

August 24, 2012

ONTARIO POWER GENERATION REPORTS 2012 SECOND QUARTER FINANCIAL RESULTS

[Toronto]: Ontario Power Generation Inc. (“OPG” or the “Company”) today reported its financial and operating results for the three and six months ended June 30, 2012. Net income for the second quarter of 2012 was \$43 million compared to \$109 million for the same period in 2011. Net income for the six months ended June 30, 2012 was \$197 million compared to \$262 million for the same period in 2011.

“In the first six months of this year, we continued to deliver safe, clean and reliable electricity that Ontarians expect, while driving down our costs. This was accomplished, in part, through the implementation of OPG’s ‘Business Transformation’ initiative. This initiative increases efficiency through improvement of processes and organizational restructuring, resulting in cost and headcount reductions,” said Tom Mitchell, President and CEO.

“At the same time, we continue to preserve and increase the capacity of Ontario’s publicly-owned assets for future generations. We made significant progress on a number of electricity generation projects. These generation projects are contributing to job creation and economic development in our host communities, with our First Nations and our industry partners.

“OPG is proceeding with the conversion of our Atikokan generating station from coal to biomass fuel. With more than 200 megawatts of capacity, the Atikokan generating station will be one of the largest biomass plants in North America generating renewable and dispatchable power.” Mr. Mitchell said.

The average revenue that OPG received for a kilowatt hour (“kWh”) of electricity in the second quarter of 2012 was 5.0 ¢/kWh compared to 5.3 ¢/kWh for the same period of 2011. This reduction in average price is due to lower Ontario spot market prices, and has had a significant negative impact on OPG’s revenue and income from its Unregulated – Hydroelectric segment. OPG’s revenue of 5.0 ¢/kWh is below prices currently paid by consumers under Ontario’s regulated price plan, which range from 6.5 ¢/kWh to 11.7 ¢/kWh.

Highlights

OPG’s net income in the second quarter of 2012 decreased by \$66 million compared to the second quarter of 2011. The decrease was primarily due to lower earnings from the Nuclear Fixed Assets Removal and Nuclear Waste Management Funds (“Nuclear Funds”) and lower electricity spot market prices that significantly affected revenues from OPG’s unregulated hydroelectric stations. In addition, hydroelectric production was lower due to below normal water levels. The decrease in

net income was partially offset by the recognition of a regulatory asset related to the approved 2012 ONFA Reference Plan, higher nuclear production and lower operations, maintenance and administration (“OM&A”) costs.

The decrease in net income of \$65 million during the six months ended June 30, 2012 compared to the same period in 2011 was primarily due to lower electricity spot market prices and lower unregulated hydroelectric production. This decrease was partially offset by lower OM&A costs primarily due to the impact of variance and deferral accounts established by the OEB, and lower expenditures.

Total electricity generated during the three months ended June 30, 2012 was 20.5 terawatt hours (“TWh”) compared to 20.7 TWh for the same period in 2011. For the six months ended June 30, 2012, total generation was 42.5 TWh compared to 42.9 TWh in 2011. The decrease in electricity generation for the three and six month periods ended June 30, 2012 compared to the same periods in 2011 was primarily due to a decrease in unregulated hydroelectric generation resulting from below normal water levels in the Ottawa and northwestern Ontario river systems. The decrease in unregulated hydroelectric generation was partially offset by an increase in thermal generation mainly due to higher primary demand in Ontario, and higher nuclear generation.

The Darlington nuclear station continued to perform well with capability factors of 85.6 per cent and 90.6 per cent for the three and six month periods ended June 30, 2012, respectively. The capability factors decreased slightly compared to the same periods in 2011 due to an increase in unplanned outage days. The capability factors for the Pickering stations for the three and six month periods ended June 30, 2012 were 79.3 per cent and 78.1 per cent, respectively. The capability factors improved at the Pickering stations with a significant decrease in unplanned outage days compared to the same periods in 2011. The availability of OPG’s regulated and unregulated hydroelectric generating stations remained at high levels. The Start Guarantee rate of the thermal generating stations for the three and six month periods ended June 30, 2012 improved compared to the same periods in 2011, reflecting the ability of these stations to respond to market requirements when needed.

Generation Development

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

Nuclear

- The planning phase of the Darlington refurbishment project continues to progress as design requirements for a third Emergency Power Generator and a Containment Filtered Venting System were issued in May 2012. The procurement process for the Turbine/Generator contract has been initiated. A Draft Environmental Assessment Screening Report on Darlington Refurbishment was issued by the Canadian Nuclear Safety Commission (“CNSC”), and Fisheries and Oceans Canada, which concluded that the refurbishment program and continued operations is not likely to cause adverse effects on the environment, taking into account the identified mitigation measures.

- In June 2012, OPG entered into service agreements with Westinghouse and SNC Lavalin/CANDU Energy to prepare construction plans, schedules and cost estimates for new nuclear units at Darlington. The service agreements provide each company with 12 months to develop reports outlining their respective positions. The completed reports will be analyzed and provided to the Province for its consideration.
- Work has advanced on the coordinated set of initiatives to evaluate the opportunity to continue the safe and reliable operation of Units 5 to 8 at the Pickering nuclear generating stations for approximately an additional four to six years beyond its nominal end of life. In June 2012, OPG submitted the necessary documentation related to the extension of the pressure tube service life to the CNSC. By the end of 2012, OPG expects to have the necessary evidence to demonstrate, with sufficient confidence, that the units will achieve the additional life as predicted.

Hydroelectric

- The installation of the permanent concrete liner, as well as other lining and grouting activities continues at the Niagara Tunnel. The tunnel is expected to be completed within the approved budget of \$1.6 billion, and by the approved completion date of December 2013. As at June 30, 2012, the life-to-date capital expenditures were \$1.3 billion.
- The Lower Mattagami River project continues to progress. During the first half of 2012, concrete work was in progress at the Smoky Falls, Little Long and Harmon sites. The cofferdam installation was completed at the Kipling site. The project is expected to be completed within the approved budget of \$2.6 billion and by the approved completion date of June 2015. As at June 30, 2012, the life-to-date capital expenditures were \$1.0 billion.

Thermal

- OPG and the Ontario Power Authority (“OPA”) have executed the Atikokan Biomass Energy Supply Agreement for the conversion of the Atikokan generating station to biomass fuel. OPG has approved the full release of the project, which is now in the execution phase. OPG and the OPA are in discussions regarding an Energy Supply Agreement for the conversion of the Thunder Bay thermal generating station to natural gas.
- As outlined in Ontario’s Long-Term Energy Plan and Supply Mix Directive to the OPA, OPG continues to explore the possible conversion of some units at the Lambton and Nanticoke generating stations to natural gas, with an option for co-firing with biomass, if required for Ontario’s system reliability.

FINANCIAL AND OPERATIONAL HIGHLIGHTS ¹

<i>(millions of dollars – except where noted)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
<i>Earnings</i>				
Revenue	1,125	1,202	2,324	2,486
Fuel expense	165	183	357	349
Gross margin	960	1,019	1,967	2,137
Operations, maintenance and administration	669	684	1,304	1,392
Depreciation and amortization	142	180	331	328
Accretion on fixed asset removal and nuclear waste management liabilities	176	177	363	350
Earnings on nuclear fixed asset removal and nuclear waste management funds	(110)	(164)	(320)	(302)
Other net expenses	17	2	24	3
Income before interest and income taxes	66	140	265	366
Net interest expense	31	38	63	76
Income tax (recovery) expense	(8)	(7)	5	28
Net income	43	109	197	262
<i>Income before interest and income taxes</i>				
Generating segments	128	136	285	380
Nuclear Waste Management segment	(64)	(14)	(40)	(48)
Other segment	2	18	20	34
Total income before interest and income taxes	66	140	265	366
<i>Cash flow</i>				
Cash flow provided by operating activities	101	151	212	554
<i>Electricity generation (TWh)</i>				
Regulated – Nuclear	11.7	11.4	24.2	24.0
Regulated – Hydroelectric	4.8	5.0	9.7	9.6
Unregulated – Hydroelectric	3.3	4.1	6.9	8.1
Unregulated – Thermal	0.7	0.2	1.7	1.2
Total electricity generation	20.5	20.7	42.5	42.9
<i>Average sales prices and average revenue (¢/kWh)</i>				
Regulated – Nuclear Generation	5.5	5.5	5.5	5.5
Regulated – Hydroelectric	3.5	3.5	3.5	3.6
Unregulated – Hydroelectric	2.0	3.1	2.1	3.2
Unregulated – Thermal	2.0	2.1	2.0	2.9
Average revenue for all electricity generators, excluding OPG ²	9.2	8.8	9.0	8.4
Average revenue for OPG ³	5.0	5.3	5.0	5.3
<i>Nuclear unit capability factor (per cent)</i>				
Darlington	85.6	86.2	90.6	92.0
Pickering	79.3	72.3	78.1	75.2
<i>Availability (per cent)</i>				
Regulated – Hydroelectric	90.0	87.5	91.1	89.7
Unregulated – Hydroelectric	94.0	94.3	93.0	94.1
<i>Start Guarantee rate (per cent)</i>				
Unregulated – Thermal	97.6	94.6 ⁴	97.8	94.3 ⁴
<i>Return on equity for the twelve months ended June 30, 2012 and December 31, 2011 (per cent) ⁵</i>			3.2	4.0
<i>Funds from operations interest coverage for the twelve months ended June 30, 2012 and December 31, 2011 (times) ⁵</i>			2.9	3.1

¹ OPG has adopted United States generally accepted accounting principles (“US GAAP”) for the presentation of its consolidated financial statements, effective January 1, 2012. Financial information derived from the consolidated financial statements for the 2011 comparative periods has been adjusted to US GAAP.

² Revenues for other electricity generators are computed 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.

³ Includes other energy revenues primarily from cost recovery agreements for the Nanticoke, Lambton, and Lennox generating stations and revenue from Hydroelectric Energy Supply Agreements for the hydroelectric generating stations.

⁴ As estimated.

⁵ “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, 2012, 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 month periods ended June 30, 2012, can be accessed on OPG's Web site (www.opg.com), the Canadian Securities Administrators' Web site (www.sedar.com), or can be requested from the Company.

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2012 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 condensed interim consolidated financial statements and accompanying notes of Ontario Power Generation Inc. ("OPG" or the "Company") as at and for the three and six month periods ended June 30, 2012. 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, 2011, which were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

As required by Ontario Regulation 395/11, as amended, a regulation under the *Financial Administration Act* (Ontario) ("FAA"), OPG has adopted United States generally accepted accounting principles ("US GAAP") for the presentation of its consolidated financial statements, effective January 1, 2012. In addition to the regulation under the FAA, 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. Financial information derived from the consolidated financial statements for the 2011 comparative periods has been adjusted to US GAAP. Information for the comparative periods that has been adjusted to US GAAP is labelled "adjusted". In addition, certain of the 2011 comparative amounts have been reclassified to conform to the 2012 presentation consistent with US GAAP. The US GAAP transition adjustments and a summary of changes to significant accounting policies under US GAAP are presented in OPG's first quarter unaudited condensed interim consolidated financial statements for 2012. OPG's second quarter unaudited condensed interim consolidated financial statements are prepared in accordance with US GAAP and are presented in Canadian dollars. This MD&A is dated August 22, 2012.

FORWARD-LOOKING STATEMENTS

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

All forward-looking statements involve inherent assumptions, risks and uncertainties, including those set out under the heading *Risk Management*, and therefore, could be inaccurate to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's fuel costs and availability, asset performance, fixed asset removal and nuclear waste management, closure or conversion of coal-fired generating stations, refurbishment of existing facilities, development and construction of new facilities, pension and other post employment benefit ("OPEB") obligations, income taxes, 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 (the "Province").

As at June 30, 2012, OPG's electricity generating portfolio had an in-service capacity of 19,051 megawatts ("MW"). OPG operates three nuclear generating stations, five thermal generating stations, 65 hydroelectric generating stations, and two wind power turbines. In addition, OPG and TransCanada Energy Ltd. co-own the Portlands Energy Centre ("PEC") gas-fired combined cycle generating station. OPG and ATCO Power Canada Ltd. co-own the Brighton Beach gas-fired combined cycle generating station ("Brighton Beach"). 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. 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 2011 annual MD&A under the heading, *Business Segments*.

The in-service generating capacity by business segment as of June 30, 2012 and December 31, 2011 is as follows:

<i>(MW)</i>	As at	
	June 30 2012	December 31 2011
Regulated – Nuclear Generation	6,606	6,606
Regulated – Hydroelectric	3,312	3,312
Unregulated – Hydroelectric	3,684	3,684
Unregulated – Thermal	5,447	5,447
Other	2	2
Total	19,051	19,051

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*.

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011 <i>(adjusted)</i>	2012	2011 <i>(adjusted)</i>
<i>(millions of dollars – except where noted)</i>				
Revenue	1,125	1,202	2,324	2,486
Fuel expense	165	183	357	349
Gross margin	960	1,019	1,967	2,137
<i>Expenses</i>				
Operations, maintenance and administration	669	684	1,304	1,392
Depreciation and amortization	142	180	331	328
Accretion on fixed asset removal and nuclear waste management liabilities	176	177	363	350
Earnings on nuclear fixed asset removal and nuclear waste management funds	(110)	(164)	(320)	(302)
Restructuring	1	-	2	-
Property and capital taxes	13	15	27	23
	891	892	1,707	1,791
Income before other loss (income), interest and income taxes	69	127	260	346
Other loss (income)	3	(13)	(5)	(20)
Net interest expense	31	38	63	76
Income tax (recovery) expense	(8)	(7)	5	28
Net income	43	109	197	262
<i>Electricity production (TWh)</i>	20.5	20.7	42.5	42.9
<i>Cash flow</i>				
Cash flow provided by operating activities	101	151	212	554

Net income for the three months ended June 30, 2012 was \$43 million compared to \$109 million for the same period in 2011, a decrease of \$66 million. Income before income taxes for the three months ended June 30, 2012 was \$35 million compared to \$102 million for the same period in 2011, a decrease of \$67 million.

Net income for the six months ended June 30, 2012 was \$197 million compared to \$262 million for the six months ended June 30, 2011, a decrease of \$65 million. Income before income taxes for the six months ended June 30, 2012 was \$202 million compared to \$290 million for the same period in 2011, a decrease of \$88 million.

