dollars except where noted)</i>	<b>Notional Quantity</b>	<b>Terms</b>	<b>Fair Value</b>	<b>Balance Sheet Line Item</b>
<b>As at June 30, 2013</b>				
Commodity derivative instruments	<b>5.0 TWh</b>	<b>1 - 2 years</b>	<b>12</b>	Other accounts receivable and prepaid expenses
Foreign exchange derivative instruments	<b>84</b>	<b>within 1 year</b>	<b>3</b>	Other accounts receivable and prepaid expenses
Commodity derivative instruments	<b>1.8 TWh</b>	<b>1 - 2 years</b>	<b>(8)</b>	Accounts payable and accrued charges
Cash flow hedges – Forward start interest rate swaps	<b>100</b>	<b>1 - 12 years</b>	<b>(9)</b>	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	<b>n/a</b>	<b>7 years</b>	<b>(398)</b>	Long-term accounts payable and accrued charges
Total derivatives			<b>(400)</b>	
<b>As at December 31, 2012</b>				
Commodity derivative instruments	4.3 TWh	1 - 2 years	7	Other accounts receivable and prepaid expenses
Foreign exchange derivative instruments	63	within 1 year	(1)	Accounts payable and accrued charges
Commodity derivative instruments	2.0 TWh	1 - 2 years	(4)	Accounts payable and accrued charges
Cash flow hedges – Forward start interest rate swaps	410	1 - 12 years	(66)	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	n/a	7 years	(392)	Long-term accounts payable and accrued charges
Total derivatives			(456)	

The following table shows the amount related to derivatives recorded in AOCI and income for the three and six month periods ended June 30:

<i>(millions of dollars)</i>	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Cash flow hedges</b>				
Gain (loss) in other comprehensive income	<b>11</b>	(23)	<b>14</b>	(5)
Reclassification of losses to net interest expense	<b>1</b>	7	<b>8</b>	9
<b>Commodity derivatives</b>				
Realized (losses) gains in revenue	<b>(2)</b>	-	<b>(3)</b>	-
Unrealized losses in revenue	-	(2)	-	(2)
<b>Embedded derivative</b>				
Unrealized losses in revenue <sup>1</sup>	<b>(80)</b>	(3)	<b>(6)</b>	(43)

<sup>1</sup> Excludes the impact of the Bruce Lease Net Revenues Variance Account.

Existing net losses of \$19 million deferred in AOCL as at June 30, 2013 are expected to be reclassified to net income within the next 12 months.

## 12. FAIR VALUE MEASUREMENTS

Fair value is the value that a financial instrument can be closed out or sold, in an arm's length transaction with a willing and knowledgeable counterparty.

OPG is required to classify fair value measurements using a fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The level within which the financial asset or liability is classified is determined based on the attribute of significance to the inputs to the fair value measurement. The fair value hierarchy has the following levels:

- Level 1: Valuation of inputs is based on unadjusted quoted market prices observed in active markets for identical assets or liabilities.
- Level 2: Valuation is based on inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Valuation is based on inputs for the asset or liability that are not based on observable market data.

The fair value of financial instruments traded in active markets is based on quoted market prices at the interim consolidated balance sheet dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by OPG is the current bid price. These instruments are included in Level 1 and are comprised primarily of equity investments and fund investments.

For financial instruments which do not have quoted market prices directly available, fair values are estimated using forward price curves developed from observable market prices or rates. The estimation of fair value may include the use of valuation techniques or models, based wherever possible on assumptions supported by observable market prices or rates prevailing at the dates of the interim consolidated balance sheets. This is the case for over-the-counter derivatives and securities, which include energy commodity derivatives, foreign exchange derivatives, interest rate swap derivatives, and fund investments. Pooled fund investments are valued at the unit values supplied by the pooled fund administrators. The unit values represent the underlying net assets at fair values, determined using closing market prices. Valuation models use general assumptions and market data and therefore do not reflect the specific risks and other factors that would affect a particular instrument's fair value. The methodologies used for calculating the fair value adjustments are reviewed on an ongoing basis to ensure that they remain appropriate. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Specific valuation techniques were used to value these instruments. Significant Level 3 inputs include recent comparable transactions, comparable benchmark information, bid/ask spread of similar transactions, and other relevant factors.