Earnings before Income Taxes for the Three Months Ended June 30, 2012

The following is a summary of the factors impacting OPG's results for the three months ended June 30, 2012 compared to results for the same period in 2011, on a before-tax basis:

<i>(millions of dollars)</i>	Electricity Generation Segments¹	Regulated Nuclear Waste Management Segment	Other²	Total
Income (loss) before income taxes for three months ended June 30, 2011 (adjusted)	136	(14)	(20)	102
Changes in gross margin:				
Change in electricity sales price:				
Regulated generation segments	(2)	-	-	(2)
Unregulated – Hydroelectric	(34)	-	-	(34)
Change in electricity generation by segment:				
Regulated – Nuclear Generation	15	-	-	15
Regulated – Hydroelectric	(2)	-	-	(2)
Unregulated – Hydroelectric	(23)	-	-	(23)
Decrease in thermal gross margin largely as a result of lower revenue from the contingency support agreement related primarily to unit closures	(9)	-	-	(9)
Other changes in gross margin	(2)	14	(16)	(4)
	(57)	14	(16)	(59)
Changes in Operations, Maintenance and Administration (“OM&A”) expenses:				
Lower nuclear expenditures primarily due to reductions in staff through efficiency initiatives and a decrease in project and outage activities	14	-	-	14
Lower thermal expenditures due to managed cost reductions	6	-	-	6
Increase in pension and OPEB costs largely as a result of the impact of lower discount rates for 2012, partially offset by the impact of the regulatory variance account related to these costs	(12)	-	(1)	(13)
Other changes in OM&A expenses	6	(14)	16	8
	14	(14)	15	15
Decrease in earnings from the Decommissioning Segregated Fund and the Used Fuel Segregated Fund (“Nuclear Funds”)	-	(101)	-	(101)
Impact of the Bruce Lease Net Revenues Variance Account on earnings from the Nuclear Funds	-	47	-	47
Increase in depreciation expense primarily due to the impact on fixed assets of the 2011 estimate update for the nuclear fixed asset removal and nuclear waste management liabilities (“Nuclear Liabilities”)	(31)	-	(3)	(34)
Decrease in depreciation expense primarily due to the recognition of the Nuclear Liability Deferral Account as a result of the 2012 Ontario Nuclear Funds Agreement (“ONFA”) Reference Plan approval in June 2012 effective January 2012	61	-	-	61
Other changes	5	4	(5)	4
Income (loss) before income taxes for the three months ended June 30, 2012	128	(64)	(29)	35

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

² Other includes results of the Other category in OPG's segmented statements of income, inter-segment eliminations, and net interest expense.

Earnings before Income Taxes for the Six Months Ended June 30, 2012

The following is a summary of the factors impacting OPG's results for the six months ended June 30, 2012 compared to results for the same period in 2011, on a before-tax basis:

<i>(millions of dollars)</i>	Electricity Generation Segments¹	Regulated Nuclear Waste Management Segment	Other²	Total
Income (loss) before income taxes for six months ended June 30, 2011 (adjusted)	380	(48)	(42)	290
Changes in gross margin:				
Change in electricity sales price:				
Regulated generation segments	(6)	-	-	(6)
Unregulated – Hydroelectric	(75)	-	-	(75)
Change in electricity generation by segment:				
Regulated – Nuclear Generation	9	-	-	9
Regulated – Hydroelectric	5	-	-	5
Unregulated – Hydroelectric	(32)	-	-	(32)
Decrease in thermal gross margin largely as a result of lower revenue from the contingency support agreement related primarily to unit closures	(31)	-	-	(31)
Increase in fuel expense for the Regulated – Nuclear segment primarily due to higher fuel prices	(14)	-	-	(14)
Decrease in non-electricity generation revenue, net of the impact of the Bruce Lease Net Revenues Variance Account	(13)	-	-	(13)
Other changes in gross margin	(11)	26	(28)	(13)
	(168)	26	(28)	(170)
Changes in OM&A expenses:				
Lower nuclear expenditures primarily due to reductions in staff through efficiency initiatives and a decrease in outage activities	19	-	-	19
Lower thermal expenditures due to managed cost reductions	12	-	-	12
Decrease (increase) in pension and OPEB costs largely as a result of the impact of the regulatory variance and deferral accounts related to these costs, partially offset by the impact of lower discount rates for 2012	46	(1)	-	45
Other changes in OM&A expenses	10	(25)	27	12
	87	(26)	27	88
Increase in earnings from the Nuclear Funds	-	16	-	16
Impact of the Bruce Lease Net Revenues Variance Account on earnings from the Nuclear Funds	-	2	-	2
Increase in amortization expense related to the amortization of regulatory balances primarily as a result of the OEB's decision effective March 1, 2011	(14)	-	-	(14)
Decrease in depreciation expense primarily related to OPG's thermal generating stations	11	-	-	11
Increase in accretion expense primarily due to an increase in the present value of the Nuclear Liabilities as a result of the 2011 estimate update, partially offset by the impact of the Nuclear Liability Deferral Account and the Bruce Lease Net Revenues Variance Account	(3)	(10)	-	(13)
Other changes	(8)	-	-	(8)
Income (loss) before income taxes for the six months ended June 30, 2012	285	(40)	(43)	202

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

² Other includes results of the Other category in OPG's segmented statements of income, inter-segment eliminations, and net interest expense.

Electricity Generation

OPG's electricity generation for the three and six month periods ended June 30, 2012 and 2011 was as follows:

<i>(TWh)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Regulated – Nuclear Generation	11.7	11.4	24.2	24.0
Regulated – Hydroelectric	4.8	5.0	9.7	9.6
Unregulated – Hydroelectric	3.3	4.1	6.9	8.1
Unregulated – Thermal	0.7	0.2	1.7	1.2
Total electricity generation	20.5	20.7	42.5	42.9

Total electricity generated during the three months ended June 30, 2012 from OPG's generating stations was 20.5 terawatt hours ("TWh") compared to 20.7 TWh during the same quarter in 2011. The decrease in electricity generation was primarily due to a decrease in electricity generation from the Unregulated – Hydroelectric segment, partially offset by higher electricity generation from the Unregulated – Thermal segment and the Regulated – Nuclear segment.

Electricity generation from the Unregulated – Hydroelectric segment decreased by 0.8 TWh during the three months ended June 30, 2012 compared to the same quarter in 2011. The decrease was primarily as a result of lower water levels in all river systems in Ontario during most of the quarter.

The higher generation from the Unregulated – Thermal segment during the second quarter of 2012 compared to the same quarter in 2011 was primarily due to utilizing coal inventories prior to the closure of the stations in 2014 and higher primary demand in Ontario.

Total electricity generated during the six months ended June 30, 2012 from OPG's generating stations was 42.5 TWh compared to 42.9 TWh during the same period in 2011. The decrease in electricity generation was primarily due to a decrease in electricity generation from the Unregulated – Hydroelectric segment, partially offset by higher electricity generation from the Unregulated – Thermal segment.

Average Sales Prices and Average Revenue

The weighted average hourly Ontario electricity price (“HOEP”), OPG’s average sales price by reportable segment, average revenue for all electricity generators, excluding OPG, and average revenue for OPG for the three and six month periods ended June 30, 2012 and 2011, were as follows:

(\$/kWh)	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Weighted average HOEP	2.0	3.0	2.0	3.2
Regulated – Nuclear Generation	5.5	5.5	5.5	5.5
Regulated – Hydroelectric	3.5	3.5	3.5	3.6
Unregulated – Hydroelectric	2.0	3.1	2.1	3.2
Unregulated – Thermal	2.0	2.1	2.0	2.9
Average revenue for all electricity generators, excluding OPG ¹	9.2	8.8	9.0	8.4
Average revenue for OPG ²	5.0	5.3	5.0	5.3

¹ Revenues for other electricity generators are computed 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.

² Includes other energy revenues primarily from cost recovery agreements for the Nanticoke, Lambton and Lennox generating stations, and revenue from Hydroelectric Energy Supply Agreements for the hydroelectric generating stations. Had these other energy revenues been excluded, OPG’s average revenue would have been 4.4¢/kWh and 4.5¢/kWh for the three months ended June 30, 2012 and 2011, respectively. For the six months ended June 30, 2012 and 2011, OPG’s average revenue would have been 4.4¢/kWh and 4.6¢/kWh.

The average sales prices for the Regulated – Nuclear Generation segment and the Regulated – Hydroelectric segment for the three and six month periods ended June 30, 2012 reflect the OEB’s March 2011 decision establishing new regulated prices effective March 1, 2011, as discussed in OPG’s 2011 annual MD&A under the heading, *Recent Developments*.

The decrease in average sales prices for OPG’s unregulated segments for the three and six month periods ended June 30, 2012 compared to the same periods in 2011 was primarily due to the impact of significantly lower Ontario electricity spot market prices.

The decrease in the HOEP for the three months ended June 2012 compared to the same period in 2011 was primarily due to lower natural gas prices, partially offset by higher Ontario primary demand and the impact of lower hydroelectric generation.

The decrease in the HOEP for the six months ended June 2012 compared to the same period in 2011 is primarily due to lower natural gas prices and lower Ontario primary demand, partially offset by the impact of lower nuclear and hydroelectric generation in Ontario.

Cash Flow from Operations

Cash flow provided by operating activities for the three months ended June 30, 2012 was \$101 million compared to \$151 million for the three months ended June 30, 2011. The decrease in operating cash flow was primarily due to lower cash receipts from electricity generation and an increase in pension contributions, partially offset by a decrease in operations, maintenance and administrative (“OM&A”) expenses.

Cash flow provided by operating activities for the six months ended June 30, 2012 was \$212 million compared to \$554 million for the same period in 2011. The decrease in operating cash flow was primarily due to lower cash receipts from electricity generation, an increase in pension contributions, and lower cash receipts resulting from a reduction in revenues from technical services provided to third parties. The decrease in operating cash flow was partially offset by a decrease in OM&A expenses and lower fuel purchases.

Recent Developments

OPG's OEB Application

OPG intends to file an application with the OEB during the third quarter of 2012 requesting approval to recover balances in the OEB authorized regulatory variance and deferral accounts as at December 31, 2012. The application will request the recovery of these balances to be reflected in new rate riders beginning in 2013, as part of regulated prices applicable to production from OPG's regulated hydroelectric and nuclear facilities. The current rate riders included in the regulated prices are in effect until December 31, 2012. In the application, OPG also intends to seek approval for the use of US GAAP for regulatory purposes, as well as approval for an extension of the Pension and OPEB Cost Variance Account which is currently effective until December 31, 2012.

VISION, 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 mission is to be Ontario's low cost electricity generator of choice. OPG is focused on three corporate strategies – performance excellence, project excellence, and financial sustainability.

The following sections provide an update to OPG's disclosures related to the three corporate strategies, and should be read in conjunction with OPG's 2011 annual MD&A. Detailed discussions of OPG's commitment to its three corporate strategies are included in the 2011 annual MD&A under the headings, *Performance Excellence*, *Project Excellence*, and *Financial Sustainability*.

Performance Excellence

OPG's business segments and corporate groups are guided by the Company's commitment to performance excellence in the areas of generation, the environment, and safety.

Nuclear Generating Assets

Beginning in 2012, the Pickering stations are managed as a six-unit site through the operational amalgamation of the Pickering A and B generating stations. At the end of the second quarter of 2012, OPG successfully combined the Pickering stations' work management, maintenance and operational planning departments becoming a fully integrated six-unit site.

The Canadian Nuclear Safety Commission ("CNSC") staff review of the annual Pickering Continued Operations Plan for Pickering generating stations Units 5 to 8 determined that there were no additional impediments identified for the continued safe operation of Pickering Units 5 to 8. The CNSC review of the Sustainable Operations Plan, which describes the strategy for safe operation of the Pickering site in an integrated fashion for the balance of this decade, is pending.

Hydroelectric Generating Assets

In the first half of 2012, several projects were completed including the major overhaul and rewind project on Unit 2 of the Mountain Chute generating station, the penstock modification on Unit 7 of the Sir Adam Beck generating station, and the generator rewind project on Unit 4 of the Alexander generating station. The overhaul at Unit 3 of the Sir Adam Beck generating station and a penstock replacement at the Matabitchuan generating station are ongoing.

With consideration of current market conditions, OPG continues to evaluate and implement plans to increase the capacity of and maintain the hydroelectric generating assets through the refurbishment or replacement of existing turbine runners, generators, transformers, and protections and controls. This includes increasing the capacity and efficiency at certain stations by approximately 20 MW over the next

five years. OPG is also planning to repair, rehabilitate, or replace a number of aging civil structures in the next five years.

OPG is planning to complete major equipment overhauls and rehabilitation work at several stations during 2012. This includes a generator replacement at the Mountain Chute generating station, a mechanical overhaul at the Sir Adam Beck 1 generating station, a penstock replacement at the Matabitchuan generating station, and headgate refurbishments at the Arnprior generating station.

Thermal Generating Assets

Consistent with Ontario's Long-Term Energy Plan (the "Energy Plan") released in November 2010 and the Supply Mix Directive issued to the Ontario Power Authority ("OPA") in February 2011, OPG removed from service two coal-fired units at the Nanticoke generating station on December 31, 2011. The early closure of these coal-fired units, in advance of the December 31, 2014 target deadline, has resulted in staff reductions of 290 at the Nanticoke generating station and is expected to result in reduced payments to OPG from the Ontario Electricity Financial Corporation ("OEFEC") under the contingency support agreement. In accordance with the Energy Plan, OPG continues to evaluate the schedule for the remaining coal units, including consideration of possible advancement for the closure of certain coal units, while assessing the impact on staff and fuel inventories.

Environmental Performance

During the second quarter of 2012, significant proposed changes to federal environmental legislation, under Bill C-38, including the *Fisheries Act*, *Canadian Environmental Assessment Act*, and the *Species at Risk Act*, were introduced in Parliament. The *Fisheries Act* has been revised to reduce the number of approvals required under the *Fisheries Act* and to rely more on regulations. Details of the changes are pending promulgation of new regulations under the *Fisheries Act*. Royal assent of Bill C-38 was received on June 29, 2012. OPG will continue to assess the specific regulatory changes as they are announced.

For the six months ended June 30, 2012, CO₂ emissions from OPG's thermal stations were 2.0 million tonnes compared to 1.5 million tonnes for the same period in 2011. Acid gas (SO₂ and NO_x) emissions were 7.7 gigagrams and 5.5 gigagrams for the six months ended June 30, 2012 and 2011, respectively. Emissions increased during the first half of 2012 compared to the same period in 2011 as a result of increased generation from OPG's coal-fired generating stations.

OPG's disclosures relating to environmental policies and procedures, and environmental risks are provided in the 2011 annual MD&A as at and for the year ended December 31, 2011.

Safety

OPG remains steadfast in its commitment to safety excellence, sustaining a strong safety culture and continuous improvement in safety management systems.

Situational awareness, which involves assessing and controlling hazards associated with changing or unexpected conditions at the work site, continues to be integrated into the work practices as a key area of improvement in 2012. Key deliverables in this cultural improvement initiative include providing clear expectations from leadership and a comprehensive communication campaign to increase knowledge and skills in the area of situational awareness. Business leaders are challenging employees to focus on situational awareness by assessing and controlling hazards associated with changing or unexpected conditions at the work site. In addition, work continues in 2012 to further improve the work protection processes used to isolate equipment for maintenance activities.

Project Excellence

OPG is pursuing a number of generation development projects that are consistent with the Energy Plan. OPG's major projects include nuclear station refurbishment, new nuclear generation, Pickering Units 5 - 8 Continued Operations, new hydroelectric generation and plant upgrades, and the potential conversion of some of the coal-fired generating units to alternative fuels.

Darlington Refurbishment Project

Engineering deliverables critical to the current planning phase of the program, including Engineering Change Requests and Modification Design Requirements, continue to progress on schedule. Design requirements for a third Emergency Power Generator and a Containment Filtered Venting System were issued in May 2012. The procurement process for the Turbine/Generator contract has been initiated.

Construction of the Darlington Energy Complex, which will house a full-scale reactor mock-up as well as warehouse facilities and offices, remains on schedule for occupancy in the fall of 2013.

In the second quarter of 2012, the CNSC and Fisheries and Oceans Canada issued a Draft Environmental Assessment Screening Report on Darlington Refurbishment. Consistent with OPG's analysis, the report concluded that, taking into account the identified mitigation measures, the refurbishment program and continued operations are not likely to cause adverse effects on the environment. The public review period ended in July 2012. OPG is preparing for the Environmental Assessment public hearing scheduled for November 2012.