Transfers into, out of, or between levels are deemed to have occurred on the date of the event or change in circumstances that caused the transfer to occur.

The Company is required to determine the fair value of all its financial instruments. The following is a summary of OPG's financial instruments as at June 30, 2013 and December 31, 2012:

<i>(millions of dollars except where noted)</i>	<b>Fair Value</b>	<b>Carrying Value<sup>1</sup></b>	<b>Balance Sheet Line Item</b>
<b>As at June 30, 2013</b>			
Commodity derivative instruments	<b>12</b>	<b>12</b>	Other accounts receivable and prepaid expenses
Investment in OPG Ventures Inc.	<b>10</b>	<b>10</b>	Other long-term assets
Nuclear fixed asset removal and nuclear waste management funds (includes current portion)	<b>13,059</b>	<b>13,059</b>	Nuclear fixed asset removal and nuclear waste management funds
Foreign exchange derivative instruments	<b>3</b>	<b>3</b>	Other accounts receivable and prepaid expenses
Commodity derivative instruments	<b>(8)</b>	<b>(8)</b>	Accounts payable and accrued charges
Cash flow hedges - Forward start interest rate swaps	<b>(9)</b>	<b>(9)</b>	Long-term accounts payable and accrued charges
Payable related to cash flow hedges	<b>(59)</b>	<b>(59)</b>	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	<b>(398)</b>	<b>(398)</b>	Long-term accounts payable and accrued charges
Long-term debt (includes current portion)	<b>(5,840)</b>	<b>(5,427)</b>	Long-term debt
<b>As at December 31, 2012</b>			
Commodity derivative instruments	7	7	Other accounts receivable and prepaid expenses
Investment in OPG Ventures Inc.	10	10	Other long-term assets
Nuclear fixed asset removal and nuclear waste management funds (includes current portion)	12,717	12,717	Nuclear fixed asset removal and nuclear waste management funds
Foreign exchange derivative instruments	(1)	(1)	Accounts payable and accrued charges
Commodity derivative instruments	(4)	(4)	Accounts payable and accrued charges
Cash flow hedges - Forward start interest rate swaps	(66)	(66)	Long-term accounts payable and accrued charges
Payable related to cash flow hedges	(24)	(24)	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	(392)	(392)	Long-term accounts payable and accrued charges
Long-term debt (includes current portion)	(5,751)	(5,114)	Long-term debt

<sup>1</sup> The carrying values of other financial instruments included in cash and cash equivalents, receivables from related parties, other accounts receivable and accounts payable and accrued charges approximate their fair value due to the immediate or short-term maturity of these financial instruments.

The fair value of long-term debt instruments is determined based on a conventional pricing model, which is a function of future cash flows, the current market yield curve and term to maturity. These inputs are considered Level 2 inputs.

The following tables present financial assets and liabilities measured at fair value in accordance with the fair value hierarchy as at June 30, 2013 and December 31, 2012:

<i>(millions of dollars)</i>	June 30, 2013			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Used Fuel Segregated Fund	427	6,774	28	7,229
Decommissioning Segregated Fund	2,752	2,894	184	5,830
Commodity derivative instruments	4	4	4	12
Investment in OPG Ventures Inc.	-	-	10	10
Foreign exchange derivative instruments	-	3	-	3
<b>Total</b>	<b>3,183</b>	<b>9,675</b>	<b>226</b>	<b>13,084</b>
<b>Liabilities</b>				
Derivative embedded in the Bruce Lease	-	-	(398)	(398)
Forward start interest rate swaps	-	(9)	-	(9)
Commodity derivative instruments	(5)	(3)	-	(8)
<b>Total</b>	<b>(5)</b>	<b>(12)</b>	<b>(398)</b>	<b>(415)</b>
<b>Net assets (liabilities)</b>	<b>3,178</b>	<b>9,663</b>	<b>(172)</b>	<b>12,669</b>

<i>(millions of dollars)</i>	December 31, 2012			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Decommissioning Segregated Fund	2,596	2,948	163	5,707
Used Fuel Segregated Fund	212	6,785	13	7,010
Commodity derivative instruments	2	2	3	7
Investment in OPG Ventures Inc.	-	-	10	10
<b>Total</b>	<b>2,810</b>	<b>9,735</b>	<b>189</b>	<b>12,734</b>
<b>Liabilities</b>				
Derivative embedded in the Bruce Lease	-	-	(392)	(392)
Forward start interest rate swaps	-	(66)	-	(66)
Commodity derivative instruments	(3)	(1)	-	(4)
Foreign exchange derivative instruments	-	(1)	-	(1)
<b>Total</b>	<b>(3)</b>	<b>(68)</b>	<b>(392)</b>	<b>(463)</b>
<b>Net assets (liabilities)</b>	<b>2,807</b>	<b>9,667</b>	<b>(203)</b>	<b>12,271</b>

During the six months ended June 30, 2013, there were no transfers between Level 1 and Level 2. In addition there were no transfers into and out of Level 3.

The following tables present the changes in OPG's assets and liabilities measured at fair value based on Level 3:

<i>(millions of dollars)</i>	For the three months ended June 30, 2013				
	Decom- missioning Segregated Fund	Used Fuel Segregated Fund	Investment in OPG Ventures Inc.	Derivative Embedded in the Bruce Lease <sup>1</sup>	Commodity Derivative Instruments
Opening balance, April 1, 2013	165	25	10	(318)	4
Unrealized gains included in earnings on nuclear fixed asset removal and nuclear waste management funds <sup>1</sup>	6	1	-	-	-
Unrealized (losses) gains included in revenue	-	-	-	(80)	1
Realized losses included in revenue	-	-	-	-	(2)
Purchases	11	2	-	-	1
Settlements	2	-	-	-	-
Closing balance, June 30, 2013	184	28	10	(398)	4

<sup>1</sup> Total gains exclude the impact of regulatory assets and liabilities.

<i>(millions of dollars)</i>	For the six months ended June 30, 2013				
	Decom- missioning Segregated Fund	Used Fuel Segregated Fund	Investment in OPG Ventures Inc.	Derivative Embedded in the Bruce Lease <sup>1</sup>	Commodity Derivative Instruments
Opening balance, January 1, 2013	163	13	10	(392)	3
Unrealized gains included in earnings on nuclear fixed asset removal and nuclear waste management funds <sup>1</sup>	8	1	-	-	-
Unrealized losses included in revenue	-	-	-	(6)	-
Realized losses included in revenue	(1)	-	-	-	(3)
Purchases	17	3	-	-	4
Sales	(1)	-	-	-	-
Settlements	(2)	11	-	-	-
Closing balance, June 30, 2013	184	28	10	(398)	4

<sup>1</sup> Total gains exclude the impact of regulatory assets and liabilities.

### Derivative Embedded in the Bruce Lease

Due to a significant unobservable input used in the pricing model of the Bruce Lease embedded derivative, the measurement of the liability is classified within Level 3.

The following table presents the quantitative information about the Level 3 fair value measurement of the Bruce Lease embedded derivative as at June 30, 2013:

<i>(millions of dollars except where noted)</i>	Fair Value	Valuation Technique	Unobservable Input	Range
Derivative embedded in the Bruce Lease	(398)	Option model	Risk premium <sup>1</sup>	0% - 30%

<sup>1</sup> Represents the range of premiums used in the valuation analysis that OPG has determined market participants would use when pricing the derivative.

The term related to the derivative embedded in the Bruce Lease is based on the remaining service lives, for accounting purposes, for certain units of the Bruce generating station (GS) and may be revised at such time when the

units' service lives are modified. OPG's exposure to changes in the fair value of the Bruce Lease embedded derivative is mitigated as part of the OEB regulatory process since the revenue from the lease of the Bruce GS is included in the determination of regulated prices for OPG's nuclear generation and is subject to the Bruce Lease Net Revenues Variance Account. As such, the pre-tax income statement impact as a result of changes in the liability is offset by the pre-tax income statement impact of the Bruce Lease Net Revenues Variance Account.

### Decommissioning Segregated Fund and Used Fuel Segregated Fund

Nuclear Funds investments classified as Level 3 consist of real estate and infrastructure investments within the alternative investment portfolio. The fair value of the investments within the Nuclear Funds' alternative investment portfolio is determined using appropriate valuation techniques, such as recent arm's length market transactions, reference to current fair values of other instruments that are substantially the same, discounted cash flow analyses, third-party independent appraisals, valuation multiples, or other valuation methods. Any control, size, liquidity or other discount premiums on the investments are considered in the determination of fair value.