New Nuclear Units

In June 2012, OPG entered into service agreements with Westinghouse and SNC Lavalin/CANDU Energy to prepare construction plans, schedules and cost estimates for new nuclear units at Darlington. The service agreements provide each company with 12 months to develop reports outlining their respective positions. The completed reports will be analyzed and provided to the Province for its consideration.

In August 2012, the federal government approved the application for the "Licence to Prepare Site".

Pickering Units 5 - 8 Continued Operations

Work has advanced on the coordinated set of initiatives to evaluate the opportunity to continue the safe and reliable operation of Units 5 to 8 at the Pickering generating stations for approximately an additional four to six years beyond their nominal end of life. Planning for the Unit 7 outage, which is scheduled for the fall of 2012, and work on the remaining operating units continues.

In June 2012, OPG submitted the necessary documentation related to the extension of the pressure tube service life to the CNSC. By the end of 2012, OPG expects to have the necessary evidence to demonstrate, with sufficient confidence, that the units will achieve the additional life as predicted.

Deep Geologic Repository for Low and Intermediate Level Waste

The public review period continues for the Environmental Impact Statement, Preliminary Safety Report, and Technical Support Documents for the Deep Geologic Repository ("DGR") project. In the second quarter of 2012, OPG received the second and third set of Information Requests ("IRs") on the documents and provided responses to the IRs. The Joint Review Panel ("JRP") has extended the end date of the review and comment period beyond August 3, 2012, based on the large volume of IRs received to-date. The new comment period deadline will be announced by the JRP at a later date. OPG anticipates that the public review period could extend into the fourth quarter of 2012.

OPG has suspended design activities pending receipt of the site preparation and construction license. Construction of the DGR is expected to commence in 2015.

Niagara Tunnel

Lining installation activities at the Niagara Tunnel continue. At June 30, 2012, installation of the lower one-third of the permanent concrete lining reached 9,810 metres. The invert lining was complete on July 30, 2012. Restoration of the circular cross-section of the tunnel, before installation of the upper two-thirds of the concrete lining, was at 8,432 metres and the installation of the upper two-thirds of the concrete lining has progressed to 7,100 metres, at June 30, 2012. In addition, contact grouting to fill the space between the concrete lining and impermeable membrane has progressed to 5,350 metres. The pre-stress grouting to complete the attachment of the concrete liner with the surrounding rock was at 4,100 metres.

The Niagara Tunnel is expected to be completed within the approved budget of \$1.6 billion and the approved project completion date of December 2013. Upon completion of the 10.2 kilometre tunnel, an additional water flow of approximately 500 cubic metres per second will be diverted from the Niagara River, contributing to an increase of about 1.6 TWh of annual generation from the Sir Adam Beck generating stations. The capital project expenditures for the three and six months ended June 30, 2012 were \$70 million and \$129 million, respectively. The life-to-date capital expenditures were \$1,273 million.

Lower Mattagami

The Lower Mattagami River project will increase the capacity of the four generating stations on the Lower Mattagami River by 438 MW. During the first half of 2012, concrete work was in progress at the intake, powerhouse, and service areas at the Smoky Falls site. At the Little Long and Harmon sites, concrete operations are in progress in the powerhouse area. The cofferdam installation was completed and dewatered at the Kipling site.

The capital project expenditures for the three and six months ended June 30, 2012 were \$138 million and \$269 million, respectively, and the life-to-date capital expenditures were \$1,035 million. The project is expected to be completed within the approved budget of \$2.6 billion and by the approved completion date of June 2015.

Conversion of Coal-Fired Units

The strategy to convert coal-fired units to alternative fuels is reflective of the changing operating environment in Ontario. This includes the phase-out of coal-fired generation and conversion of units to alternative fuels such as biomass, natural gas and gas-biomass dual-fuelled. Before OPG can proceed with unit conversions, a mechanism is required for recovery of capital and ongoing costs.

In August 2012, OPG and the OPA executed the Atikokan Biomass Energy Supply Agreement with respect to the conversion of the Atikokan generating station to biomass fuel. OPG has approved the full release of the project, which is now in the execution phase. The converted Atikokan generating station will have a capacity of approximately 200 MW. The conversion project has an approved cost estimate of \$170 million and is expected to be completed in 2014.

OPG and the OPA are in discussions regarding the Thunder Bay Energy Supply Agreement with respect to the conversion of the Thunder Bay generating station to natural gas. Definition phase work is largely complete and OPG requires execution of the energy supply agreement before proceeding to the construction phase of the project. OPG is continuing work associated with the required gas infrastructure, and Union Gas continues its public process for pipeline routing to the generating station.

As outlined in the Energy Plan and Supply Mix Directive, OPG is also exploring the possible conversion of some units at the Lambton and Nanticoke generating stations to natural gas, with an option for co-firing with biomass, if required for Ontario's system reliability. Union Gas continues its technical and environmental studies and public consultation for the identification of a pipeline route to Nanticoke, given the long lead-time required for a Nanticoke gas pipeline. Similar pipeline routing studies also continue at Lambton. The Energy Plan indicated that the need and timing of the conversions would be impacted by the life extension decisions for nuclear generating stations and will be considered in the context of timing and economics of ongoing investment.

On July 10, 2012, the Province announced the relocation of the Greenfield South gas-fired station development from Mississauga to a small portion of the Lambton generating station site. The parties are working to finalize a sale at fair market value, pending due diligence on the site. OPG will not have an interest in the Greenfield South development.

Financial Sustainability

OPG's priority, as a commercial enterprise, is to achieve and maintain a level of performance to secure its long-term financial sustainability and to maintain the value of its assets for its Shareholder – the Province. Inherent in this priority are the objectives of: earning an appropriate return on its generating assets; identifying and exploring efficiency improvement opportunities; and ensuring a strong balance sheet that enhances OPG's ability to finance its operations and projects. OPG has employed a number of strategies to achieve a sustainable level of financial performance.

The Business Transformation process improvement initiatives continued in the second quarter of 2012 through a focus on cost reduction, efficiency, and effectiveness gains. In May 2012, OPG began moving to a centre-led organizational structure, which is expected to contribute \$200 million in cost savings, including the reduction of approximately 1,000 employees through attrition over the 2012 to 2014 timeframe. Improving efficiencies and business effectiveness through restructuring, process improvements and streamlining governance is expected to continue to reduce the total work effort resulting in sustainable cost savings. Business Transformation is expected to support further cost efficiencies and headcount reductions beyond 2014.

KEY GENERATION AND FINANCIAL PERFORMANCE INDICATORS

Key performance indicators that directly pertain to OPG's mandate and corporate strategies are measures of production efficiency, cost-effectiveness, and environmental performance. OPG evaluates the performance of its generating stations using a number of key performance indicators, which vary depending on the generating technology. These indicators are defined in the 2011 annual MD&A and are discussed in the *Discussion of Operating Results by Business Segment* section of this MD&A. Updates to OPG's key performance indicators from those disclosed in the 2011 annual MD&A are discussed below.

Thermal Equivalent Force Outage Rate and Start Guarantee Rate

Given continued changes in the electricity market in Ontario, the main focus of the thermal business is for its generating units to be available when needed. While the industry standard Equivalent Forced Outage Rate ("EFOR") measure continues to be monitored by the Thermal business within the context of its business strategy, beginning in 2012, OPG has also adopted Start Guarantee rate as a key thermal reliability measure. Start Guarantee rate represents the ratio of the number of times thermal units successfully start compared to the number of starts requested by the Independent Electricity System Operator ("IESO"). Start Guarantee performance was monitored in 2011 in anticipation of this change.

Funds from Operations Interest Coverage

The 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 defined as FFO before interest divided by Adjusted Interest Expense and is measured over a period of twelve months. See *Liquidity and Capital Resources – FFO Interest Coverage* and *Supplementary Non-GAAP Financial Measures – FFO Interest Coverage*, for further details.

DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

This section summarizes OPG's key results by segment for the three and six month periods ended June 30, 2012 and 2011. The following table provides a summary of revenue, earnings, and electricity generation by business segment:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011 <i>(adjusted)</i>	2012	2011 <i>(adjusted)</i>
<i>(millions of dollars – except where noted)</i>				
<i>Revenue</i>				
Regulated – Nuclear Generation	720	713	1,493	1,500
Regulated – Nuclear Waste Management	26	12	50	24
Regulated – Hydroelectric	188	190	366	374
Unregulated – Hydroelectric	89	149	187	298
Unregulated – Thermal	114	134	246	280
Other	13	15	31	33
Elimination	(25)	(11)	(49)	(23)
	1,125	1,202	2,324	2,486
<i>Income before interest and income taxes</i>				
Regulated – Nuclear Generation	77	30	166	135
Regulated – Nuclear Waste Management	(64)	(14)	(40)	(48)
Regulated – Hydroelectric	87	87	183	183
Unregulated – Hydroelectric	(9)	50	(5)	115
Unregulated – Thermal	(27)	(31)	(59)	(53)
Other	2	18	20	34
	66	140	265	366
<i>Electricity generation (TWh)</i>				
Regulated – Nuclear Generation	11.7	11.4	24.2	24.0
Regulated – Hydroelectric	4.8	5.0	9.7	9.6
Unregulated – Hydroelectric	3.3	4.1	6.9	8.1
Unregulated – Thermal	0.7	0.2	1.7	1.2
Total electricity generation	20.5	20.7	42.5	42.9

Regulated – Nuclear Generation Segment

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011 (adjusted)	2012	2011 (adjusted)
<i>(millions of dollars)</i>				
Regulated generation sales	648	633	1,340	1,326
Variance accounts	4	4	50	29
Other	68	76	103	145
Total revenue	720	713	1,493	1,500
Fuel expense	77	57	152	119
Variance and deferral accounts	(20)	1	(24)	(6)
Total fuel expense	57	58	128	113
Gross margin	663	655	1,365	1,387
Operations, maintenance and administration	486	493	948	1,024
Depreciation and amortization	94	128	238	217
Property and capital taxes	6	7	13	14
Income before other income, interest and income taxes	77	27	166	132
Other income	-	(3)	-	(3)
Income before interest and income taxes	77	30	166	135

Income before interest and income taxes from the Regulated – Nuclear generation segment for the second quarter of 2012 was \$77 million compared to \$30 million for the same period in 2011. The increase in income before interest and income taxes was primarily due to lower depreciation and amortization expenses, lower OM&A expenses and an increase in revenue.

The decrease in depreciation and amortization expenses of \$34 million during the second quarter of 2012 compared to the same period in 2011 was primarily due to the recognition of a regulatory asset in the amount of \$49 million for the Nuclear Liability Deferral Account (“NLDA”) related to depreciation expense, upon the approval of the 2012 Ontario Nuclear Funds Agreement (“ONFA”) Reference Plan with an effective date of January 1, 2012. Of the total \$49 million recognized, \$25 million of the addition to the NLDA pertains to the period from January 1, 2012 to March 31, 2012. The NLDA was previously authorized by the OEB and allows OPG to record the impact of changes in the nuclear fixed asset removal and nuclear waste management liabilities (“Nuclear Liabilities”), associated with the Pickering and Darlington nuclear generating stations, as a result of a new approved ONFA Reference Plan.

The decrease in fuel expense during second quarter of 2012 compared the same quarter in 2011 was primarily due to the recognition of a regulatory asset for the NLDA in the amount of \$13 million related to used fuel storage and disposal expenses. Of the \$13 million, \$7 million of the addition to the NLDA pertains to the period from January 1, 2012 to March 31, 2012.

OM&A expenses for the three months ended June 30, 2012 decreased by \$7 million compared to the same period in 2011, primarily as a result of reductions in staff, lower project costs and a decrease in outage activities, partially offset by an increase in pension and OPEB costs.

The increase in revenue of \$7 million for the three months ended June 30, 2012 compared to the same period in 2011 was primarily due to an increase in generation revenue, partially offset by lower revenue from technical services provided to third parties. The increase in generation revenue was primarily due to higher generation for the three months ended June 30, 2012 as a result of fewer unplanned and planned outage days at the Pickering generating stations.

Income before interest and income taxes from the Regulated – Nuclear Generation segment for the six months ended June 30, 2012 was \$166 million, compared to \$135 million for the same period in 2011. This increase was primarily due to lower OM&A expenses, partially offset by lower gross margin, and higher depreciation and amortization expenses.

The decrease in OM&A expenses of \$76 million for the six months ended June 30, 2012 compared to the same period in 2011 was primarily due to lower pension and OPEB costs related to the impact of the Pension and OPEB Cost Variance Account, effective March 1, 2011. As a result, the Pension and OPEB Cost Variance Account reduced OM&A expenses over a six month period in 2012 compared to a four month period in 2011. In addition, OM&A expenses were reduced in 2012 due to the recognition of a regulatory asset during the first quarter related to OPG's transition to US GAAP. These impacts were partially offset by an increase in pension and OPEB costs primarily as a result of lower discount rates for 2012. OM&A expenses also decreased due to reductions in staff and lower outage expenses.

Gross margin decreased primarily as a result of higher fuel prices. The increase in depreciation and amortization expenses of \$21 million for the six months ended June 30, 2012 compared to the same period in 2011 was primarily due to higher amortization expense related to the recovery of regulatory balances as a result of the OEB's March 2011 decision on the new regulated prices.

The unit capability factors for the Darlington and Pickering generating stations, and the Production Unit Energy Cost ("PUEC") for the three and six month periods ended June 30, 2012 and 2011 are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011 (adjusted)	2012	2011 (adjusted)
Unit Capability Factor (%)				
Darlington	85.6	86.2	90.6	92.0
Pickering	79.3	72.3	78.1	75.2
Nuclear PUEC (\$/MWh)	45.74	46.42	43.34	45.53

The lower capability factor at the Darlington generating station for the three months ended June 30, 2012 compared to the same period in 2011 was primarily due to an increase in unplanned outage days. For the three months ended June 30, 2012, the higher capability factor at the Pickering generating stations compared to the same period in 2011 primarily reflected fewer unplanned outage days.

The decrease in Nuclear PUEC for the three months ended June 30, 2012 compared to the same period in 2011 was primarily due to higher generation, largely offset by an increase in fuel and fuel-related expenses.

For the six months ended June 30, 2012, the lower capability factor at the Darlington nuclear generating station compared to the same period in 2011 was primarily due to an increase in unplanned outage days. The higher capability factor at the Pickering generating stations during the six months ended June 30, 2012 compared to the same period in 2011 primarily reflected the fewer unplanned outage days, partially offset by a higher number of planned outage days.

The decrease in Nuclear PUEC for the six months ended June 30, 2012 compared to the same period in 2011 was primarily due to lower OM&A expenses.

Regulated – Nuclear Waste Management Segment

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Revenue	26	12	50	24
Operations, maintenance and administration	28	14	54	28
Accretion on nuclear fixed asset removal and nuclear waste management liabilities	172	176	356	346
Earnings on nuclear fixed asset removal and nuclear waste management funds	(110)	(164)	(320)	(302)
Loss before interest and income taxes	(64)	(14)	(40)	(48)

Loss before interest and income taxes for the Regulated – Nuclear Waste Management segment was \$64 million for the three months ended June 30, 2012 compared to \$14 million for the same period in 2011. The higher loss was largely due to a decrease in the valuation levels of global equity markets during the second quarter of 2012 compared to the same period in 2011, resulting in lower earnings from the Decommissioning Segregated Fund (“Decommissioning Fund”), net of the impact of the related variance account.

Loss before interest and income taxes for the six months ended June 20, 2012 was \$40 million compared to \$48 million for the same period in 2011. The lower loss was primarily a result of higher earnings from the Decommissioning Fund during the first half of 2012 compared to the same period in 2011.

Regulated – Hydroelectric Segment

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Regulated generation sales ¹	167	172	336	340
Variance accounts	15	4	18	14
Other	6	14	12	20
Total revenue	188	190	366	374
Fuel expense	65	68	119	117
Variance accounts	4	1	3	2
Total fuel expense	69	69	122	119
Gross margin	119	121	244	255
Operations, maintenance and administration	24	25	45	51
Depreciation and amortization	9	8	17	22
Property and capital taxes	(1)	1	(1)	(1)
Income before interest and income taxes	87	87	183	183

¹ During the three months ended June 30, 2012 and 2011, the Regulated – Hydroelectric segment generation sales included revenue of \$5 million and \$6 million, respectively, related to the hydroelectric incentive mechanism approved by the OEB. During the six months ended June 30, 2012 and 2011, the Regulated – Hydroelectric segment generation sales included revenue of \$7 million and \$8 million, respectively, related to the hydroelectric incentive mechanism.

For the three months ended June 30, 2012 and 2011, income before interest and income taxes for the Regulated – Hydroelectric segment was \$87 million. Gross margin decreased by \$2 million during the second quarter of 2012 compared to the second quarter of 2011. The decrease was primarily due to lower ancillary and other station revenues, and the impact of lower generation, partially offset by higher revenue recognized related to regulatory variance accounts.

For the six months ended June 30, 2012 and 2011, income before interest and income taxes was \$183 million. Gross margin decreased by \$11 million during the first half of 2012 compared to the same period in 2011 primarily due to lower ancillary and other station revenues, and the impact of lower generation. The income for the six months ended June 30, 2012 compared to the same period in 2011 was also impacted by lower OM&A expenses and a decrease in amortization expense related to regulatory balances, as a result of the OEB's March 2011 decision.

The availability, EFOR and OM&A expense per MWh for the Regulated – Hydroelectric segment for the three and six month periods ended June 30, 2012 and 2011 are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Availability (%)	90.0	87.5	91.1	89.7
EFOR (%)	0.8	1.0	1.4	0.9
Regulated – Hydroelectric OM&A expense per MWh (\$/MWh)	5.00	5.00	4.64	5.31

The availability for the regulated hydroelectric stations was 90.0 percent in the second quarter of 2012 compared to 87.5 percent in the same quarter of 2011. During the first half of 2012, the availability for the regulated hydroelectric stations was 91.1 percent compared to 89.7 percent during the same period of 2011. The increase in availability during the three and six month periods ended June 30, 2012 compared to the same periods in 2011 was primarily due to fewer planned outage days, partially offset by an unplanned outage at the Sir Adam Beck Pump generating station. While the unplanned outage during the first quarter of 2012 resulted in an increase in EFOR for the six months ended June 30, 2012 compared to the same period in 2011, the outage did not result in any loss of production. The high availability reflects the continuing strong performance of these regulated hydroelectric stations.

The OM&A expense per MWh for the second quarter of 2012 and 2011 was \$5.00/MWh. The OM&A expense per MWh for the first half of 2012 was \$4.64/MWh compared to \$5.31/MWh for the same period in 2011. The decrease in OM&A expense per MWh for the first half of 2012 was primarily due to lower OM&A expenses.

Unregulated – Hydroelectric Segment

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Spot market sales	65	127	145	259
Other	24	22	42	39
Total revenue	89	149	187	298
Fuel expense	16	22	36	42
Gross margin	73	127	151	256
Operations, maintenance and administration	62	57	118	108
Depreciation and amortization	20	20	38	36
Property and capital taxes	-	-	-	(3)
(Loss) income before interest and income taxes	(9)	50	(5)	115

Loss before interest and income taxes for the Unregulated – Hydroelectric segment for the three months ended June 30, 2012 was \$9 million, compared to income before interest and income taxes of \$50 million for the same period in 2011.

The gross margin decreased by \$54 million in the second quarter of 2012 compared to the second quarter of 2011 primarily due to a decrease in revenue from spot market sales as a result of a significantly

lower weighted average HOEP. The weighted average HOEP for the second quarter of 2012 and 2011 was 2.0¢/kWh and 3.0¢/kWh, respectively. The revenue from spot market sales also decreased during the three months ended June 30, 2012 compared to the same period in 2011 due to lower electricity generation related to unfavourable water conditions.

Loss before interest and income taxes for the six months ended June 30, 2012 was \$5 million, compared to income before interest and income taxes of \$115 million for the same period in 2011.

The gross margin decreased by \$105 million during the six months ended June 30, 2012 compared to the same period in 2011 primarily due to the impact of the significantly lower weighted average HOEP, and lower generation. The weighted average HOEP for the first half of 2012 and 2011 was 2.0¢/kWh and 3.2¢/kWh, respectively. Lower generation during the six months ended June 30, 2012 compared to the same period in 2011 was related to unfavourable water conditions.

The increase in OM&A expenses of \$5 million for the second quarter of 2012 and \$10 million for the first half of 2012 compared to the same periods in 2011 was primarily due to higher pension and OPEB costs in 2012, largely as a result of lower discount rates for 2012.

The availability, EFOR and OM&A expense per MWh for Unregulated – Hydroelectric segment for the three and six month periods ended June 30, 2012 and 2011 are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Availability (%)	94.0	94.3	93.0	94.1
EFOR (%)	1.6	1.4	2.2	0.9
Unregulated – Hydroelectric OM&A expense per MWh (\$/MWh)	17.88	13.90	16.67	13.33

The availability for the unregulated hydroelectric stations was 94.0 percent and 94.3 percent during the second quarter of 2012 and 2011, respectively. During the first half of 2012, the availability for the unregulated hydroelectric stations was 93.0 percent compared to 94.1 percent during the same period of 2011. The decrease in availability and increase in EFOR for the three and six month periods ended June 30, 2012 compared to the same periods in 2011 were primarily due to an increase in unplanned outage activities at certain generating stations in 2012. Although these unplanned outages resulted in a decrease in availability and an increase in EFOR, they did not result in any loss of production. The high availability reflected the continuing strong performance of the unregulated hydroelectric stations.

The increase in OM&A expense per MWh for the three and six month periods ended June 30, 2012 compared to the same periods in 2011 was due to the impact of lower generation and higher OM&A expenses.

Unregulated – Thermal Segment

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011 (adjusted)	2012	2011 (adjusted)
<i>(millions of dollars)</i>				
Spot market sales	15	5	34	35
Contingency support agreement	68	106	151	195
Other	31	23	61	50
Total revenue	114	134	246	280
Fuel expense	23	34	71	75
Gross margin	91	100	175	205
Operations, maintenance and administration	93	104	187	202
Depreciation and amortization	14	22	28	43
Accretion on fixed asset removal liabilities	4	1	7	4
Property and capital taxes	6	4	10	8
Restructuring	1	-	2	-
Loss before other losses, interest and income taxes	(27)	(31)	(59)	(52)
Other losses	-	-	-	1
Loss before interest and income taxes	(27)	(31)	(59)	(53)

For the three months ended June 30, 2012, the loss before interest and income taxes for the Unregulated – Thermal segment was \$27 million compared to \$31 million for the same period in 2011. The decrease in the loss was primarily due to lower OM&A and depreciation expenses, partially offset by a lower gross margin.

Gross margin decreased by \$9 million during the three months ended June 30, 2012 compared to the same period in 2011, primarily as a result of lower revenue from the contingency support agreement, reflecting a decrease in expenses resulting from the impact of the closure of Units 1 and 2 at the Nanticoke generating station in December 2011. The decrease in gross margin related to the contingency support agreement was partially offset by lower fuel and fuel-related costs, higher generation revenue due to an increase in generation, and higher other station revenue. Fuel and fuel-related costs for the three months ended June 30, 2012 decreased compared to the same period in 2011 primarily due to higher costs related to contract adjustments to coal supply contracts during the second quarter of 2011, and favourable adjustments to coal inventory during the second quarter of 2012.

The reduction in OM&A expenses of \$11 million for the three months ended June 30, 2012 compared to the same period in 2011 was primarily due to the vacancy and overtime management program, reduced scope of work associated with changing operating profiles, and unit closures at the Nanticoke generating station in 2011. The reduction in OM&A expenses contributed to lower revenue from the contingency support agreement.

The decrease in depreciation and amortization expenses during the three months ended June 30, 2012 compared to the same period in 2011 was primarily due to the recognition of accelerated depreciation during 2011 related to the Nanticoke unit closures in 2011, and adjustments to the thermal asset retirement obligation in the third quarter of 2011.

For the six months ended June 30, 2012, the loss before interest and income taxes was \$59 million compared to \$53 million for the same period in 2011. The increase in the loss was primarily due to a lower gross margin, partially offset by a decrease in OM&A and depreciation expenses. The decrease in gross margin during the first half of 2012 compared to the same period in 2011 was primarily due to lower revenue from the contingency support agreement, partially offset by higher ancillary revenue and lower fuel and fuel-related costs.

The Start Guarantee rate, EFOR, and OM&A expense per MW for the Unregulated – Thermal segment for the three and six month periods ended June 30, 2012 and 2011 are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Start Guarantee rate (%)	97.6	94.6 ¹	97.8	94.3 ¹
EFOR (%)	5.7	11.7	6.4	9.3
Unregulated – Thermal OM&A expense per MW (\$000/MW)	68.30	65.90	68.70	64.10

¹ As estimated.

The EFOR was 5.7 percent and 11.7 percent during the second quarter of 2012 and 2011, respectively. During the first half of 2012, the EFOR was 6.4 percent compared to 9.3 percent during the same period of 2011. The decrease in EFOR for the three and six month periods ended June 30, 2012 compared to the same periods in 2011 was primarily due to a lower number of unplanned outage days at the Nanticoke and Lambton generating stations. The unplanned outage days are managed through the implementation of a management strategy, which entails managing outage expenditures and duration while ensuring the units are available as required.

The Start Guarantee rate was 97.6 percent and 94.6 percent during the second quarter of 2012 and 2011, respectively. During the first half of 2012, the Start Guarantee rate was 97.8 percent compared to 94.3 percent for the same period in 2011. The high Start Guarantee rate for the three and six month periods ended June 30, 2012 and 2011 reflects the ability of the thermal generating stations to respond to market requirements when needed.

The increase in OM&A expense per MW during the three and six month periods ended June 30, 2012 compared to the same periods in 2011 reflected the reduced thermal generating capacity resulting from the two unit closures at the Nanticoke generating station in late 2011, partially offset by lower OM&A expenses.

Other

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011 (adjusted)	2012	2011 (adjusted)
<i>(millions of dollars)</i>				
Revenue	13	15	31	33
Operations, maintenance and administration	1	2	1	2
Depreciation and amortization	5	2	10	10
Property and capital taxes	2	3	5	5
Income before other gains, interest and income taxes	5	8	15	16
Other losses (income)	3	(10)	(5)	(18)
Income before interest and income taxes	2	18	20	34

Income before interest and income taxes for the Other category during the second quarter of 2012 was \$2 million compared to \$18 million during the same quarter in 2011. The decrease was primarily due to a reported net loss from one of OPG's equity investments in the second quarter of 2012.

Income before interest and income taxes was \$20 million during the six months ended June 30, 2012 compared to \$34 million during the same period in 2011 primarily due to a decrease in income from equity investments during the second quarter of 2012 compared to the same period in 2011.

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, 2012, if disclosed on a gross basis, revenue and power purchases would have increased by \$13 million (three months ended June 30, 2011 – \$10 million). For the six months ended June 30, 2012, if disclosed on a gross basis, revenue and power purchases would have increased by \$26 million (six months ended June 30, 2011 – \$38 million).

Income Taxes

Income tax recovery for the three months ended June 30, 2012 was \$8 million compared to \$7 million for the same period in 2011.

Income tax expense for the six months ended June 30, 2012 was \$5 million compared to \$28 million for the same period in 2011. The decrease in income tax expense was primarily due to lower income before earnings from the Nuclear Funds in 2012. Earnings from the Nuclear Funds are not taxable until withdrawn.

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, 2012 was 3.2 percent compared to 4.0 percent for the twelve months ended December 31, 2011. ROE decreased primarily due to a lower net income and a higher average shareholder’s equity, excluding accumulated other comprehensive income, for the twelve months ended June 30, 2012 compared to the twelve months ended December 31, 2011. OPG’s relatively low ROE is impacted by a relatively high equity component of the capital structure.

ROE is not a measurement 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. The definition of ROE can be found under the heading, *Supplementary Non-GAAP Financial Measures*.

LIQUIDITY AND CAPITAL RESOURCES

OPG’s primary sources of liquidity and capital are funds generated from operations, bank financing, credit facilities provided by the OEFC, and capital market financing. These sources are utilized for multiple purposes including: investments in plants and technologies; funding obligations such as contributions to the pension funds and the 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, 2012, and 2011 are as follows:

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011 <i>(adjusted)</i>	2012	2011 <i>(adjusted)</i>
Cash and cash equivalents, beginning of period	516	393	630	269
Cash flow provided by operating activities	101	151	212	554
Cash flow used in investing activities	(323)	(255)	(635)	(538)
Cash flow provided by financing activities	59	353	146	357
Net (decrease) increase	(163)	249	(277)	373
Cash and cash equivalents, end of period	353	642	353	642

Operating Activities

Cash flow provided by operating activities for the three months ended June 30, 2012 was \$101 million compared to \$151 million for the three months ended June 30, 2011. The decrease in operating cash flow was primarily due to lower cash receipts from electricity generation and an increase in pension contributions, partially offset by a decrease in OM&A expenses.

Cash flow provided by operating activities for the six months ended June 30, 2012 was \$212 million compared to \$554 million for the same period in 2011. The decrease in operating cash flow was primarily due to lower cash receipts from electricity generation, an increase in pension contributions, and lower cash receipts resulting from a reduction in revenues from technical services provided to third parties. The decrease in operating cash flow was partially offset by a decrease in OM&A expenses and lower fuel purchases.

Investing Activities

Cash flow used in investing activities during the second quarter ended June 30, 2012 was \$323 million compared to \$255 million for the same quarter in 2011. The increase was primarily due to higher expenditures for the Lower Mattagami River and the Darlington Refurbishment projects.

Cash flow used in investing activities during the six months ended June 30, 2012 was \$635 million compared to \$538 million for the same period in 2011. The increase was primarily due to higher expenditures for the Darlington Refurbishment and the Lower Mattagami River projects, partially offset by lower capital expenditures for the Niagara Tunnel project.

OPG's forecast capital expenditures for 2012 are approximately \$1.5 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. In May 2012, OPG renewed and extended both tranches to May 20, 2017. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at June 30, 2012, no commercial paper was outstanding under this program, and there were no outstanding borrowings under the bank credit facility as at June 30, 2012.

As at June 30, 2012, OPG maintained \$25 million of short-term, uncommitted overdraft facilities, and \$353 million of short-term, uncommitted credit facilities, which support the issuance of the Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans, and for other purposes.

As at June 30, 2012, there was a total of \$309 million of Letters of Credit issued, which included \$287 million for the supplementary pension plans, \$21 million for general corporate purposes and \$1 million related to the operation of the PEC.

The Company has an agreement to sell an undivided co-ownership interest up to \$250 million in its current and future accounts receivable to an independent trust which expires August 31, 2013. As at June 30, 2012 there were no amounts outstanding under this agreement. As at December 31, 2011, short term debt included \$50 million outstanding under this agreement.