The process of valuing investments for which no published market price exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments. The values may also differ from the prices at which the investments may be sold.

The following are the classes of investments within the Nuclear Funds that are reported on the basis of net asset value as at June 30, 2013:

<i>(millions of dollars except where noted)</i>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice</b>
Infrastructure	261	279	n/a	n/a
Real Estate	157	495	n/a	n/a
Pooled Funds				
Short-term Investments	4	-	Daily	1 - 5 days
Fixed Income	806	-	Daily	1 - 5 days
Equity	1,442	-	Daily	1 - 5 days
<b>Total</b>	<b>2,670</b>	<b>774</b>		

#### Infrastructure

This class includes investments in funds whose investment objective is to generate a combination of long-term capital appreciation and current income generally through investments in infrastructure such as energy, transportation and utilities.

The fair values of investments in this class have been estimated using the Nuclear Funds' ownership interest in partners' capital and/or underlying investments held by subsidiaries of an infrastructure fund.

The investments in the respective infrastructure funds are not redeemable. However, the Nuclear Funds may transfer any of its partnership interests/shares to another party, as stipulated in the partnership agreements and/or shareholders' agreements. Distributions from each infrastructure fund will be received based on the operations of the underlying investments and/or as the underlying investments of the infrastructure funds are liquidated. It is not possible to estimate when the underlying assets of the infrastructure funds will be liquidated, however, the infrastructure funds have a maturity end period ranging from 2019 to 2025.

#### Real Estate

This class includes investments in institutional-grade real estate property located in Canada. The investment objective is to provide a stable level of income with the opportunity for long-term capital appreciation.



The fair values of the investments in this class have been estimated using the net asset value of the Nuclear Funds' ownership interest in partners' capital.

The partnership investments are not redeemable. However, the Nuclear Funds may transfer any of their partnership interest to another party, as stipulated in the partnership agreement, with prior written consent of the other limited partners. For investments in private real estate corporations, shares may be redeemed through a pre-established redemption process. It is not possible to estimate when the underlying assets in this class will be liquidated.

#### Pooled Funds

This class represents investments in pooled funds, which primarily include a diversified portfolio of fixed income securities, issued mainly by Canadian corporations and diversified portfolios of US and Emerging Market listed equity and fixed income securities. The investment objective of the pooled funds is to achieve capital appreciation and income through professionally managed portfolios.

The fair value of the investments in this class has been estimated using the net asset value per share of the investments.

There are no significant restrictions on the ability to sell investments in this class.

#### **Investment in OPG Ventures Inc.**

Significant Level 3 inputs used in the fair value measurement of the investment in OPG Ventures Inc. include recent comparable transactions, comparable benchmark information, bid/ask spread of similar transactions, and other relevant factors. Changes in any of those inputs in isolation would result in a corresponding change in the fair value measurement.

### **13. 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 filed with the Ontario Superior Court of Justice 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 (together British Energy). In 2001, OPG leased its Bruce nuclear generating station to Bruce Power L.P. (of which British Energy was a major partner). British Energy sold its interest in Bruce Power L.P. to some of the other existing partners of Bruce Power L.P. The British Energy claim against OPG pertains to corrosion in the Bruce Unit 8 Steam Generators, in particular, erosion of the support plates through which the boiler tubes pass. This corrosion was not known by any party until after British Energy had sold its interest. The claim amount includes \$65 million due to an extended outage to repair some of the alleged damage. The balance of the amount claimed is based on an increased probability the steam generators will have to be replaced or the unit taken out of service prematurely.

British Energy is defending an arbitration commenced by some of the current owners of Bruce Power L.P. regarding an alleged breach of British Energy's representations and warranties to the claimants when they purchased British Energy's interest in Bruce Power L.P. (the Arbitration). In the second quarter of 2012, the arbitrator released an interim award. The arbitrator found that British Energy was liable to the claimants for some of the damages they claimed. The arbitrator determined what elements of the claim British Energy was liable for, but did not award a specific amount in damages as it was found that further evidence from the parties is necessary to quantify the exact amount of the damages. If the parties to the Arbitration cannot agree on the quantum of damages, there will be

further proceedings before the arbitrator to determine the amount. British Energy counsel has indicated that the damages payable to the claimants will likely be less than \$70 million, which then would limit their claim against OPG and Bruce Power L.P.