OPG also maintains a Niagara Tunnel project credit facility for an amount up to \$1.6 billion. As at June 30, 2012, advances under this facility were \$950 million, including \$35 million and \$75 million of new borrowing during the three and six month periods ended June 30, 2012, respectively.

The Lower Mattagami Energy Limited Partnership (“LME”) maintains a \$700 million bank credit facility to support the initial construction phase for the Lower Mattagami River project and the commercial paper program. In August 2012, the facility was divided into two tranches. The first tranche of \$400 million has a maturity date of August 17, 2017 and the second tranche of \$300 million has a maturity date of August 17, 2015. As at June 30, 2012, \$108 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, 2012, there were no outstanding borrowings under this credit facility. In April 2012, the LME issued senior notes totalling \$225 million with a maturity date of 2052. The effective interest rate and coupon interest rate of these notes were 4.3 percent and 4.2 percent, respectively.

As at June 30, 2012, OPG’s long-term debt outstanding was \$4,842 million. To ensure that adequate financing resources were available beyond its \$1 billion commercial paper program backed by the revolving committed bank credit facility, OPG reached an agreement with the OEFC in April 2012 for a \$400 million credit facility. OPG refinanced \$200 million of notes under this facility in the second quarter of 2012. This credit facility expired in the second quarter of 2012.

In April 2012, Standard & Poor’s affirmed the long-term credit rating on OPG at A- with a stable outlook and the commercial paper rating at A-1 (low). In June 2012, Dominion Bond Rating Service reaffirmed the long-term credit rating on OPG at A (low) and the commercial paper rating at R-1 (low) with a stable outlook.

FFO Interest Coverage

FFO Interest Coverage is an indicator of OPG’s ability to meet interest obligations from operating cash flows. FFO Interest Coverage for the twelve months ended June 30, 2012 and December 31, 2011 was 2.9 times and 3.1 times, respectively. The FFO Interest Coverage decreased primarily due to lower FFO before interest, partially offset by a slightly lower Adjusted Interest Expense. FFO before interest for the twelve months ended June 30, 2012 compared to the twelve months ended December 31, 2011 decreased primarily due to a lower cash flow provided by operating activities, excluding changes to non-cash working capital balances.

The FFO Interest Coverage is not a measurement 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 this non-GAAP financial measure is an effective indicator of performance and is consistent with the corporate strategy to operate on a financially sustainable basis. The definition and calculation of FFO Interest Coverage can be found under the heading, *Supplementary Non-GAAP Financial Measures*.

BALANCE SHEET HIGHLIGHTS

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

	As At		Explanation of change
	June 30 2012	December 31 2011 (adjusted)	
(millions of dollars)			
Nuclear fixed asset removal and nuclear waste management funds (current and non-current portions)	12,348	11,898	The increase was primarily due to earnings on the Nuclear Funds, contributions to the Used Fuel Segregated Fund, partially offset by reimbursements of expenditures on nuclear fixed asset removal and nuclear waste management.
Regulatory assets (current and non-current portions)	5,125	5,017	The increase was primarily due to additions to the Pension and OPEB Cost Variance Account, the NLDA, details of which are provided below, the Bruce Lease Net Revenues Variance Account and the Impact for USGAAP Deferral Account ("US GAAP Deferral Account"). This increase was partially offset by the amortization of regulatory assets based on the OEB's March 2011 decision, and a decrease in the regulatory asset related to pension and OPEB for amounts that were reclassified from accumulated other comprehensive loss as components of benefit costs.
Pension liabilities	2,737	2,847	The decrease in the pension liabilities was primarily due to contributions to the pension funds, partially offset by the recognition of pension costs. The increase in OPEB liabilities was primarily due to the impact of costs recognized related to the OPEB plans during the first half of 2012.
Other post employment benefit liabilities	2,689	2,616	

Nuclear Liability Deferral Account

In accordance with *Ontario Regulation 53/05* pursuant to the *Ontario Energy Board Act, 1998*, the OEB has authorized the NLDA in connection with changes to OPG's Nuclear Liabilities. The deferral account records the revenue requirement impact of the changes in the Nuclear Liabilities associated with the Pickering and Darlington nuclear generating stations arising from an approved reference plan, in accordance with the terms of the ONFA.

In 2011, the estimate for OPG's Nuclear Liabilities as at December 31, 2011 was updated as a result of the ONFA Reference Plan update process. During the fourth quarter of 2011, OPG submitted the final 2012 ONFA Reference Plan, which covers the period from 2012 to 2016, to the Province for approval. In June 2012, the Province approved the 2012 ONFA Reference Plan with an effective date of January 1, 2012. Therefore, in the second quarter of 2012, OPG recorded an increase of \$98 million to the regulatory asset for the NLDA, representing the revenue requirement impact associated with the increase in the liabilities for the nuclear facilities owned and operated by OPG arising from the approved 2012 ONFA Reference Plan for the period from January 1, 2012 to June 30, 2012. The increase to the regulatory asset reduced the corresponding expenses for the three and six month periods ended June 30, 2012, as detailed in Note 4 to the interim consolidated financial statements. The balance in the account

will be reviewed by the OEB as part of OPG's application to recover variance and deferral account balances as at December 31, 2012.

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 consolidated financial statements or are recorded in the Company's consolidated financial statements using amounts that differ from the full contract amounts. Principal off-balance sheet activities that OPG undertakes include 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 under Canadian GAAP are outlined in Note 3 to the audited 2011 annual consolidated financial statements as at and for the year ended December 31, 2011. As a result of the conversion to US GAAP effective January 1, 2012, significant changes to accounting policies and transition impacts are disclosed in Notes 2 and 18, respectively, to the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2012.

Certain policies are recognized as critical accounting policies by virtue of the subjective and complex judgment and estimates required around matters that are inherently uncertain and could result in materially different amounts being reported under different conditions or assumptions.

Recent Accounting Pronouncements

Presentation of Comprehensive Income

Effective January 1, 2012, OPG adopted the amendments to Accounting Standards Codification ("ASC") Topic 220, *Comprehensive Income*. The amended standard requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. OPG will continue to report the components of comprehensive income in a separate but consecutive statement.

Fair Value Measurements

Effective January 1, 2012, OPG adopted the amendments to ASC Topic 820, *Fair Value Measurements and Disclosures*. The amendment does not change the items measured at fair value but establishes common requirements for measuring fair value and for disclosing information about fair value measurements. The adoption did not have an impact on OPG's results of operations or financial position.

International Financial Reporting Standards ("IFRS")

As a result of OPG's 2011 decision to adopt US GAAP and as required by the FAA regulation, OPG's conversion to IFRS 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. OPG's IFRS conversion project involved, among other initiatives, a detailed assessment of the effects of IFRS on its financial statements, an update of information systems to meet IFRS requirements, 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, IFRS conversion work will be managed in such a way that it can effectively be restarted. OPG continues to monitor major accounting developments arising from initiatives of the international standard setter, particularly as several major projects are joint efforts with the US Financial Accounting Standards Board.

RISK MANAGEMENT

A detailed discussion of OPG's governance structure, inherent risks and activities associated with identifying and managing risks can be found in the 2011 annual MD&A. This risk management disclosure should be read in conjunction with the *Risk Management* section included in OPG's 2011 annual MD&A. The following discussion provides an update of OPG's risk management activities since the 2011 annual disclosure.

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 below. These amounts are based on yearly forecasts of generation and supply mix, and as such, are subject to change as these forecasts are updated.

	2012 ⁴	2013	2014
Estimated generation output hedged ¹	83%	80%	82%
Estimated fuel requirements hedged ²	92%	59%	56%
Estimated nitric oxide ("NO") emission requirement hedged ³	100%	100%	100%
Estimated SO ₂ emission requirement hedged ³	100%	100%	100%

¹ Represents the portion of megawatt-hours 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.

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

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

⁴ Includes forecast for the remainder of the year.

Foreign Exchange and Interest Rate Markets

OPG's earnings and cash flows can be impacted by movements in the United States 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 fuels purchased for nuclear generating stations are paid in US dollars. The magnitude of the impact of this volatility is largely a function of the quantity of the fuels purchased. In addition to this exposure, the market price of electricity in Ontario is influenced by the exchange rate because of the interaction between the Ontario and neighbouring US interconnected electricity markets. In order to manage this risk, OPG employs various financial instruments such as forwards and other derivative contracts in accordance with approved risk management policies. As at June 30, 2012, OPG had total foreign exchange contracts outstanding with a notional value of USD \$76 million.

The majority of OPG's existing debt is at fixed interest rates. Interest rate risk arises with the need to undertake new financing and with the potential addition of variable rate debt. The management of these risks is undertaken by using derivatives to hedge the exposure in accordance with corporate risk

management policies. OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated new financing. As at June 30, 2012, OPG had total interest rate swap contracts outstanding with a notional principal of \$485 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. The metric used to measure the financial risk of this trading activity is known as "Value at Risk" or "VaR", which is defined as a probabilistic maximum potential future loss expressed in monetary terms for a portfolio based on normal market conditions over a set period of time. For the second quarter of 2012, the utilization of VaR ranged between nil and \$0.5 million, compared to a utilization of between \$0.2 million and \$0.3 million for the second quarter of 2011.

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 the financial condition of all counterparties 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, 2012 was \$396 million, including \$372 million to the IESO. Over 65 percent of the remaining \$24 million exposure related to investment grade counterparties.

Regulatory Risks

Rate Regulation

Significant uncertainties remain regarding the outcome of rate proceedings, which determine the regulated prices for OPG's rate regulated operations.

In April 2011, OPG filed a notice of appeal with the Divisional Court of Ontario (the "Court") related to the part of the OEB's March 2011 decision disallowing recovery of a portion of OPG's nuclear compensation costs in new regulated prices established effective March 1, 2011. In February 2012, the Court dismissed the appeal by a 2 to 1 majority. OPG has been granted leave to appeal the Court's decision by and to the Court of Appeal for Ontario, which OPG is in the process of doing.

Refer to the *Recent Developments* section regarding OPG's intent to file an OEB application.

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 for quarters beginning on or after OPG's US GAAP transition date of January 1, 2011 and in accordance with Canadian GAAP for preceding quarters.

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

<i>(millions of dollars – except where noted)</i>	June 30 2011 <i>(adjusted)</i>	March 31 2011 <i>(adjusted)</i>	December 31 2010 <i>(Canadian GAAP – unadjusted)</i>	September 30 2010 <i>(Canadian GAAP – unadjusted)</i>
Revenue	1,202	1,284	1,323	1,391
Net income	109	153	202	333
Net income per share	\$0.43	\$0.60	\$0.79	\$1.29

OPG's quarterly results are impacted by changes in demand primarily resulting from variations in seasonal weather conditions. Historically, OPG's revenues are higher in the first quarter of a fiscal year as a result of winter heating demands, and in the third quarter due to air conditioning and cooling demands.

Additional items which impacted net income (loss) in certain quarters above are described below and in OPG's 2011 annual MD&A under the heading, *Quarterly Financial Highlights*.

- A decrease in gross margin during the first quarter of 2012 primarily due to lower unregulated hydroelectric generation revenue, lower electricity sales prices and lower revenue from the contingency support agreement primarily due to the closure of Units 1 and 2 at the Nanticoke generating station for the Unregulated – Thermal segment;
- Lower OM&A expenses for the first quarter of 2012 related to the impact of the recognition of a regulatory asset related to the US GAAP Deferral Account authorized by the OEB during the first quarter of 2012; and
- Increase in depreciation and amortization expenses during the first quarter of 2012 due to amortization of regulatory balances as a result of the OEB's March 2011 decision and the impact on fixed assets of the 2011 update of the estimate for the Nuclear Liabilities, net of the impact of the Bruce Lease Net Revenues Variance Account.

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, 2011 and notes thereto can be found on SEDAR at www.sedar.com.

SUPPLEMENTARY NON-GAAP FINANCIAL MEASURES

In addition to providing net income in accordance with US GAAP, OPG's MD&A, unaudited condensed interim consolidated financial statements as at and for the three and six month periods ended June 30, 2012 and 2011, and the notes thereto, present certain non-GAAP financial measures. 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 in making operating decisions and assessing its performance. Readers of the MD&A, 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 accumulated other comprehensive income, for the period. ROE is measured over a 12-month period and is calculated as follows:

	For the twelve months ended	
	June 30 2012	December 31 2011
<i>(millions of dollars – except where noted)</i>		<i>(adjusted)</i>
ROE (percent)		
Net Income	273	338
Divided by: average shareholder's equity excluding accumulated other comprehensive income	8,584	8,354
ROE (percent)	3.2	4.0

(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 applied 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 2012	December 31 2011
<i>(millions of dollars – except where noted)</i>		<i>(adjusted)</i>
FFO before interest		
Cash flow provided by operating activities	837	1,179
Add: Interest paid	248	238
Less: Interest capitalized to fixed and intangible assets	(104)	(86)
Add: Changes to non-cash working capital balances	118	(166)
FFO before interest	1,099	1,165
Adjusted Interest Expense		
Net interest expense	141	154
Add: Interest income	9	9
Add: Interest capitalized to fixed and intangible assets	104	86
Add: Interest applied to regulatory assets and liabilities	9	9
Add: Interest on pension and OPEB projected benefit obligation less expected return on plan assets	113	120
Adjusted Interest Expense	376	378
FFO Interest Coverage (<i>times</i>)	2.9	3.1

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

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

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INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011 <i>(as adjusted – Note 18)</i>	2012	2011 <i>(as adjusted – Note 18)</i>
<i>(millions of dollars except where noted)</i>				
Revenue (Note 13)	1,125	1,202	2,324	2,486
Fuel expense (Note 13)	165	183	357	349
Gross margin (Note 13)	960	1,019	1,967	2,137
Expenses (Note 13)				
Operations, maintenance and administration	669	684	1,304	1,392
Depreciation and amortization (Note 3)	142	180	331	328
Accretion on fixed asset removal and nuclear waste management liabilities (Note 7)	176	177	363	350
Earnings on nuclear fixed asset removal and nuclear waste management funds (Note 7)	(110)	(164)	(320)	(302)
Property and capital taxes	13	15	27	23
Restructuring (Note 17)	1	-	2	-
	891	892	1,707	1,791
Income before other loss (income), interest and income taxes	69	127	260	346
Other loss (income) (Note 16)	3	(13)	(5)	(20)
Income before interest and income taxes	66	140	265	366
Net interest expense (Note 6)	31	38	63	76
Income before income taxes	35	102	202	290
Income tax (recovery) expense (Note 8)	(8)	(7)	5	28
Net income	43	109	197	262
Basic and diluted income per common share (dollars)	0.17	0.43	0.77	1.03
Common shares outstanding (millions)	256.3	256.3	256.3	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	
	2012	2011 <i>(as adjusted – Note 18)</i>	2012	2011 <i>(as adjusted – Note 18)</i>
Net income	43	109	197	262
Other comprehensive (loss) income, net of income taxes				
Net loss on derivatives designated as cash flow hedges ¹	(19)	(20)	(4)	(14)
Reclassification to income of losses on derivatives designated as cash flow hedges ²	7	2	9	3
Reclassification to income of amounts related to pension and other post employment benefits ³	7	4	14	8
Other comprehensive (loss) income for the period	(5)	(14)	19	(3)
Comprehensive income	38	95	216	259

¹ Net of income tax recoveries of \$4 million and \$1 million for the three months ended June 30, 2012 and 2011, respectively. For the six months ended June 30, 2012 and 2011, net of income tax recoveries of \$1 million.

² Net of income tax expenses of nil for the three months ended June 30, 2012 and 2011. For the six months ended June 30, 2012 and 2011, net of income tax expenses of nil.

³ Net of income tax expenses of \$3 million and \$2 million for the three months ended June 30, 2012 and 2011, respectively. For the six months ended June 30, 2012 and 2011, net of income tax expenses of \$5 million and \$3 million, respectively.

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<i>(millions of dollars)</i>	Six Months Ended June 30	
	2012	2011 <i>(as adjusted – Note 18)</i>
Operating activities		
Net income	197	262
Adjust for non-cash items:		
Depreciation and amortization <i>(Note 3)</i>	331	328
Accretion on fixed asset removal and nuclear waste management liabilities <i>(Note 7)</i>	363	350
Earnings on nuclear fixed asset removal and nuclear waste management funds <i>(Note 7)</i>	(320)	(302)
Pension and other post employment benefit costs <i>(Note 9)</i>	184	229
Deferred income taxes and other accrued charges	4	(102)
Mark-to-market on derivative instruments	43	14
Provision for used nuclear fuel and low and intermediate level waste	50	23
Regulatory assets and liabilities	(77)	(82)
Other	18	(14)
	793	706
Contributions to nuclear fixed asset removal and nuclear waste management funds	(122)	(126)
Expenditures on fixed asset removal and nuclear waste management <i>(Note 7)</i>	(96)	(87)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management	17	27
Contributions to pension funds and expenditures on other post employment benefits and supplementary pension plans	(270)	(179)
Expenditures on restructuring <i>(Note 17)</i>	(14)	(12)
Net changes to other long-term assets and liabilities	4	41
Net changes to non-cash working capital balances <i>(Note 14)</i>	(100)	184
Cash flow provided by operating activities	212	554
Investing activities		
Investment in property, plant and equipment and intangible assets	(659)	(545)
Proceeds from sale of property, plant and equipment	-	7
Proceeds from sale of long-term investments	24	-
Cash flow used in investing activities	(635)	(538)
Financing activities		
Issuance of long-term debt <i>(Note 5)</i>	500	700
Repayment of long-term debt	(402)	(188)
Net increase (decrease) in short-term debt <i>(Note 6)</i>	48	(155)
Cash flow provided by financing activities	146	357
Net (decrease) increase in cash and cash equivalents	(277)	373
Cash and cash equivalents, beginning of period	630	269
Cash and cash equivalents, end of period	353	642

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at <i>(millions of dollars)</i>	June 30 2012	December 31 2011 <i>(as adjusted – Note 18)</i>
Assets		
Current assets		
Cash and cash equivalents	353	630
Receivables from related parties <i>(Note 15)</i>	384	468
Other accounts receivable and prepaid expenses	130	58
Nuclear fixed asset removal and nuclear waste management funds <i>(Note 7)</i>	4	20
Fuel inventory	602	655
Materials and supplies	81	82
Regulatory assets <i>(Note 4)</i>	147	299
Income taxes recoverable	107	58
Deferred income taxes <i>(Note 8)</i>	57	42
	1,865	2,312
Property, plant and equipment	21,762	21,110
Less: accumulated depreciation	6,787	6,477
	14,975	14,633
Intangible assets	370	363
Less: accumulated amortization	320	313
	50	50
Other assets		
Nuclear fixed asset removal and nuclear waste management funds <i>(Note 7)</i>	12,344	11,878
Long-term materials and supplies	379	380
Regulatory assets <i>(Note 4)</i>	4,978	4,718
Investments subject to significant influence	377	395
Other long-term assets	58	77
	18,136	17,448
	35,026	34,443

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at <i>(millions of dollars)</i>	June 30 2012	December 31 2011 <i>(as adjusted – Note 18)</i>
Liabilities		
Current liabilities		
Accounts payable and accrued charges <i>(Note 15)</i>	697	825
Short-term debt <i>(Note 6)</i>	108	60
Deferred revenue due within one year	12	12
Long-term debt due within one year <i>(Note 5)</i>	3	403
Regulatory liabilities <i>(Note 4)</i>	63	130
	883	1,430
Long-term debt <i>(Note 5)</i>	4,839	4,341
Other liabilities		
Fixed asset removal and nuclear waste management liabilities <i>(Note 7)</i>	14,734	14,392
Pension liabilities	2,737	2,847
Other post employment benefit liabilities	2,689	2,616
Long-term accounts payable and accrued charges	562	546
Deferred revenue	135	120
Deferred income taxes <i>(Note 8)</i>	580	501
Regulatory liabilities <i>(Note 4)</i>	25	24
	21,462	21,046
Shareholder's equity		
Common shares ¹	5,126	5,126
Retained earnings	3,587	3,390
Accumulated other comprehensive loss	(871)	(890)
	7,842	7,626
	35,026	34,443

¹ 256,300,010 common shares outstanding at a stated value of \$5,126 million as at June 30, 2012 and December 31, 2011; unlimited authorized shares without nominal or par value

Commitments and Contingencies *(Notes 5, 6, 9, 10, and 12)*

See accompanying notes to the interim consolidated financial statements

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

Six Months Ended June 30
(millions of dollars)

	2012	2011 <i>(as adjusted – Note 18)</i>
Common shares	5,126	5,126
Retained earnings		
Balance at beginning of period	3,390	3,066
Net income	197	262
Balance at end of period	3,587	3,328
Accumulated other comprehensive loss, net of income taxes		
Balance at beginning of period	(890)	(567)
Other comprehensive income (loss) for the period	19	(3)
Balance at end of period	(871)	(570)
Total shareholder's equity at end of period	7,842	7,884

See accompanying notes to the interim consolidated financial statements

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011 (UNAUDITED)

1. BASIS OF PRESENTATION

These condensed interim consolidated financial statements for the three and six months ended June 30, 2012 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 as required by Ontario Regulation 395/11, as amended, a regulation under the *Financial Administration Act* (Ontario) ("FAA") effective January 1, 2012. In addition to the regulation under the FAA, 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. For prior reporting periods up to and including the year ended December 31, 2011, Ontario Power Generation Inc. ("OPG" or the "Company") prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as determined in Part V of the Canadian Institute of Chartered Accountants Handbook – Accounting. These condensed 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 OPG as at and for the year ended December 31, 2011, which were prepared in accordance with Canadian GAAP, and Note 18 to the Company's condensed interim consolidated financial statements as at and for the three months ended March 31, 2012, detailing the impact of OPG's transition from Canadian GAAP to US GAAP and related reconciliation information. Significant changes to accounting policies resulting from OPG's transition to US GAAP are disclosed in Note 2 to the Company's condensed interim consolidated financial statements for the three months ended March 31, 2012. All dollar amounts are presented in Canadian dollars.

Certain of the 2011 comparative amounts have been reclassified from financial statements previously presented to conform to the 2012 consolidated financial statement presentation. These reclassifications, along with the US GAAP reconciliations, are presented in Note 18, *US GAAP Transition*.

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 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 upon 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.

Seasonal Operations

OPG's quarterly results are impacted by changes in demand resulting from variations in seasonal weather conditions. Primarily during the first and third quarters of a fiscal year, OPG's revenues are impacted as a result of winter heating demands in the first quarter and air conditioning/cooling demands in the third quarter. Regulated prices for most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that OPG operates, the contingency support agreement with the Ontario Electricity Financial Corporation ("OEF"), and OPG's hedging strategies significantly reduce the impact of seasonal price fluctuations on the results of operations.

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 (“NFWA”). The primary long-term mandate of the NWMO is to implement an approach to address the 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.

2. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

Recent Accounting Pronouncements

Presentation of Comprehensive Income

Effective January 1, 2012, OPG adopted the amendments to Accounting Standards Codification (“ASC”) Topic 220, *Comprehensive Income*. The amended standard requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. OPG will continue to report the components of comprehensive income in a separate but consecutive statement.

Fair Value Measurements

Effective January 1, 2012, OPG adopted the amendments to ASC Topic 820, *Fair Value Measurements and Disclosures*. The amendment does not change the items measured at fair value but establishes common requirements for measuring fair value and for disclosing information about fair value measurements. The adoption did not have an impact on OPG’s results of operations or financial position.

3. DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses for the three and six month periods ended June 30, 2012 and 2011 consist of the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011 <i>(as adjusted – Note 18)</i>	2012	2011 <i>(as adjusted – Note 18)</i>
<i>(millions of dollars)</i>				
Depreciation	96	123	239	250
Amortization of intangible assets	4	4	8	8
Amortization of regulatory assets and liabilities <i>(Note 4)</i>	42	53	84	70
	142	180	331	328

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, 2012 (three and six month periods ended June 30, 2011 – five percent) was \$29 million and \$56 million, respectively (three and six month periods ended June 30, 2011 – \$20 million and \$38 million, respectively).

4. REGULATORY ASSETS AND LIABILITIES

The regulatory assets and liabilities recorded as at June 30, 2012 and December 31, 2011 are as follows:

<i>(millions of dollars)</i>	June 30 2012	December 31 2011 <i>(as adjusted – Note 18)</i>
Regulatory assets		
<i>Variance and deferral accounts as authorized by the OEB</i>		
Bruce Lease Net Revenues Variance Account	180	196
Tax Loss Variance Account	363	425
Pension and OPEB Cost Variance Account	214	96
Nuclear Liability Deferral Account	109	22
Impact for USGAAP Deferral Account	53	-
Other variance and deferral accounts	40	26
	959	765
Pension and OPEB Regulatory Asset	3,475	3,553
Deferred Income Taxes <i>(Note 8)</i>	691	699
Total regulatory assets	5,125	5,017
Less: current portion	147	299
Non-current regulatory assets	4,978	4,718
Regulatory liabilities		
<i>Variance and deferral accounts as authorized by the OEB</i>		
Income and Other Taxes Variance Account	43	49
Other variance and deferral accounts	45	105
Total regulatory liabilities	88	154
Less: current portion	63	130
Non-current regulatory liabilities	25	24

As at June 30, 2012 and December 31, 2011, regulatory assets for other variance and deferral accounts included the Ancillary Services Net Revenue Variance Account, the Nuclear Fuel Cost Variance Account, and other variance and deferral accounts authorized by the Ontario Energy Board (“OEB”). As at June 30, 2012 and December 31, 2011, regulatory liabilities for other variance and deferral accounts included the Nuclear Development Variance Account, the Hydroelectric Water Conditions Variance Account, the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account, and other variance and deferral accounts authorized by the OEB.

The changes in the regulatory assets and liabilities during the six months ended June 30, 2012 and the year ended December 31, 2011 are as follows:

<i>(millions of dollars)</i>	Bruce Lease Net Revenues Variance	Tax Loss Variance	Pension and OPEB Cost Variance	Nuclear Liability Deferral	Impact for USGAAP Deferral	Pension and OPEB Regulatory Asset	Deferred Income Taxes	Income and Other Taxes Variance	Other Variance and Deferral (net)
Regulatory assets (liabilities), January 1, 2011 <i>(as adjusted – Note 18)</i>	250	492	-	39	-	2,254	727	(40)	(141)
Change during the year	56	33	95	-	-	1,299	(28)	(26)	18
Interest	3	7	1	1	-	-	-	(1)	(2)
Amortization during the year	(113)	(107)	-	(18)	-	-	-	18	46
Regulatory assets (liabilities), December 31, 2011 <i>(as adjusted – Note 18)</i>	196	425	96	22	-	3,553	699	(49)	(79)
Change during the period	50	-	117	98	53	(78)	(8)	(5)	27
Interest	2	2	1	-	-	-	-	-	(1)
Amortization during the period	(68)	(64)	-	(11)	-	-	-	11	48
Regulatory assets (liabilities), June 30, 2012	180	363	214	109	53	3,475	691	(43)	(5)

Nuclear Liability Deferral Account

As per *Ontario Regulation 53/05* pursuant to the *Ontario Energy Board Act, 1998*, the OEB has authorized the Nuclear Liability Deferral Account in connection with changes to OPG's liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management associated with the nuclear facilities owned and operated by OPG, which are comprised of the Pickering and Darlington nuclear generating stations. The deferral account records the revenue requirement impact associated with the changes in these liabilities arising from an approved reference plan, in accordance with the terms of the Ontario Nuclear Funds Agreement ("ONFA").

In 2011, the estimate for OPG's nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management liabilities as at December 31, 2011 was updated as a result of the ONFA Reference Plan update process. During the fourth quarter of 2011, OPG submitted the final 2012 ONFA Reference Plan, which covers the period from 2012 to 2016, to the Province of Ontario (the "Province") for approval. In June 2012, the Province approved the 2012 ONFA Reference Plan with an effective date of January 1, 2012. Therefore, in the second quarter of 2012, OPG recorded an increase of \$98 million to the regulatory asset for the Nuclear Liability Deferral Account, representing the revenue requirement impact associated with the increase in the liabilities for the nuclear facilities owned and operated by OPG arising from the approved 2012 ONFA Reference Plan for the period from January 1, 2012 to June 30, 2012. The balance in the account will be reviewed by the OEB as part of OPG's application to recover variance and deferral account balances as at December 31, 2012.

As at June 30, 2012, the following items have been recorded as components of the regulatory asset for the Nuclear Liability Deferral Account relating to the above increase in the liabilities, with reductions to corresponding expenses for the three and six month periods then ended:

<i>(millions of dollars)</i>	Three Months Ended June 30 2012	Six Months Ended June 30 2012
Fuel expense	13	13
Low and intermediate level waste management variable expenses ¹	1	1
Depreciation expense	49	49
Return on rate base ²	11	11
Income taxes	24	24
	98	98

¹ Amount was recorded as a reduction to operations, maintenance and administration expenses.

² Amount was recorded as a reduction to accretion on fixed asset removal and nuclear waste management liabilities.

5. LONG-TERM DEBT

Long-term debt as at June 30, 2012 and December 31, 2011 consists of the following:

<i>(millions of dollars)</i>	June 30 2012	December 31 2011 <i>(as adjusted – Note 18)</i>
Notes payable to the OEFC	3,850	3,975
UMH Energy Partnership debt	197	198
Lower Mattagami Energy Limited Partnership debt	795	571
	4,842	4,744
Less: due within one year	3	403
Long-term debt	4,839	4,341

OPG also maintains a Niagara Tunnel project credit facility for an amount up to \$1.6 billion. As at June 30, 2012, advances under this facility were \$950 million, including \$35 million and \$75 million of new borrowing during the three and six month periods ended June 30, 2012, respectively.

OPG reached an agreement with the OEFC in April 2012 for a \$400 million credit facility to refinance notes as they mature and refinanced \$200 million of notes under this facility in the second quarter. This facility expired in the second quarter of 2012.

On April 23, 2012, the Lower Mattagami Energy Limited Partnership (“LME”) issued senior notes totalling \$225 million with a maturity date of 2052. The effective interest rate and coupon interest rate of these notes were 4.3 percent and 4.2 percent, respectively.

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. In May 2012, OPG renewed and extended both tranches to May 20, 2017. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at June 30, 2012, no commercial paper was outstanding under this program, and there were no outstanding borrowings under the bank credit facility.

The LME maintains a \$700 million bank credit facility to support the initial construction phase for the Lower Mattagami River project and the commercial paper program. In August 2012, the facility was divided into two tranches. The first tranche of \$400 million has a maturity date of August 17, 2017 and the second tranche of \$300 million has a maturity date of August 17, 2015. As at June 30, 2012, \$108 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, 2012, there were no outstanding borrowings under this credit facility.