British Energy previously indicated that they did not require OPG or Bruce Power L.P. to actively defend the court action until the conclusion of the Arbitration. Although the Arbitration had not concluded, British Energy requested that OPG file a Statement of Defense. OPG and Bruce Power L.P. advised British Energy that if British Energy wishes the court action to proceed prior to the conclusion of the Arbitration, the defendants would bring a motion for a Stay of proceedings, a Dismissal of the current action or, in the alternative, a motion to extend the time for service of the Statement of Defense until the conclusion of the Arbitration. That motion was scheduled to be heard on March 5, 2010 but was adjourned at the request of British Energy. The return date of that motion is yet to be set. However, British Energy has acknowledged that it must amend its Statement of Claim in light of the Arbitration ruling such that it may no longer be necessary for OPG to go forward with this motion.

Certain First Nations have commenced actions against OPG for interference with their respective reserve and traditional land rights. As well, OPG has been brought into certain actions by the First Nations against other parties as a third-party defendant. Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably.

While it is not possible to determine the ultimate outcome of the various pending actions, it is the Company's belief that their resolution is not likely to have a material adverse impact on its financial position.

### **Environmental**

Current operations are subject to regulation with respect to emissions to air, water, and land as well as 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 interim consolidated financial statements to meet certain other environmental obligations. As at June 30, 2013, OPG's environmental liabilities were \$16 million (December 31, 2012 – \$17 million).

### **Guarantees**

The Company and its joint venture partners have jointly guaranteed the financial performance of jointly owned entities related primarily to the payment of liabilities. As at June 30, 2013, OPG's share of the potential exposure under these guarantees is estimated to be \$76 million. OPG may terminate some of these guarantees within a short time frame by providing written notice to the counterparties at any time; others have terms ending between 2019 and 2029. The fair value of these guarantees has been estimated as at June 30, 2013 to be negligible. As at June 30, 2013, OPG does not expect to make any payments associated with these guarantees.

## Contractual and Commercial Commitments

The Company's contractual obligations and other significant commercial commitments as at June 30, 2013 are as follows:

<i>(millions of dollars)</i>	2013	2014	2015	2016	2017	Thereafter	Total
Contractual obligations:							
Fuel supply agreements	68	181	186	135	113	257	940
Contributions under the ONFA <sup>1</sup>	96	139	143	150	163	2,899	3,590
Long-term debt repayment	3	5	593	273	1,103	3,450	5,427
Interest on long-term debt	126	252	247	232	213	2,014	3,084
Unconditional purchase obligations	53	99	98	8	1	-	259
Operating lease obligations	7	16	16	16	18	1	74
Operating licence	22	39	40	-	-	-	101
Pension contributions <sup>2</sup>	152	-	-	-	-	-	152
Other	329	81	32	33	35	95	605
Significant commercial commitments:							
Niagara Tunnel	24	-	-	-	-	-	24
Lower Mattagami	337	260	94	-	-	-	691
Atikokan	62	10	-	-	-	-	72
<b>Total</b>	<b>1,279</b>	<b>1,082</b>	<b>1,449</b>	<b>847</b>	<b>1,646</b>	<b>8,716</b>	<b>15,019</b>

<sup>1</sup> Contributions under the ONFA are based on the 2012 ONFA Reference Plan approved in 2012.

<sup>2</sup> The pension contributions include ongoing funding requirements and additional funding requirements towards the deficit, in accordance with the actuarial valuations of the OPG registered pension plan as at January 1, 2011 and NWMO registered pension plan as at January 1, 2013. The next actuarial valuations of the OPG and NWMO plans must have an effective date no later than January 1, 2014. The pension contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, changes in the pension regulatory environment, and the timing of funding valuations. Funding requirements after 2013 for the OPG registered pension plan are excluded due to significant variability in the assumption required to project the timing of future cash flows. Funding requirements after 2013 for the NWMO registered pension plan are also excluded. The amount of OPG's additional, voluntary contribution, if any, is revisited from time to time.