The Company has an agreement to sell an undivided co-ownership interest up to \$250 million in its current and future accounts receivable to an independent trust which expires August 31, 2013. As at June 30, 2012, there were no amounts outstanding under this agreement. As at December 31, 2011, short-term debt included \$50 million outstanding under this agreement and the corresponding accounts receivable of \$50 million was recognized on OPG's consolidated balance sheet.

As at June 30, 2012, OPG maintained \$25 million of short-term uncommitted overdraft facilities, and \$353 million of short-term uncommitted credit facilities, which support the issuance of the Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other purposes. As at June 30, 2012, there was a total of \$309 million of Letters of Credit issued, which included \$287 million for the supplementary pension plans, \$21 million for general corporate purposes and \$1 million related to the operation of the Portlands Energy Centre ("PEC").

In addition, as at June 30, 2012, 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, 2012 and 2011:

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Interest on long-term debt	61	59	125	117
Interest on short-term debt	1	3	2	5
Interest income	(1)	(2)	(4)	(4)
Interest capitalized to property, plant and equipment and intangible assets <i>(Note 3)</i>	(29)	(20)	(56)	(38)
Interest applied to regulatory assets and liabilities	(1)	(2)	(4)	(4)
	31	38	63	76

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, 2012 and December 31, 2011 consist of the following:

	June 30 2012	December 31 2011 <i>(as adjusted – Note 18)</i>
<i>(millions of dollars)</i>		
Liability for nuclear used fuel management	8,743	8,523
Liability for nuclear decommissioning and low and intermediate level waste management	5,652	5,537
Liability for non-nuclear fixed asset removal	339	332
Fixed asset removal and nuclear waste management liabilities	14,734	14,392

The changes in the fixed asset removal and nuclear waste management liabilities for the six months ended June 30, 2012 and the year ended December 31, 2011 are as follows:

	June 30 2012	December 31 2011 <i>(as adjusted – Note 18)</i>
<i>(millions of dollars)</i>		
Liabilities, beginning of period	14,392	12,718
Increase in liabilities due to accretion	388	704
Increase in liabilities resulting from the ONFA Reference Plan update process	-	934
Increase in liabilities due to nuclear used fuel and nuclear waste management variable expenses, and other expenses	50	55
Liabilities settled by expenditures on fixed asset removal and waste management	(96)	(172)
Change in the liabilities for non-nuclear fixed asset removal	-	153
Liabilities, end of period	14,734	14,392

For the six months ended June 30, 2012, expenditures on fixed asset removal and waste management include \$23 million in funding to the NWMO related to OPG's nuclear fixed asset removal and nuclear waste management liabilities (December 31, 2011 – \$53 million). OPG's cash and cash equivalents balance as at June 30, 2012 includes \$4 million of cash and cash equivalents that are for the use of nuclear waste management activities (December 31, 2011 – \$10 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 ONFA and the federal NFWA.

The nuclear fixed asset removal and nuclear waste management funds (“Nuclear Funds”) as at June 30, 2012 and December 31, 2011 consist of the following:

<i>(millions of dollars)</i>	Fair Value	
	June 30 2012	December 31 2011
Decommissioning Segregated Fund	5,492	5,342
Used Fuel Segregated Fund ¹	6,829	6,509
Due from Province – Used Fuel Segregated Fund	27	47
	6,856	6,556
	12,348	11,898

¹ The Ontario NFWA Trust represented \$2,506 million as at June 30, 2012 (December 31, 2011 – \$2,296 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 (“CNSC”) 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 \$1,545 million is in effect through to the end of 2012, when the next reference plan for the CNSC is planned to be approved. In January 2012, OPG paid a guarantee fee of \$8 million based on a Provincial Guarantee amount of \$1,545 million. In June 2012, OPG submitted the required documentation in support of the 2013 - 2017 CNSC Financial Guarantee to CNSC staff for review with a final submission to the CNSC planned for September 2012.

The earnings on the Nuclear Funds for the three and six month periods ended June 30, 2012 and 2011 are as follows:

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Decommissioning Segregated Fund	(52)	39	163	129
Used Fuel Segregated Fund	139	149	182	200
Bruce Lease Net Revenues Variance Account <i>(Note 4)</i>	23	(24)	(25)	(27)
Total earnings	110	164	320	302

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, 2012, OPG recorded a decrease of \$45 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 three months ended June 30, 2012 were not impacted.

During the six months ended June 30, 2012, OPG recorded a decrease of \$8 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, 2012 were not impacted.

The amount of cash income taxes paid during the three months ended June 30, 2012 was nil (three months ended June 30, 2011 – nil). For the six months ended June 30, 2012, income taxes paid were \$24 million (six months ended June 30, 2011 – nil).

9. PENSION AND OTHER POST EMPLOYMENT BENEFIT COSTS

OPG's total benefit costs for the three and six month periods ended June 30, 2012 and 2011 are presented in the following tables:

	For the three months ended June 30					
	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
	2012	2011	2012	2011	2012	2011
<i>(millions of dollars)</i>						
<i>Components of Cost Recognized</i>						
Current service costs	67	53	2	2	21	20
Interest on projected benefit obligation	156	151	3	4	34	34
Expected return on plan assets net of expenses	(167)	(157)	-	-	-	-
Amortization of past service costs ¹	-	1	-	-	1	-
Amortization of net actuarial loss ¹	39	16	1	-	8	5
Cost recognized²	95	64	6	6	64	59

¹ The amortization of past service costs and net actuarial loss is recognized as an increase to Other Comprehensive Income ("OCI"). This increase is partially offset by the impact of the Pension and OPEB Regulatory Asset.

² These pension and OPEB costs for the three months ended June 30, 2012 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 \$53 million and nil, respectively (three months ended June 30, 2011 - \$30 million and nil, respectively).

<i>(millions of dollars)</i>	For the six months ended June 30					
	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
	2012	2011	2012	2011	2012	2011
<i>Components of Cost Recognized</i>						
Current service costs	133	105	4	4	42	39
Interest on projected benefit obligation	313	302	6	7	69	67
Expected return on plan assets net of expenses	(334)	(315)	-	-	-	-
Amortization of past service costs ¹	-	4	-	-	1	1
Amortization of net actuarial loss ¹	78	33	2	1	16	11
Cost recognized²	190	129	12	12	128	118

¹ The amortization of past service costs and net actuarial loss is recognized as an increase to OCI. This increase is partially offset by the impact of the Pension and OPEB Regulatory Asset.

² These pension and OPEB costs for the six months ended June 30, 2012 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 \$106 million and \$40 million, respectively (six months ended June 30, 2011 - \$30 million and nil, respectively).

An actuarial valuation for funding purposes of the OPG registered pension plan was completed as of January 1, 2011. For 2012, OPG's contribution is expected to be \$370 million. The estimated contribution for 2013 of \$315 million reflects a decrease in the voluntary contribution. The amount of OPG's additional voluntary contribution, if any, is revisited on an annual basis. OPG will continue to assess the requirements for contributions to the pension plan. The next actuarial valuation for funding purposes must have an effective date no later than January 1, 2014.

10. 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. Select 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 undertake new financing and with the addition of variable rate debt. The management of these risks is undertaken by using derivatives to hedge the exposure in accordance with corporate risk management policies. OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated financing.

OPG has entered into a number of forward start interest rate swap agreements to hedge against the effect of changes in interest rates for long-term debt for the Niagara Tunnel project. 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.

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 Power lease agreement (“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.

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.

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 at June 30, 2012 was less than \$1 million.

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

<i>(millions of dollars except where noted)</i>	Notional Quantity	Terms	Fair Value	Balance Sheet Line Item
As at June 30, 2012				
Commodity derivative instruments	3.9 TWh	1 - 2 years	6	Other accounts receivable and prepaid expenses
Foreign exchange derivative instruments	76	within 1 year	1	Other accounts receivable and prepaid expenses
Commodity derivative instruments	1.9 TWh	1 - 2 years	(5)	Accounts payable and accrued charges
Cash flow hedges – Forward start interest rate swaps	485	1 - 12 years	(81)	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	n/a¹	3 years	(229)	Long-term accounts payable and accrued charges
Total derivatives			(308)	
As at December 31, 2011 <i>(as adjusted – Note 18)</i>				
Commodity derivative instruments	2.3 TWh	2 - 3 years	3	Other accounts receivable and prepaid expenses
Commodity derivative instruments	0.2 TWh	2 - 3 years	(1)	Accounts payable and accrued charges
Cash flow hedges – Forward start interest rate swaps	760	1 - 13 years	(115)	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	n/a ¹	3 years	(186)	Long-term accounts payable and accrued charges
Total derivatives			(299)	

¹ Not applicable

The following table shows the amount related to derivatives recorded in accumulated other comprehensive income (“AOCI”) and income for the three and six month periods ended June 30:

<i>(millions of dollars)</i>	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2012	2011	2012	2011
Cash flow hedges				
Loss in OCI	(23)	(21)	(5)	(15)
Reclassification of losses to net interest expense	7	2	9	3
Commodity derivatives				
Realized gains in revenue	1	-	-	-
Unrealized losses in revenue	(2)	-	(1)	-
Embedded derivative				
Unrealized losses in revenue ¹	(3)	(7)	(43)	(14)

¹ Excludes the impact of the Bruce Lease Net Revenues Variance Account

Existing net losses of \$12 million deferred in AOCI as at June 30, 2012 are expected to be reclassified to net income within the next 12 months.

11. 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 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 which 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 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, which 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, 2012 and December 31, 2011:

<i>(millions of dollars except where noted)</i>	Fair Value	Carrying Value¹	Balance Sheet Line Item
As at June 30, 2012			
Commodity derivative instruments	6	6	Other accounts receivable and prepaid expenses
Investments in OPG Ventures Inc.	11	11	Other long-term assets
Nuclear fixed asset removal and nuclear waste management funds (includes current portion)	12,348	12,348	Nuclear fixed asset removal and nuclear waste management funds
Commodity derivative instruments	(5)	(5)	Accounts payable and accrued charges
Forward start interest rate swaps	(81)	(81)	Long-term accounts payable and accrued charges
Payable related to cash flow hedges	(25)	(25)	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	(229)	(229)	Long-term accounts payable and accrued charges
Long-term debt (includes current portion)	(5,459)	(4,842)	Long-term debt
As at December 31, 2011			
<i>(as adjusted – Note 18)</i>			
Commodity derivative instruments	3	3	Other accounts receivable and prepaid expenses
Investments in OPG Ventures Inc.	32	32	Other long-term assets
Nuclear fixed asset removal and nuclear waste management funds (includes current portion)	11,898	11,898	Nuclear fixed asset removal and nuclear waste management funds
Commodity derivative instruments	(1)	(1)	Accounts payable and accrued charges
Forward start interest rate swaps	(115)	(115)	Long-term accounts payable and accrued charges
Payable related to cash flow hedges	(4)	(4)	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	(186)	(186)	Long-term accounts payable and accrued charges
Long-term debt (includes current portion)	(5,273)	(4,744)	Long-term debt

¹ 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, 2012 and December 31, 2011:

<i>(millions of dollars)</i>	June 30, 2012			Total
	Level 1	Level 2	Level 3	
Assets				
Decommissioning Segregated Fund	2,368	2,996	128	5,492
Used Fuel Segregated Fund	164	6,683	9	6,856
Commodity derivative instruments	2	2	2	6
Investment in OPG Ventures Inc.	-	-	11	11
Total	2,534	9,681	150	12,365
Liabilities				
Derivative embedded in the Bruce Lease	-	-	(229)	(229)
Forward start interest rate swaps	-	(81)	-	(81)
Commodity derivative instruments	(4)	(1)	-	(5)
Total	(4)	(82)	(229)	(315)
Net assets (liabilities)	2,530	9,599	(79)	12,050

<i>(millions of dollars)</i>	December 31, 2011 <i>(as adjusted – Note 18)</i>			Total
	Level 1	Level 2	Level 3	
Assets				
Decommissioning Segregated Fund	2,294	2,950	98	5,342
Used Fuel Segregated Fund	131	6,419	6	6,556
Commodity derivative instruments	-	1	2	3
Investment in OPG Ventures Inc.	16	-	16	32
Total	2,441	9,370	122	11,933
Liabilities				
Derivative embedded in the Bruce Lease	-	-	(186)	(186)
Forward start interest rate hedges	-	(115)	-	(115)
Commodity derivative instruments	-	(1)	-	(1)
Total	-	(116)	(186)	(302)
Net assets (liabilities)	2,441	9,254	(64)	11,631

During the six month period ended June 30, 2012, 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:

For the three months ended June 30, 2012					
<i>(millions of dollars)</i>	Decom- missioning Segregated Fund	Used Fuel Segregated Fund	Investments in OPG Ventures Inc.	Derivative Embedded in the Bruce Lease¹	Commodity Derivative Instruments
Balance, March 31, 2012	124	8	13	(226)	1
Unrealized gains included in earnings on nuclear fixed asset removal and nuclear waste management funds ¹	2	-	-	-	-
Unrealized losses included in revenue	-	-	(1)	(3)	-
Realized losses included in revenue	-	-	-	-	-
Purchases	2	1	-	-	1
Sales	-	-	-	-	-
Issues	-	-	-	-	-
Settlements	-	-	(1)	-	-
Balance, June 30, 2012	128	9	11	(229)	2

¹ Total gains (losses) exclude the impact of regulatory assets and liabilities.

For the six months ended June 30, 2012					
<i>(millions of dollars)</i>	Decom- missioning Segregated Fund	Used Fuel Segregated Fund	Investments in OPG Ventures Inc.	Derivative Embedded in the Bruce Lease¹	Commodity Derivative Instruments
Balance, January 1, 2012	98	6	16	(186)	2
Unrealized gains included in earnings on nuclear fixed asset removal and nuclear waste management funds ¹	6	-	-	-	-
Unrealized losses included in revenue	-	-	(4)	(43)	-
Realized losses included in revenue	-	-	-	-	(1)
Purchases	24	3	-	-	1
Sales	-	-	-	-	-
Issues	-	-	-	-	-
Settlements	-	-	(1)	-	-
Balance, June 30, 2012	128	9	11	(229)	2

¹ Total gains (losses) exclude the impact of regulatory assets and liabilities.

Derivative Embedded in the Bruce Lease

Due to an 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, 2012:

<i>(millions of dollars except where noted)</i>	Fair Value	Valuation Technique	Unobservable Input	Range
Derivative embedded in the Bruce Lease	(229)	Option model	Risk premium ¹	0% - 30%

¹ 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 stations 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 generating stations is included in the determination of regulated prices 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 derivative 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 Fund 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, 2012:

Fund Class <i>(millions of dollars)</i>	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Infrastructure	181	170	n/a	n/a
Real Estate	96	298	n/a	n/a
Pooled Funds				
Short-term Investments	12	-	Daily	1-5 days
Fixed Income	780	-	Daily	1-5 days
Equity	1,194	-	Daily	1-5 days
Total	2,263	468		

Infrastructure

This class includes investments in infrastructure funds whose investment objective is to generate a combination of long-term capital appreciation and current income generally through investments in 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 can never be redeemed with the respective infrastructure funds. 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 2023.

Real Estate

This class includes investment 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.

These investments can never be redeemed by the partnership. However, the Nuclear Funds may transfer any of its partnership interests to another party as stipulated in the partnership agreement with prior written consent of the other limited partners. 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 United States and Emerging Market listed equity and fixed income securities. The investment objective of the pooled funds is to achieve capital appreciation and high interest income through professionally managed portfolios consisting of equity and fixed income securities issued by high quality long-term growth companies based in Canada, United States and Emerging Markets.

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.