#### 14. BUSINESS SEGMENTS

Segment Income (Loss) for the Three Months Ended June 30, 2013 <i>(millions of dollars)</i>	Regulated		Unregulated					Total
	Nuclear Generation	Nuclear Waste Manage- ment	Hydro- electric	Hydro- electric	Thermal	Other	Elimination	
Revenue	697	28	216	130	127	19	(27)	1,190
Fuel expense	57	-	69	23	23	-	-	172
Gross margin	640	28	147	107	104	19	(27)	1,018
Operations, maintenance and administration	463	30	24	54	96	3	(27)	643
Depreciation and amortization	155	-	32	19	32	4	-	242
Accretion on fixed asset removal and nuclear waste management liabilities	-	186	-	-	4	-	-	190
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(173)	-	-	-	-	-	(173)
Property taxes	8	-	-	-	3	3	-	14
Other income	(1)	-	-	-	(1)	(11)	-	(13)
Income (loss) before interest and income taxes	15	(15)	91	34	(30)	20	-	115

<b>Segment Income (Loss) for the Three Months Ended June 30, 2012</b> <i>(millions of dollars)</i>	<b>Regulated</b>		<b>Unregulated</b>					<b>Total</b>
	<b>Nuclear Generation</b>	<b>Nuclear Waste Manage- ment</b>	<b>Hydro- electric</b>	<b>Hydro- electric</b>	<b>Thermal</b>	<b>Other</b>	<b>Elimination</b>	
Revenue	720	26	188	89	114	13	(25)	1,125
Fuel expense	57	-	69	16	23	-	-	165
Gross margin	663	26	119	73	91	13	(25)	960
Operations, maintenance and administration	486	28	24	62	93	1	(25)	669
Depreciation and amortization	94	-	9	20	14	5	-	142
Accretion on fixed asset removal and nuclear waste management liabilities	-	172	-	-	4	-	-	176
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(110)	-	-	-	-	-	(110)
Property and capital taxes	6	-	(1)	-	6	2	-	13
Restructuring	-	-	-	-	1	-	-	1
Other loss	-	-	-	-	-	3	-	3
Income (loss) before interest and income taxes	77	(64)	87	(9)	(27)	2	-	66

<b>Segment Income (Loss) for the Six Months Ended June 30, 2013</b> <i>(millions of dollars)</i>	<b>Regulated</b>		<b>Unregulated</b>					<b>Total</b>
	<b>Nuclear Generation</b>	<b>Nuclear Waste Manage- ment</b>	<b>Hydro- electric</b>	<b>Hydro- electric</b>	<b>Thermal</b>	<b>Other</b>	<b>Elimination</b>	
Revenue	1,436	53	417	262	293	35	(51)	2,445
Fuel expense	119	-	121	41	74	-	-	355
Gross margin	1,317	53	296	221	219	35	(51)	2,090
Operations, maintenance and administration	990	57	50	113	181	3	(51)	1,343
Depreciation and amortization	311	-	64	37	63	9	-	484
Accretion on fixed asset removal and nuclear waste management liabilities	-	371	-	-	8	-	-	379
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(297)	-	-	-	-	-	(297)
Property taxes	15	-	1	-	7	6	-	29
Restructuring	-	-	-	-	2	-	-	2
Other (income) loss	(1)	-	-	2	(2)	(21)	-	(22)
Income (loss) before interest and income taxes	2	(78)	181	69	(40)	38	-	172

Segment Income (Loss) for the Six Months Ended June 30, 2012 <i>(millions of dollars)</i>	Regulated		Unregulated					Total
	Nuclear Generation	Nuclear Waste Manage- ment	Hydro- electric	Hydro- electric	Thermal	Other	Elimination	
Revenue	1,493	50	366	187	246	31	(49)	2,324
Fuel expense	128	-	122	36	71	-	-	357
Gross margin	1,365	50	244	151	175	31	(49)	1,967
Operations, maintenance and administration	948	54	45	118	187	1	(49)	1,304
Depreciation and amortization	238	-	17	38	28	10	-	331
Accretion on fixed asset removal and nuclear waste management liabilities	-	356	-	-	7	-	-	363
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(320)	-	-	-	-	-	(320)
Property and capital taxes	13	-	(1)	-	10	5	-	27
Restructuring	-	-	-	-	2	-	-	2
Other income	-	-	-	-	-	(5)	-	(5)
Income (loss) before interest and income taxes	166	(40)	183	(5)	(59)	20	-	265

## 15. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

<i>(millions of dollars)</i>	Six Months Ended June 30	
	2013	2012
Receivables from related parties	47	84
Other accounts receivable and prepaid expenses	(38)	(70)
Fuel inventory	42	53
Income taxes payable/recoverable	24	(49)
Materials and supplies	(7)	1
Accounts payable and accrued charges	(49)	(119)
	19	(100)

## 16. RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province, the Ontario Power Authority (OPA) and the other successor entities of Ontario Hydro, including Hydro One Inc. (Hydro One), the IESO, and the OEFC, and jointly controlled entities. The transactions between OPG and related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

As at June 30, 2013, receivables from related parties included \$1 million (December 31, 2012 – \$3 million) due from Hydro One, \$316 million (December 31, 2012 – \$337 million) due from the IESO, \$65 million (December 31, 2012 –

\$84 million) due from the OEFC, \$11 million (December 31, 2012 – \$16 million) due from the OPA, and \$2 million (December 31, 2012 – \$2 million) due from the PEC. Accounts payable and accrued charges at June 30, 2013 included \$2 million (December 31, 2012 – \$2 million) due to Hydro One, \$50 million (December 31, 2012 – \$51 million) due to the OEFC, and \$2 million (December 31, 2012 – \$3 million) due to the Province.

## 17. OTHER (INCOME) LOSS

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
(Income) loss from investments subject to significant influence	(9)	3	(19)	(5)
Other gains	(4)	-	(3)	-
Other (income) loss	(13)	3	(22)	(5)

## 18. INVESTMENTS SUBJECT TO SIGNIFICANT INFLUENCE

Investments subject to significant influence consist of OPG's 50 percent ownership interest in the jointly controlled entities of PEC and Brighton Beach, which are accounted for using the equity method. Details of the balances as at June 30, 2013 and December 31, 2012 are as follows:

<i>(millions of dollars)</i>	June 30 2013	December 31 2012
<b>PEC</b>		
Current assets	15	8
Long-term assets	309	315
Current liabilities	(13)	(8)
Long-term liabilities	(4)	(3)
<b>Brighton Beach</b>		
Current assets	5	11
Long-term assets	200	209
Current liabilities	(11)	(11)
Long-term liabilities	(5)	(9)
Long-term debt	(134)	(139)
Investments subject to significant influence	362	373

## 19. RESTRUCTURING

In 2011, OPG announced its decision to close two additional coal-fired units at the Nanticoke GS, consistent with Ontario's Long-Term Energy Plan and Supply Mix Directive. Total restructuring costs, primarily severance costs, expected to be incurred related to these closures are \$26 million. Total restructuring costs of \$24 million have been recognized as of June 30, 2013 in the consolidated financial statements, with \$21 million associated with severance costs recorded to the liability and \$3 million associated with staff relocation costs recorded directly to expense. OPG expects to recognize up to \$2 million of additional restructuring costs in 2013.

OPG has ceased using coal at the Atikokan GS, which has an impact on staff requirements. Severance costs of \$2 million were recorded during March 2013.

The change in the restructuring liability for severance costs for the six months ended June 30, 2013 and for the year ended December 31, 2012 is as follows:

*(millions of dollars)*

Liability, January 1, 2012	23
Payments during the year	(20)
Liability, December 31, 2012	3
Restructuring charges during the period	2
Payments during the period	(1)
<b>Liability, June 30, 2013</b>	<b>4</b>

In March 2013, the Ministry of Energy issued a declaration mandating that OPG cease the use of coal at the Nanticoke and Lambton GS by the end of 2013. OPG is in the process of estimating the restructuring costs, including severance and relocation to other OPG sites. The amount of restructuring costs for these two stations cannot be reasonably estimated at this time, but OPG expects to accrue the severance costs in late 2013. Relocation costs will be recorded as incurred, primarily in 2014. In March 2013, Unit 2 at the Thunder Bay GS was removed from the IESO market as it is not required by the IESO. The impact on staff requirements has been finalized. The total restructuring costs, exclusively severance costs, associated with this unit are estimated to be \$4 million and were recorded in July 2013.

OPG conducted discussions with key stakeholders, including The Society and the PWU, in accordance with their respective collective bargaining agreements, at all plants impacted to date by the regulation requiring the cessation of burning coal for electricity generation. Given collective agreement provisions allowing deferral of severance payout to future periods, the existing restructuring liability is expected to be fully drawn down by 2015.