Investments in OPG Ventures Inc.

Significant Level 3 inputs used in the fair value measurement of the investments in OPG Ventures Inc. include recent comparable transactions, comparable benchmark information, bid/ask spread of similar transactions, and other relevant factors. Significant increases (decreases) in any of those inputs in isolation would result in significantly lower (higher) fair value measurement.

12. COMMITMENTS AND CONTINGENCIES

Litigation

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

On August 9, 2006, a Notice of Action and Statement of Claim 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"). 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. 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. OPG leased the Bruce nuclear generating stations to Bruce Power L.P. in 2001.

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 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.

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 OPG's consolidated financial statements to meet certain other environmental obligations. During 2011, a reduction of \$19 million to the environmental liabilities was recognized related to the Regulated – Hydroelectric segment. As at June 30, 2012, OPG's environmental liabilities were \$18 million (December 31, 2011 – \$19 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, 2012, the total amount of guarantees OPG provided to these entities is \$68 million. OPG may terminate some of these guarantees within a short time frame by providing written notice to the counterparties at any time. Other guarantees have terms ending between 2016 and 2018. The fair value of these guarantees has been estimated as at June 30, 2012 to be negligible. As at June 30, 2012, 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, 2012 are as follows:

<i>(millions of dollars)</i>	2012 ¹	2013	2014	2015	2016	Thereafter	Total
Contractual obligations:							
Fuel supply agreements	100	185	164	163	105	220	937
Contributions under the ONFA ²	118	157	94	96	84	578	1,127
Long-term debt repayment	3	5	5	593	273	3,963	4,842
Interest on long-term debt	116	233	233	227	213	1,861	2,883
Unconditional purchase obligations	51	99	98	97	8	-	353
Operating lease obligations	8	17	16	17	18	-	76
Operating licence	18	36	36	1	1	-	92
Pension contributions ³	152	315	-	-	-	-	467
Other	36	43	93	36	15	80	303
	602	1,090	739	1,230	717	6,702	11,080
Significant commercial commitments:							
Niagara Tunnel	74	33	-	-	-	-	107
Lower Mattagami	289	414	330	123	-	-	1,156
Total	965	1,537	1,069	1,353	717	6,702	12,343

¹ Contractual obligations for 2012 cover the period from July 1, 2012 to December 31, 2012.

² Contributions under the ONFA are based on the 2007 - 2011 reference plan approved in 2006. The contributions based on the 2012 ONFA Reference Plan are under review.

³ 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 the NWMO registered pension plan as at January 1, 2012. The next actuarial valuations of the OPG and NWMO plans must have effective dates no later than January 1, 2014 and 2013, respectively. 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 assumptions required to project the timing of future cash flows. Funding requirements after 2012 for the NWMO registered pension plan are also excluded. The amount of OPG's additional voluntary contribution, if any, is revisited on an annual basis.

13. BUSINESS SEGMENTS

Segment Income (Loss) for the Three 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	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 losses	-	-	-	-	-	3	-	3
Income (loss) before interest and income taxes	77	(64)	87	(9)	(27)	2	-	66

Segment Income (Loss) for the Three Months Ended June 30, 2011 <i>(millions of dollars) (as adjusted – Note 18)</i>	Regulated			Unregulated				Total
	Nuclear Generation	Nuclear Waste Manage- ment	Hydro- electric	Hydro- electric	Thermal	Other	Elimination	
Revenue	713	12	190	149	134	15	(11)	1,202
Fuel expense	58	-	69	22	34	-	-	183
Gross margin	655	12	121	127	100	15	(11)	1,019
Operations, maintenance and administration	493	14	25	57	104	2	(11)	684
Depreciation and amortization	128	-	8	20	22	2	-	180
Accretion on fixed asset removal and nuclear waste management liabilities	-	176	-	-	1	-	-	177
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(164)	-	-	-	-	-	(164)
Property and capital taxes	7	-	1	-	4	3	-	15
Other income	(3)	-	-	-	-	(10)	-	(13)
Income (loss) before interest and income taxes	30	(14)	87	50	(31)	18	-	140

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

Segment Income (Loss) for the Six Months Ended June 30, 2011 <i>(millions of dollars) (as adjusted – Note 18)</i>	Regulated			Unregulated				Total
	Nuclear Generation	Nuclear Waste Manage- ment	Hydro- electric	Hydro- electric	Thermal	Other	Elimination	
Revenue	1,500	24	374	298	280	33	(23)	2,486
Fuel expense	113	-	119	42	75	-	-	349
Gross margin	1,387	24	255	256	205	33	(23)	2,137
Operations, maintenance and administration	1,024	28	51	108	202	2	(23)	1,392
Depreciation and amortization	217	-	22	36	43	10	-	328
Accretion on fixed asset removal and nuclear waste management liabilities	-	346	-	-	4	-	-	350
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(302)	-	-	-	-	-	(302)
Property and capital taxes	14	-	(1)	(3)	8	5	-	23
Other (income) losses	(3)	-	-	-	1	(18)	-	(20)
Income (loss) before interest and income taxes	135	(48)	183	115	(53)	34	-	366

14. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

	Six Months Ended June 30	
	2012	2011 <i>(as adjusted – Note 18)</i>
<i>(millions of dollars)</i>		
Receivable from related parties	84	65
Other accounts receivable and prepaid expenses	(70)	(22)
Fuel inventory	53	15
Materials and supplies	1	7
Accounts payable and accrued charges	(119)	(40)
Income taxes payable/recoverable	(49)	159
	(100)	184

15. RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province, Infrastructure Ontario, the Ontario Power Authority (“OPA”) and the other successor entities of Ontario Hydro, including Hydro One Inc. (“Hydro One”), the IESO, and the OEFC. 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, 2012, receivables from related parties included nil (December 31, 2011 – \$3 million) due from Hydro One, \$334 million (December 31, 2011 – \$375 million) due from the IESO, \$40 million (December 31, 2011 – \$74 million) due from the OEFC, and \$10 million (December 31, 2011 – \$16 million) due from the OPA. Accounts payable and accrued charges at June 30, 2012 included \$3 million (December 31, 2011 – \$7 million) due to Hydro One, \$48 million (December 31, 2011 – \$53 million) due to the OEFC, \$3 million (December 31, 2011 – \$3 million) due to the Province, and nil (December 31, 2011 – \$1 million) due to Infrastructure Ontario.

16. OTHER LOSS (INCOME)

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Loss (income) from investments subject to significant influence	3	(9)	(5)	(17)
Other income	-	(4)	-	(3)
Other loss (income)	3	(13)	(5)	(20)

17. RESTRUCTURING

In 2009, OPG announced its decision to close two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations in 2010. Restructuring charges, primarily severance costs, related to these closures were \$27 million. These costs were recognized in the consolidated financial statements in 2010 and 2011.

In 2011, OPG announced its decision to close two additional coal-fired units at the Nanticoke generating station, 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 \$24 million. Restructuring costs of \$21 million have been recognized to date in the consolidated financial statements and OPG expects to recognize \$3 million in 2012 and 2013. During the three and six month periods ended June 30, 2012, restructuring charges of \$1 million and \$2 million, respectively, were recorded to expense due to the recognition of relocation costs of staff. OPG conducted discussions with key stakeholders, including the Society of Energy Professionals and the Power Workers' Union, in accordance with their respective collective bargaining agreements. Given collective agreement provisions allowing deferral of severance payout to future periods, the restructuring liability is expected to be fully drawn down by 2015.

The change in the restructuring liability for severance costs for the six months ended June 30, 2012 and for the year ended December 31, 2011 is as follows:

<i>(millions of dollars)</i>	
Liability, January 1, 2011	15
Restructuring charges during the year	21
Payments during the year	(13)
Liability, December 31, 2011	23
Payments during the period	(14)
Liability, June 30, 2012	9

18. US GAAP TRANSITION

OPG is required to report under US GAAP beginning January 1, 2012. Financial information derived from the consolidated financial statements for the 2011 comparative periods has been adjusted to be in accordance with US GAAP. These adjustments are described in Note 18 of OPG's March 31, 2012 interim consolidated financial statements. In addition, certain of the 2011 comparative amounts have been reclassified to conform to the 2012 financial statement presentation.

US GAAP Reconciliation

The effects of transition from Canadian GAAP to US GAAP are identified within this note with references to descriptions of material transition impacts provided in the *Notes to Transitional Adjustments* section. The adoption of US GAAP is on a retrospective basis with a restatement of prior period financial statements. Reconciliations for consolidated statements of income and comprehensive income for the three and six month periods ended June 30, 2011 are provided along with material differences impacting net income. A reconciliation of the consolidated statement of cash flows for the six month period ended June 30, 2011 is also provided.

Prior to 2012, OPG filed its financial statements under Canadian GAAP. Refer to OPG's 2011 annual consolidated financial statements for disclosures under Canadian GAAP and OPG's March 31, 2012 interim consolidated financial statements for a discussion of material differences between US GAAP and Canadian GAAP.

Reconciliation of the Consolidated Statement of Income from Canadian GAAP to US GAAP for the three months ended June 30, 2011

<i>(millions of dollars except where noted)</i>	Notes	Canadian GAAP	Effect of Transition to US GAAP	US GAAP
Revenue	A	1,226	(24)	1,202
Fuel expense		183	-	183
Gross margin		<u>1,043</u>	<u>(24)</u>	<u>1,019</u>
Expenses				
Operations, maintenance and administration	A	686	(2)	684
Depreciation and amortization	A,B	195	(15)	180
Accretion on fixed asset removal and nuclear waste management liabilities	A	177	-	177
Earnings on nuclear fixed asset removal and nuclear waste management funds		(164)	-	(164)
Property and capital taxes		15	-	15
		<u>909</u>	<u>(17)</u>	<u>892</u>
Income before other income, interest and income taxes		134	(7)	127
Other income	A	(4)	(9)	(13)
Income before interest and income taxes		138	2	140
Net interest expense	A	41	(3)	38
Income before income taxes		97	5	102
Income tax recovery	B	(17)	10	(7)
Net income		<u>114</u>	<u>(5)</u>	<u>109</u>
Basic and diluted income per common share <i>(dollars)</i>		<u>0.45</u>	<u>(0.02)</u>	<u>0.43</u>
Common shares outstanding <i>(millions)</i>		<u>256.3</u>	<u>-</u>	<u>256.3</u>

Reconciliation of the Consolidated Statement of Income from Canadian GAAP to US GAAP for the six months ended June 30, 2011

<i>(millions of dollars except where noted)</i>	Notes	Canadian GAAP	Effect of Transition to US GAAP	US GAAP
Revenue	A	2,534	(48)	2,486
Fuel expense		349	-	349
Gross margin		<u>2,185</u>	<u>(48)</u>	<u>2,137</u>
Expenses				
Operations, maintenance and administration	A	1,398	(6)	1,392
Depreciation and amortization	A,B	353	(25)	328
Accretion on fixed asset removal and nuclear waste management liabilities	A	349	1	350
Earnings on nuclear fixed asset removal and nuclear waste management funds		(302)	-	(302)
Property and capital taxes		23	-	23
		<u>1,821</u>	<u>(30)</u>	<u>1,791</u>
Income before other income, interest and income taxes		364	(18)	346
Other income	A	(3)	(17)	(20)
Income before interest and income taxes		367	(1)	366
Net interest expense	A	82	(6)	76
Income before income taxes		285	5	290
Income tax expense	B	20	8	28
Net income		<u>265</u>	<u>(3)</u>	<u>262</u>
Basic and diluted income per common share <i>(dollars)</i>		<u>1.04</u>	<u>(0.01)</u>	<u>1.03</u>
Common shares outstanding <i>(millions)</i>		<u>256.3</u>	<u>-</u>	<u>256.3</u>

Reconciliation of the Condensed Consolidated Statement of Cash Flows from Canadian GAAP to US GAAP for the six months ended June 30, 2011

<i>(millions of dollars)</i>	Notes	Canadian GAAP	Effect of Transition to US GAAP	US GAAP
Cash flow provided by operating activities	A	562	(8)	554
Cash flow used in investing activities		(538)	-	(538)
Cash flow provided by financing activities		350	7	357
Net increase in cash and cash equivalents		374	(1)	373
Cash and cash equivalents, beginning of period	A	280	(11)	269
Cash and cash equivalents, end of period		654	(12)	642

Reconciliation of the Consolidated Statement of Comprehensive Income from Canadian GAAP to US GAAP for the three months ended June 30, 2011

<i>(millions of dollars)</i>	Notes	Canadian GAAP	Effect of Transition to US GAAP	US GAAP
Net income		114	(5)	109
Other comprehensive loss, net of income taxes				
Net loss on derivatives designated as cash flow hedges ¹		(20)	-	(20)
Reclassification to income of losses on derivatives designated as cash flow hedges ²		2	-	2
Reclassification to income of amounts related to pension and other post employment benefits ³	C	-	4	4
Other comprehensive loss for the period		(18)	4	(14)
Comprehensive income		96	(1)	95

¹ Net of income tax recovery of \$1 million for the three months ended June 30, 2011.

² Net of income tax expense of nil for the three months ended June 30, 2011.

³ Net of income tax expense of \$2 million for the three months ended June 30, 2011.

Reconciliation of the Consolidated Statement of Comprehensive Income from Canadian GAAP to US GAAP for the six months ended June 30, 2011

<i>(millions of dollars)</i>	Notes	Canadian GAAP	Effect of Transition to US GAAP	US GAAP
Net income		265	(3)	262
Other comprehensive loss, net of income taxes				
Net loss on derivatives designated as cash flow hedges ¹		(14)	-	(14)
Reclassification to income of losses on derivatives designated as cash flow hedges ²		3	-	3
Reclassification to income of amounts related to pension and other post employment benefits ³	C	-	8	8
Other comprehensive loss for the period		(11)	8	(3)
Comprehensive income		254	5	259

¹ Net of income tax recovery of \$1 million for the six months ended June 30, 2011.

² Net of income tax expense of nil for the six months ended June 30, 2011.

³ Net of income tax expense of \$3 million for the six months ended June 30, 2011.

Notes to Transitional Adjustments

(A) Accounting for Joint Ventures

Under Canadian GAAP, OPG proportionately consolidated its interests in joint ventures. Under US GAAP, OPG is required to account for its interests using the equity method. This difference has resulted in the derecognition of OPG's 50 percent interest in the assets, liabilities, revenues and expenses of its joint ventures, PEC and Brighton Beach. The investment balances are presented under the heading *Investments subject to significant influence* on OPG's consolidated balance sheets under US GAAP.

The pre-tax adjustments of significant items on the consolidated statements of income as a result of the use of the equity method are as follows:

<i>(millions of dollars)</i>	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
Revenue	(23)	(47)
Operations, maintenance and administration	(3)	(9)
Depreciation and amortization	(8)	(15)
Other income	(9)	(17)
Net interest expense	(3)	(6)

(B) Other

To conform with the financial statement presentation under US GAAP and the 2012 financial statement presentation, certain comparative figures were reclassified in 2011.

(C) Pension and OPEB

In accordance with US GAAP, OPG recognizes gains or losses and past service costs or credits in respect of pension and other post retirement benefits that arise during the period and are not recognized immediately as components of benefit costs as increases or decreases in OCI in the period incurred. These unamortized amounts in AOCI are subsequently reclassified and recognized as components of benefit costs, net of the corresponding change in the Pension and OPEB Regulatory Asset. For the three and six month periods ending June 30, 2011, the reclassification of AOCI amounts to income, net of tax, was \$4 million and \$8 million, respectively.